

HONG KONG | OIL&GAS SERVICE | COMPANY RESULTS

- In 2014H1, ENRIC has recorded the revenue of 4.81 billion yuan, down 0.3% yoy; with the net profit attributable to the parent company of 508 million yuan, increasing by 8.8% yoy. The gross margin was 18.6%, down 1.6% yoy. The net profit margin was 10.7%, up 0.9% yoy. The diluted EPS was 0.26 yuan, a bit less than expectations.
- In H1, performance of the company was below the expectation mainly due to negative impact of energy equipment business. During the period, there was a 7.4% decrease in that business which consists of 8.4% revenue decrease in LNG equipment to RMB 1.12 billion yuan and 20% in CNG equipment to 560 million yuan respectively. We believe that it was decelerated economy growth, anti-corruption campaign of the government and price reform of natural gas which affected industrial demand.
- However, the liquid food equipment would hopefully become an important source for growth in H2. The revenue growth speed of H1 was far less than the 30% revenue guideline of the whole country. We predict that orders from Europe and Latin America as well as acquisition of Holvrieka will hopefully drive the liquid food equipment to have a more than 20% growth.

How we view this

Domestic demand for LNG equipment has recovered since this May. And this demand recovery will continue in H2. According to the latest data from Wind, the domestic sales volume of LNG truck of the third quarter has increased 114% yoy and 36% mom (month on month). This will stimulate the demand for LNG storage tank, gas station and related equipment, and is expected to have positive effect on energy equipment business of ENRIC Holdings Ltd.

We expect in the whole year of 2014, the company's LNG equipment revenue is expected to have a year-on-year growth exceeding 10%, while the year-on-year growth in 2013 amounted to 62%. Besides, the LNG transport ship and power-driven vessel are expected to have significant growth in the period from 2015 to 2016, which will further promote the demand for LNG-related equipment.

Investment Action

In the past few months, international oil price showed great decline, with the maximum decline reaching 25%. This has positive effect on the declining of forward price of international natural gas and the increase of demand for natural gas equipment. We believe that ENRIC Holdings Ltd is expected to gradually walk out the situation of weak demand for energy equipment, and liquid food equipment will promote the improvement of the company's performance. We give ENRIC a "Buy" rating, with 12m TP at HKD10, equivalent to 11.8x and 9.7x of 2014/2015 expected P/E.

Rating: Buy

Target Price (HKD)	10.00
Forecast Dividend (HKD)	0.17
Closing Price (HKD)	7.67
Potential Upside	32.58%

Company Description

Along with CIMC ENRIC Holding LTD., a Hong Kong main board listed company (stock code: 3899. HK) and one of Fortune Top 500 Chinese Enterprises, as the leading company, CIMC Energy Section, Chemical and Food Equipment Sector keeps a foothold in the energy industry, chemical industry and food equipment, providing customers with key equipment, engineering services and system solutions for transportation, storage and processing, and creating the "CIMC ENRIC" business brands. Now it has owned 10 brands.

Company Data

Raw Beta (Past 2yrs weekly data)	0.904
Market Cap. (HKD Mn)	14,538
Ent. Value (HKD Mn)	14,465
52 week range (HKD)	7.31-14.84



Major Shareholders	(%)
1.CIMC	59.7
2.CHARM WISE	10.1

Valuation Method

P/E

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CIMC ENRIC (3899.HK)

27 October 2014

Key Financial Summary

FYE	<u>12A</u>	<u>13A</u>	<u>14E</u>	<u>15E</u>	<u>16A</u>
Revenue (RMB mn)	8,083	9,981	10,779	12,503	15,129
Net Profit, adj. (RMB mn)	759	973	1,098	1,258	1,539
EPS, adj. (RMB)	0.40	0.50	0.58	0.66	0.81
P/E (X),adj.	13.75	19.76	13.60	11.87	9.70
BVPS (RMB)	2.92	2.65	2.95	3.38	3.82
P/B (X)	1.88	3.73	2.67	2.33	2.06
DPS (RMB)	0.06	0.10	0.11	0.13	0.16
Div. Yield (%)	1.09%	1.01%	1.40%	1.65%	2.03%

Source: Bloomberg, CIMC ENRIC

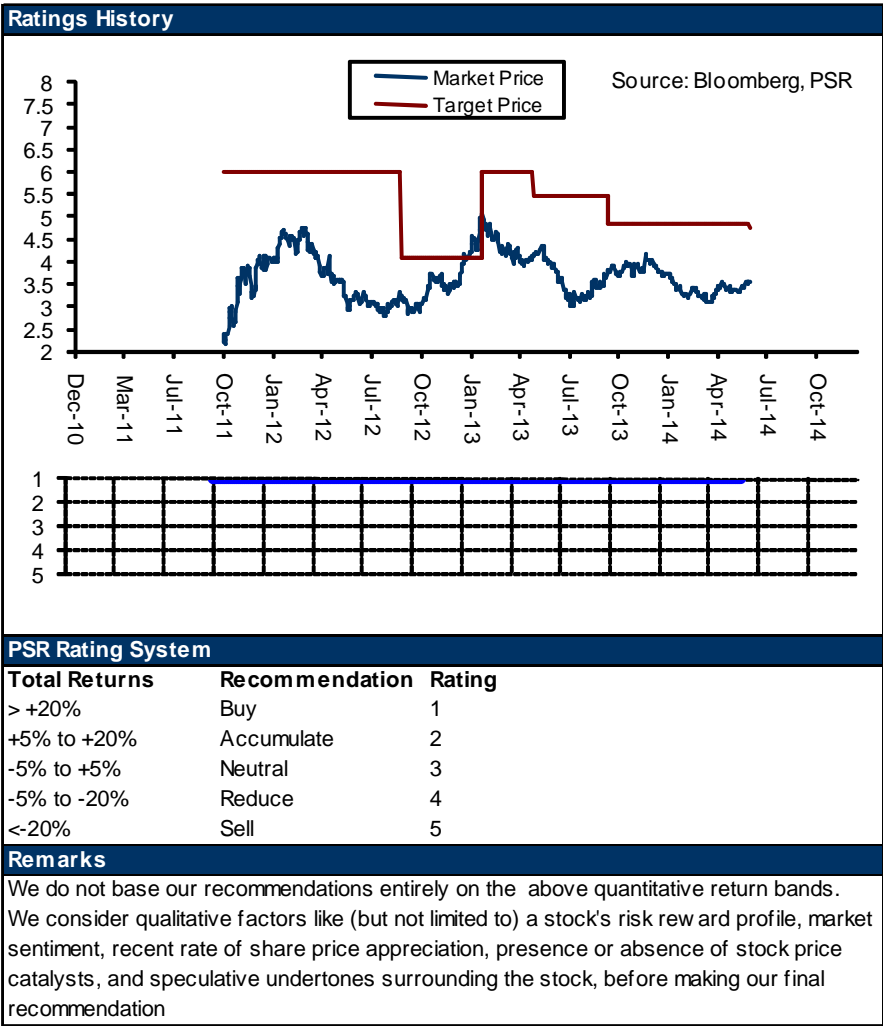
*All multiples & yields based on historical price and current market price

CIMC ENRIC (3899.HK)

27 October 2014

FYE	FY10	FY11	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios							
P/E (X), adj.	17.93	5.77	13.75	19.76	13.60	11.87	9.70
P/B (X)	0.83	0.44	1.88	3.73	2.67	2.33	2.06
EV/EBITDA (X), adj.	4.30	1.61	7.15	15.57	11.18	9.77	8.00
Dividend Yield (%)	0.00%	3.47%	1.09%	1.01%	1.40%	1.65%	2.03%
Per share data (RMB)							
EPS, reported	0.15	0.30	0.40	0.50	0.58	0.66	0.81
EPS, adj.	0.15	0.30	0.40	0.50	0.58	0.66	0.81
DPS	0.00	0.06	0.06	0.10	0.11	0.13	0.16
BVPS	3.25	3.97	2.92	2.65	2.95	3.38	3.82
Growth & Margins (%)							
Growth							
Revenue	n.a.	70.77%	18.36%	23.48%	8.00%	15.99%	21.00%
Operating profit	n.a.	100.00%	24.72%	33.85%	11.06%	14.46%	22.19%
EBT	n.a.	98.36%	27.69%	27.62%	12.00%	14.57%	22.40%
Net Income, adj.	n.a.	106.88%	32.92%	28.19%	12.89%	14.49%	22.42%
Margins							
Gross profit margin	18.73%	18.73%	19.52%	20.29%	19.63%	19.71%	19.77%
Operating margin	9.00%	10.54%	11.11%	12.04%	12.39%	12.22%	12.34%
Net profit margin	6.90%	8.36%	9.39%	9.75%	10.19%	10.06%	10.18%
Key Ratios							
ROE (%)	4.62%	7.56%	13.70%	18.87%	19.65%	19.63%	21.27%
ROA (%)	6.06%	9.83%	10.48%	10.17%	10.55%	11.25%	12.29%
Net Debt/(Cash)	net debt	net debt	net debt	net debt	net debt	net debt	net debt
Net Gearing (X)	net debt	net debt	net debt	net debt	net debt	net debt	net debt
Income Statement (RMB mn)							
Revenue	3,999	6,829	8,083	9,981	10,779	12,503	15,129
Cost of sales	(3,250)	(5,550)	(6,505)	(7,956)	(8,663)	(10,039)	(12,138)
Gross profit	749	1,279	1,578	2,025	2,116	2,464	2,991
Operating profit	360	720	898	1,202	1,335	1,528	1,867
EBT	366	726	927	1,183	1,325	1,518	1,858
Tax	(84)	(147)	(162)	(202)	(219)	(250)	(307)
Tax rate	22.95%	20.25%	17.48%	17.08%	16.50%	16.50%	16.50%
Profit for the year	282	579	765	981	1,106	1,268	1,551
Minority interests	(6)	(8)	(6)	(8)	(8)	(10)	(12)
Net profit	276	571	759	973	1,098	1,258	1,539

Source: BLOOMBERG, CIMC ENRIC and Phillip Securities



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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

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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