

## Company Report: CMEC (01829 HK)

公司报告: 中国机械工程 (01829 HK)

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# 1H2019 Results Met Expectation, Maintain "Accumulate"

2019上半年业绩符合预期, 维持“收集”

- **Net profit in 1H2019 jumped YoY by 10.0% to RMB981 mn.** Sales and net profit in 1H2019 went up YoY by 15.7% and 10.0%, respectively. Operating results in 1H2019 were in line with expectation. Revenue from overseas market went up sharply by 24.5% YoY to RMB10.5 bn and accounted for 75.1% of total revenue in 1H2019, up YoY by 5.3 ppt. Gross margin dropped YoY by 1 ppt to 15.1% while net margin stayed relatively flat at 7.0%. We expect total sales to increase at a CAGR of 13.0% from 2018 to 2021 and gross margin to gradually improve after declining in 2019.
- **Total new orders is expected to ramp up in 2H2019.** Newly signed orders reached US\$2,559 mn in 1H2019, down YoY by 11.3%. Orders backlog by the end of June 2019 stood at US\$9,102 mn, down 14.5% from the US\$10,647 mn at the end of December 2018. We estimate newly signed orders to be US\$5.5 bn/ US\$5.75 bn / US\$6.0 bn from 2019 to 2021, respectively.
- **Reiterate the "Accumulate" investment rating and raise the TP to HK\$4.50.** We remain confident on the outlook of the Company considering strong overseas sales growth seen in 1H2019 and its significant orders backlog. Our revised EPS estimates from 2019 to 2021 are RMB0.550/ RMB0.606/ RMB0.682, respectively. We reiterate the "Accumulate" rating and raise the TP to HK\$4.50, which corresponds to 7.5x/ 6.8x/ 6.0x FY19/ FY20/ FY21 PER or 1.0x/ 0.9x/ 0.8x FY19/ FY20/ FY21 PBR.
- **2019上半年净利润同比增长10.0%至人民币9.81亿元。**公司于期内的收入及净利分别同比上升15.7%和10.0%。期内业绩符合预期。期内来自海外市场的收入同比急升24.5%至人民币105亿元,并贡献了整体收入的75.1%,同比升5.3个百分点。期内毛利率同比下降1个百分点至15.1%,而净利率则同比相对持平至7.0%。我们预计公司的收入将在2018至2021年以13.0%的复合年增长率上升,而公司的整体毛利率亦预计将于2019年录得回落之后逐年回升。
- **新增订单预计将于2019下半年急升。**2019上半年的新增订单达25.59亿美元,同比跌11.3%。截至2019年6月底时的在手订单为91.02亿美元,较2018年末时的106.47亿美元下跌14.5%。我们预计新增订单将于2019至2021年分别录得55亿美元,57.5亿美元以及60亿美元。
- **维持“收集”的投资评级并上调目标价至4.50港元。**考虑到2019上半年强劲的海外收入增长以及庞大的在手订单,我们对公司的未来保持信心。我们经调整的2019至2021年每股盈利预测分别为人民币0.550元,0.606元以及0.682元。我们重申对公司“收集”的投资评级,并上调目标价至4.50港元。新目标价相当于7.5倍/6.8倍/6.0倍2019/2020/2021年市盈率或1.0倍/0.9倍/0.8倍2019/2020/2021年市净率。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$4.50**

Revised from 原目标价:

HK\$4.45

Share price 股价:

HK\$3.310

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	3.8	(7.5)	(11.0)
Rel. % to HS index 相对恒指变动 %	(1.6)	(7.6)	(10.4)
Avg. Share price(HK\$) 平均股价 (港元)	3.17	3.32	3.51

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	27,375	1,775	0.430	(15.9)	6.4	4.193	0.7	0.166	6.0	10.9
2018A	28,863	2,132	0.517	20.2	5.6	3.982	0.7	0.207	7.1	12.6
2019F	34,654	2,268	0.550	6.4	5.5	4.320	0.7	0.220	7.3	13.2
2020F	38,642	2,499	0.606	10.2	5.0	4.679	0.6	0.242	8.0	13.5
2021F	41,679	2,814	0.682	12.5	4.4	5.095	0.6	0.273	9.0	14.0
Shares in issue (m) 总股数 (m)				4,126.0	Major shareholder 大股东				SINOMACH	78.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				13,656.1	Free float (%) 自由流通比率 (%)					22.0%
3 month average vol. 3 个月平均成交股数 ('000)				896.4	FY19 Net gearing (%) FY19 净负债/股东资金 (%)					Net cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				4.320 / 3.020	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)					5.4

Source: the Company, Guotai Junan International.



## OPERATIONS RECAP IN 1H2019

**Net earnings jumped YoY by 10.0% to RMB981 mn, in line with expectation.** Sales, operating income and net earnings went up YoY by 15.7%, 10.2% and 10.0%, respectively. The results in 1H2019 met market expectation and the earnings during the period was roughly 45% of our full-year earnings estimate for 2019. Revenue of international engineering contracting business ("construction and contracts") and service business in 1H2019 went up, respectively, by 29.4% YoY and 8.9% YoY, while that of trading business dropped YoY by 10.6%. Revenues generated from domestic market fell YoY by 4.5% to RMB3.5 bn and accounted for only 24.9% of total sales in 1H2019, while revenue from overseas markets went up sharply by 24.5% YoY to RMB10.5 bn and accounted for 75.1% of total revenue, up YoY by 5.3 ppt. The overseas market is quite important to the Company and its significance kept increasing amid a slowdown in domestic demand. We expect the offshore market to be the primary growth driver of CMEC in the foreseeable future, especially under the support of the existing Belt and Road Initiative national strategy. Consolidated gross margin in 1H2019 was down YoY by 1.0 ppt to 15.1%, mainly as a result of YoY gross margin decline seen in international engineering contracting business (-2.4 ppt YoY) and service business (-3.6 ppt YoY). The gross margin of trading business stayed relatively flat at 6.9%. Looking ahead, we believe that CMEC will leverage its international experience to continue to benefit from the ongoing Belt & Road Initiative by tapping into more emerging markets along the Belt and Road region.

**Table-1: CMEC's 1H2019 Operating Results and YoY Comparison**

(RMB mn)	1H2019	1H2018	YoY Δ	Comments
Revenue	13,939	12,048	+15.7%	Construction and contracts sales jumped YoY by 29.4%, while service business revenue was up by 8.9% YoY
COGS	(11,835)	(10,109)	+17.1%	
Gross profit	2,103	1,940	+8.4%	
Other revenue	10	65	-84.3%	Investment income dropped substantially
Other income/(expenses), net	17	12	+34.3%	
Selling and distribution expenses	(471)	(486)	-3.1%	
Administrative expenses	(541)	(491)	+10.1%	
Other operating income/(expenses)	(119)	(134)	-11.0%	
Operating profit	1,000	907	+10.2%	
Net finance income / (expense)	126	196	-35.5%	Bank charges and interest expense went up sharply
Share of profit from JVs and Associates	112	88	+27.8%	
Profit before tax	1,238	1,190	+4.0%	
Income tax	(258)	(297)	-13.2%	
Minority interest	1	(1)	n.a.	
Net profit	981	892	+10.0%	
EPS (RMB)	0.240	0.220	+9.1%	

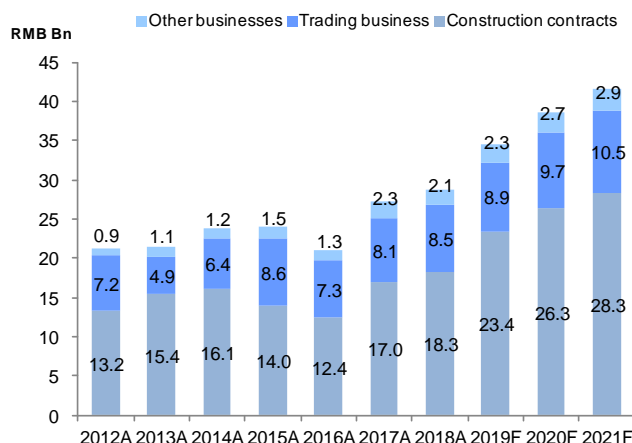
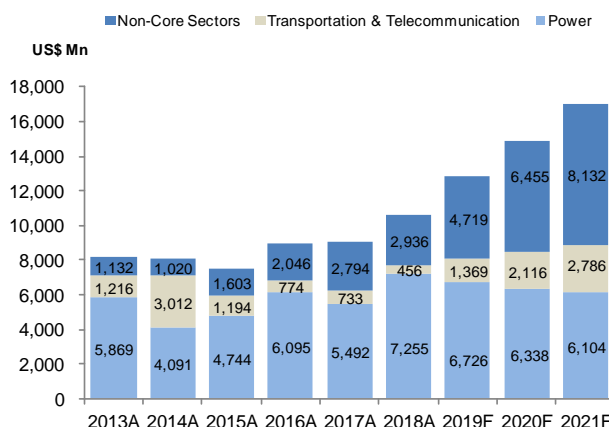
### Margins & Ratios (YoY comparison)

			YoY ppt Δ	
Gross profit margin	15.1%	16.1%	-1.0 ppt	Construction contracts business segment gross margin dropped YoY by 2.4 ppt, while that of service business was down YoY by 3.7 ppt
Operating margin	7.2%	7.5%	+0.3 ppt	
PBT margin	8.9%	9.9%	-1.0 ppt	
Net margin	7.0%	7.4%	-0.4 ppt	
Net gearing	Net cash	Net cash	Unchanged	

Source: the Company, Guotai Junan International.

**New orders in 1H2019 fell YoY by 11.3% but is expected to ramp up in 2H2019.** Newly signed orders reached US\$2,559 mn in 1H2019, down YoY by 11.3%. Orders backlog by the end of June 2019 stood at US\$9,102 mn, down 14.5% from the US\$10,647 mn at the end of December 2018. Segment-wise, power projects made up 50.5% of newly signed contracts in 1H2019 and 65.3% of the orders backlog, transportation & telecommunications made up 13.7% of new contracts and 4.9% of backlog, and non-core sectors made up 35.8% of new contracts and 29.8% of backlog. The Company maintained its annual new orders target for 2019 in the amount of US\$5.5 bn, implying that new orders will ramp up in 2H2019. We estimate the newly signed orders of CMEC to reach US\$5.5 bn/ US\$5.75bn/ US\$6.0 bn from 2019 to 2021, respectively. Further, orders backlog from 2019 to 2021 is projected to be US\$12,815 mn/ US\$14,910 mn/ US\$17,021 mn, respectively. The substantial orders backlog ensures the continued growth of CMEC over next few years.



**Figure- 1: CMEC's Revenues Breakdown**

**Figure- 2: Orders Backlog of CMEC's IEC Business**


Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

## EARNINGS FORECAST REVISIONS

- Revenue is expected to grow by 20.1%/ 11.5%/ 7.9% from 2019 to 2021, respectively.** We expect the international engineering contracting business ("construction contracts business") to be the primary growth driver of CMEC during the forecast period, with YoY sales growth rate of 27.9%/ 12.6%/ 7.5% from 2019 to 2021, respectively. The revenue of construction contracts is expected to contribute no less than 66% of overall sales of CMEC per annum over the 3-year forecast period. In comparison, sales growth of trading business and service businesses is estimated to be 5.3%/ 8.3%/ 8.6% and 11.6%/ 13.1%/ 8.6% from 2019 to 2021, respectively. The significant orders backlog is a solid support to our aggressive sales growth forecast.
- We expect gross margin to decline in 2019 but to gradually recover.** Consolidated gross margin in 1H2019 fell YoY by 1.0 ppt to 15.1%, mainly due to the gross margin decline of construction contracts business and service business. In which, the construction contracts business segment gross margin dropped YoY by 2.4 ppt to 16.5% in 1H2019, while that of service business was down by 3.7 ppt YoY to 26.7%. Trading business gross margin was relatively flat at 6.9%. The segmental gross margin of construction and contracts business is estimated to be 17.7%/ 18.2%/ 18.7% from 2019 to 2021, respectively. The acquisition of CNEEC in 2018 has led to an overall decline in the gross margin of CMEC during 2018 (down YoY by 3 ppt to 16.3%) and the impact continued through the first half of 2019. We expect the consolidated gross margin of CMEC to further decline from 16.3% in 2018 to 15.4% in 2019 and to gradually improve to 15.9%/ 16.3% in 2020/ 2021, respectively.
- Net profit to shareholders is expected to increase by 6.4%/ 10.2%/ 12.6% from 2019 to 2021, respectively.** Net profit growth is expected to be maintained in 2019 mainly due to the weakening of the RMB starting in May 2019, which we expect CMEC to record net forex gain in the amount of approximately RMB310 mn in 2019 (forex gains in the amount of RMB772 mn was recorded in 2018 as a result of RMB depreciation and, in comparison, a forex loss of RMB1.07 bn was recorded in 2017 due to RMB appreciation in that year). As we expect the RMB to remain weak in both 2020 and 2021 with slight depreciation, we thus expect that no substantial forex loss will be recorded in both 2020 and 2021. Our adjusted net finance income estimates for CMEC from 2019 to 2021 is RMB499 mn/ RMB377 mn/ RMB212 mn from 2019 to 2021, respectively. As the key determinant to the earnings growth (i.e. net finance income) is expected to be in favor of CMEC, we expect net profit to shareholders to grow YoY by 6.4%/ 10.2%/ 12.6% from 2019 to 2021, respectively. Net margin from 2019 to 2021 is estimated to be 6.5%/ 6.5%/ 6.8%, respectively. Our revised EPS estimates from 2019 to 2021 are RMB0.550/ RMB0.606/ RMB0.682, respectively.
- High dividend payout is expected to continue.** The historical dividend payout of CMEC from 2016 to 2018 averaged at 39.5%, and we expect the Company's high dividend payout policy to be maintained during our 3-year forecast period. We estimate the dividend payout to be 40.0% each year from 2019 to 2021, giving the Company an attractive estimated dividend yield of 7.3%/ 8.0%/ 9.0% from 2019 to 2021, respectively. Meanwhile, the Company is expected to maintain net cash position of RMB23.3 bn/ RMB26.1 bn/ RMB26.8 bn from 2019 to 2021, respectively. Having ample cash on hand implies that CMEC will be ready for any potential major acquisition.

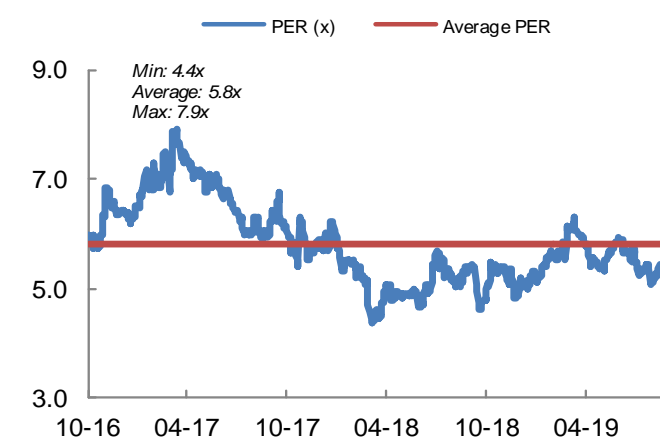


## VALUATION

**Reiterate the "Accumulate" investment rating and raise the TP to HK\$4.50.** CMEC is currently trading at 5.0x FY20 PER based on our earnings forecasts, with attractive dividend yield rates of 7.3%/ 8.0%/ 9.0% from 2019 to 2021, respectively. We expect the newly signed orders to be no less than US\$5 bn per year during the 3 year period from 2019 to 2021, helping CMEC to achieve a 13.0% CAGR in revenues growth during the forecast period. As CMEC is one of the key beneficiaries of the Belt & Road strategy, we expect more new orders to be signed in overseas markets, driving continued growth of CMEC. With expected weak RMB going forward coupled with margin recovery, we remain positive on the outlook of CMEC. We expect newly signed orders to accelerate in 2H2019 following recording a YoY decline in the first half of 2019. 1H2019 operating results met expectation and the outlook of the Company remains positive. We therefore reiterate the "Accumulate" investment rating raise our TP to HK\$4.50, which corresponds to 7.5x/ 6.8x/ 6.0x FY19/ FY20/ FY21 PER or 1.0x/ 0.9x/ 0.8x FY19/ FY20/ FY21 PBR, respectively.

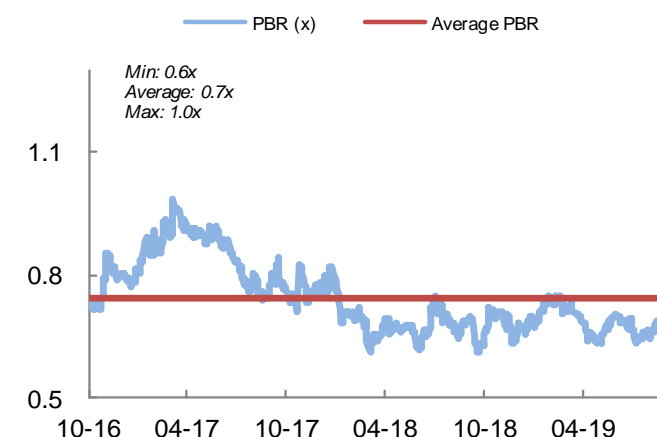
**Key risks include:** 1) overseas engineering projects are subject to higher risks and uncertainties; 2) new orders signed may be delayed for many years before becoming effective; 3) current orders backlog may be subject to adjustments and cancellations; 4) continued decline in the gross margin of construction and contracts business may be a new normality; 5) fall in the newly signed orders may indicate a weak overseas engineering demand; and 6) a sharp rise in foreign exchange loss and asset impairment loss could seriously undermine the profitability of CMEC.

**Figure-3: Forward PER of CMEC**



Source: Bloomberg, Guotai Junan International.

**Figure-4: Forward PBR of CMEC**



Source: Bloomberg, Guotai Junan International.



**Table-2: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	GP Margin(%)	Net Margin(%)	Market Cap
				18A	19F	20F	21F	18A	19F	20F	21F				
HK - Listed Peers															
Beijing Urban Construction-H	1599 HK	HKD	2.14	4.3	4.0	3.5	3.1	0.6	0.5	0.5	0.4	13.5	20.5	8.1	2,886
China Communications Const-H	1800 HK	HKD	6.48	4.5	4.5	4.2	3.8	0.5	0.4	0.4	0.4	10.6	13.1	3.9	166,176
China Energy Engineering C-H	3996 HK	HKD	0.83	4.6	4.6	4.1	3.8	0.4	0.4	0.4	0.4	9.8	13.5	2.0	24,952
China Machinery Engineerin-H	1829 HK	HKD	3.31	5.4	5.5	5.1	4.6	0.7	0.7	0.6	0.6	13.6	15.7	7.2	13,656
China Railway Construction-H	1186 HK	HKD	9.33	6.2	5.8	5.2	4.7	0.7	0.6	0.5	0.5	11.1	9.7	2.5	146,996
China Railway Group Ltd-H	390 HK	HKD	5.26	5.9	5.9	5.3	4.7	0.7	0.5	0.5	0.5	10.4	9.8	2.3	153,168
China State Construction Int	3311 HK	HKD	8.05	9.0	7.3	6.2	5.5	1.1	0.9	0.8	0.8	13.4	15.2	9.1	40,646
Inner Mongolia Energy Engi-H	1649 HK	HKD	1.19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,388
Metallurgical Corp Of Chin-H	1618 HK	HKD	1.86	6.0	4.8	4.2	4.3	0.5	0.4	0.4	0.3	9.5	11.6	2.2	64,642
Sinopec Engineering Group-H	2386 HK	HKD	5.25	11.7	7.5	6.6	6.2	0.8	0.8	0.7	0.7	10.5	11.5	5.5	23,247
Simple Average				5.7	5.4	4.8	4.3	0.7	0.6	0.5	0.5	11.8	13.9	5.0	
Weighted Average				5.7	5.5	4.9	4.4	0.6	0.5	0.5	0.5	10.9	11.6	3.5	
China Listed Peers															
Anhui Water Resources Deve-A	600502 CH	CNY	4.52	9.8	8.2	7.0	5.2	1.1	0.9	0.9	0.9	12.5	10.7	2.3	8,614
China Camc Engineering Co -A	002051 CH	CNY	10.88	10.1	10.2	9.2	7.8	1.4	1.2	1.1	1.0	12.6	19.7	11.3	14,907
China Communications Const-A	601800 CH	CNY	10.57	8.6	7.9	7.3	6.7	0.9	0.8	0.8	0.7	10.5	13.4	4.0	166,176
China Railway Construction-A	601186 CH	CNY	10.02	8.0	6.8	6.0	5.4	0.8	0.7	0.7	0.6	11.3	9.9	2.5	146,996
China Railway Group Ltd-A	601390 CH	CNY	6.35	8.4	7.6	6.7	6.0	0.9	0.7	0.6	0.6	10.0	10.3	2.4	153,168
China State Construction -A	601668 CH	CNY	5.77	6.6	5.8	5.2	4.7	1.1	0.9	0.8	0.7	15.9	11.2	3.1	268,212
Metallurgical Corp Of Chin-A	601618 CH	CNY	3.00	11.5	8.5	7.5	7.1	0.9	0.7	0.7	0.6	8.6	12.3	2.2	64,642
Power Construction Corp Of-A	601669 CH	CNY	4.93	9.8	8.9	8.1	7.5	0.9	0.8	0.8	0.8	9.6	14.8	2.6	83,514
Shanghai Tunnel Engineerin-A	600820 CH	CNY	6.19	9.8	8.8	8.0	7.1	1.0	0.9	0.8	0.8	10.2	12.5	5.3	21,549
Simple Average				9.2	8.1	7.2	6.4	1.0	0.9	0.8	0.7	11.2	12.8	4.0	
Weighted Average				8.3	7.2	6.5	5.9	0.9	0.8	0.7	0.7	11.9	11.8	3.1	
Asia Listed Peers															
Ctci Corp	9933 TT	TWD	43.8	18.2	20.9	15.2	10.4	1.9	1.9	1.8	1.7	9.7	6.8	2.4	8,452
Daelim Industrial Co Ltd	000210 KS	KRW	102,000.0	6.1	5.5	5.6	5.6	0.7	0.7	0.6	0.5	12.2	15.4	7.2	23,471
Daewoo Engineering & Constr	047040 KS	KRW	4,905.0	6.7	7.5	6.1	5.6	0.9	0.8	0.7	0.6	11.4	10.4	3.1	13,480
Gamuda Bhd	GAM MK	MYR	3.6	17.4	13.9	14.1	14.3	1.2	1.2	1.1	1.0	8.6	21.0	15.8	16,843
Gs Engineering & Construct	006360 KS	KRW	35,100.0	4.5	5.5	5.5	5.3	0.8	0.7	0.6	0.6	13.6	12.8	4.7	18,550
Hyundai Engineering & Const	000720 KS	KRW	48,200.0	14.1	10.5	9.6	9.2	0.9	0.8	0.7	0.7	7.9	10.5	3.0	35,490
Ijm Corp Bhd	IJM MK	MYR	2.3	23.5	19.5	18.8	17.3	0.9	0.9	0.8	0.8	4.4	20.1	7.4	15,322
Simple Average				12.9	11.9	10.7	9.7	1.0	1.0	0.9	0.8	9.7	13.8	6.2	
Weighted Average				12.3	10.7	10.0	9.3	0.9	0.9	0.8	0.8	9.6	13.9	6.1	

Source: Bloomberg, Guotai Junan International. \*Prices are updated as of 16<sup>th</sup> September 2019.



**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total revenue	27,375	28,863	34,654	38,642	41,679
Cost of sales	(22,086)	(24,167)	(29,305)	(32,503)	(34,880)
Gross profit	5,289	4,696	5,349	6,139	6,799
Other revenue	212	107	160	133	146
Other income/(expenses), net	194	(85)	55	(15)	20
Selling and distribution expenses	(1,083)	(1,254)	(1,386)	(1,623)	(1,751)
Administrative expenses	(1,164)	(1,284)	(1,421)	(1,662)	(1,792)
Other operating income/(expenses)	(425)	(629)	(478)	(293)	(230)
Operating Profit	3,024	1,552	2,278	2,680	3,192
Finance income	394	1,315	749	606	469
Finance expenses	(1,162)	(208)	(250)	(229)	(257)
Share of profits and losses of:					
Associates	82	133	194	223	264
Joint ventures	24	34	42	53	70
Profit Before Tax	2,361	2,826	3,013	3,333	3,738
Income Tax	(584)	(690)	(741)	(828)	(918)
Profit After Tax	1,777	2,136	2,272	2,504	2,820
Non-controlling Interest	(2)	(4)	(5)	(5)	(6)
Shareholders' Profit / Loss	1,775	2,132	2,268	2,499	2,814
Basic EPS (RMB)	0.430	0.517	0.550	0.606	0.682
DPS (RMB)	0.166	0.207	0.220	0.242	0.273

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
CFO					
Net Income	1,775	2,132	2,268	2,499	2,814
Depreciation & amortization	188	200	217	241	269
Changes in working capital	1,156	3,118	(832)	2,349	707
Deferred tax liabilities	44	4	37	41	46
Deferred tax assets	63	(213)	5	(65)	(67)
Minority interest expense	2	4	5	5	6
Other operating activities	(3,077)	(4,639)	(2,314)	(1,213)	(1,178)
Cash from Operating Activities	152	605	(615)	3,858	2,597

CFI					
Purchase of fixed assets (capex)	(685)	(431)	(554)	(618)	(667)
Addition of prepaid lease payments	(42)	(12)	(35)	(30)	(25)
Purchase of intangibles	(18)	(24)	(30)	(38)	(47)
Proceeds from sale of fixed assets (disposal of PPE)	30	26	34	40	47
Proceeds from sale of prepaid lease payments	0	12	12	12	12
Acquisition of a subsidiary	0	(1,980)	0	0	0
Other investing activities	1,470	2,076	320	438	446
Cash from Investing Activities	754	(333)	(253)	(196)	(236)
CFF					
Dividends paid to non-controlling shareholders	(4)	0	(6)	(4)	(3)
Other financing activities	30	(116)	(129)	(129)	(125)
Common stock dividends paid	(842)	(684)	(853)	(907)	(1,000)
Increases / (decreases) in debt	(130)	68	(312)	188	289
Cash from Financing Activities	(947)	(732)	(1,300)	(851)	(839)
Net Changes in Cash	(41)	(460)	(2,168)	2,810	1,523
Cash at Beg of Year	22,127	21,479	21,384	19,216	22,026
Forex changes / adjustments	(607)	364	0	0	0
Cash at End of Year	21,479	21,384	19,216	22,026	23,549

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Property, plant and equipment	1,996	2,294	2,688	3,117	3,562
Prepaid land lease payments	1,808	1,756	1,728	1,692	1,650
Trade and other receivables	847	3,906	5,891	6,608	7,210
Investment in JV and associates	1,397	1,483	1,698	1,811	1,936
Investment properties	632	640	651	661	671
Other non-current assets	3,115	2,350	2,375	2,472	2,583
Total Non-current Assets	9,794	12,428	15,031	16,360	17,612
Cash & Cash Equivalents	21,479	21,384	19,216	22,026	23,549
Inventories	670	579	808	896	961
Trade and other receivables	10,884	11,520	13,168	13,525	13,754
Amounts due from contract customers	5,374	3,978	4,158	4,637	5,418
Restricted deposits	1,364	1,212	1,313	1,288	1,327
Time deposits	6,784	5,014	4,731	4,959	4,411
Total Current Assets	46,556	43,686	43,394	47,330	49,420
Total Assets	56,350	56,115	58,425	63,690	67,032
Borrowings	755	878	316	254	293
Receipts in advance	15,796	14,941	13,862	15,070	15,838
Trade and other payables	21,017	21,812	24,030	26,327	26,857
Income tax payable	122	527	429	395	368
Other current liabilities	34	33	36	39	42
Total Current Liabilities	37,724	38,191	38,673	42,086	43,399
Borrowings	162	106	356	606	856
Trade and other payables	541	747	879	943	942
Defined benefit obligations	452	462	473	484	496
Deferred tax liabilities	91	94	131	173	219
Total Non-current Liabilities	1,245	1,410	1,840	2,206	2,513
Total Liabilities	38,970	39,601	40,513	44,292	45,912
Total Shareholders' Equity	17,300	16,427	17,821	19,303	21,019
Minority Interest	80	86	90	95	101
Total Equity	17,381	16,513	17,912	19,398	21,120
BPS (RMB)	4.193	3.982	4.320	4.679	5.095

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Growth (%):					
Revenue	30.3%	5.4%	20.1%	11.5%	7.9%
Gross profit	49.2%	-11.2%	13.9%	14.8%	10.7%
Operating profit	92.9%	-48.7%	46.8%	17.6%	19.1%
Net profit	-15.7%	20.1%	6.4%	10.2%	12.6%
Profitability (%):					
Gross margin of:					
IEC business	22.7%	19.1%	17.7%	18.2%	18.7%
-Power	22.2%	20.1%	19.0%	19.0%	19.2%
-Transportation & telecommunication	34.7%	25.7%	25.0%	25.5%	26.0%
-Non-core sector	16.6%	14.2%	13.0%	14.0%	15.0%
Trading	5.8%	5.8%	7.0%	7.2%	7.5%
Other Business	42.0%	34.2%	25.0%	25.0%	25.0%
Consolidated gross margin	19.3%	16.3%	15.4%	15.9%	16.3%
Operating margin	11.1%	7.5%	7.3%	7.4%	7.8%
Net margin	6.5%	7.4%	6.5%	6.5%	6.8%
ROA	3.4%	3.8%	4.0%	4.1%	4.3%
ROE	10.9%	12.6%	13.2%	13.5%	14.0%
Liquidity & Solvency					
Net gearing ratio	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio	1.2	1.1	1.1	1.1	1.1
Interest coverage (x)	2.6	7.4	9.1	11.7	12.4
Inv. turnover (day)	11	9	10	10	10
AR turnover (day)	145	146	139	128	120
AP turnover (day)	347	329	299	296	281



## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

## Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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