



Rating
Buy

Asia
China

Resources
Construction Materials

Company
BBMG

Reuters
2009.HK

Bloomberg
2009 HK

Exchange
HSI

Ticker
2009

Date
27 September 2018

Company Update

Price at 26 Sep 2018 (HKD)	2.70
Price target - 12mth (HKD)	3.70
52-week range (HKD)	4.14 - 2.47
HANG SENG INDEX	27,499

dbAccess cement trip - BBMG update

DB is hosting an investor trip in the week of Sep 25-28. We met senior management of BBMG during our trip and our expectations were unchanged after the meeting. We retain BUY with TP of HKD3.7/sh.

Cement demand recovery has accelerated in 2H18

BBMG remains confident that the FY18 cement sales volume will reach c.100 mt, flat yoy despite having sales volumes down 4.8% yoy in 1H. Cement demand has been recovering in 3Q18 with Sep 18 production of c.12mt versus c.11mt in Sep 17. Average 3Q18 volumes is expected to improve by 2% yoy. Management notes that the recovery in volumes has been infrastructure led, including water preservation projects, railway construction (Beijing-Xiong'an intercity railway and Beijing-Shijiazhuang highspeed railway), construction of facilities around the new Beijing airport, and the construction of sports stadiums for the 2022 Winter Olympics. The Xiong-An related projects will begin work in 2H18 with cement demand lasting till 2019/20 once they start. The demand recovery from infrastructure has offset the drop from property, which accounts for 25-26 ppts of BBMG's cement sales versus infrastructure which is now at 50%.

BBMG plans to raise prices in 2H18 and expects a meaningful price hike in both Henan and Shandong provinces, both heavy polluting regions and subject to winter production halts. BBMG believes high prices are necessary to offset higher fixed costs because utilization rates are lower in Northern China.

Property sales accelerates in 2H18; housing policies could be loosened by 2H19

BBMG has maintained its guidance on contracted sales of RMB27bn for FY18, as it has accelerated property sales during 2H (1H contracted sales of RMB9.2bn) with a few projects to be launched in October. BBMG also expects higher property sales in FY19 as they see the price cap for first hand homes being loosened in 2H19. Management believes that the current housing policy is to ensure sufficient supply of public or rental housing and once that objective has been achieved, the government will let market forces determine the price for commercial housing as it should be. BBMG is also not worried about the slowdown in monetary compensation for Shanty Town as they don't have much exposure to the property markets in T3 and T4 cities. In terms of GFA bookings, they expect gross margins to be c.31% for 2H18 (vs 32% in 1H18) and c.31% for 2019 as they are booking homes pre-sold in 2016/2017. However, BBMG highlighted that margins in homes sold now are lower due to price cap

Valuation & Risks

Johnson Wan

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On industrial land conversion, BBMG says the process is slow due to many government processes involved though they will have c.350k sqm of GFA to be converted for two land plots likely in 4Q18.

Cash flow to stay negative

BBMG spent RMB4.02bn purchasing TJ BM in 1H18 while 2H18 capex will be focused on land banking with FY18 capex reaching RMB35bn. That means free cash flows should continue to stay negative for the full year.

Forecasts and ratios					
Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	47,738.8	63,678.3	78,840.7	88,710.0	98,352.6
EBITDA (CNYm)	7,348.0	10,808.9	14,725.5	16,433.3	16,188.2
Reported NPAT (CNYm)	2,686.7	2,836.7	5,218.3	6,376.7	5,998.9
Reported EPS FD(CNY)	0.25	0.27	0.49	0.60	0.56
DB EPS FD(CNY)	0.25	0.27	0.49	0.60	0.56
OLD DB EPS FD(CNY)					
% Change					
DB EPS growth (%)	33.2	5.6	84.0	22.2	-5.9
PER (x)	12.4	12.3	4.9	4.0	4.2
EV/EBITDA (x)	12.0	10.2	7.6	6.9	7.2
DPS (net) (CNY)	0.05	0.06	0.10	0.12	0.12
Yield (net) (%)	1.7	1.7	4.3	5.2	4.9

Source: Deutsche Bank estimates, company data

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Model updated: 09 September 2018

Running the numbers

Asia

China

Construction Materials

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Reuters: 2009.HK

Bloomberg: 2009 HK

Buy

Price (26 Sep 18) HKD 2.70

Target Price HKD 3.70

52 Week range HKD 2.47 - 4.14

Market cap (m) HKDm 41,683
USDm 5,337.5

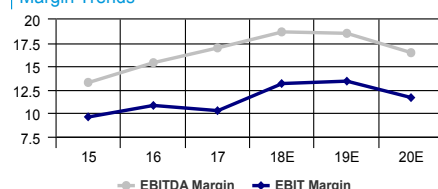
Company Profile

BBMG has operations in manufacturing and sales of cement and modern building materials. The company also operates in property development, property investment and provision of property management services in China.

Price Performance



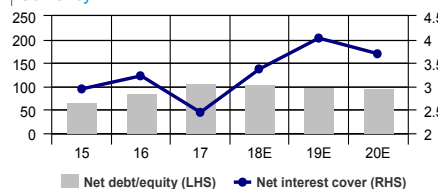
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.19	0.25	0.27	0.49	0.60	0.56
Reported EPS (CNY)	0.19	0.25	0.27	0.49	0.60	0.56
DPS (CNY)	0.02	0.05	0.06	0.10	0.12	0.12
BVPS (CNY)	3.6	4.1	4.8	5.2	5.7	6.2
Weighted average shares (m)	10,678	10,678	10,678	10,678	10,678	10,678
Average market cap (CNYm)	68,341	37,562	39,111	36,658	36,658	36,658
Enterprise value (CNYm)	83,913	88,268	110,730	111,925	113,609	116,039

Valuation Metrics

P/E (DB) (x)	28.6	12.4	12.3	4.9	4.0	4.2
P/E (Reported) (x)	28.6	12.4	12.3	4.9	4.0	4.2
P/BV (x)	1.20	0.55	0.64	0.45	0.42	0.39
FCF Yield (%)	nm	7.8	nm	nm	7.8	6.0
Dividend Yield (%)	0.4	1.7	1.7	4.3	5.2	4.9
EV/Sales (x)	2.1	1.8	1.7	1.4	1.3	1.2
EV/EBITDA (x)	15.4	12.0	10.2	7.6	6.9	7.2
EV/EBIT (x)	21.3	17.1	16.9	10.8	9.5	10.1

Income Statement (CNYm)

Sales revenue	40,925	47,739	63,678	78,841	88,710	98,353
Gross profit	10,399	11,197	16,043	21,335	24,033	23,934
EBITDA	5,438	7,348	10,809	14,726	16,433	16,188
Depreciation	1,505	2,177	4,265	4,342	4,525	4,713
Amortisation	0	0	0	0	0	0
EBIT	3,934	5,171	6,544	10,384	11,908	11,476
Net interest income/(expense)	-1,336	-1,604	-2,676	-3,079	-2,955	-3,106
Associates/affiliates	-18	109	189	278	313	347
Exceptionals/extraordinary	602	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,580	3,677	4,057	7,582	9,266	8,717
Income tax expense	1,232	986	1,107	1,971	2,409	2,266
Minorities	-66	4	114	393	480	452
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,017	2,687	2,837	5,218	6,377	5,999
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,017	2,687	2,837	5,218	6,377	5,999

Cash Flow (CNYm)

Cash flow from operations	-653	3,504	-11,855	7,677	9,987	9,517
Net Capex	-1,166	-902	6,825	-8,000	-8,000	-8,000
Free cash flow	-1,819	2,602	-5,030	-323	1,987	1,517
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,792	-3,037	-5,417	-590	-1,085	-1,325
Net inc/(dec) in borrowings	33,696	52,478	68,311	-8,636	5,652	2,609
Other investing/financing cash flows	-24,351	-45,145	-63,060	-3,079	-2,955	-3,106
Net cash flow	4,734	6,897	-5,197	-12,629	3,600	-305
Change in working capital	-5,295	-2,299	-21,865	-4,558	-3,753	-3,541

Balance Sheet (CNYm)

Cash and other liquid assets	18,370	28,010	17,904	5,275	8,875	8,570
Tangible fixed assets	19,398	50,051	48,876	52,402	55,678	58,721
Goodwill/intangible assets	5,769	16,796	16,549	16,944	17,329	17,705
Associates/investments	15,760	21,285	21,694	22,432	23,280	24,215
Other assets	71,450	92,256	127,184	137,741	148,952	162,622
Total assets	130,747	208,397	232,207	234,794	254,113	271,833
Interest bearing debt	45,602	81,292	92,462	83,826	89,478	92,087
Other liabilities	42,963	64,195	69,827	76,029	83,924	93,910
Total liabilities	88,565	145,487	162,290	159,855	173,402	185,997
Shareholders' equity	38,083	44,200	51,163	55,792	61,084	65,757
Minorities	4,099	18,709	18,755	19,148	19,628	20,079
Total shareholders' equity	42,182	62,910	69,918	74,939	80,711	85,836
Net debt	27,232	53,282	74,558	78,551	80,603	83,517

Key Company Metrics

Sales growth (%)	-0.8	16.6	33.4	23.8	12.5	10.9
DB EPS growth (%)	-25.4	33.2	5.6	84.0	22.2	-5.9
EBITDA Margin (%)	13.3	15.4	17.0	18.7	18.5	16.5
EBIT Margin (%)	9.6	10.8	10.3	13.2	13.4	11.7
Payout ratio (%)	11.5	20.8	20.8	20.8	20.8	20.8
ROE (%)	5.8	6.5	5.9	9.8	10.9	9.5
Capex/sales (%)	4.5	7.0	3.4	10.1	9.0	8.1
Capex/depreciation (x)	1.2	1.5	0.5	1.8	1.8	1.7
Net debt/equity (%)	64.6	84.7	106.6	104.8	99.9	97.3
Net interest cover (x)	2.9	3.2	2.4	3.4	4.0	3.7

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
BBMG	2009.HK	2.70 (HKD) 26 Sep 2018	13

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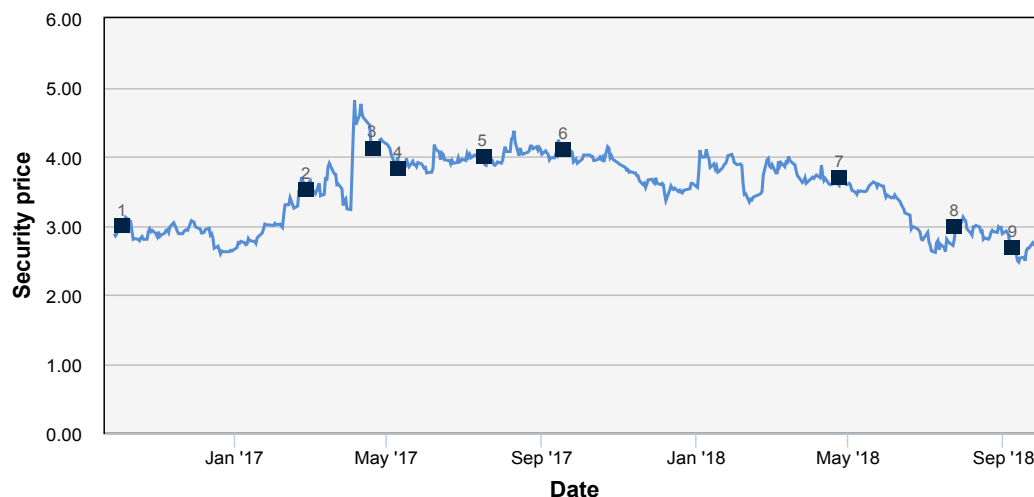
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Historical recommendations and target price. BBMG (2009.HK)

(as of 09/26/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/05/2016	Buy, Target Price Change HKD 3.96 Johnson Wan	6.	09/19/2017	Buy, Target Price Change HKD 5.62 Johnson Wan
2.	02/27/2017	Buy, Target Price Change HKD 4.54 Johnson Wan	7.	04/25/2018	Buy, Target Price Change HKD 5.50 Johnson Wan
3.	04/21/2017	Buy, Target Price Change HKD 5.26 Johnson Wan	8.	07/25/2018	Buy, Target Price Change HKD 4.28 Johnson Wan
4.	05/11/2017	Buy, Target Price Change HKD 4.60 Johnson Wan	9.	09/09/2018	Buy, Target Price Change HKD 3.70 Johnson Wan
5.	07/17/2017	Buy, Target Price Change HKD 4.71 Johnson Wan			

Equity Rating Key

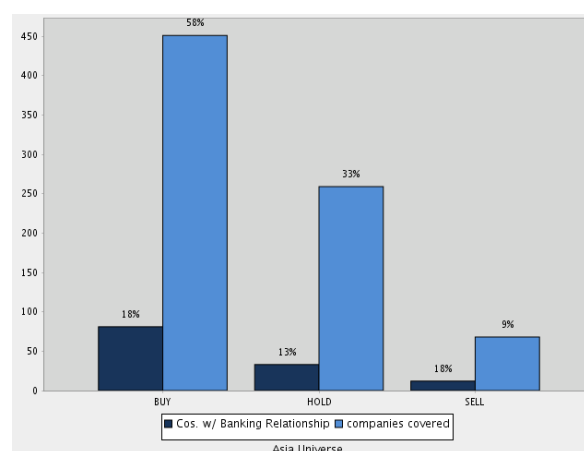
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



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