



Rating  
**Buy**

Asia  
China

Resources  
Construction Materials

Company  
**CNBM**

Reuters	Bloomberg	Exchange	Ticker
3323.HK	3323 HK	HSI	3323

Date  
27 September 2018

Company Update

Price at 26 Sep 2018 (HKD)	6.90
Price target - 12mth (HKD)	11.49
52-week range (HKD)	9.80 - 5.41
HANG SENG INDEX	27,499

## dbAccess cement trip – CNBM update

DB is hosting an investor trip during the week of Sep 25-28. We met with CNBM senior management during our trip. We are convinced that CNBM remains the best proxy to invest in the cement market recovery ahead of the typical 4Q peak season.

### Deleveraging to be accelerated in 2H18

In 1H18, investors were disappointed that CNBM did not deleverage, as they had spent RMB10.5bn in capex with c.RMB400m used to consolidate their holdings in South Cement and SW Cement. However, deleveraging will speed up in 2H with CNBM repaying c.RMB4bn in debt by end Sep while total debt repayment will exceed RMB10bn for the full year. CNBM emphasized that they will strictly control capex, keeping it under RMB19bn for the full year. In 2019, CNBM expects capex to be c.RMB15bn and less going forward, so the strong operating cash flow of CNBM, c.RMB20bn in 2018 by our estimates, would allow CNBM to repay at least RMB10-15bn of debt each year. This excludes other means to reduce debt, such as using debt to equity swap, restructuring of its business for listing on A-shares and disposal of assets. In June, CNBM netted RMB200m for disposing of a land plot in Zhejiang province, formerly where their cement plant was situated. Other land sales in Jiande city and Changxing city are also in the pipeline and could be completed by the end of 2018. CNBM is also working hard to deliver a working plan for its restructuring and will announce once ready.

### No slowdown in 3Q slow season, profitability ahead of expectations

CNBM's 1H18 sales volume declined by 5.9% yoy (170mt to 160mt) but sales have picked up since and should be on track to meet c.360mt of sales for the full year, down 2.8% yoy. In Sep, daily output averaged 1.03mt/d, which is 25.6% higher than last Sep. By the end of August, CNBM's ASP was c.RMB9/t higher than that of 1H18 with CNBM confident that ASP would be at least RMB20/t higher HoH. According to data up to Sep 10, spot ASP for its key subsidiaries has increased nicely, such as South Cement with ASP of RMB346/t (1H18 ASP of RMB325/t) and SW Cement with ASP of RMB314/t (RMB288/t in 1H18). CNBM believes costs will be higher in 2H due to higher transportation and coal costs, though we do not necessarily believe that's the case. Overall, DB expects CNBM's GP/t to improve by RMB19/t HoH to RMB125/t (vs 1H18 GP/t of RMB106/t).

### Concrete profitability turnaround very sustainable

1H18 concrete business margins were solid, improving by 3ppts yoy in 1H18 and will remain strong for 2H18. CNBM is primed to gain market share over its peers as they have cement and, in particular, aggregates, which are in short supply

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-15.3	-12.0	25.7
HANG SENG INDEX	-0.6	-4.8	0.0

Source: Deutsche Bank

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currently. While there is room to raise concrete prices further, they wouldn't want to gain unnecessary attention from the government by raising prices too high. However, they see earnings growth mainly coming from volume growth and increased efficiency, by raising its utilization rate as opposed to continuous addition of new capacity.

Forecasts and ratios				
Year End Dec 31	2017A	2018E	2019E	2020E
Sales (CNYm)	184,616.2	214,492.1	228,300.4	245,286.9
EBITDA (CNYm)	36,122.6	47,406.8	51,487.6	55,946.2
Reported NPAT (CNYm)	4,893.2	10,530.5	12,228.3	14,792.1
Reported EPS FD(CNY)	0.58	1.25	1.45	1.75
DB EPS FD(CNY)	0.43	1.13	1.24	1.26
DB EPS growth (%)	-	165.0	10.0	1.3
PER (x)	10.8	5.4	4.9	4.8
EV/EBITDA (x)	7.2	5.5	5.1	4.6
DPS (net) (CNY)	0.31	0.31	0.36	0.44
Yield (net) (%)	6.8	5.1	6.0	7.2

Source: Deutsche Bank estimates, company data

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Model updated: 09 September 2018

Running the numbers

Asia

China

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Reuters: 3323.HK

Bloomberg: 3323 HK

Buy

Price (26 Sep 18) HKD 6.90

Target Price HKD 11.49

52 Week range HKD 5.41 - 9.80

Market cap (m) HKDm 37,253  
USDm 4,770.3

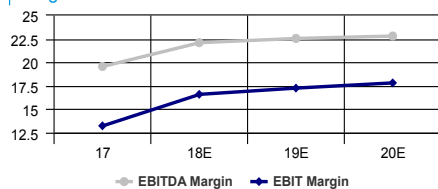
Company Profile

China National Building Material is a leading PRC building materials company with significant operations in the cement, lightweight building materials, glass fiber and FRP products and engineering services business segment.

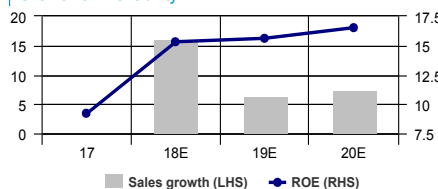
Price Performance



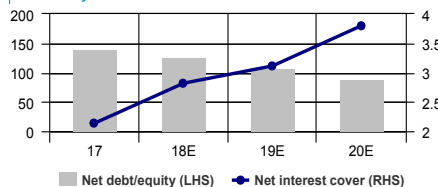
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2017	2018E	2019E	2020E
DB EPS (CNY)	0.43	1.13	1.24	1.26
Reported EPS (CNY)	0.58	1.25	1.45	1.75
DPS (CNY)	0.31	0.31	0.36	0.44
BVPS (CNY)	7.6	8.7	9.9	11.3
Weighted average shares (m)	8,435	8,435	8,435	8,435
Average market cap (CNYm)	38,704	32,762	32,762	32,762
Enterprise value (CNYm)	260,135	262,617	261,244	258,596

Valuation Metrics

P/E (DB) (x)	10.8	5.4	4.9	4.8
P/E (Reported) (x)	7.9	4.9	4.2	3.5
P/BV (x)	0.80	0.70	0.61	0.54
FCF Yield (%)	42.8	2.5	26.1	33.2
Dividend Yield (%)	6.8	5.1	6.0	7.2
EV/Sales (x)	1.4	1.2	1.1	1.1
EV/EBITDA (x)	7.2	5.5	5.1	4.6
EV/EBIT (x)	10.6	7.4	6.6	5.9

Income Statement (CNYm)

Sales revenue	184,616	214,492	228,300	245,287
Gross profit	49,230	67,221	71,563	76,726
EBITDA	36,123	47,407	51,488	55,946
Depreciation	11,691	11,822	12,086	12,253
Amortisation	0	0	0	0
EBIT	24,432	35,584	39,401	43,693
Net interest income/(expense)	-11,426	-12,622	-12,651	-11,498
Associates/affiliates	1,056	1,951	2,048	2,151
Exceptionals/extraordinary	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0
Profit before tax	14,062	24,913	28,799	34,346
Income tax expense	4,237	6,672	7,713	9,198
Minorities	4,280	6,726	7,775	9,273
Other post-tax income/(expense)	-653	-984	-1,082	-1,082
Net profit	4,893	10,531	12,228	14,792
DB adjustments (including dilution)	-1,297	-1,002	-1,749	-4,177
DB Net profit	3,596	9,529	10,479	10,615

Cash Flow (CNYm)

Cash flow from operations	25,258	19,783	28,336	31,985
Net Capex	-8,690	-18,500	-15,000	-15,000
Free cash flow	16,568	1,283	13,336	16,985
Equity raised/(bought back)	0	0	0	0
Dividends paid	0	-2,633	-3,057	-3,698
Net inc/(dec) in borrowings	0	21,860	-35,217	2,159
Other investing/financing cash flows	-18,790	-4,158	-4,030	-4,566
Net cash flow	-2,222	16,352	-28,969	10,880
Change in working capital	0	-11,388	-3,670	-4,430

Balance Sheet (CNYm)

Cash and other liquid assets	34,777	52,975	24,859	36,788
Tangible fixed assets	176,474	183,830	187,350	190,659
Goodwill/intangible assets	84,314	86,537	89,267	92,543
Associates/investments	13,536	15,501	17,549	19,700
Other assets	145,057	167,775	177,592	189,699
Total assets	454,158	506,618	496,617	529,389
Interest bearing debt	209,252	231,113	195,896	198,055
Other liabilities	120,140	135,132	142,319	151,482
Total liabilities	329,392	366,244	338,215	349,537
Shareholders' equity	64,274	73,156	83,409	95,586
Minorities	60,492	67,218	74,993	84,266
Total shareholders' equity	124,766	140,373	158,402	179,852
Net debt	174,475	178,138	171,037	161,267

Key Company Metrics

Sales growth (%)	nm	16.2	6.4	7.4
DB EPS growth (%)	na	165.0	10.0	1.3
EBITDA Margin (%)	19.6	22.1	22.6	22.8
EBIT Margin (%)	13.2	16.6	17.3	17.8
Payout ratio (%)	53.8	25.0	25.0	25.0
ROE (%)	9.2	15.3	15.6	16.5
Capex/sales (%)	4.7	8.6	6.6	6.1
Capex/depreciation (x)	0.7	1.6	1.2	1.2
Net debt/equity (%)	139.8	126.9	108.0	89.7
Net interest cover (x)	2.1	2.8	3.1	3.8

Source: Company data, Deutsche Bank estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
CNBM	3323.HK	6.90 (HKD) 26 Sep 2018	7, 13, 14, 15

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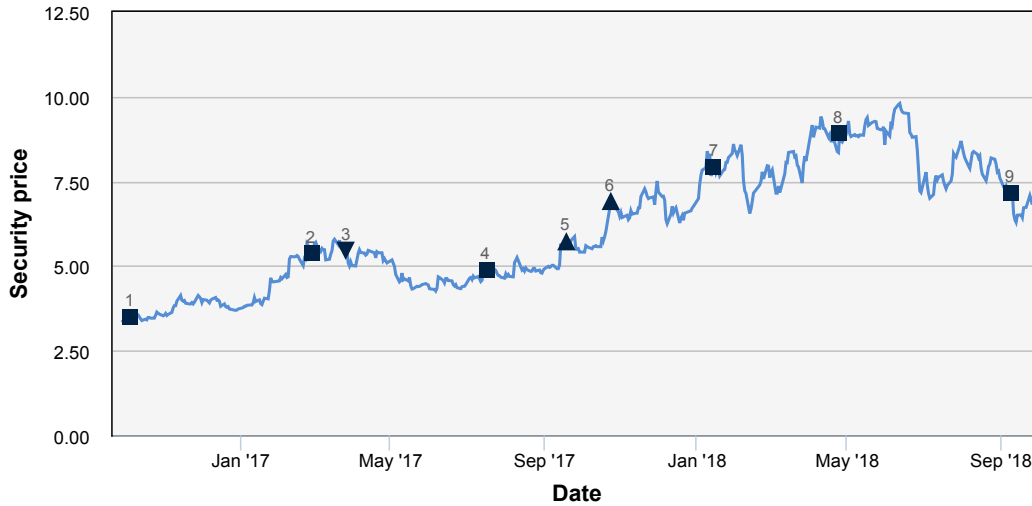
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Historical recommendations and target price. CNBM (3323.HK)

(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	Hold, Target Price Change HKD 3.86 Johnson Wan	6.	10/24/2017	Upgraded to Buy, Target Price Change HKD 8.21 Johnson Wan
2.	02/27/2017	Hold, Target Price Change HKD 4.55 Johnson Wan	7.	01/15/2018	Buy, Target Price Change HKD 9.69 Johnson Wan
3.	03/27/2017	Downgraded to Sell, Target Price Change HKD 3.70 Johnson Wan	8.	04/25/2018	Buy, Target Price Change HKD 12.75 Johnson Wan
4.	07/17/2017	Sell, Target Price Change HKD 3.69 Johnson Wan	9.	09/09/2018	Buy, Target Price Change HKD 11.49 Johnson Wan
5.	09/19/2017	Upgraded to Hold, Target Price Change HKD 4.91 Johnson Wan			

Equity Rating Key

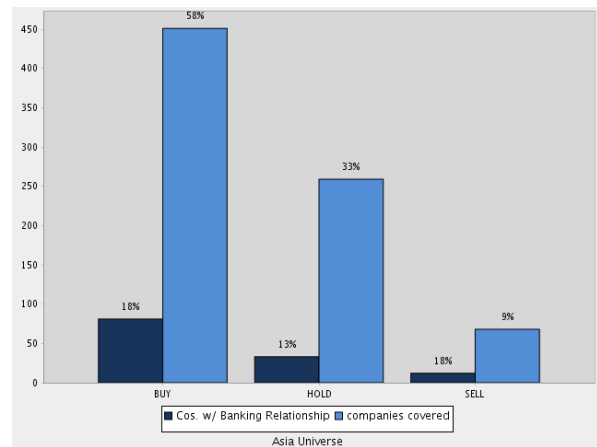
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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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27 September 2018  
Construction Materials  
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