

Company Report: China Communications Construction (01800 HK)

Gary Wong 黄家玮  
(852) 2509 2616

gary.wong@gtjas.com.hk

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3Q2020 Results Missed Expectation  
2020年3季度业绩差于预期

- China Communications Construction Company's (01800 HK) 1Q-3Q2020 revenue increased 9.1% YoY to RMB409.7 billion. Shareholders' net profit decreased 24.8% YoY to RMB10.1 billion. EPS decreased 27.4% YoY to RMB0.550. Results missed expectation, mainly due to higher-than-expected R&D expenses and finance costs in 3Q2020. 3Q Overall gross margin increased 1.9 pts YoY to 13.7%. The Company's 3Q new contracts was up 30.8% YoY, higher than 4.2% YoY growth in 2Q.
- We revise down total revenue CAGR for 2019-2022 from 7.2% to 6.9% and we expect overall gross margin to increase from 12.4% in 2020 to 12.7% in 2022.
- Our EPS estimates for 2020/ 2021/ 2022 are RMB0.978, RMB1.218 and RMB1.372, respectively. Due to the COVID-19 pandemic overseas, operations should recover only slowly; the Company's overseas revenue contribution was higher than its peers and suffered higher impact. In addition, the Company's construction revenue mainly came from road and bridge construction and ports construction, instead of railway and urban rail transit construction in which the government is increasing its spending. Hence, we think that the Company deserves a discount compared with its peers. We have lowered the TP to HK\$4.90, representing 8.0x/ 6.8x/ 6.7x 2020/ 2021/ 2022 EV/EBITDA. Maintain "Accumulate" rating.
- 中交建(01800 HK) 2020年1-3季度收入同比升9.1%至4,097亿元(人民币,下同), 股东净利同比降24.8%至101亿元, 每股净利同比降27.4%至0.550元。业绩差于预期, 主要由于2020年3季度高于预期的研发费用及财务费用。3季度整体毛利率同比提高1.9个百分点至13.7%。3季度公司新签合同同比增30.8%, 高于2季度的4.2%增长。
- 我们将2019-2022年整体收入的年复合增长率从7.2%调低至6.9%, 并预计整体毛利率将会从2020年的12.4%上升至2022年的12.7%。
- 我们对2020/2021/2022年的每股盈利预测分别为人民币0.978元、1.218元及1.372元。受海外疫情影响, 公司业务预计将复苏缓慢, 公司海外收入占比高于同业, 受影响程度较高。此外, 相对于政府正在持续加大投资的铁路及城轨建设, 公司建造板块的收入主要来源于路桥及港口建设, 因此我们认为公司的估值相较其同业应有一定的折让。我们将目标价下调至4.90港元, 对应8.0/ 6.8/ 6.7倍的2020/ 2021/ 2022年EV/EBITDA。维持“收集”评级。

Rating:

Accumulate  
Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$4.90

Revised from 原目标价:

HK\$5.20

Share price 股价:

HK\$4.120

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 %	1.7	(8.8)	(31.6)
Rel. % to HS Index 相对恒指变动 %	(4.6)	(10.8)	(23.6)
Avg. Share price(HK\$) 平均股价 (港元)	4.1	4.3	4.9

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)	(%)	(%)
2018A	488,666	19,819	1.162	(5.7)	3.1	12.190	0.3	0.231	6.4	10.1
2019A	552,542	20,094	1.163	0.1	3.2	14.229	0.3	0.233	6.4	8.7
2020F	586,763	16,833	0.978	(15.9)	3.6	15.074	0.2	0.196	5.4	6.9
2021F	634,855	20,721	1.218	24.5	2.9	16.114	0.2	0.241	6.7	7.9
2022F	675,562	23,210	1.372	12.6	2.6	17.278	0.2	0.270	7.4	8.3

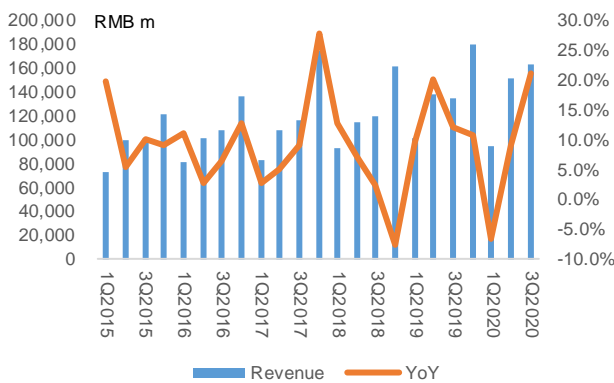
Shares in issue (m) 总股数 (m)	16,174.7	Major shareholder 大股东	CCCC 45.8%
Market cap. (HK\$ m) 市值 (HK\$ m)	66,639.8	Free float (%) 自由流通比率 (%)	54.2%
3 month average vol. 3 个月平均成交股数 ('000)	16,415.3	FY20 Net gearing (%) FY20 净负债/股东资金 (%)	118.4
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	6.630 / 3.970	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)	7.9

Source: the Company, Guotai Junan International.

**1Q-3Q2020 shareholders' net profit decreased 24.8% YoY to RMB10.1 billion; results slightly missed expectation.** China Communications Construction Company's (01800 HK, CCCC, or the "Company") 1Q-3Q2020 revenue increased 9.1% YoY to RMB409.7 billion. Shareholders' net profit decreased 24.8% YoY to RMB10.1 billion. EPS decreased 27.4% to RMB0.550. Results missed expectation, mainly due to higher-than-expected R&D expenses and finance costs in 3Q2020. In 3Q2020, revenue increased 21.1% YoY to RMB163.3 billion. Shareholders' net profit increased 3.5% YoY to RMB4.9 billion. Overall gross margin was up 1.9 pts YoY to 13.7%, selling expenses ratio stayed at 0.2% YoY, administrative expenses (including R&D expenses) ratio was up 0.2 pts YoY to 6.8%, however, finance cost ratio was up substantially by 1.5 pts YoY 2.2%, mainly due to substantial increase in borrowing scale and exchange losses. The growth rate of newly signed contracts reached 30.8% in 3Q2020, much higher than the 4.2% growth rate in 2Q2020, reflecting strong recovery of newly signed contracts.

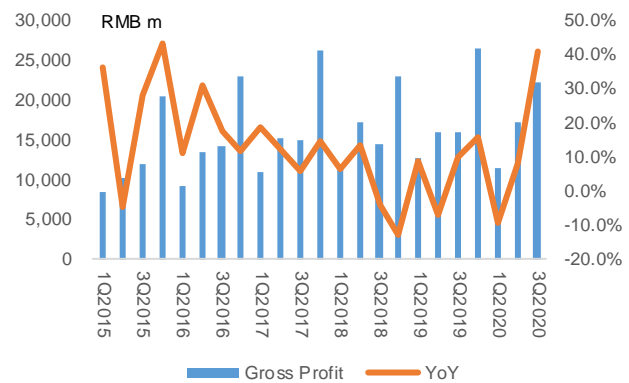
**We revise down the revenue CAGR estimate from the previous of 7.2% to 6.9% in 2019-2022.** In 3Q2020, total revenue increased 21.1% YoY to RMB163.3 billion, compared with 9.3% YoY increase in revenue in 2Q2020 and 6.7% YoY decline in revenue in 1Q2020, showing there was strong recovery in 3Q2020. According to the Ministry of Transportation, Jan.-Sep. 2020 highway FAI increased 12.8% YoY to RMB1.8 trillion, inland river FAI increased 9.0% YoY to RMB46.0 billion, coastal area increased 18.4% YoY to RMB43.7 billion, compared with 0.3% YoY decline in railway investment. The statistics showed that highway and port investment growth outperformed that of railway in 1Q-3Q2020. As the largest domestic constructor for roads and bridges, the Company is likely to even outperform average road constructors. However, we don't expect investment growth in highways and ports to be maintained at high levels and should start to decline next year. In addition, the Company's overseas operations have been dragging due to the COVID-19 pandemic, and we expect such drag to remain for at least the next year, as 3Q2020 overseas new contracts showed a YoY drop of 46.7%, largely behind 11.4% YoY growth in 2Q2020. It is still hard to see when the negative impact will fade, while 15%-20% of the Company's total revenue came from overseas. Overall, we have revised down revenue CAGR to 6.9% in 2019-2022 from the previous 7.2%.

**Figure 1: CCCC's Quarterly Revenue**



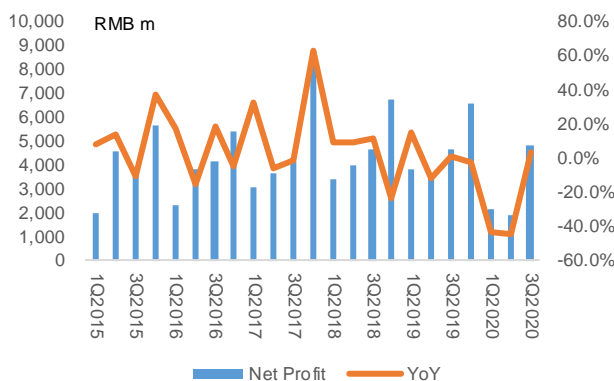
Source: the Company.

**Figure 2: CCCC's Quarterly Gross Profit**



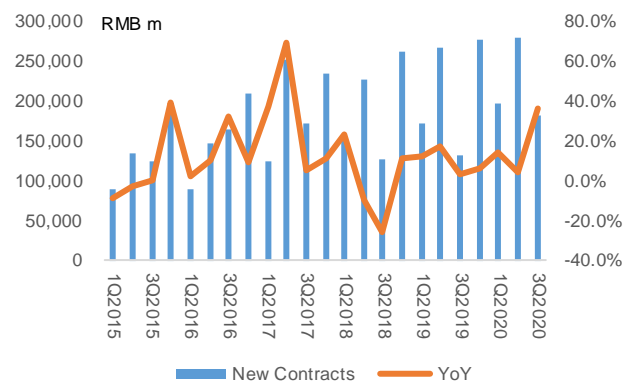
Source: the Company.

**Figure 3: CCCC's Quarterly Net Profit**



Source: the Company.

**Figure 4: CCCC's Quarterly New Contracts**



Source: the Company.

**We expect overall gross margin to increase from 12.4% in 2020 to 12.7% in 2022.** In 3Q2020, overall gross margin was up 1.9 ppts YoY to 13.7%, showing strong recovery after the resumption of collection of domestic tolls and increased traffic, while estimated losses recognized for certain overseas projects reduced. However, overseas infrastructure construction business is unlikely to rebound significantly this year and possibly next year due to the COVID-19 pandemic and weaker-than-expected demand for infrastructure investment. Despite this, the Company actively entered into rapid development of domestic environmental projects to improve gross margins, as notified by 20.9% YoY growth in municipal and environmental projects new contracts in 1Q-3Q2020 (compared with 15.0% YoY growth in infrastructure construction new contracts and 12.5% YoY growth in overall new contracts during the same period), which accounted for 45.8% of total infrastructure construction new contracts. As municipal and environmental projects have higher gross margin compared with average infrastructure construction projects, we expect that a gradual increase in such will gradually improve the Company's gross margin overall, from 12.4% in 2020 to 12.7% in 2022.

**We expect total expenses ratio to drop slightly from 9.1% in 2020 to 8.7% in 2022.** In 3Q2020, selling expenses ratio stayed at 0.2% YoY, administrative expenses (including R&D expenses) ratio was up 0.2 ppts YoY to 6.8%, however, finance cost ratio was up substantially by 1.5 ppts YoY 2.2%, mainly due to substantial increase in borrowing scale and exchange losses. Going forward, we expect selling expenses ratio to stay at 0.2% in 2020-2022 due to continuous stringent control for sales-related expenses, while administrative expenses ratio is expected to drop from 7.4% in 2020 to 7.2% as the Company incurred extra administrative expenses domestically and overseas due to the impact from the COVID-19 pandemic, which was unlikely to be incurred in 2021 and 2022. In addition, despite that interest rate is expected to decline or remain low in the next three years, we expect that the Company's increase in borrowing scale will offset only partially the interest rate drop effect, and net finance costs ratio should drop from 1.5% in 2020 to 1.3% in 2022. Overall, we expect total expenses ratio to drop slightly from 9.1% in 2020 to 8.7% in 2022.

**Table 1: CCCC Financial Estimates Revisions**

RMB(Million)	Old			New			Change		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
<b>Revenue</b>	586,763	634,855	681,130	586,763	634,855	675,562	0.0%	0.0%	(0.8%)
<b>Shareholders' Net Profit</b>	18,540	22,455	23,429	16,833	20,721	23,210	(9.2%)	(7.7%)	(0.9%)
<b>EPS (RMB)</b>	1.083	1.325	1.385	0.978	1.218	1.372	(9.7%)	(8.1%)	(1.0%)

Source: Guotai Junan International.

**Lower the TP to HK\$4.90 but maintain "Accumulate" rating.** Our EPS estimates are RMB0.978, RMB1.218 and RMB1.372 for 2020/ 2021/ 2022, respectively. The Company had much higher overseas exposure with 15%-20% of its total revenue from overseas projects, compared with an average of 5% of its peers such as China Railway Group (00390 HK) and China Railway Construction (01186 HK), and overseas markets are not expected to recover soon due to the severity of the COVID-19 pandemic in the Company's main overseas markets. The Company tried to mitigate this with increasing investment in domestic environmental protection PPP projects. However, compared with its peers China Railway Group (00390 HK) and China Railway Construction (01186 HK), its construction revenue mainly came from road and bridge construction and ports construction, instead of railway and urban rail transit construction in which the government is increasingly spending more in the coming next few years. Hence, the Company deserves a discount compared with these two peers. We have lowered the TP to HK\$4.90, representing 8.0x/ 6.8x/ 6.7x 2020/ 2021/ 2022 EV/EBITDA. Based on its still stable fundamentals and attractive dividend yield, maintain "Accumulate".

**Table 2: Peers Comparison**

Company	Stock Code	Currency	Last price	Market cap(mn)	PE (fiscal year)				PB (fiscal year)				ROE(%) D/Y(%)	
					19A	20F	21F	22F	19A	20F	21F	22F	20F	20F
China Communications Const-H	1800 HK	HKD	4.120	119,985	3.2	2.8	2.6	2.8	0.3	0.2	0.2	0.2	7.8	7.0
China Railway Group Ltd-H	390 HK	HKD	3.770	143,706	3.5	3.4	3.1	2.8	0.4	0.3	0.3	0.3	10.5	5.8
China Railway Construction-H	1186 HK	HKD	5.200	121,390	3.3	2.9	2.6	2.4	0.3	0.3	0.2	0.2	9.8	6.1
China State Construction Int	3311 HK	HKD	5.690	28,730	5.3	4.7	4.1	3.6	0.7	0.6	0.5	0.5	13.6	6.3
China Railway Signal & Com-H	3969 HK	HKD	2.770	65,968	6.4	6.5	5.7	5.2	0.7	0.6	0.6	0.5	9.2	8.2
China Energy Engineering C-H	3996 HK	HKD	0.790	23,749	4.1	4.5	4	3.4	0.4	0.4	0.3	0.3	7.7	4.7
Metallurgical Corp Of Chin-H	1618 HK	HKD	1.300	57,705	4.2	3.2	2.9	2.7	0.3	0.2	0.2	0.2	3.6	7.9
China Machinery Engineerin-H	1829 HK	HKD	1.490	6,147	2.5	3.4	2.6	2.4	0.3	0.3	0.3	0.3	8.6	10.1
Sinopec Engineering Group-H	2386 HK	HKD	3.040	13,461	5.5	5	4.6	4.2	0.4	0.4	0.4	0.4	8.3	12.8
Simple Average					4.2	4.0	3.6	3.3	0.4	0.4	0.3	0.3	8.8	7.7
Weighted Average					3.9	4.3	3.9	3.5	0.5	0.4	0.4	0.4	9.3	7.5

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	488,666	552,542	586,763	634,855	675,562	Property, Plant and Equipment	56,365	57,471	66,868	72,120	77,012
Cost of sales	(424,055)	(483,411)	(513,791)	(555,096)	(589,767)	Intangible Assets	188,370	219,227	248,893	277,714	305,490
Gross profit	64,611	69,131	72,972	79,759	85,795	Contract Assets	28,698	30,268	32,235	34,975	37,249
Other income/expenses, net	4,440	5,345	3,878	4,554	4,593	LT Trade and Other Receivables	118,967	178,008	183,165	190,456	202,669
Selling and distribution costs	(1,177)	(1,158)	(1,232)	(1,333)	(1,419)	LT Investments	41,665	52,058	52,580	53,155	53,786
Administrative expenses	(34,553)	(39,247)	(43,420)	(45,710)	(48,640)	Other Non-current Assets	44,909	54,599	58,429	63,416	69,060
Operating Profit	33,321	34,071	32,197	37,271	40,329	Total Non-current Assets	478,974	591,631	642,171	691,837	745,266
Finance costs	(7,346)	(6,694)	(8,766)	(9,005)	(8,659)	Inventories	46,861	62,070	76,654	67,671	79,770
Share of profits of JV/associates	71	85	(101)	453	498	ST Trade and Other Receivables	195,887	223,832	285,234	308,612	328,400
Profit Before Tax	26,046	27,462	23,330	28,719	32,168	Contract Assets	103,981	116,236	136,170	147,745	157,348
Income Tax	(5,608)	(5,848)	(5,016)	(6,175)	(6,916)	Cash & Cash Equivalents	127,413	118,812	130,553	109,243	118,314
Profit After Tax	20,438	21,614	18,314	22,544	25,252	Other Current Assets	7,360	7,819	8,187	9,165	9,509
Shareholders' Profit / Loss	19,819	20,094	16,833	20,721	23,210	Total Current Assets	481,502	528,769	636,798	642,436	693,343
Non-controlling Interest	(619)	(1,520)	(1,481)	(1,823)	(2,042)	Total Assets	960,476	1,120,400	1,278,969	1,334,273	1,438,608
Basic EPS	1.162	1.163	0.978	1.218	1.372	ST Trade and Other Payables	314,496	362,773	385,571	416,569	442,587
DPS	0.231	0.233	0.196	0.241	0.270	ST Borrowings	79,243	74,372	117,353	95,228	101,334
						Contract Liabilities	81,953	82,808	88,511	95,818	101,815
						Other Current Liabilities	4,177	6,063	6,670	7,321	8,043
						Total Current Liabilities	479,869	526,016	598,105	614,936	653,780
						LT Trade and Other Payables	17,185	23,778	26,306	27,693	29,469
						LT Borrowings	215,384	264,415	309,219	311,079	331,026
						Other Non-current Liabilities	8,356	9,812	10,209	10,647	11,132
						Total Non-current Liabilities	240,925	298,005	345,735	349,419	371,626
						Total Liabilities	720,794	824,021	943,840	964,355	1,025,407
						Share capital	16,175	16,175	16,175	16,175	16,175
						Reserves	156,577	183,555	197,224	214,049	232,896
						Other Equity Instruments	24,426	30,423	30,423	30,423	30,423
						Total Shareholders' Equity	197,178	230,153	243,822	260,647	279,494
						Minority Interest	42,504	66,226	91,307	109,271	133,708
						Total Equity	239,682	296,379	335,129	369,918	413,201
						Total Equity and Liabilities	960,476	1,120,400	1,278,969	1,334,273	1,438,608
						BVPS	12.190	14.229	15.074	16.114	17.278
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F		2018A	2019A	2020F	2021F	2022F
Profit After Tax	20,438	21,614	18,314	22,544	25,252	Gross Margin (%)	13.2	12.5	12.4	12.6	12.7
Depreciation and Amortization	10,132	12,228	12,801	15,104	15,903	Operating Margin (%)	6.8	6.2	5.5	5.9	6.0
Change in Working Capitals	(28,495)	(38,677)	(72,749)	2,935	(22,257)	Net Margin (%)	4.1	3.6	2.9	3.3	3.4
Other Operating Activities	7,023	10,766	17,006	17,652	18,120	ROA (%)	2.1	1.8	1.3	1.6	1.6
Cash from Operating Activities	9,098	5,931	(24,627)	58,235	37,018	ROE (%)	10.1	8.7	6.9	7.9	8.3
Capital Expenditures	(52,173)	(75,776)	(66,408)	(64,778)	(64,449)	Net Gearing Ratio (%)	81.3	92.7	118.4	110.8	109.4
Other Investing activities	1,861	10,063	2,155	2,110	2,063	Interest Coverage (x)	2.6	2.2	1.8	2.0	2.2
Cash from Investing Activities	(50,312)	(65,713)	(64,253)	(62,667)	(62,387)						
Issue of Preference/Common Shares	19,218	17,940	0	0	0						
Net Borrowings	35,127	42,036	87,785	(20,265)	26,053						
Interests Paid	(13,206)	(15,936)	(17,728)	(18,414)	(18,539)						
Dividends Paid	(5,679)	(6,594)	(4,073)	(3,503)	(4,268)						
Other Financing Activities	3,171	13,477	34,638	25,304	31,195						
Cash from Financing Activities	38,631	50,923	100,621	(16,878)	34,441						
Cash at Beg of Year	129,197	127,413	118,812	130,553	109,243						
Net Changes in Cash	(2,583)	(8,859)	11,741	(21,311)	9,072						
Foreign exchange effect	799	258	0	0	0						
Cash at End of Year	127,413	118,812	130,553	109,243	118,314						

Source: the Company, Guotai Junan International.

### 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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 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk