



Company Report: CRRC Times Electric (03898 HK)

公司报告: 中车时代电气 (03898 HK)

Gary Wong 黄家玮

(852) 2509 2616

gary.wong@gtjas.com.hk

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Increase in Demand for Locomotives Products Will Lift 2019 Results, Upgrade to "Accumulate"

机车产品需求增加将提振2019年业绩，上调至“收集”

- **CRRC Times Electric's (03898 HK) 9M18 revenue decreased 2.6% YoY to RMB9.274 billion. Net profit dropped 2.5% YoY to RMB1.481 billion. Results were in line with expectation.** Overall gross margin increased by 1.1 ppts YoY to 38.8%, mainly due to reduction in contribution from lower-margin railway maintenance machinery related products. Selling expense ratio, administrative expense ratio and R&D expense ratio were up 0.6 ppts YoY to 5.4%, up 0.2 ppts YoY to 5.2%, and up 0.9 ppts YoY to 10.2%, respectively.
- Delivery of EMU products is expected to remain stable, while delivery of locomotive products and urban rail transit products is expected to increase in 2018-2020. Railway maintenance machinery related products revenue is expected to drop in 2018 but rebound mildly in 2019 and 2020. **We expect gross margin to gradually increase from 37.1% in 2017 to 39.5% in 2020 and overall expenses ratio to increase from 18.9% in 2017 to 20.4% in 2020.**
- Our EPS estimates for 2018/ 2019/ 2020 are RMB2.101/ RMB2.321/ RMB2.613, respectively. We think that the Company deserves a higher valuation compared with other equipment manufacturer peers due to its excellent cash flow, especially during a deleveraging environment, which provides large opportunities for the Company to expand and acquire other companies. **Raise the TP to HKD44.50, representing 18.6x/ 16.9x/ 15.0x 2018/ 2019/ 2020 PER. Upgrade to "Accumulate".**
- **中车时代电气 (03898 HK) 2018 年前 9 个月收入同比下降 2.6%至 92.74 亿元 (人民币, 下同)。净利润同比下降 2.5%至 14.81 亿元。业绩符合预期。整体毛利率同比上升 1.1 个百分点至 38.8%，主要由于低毛利率的养路机械相关产品贡献减少。销售费用率、管理费用率和研发费用率同比分别升 0.6 个百分点至 5.4%、升 0.2 个百分点至 5.2%和升 0.9 个百分点至 10.2%。**
- 2018-2020 年，动车组产品的交付量预计将维持稳定，而机车产品和城轨产品的交付量预计将有所增加。养路机械相关产品收入预计将于 2018 年下滑但将在 2019 年和 2020 年温和回升。**我们预计毛利率将逐步由 2017 年的 37.1%升至 2020 年的 39.5%，而整体费用率将由 2017 年的 18.9%增至 2020 年的 20.4%。**
- 我们对 2018/2019/2020 年度的每股盈利预测分别为 2.101/ 2.321/ 2.613 元人民币。我们认为公司相比其他设备制造商来说，基于其优秀的现金流应当具有更高的估值，特别是在去杠杆的背景下，优秀的现金流为公司提供了大量机会进行扩张并收购其他公司。**上调目标价至 44.50 港元，对应 18.6 /16.9/ 15.0 倍的 2018/ 2019/ 2020 年市盈率。上调至“收集”评级。**

Rating:

Accumulate

Upgraded

评级:

收集 (上调)

6-18m TP 目标价:

HK\$44.50

Revised from 原目标价:

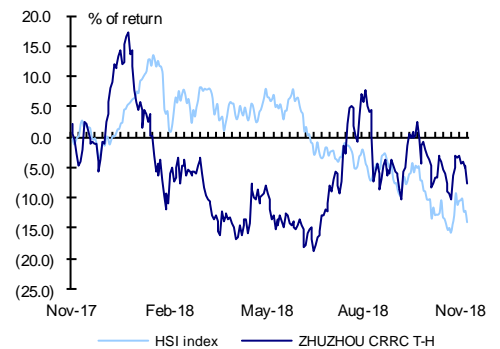
HK\$39.90

Share price 股价:

HK\$42.550

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 %	0.4	(13.9)	(8.6)
Rel. % to HS Index 相对恒指变动 %	2.8	(4.0)	5.2
Avg. share price (HK\$) 平均股价 (港元)	42.2	42.8	42.2

Source: Bloomberg, Guotai Junan International.

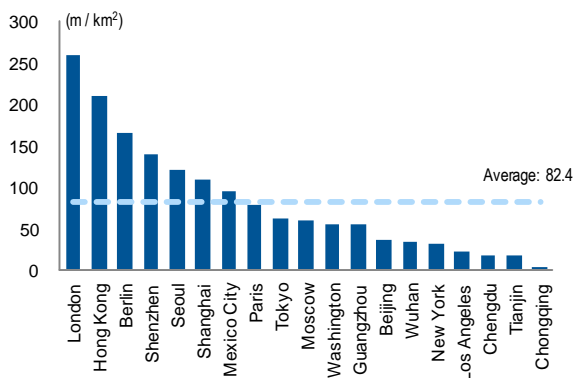
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	14,658	2,893	2.461	(2.5)	15.5	13.448	2.8	0.450	1.2	19.6
2017A	15,144	2,523	2.147	(12.8)	16.5	15.112	2.3	0.450	1.3	15.0
2018F	15,080	2,469	2.101	(2.1)	17.8	16.713	2.2	0.500	1.3	13.2
2019F	16,490	2,728	2.321	10.5	16.1	18.484	2.0	0.550	1.5	13.2
2020F	18,130	3,071	2.613	12.6	14.3	20.547	1.8	0.550	1.5	13.4
Shares in issue (m) 总股数 (m)			1,175.5		Major shareholder 大股东		CRRC Corporation 51.0%			
Market cap. (HK\$ m) 市值 (HK\$ m)			50,017.5		Free float (%) 自由流通比率 (%)		49.0			
3 month average vol. 3 个月平均成交股数 ('000)			2,399.2		FY19 Net gearing (%) FY19 净负债/股东资金 (%)		Net Cash			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			53.400 / 36.000		FY19 Est. NAV (HK\$) FY19 每股估值 (港元)		44.5			

Source: the Company, Guotai Junan International.

9M18 shareholders' profit dropped 2.5% YoY to RMB1.481 billion. Results were in line with expectation. CRRCTimes Electric's (03898 HK) 9M18 revenue decreased 2.6% YoY to RMB9.274 billion; shareholders' profit decreased 2.5% YoY to RMB1.481 billion. Results were in line with expectation. For 3Q alone, revenue decreased 1.9% YoY and shareholders' profit increased 10.8% YoY, due to substantial improvement in gross margin of 4.5 ppts YoY to 39.3%. During 9M18, overall gross margin increased 1.1 ppts YoY to 38.8% due to reduction in contribution from lower-margin railway maintenance machinery related products. Selling expenses ratio, administrative expenses ratio and R&D expenses ratio were up 0.6 ppts YoY to 5.4%, up 0.2 ppts YoY to 5.2%, and up 0.9 ppts YoY to 10.2%, respectively. Net interest income increased 126.8% YoY to RMB44 million due to increase in interest income from financial products.

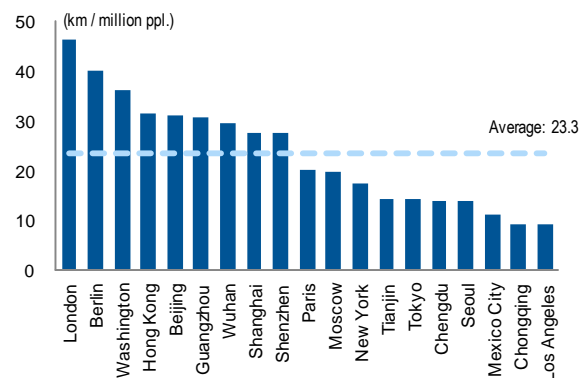
We expect auxiliary power supply products revenue to increase at a CAGR of 8.1% in 2017-2020. The Company delivered approximately 260 sets of EMU products for 2017, and we expect delivery volume to remain stable in the next three years. In addition, the Company delivered approximately 350 sets of locomotives products for 2017, we expect that the same amount will be delivered in 2018, while 400 sets and 460 sets will be delivered in 2019 and 2020, respectively, due to increase in purchases from China Railway Corporation. As for metropolitan rail products, despite that the issuance of "Opinions on Further Strengthening the Management of Urban Rail Transit Planning and Construction" (《关于进一步加强城市轨道交通规划建设管理的意见》) in July might have short-term negative effects on investment growth of urban rail transit, we think it promotes orderly, sustainable and healthy development of urban rail transit in the long term. As such, compared with other megacities of the world, we see that even the largest cities in China do not have the highest density of metro mileage in terms of area (km²), let alone in terms of population. And for other second-tier cities, the density will be even lower. We still see great potential for growth of urban rail transit products in the future. We expect that delivery will increase 10%/ 15%/ 15% for 2018/ 2019/ 2020, respectively, as towards the end of 13th FYP period, delivery will accelerate to accomplish the target. Overall, we expect auxiliary power supply products revenue to increase at a CAGR of 8.1% in 2017-2020.

Figure 1: Urban Rail Transit Density Ranking by Area



Source: Wikipedia, National Bureau of Statistics of China, Guotai Junan International.

Figure 2: Urban Rail Transit Density Ranking by Population

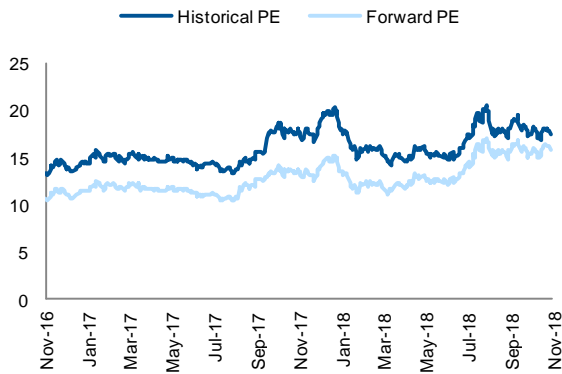


Source: Wikipedia, National Bureau of Statistics of China, Guotai Junan International.

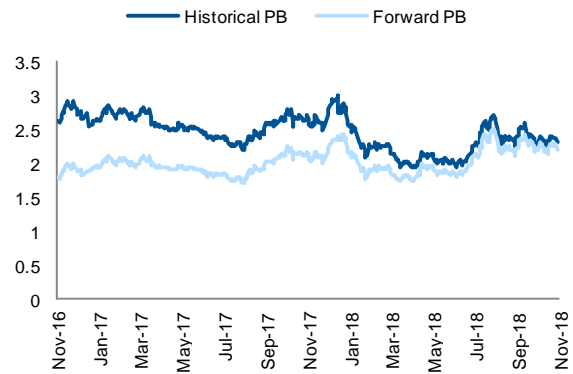
We expect railway maintenance machinery related products revenue to drop 25% in 2018 and rebound 5% annually in 2019 and 2020. We expect railway maintenance machinery related products revenue to drop 25% in 2018, mainly due to a surprisingly good last year which already recouped some of the demand originally from 2018, while its main competitor CRCC High-Tech Equipment (01786 HK) regained some market share (1H18 machine sales increased 1.3x to RMB917 million). Despite being a potential huge market, the railway maintenance machinery market is only growing slowly but steadily, while this trend is unlikely to change in the foreseeable future. In addition, the Company's main competitors have started to utilize the Company's strategy in investing in R&D in new products and have regained some market share, which means competition is building up. We expect only mild rebound of revenue of 5% annually in 2019 and 2020.

We expect gross margin to gradually increase from 37.1% in 2017 to 39.5% in 2020; overall expenses ratio is expected to increase from 18.9% in 2017 to 20.4% in 2020. For 9M18, gross margin increased 1.1 ppts YoY to 38.8%, mainly due to reduction in contribution from lower-margin railway maintenance machinery related equipment. As we expect that growth of such equipment will be much slower (-25%/ 5%/ 5% for 2018/ 2019/ 2020) compared with higher-margin auxiliary power supply products (6.7%/ 8.5%/ 9.2%), we expect gross margin to improve in 2018-2020. In addition, we expect with IGBT products starting to go into mass production in 2019, cost of sales will go down and gross margin will further improve. Overall, we expect gross margin to gradually increase from 37.1% in 2017 to 39.5% in 2020. As for expenses ratio, during 9M18, selling expenses

ratio, administrative expenses ratio and R&D expenses ratio increased YoY by 0.6 ppts, 0.2 ppts and 0.9 ppts, respectively (combined: 1.6 ppts). The substantial increase was partially due to the decrease in total revenue, while the increase in respective expenses was moderate (selling expenses, administrative expenses and R&D expenses were up YoY by 11.3%, 0.1% and 6.0%, respectively). Looking forward, we expect that selling expenses and especially R&D expenses will increase faster than revenue due to overseas market promotion, technology investment and better tax breaks for R&D expenses, while administrative expenses will grow slower than revenue. We expect overall expenses ratio (including selling expenses, administrative expenses and R&D expenses) to increase from 18.9% in 2017 to 20.4% in 2020.

Figure 3: ZCTE's Historical and Forward PE


Source: Bloomberg.

Figure 4: ZCTE's Historical and Forward PB


Source: Bloomberg.

Upgrade to "Accumulate", TP raised to HKD44.50. Our EPS estimates for 2018/ 2019/ 2020 are RMB2.101, RMB2.321 and RMB2.613, respectively. We remain positive about the outlook of urban rail transit products, and we are more positive on locomotives products with expected increase in demand from China Railway Corporation. We have revised down estimates for railway maintenance machineries and related products due to worse-than-expected demand. In addition, the performance of marine engineering products has been lagging, we expect that marine engineering products might not perform well before 2020 and slightly revise down estimates. Overall, we think increase in demand for higher-margin auxiliary power supply products can more than outweigh the weak demand of lower-margin products such as railway maintenance machinery and marine engineering products. Moreover, we think the Company deserves a higher valuation compared with other equipment manufacturers peers due to its excellent cash flow, especially during a deleveraging environment, which provides large opportunities for the Company to expand and acquire other companies. We raise the TP to HKD44.50, representing 18.6x/ 16.9x/ 15.0x 2018/ 2019/ 2020 PER. Upgrade to "Accumulate".

Table 1: Peers Comparison

Company	Stock Code	Currency	Last Price	Market Cap (mn)	PE				PB				ROE		D/Y	
					17A	18F	19F	20F	17A	18F	19F	20F	18F	18F		
Zhuzhou Crrc Times Electri-H	03898 HK	HKD	42.550	48,547	17.1	16.2	13.6	11.9	2.3	2.3	2.0	1.7	14.6	1.3		
Crrc High-Tech Equipment C-H	01786 HK	HKD	1.620	2,462	35.1	15.0	12.4	8.8	0.4	0.4	0.4	0.4	3.3	2.4		
China Automation Group	00569 HK	HKD	1.060	1,088	n.a.	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.		
Sun King Power Electronics	0580 HK	HKD	1.080	1,747	6.8	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.		
China Railway Signal & Com-H	03969 HK	HKD	5.140	45,376	11.7	10.5	8.9	7.9	1.6	1.5	1.3	1.2	15.1	3.4		
Crrc Corp Ltd - H	01766 HK	HKD	7.140	262,309	16.3	15.0	12.7	11.0	1.4	1.4	1.3	1.2	9.8	2.5		
China Its Holdings Co Ltd	01900 HK	HKD	0.219	362	19.0	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.		
Hebei Yichen Industrial Gr-H	01596 HK	HKD	5.790	5,198	25.1	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.		
Global Link Comm Hldgs Ltd	08060 HK	HKD	0.068	142	n.a.	n.a.	n.a.	n.a.	1.3	1.3	n.a.	n.a.	(4.3)	0.0		
Simple Average					18.7	14.2	11.9	9.9	1.1	1.4	1.3	1.1	7.7	1.9		
Weighted Average					16.0	14.6	12.3	10.7	1.5	1.5	1.4	1.3	11.1	2.4		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	14,658	15,144	15,080	16,490	18,130	Fixed Assets	2,825	2,718	3,583	4,742	6,319
Cost of Sales	(9,062)	(9,529)	(9,274)	(10,059)	(10,969)	Long-term Equity Investments	229	270	312	360	416
Gross Profit	5,596	5,615	5,806	6,431	7,161	Construction in Progress	192	237	262	290	321
Other Income / Expenses, Net	(110)	(11)	(45)	(60)	(20)	Intangible Assets	635	699	658	636	624
Selling and Distribution Costs	(500)	(820)	(829)	(907)	(997)	Deferred Tax Assets	301	373	447	537	644
Administrative Expenses	(1,806)	(2,037)	(2,187)	(2,424)	(2,701)	Other Non-current Assets	685	741	756	774	793
Finance Costs	(22)	32	39	46	38	Total Non-current Assets	4,867	5,037	6,019	7,339	9,117
Investment Income	90	38	42	48	55	Trade and Bills Receivables	9,576	11,234	11,600	12,849	14,308
Operating Profit	3,249	2,816	2,826	3,134	3,536	Inventories	3,241	3,498	3,619	4,122	4,533
Non-operating Income / Expenses, Net	72	58	71	67	65	Bank Financial Products	2,301	2,351	2,351	2,351	2,351
Profit Before Tax	3,320	2,874	2,897	3,201	3,602	Cash & Cash Equivalents	3,203	3,808	4,256	3,763	3,134
Income Tax	(418)	(312)	(385)	(426)	(479)	Other Current Assets	547	721	765	814	868
Profit After Tax	2,903	2,562	2,512	2,775	3,123	Total Current Assets	18,868	21,613	22,592	23,899	25,195
Non-controlling Interest	(10)	(39)	(43)	(47)	(52)	Total Assets	23,735	26,650	28,611	31,238	34,312
Shareholders' Profit / Loss	2,893	2,523	2,469	2,728	3,071	Short-term Borrowings	159	202	202	202	202
Basic EPS	2.461	2.147	2.101	2.321	2.613	Trade and Bills Payables	4,622	5,455	5,102	5,255	5,457
DPS	0.450	0.450	0.500	0.550	0.550	Other Payables and Accruals	1,420	1,528	1,521	1,664	1,829
						Other Current Liabilities	551	438	344	375	414
						Total Current Liabilities	6,752	7,623	7,170	7,496	7,903
						Long-term Borrowings	101	99	99	99	99
						Provisions	339	334	792	927	1,076
						Other Non-current Liabilities	472	536	569	606	648
						Total Non-current Liabilities	912	970	1,460	1,632	1,823
						Total Liabilities	7,664	8,593	8,630	9,129	9,726
						Share Capital	1,175	1,175	1,175	1,175	1,175
						Reserves	14,632	16,589	18,470	20,552	22,977
						Total Shareholders' Equity	15,807	17,764	19,646	21,728	24,152
						Minority Interest	264	292	335	382	433
						Total Equity	16,071	18,057	19,981	22,109	24,585
						Total Equity and Liabilities	23,735	26,650	28,611	31,238	34,312
						BVPS	13.448	15.112	16.713	18.484	20.547
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Net Profits	2,903	2,562	2,512	2,775	3,123	Gross Margin (%)	38.2	37.1	38.5	39.0	39.5
Depreciation and Amortization	309	375	337	371	408	Operating Margin (%)	22.2	18.6	18.7	19.0	19.5
Change in the Working Capitals	(1,943)	(1,484)	(827)	(1,586)	(1,653)	Net Margin (%)	19.7	16.7	16.4	16.5	16.9
Other Adjustment	180	16	314	266	337	ROA (%)	12.4	10.0	8.9	9.1	9.4
Cash from Operating Activities	1,448	1,469	2,336	1,826	2,214	ROE (%)	19.6	15.0	13.2	13.2	13.4
Capital Expenditure	(5,534)	(5,079)	(1,379)	(1,755)	(2,222)	Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Other Investing Activities	5,034	4,475	(18)	(19)	(21)						
Cash from Investing Activities	(499)	(604)	(1,397)	(1,774)	(2,243)						
Issuance of Shares	0	0	0	0	0						
Issuance / (Repayment) of Debts	(807)	37	0	0	0						
Dividends	(581)	(541)	(529)	(588)	(647)						
Other Financing Activities	52	0	0	0	0						
Cash from Financing Activities	(1,336)	(504)	(529)	(588)	(647)						
Cash at Beg of Year	3,449	3,066	3,422	3,832	3,296						
Net Changes in Cash	(387)	361	410	(536)	(675)						
Forex	3	(5)	0	0	0						
Add: Restricted Deposit over 3 Months	137	386	424	467	513						
Cash at End of Year	3,203	3,808	4,256	3,763	3,134						

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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 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