

## Company Report: Conch Cement (00914 HK)

公司报告: 海螺水泥 (00914 HK)

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# Further Growth Relies on Market Share Gains, "Accumulate"

进一步增长依赖于市场份额提升, “收集”

- **Conch is expecting an 80-100% YoY increase in its 2018 shareholders' profit.** We estimate that Conch's 4Q18 revenue is to beat 3Q18 and its 2018 revenue and shareholders' profit are to increase YoY by 47.9% and 93.3%, respectively.
- **The market awaits resumption of work after the Chinese New Year but the weather is not cooperating.** The slow pace of recovery is partly due to persistent rainy weather, which might negatively affect 1Q19 sales.
- **With more new projects put into operation, Conch continues to lead in overseas expansion.** If construction in Laos and Indonesia goes smoothly in 2019, Conch's overseas clinker capacity is expected to exceed 40,000 t/day.
- **Clinker imports exploded in 2018 but impact on markets remained controllable.** In 2018, the import dependency of clinker in east China was only 2.3%, which we expect to remain below 3% in 2019-2020.
- **New policies include those opposed to the "one size fits all" approach to environmental governance and in support of the exit of low-grade cements are favorable to market leaders like Conch.** Recovering infrastructure investment is expected to partly offset slowing property investment in 2019, maintaining stable cement demand in Conch's operating regions.
- **"Accumulate" with a TP of HK\$48.20.** We expect Conch to continue strengthening its leadership while more small manufacturers are weeded out, but room for further ASP increase is limited, as current high cement prices highly rely upon well-implemented production curtailment. Our TP represents 7.3x/ 7.5x/ 7.3x 2018-2020 PE ratio and 1.7x 2019 PB ratio.
- **海螺水泥 2018 年股东利润预计同比增加 80-100%。**我们估计海螺水泥 2018 年第四季度收入将超过第三季度, 其 2018 年的收入和股东利润将分别增加 47.9%和 93.3%。
- **市场在等待春节后的复工, 然而天公不作美。**复苏步伐较慢的部分原因是持续的阴雨天气, 而 2019 年第一季度的销售或将受到其负面影响。
- **随着更多新项目投产, 海螺水泥继续引领海外扩张。**倘若 2019 年老挝和印尼的建设进展顺利, 海螺水泥的海外熟料产能预计将超过 40,000 吨/日。
- **2018 年的熟料进口量暴增, 但对市场的冲击仍然可控。**2018 年, 华东熟料的进口依赖度仅为 2.3%, 我们预计 2019-2020 年将维持在 3%以下。
- **环保治理不搞“一刀切”和低标水泥的退出等政策利好海螺水泥等市场领导者。**基建投资的复苏将在 2019 年部分抵消房地产投资的放缓, 维持海螺水泥经营区域内水泥需求的稳定。
- **“收集”, 目标价为 48.20 港元。**我们预计海螺水泥将随着更多小厂商被淘汰而强化其领导地位, 但鉴于目前较高的水泥价格高度依赖于限产的良好执行, 平均售价进一步提升的空间有限。我们的目标价对应 7.3 倍/ 7.5 倍/ 7.3 倍的 2018-2020 年市盈率和 1.7 倍的 2019 年市净率。

Rating:

**Accumulate**

评级:

收集

6-18m TP 目标价:

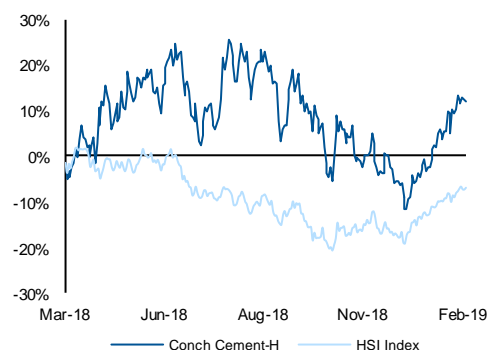
**HK\$48.20**

Share price 股价:

HK\$44.900

### 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 %	5.9	9.9	7.0
Rel. % to HS Index 相对恒指变动 %	3.4	1.9	14.2
Avg. Share price(HK\$) 平均股价 (港元)	43.7	40.5	43.5

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)	(%)	(%)
2016A	55,932	8,574	1.618	13.7	24.9	14.400	2.8	0.500	1.2	11.7
2017A	75,311	15,899	3.000	85.4	12.5	16.823	2.2	1.200	3.2	19.2
2018F	111,354	30,726	5.798	93.3	6.8	21.429	1.8	1.955	4.9	30.3
2019F	115,406	29,965	5.654	(2.5)	7.0	25.130	1.6	1.970	5.0	24.3
2020F	118,223	30,607	5.776	2.2	6.8	28.920	1.4	2.090	5.3	21.4

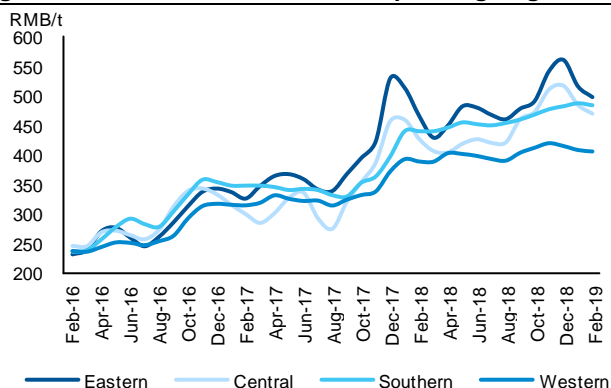
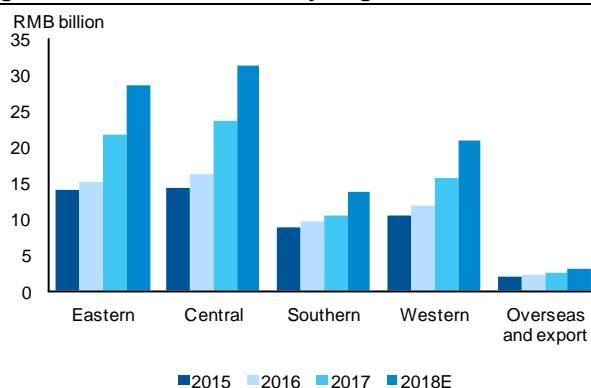
Shares in issue (m) 总股数 (m)	5,299.3	Major shareholder 大股东	Anhui Conch Holdings 36.4%
Market cap. (HK\$ m) 市值 (HK\$ m)	237,938.6	Free float (%) 自由流通比率 (%)	63.6
3 month average vol. 3 个月平均成交股数 ('000)	9,648.5	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	51.550 / 34.550	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	60.8

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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**Anhui Conch Cement ("Conch" or the "Company") is expected to record an 80-100% YoY increase in its 2018 shareholders' profit.** According to the Company's positive profit alert, Conch's shareholders' profit in 2018 will reach RMB28,538 million to RMB31,709 million (under PRC GAAP). In 1-3Q18, Conch's revenue and shareholders' profit rose by 55.5% YoY and 111.2% YoY, respectively. We estimate that Conch's 4Q18 will beat its 3Q18 in terms of revenue based on the growth in both price and sales volume of cement in the Company's operating regions, and eventually lead to a 47.9% YoY increase and a 93.3% YoY increase in its 2018 revenue and shareholders' profit, respectively (under IFRS).

**Figure-1: Cement Price in Conch's Operating Regions**

**Figure-2: Conch's Revenue by Region**


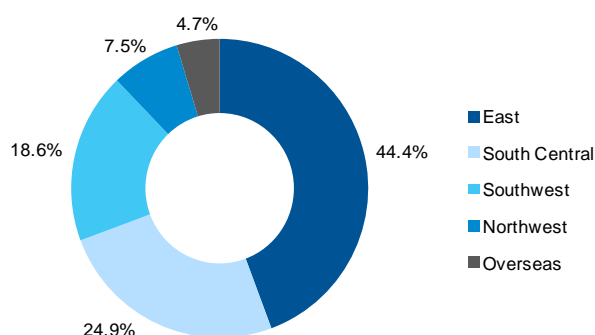
Source: Digital Cement, Guotai Junan International.

Note: Eastern: Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;  
 Central: Anhui, Jiangxi and Hunan;  
 Southern: Guangdong and Guangxi;  
 Western: Sichuan, Chongqing, Guizhou, Yunnan, Gansu, Shaanxi and Xinjiang.

Source: the Company, Guotai Junan International.

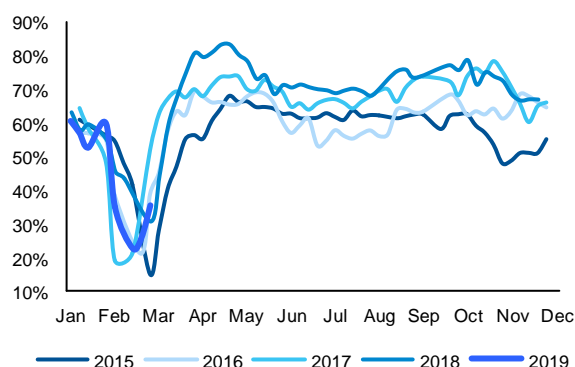
Note: Revenues from non-principal activities are excluded.

**The market awaits resumption of work after the Chinese New Year but the weather is not cooperating.** The off-season effect during Chinese New Year 2019 was rather obvious in Conch's core operating regions including south central and east China. Average grinder utilization rate in the core regions dropped to 22.9% in the first week after the Chinese New Year, which was worse than the level in 2018 and close to the levels in 2016 and 2017, while the trend of average inventory levels of both cement and clinker roughly matches the same period in 2017 and 2018. Pace of recovery is slower than that in recent years, partly due to persistent rainy weather in February around south central and east China, which broke rainfall records in most provinces. According to the China Meteorological Administration's forecasts, rainy weather will persist into early March, which might hinder demand and negatively affect the Company's sales in 1Q19.

**Figure-3: Conch's Clinker Capacity Geographical Mix as at the End of 2018**


Source: the Company, CCement, Guotai Junan International.

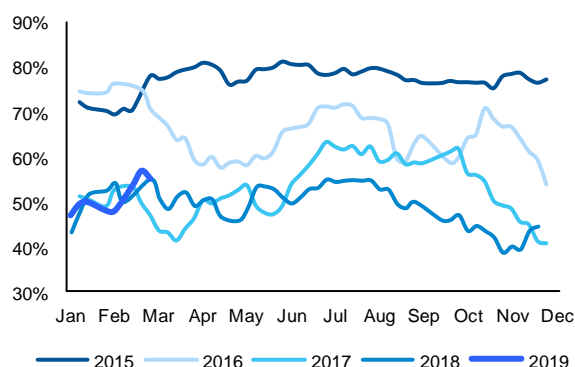
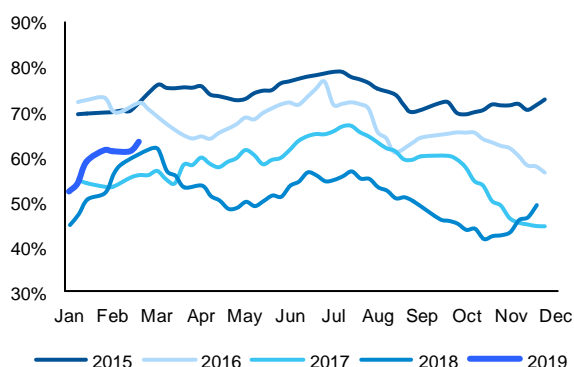
Note: East: Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;  
 South Central: Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan;  
 Southwest: Chongqing, Sichuan, Guizhou, Yunnan and Tibet;  
 Northwest: Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

**Figure-4: Average Grinder Utilization Rate in Conch's Core Operating Regions**


Source: SC199, Guotai Junan International.

Note: Conch's core operating regions include south central and east China.

**Figure-5: Average Cement Inventory Level in Conch's Core Operating Regions**
**Figure-6: Average Clinker Inventory Level in Conch's Core Operating Regions**



Source: Digital Cement, Guotai Junan International.

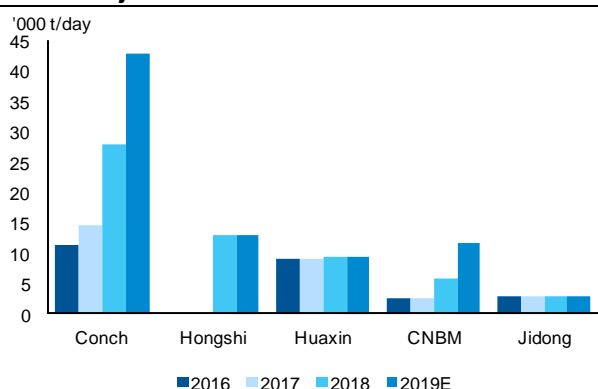
Note: Conch's core operating regions include south central and east China.

Source: SCL99, Guotai Junan International.

Note: Conch's core operating regions include south central and east China.

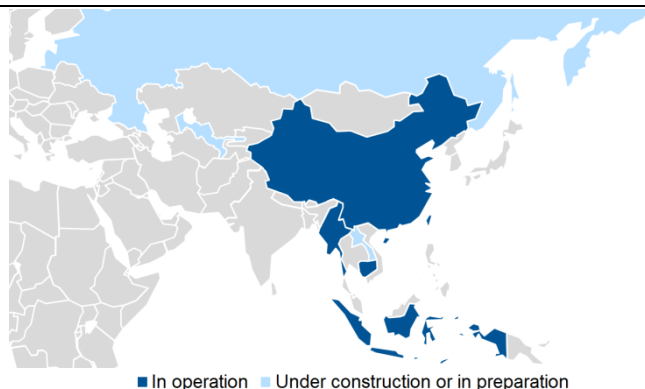
**With more new projects put into operation, Conch continues to lead in overseas expansion.** In 2018, Battambang Conch project in Cambodia and North Sulawesi Conch project in Indonesia commenced operations in May and October, respectively, each with a clinker capacity of 5,000 tons/day. In the past 3 years, Conch has significantly outperformed other Chinese cement manufacturers in terms of pace of overseas expansion. If construction of both Luangprobang Conch in Laos and Barru Conch in Indonesia goes smoothly in 2019, Conch's overseas clinker capacity is expected to exceed 40,000 tons per day. As Conch is also progressing in preparation for more projects in Laos, Russia and Uzbekistan, we believe Conch will further solidify its leadership among its Chinese peers in the overseas market.

**Figure-7: Overseas Clinker Capacity of Conch and Other Major Chinese Cement Manufacturers**



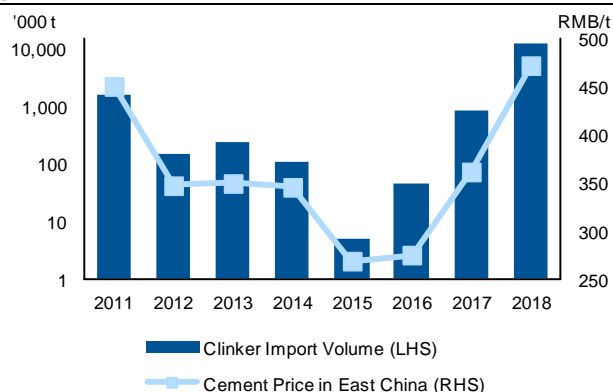
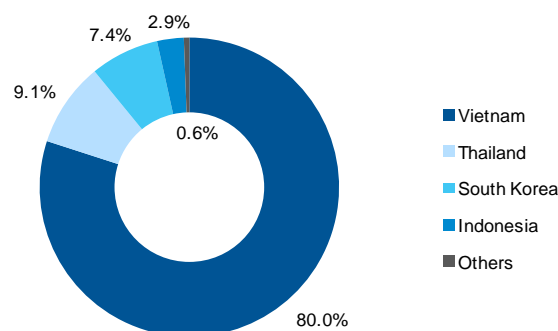
Source: the Company, CCement, Guotai Junan International.

**Figure-8: Conch's Overseas Deployment as at the End of 2018**



Source: the Company, Guotai Junan International.

**Clinker imports exploded in 2018 but impact on markets remained limited.** Clinker imports to China hit a historic high of 12.7 million tons, representing a YoY increase of 13.5x. Vietnam still dominated the importing market with market share of 80.0%. Over 10.5 million tons, or 83.0% of clinker, was imported to east China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong), Conch's most important operating region, given convenient marine transport in the area. The boom of clinker imports was undoubtedly driven by production control and subsequent cement price hikes in east China, which could also be reflected in the price gap between import price and local price. The average price gap in 2018 was estimated to be approximately RMB64.1 per ton, offering attractive profit margins. On the other hand, China contributed 31.3% of Vietnam's clinker and cement export volume in 2018, exceeding Bangladesh and Philippines to be the largest importer of Vietnamese clinker and cement. We believe that as long as production curtailment is well implemented and cement price in east China remains high, clinker imports will continue to rise. However, given limited excess capacity of exporters led by Vietnam, impact of further growth in clinker imports in 2019 will be controllable. According to Vietnam National Cement Association's forecast, Vietnam's production volume of cement products in 2019 will be 99 million tons, among which 30 million tons will be exported, roughly flat YoY. In 2018, the import dependency of clinker in east China was only 2.3%, which we expect to remain below 3% in 2019-2020.

**Figure-9: Clinker Imports vs. Cement Price in East China**

**Figure-10: Major Sources of Clinker Imports in 2018**


Source: China Customs, Digital Cement, Guotai Junan International.  
 Note: Clinker Import Volume (LHS) is plotted in logarithmic scale.

Source: China Customs, Guotai Junan International.

**Table-1: Clinker Import Volume and Price in East China in 2018**

Province	Import Volume ( <sup>1</sup> '000 t)	Clinker Demand <sup>1</sup> (million t)	Import Dependency	Average CIF Price (USD/t)	Tax-inclusive Price <sup>2</sup> (RMB/t)	Local Price (RMB/t)
Shandong	4,593	80.3	5.7%	46.10	353.8	418.0
Shanghai	3,186	2.7	119.2%	48.43	371.7	449.1
Fujian	1,278	57.4	2.2%	45.86	352.0	402.8
Zhejiang	959	80.1	1.2%	46.15	354.2	450.8
Jiangsu	253	96.0	0.3%	46.02	353.3	423.0
Jiangxi	153	57.6	0.3%	46.65	358.1	417.6
Anhui	93	85.1	0.1%	48.85	375.0	420.0
<b>East China Total</b>	<b>10,514</b>	<b>459.2</b>	<b>2.3%</b>	<b>46.81</b>	<b>359.3</b>	<b>423.4</b>

Source: China Customs, CFETS, SCI99, Guotai Junan International.  
 Note:

1. Clinker demand is derived from production volume of cement in 2018 and an average cement / clinker ratio of 1.53;

2. Tax-inclusive prices are converted from average CIF price at an annual average USD/RMB rate of 6.6174, plus Value-added Tax at a tax rate of 16% (lowered from 17%, effective from 1 May 2018); the tariff rate for clinker is 0 according to the China-ASEAN Free Trade Agreements (effective for Vietnam from 2015).

**New policies are favorable to market leaders like Conch.** In the second half of 2018, the Ministry of Ecology and Environment has been pressing local governments to stop the "one size fits all" approach to environmental governance, which in essence encourages cement manufacturers with stronger pollution control, like Conch, to beat those without sophisticated environmental technology and gain more market share. In addition, with low-grade cements (P.C 32.5) exiting the market by 1 October 2019, profit margins of independent grinding plants which rely on external clinker supply will be squeezed as clinker demand increases and clinker price remains high. On the other hand, Conch has also been expanding its dominance in core regions such as Anhui and Jiangxi in east China as well as Guangdong in south central China through both internal expansion and external acquisitions. For example, by acquiring Guangying Cement in July 2018, clinker capacity of Conch in Guangdong became much closer to that of CRC, securing its second place ahead of TCC, CNBM and Tapai, and thereby enabling it to benefit more from the booming construction market around the Pearl River Delta, under stimulation of the newly unveiled Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area.

**Table-2: Conch's Regional Dominance by Clinker Capacity in China as at the End of 2018**

Region	Clinker Capacity (million t)	Capacity Share (%)	Rank	Major Rivals <sup>6</sup>
<b>East<sup>1</sup></b>	<b>97.87</b>	<b>20.1</b>	<b>1</b>	<b>CNBM, Shanshui, Hongshi</b>
- Anhui	78.74	58.3	1	CNBM, Shangfeng
- Jiangxi	10.76	16.2	3	CNBM, Wannianqing, ACC
- Jiangsu	3.72	6.1	5	CNBM, Jinfeng
- Zhejiang	3.10	4.9	3	CNBM, Hongshi
- Shandong	1.55	1.4	>9	CNBM, Shanshui
<b>South Central<sup>2</sup></b>	<b>54.10</b>	<b>12.5</b>	<b>1</b>	<b>CNBM, CRC, Huaxin, TCC</b>
- Hunan	20.93	26.3	2	CNBM, Huaxin, Hongshi
- Guangdong	17.21	17.3	2	CRC, TCC, CNBM, Tapai
- Guangxi	15.97	19.7	2	CRC, TCC, CNBM
<b>Southwest<sup>3</sup></b>	<b>41.76</b>	<b>11.9</b>	<b>2</b>	<b>CNBM, Huaxin</b>
- Guizhou	18.82	21.1	2	CNBM, Hongshi, TCC
- Sichuan	8.53	7.7	4	CNBM, Esheng, Huaxin
- Yunnan	8.22	8.8	4	CNBM, Yunnan Cement, Huaxin
- Chongqing	6.20	11.7	3	CNBM, East Hope, Jidong
<b>Northwest<sup>4</sup></b>	<b>17.05</b>	<b>7.9</b>	<b>4</b>	<b>CNBM, Qingsong</b>
- Shaanxi	10.85	19.3	3	WCC, Jidong, Shengwei
- Gansu	5.43	12.7	2	CNBM
- Xinjiang	0.78	1.0	>9	CNBM, Qingsong
<b>National<sup>5</sup></b>	<b>210.77</b>	<b>11.6</b>	<b>2</b>	<b>CNBM, Jidong, CRC, Huaxin</b>

Source: the Company, Digital Cement, Guotai Junan International.

- Note:
1. East: Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
  2. South Central: Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan;
  3. Southwest: Chongqing, Sichuan, Guizhou, Yunnan and Tibet;
  4. Northwest: Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
  5. National: mainland China only;
  6. CNBM: China National Building Material Company Limited (3323 HK);  
 Hongshi: Hongshi Holding Group Co., Ltd.;  
 Wannianqing: Jiangxi Wannianqing Cement Co., Ltd. (000789 CH);  
 Jinfeng: Jiangsu Jinfeng Cement Group Co., Ltd.;  
 Huaxin: Huaxin Cement Co., Ltd. (600801 CH);  
 Tapai: Guangdong Tapai Cement Co., Ltd. (002233 CH);  
 Yunnan Cement: Yunnan Cement & Building Materials Group Co., Ltd.;  
 Jidong: Tangshan Jidong Cement Co., Ltd. (000401 CH);  
 WCC: West China Cement Limited (2233 HK);  
 Shanshui: China Shanshui Cement Group Ltd. (691 HK);  
 Shangfeng: Gansu Shangfeng Cement Co., Ltd. (000672 CH);  
 ACC: Asia Cement (China) Holdings Corporation (743 HK);  
 CRC: China Resources Cement Holdings Limited (1313 HK);  
 TCC: Taiwan Cement Corporation (1101 TW);  
 Esheng: Sichuan Esheng Cement Group Co., Ltd.;  
 East Hope: East Hope Group Co., Ltd.;  
 Qingsong: Xinjiang Qingsong Building Materials and Chemicals (600425 CH);  
 Shengwei: Shaanxi Shengwei Building Materials Group Co., Ltd.

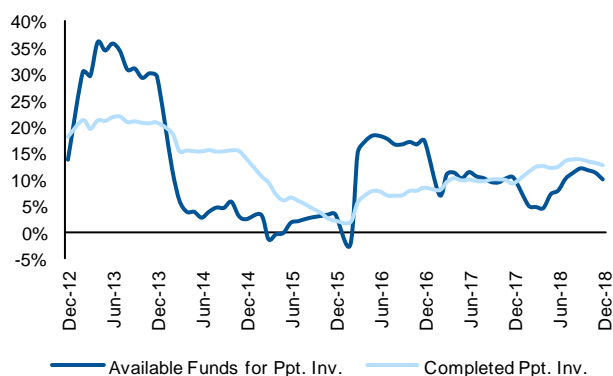
**Recovering infrastructure investment is expected to partly offset slowing property investment in 2019.** Upsurge of GFA newly started in 4Q18 was mainly driven by the land acquisition climax in 4Q17 (to avoid idle charges on land acquired). Given the slowing down in property investment and GFA sold, we expect GFA newly started to gradually fall back in 2019, unless property regulation is relaxed. Infrastructure investment growth in 2018 dropped to 3.8%, a historical low since 2012. With the support of easier monetary and fiscal policies, we expect infrastructure investment to rebound in 2019, especially in east China and south China, where local governments are with more abundant financial resources. Overall, cement demand in Conch's operating regions is expected to maintain stable, while the Company's sales volume will grow with market share improvements.

**Table-3: Key Assumptions for Financial Forecasts**

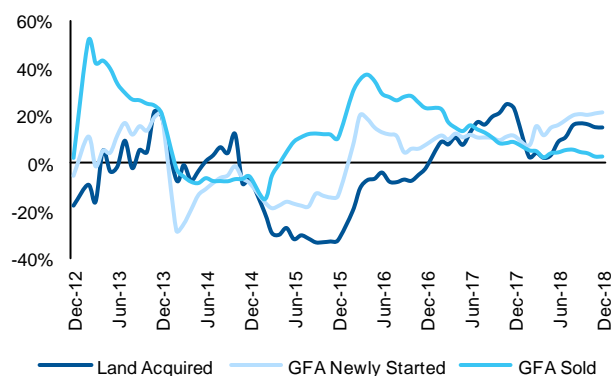
	2016A	2017A	2018F	2019F	2020F
<b>Cement &amp; Clinker (Blended)</b>					
Sales volume (mn t)	277.0	295.1	323.6	333.0	338.0
ASP (RMB)	196.7	247.0	333.5	332.2	332.0
Unit cost (RMB)	132.2	159.8	178.0	185.8	187.0
GP/m <sup>3</sup> (RMB)	64.5	87.2	155.4	146.3	145.0

Source: the Company, Guotai Junan International.

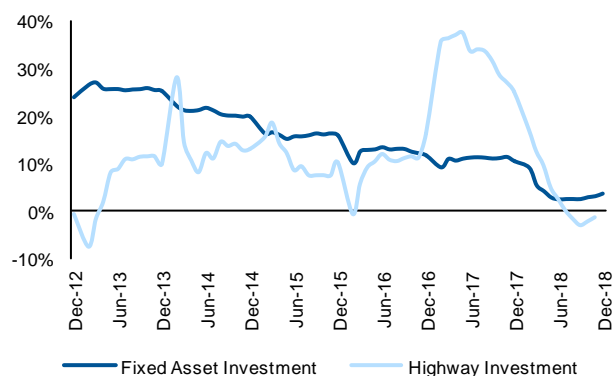


**Figure-11: Property Investment Growth in Conch's Operating Regions**


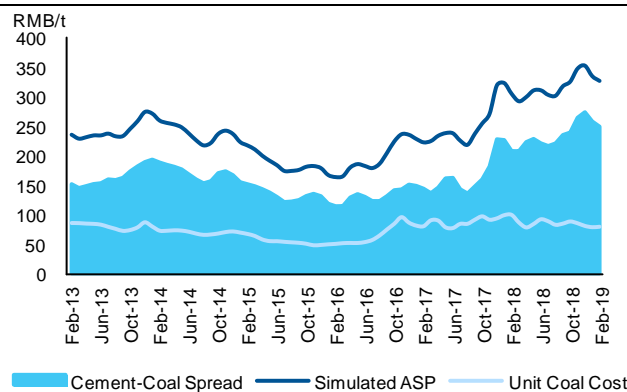
Source: National Bureau of Statistics of China.  
 Note: Ppt. Inv.: Property investment.

**Figure-12: Property Development Area Growth in Conch's Operating Regions**


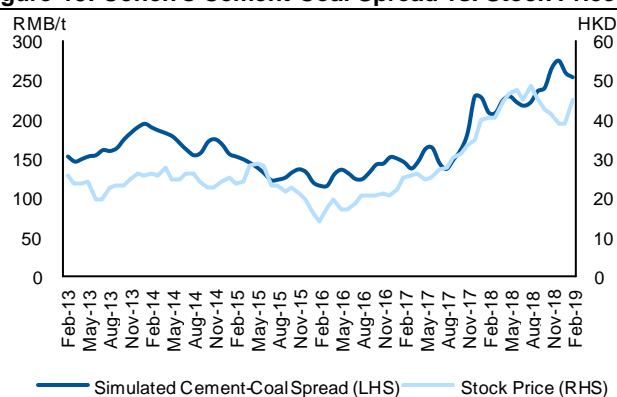
Source: National Bureau of Statistics of China.  
 Note: GFA: Gross floor area.

**Figure-13: Fixed Asset Investment and Highway Investment Growth in Conch's Operating Regions**


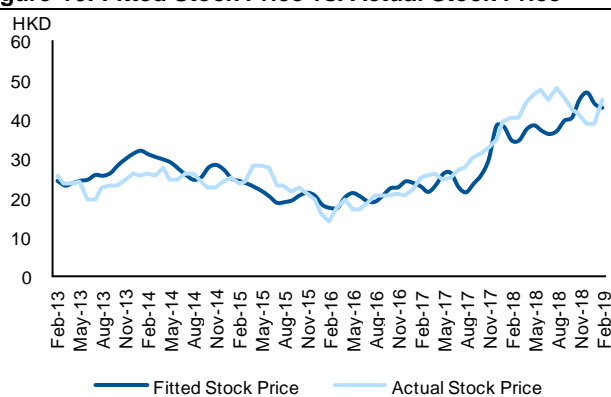
Source: National Bureau of Statistics of China, Ministry of Transport of the PRC.

**Figure-14: Conch's Cement-Coal Spread (Simulated)**


Source: Digital Cement, Wind, Guotai Junan International.  
 Note: Simulated ASP is derived from regional sales volume-weighted average cement price.  
 Unit coal cost is based on FOB price of Qinhuangdao 5500K Thermal Coal.

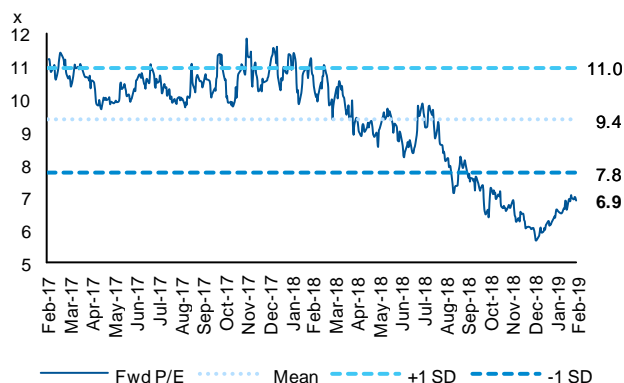
**Figure-15: Conch's Cement-Coal Spread vs. Stock Price**


Source: Bloomberg, Guotai Junan International.

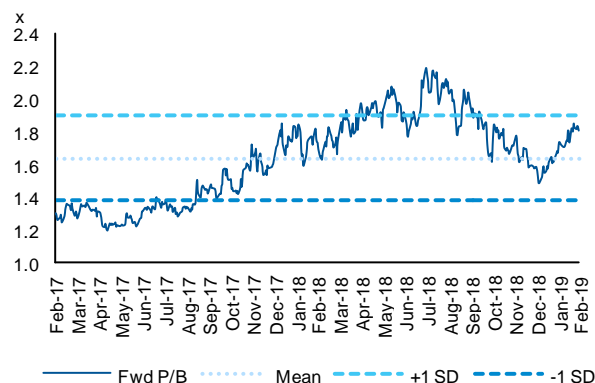
**Figure-16: Fitted Stock Price vs. Actual Stock Price**


Source: Bloomberg, Guotai Junan International.  
 Note: Fitted stock prices are obtained from regression on simulated cement-coal spread.

**"Accumulate" with a target price of HK\$48.20.** Our DCF model suggests that the fair value should be HK\$60.81 per share. Given coal and cement prices on 22 February 2019, a stock price of HK\$41.66 would be fair at this moment according to our regression on cement-coal spread. Conch's PE ratio is below its 2 years' mean minus one SD, while its PB ratio is close to 2 years' mean plus one SD. We expect Conch to continue strengthening its leadership while more small manufacturers are weeded out, but room for further ASP increase is limited, as current high cement prices highly rely upon well-implemented production curtailment. Our investment rating for the Company is "Accumulate" with a target price of HK\$48.20, representing 7.3x/ 7.5x/ 7.3x 2018-2020 PE ratio and 1.7x 2019 PB ratio.

**Figure-17: Conch's Forward PE Ratio**


Source: Bloomberg, Guotai Junan International.

**Figure-18: Conch's Forward PB Ratio**


Source: Bloomberg, Guotai Junan International.

**Table-4: Peers Comparison**

Table 1: Peers Comparison															
Company	Stock Code	Currency	Last Price	Market Cap (HKD mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITD
					17A	18F	19F	20F	17A	18F	19F	20F	19F	19F	19F
H-share Peers															
Anhui Conch Cement Co Ltd-H	914 HK	HKD	44.900	224,801	13.0	7.0	7.6	7.4	2.2	1.8	1.6	1.4	23.7	5.7	3.9
China Resources Cement	1313 HK	HKD	8.360	58,377	15.1	7.0	7.2	7.2	1.8	1.5	1.4	1.2	20.3	6.7	4.3
China National Building Ma-H	3323 HK	HKD	6.250	52,717	9.1	4.6	4.9	5.1	0.6	0.6	0.5	0.5	12.8	5.2	5.6
BBMG Corp-H	2009 HK	HKD	2.880	46,089	9.2	6.2	6.0	5.7	0.6	0.5	0.4	0.4	8.6	3.1	9.4
China Tianrui Group Cement C	1252 HK	HKD	6.870	20,186	16.1	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Shanshui Cement Group	691 HK	HKD	1.930	8,403	9.3	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asia Cement China Holdings	743 HK	HKD	7.090	11,109	16.0	4.1	3.6	3.3	0.9	0.8	0.7	0.6	20.6	12.3	3.1
West China Cement Ltd	2233 HK	HKD	1.180	6,413	7.8	3.9	4.3	4.1	0.8	0.7	0.6	0.6	18.8	9.9	2.1
Simple Average					11.9	5.5	5.6	5.5	1.3	1.0	0.9	0.8	17.4	7.1	4.7
Weighted Average					12.4	6.4	6.8	6.7	1.7	1.4	1.2	1.1	19.9	5.7	4.8
A-share Peers															
Anhui Conch Cement Co Ltd-A	600585 CH	CNY	35.450	224,800	11.8	6.4	6.6	6.5	2.1	1.7	1.5	1.3	24.1	6.1	3.8
BBMG Corporation-A	601992 CH	CNY	4.020	46,088	14.9	10.6	9.9	9.4	1.0	0.8	0.7	0.7	8.7	1.9	9.4
Huaxin Cement Co Ltd-A	600801 CH	CNY	19.050	29,968	13.7	5.8	5.7	5.5	2.4	1.7	1.4	1.1	25.5	3.8	3.0
Tangshan Jidong Cement Inv-A	000401 CH	CNY	15.300	24,203	191.3	13.1	12.0	11.0	2.0	1.8	1.6	1.5	13.4	1.9	n.a.
Guangdong Tapai Group Co -A	002233 CH	CNY	11.810	16,530	15.5	7.7	6.9	6.1	1.7	1.4	1.2	1.1	18.3	7.1	3.5
Xinjiang Tianshan Cement-A	000877 CH	CNY	9.090	11,191	30.2	10.5	9.2	7.7	1.3	1.2	1.0	0.9	12.3	n.a.	n.a.
Gansu Shangfeng Cement-A	000672 CH	CNY	9.750	9,312	10.1	6.0	5.8	5.0	3.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiangxi Wannianqing Cem-A	000789 CH	CNY	12.610	9,080	16.7	6.6	6.1	5.5	2.5	1.9	1.5	1.3	26.3	6.3	2.3
Gansu Qilianshan Cement Gr-A	600720 CH	CNY	7.610	6,935	10.3	7.8	7.1	5.5	1.1	1.0	0.8	0.7	15.6	n.a.	n.a.
Ningxia Building Materials-A	600449 CH	CNY	8.580	4,816	12.1	9.7	8.8	6.7	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					32.6	8.4	7.8	6.9	1.9	1.4	1.2	1.1	18.0	4.5	4.4
Weighted Average					24.4	7.5	7.4	7.0	2.0	1.6	1.3	1.2	20.9	5.1	4.5
Global Peers															
LafargeHolcim Ltd-Reg	LHN SW	CHF	49.620	236,602	n.a.	16.4	14.2	12.7	1.1	1.0	1.0	1.0	7.2	4.0	7.4
HeidelbergCement AG	HEI GR	EUR	64.660	114,961	14.0	11.2	10.1	9.1	0.9	0.8	0.8	0.8	7.9	3.7	6.8
Taiwan Cement	1101 TT	TWD	38.400	49,986	20.8	8.7	8.5	8.2	1.3	1.1	1.1	1.1	13.1	8.8	6.2
Asia Cement Corp	1102 TT	TWD	38.800	33,237	22.3	9.9	9.7	9.3	1.0	0.9	0.9	0.9	9.6	7.4	8.1
Taiheiyu Cement Corp	5233 JP	JPY	3,805.000	34,267	9.9	12.2	11.0	9.8	1.3	1.2	1.1	1.0	11.0	2.2	6.7
Sumitomo Osaka Cement Co Ltd	5232 JP	JPY	4,575.000	13,171	11.5	12.7	20.0	13.3	1.0	0.9	0.9	0.9	4.9	2.4	7.0
Simple Average					15.7	11.9	12.2	10.4	1.1	1.0	1.0	0.9	9.0	4.8	7.0
Weighted Average					15.8	13.5	12.2	11.0	1.1	1.0	1.0	0.9	8.4	4.5	7.1

Source: Bloomberg, Guotai Junan International.

Note: Prices are as at 28 February 2019.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total revenue	55,932	75,311	111,354	115,406	118,223
Cost of sales	(38,396)	(49,789)	(60,684)	(65,961)	(68,141)
Gross profit	17,536	25,522	50,670	49,445	50,082
Other revenue and net income	1,859	3,359	2,544	3,253	4,083
Selling and marketing costs	(3,276)	(3,572)	(5,821)	(6,080)	(6,310)
Administrative expenses	(3,530)	(3,470)	(5,751)	(6,038)	(6,302)
Operating profit	12,588	21,839	41,642	40,580	41,554
Finance costs	(792)	(684)	(598)	(503)	(428)
Share of results of associates & JVs	(97)	120	(60)	(45)	(32)
Profit before tax	11,699	21,275	40,984	40,032	41,094
Income tax	(2,703)	(4,800)	(9,425)	(9,170)	(9,391)
Profit after tax	8,997	16,475	31,559	30,862	31,703
Non-controlling interest	(423)	(576)	(833)	(897)	(1,096)
Shareholders' profit / loss	8,574	15,899	30,726	29,965	30,607
Basic EPS	1.618	3.000	5.798	5.654	5.776

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Profit before tax	11,699	21,275	40,984	40,032	41,094
Depreciation & amortization	4,753	4,833	5,169	5,350	5,555
Changes in working capital	(1,275)	(3,072)	(1,834)	(471)	(428)
Income tax and interest paid	(3,326)	(4,344)	(10,311)	(9,972)	(10,191)
Other adjustments	341	(2,025)	(630)	(1,515)	(2,443)
Cash from operating activities	12,191	16,668	33,377	33,424	33,587
Capital expenditure	(4,581)	(3,334)	(3,974)	(4,105)	(4,258)
Other investing activities	29	(1,869)	(3,375)	(152)	(577)
Cash from investing activities	(4,552)	(5,203)	(7,350)	(4,256)	(4,836)
Net changes in borrowings	(3,538)	(2,124)	(2,403)	(1,922)	(1,543)
Dividends paid	(2,559)	(2,782)	(6,609)	(10,630)	(10,788)
Other financing activities	(48)	(1,898)	178	178	179
Cash from financing activities	(6,145)	(6,804)	(8,833)	(12,373)	(12,152)
Cash at beg of year	4,285	5,800	10,429	27,665	44,464
Net changes in cash	1,494	4,661	17,195	16,795	16,599
Effect of exchange rate changes	21	(31)	42	4	(74)
Cash at End of Year	5,800	10,429	27,665	44,464	60,988

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Property, plant and equipment	64,661	63,294	62,226	61,131	60,017
Lease prepayments	4,820	4,905	5,392	5,938	6,651
Intangible assets	2,913	3,196	3,400	3,624	3,942
Interests in associates & JVs	3,315	2,791	2,730	2,685	2,653
Others non-current assets	4,222	1,933	1,740	2,090	2,482
Total non-current assets	79,931	76,118	75,490	75,468	75,745
Inventories	4,549	4,705	6,625	7,067	7,392
Trade & other receivables	9,049	16,291	24,962	26,074	29,167
Bank deposits with maturity over 3M	9,500	14,000	12,100	11,800	10,900
Cash & cash equivalents	5,800	10,429	27,665	44,464	60,988
Other current assets	686	600	1,044	1,021	1,002
Total current assets	29,583	46,024	72,396	90,426	109,450
Total assets	109,514	122,143	147,886	165,893	185,194
Trade & other payables	11,656	13,391	16,100	15,614	15,545
ST borrowings	4,538	5,620	4,090	3,377	2,779
Other current liabilities	855	2,103	2,311	2,244	2,090
Total current liabilities	17,049	21,114	22,500	21,235	20,413
LT borrowings	11,443	8,359	7,665	6,635	5,868
Other non-current liabilities	1,044	980	1,071	1,178	1,284
Total non-current liabilities	12,487	9,339	8,736	7,813	7,152
Total liabilities	29,536	30,453	31,236	29,048	27,565
Share capital	5,299	5,299	5,299	5,299	5,299
Reserves	71,009	83,851	108,259	127,870	147,954
Total shareholders' equity	76,309	89,150	113,558	133,169	153,253
Minority interest	3,669	2,539	3,092	3,676	4,375
Total equity	79,978	91,689	116,650	136,845	157,629
Total equity & liabilities	109,514	122,143	147,886	165,893	185,194

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Gross margin (%)	31.4	33.9	45.5	42.8	42.4
Operating margin (%)	22.5	29.0	37.4	35.2	35.1
Net margin (%)	15.3	21.1	27.6	26.0	25.9
ROE (%)	11.7	19.2	30.3	24.3	21.4
ROA (%)	8.9	14.7	23.8	20.0	18.3
Net gearing ratio (%)	0.5	Net cash	Net cash	Net cash	Net cash
Interest coverage ratio (x)	15.8	32.1	69.5	80.6	96.9

Source: the Company, Guotai Junan International.

1 March 2019

Conch Cement 海螺水泥 (00914 HK)

Company Report



### 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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