

Company Report: China Railway Construction (01186 HK)

公司报告: 中国铁建 (01186 HK)

Gary Wong 黄家玮

(852) 2509 2616

gary.wong@gtjas.com.hk

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Stable Performance Maintained, Reiterate "Buy"

维持稳定表现, 重申“买入”

- China Railway Construction's (01186 HK) 2019 revenue increased by 13.7% YoY to RMB830.5 billion. Shareholders' net profit increased 12.6% YoY to RMB20.2 billion. Results were in line with expectation. Overall gross margin was down 0.1 pts YoY to 9.6%. In 2019, the Company signed RMB2,006.9 billion in new contracts, up 26.7% YoY.
- We expect total revenue to increase at a CAGR of 10.3% in 2019-2022 and expect overall gross margin to improve from 9.5% in 2020 to 9.7% in 2022. In addition, we expect net margin to marginally decrease due to faster increase in expenses ratio compared with gross margin and thus, we expect the Company's ROE to decrease from 9.6% in 2019 to 8.9% in 2022.
- Our EPS estimates for 2020/ 2021/ 2022 are RMB1.550, RMB1.717 and RMB1.831, respectively. We expect that the government will continue to increase fixed assets spending, especially in infrastructure, to maintain stable economic growth. **We maintain the TP at HK\$11.66, representing 6.8x/ 6.2x/ 5.8x 2020/ 2021/ 2022 PER. Maintain "Buy".**
- 中国铁建(01186 HK)2019 年全年收入同比上升 13.7%至 8,305 亿元(人民币, 下同)。股东净利同比增 12.6%至 202 亿元。业绩符合预期。公司整体毛利率同比下降 0.1 个百分点至 9.6%。公司 2019 年全年新签合同额达 20,069 亿元, 同比上升 26.7%。
- 我们预计 2019-2022 年整体收入将以 10.3%的复合年增长率增长, 以及整体毛利率将从 2020 年的 9.5%上升至 2022 年的 9.7%。此外, 由于费用率相较毛利率增长更快, 我们预计净利率将会略有下降, 因此我们预计公司的净资产收益率将会从 2019 年的 9.6%下降至 2022 年的 8.9%。
- 我们对于 2020/ 2021/ 2022 年的每股盈利预测分别为 1.550 元、1.717 元及 1.831 元。我们预计政府将继续增加固定资产投资支出(尤其是在基础设施方面)以保持稳定的经济增长。我们维持目标价在 11.66 港元, 对应 6.8/ 6.2/ 5.8 倍 2020/ 2021/ 2022 年市盈率, 维持“买入”评级。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$11.66

Revised from 原目标价:

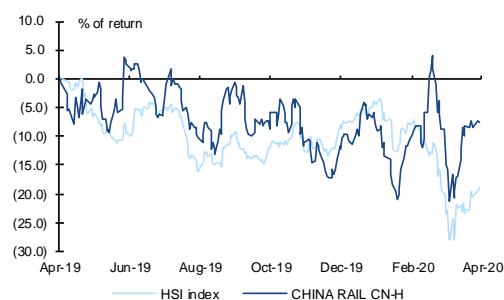
HK\$11.66

Share price 股价:

HK\$8.460

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 %	(2.2)	(2.8)	(13.8)
Rel. % to HS Index 相对恒指变动 %	(2.7)	13.3	5.2
Avg. Share price(HK\$) 平均股价 (港元)	8.3	8.4	8.7

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)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	730,123	17,935	1.257	6.3	5.9	12.511	0.6	0.210	2.8	10.6
2019A	830,452	20,197	1.396	11.1	5.4	15.461	0.5	0.210	2.8	9.6
2020F	941,572	21,043	1.550	11.0	5.0	17.011	0.5	0.232	3.0	9.1
2021F	1,020,035	23,322	1.717	10.8	4.5	18.728	0.4	0.258	3.4	9.2
2022F	1,113,564	24,860	1.831	6.6	4.2	20.559	0.4	0.275	3.6	8.9
Shares in issue (m) 总股数 (m)				13,579.5	Major shareholder 大股东				CRCCG 51.1%	
Market cap. (HK\$ m) 市值 (HK\$ m)				114,882.6	Free float (%) 自由流通比率(%)				48.9	
3 month average vol. 3 个月平均成交股数('000)				14,022.3	FY20 Net gearing (%) FY20 净负债/股东资金 (%)				7.9	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				10.180 / 7.300	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)				16.9	

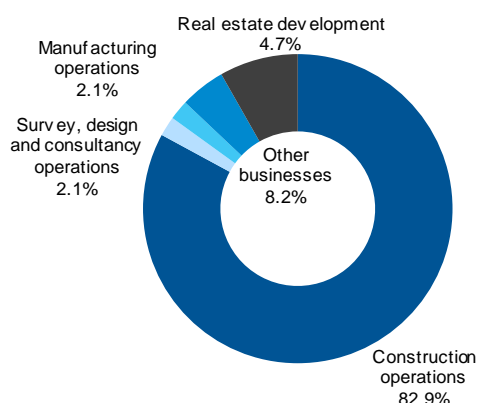
Source: the Company, Guotai Junan International.

2019 shareholders' net profit increased 12.6% YoY to RMB20.2 billion; results in line with expectation. China Railway Construction's (01186 HK, "CRCC" or the "Company") 2019 revenue increased 13.7% YoY to RMB830.5 billion. Shareholders' net profit increased 12.6% YoY to RMB20.2 billion, results were in line with expectation. Overall gross margin decreased 0.1 pts YoY to 9.6%. Selling expenses ratio increased 0.1 pts YoY to 0.7%; administrative expenses ratio increased 0.2 pts to 4.2%; net finance costs ratio decreased 0.1 pts. YoY to 0.4%. In 2019, the Company received RMB2,006.9 billion in new contracts, up 26.7% YoY. As at 31st December 2019, the value of outstanding contracts amounted to RMB3,273.6 billion, up 20.9% YoY.

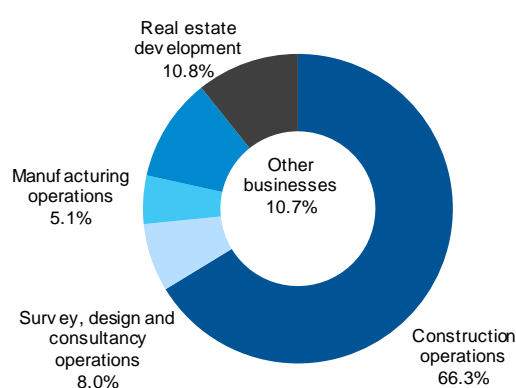
Table 1: CRCC's Segmental Performance in 2019

RMB billion	Revenue		Gross Margin		New Contracts	
	2019	YoY	2019		2019	YoY
Construction	725	14.1%	7.5	0.18 pts	1,731	28.0%
Survey, Design and Supervision	18	8.3%	32.1	-2.06 pts	15	-15.7%
Manufacturing	18	9.8%	22.8	-3.21 pts	26	5.8%
Real Estate Development	41	11.9%	21.4	-3.23 pts	125	34.2%
Other Businesses	72	11.2%	12.1	0.67 pts	110	14.0%
Inter-elimination	-42	n.a.	n.a.	n.a.	n.a.	n.a.
Total	831	13.7%	9.6	-0.2 pts	2,007	26.7%

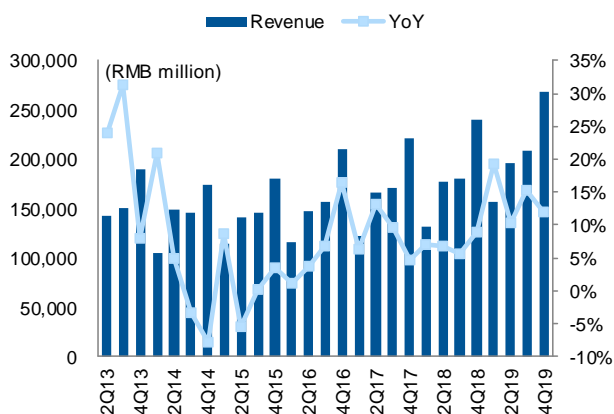
Source: the Company.

Figure 1: CRCC's Segmental Revenue in 2019


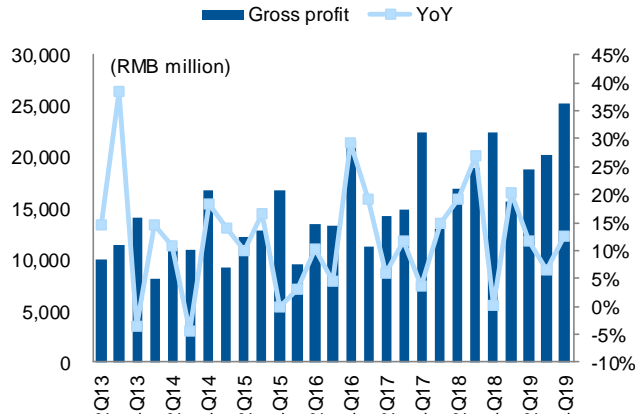
Source: the Company.

Figure 2: CRCC's Segmental Gross Profit in 2019


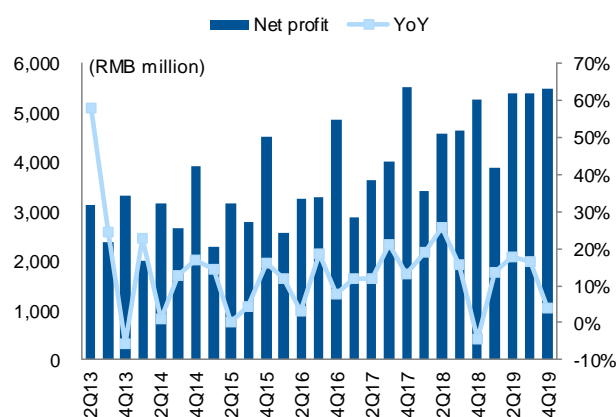
Source: the Company.

Figure 3: CRCC's Quarterly Revenue


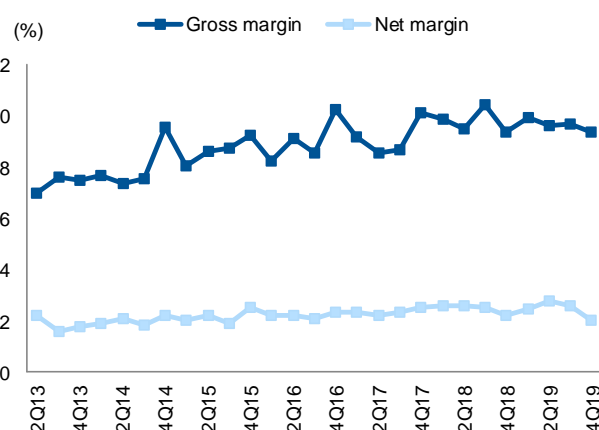
Source: the Company.

Figure 4: CRCC's Quarterly Gross Profit


Source: the Company.

Figure 5: CRCC's Quarterly Net Profit


Source: the Company.

Figure 6: CRCC's Quarterly Gross Margin and Net Margin


Source: the Company.

The infrastructure construction industry had a slow-moving start in 2020, yet a strong rebound is expected. In 2019, construction revenue increased 13.7% YoY to RMB830.5 billion, in which construction operations revenue increased 14.1% YoY to RMB724.5 billion. Due to the outbreak of the COVID-19 pandemic, the infrastructure construction industry had a slow-moving start in 2020. According to the National Bureau of Statistics of China, investment projects were affected by a significant reduction in the number of construction days and a generally low rate of resumption of work; national fixed asset investment in January-February fell 24.5% YoY. Of these, investment in manufacturing fell by 31.5% YoY, investment in infrastructure fell by 30.3% YoY and investment in real estate development fell by 16.3% YoY. However, according to a survey by the National Bureau of Statistics of China, as at the end of March, resumption work rate of construction enterprises and real estate development enterprises in China could reach about 90%, a substantial increase over the end of February. In addition, since the start of this year, China's central government has introduced a series of stable investment policies, such as an increase in efforts to start new investment projects and speed up progress of construction projects under construction; accelerate the promotion of major projects and infrastructure construction, increase investment in public health and emergency supplies, and accelerate the progress of construction of new infrastructure such as 5G networks and data centers; while in terms of finance, increase the issuance of local special bonds, of which new local government special bonds of RMB949.8 billion were issued in January-February, an increase of RMB642 billion over the same period last year. We expect with large infrastructure construction companies substantially back to work and strong supporting policies from the Government in place, infrastructure investment will rebound strongly in later months in 2020.

We expect total revenue to increase at a CAGR of 10.3% in 2019-2022. In 2019, construction revenue increased 13.7% YoY to RMB830.5 billion, in which construction operations revenue increased 14.1% YoY to RMB724.5 billion. At the 2020 National Transport Work Conference, the Ministry of Transport announced the main expected targets for 2020: the completion of railway investment of about RMB800 billion, road and waterway investment of about RMB1.8 trillion, and civil aviation investment striving to reach RMB90 billion, totaling RMB2,690 billion and to fully complete the objectives and tasks of the Thirteenth Five-Year Plan. While as at the end of February, 27 provinces (autonomous regions) had announced investment plans for fixed assets in transportation infrastructure for 2020, with a total investment of about RMB2,600 billion (including railway), already the same as the target. Because of this, full-year investment completed might actually be higher than expectation. Furthermore, with medium-term and long-term supporting policies such as the "Outline for the Construction of Nation with Strong Transportation System" which proposes to improve the expressway network of urban clusters, and the "Outline for the Regional Integrated Development Plan of the Yangtze River Delta" which proposes to further enhance the interprovincial highway access capacity, we expect that transportation infrastructure investment will maintain stable and solid growth in the next 5-10 years. We expect revenue CAGR of 9.7% for construction operations during 2019-2022. As for survey, design and consultancy operations, manufacturing operations, real estate development operations and other businesses operations, we expect revenue CAGR of 10.0%, 10.0%, 8.3% and 10.0%, respectively, during 2019-2022. Overall, we expect total revenue to increase at a CAGR of 10.3% in 2019-2022.

We expect overall gross margin to gradually improve from 9.5% in 2020 to 9.7% in 2022. In 2019, overall gross margin decreased 0.2 ppts YoY to 9.6%, in which gross margin of construction operations increased 0.2 ppts YoY to 7.5%. Gross margin for the construction segment increased gradually from 6.8% in 2016 to 7.5% in 2019, or 2.3 ppts on average annually, mainly due to selection of higher margin projects and strengthened cost control for increased bulk purchase. We expect that annual improvement of at least 0.1 ppts is likely through 2022. In addition, we expect that gross margin of the other segments are likely to stay the same, while all of them have higher gross margin and higher revenue growth (except real estate) compared with construction, which is likely to push up the overall gross margin. Overall, we expect gross margin to improve from 9.5% in 2020 to 9.7% in 2022.

We expect total expenses ratio to increase from 5.4% in 2020 to 5.7% in 2022. In 2019, total expenses ratio (selling and distribution expenses, administrative expenses, R&D expenses and net finance costs) was at 5.3%, up 0.2 ppts YoY. The Company's total expenses ratio increased from 4.9% in 2016 to 5.3% in 2019, or 0.13 ppts on average annually. Due to increase in number of employees through expansion, increase in wages, increase in selling expenses with increased overseas expansion and increase in borrowing costs through increase in borrowing size, we expect expenses ratio to increase faster than revenue and will maintain the previous trend of 0.1 ppts annual increase in 2020-2022.

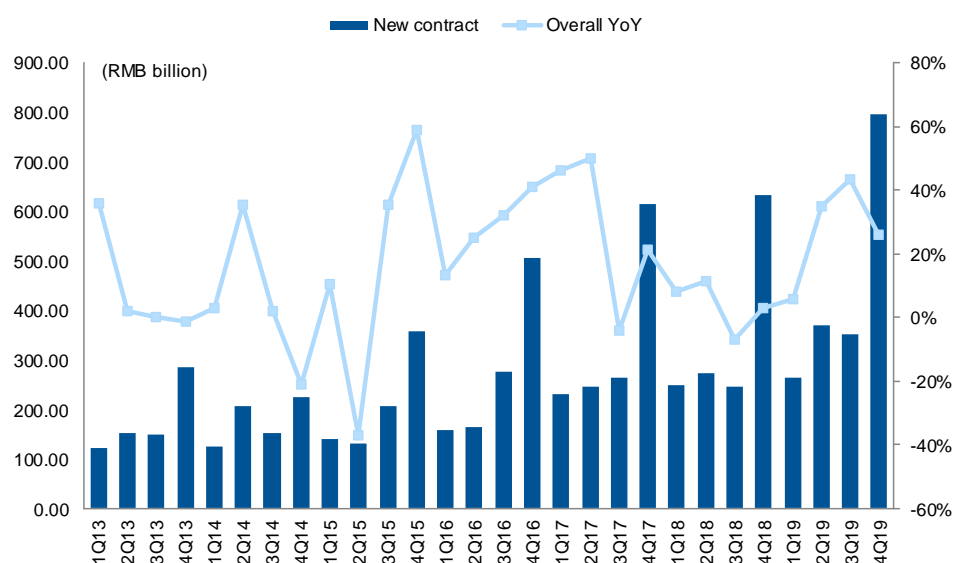
We expect the Company's ROE to decrease from 9.6% in 2019 to 8.9% in 2022. During the past 3 years the Company's ROE has been marginally decreasing, mainly due to decrease in the financial leverage (equity multiplier), and large SOEs have had very strict KPI for debt control. Going forward, we expect net margin to marginally decrease due to faster increase in expenses ratio compared with gross margin, while the Company will continue to abide by the strict KPI for debt control in the next three years, which will restrict it from increasing its equity multiplier. Overall, we expect ROE to decrease from 9.6% in 2019 to 8.9% in 2022.

Table 2: CRCC's Dupont Analysis

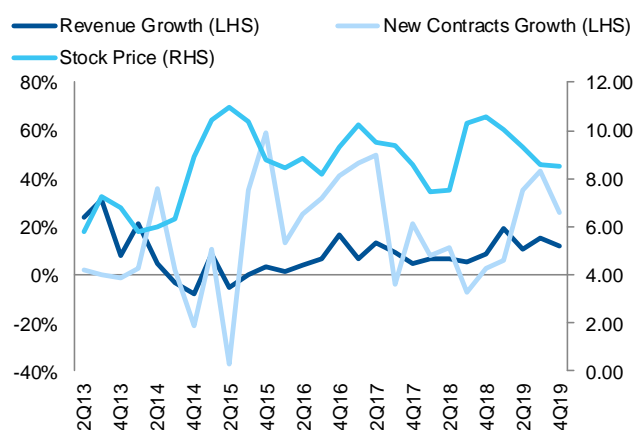
	2017A	2018A	2019A	2020F	2021F	2022F
Net Margin	2.4%	2.5%	2.4%	2.2%	2.3%	2.2%
Asset Turnover	0.8	0.8	0.8	0.8	0.8	0.8
Equity Multiplier	5.5	5.4	5.1	5.0	4.9	4.8
ROE	10.7%	10.6%	9.6%	9.1%	9.2%	8.9%

Source: the Company, Guotai Junan International.

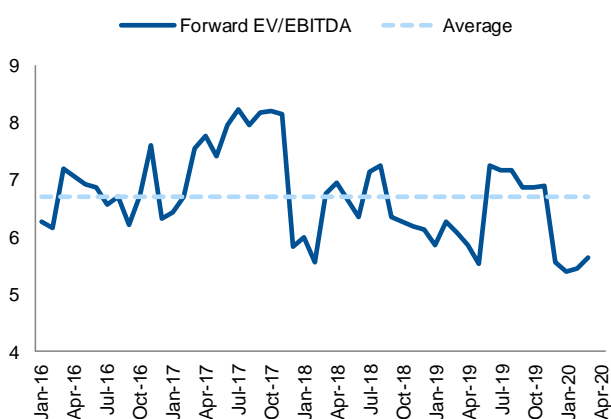
Figure 7: CRCC's Quarterly Value of New Contracts



Source: the Company.

Figure 8: CRCC's Revenue Growth, New Contracts Growth and Stock Price


Source: the Company, Bloomberg.

Figure 9: CRCC's Monthly Forward EV/EBITDA


Source: Bloomberg.

Maintain the TP to HK\$11.66, maintain "Buy". Our EPS estimates for 2020/ 2021/ 2022 are RMB1.550, RMB1.717 and RMB1.831, respectively. We expect that the Government will continue to increase fixed assets spending, especially in infrastructure, to maintain stable economic growth, while transportation infrastructure fixed assets investment growth will continue outperforming overall fixed assets investment growth. We maintain the TP at HK\$11.66, representing 6.8x/ 6.2x/ 5.8x 2020/ 2021/ 2022 PER. Maintain "Buy".

Table 3: 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	20F	20F
China Railway Construction-H	1186 HK	HKD	8.460	137,363	5.3	4.8	4.3	4.0	0.5	0.5	0.4	0.4	10.3	3.3		
China Railway Group Ltd-H	390 HK	HKD	4.380	146,699	4.1	4.2	3.8	3.5	0.5	0.4	0.4	0.3	10.7	4.2		
China Communications Const-H	1800 HK	HKD	5.200	127,185	4.0	3.6	3.3	3.1	0.4	0.3	0.3	0.3	9.1	5.3		
China State Construction Int	3311 HK	HKD	6.020	30,396	5.6	5.0	4.3	3.9	0.7	0.6	0.5	0.5	13.1	6.0		
China Railway Signal & Com-H	3969 HK	HKD	3.920	67,130	9.1	8.9	7.9	7.0	1.0	0.9	0.8	0.8	10.0	5.8		
China Energy Engineering C-H	3996 HK	HKD	0.790	23,749	4.1	4.2	4.0	n.a.	0.4	0.4	0.3	n.a.	9.6	4.2		
Metallurgical Corp Of Chin-H	1618 HK	HKD	1.390	54,732	4.5	3.7	3.4	3.0	0.4	0.3	0.2	0.2	8.2	6.3		
Sinopec Engineering Group-H	2386 HK	HKD	3.340	14,790	6.0	5.1	4.7	4.6	0.5	0.5	0.5	0.4	9.6	9.8		
China Machinery Engineerin-H	1829 HK	HKD	2.240	9,242	3.7	3.7	3.5	3.5	0.5	0.4	0.4	0.4	12.5	8.6		
Simple Average					5.2	4.8	4.4	4.1	0.5	0.5	0.4	0.4	10.3	5.9		
Weighted Average					5.0	4.7	4.3	3.9	0.5	0.4	0.4	0.4	10.0	4.9		

Source: Bloomberg, Guotai Junan International.

15 April 2020

China Railway Construction 中国铁建 (01186 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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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk