

Equity Research | China | Industrial

14 October 2015

Positive on Sequential Pickups in New Orders

- We initiate coverage on CRG with an Outperform rating and a price target of HK\$9.3, suggesting 22.9% potential upside.
- CRG's current valuation (11.7x FY15 PER) looks attractive from a historical perspective and we see potential re-rating catalysts including accelerating tender bidding in CRC railway projects and potential upward adjustment in China's 2015 railway FAI target.

Railway FAI likely to be revised up. As one of the duopolies in China's railway construction market, CRG is a direct beneficiary from the domestic FAI in railway infrastructure. Its revenue from railway construction is highly correlated to domestic FAI in railway infrastructure and accounted for 35.2% of total revenue in 1H15. According to the official statistics, China's railway FAI targets at RMB800bn in 2015, of which RMB620bn will flow to railway infrastructure. In addition, we see the likelihood for the government to raise its FAI target in 2H15, in view of the weakening economic growth in China.

Healthy new contract and backlog outlook. We estimate the new contract growth in FY15E/16E to be stable at 4.3%/6.1% YoY, backed by the expected robust YoY growth in railway (5.0% in FY15E vs. -25.7% in 1H15) and urban rapid transit system projects (10.0% in FY15E vs. 8.5% in 1H15), but offset by local government funded projects (road & property constructions). Meanwhile, total backlog in 1H15 is Rmb1,817.9bn, implying 2.8x overseas revenue estimates in FY15E, suggesting secured revenue growth in next two years at least.

Earnings forecasts. We projected revenue growth of 5.1%/7.3% YoY and earnings growth of 16.8%/17.2% YoY in FY15/16E, respectively. Our FY15/16E earnings forecasts are 2.5%/6.2% above consensus, mainly reflecting our expectation of a speed-up in railway construction tender bidding recovery by CRC in 2H15.

Valuation. CRG trades 11.7x/10.0x FY15/16E PER, which looks attractive compared with its historical valuation average of 15.9x. Pegging on 14.4x FY15E PER (10% discount to 15.9x to reflect our worries over its higher net gearing and expected earnings growth slowdown in 2H15), we set our price target at HKD9.3, implying 22.9% potential upside. Initiate with an Outperform rating.

Key investment risks: 1) Slower-than-expected railway FAI to be released in 2H15; 2) Lower-than-expected property business contribution; 3) Margins below estimates; 4) Slower-than-expected railway projects construction progress.

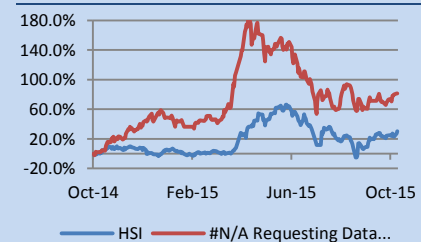
CRG
(390.HK)
Outperform

(initiate coverage)

Price Target (upside)	HK\$9.3 (22.9%)
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Close price	HK\$7.57
Market cap.	HK\$299.0bn
Free float	92.09%
52-week range	HKD4.08–HKD12.30
3-mth ave. T/O	268.3

Price as of 13 October 2015

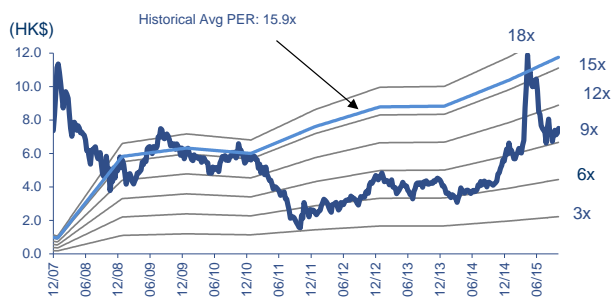
Stock rel HSI performance (%)

Analyst
SUN Lingxiao, Roger
(CE No.: AXO391)
rogersun@csci.hk +852 3465 5785

Initiate with Outperform

We initiate coverage on CRG with an Outperform rating, with a 12-month PER based on our target price of HK\$9.3, pegging on 14.4x FY15E PER. Our target price is derived after taking into account of the following factors:

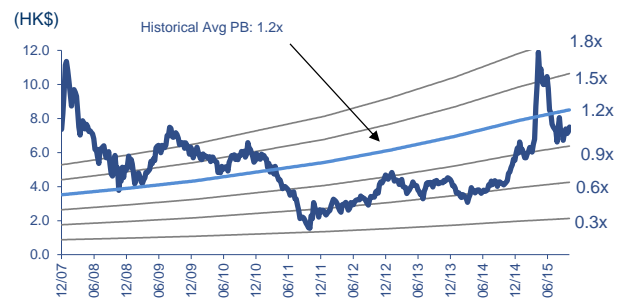
- Railway infrastructure FAI ramps-up is foreseeable in 2H15, which will boost CRG's revenue growth. During 1H15, total railway FAI in China was RMB265.1bn, accounting for only 33.1% and 32.3% of government's full-year target and our FY15E estimates, respectively.
- CRC order biddings' ramp-up is on track in 2H15. From July 2015, CRC has started launching a large batch of tenders, including some big railway projects. China's total contract value of new railway projects rose substantially to Rmb130.7bn from July to August 2015 vs. merely Rmb68.2bn in 1H15. Therefore, the releasing of tender bidding from CRC is expected to accelerate in 2H15.
- The asset swap with CREC (600528.SH) implies a faster-than-expected railway SOE reform. CRG will benefit from the asset reorganization on better scale effect of CREC's similar business resources. Meanwhile, profitable assets will be able to access more financing channels and business expansion opportunities, which in turn to support CRG's long-term earnings outlook. Looking ahead, we expect to see more spin-offs or asset reorganization of non-core businesses in railway construction contractors.
- CRG currently trades below the Company's historical average of 15.9x. The current valuation of FY15/16E 11.7x/10.0x PER and 1.2x/1.1x PBR looks attractive compared with its historical average of 15.9x forward PER. However, we project a 10% discount to the historical average (14.4x FY15E) PER based on our target price, mainly concerned with: 1) worries over its high net gearings 2) earnings growth is expected to slow down in 2H15. Therefore, we peg on 14.4x FY15E PER to derive our target price of HK\$9.3, implying 22.9% potential upside.

Figure 1: CRG-PE Band



Source: Company, CSCI Research

Figure 2: CRG-PB Band



Source: Company, CSCI Research

Figure 3: CRG-PE valuation sensitivity

		PE (x)						
		8.4	10.4	12.4	14.4	16.4	18.4	20.4
FX	0.84	5.3	6.6	7.8	9.1	10.3	11.6	12.9
	0.83	5.4	6.6	7.9	9.2	10.5	11.7	13.0
	0.82	5.4	6.7	8.0	9.3	10.6	11.9	13.2
	0.81	5.5	6.8	8.1	9.4	10.7	12.0	13.3
	0.80	5.6	6.9	8.2	9.5	10.9	12.2	13.5

Source: Company, CSCI Research Estimates

Asset swap with CREC (600528.SH)

Implying faster-than-expected SOE reform in the railway sector

CRG and CREC (600528.SH) released their asset swap plan in Sep, which suggested that CRG intends to swap its manufacturing business for total existing assets of China Railway Erju (also known as CREC, 49% stakes held by CRG and listed in the Shanghai Stock Exchange), without any additional share issuance plan involved by CRG. We deem CRG's asset reorganization is in line with the SOE reform direction of "Diversified Ownership", which will boost SOE's core business by consolidating and spinning off non-core business onto the market. The reform pace is viewed as faster than market expectations.

Will not affect earnings significantly

CREC's core business includes infrastructure, property development, goods&material sales, etc. while manufacturing business of CRG consists of engineering equipment and component manufacturing. By the end of 1H15, net assets of manufacturing business within CRG and CREC arrived at RMB8.2bn/6.8bn, respectively. Regarding the profitability, CRG's manufacturing business performed better than CREC, based on the results in FY14. The topline revenue contribution to consolidated total revenue of CRG stood at 2.0%/11.7%, yet PBT contribution conversely arrived to 7.0%/4.0% by CRG's manufacturing business and total CREC businesses, respectively in FY14. Furthermore, CRG's manufacturing business' and CREC's PBT margin and ROE in FY14 was 7.5%/0.8% and 13.7%/3.2%. The net gearing of CREC in FY14 was 74.4%, compared with that of 143.7%/112.5% in FY14/15E of CRG. Therefore, the expected asset injection would not worsen CRG's overall balance sheet at the current stage.

Consolidation of CRG and CRCC? Possible, but should be slow

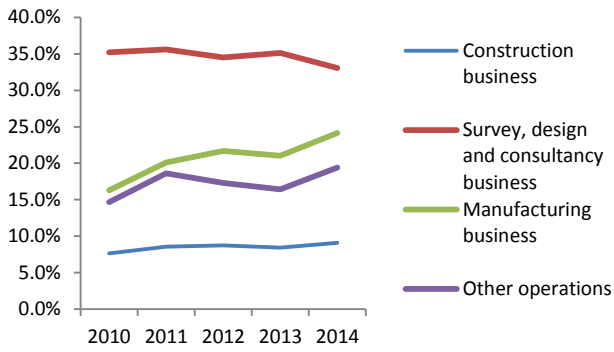
Many investors regard this asset swap plan as the first step to the domestic railway SOE reform and expect consolidation of CRG and CRCC. We think it is possible, but the progress might be slow, at least slower than the consolidation of CSR and CNR, mainly due to the shareholders' background issues and more diversified business structures than CSR and CNR.

More spin-offs in non-core business are foreseeable

Currently, we are inclined to see more possibilities in spinning off the non-core business among railway construction contractors (eg. survey, design&consultancy, manufacturing, property development businesses), rather than the core business consolidation. These non-core businesses share common features as below, which are expected to support the spin-off listing valuations:

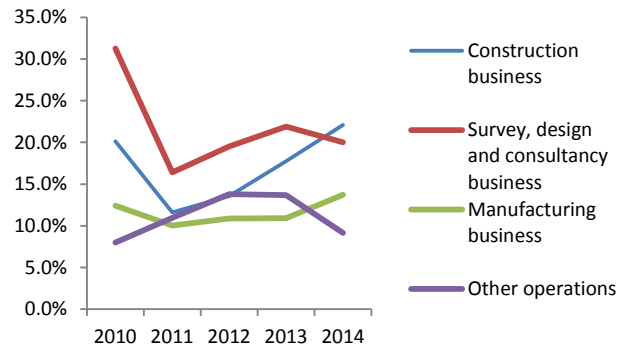
- Higher GPM;
- Solid new orders and backlog growth to secure the upcoming revenue recognition;
- Stable ROE performance in the last three years.

Figure 4: CRG's Historical GPM by Segment



Source: Company, CSCI Research

Figure 5: CRG's Historical ROE by Segment



Source: Company, CSCI Research

Benefit from railway FAI ramp-up in 2H15

Duopoly status benefits from FAI stimulus

As one of the duopolies in China's railway construction market, CRG directly benefits from China's domestic railway FAI growth. According to the official target, China's total FAI will be above Rmb800bn in 2015, of which RMB620bn to be invested in railway infrastructure. Given the current macro economy situation, we do not rule out the possible upside to current railway FAI target in 2015 in the next following months.

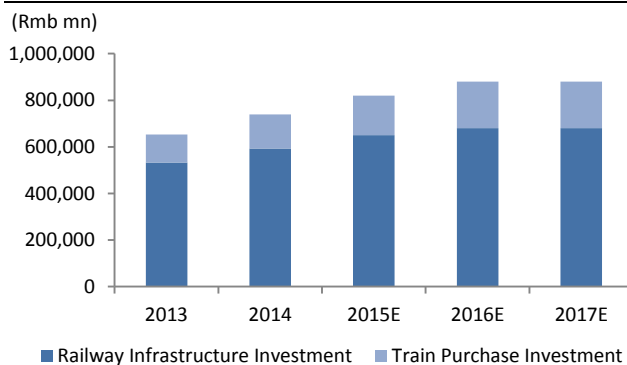
Railway construction is still the key driver to topline revenue

The railway construction revenue of CRG is highly correlated with the growth of railway infrastructure FAI and it accounted for approximately 35.2% of total revenue in 1H15. We estimate its revenue growth to expand to 10.0/11.0% YoY in FY15E/16E versus 0.4% YoY contraction in 1H15, on the back of the expected railway FAI ramp-up in 2H15.

Infrastructure FAI to spur economic growth historically

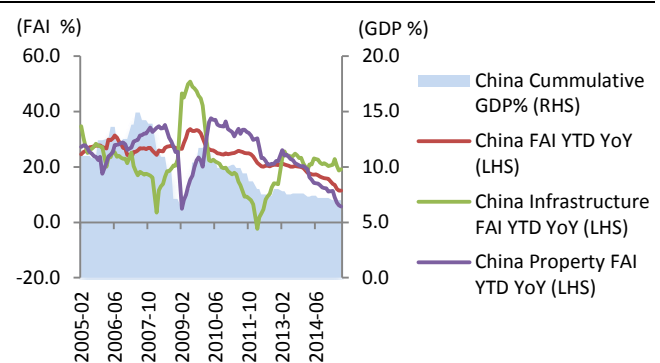
In 1H15, CRC announced completing Rmb265.1bn (up 12.7% YoY) railway FAI. The latest news suggests there could be upside to CRC's full-year railway FAI budget of Rmb800bn, which is in line with our previous forecast of Rmb820bn, 2.5% above CRC's target. In particular, we anticipate an upward adjustment in late 3Q15 or 4Q15, given the historical correlation between railway FAI and GDP growth.

Figure 6: China's Annual Railway FAI



Source: CRC, CSCI Research Estimates

Figure 7: China's Monthly YTD GDP & FAI Growth



Source: CRC, CSCI Research

Healthy new contracts and backlog growth

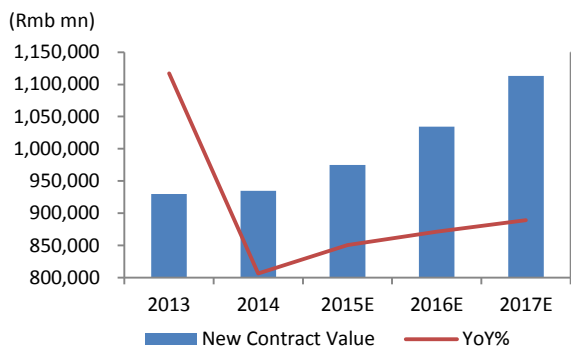
Stable new contract and backlog growth

CRG's total new contract amounted to Rmb331.5bn in 1H15, down 19.4% YoY, largely dragged by railway (down 25.7% YoY) and road (down 34.6% YoY) sectors, but offset by solid YoY growth of 8.5% in municipal works business. We expect its new contract growth to accelerate in 2H15, given that the central government will stabilize the economy through infrastructure investment. We posed our estimates on new contract growth to 4.3% YoY/6.1% YoY in FY15/16E, respectively.

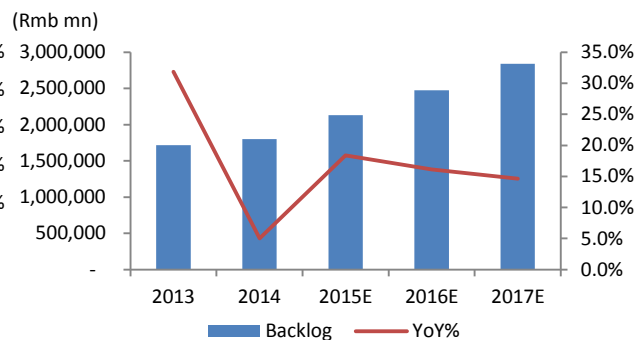
Moreover, CRG's total backlog achieved Rmb1,817.9bn, slightly contracted by 0.7% YoY and the contract backlog coverage ratio stood at 2.8x, implying that the existing order backlog would at least secure revenue in the following two years.

Stay optimistic over railway contract recovery

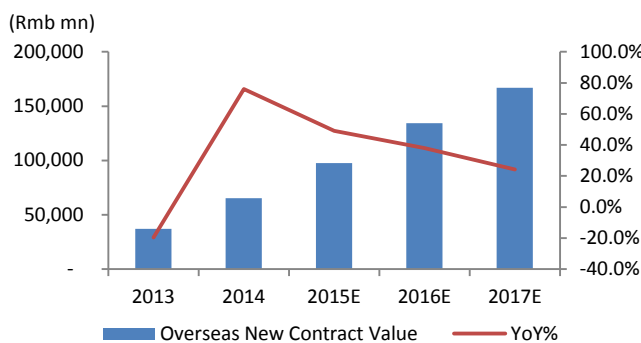
In the long-term, we are confident over the current new contracts and backlog coverage to support revenue growth. According to the disclosure from CRG, China's total contract value of new railway projects rose substantially to Rmb130.7bn from July to August vs. merely Rmb68.2bn in railway sector during the first half of 2015. Therefore, we believe CRG will see expanding contract YoY growth in 2H15, driven by to-be-built railway projects funded by the central government.

Figure 8: CRG-New Contract Value and YoY%


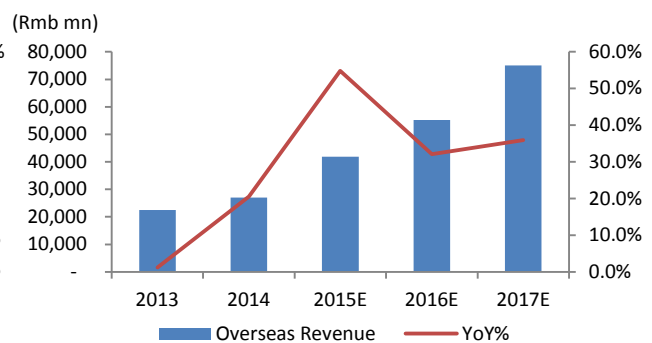
Source: Company, CSCI Research Estimates

Figure 9: CRG-Backlog Value and YoY%


Source: Company, CSCI Research Estimates

Figure 10: CRG-Overseas New Contract Value and YoY%


Source: Company, CSCI Research Estimates

Figure 11: CRG-Overseas Revenue and YoY%


Source: Company, CSCI Research Estimates

Figure 12: CRG-Newly signed railway contracts in July and August

Announcement Date	Company Winning the Bid	Project under the Successful Bid	Bid Amount(RMB mn)	Contractual Project Duration
Railway Projects				
8/3/2015	China Railway No. 1 Engineering Group Co., Ltd.	Section MHTJ-10 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,792.91	55 months
8/3/2015	China Railway No. 3 Engineering Group Co., Ltd.	Section MHTJ-24 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,924.07	55 months
8/3/2015	China Railway No. 4 Engineering Group Co., Ltd.	Section MHTJ-3 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	3,135.97	55 months
8/3/2015	China Railway No. 5 Engineering Group Co., Ltd.	Section MHTJ-15 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	3,125.63	55 months
8/3/2015	China Railway No. 6 Engineering Group Co., Ltd.	Section MHTJ-17 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,494.11	55 months
8/3/2015	China Railway No. 8 Engineering Group Co., Ltd.	Section MHTJ-19 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	1,239.75	55 months
8/3/2015	China Railway No. 10 Engineering Group Co., Ltd.	Section MHTJ-6 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,221.46	55 months
8/3/2015	China Railway Tunnel Group Co., Ltd.	Section MHTJ-9 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,038.74	55 months
8/3/2015	China Railway Port Channel Engineering Group Co., Ltd.	Section MHTJ-30 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	821.89	55 months
8/3/2015	China Railway Airport Construction Group Co., Ltd.	Section MHTJ-31 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	1,856.66	55 months
8/3/2015	Shanghai Civil Engineering Co., Ltd. of CREC	Section MHTJ-16 of the civil engineering construction of the new West Inner Mongolia-Central China coal transportation railway	2,304.51	55 months
7/23/2015	China Railway No. 1 Engineering Group Co., Ltd., China Railway No. 3 Engineering Group Co., Ltd., China Railway No. 4 Engineering Group Co., Ltd., Shanghai Civil Engineering Co., Ltd. of CREC	Before-station construction project of Sections CGZQ-7, CGZQ-9, CGZQ-2 and CGZQ-5 of the new NanchangGanzhou Passengers Railway	9,884.78	53.5 months
7/23/2015	China Railway No. 1 Engineering Group Co., Ltd., China Railway No. 4 Engineering Group Co., Ltd., China Railway No. 5 Engineering Group Co., Ltd.	Before-station construction project of Sections SG-4, SG-1, and SG-5 of the new Harbin-Mudanjiang Passengers Railway	7,004.31	46.5 months
7/23/2015	China Railway No. 4 Engineering Group Co., Ltd.	Construction project of Section CCHCS of the new Changchun comprehensive railroad yard (comprehensive construction section)	1,050.58	730 calendar days
7/23/2015	China Railway No. 7 Engineering Group Co., Ltd.	Construction project of the new third and fourth lines between Baqiao Railway Station and Xi'an Railway Station together with relevant projects and expansion and Section XZGS-4 of the capacity expansion project between Xinfengzhen Town and Yaocun Village in the expansion and reconstruction of Xi'an Railway Station, Xi'an Railway terminal	63,242	18 months
7/2/2015	China Railway No.1 Engineering Group Co., Ltd., China Railway No. 5 Engineering Group Co., Ltd., China Railway No. 9 Engineering Group Co., Ltd.	Construction project of Sections LLZQ-10, LLZQ-3 and LLZQ-2 of Lhasa-Nyingchi Segment of the new Sichuan-Tibet Railway	5,928.79	77 months
7/2/2015	China Railway No. 4 Engineering Group Co., Ltd., China Railway No. 5 Engineering Group Co., Ltd.	Before-station construction project of Sections QZCQ-5 and QZCQ-7 of the new Qianjiang RiverZhangjiajie-Changde Railway	5,123.10	1,721 calendar days
7/2/2015	China Railway No. 1 Engineering Group Co., Ltd., China Railway No. 9 Engineering Group Co., Ltd., China Railway No. 10 Engineering Group Co., Ltd.	Construction project of Sections CBSG-1, CBSG-8 and CBSG-7 of the capacity expansion reform project of the Changchun-Baicheng Railway	2,954.48	37 months
7/2/2015	China Railway No. 5 Engineering Group Co., Ltd., China Railway Tunnel Group Co., Ltd.	Construction project of Sections MHSS-5 and MHSS-3 of the key control project of the new West Inner Mongolia – Central China railway coal transportation tunnel	2,809.59	60 months
7/2/2015	China Railway Electrification Engineering Group Co., Ltd.	EPC contract for poststation construction project of Section BLS-SD of the E&M and customer service system integration of the new Baoji-Lanzhou Passengers Railway	2,451.94	19 months
7/2/2015	China Railway Electrification Engineering Group Co., Ltd.	Construction project of the E&M system integration, disaster prevention and relevant auxiliary projects of the new Shijiazhuang – Jinan Passengers Railway	1,705.57	21 months
7/2/2015	China Railway No. 1 Engineering Group Co., Ltd.	Before-station construction project of Section 2 of the new Qianjiang RiverZhangjiajie-Changde Railway (entrusted construction section)	1,102.94	48 months
7/2/2015	China Railway No. 6 Engineering Group Co., Ltd.	Construction project of the East and West Plazas of new Kunming south railway station (Section 2)	742.19	44 months
7/2/2015	China Railway No. 4 Engineering Group Co., Ltd.	Construction project of Section TCSG-2 of Tangshan – Caofeidian Railway Part One	646.52	507 calendar days
7/2/2015	China Railway No. 7 Engineering Group Co., Ltd.	Construction project of the traffic control office of Zhengzhou Railway Bureau	554.51	365 calendar days
7/2/2015	China Railway No. 1 Engineering Group Co., Ltd.	Railway branch line project of Section SG08 of Harbour District of Leging Bay, Zhejiang	549.33	28 months
		Total:	130,706	

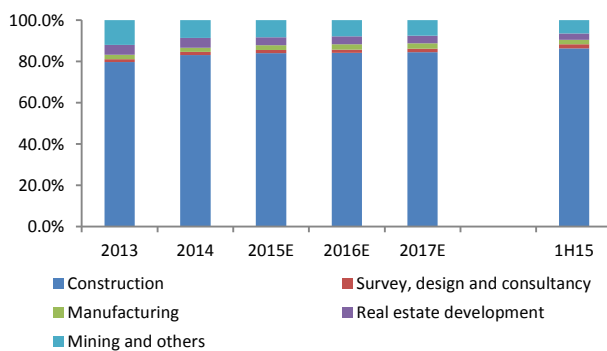
Source: Company

Financials

Revenue

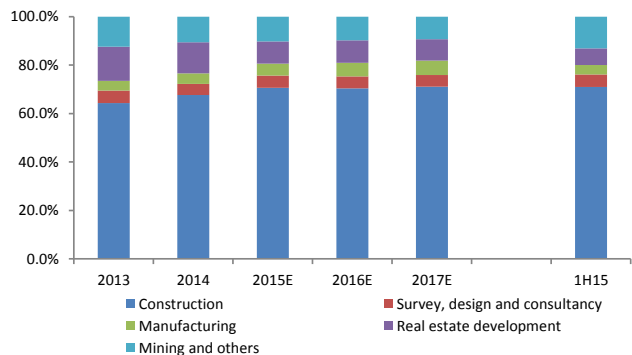
We forecast CRG's topline growth in FY15/16E of 5.1%/7.3% YoY, respectively, largely relied on the expected accelerating revenue recognition generated from railway constructions, and the healthy growth in survey, design & consultancy and manufacture segments, yet partly dragged by property development and road construction sales. We expect its railway construction growth exceed that of road constructions, considering that railway funding is provided by the central government while road constructions are funded by local governments.

Figure 13: CRG-Revenue Breakdown



Source: Company, CSCI Research Estimates

Figure 14: CRG-Gross Profit Breakdown



Source: Company, CSCI Research Estimates

Earnings growth might slow down in 2H15

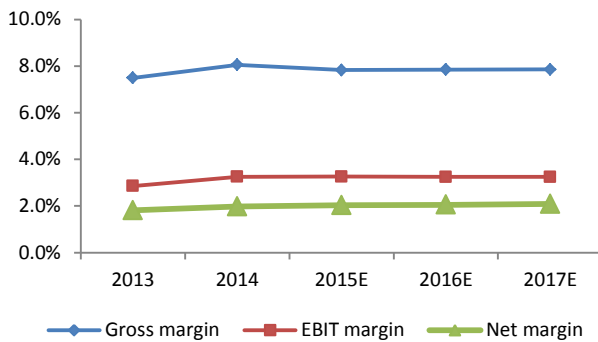
In 1H15, CRG's net income achieved YoY growth of 18.2%, significantly exceeded 3.4% YoY made by CRCC (Outperform rating, TP: HKD13.8). However, the growth of core earnings (after deducting exceptional items of FX gains, asset disposal gains etc.) was 11.2% YoY. In the meantime, we noticed that the main difference within earnings growth between CRG and CRCC was primarily from one-time gain through profits of asso&JVs by CRG. Therefore, we expect the earnings growth of CRG to mild down in 2H15, which slightly pull down the earnings growth in FY15E to 16.8% YoY.

Profitability remains stable

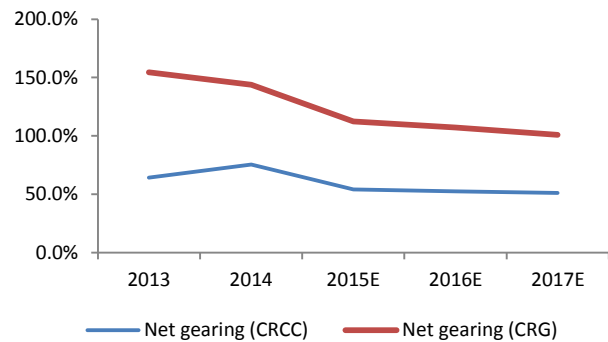
We expect GPM to mildly slide to 8.2%/8.3% in FY15/16E due to our negative views on its high GPM property development segment contribution. However, we are confident to the operating cost control level, thus the EBIT margin is expected to be stabled at approximately 3.0% in the next three years.

Balance sheet is less healthy than CRCC's

By the end of FY14, CRG's net gearing (including note payable) was 143.7%, nearly double that of 75.4% reported by CRCC. After A share placement in July, we lowered our estimates in FY15/16E to 112.5%/107.1%, respectively, but still much higher than that of CRCC. To alleviate the balance sheet risk, we do not rule out the possibility of further measures to strengthen balance sheet in 2H15.

Figure 15: CRG-Margin Breakdown


Source: Company, CSCI Research Estimates

Figure 16: CRG & CRCC-Net Gearing Forecast


Source: CSCI, CSCI Research Estimates

Working capital management

CRG is engaging in improving its working capital management, which we believe will facilitate to keep its operating cash positive going forward. However, its business diversification strategy will lead to higher Capex for the coming three years in our view. By choosing BT, BOT and PPP projects more efficiently, it will alleviate its free cash flow pressure in the long time.

Key risks to our forecasts

- Slower-than-expected railway FAI to be released in 2H15
- Slower-than-expected railway projects construction progress
- Lower-than-expected property business contribution;
- Margins below estimates

One of Duopolies Railway Construction Players

Background

CRG is one of the domestic leading construction companies, ranked the first globally by ENR in terms of construction revenue in 2014. Its parent Company, China Railway Engineering Group, owns its 56.1% stakes. CRG's core business comprises constructions, surveys, design and consultancy, manufacturing, real estate development, mining, etc.

As one of the duopolies in China's railway construction market, CRG reported historical market shares of 40-45%, similar to its peer, China Railway Construction (1186.HK, Outperform, TP: HK\$13.8).

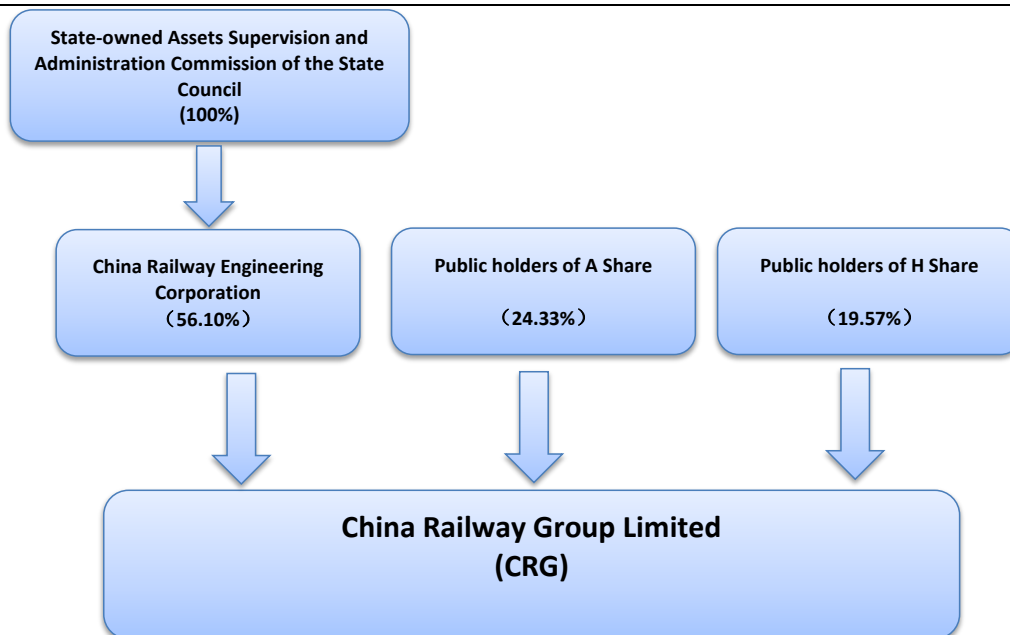
Core Business

CRG's core construction business, which accounted for over 85.9% of total revenue in 1H15, primarily concentrated on railway constructions. By the end of 1H15, the company reported railway construction revenue of RMB96.6bn roughly, 40.9% of the total. Besides railway construction, other construction revenue were mainly generated from road, urban rapid transit system, water conservancy and hydropower facility, and other construction projects.

Diversity strategy

Besides core construction business, CRG also engaged in other higher margin non-construction businesses, aiming to alleviate its heavy reliance on government's infrastructure FAI and to boost its overall margin. CRG also leveraged on its ample resources and domestic government relationships to diversity its business into property development. By the end of 1H15, CRG owned total gross floor area of approximately 48.9mn sq.m., with property revenue contribution of roughly 3.0% of total revenue in 1H15.

Figure 17: CRG-Ownership Structure



Source: Company, CSCI Research

Figure 18: CRG-Financial Summary

Income Statement						Balance Sheet					
(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E	(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E
Revenue (net of business tax)	542,154	592,965	622,920	668,601	726,800	Assets					
YoY growth	5.6%	9.4%	5.1%	7.3%	8.7%	Cash and cash equivalents	75,658	68,679	68,860	82,145	96,267
COGS	(501,843)	(544,017)	(571,633)	(613,258)	(666,179)	Pledged deposits	5,765	8,675	9,114	9,782	10,634
YoY growth	8.8%	2.14%	4.8%	7.9%	9.5%	Bill and trade receivables	80,716	217,161	235,513	250,166	270,287
Gross profit	40,311	48,947	51,287	55,343	60,621	Inventories	46,581	44,934	48,116	51,111	55,221
Gross profit margin	7.4%	8.3%	8.2%	8.3%	8.3%	Other receivables	-	-	-	-	-
SG&A expenses	(25,322)	(31,086)	(33,077)	(35,502)	(38,592)	Other current assets	84,168	205,853	214,866	227,613	242,894
R&D expenses	-	-	-	-	-	Total current assets	502,889	545,303	576,470	620,816	675,302
Other operating income/loss	-	-	-	-	-	Net PP&E (including AUC)	44,084	48,119	55,429	64,463	73,421
EBITDA	21,701	24,824	26,224	29,015	32,671	Net intangibles	40,944	42,972	45,043	47,072	49,060
YoY growth	12%	14.4%	5.6%	10.6%	12.6%	Equity investments	9,136	10,233	10,933	11,633	12,333
EBITDA margin	4.0%	4.2%	4.2%	4.3%	4.5%	Investments in securities or other	5,332	7,677	7,677	7,677	7,677
Depreciation	(5,647)	(6,053)	(6,742)	(7,861)	(9,288)	Total investments	14,467	17,909	18,609	19,309	20,009
Amortization	(1,065)	(909)	(1,271)	(1,313)	(1,355)	LT deferred tax assets	4,000	4,281	4,281	4,281	4,281
EBIT	14,989	17,861	18,210	19,841	22,029	LT trade and bills receivables	10,044	11,547	12,190	13,020	14,153
YoY growth	12.4%	19.2%	2.0%	9.0%	11.0%	Other long term assets	11,772	12,917	12,917	12,917	12,917
EBIT margin	2.8%	3.0%	2.9%	3.0%	3.0%	Total assets	628,201	683,047	724,879	781,879	849,144
Interest income	2,225	2,199	2,095	2,301	2,718	Liabilities					
Interest expense	(6,853)	(6,730)	(4,257)	(3,073)	(2,859)	Accounts payable	302,587	345,714	365,966	388,050	416,840
Profit/loss from associates	1,052	700	700	700	700	Short-term debt	82,150	90,559	60,757	60,757	60,757
Profit/loss from acquisition/disposal	-	-	-	-	-	Other current liabilities	35,507	34,867	36,637	39,305	42,696
Other non-operating income/loss	2,079	1,343	1,300	1,300	1,300	Total current liabilities	420,243	471,140	464,360	488,112	520,294
Pretax income	13,511	15,313	18,019	21,064	23,877	Long-term debt	102,399	92,734	117,734	137,734	157,734
YoY growth	27.6%	13.3%	17.7%	16.9%	13.4%	LT trade and bills payable	6,944	7,463	7,842	8,413	9,189
PBI margin	2.5%	2.6%	2.9%	3.2%	3.3%	Deferred tax liabilities	956	1,103	1,103	1,103	1,103
Income tax	(3,435)	(4,637)	(5,586)	(6,530)	(7,402)	Other LT liabilities	859	1,543	1,543	1,543	1,543
Effective tax rate	25.4%	30.3%	31.0%	31.0%	31.0%	Total non-current liabilities	111,158	102,843	128,222	148,793	169,519
Minority interest (1/3 item)	(701)	(316)	(332)	(357)	(388)	Total liabilities	531,401	573,983	592,582	636,906	689,814
Net income, post-exceptionals	9,375	10,360	12,101	14,177	16,087	Common shareholders' equity					
YoY growth	27.5%	10.5%	16.8%	17.2%	13.5%	Issued capital	21,300	21,300	22,844	22,844	22,844
Net margin	1.7%	1.7%	1.9%	2.1%	2.2%	Reserves	65,334	77,420	98,869	111,231	125,832
Post-exceptional items - gain/(loss)	10,162	876.5	-	-	-	Common shareholders' equity	86,633	98,720	121,713	134,075	148,036
Net income, pre-exceptionals	8,358	9,483	12,101	14,177	16,087	Minority interests	1,167	1,344	1,584	1,898	11,295
YoY growth	21.7%	11.5%	27.6%	17.2%	13.5%	Total liabilities and equity	628,201	683,047	724,879	781,879	849,144
Net margin	1.5%	1.6%	1.9%	2.1%	2.2%						
Cash Flow Statement						Ratio Analysis					
(RMB mn except otherwise indicated)	2013	2014	2015E	2016E	2017E	Valuation	2013	2014	2015E	2016E	2017E
Operating activities						P/E (X)	5.8	13.9	11.7	10.0	8.8
Profit before taxes	13,511	15,313	18,019	21,064	23,877	P/B (X)	1.5	1.3	1.2	1.1	1.0
Depreciation and amortization	6,712	6,962	8,013	9,174	10,643	EV/EBITDA (X)	12.2	11.0	10.2	9.5	8.6
Net profit/loss on asset sales	-	-	-	-	-	Dividend yield(%)	0.8	0.8	1.3	1.5	1.7
Increase/decrease in working capital	(12,694)	(5,919)	(3,759)	(1,774)	(2,091)	FCF yield (%)	-0.6	-0.6	0.0	0.1	0.1
Other operating cash flow items	391	13,063	(8,292)	(11,825)	(13,770)	Profitability					
Net CF flow from operating activities	7,920	19,420	13,981	16,638	18,659	Gross margin (%)	7.4	8.3	8.2	8.3	8.3
Investing activities						EBIT margin (%)	2.8	3.0	2.9	3.0	3.0
Capital expenditure	(9,969)	(9,561)	(17,395)	(20,238)	(21,588)	Net margin (%)	1.5	1.6	1.9	2.1	2.2
Acquisition/divestiture	345	-	-	-	-	SG&A/revenue (%)	4.7	5.2	5.3	5.3	5.3
Proceeds from disposal of assets	599	1,202	-	-	-	ROE (%)	10.1	10.2	11.0	11.1	11.4
Other investment cash flow items	(3,138)	(3,976)	1,189	918	957	ROA (%)	1.4	1.4	1.7	1.9	2.0
Net CF flow from investing activities	(12,163)	(12,334)	(16,206)	(19,320)	(20,631)	Liquidity & Leverage					
Financing						Current Ratio (X)	1.2	1.2	1.2	1.3	1.3
Dividends paid	(1,108)	(1,108)	(1,108)	(1,815)	(2,127)	Quick Ratio (X)	1.1	1.1	1.1	1.2	1.2
Share repurchase/issue	-	-	12,000	-	-	Net debt/equity (%)	154.5	143.7	125.5	107.1	101.0
Increase/decrease in debt¬es payable	25,059	(5,177)	(4,439)	20,546	20,694	Total debt/equity (%)	241.8	215.3	169.0	188.4	166.0
Change in Minority interests	447	937	240	314	397	Total liabilities/total assets (%)	84.6	84.0	81.7	81.5	81.2
Other financing cash flow items	(12,235)	(8,718)	(4,287)	(3,078)	(2,869)	EBIT interest coverage ration (x)	2.2	2.6	4.2	6.4	7.7
Net CF flow from financing activities	12,164	(14,065)	2,406	15,967	16,095	Efficiency					
Total cash flow	7,921	(6,979)	181	13,285	14,122	Inventory days	32.2	30.7	29.7	29.5	29.1
						A/R days	18.2	125.5	132.6	132.6	130.7
						A/P days	189.8	200.0	210.1	208.5	205.6

Source: Company, CSCI research estimates

Figure 19: Peers Valuation Comparison

Company name	Code	Ccy	Close (Local\$)	Mkt cap (US\$bn)	Rept'g Ccy	Fiscal Y/E	PER (x)		PBR (x)		EPS Growth (%)		ROE (%)		Gross Margin		EBITDA margin		Net Gearing (%)		EV/EBITDA (x)		Yield (%)	
							15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E
Construction Companies Valuation																								
H shares																								
CHINA RAILWAY CONS	1186-hk	HKD	12.30	29,602	CNY	12/2014	10.4	9.7	1.2	1.1	1.9	7.3	11.7	11.4	9.6	9.5	5.1	5.3	44.1	45.1	7.40	7.01	1.5	1.6
CHINA RAILWAY GROU	390-hk	HKD	7.57	38,654	CNY	12/2014	11.5	10.4	1.2	1.1	8.0	10.6	10.5	10.6	9.7	9.7	4.7	4.8	93.7	88.8	11.82	11.02	1.4	1.5
CHINA COMM CONSTR	1800-hk	HKD	10.72	29,919	CNY	12/2014	9.3	8.4	1.1	1.0	6.4	11.5	11.6	11.6	11.2	11.2	8.6	8.8	135.0	144.0	10.76	10.50	2.3	2.6
METALLURGICAL CORP	1618-hk	HKD	2.86	21,066	CNY	12/2014	9.8	8.1	0.9	0.8	10.3	20.8	9.0	9.9	13.1	n.a	5.3	5.3	50.3	35.6	13.45	11.55	2.2	2.7
CHINA STATE CONSTR	3311-hk	HKD	11.48	5,988	HKD	12/2014	10.7	8.8	2.0	1.7	21.0	21.0	18.6	19.3	14.7	15.7	12.9	13.1	40.3	35.8	10.27	8.57	2.8	3.4
SINOPEC ENGINEERIN	2386-hk	HKD	7.05	3,982	CNY	12/2014	7.6	7.3	1.0	1.0	(6.7)	4.5	13.6	13.1	11.9	11.1	9.2	9.0	(41.6)	(43.6)	3.38	2.90	5.3	5.4
CHINA MACHINERY EN	1829-hk	HKD	6.87	3,753	CNY	12/2014	12.1	10.1	1.6	1.5	(11.5)	19.7	13.5	14.5	14.6	13.7	9.0	9.2	(140.1)	(135.3)	1.83	0.85	3.4	3.9
Average							10.2	9.0	1.3	1.2	4.2	13.6	12.9	12.1	11.8	7.9	7.9	26.0	24.4	8.4	7.5	2.7	3.0	
Median							10.4	8.8	1.2	1.1	6.4	11.5	11.7	11.6	11.9	11.1	8.6	8.8	44.1	35.8	10.3	8.6	2.3	2.7
A Shares																								
CHINA RAILWAY CONS	601186-cn	CNY	14.60	29,602	CNY	12/2014	15.2	14.1	1.8	1.6	4.7	7.1	11.7	11.4	9.5	9.5	5.1	5.2	44.1	45.1	7.43	7.04	1.0	1.1
CHINA RAILWAY GROU	601390-cn	CNY	11.82	38,654	CNY	12/2014	21.8	19.7	2.3	2.1	11.4	10.7	10.5	10.7	9.7	9.6	4.7	4.8	93.7	88.8	11.78	10.98	0.7	0.8
CHINA COMM CONSTR	601800-cn	CNY	12.93	29,919	CNY	12/2014	13.7	12.3	1.6	1.4	9.9	11.2	11.7	11.7	11.2	11.2	8.6	8.8	135.0	144.0	10.74	10.54	1.6	1.8
METALLURGICAL CORP	601618-cn	CNY	7.79	21,066	CNY	12/2014	32.5	26.9	2.9	2.6	14.3	20.8	8.9	9.9	13.1	n.a	5.3	5.3	50.3	35.6	13.29	11.41	0.7	0.8
CHINA CONSTR ENG C	601668-cn	CNY	6.21	29,274	CNY	12/2014	7.2	6.2	1.1	1.0	15.6	15.7	16.0	16.0	11.4	11.0	7.0	7.3	19.2	10.6	3.57	2.84	3.2	3.7
S/TUNNEL ENGINEERG	600820-cn	CNY	12.69	6,350	CNY	12/2014	23.9	20.9	2.4	2.2	4.2	14.3	9.9	10.5	14.3	13.8	12.3	13.1	n.a	n.a	n.a	n.a	1.3	1.5
Average							19.0	16.7	2.0	1.8	10.0	13.3	11.4	11.7	11.5	11.0	7.2	7.4	68.5	64.8	9.4	8.6	1.4	1.6
Median							18.5	16.9	2.0	1.9	10.7	12.8	11.1	11.0	11.3	11.0	6.1	6.3	50.3	45.1	10.7	10.5	1.1	1.3
Asian																								
DAEWOO ENGINEERING	047040-kr	KRW	6,950.00	2,562	KRW	12/2014	13.0	9.6	1.0	0.9	110.2	35.3	7.9	9.6	7.8	8.9	4.4	5.5	67.0	53.0	10.98	8.04	0.1	0.1
GS ENGINEERING & C	006360-kr	KRW	26,450.00	1,648	KRW	12/2014	15.3	9.4	0.5	0.5	(358.9)	63.6	3.6	5.5	5.8	7.1	2.3	3.8	44.3	37.9	15.31	8.43	0.1	0.4
HYUNDAI ENG & CONS	000720-kr	KRW	39,250.00	3,764	KRW	12/2014	9.1	7.6	0.7	0.7	15.0	19.8	8.1	9.2	8.5	8.7	6.2	6.3	(4.6)	(8.8)	3.40	2.83	1.3	1.4
DAELIM INDUSTRIAL	000210-kr	KRW	78,000.00	2,301	KRW	12/2014	11.7	9.1	0.7	0.6	(156.7)	28.2	5.7	6.8	8.3	9.0	3.7	4.5	5.6	3.0	8.37	6.35	0.3	0.3
SAMSUNG ENGINEER	028050-kr	KRW	33,150.00	1,151	KRW	12/2014	29.6	12.4	1.3	1.2	(24.7)	138.0	4.5	9.8	5.8	7.0	2.2	3.6	95.8	74.1	13.72	8.69	0.5	0.8
SINGAPORE TECH ENG	s63-sg	SGD	3.23	7,104	SGD	12/2014	18.9	17.8	4.6	4.3	0.1	6.1	24.1	24.3	16.0	16.3	11.9	12.1	(25.1)	(22.9)	12.27	11.74	4.5	4.7
SHIMIZU CORP	1803-jp	JPY	1,060.00	6,872	JPY	03/2015	18.2	15.7	1.6	1.5	36.8	15.6	8.8	9.5	9.0	9.4	5.0	5.5	23.2	14.9	11.77	10.01	1.0	1.1
NISHIMATSU CONSTCN	1820-jp	JPY	504.00	1,175	JPY	03/2015	11.4	12.2	0.9	0.8	33.4	(7.1)	7.8	6.9	8.1	8.6	n.a	n.a	13.4	14.0	n.a	n.a	2.3	2.6
TODA CORP	1860-jp	JPY	574.00	1,536	JPY	03/2015	14.8	15.1	0.9	0.9	(14.6)	(1.8)	6.3	5.8	8.0	8.3	3.0	3.3	6.4	2.5	14.36	12.29	1.2	1.3
GAMUDA BERHAD	5398-my	MYR	4.84	2,783	MYR	07/2015	17.8	15.5	1.7	1.6	(6.0)	14.5	9.8	10.5	16.0	16.2	23.4	20.7	35.7	33.6	21.89	18.89	2.5	2.6
KAJIMA CORP	1812-jp	JPY	678.00	6,057	JPY	03/2015	23.1	17.8	1.5	1.4	101.4	29.8	6.7	8.1	7.6	8.2	3.7	4.4	29.5	23.5	13.01	10.54	0.9	1.0
IJM CORP BERHAD	3336-my	MYR	3.34	2,882	MYR	03/2015	16.7	15.6	1.4	1.3	22.8	7.1	8.2	8.3	23.0	23.5	22.7	22.7	45.4	41.5	10.56	9.80	2.2	2.4
Average							17.0	15.3	1.3	1.3	29.0	9.7	7.9	8.2	11.9	12.4	11.6	11.3	25.6	21.7	14.3	12.3	1.7	1.8
Median							17.2	15.6	1.5	1.4	28.1	10.8	8.0	8.2	8.5	9.0	5.0	5.5	26.4	19.2	13.0	10.5	1.7	1.8
US & Europe																								
VINCI	dg-fr	EUR	56.36	38,288	EUR	12/2014	16.0	15.0	2.1	2.0	(21.4)	7.1	13.2	13.4	28.1	19.3	15.1	15.5	85.1	74.4	8.18	7.77	3.2	3.4
ACS ACTIVIDADES CO	acs-es	EUR	29.04	10,279	EUR	12/2014	12.7	11.9	2.7	2.4	(0.9)	6.4	21.2	20.3	42.4	42.8	6.8	6.8	77.0	61.3	4.94	4.68	4.0	4.2
FOM CONST Y CONTRA	icc-es	EUR	7.59	2,157	EUR	12/2014	66.9	31.0	10.8	7.8	(104.1)	116.1	16.1	25.2	29.9	29.1	12.8	13.3	1,999.7	1,477.9	8.69	7.93	-	0.1
KONINKLUKE BOSKAL	boka-nl	EUR	40.94	5,819	EUR	12/2014	11.7	13.5	1.5	1.4	(13.4)	(13.0)	12.4	10.2	19.7	17.4	24.3	22.2	8.3	2.7	6.95	7.58	3.8	3.8
HOCHTIEF AG	hot-de	EUR	81.78	6,093	EUR	12/2014	21.9	18.4	2.4	2.3	(264.4)	18.8	11.0	12.3	n.a	n.a	5.1	5.2	(5.0)	(14.7)	4.62	4.21	2.5	2.9
SKANSKA AB	ska.b-se	SEK	176.50	8,933	SEK	12/2014	16.7	15.4	3.1	2.9	13.0	8.2	18.7	18.7	8.8	9.2	4.8	5.1	(11.9)	(15.4)	8.90	8.19	4.1	4.3
ATLAS COPCO AB	atco.a-se	SEK	216.70	31,449	SEK	12/2014	18.0	17.4	5.2	4.6	20.2	3.4	28.9	26.4	38.4	38.4	23.1	23.3	35.0	18.6	11.59	11.10	2.9	3.1
SANDVIK AB	sand-se	SEK	80.60	12,083	SEK	12/2014	16.3	14.2	2.7	2.5	3.0	14.9	16.6	17.8	34.2	36.6	16.1	17.9	86.3	72.2	8.91	8.06	4.2	4.3
CHICAGO BRIDGE & IRON	cbi-us	USD	43.13	4,590	USD	12/2014	7.5	7.6	1.4	1.2	14.9	(2.0)	18.8	15.3	11.5	11.3	9.6	9.0	38.4	25.7	4.46	4.40	0.7	0.7
FLUOR CORP NEW	flr-us	USD	47.09	6,825	USD	12/2014	11.3	11.4	2.1	1.8	30.1	(0.9)	18.4	15.6	6.3	6.1	6.2	5.8	(38.3)	(35.0)	4.58	4.68	1.7	1.7
Average							15.3	14.1	2.8	2.5	(30.5)	7.1	18.7	17.7	19.8	20.3	10.8	11.1	17.4	8.6	7.2	6.8	2.7	2.8
Median							16.5	14.8	2.6	2.4	14.0	5.8	18.5	16.7	11.5	11.3	7.9	7.4	15.0	2.0	6.8	6.4	2.7	3.0

Source: Factset, Company

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Outperform	Relative Performance >10%
Neutral	Relative Performance is -10% to 10%
Underperform	Relative Performance <10%

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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852)21809495