

# CRCC(1186.HK)

## Warming infrastructure boost valuation!

Bloomberg | Reuters | POEMS

1186.HK | 1186.HK | 1186.HK

Industry: Infrastructure

### Company Initiation

Rating: Accumulate CP: 8.23 HKD TP: 9.7 HKD

### Company Profile

China Railway Construction Corporation (CRCC) is one of the leading contractors worldwide, ranking the 111th among "the world's top 500" in 2012, which owns around 45% market shares in domestic railway infrastructure, one of the duopoly in the sector with China Railway Group, and was listed in A+H Shares for IPO financing in March 2008.

### Summary

- **One of the duopoly in railway infrastructure:** CRCC is one of the leaders in China's railway infrastructure, ranking the 111th among "the world's top 500" in 2012. The Company gains 45% market shares in domestic railway infrastructure, one of the duopoly in the sector with China Railway Group. The company's business covers four main parts, including contraction operations, survey design consultation, industrial manufacturing, and others (real estate development and logistics). Contraction operations are the traditional business with the proportion of 90% in total business. The proportion of survey design consultation and manufacturing goes down year by year and the proportion of other businesses, such as real estate development and so on increased significantly (from 0.5% in 2008 to 3% in 2011).

- **Lower growth of performance among the peers, but more stabilized cash flow:** The Company's revenue amounted to RMB303.2 billion in 3Q2012 with the year-on-year growth rate of -6.5%. Net profit increased by 2.1% y-y to RMB5.1 billion. Gross margin recorded to 10.24%, 0.62 percentage points higher than the same period of last year, which mainly benefited from the reduction of construction cost due to the price decrease of materials such as steels and cement. The Company's sales cost rate and administrative expense rate increased slightly by 0.3% and 4.19% y-y respectively. In 3Q2012, quarterly revenue and net profit increased by 5.1% and 41% respectively mainly benefited from the lower base due to the obvious slow-down of railway construction affected by the accident of MU train at the same period of 2011. We expect the Company's performance would be improved largely in 4Q2012 due to the lag of performance compared with the process of railway investment. As at the end of 3Q, CRCC's account receivables dropped 8.7%, representing the obvious improvement of finances under the accelerated payment of debt from the Ministry of Railways. Operating cash flow achieved to RMB1.9 billion in net in the first three quarters, better than the peers.



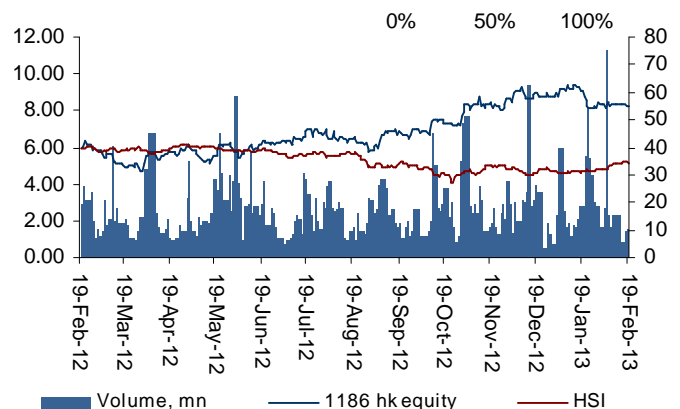
Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

20 February 2013

### CRCC

Rating	2.00	Accumulate
- Previous Rating	NA	Not Rated
Target Price (HKD)	9.7	
- Previous Target Price (HKD)	NA	
Closing Price (HKD)	8.23	
Expected Capital Gains (%)	17.9%	
Expected Dividend Yield (%)	2.3%	
Expected Total Return (%)	20.1%	
Raw Beta (Past 2yrs weekly data)	1.69	
Market Cap. (HKD bn)	91,253	
Enterprise Value (HKD mn)	84,522	
52 week range (HKD)	4.81 - 9.54	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (RMB mn)	456,187	443,319	464,639	507,517
Net Profit, adj. (RMB mn)	4,246	7,854	8,760	9,915
EPS, adj. (RMB)	0.34	0.64	0.71	0.80
P/E (X), adj.	19.4	10.5	9.3	8.3
BVPS (RMB)	4.65	5.25	5.89	6.64
P/B (X)	1.4	1.3	1.1	1.0
DPS (RMB)	0.10	0.10	0.11	0.15
Div. Yield (%)	1.5%	1.5%	1.7%	2.3%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

PE

### Research Analyst

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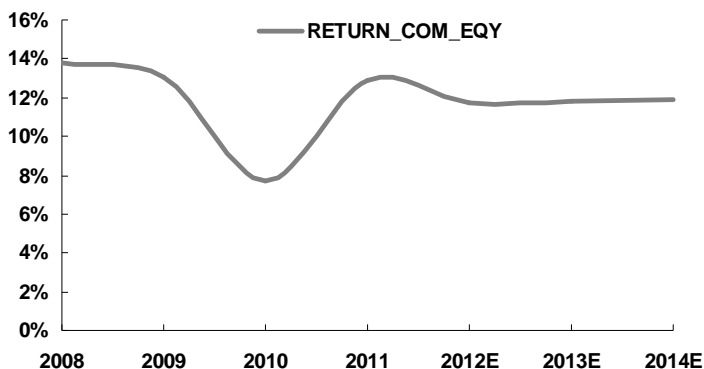
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• **Newly-signed orders increased sharply:** The Company's newly-signed orders increased by 53% y-y to RMB461.9 billion in the first three quarters of 2012 of which domestic orders increased by 39% and overseas orders realized the sharp growth as high as 441%. By the end of 3Q, the Company's orders in hand amounted to RMB1.36 trillion, 2.97 times of revenues in 2011, which guarantees the development of performance due to rich orders in the next three years.

• **Good prospects of railway in the middle and long term:** According to the "12th Five-year Plan" of the Ministry of Railways, it will realize 120,000 km of the mileage of railways in operation with the three-year compound growth rate of over 6% in future, only lower than that of 2009. According to the demand and foreign experience, annual fixed assets investment in China's railways should still maintain RMB500 billion in the next ten years, which may be reasonable for the infrastructure with the amount of RMB450 billion. We expect the railway industry would turn back to rapid development due to the cool of the accident of MU train, ice-breaking of railway reform, the break of diversified structure of financing, and the increase of demand of passenger and freight transport.

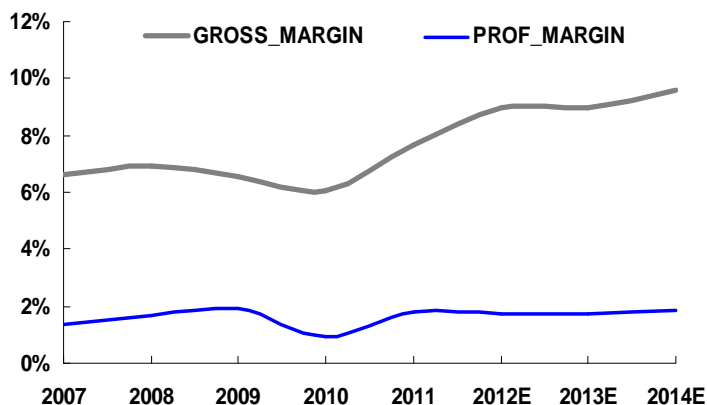
• **Valuation:** beside railway industry, urban rail transportation, highway, water conservancy and low-income housing construction would face the industrial inflection points under the strategy of "Sustaining economic growth with economic restructuring" from new Chinese government. The Company would be benefited from the rebound of infrastructure investment obviously as one of industry leaders. We expect the Company's EPS would be RMB0.71 and 0.804 in 2012 and 2013 respectively, equivalent to 2012P/E9.3x and 2013P/E8.3x based on current share price, give the 12-month target price to HK\$9.7 with the estimated P/E9.7x in 2013, recommend accumulate rating.

Fig 1. CRCC's ROE



Source: Company reports, Phillip Securities

Fig 2. Gross Margin



Source: Company reports, Phillip Securities

Fig 3. Peer Comparison

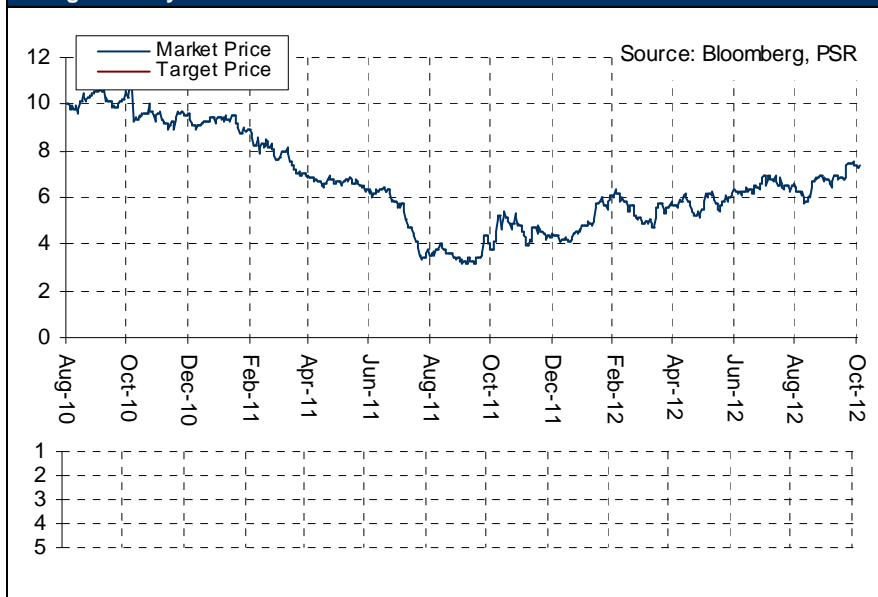
Ticker	Name	市值(百萬) (HKD)	PE			PB			Gross Margin	Profit Margin	ROE
			2011	2012E	2013E	2011	2012E	2013E			
1186 HK	中國鐵建	93134	10.4	10.1	9.2	1.3	1.2	1.0	7.7%	1.7%	12.9%
390 HK	中國中鐵	87004	11.2	10.5	9.3	1.0	1.0	0.9	7.3%	1.5%	9.6%
1800 HK	中國交建	112477	7.8	8.6	7.7	1.3	1.2	1.0	9.5%	4.0%	17.7%
3898 HK	南車時代電氣	28895	19.7	23.8	18.0	4.4	3.8	3.3	34.4%	16.7%	24.4%
	平均	80378	12.3	13.3	11.1	2.0	1.8	1.6	14.7%	6.0%	16.1%

Source: Bloomberg, Phillip Securities

FYE DEC	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	12.5	19.4	10.5	9.3	8.3
P/B (X)	1.5	1.4	1.3	1.1	1.0
Dividend Yield (%)	2.4%	1.5%	1.5%	1.7%	2.3%
<b>Per share data (RMB)</b>					
EPS, reported	0.535	0.344	0.637	0.710	0.804
EPS, adj.	0.535	0.344	0.637	0.710	0.804
DPS	0.16	0.1	0.1	0.11	0.15
BVPS	4.32	4.65	5.25	5.89	6.64
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	57.23%	32.24%	-2.82%	4.81%	9.23%
EBIT	-3.54%	-23.90%	18.18%	-0.88%	23.41%
Net Income, adj.	81.10%	-35.65%	84.97%	11.54%	13.18%
<b>Margins</b>					
<b>Gross margin</b>	<b>6.5%</b>	<b>6.0%</b>	<b>7.7%</b>	<b>8.7%</b>	<b>8.9%</b>
EBIT margin	2.5%	1.4%	2.7%	3.4%	3.5%
Net Profit Margin	1.9%	0.9%	1.8%	1.9%	2.0%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>344976</b>	<b>456187</b>	<b>443319</b>	<b>464639</b>	<b>507517</b>
<b>Gross profit</b>	<b>22548</b>	<b>27540</b>	<b>33992</b>	<b>40284</b>	<b>45422</b>
EBIT	8673	6600	12038	15612	17863
Profit before tax	8307	6089	10056	11265	12978
<b>Tax</b>	<b>1576</b>	<b>1772</b>	<b>2174</b>	<b>2445</b>	<b>2985</b>
Profit for the period	6732	4317	7882	8820	9993
Minority interests	133	70	28	60	78
Total capital share	12338	12338	12338	12338	12338
<b>Net profit</b>	<b>6599</b>	<b>4246</b>	<b>7854</b>	<b>8760</b>	<b>9915</b>

Source: PSR

#### Ratings History



#### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

#### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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