

China State Const. Int'l (3311.HK)

Expects Business Growth in the Mid- to Long-run with Sufficient Contracts

Hong Kong | Real Estate | Company report

29 JULY 2016

Buy

CMP: HKD 10.48

(Closing price as at 27 July 2016)

TARGET: HKD 14.80 (41.22%)

Net Profit Rocketed by 20.1% that Meets Expectations

In 2015, China State Construction International realized revenue of HKD37.913 billion, representing a Y-o-Y increase of 10.1% that fell below market expectations. It was mainly because the revenue of some projects carried out in the form of a joint venture was not recognized as revenue. Looking into the revenue of construction operations in different regions during the year, construction operations in Hong Kong saw the revenue of HKD16.184 billion, up by 6% Y-o-Y. That in Macao witnessed the revenue of HKD5.314 billion, surged by 136% Y-o-Y. Yet, construction operations in China, having the revenue of HKD14.631 billion, underwent a fall by 6% Y-o-Y as most major infrastructure investment projects were completed and plenty of new projects were just commenced. Profit attributable to shareholders registered HKD4.153 billion, with a Y-o-Y increase of 20.1% that was basically in line with the Company's guidance.

COMPANY DATA

O/S SHARES (MN) :	4,488
MARKET CAP (HKDMN) :	47,125.5
52 - WK HI/LO (HKD):	13.42 / 8.68

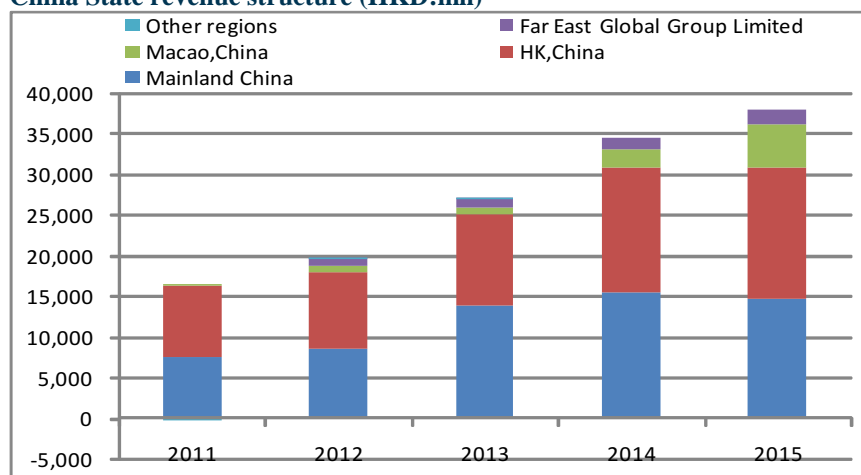
SHARE HOLDING PATTERN , %

China Overseas Holdings Limited	57.59
---------------------------------	-------

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
CHINA STATE	9.55	-10.91	-12.43
HSI	0.99	-13.65	0.05

China State revenue structure (HKD:mn)



Source: Company report, Phillip Securities (HK) Research

In terms of profitability, on account of the lump-sum provision for the Hong Kong lead-tainted water scandal occurred in 2015, the gross profit margin of the HK cash construction business was 5.9%, representing a decline of by 0.7%, leading to the overall gross margin falling to 13.3%, down 0.51%. The net profit margin increased from 9.8% to 10.8%, chiefly attributable to the sharp increase on profit and loss of non-recurring items and the reduction of tax rate. The EPS was HKD103.16 cents, up by 16.2% Y-o-Y. The annual dividend per share was HKD33.00 cents, representing a Y-o-Y increase of 26.9% with the dividend payout ratio as high as 32%.

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

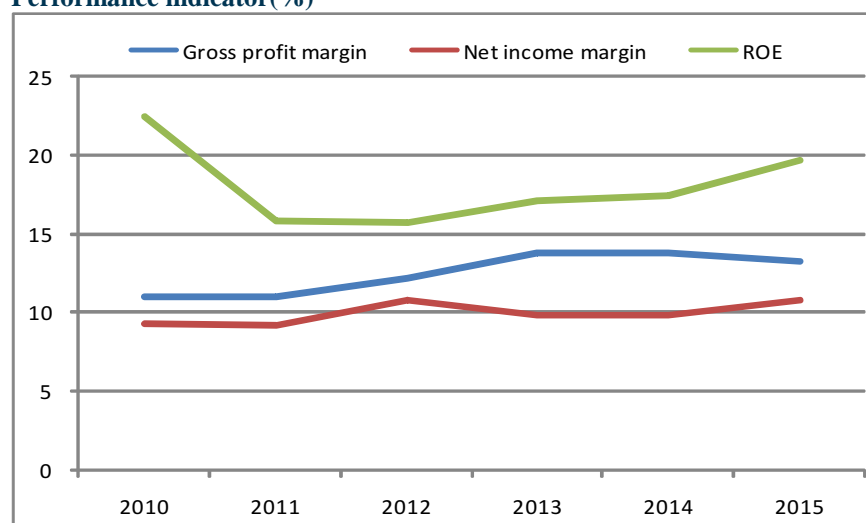
HKD mn	FY14	FY15	FY16E	FY17E
Revenue	34,440	37,913	44,510	50,875
Net Profit	3,457	4,153	5,134	6,140
P/E, x	11.8	10.2	9.2	7.7
EPS, HKD	0.89	1.03	1.14	1.37
P/B, x	2.1	2.0	1.9	1.6
BVPS, HKD	4.89	5.21	5.58	6.60
ROE, %	17.3	19.5	20.5	20.7

Source: Company reports, Phillip Securities Est.

Research department

(+ 86 21 51699400-107)

research@phillip.com.cn

Performance indicator(%)


Source: Bloomberg, Phillip Securities (HK) Research

Operating Cash Flow Improved for the First Time

The company recorded the net operating cash flow of HKD300 million for the first time in the past five years. The net leverage ratio of 2015 increased from 36.8% in 2014 to 45.9% as there were multiple PPP projects for investment during the year. As a result of that, the capital expenditure went over budget and reached HKD1.37 billion and the total equity fell due to the depreciation of RMB.

In May 2016, the company acquired China Overseas Building for investment by means of allotment. It dramatically increased the HKD assets and therefore reduced the exchange rate risk of depreciation of RMB. Meanwhile, with the increased share capital, the net leverage ratio would be further increased to 37%, providing financial support for the Company to grasp investment opportunities of infrastructure projects in the market of China.

New Projects in 1H 2016 Outperformed Quota

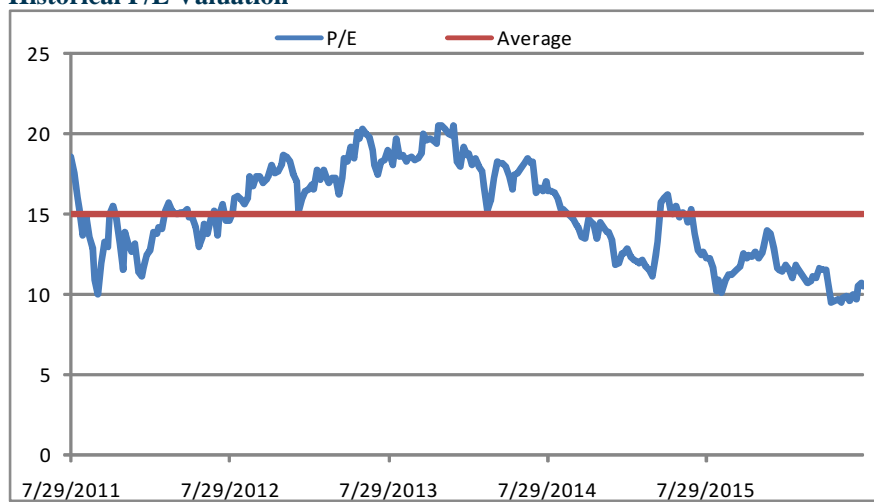
In 2016, the company aims to achieve the newly added contract amount of HKD78 billion, equivalent to an 11.4% growth of the actual contract amount of the previous year. In the first six months of 2016, the company accomplished a newly added contract amount of HKD42.99 billion, representing a Y-o-Y increase of 16.7%, contributing to 55.1% of the target of the year. Specifically speaking, the markets in Hong Kong, Macao, Mainland China and Far East Global, respectively, contributed 27.9%, 13.4%, 53.5% and 4.3%. Considering the satisfactory performance of new projects, the management may raise the target for this year recently.

As of 30 June 2016, the company has been holding a total contract amount of HKD238.96 billion, including the outstanding contract amount of HKD145.53 billion, equivalent to 3.8 times the revenue in 2015. The sufficient contracts are sure to drive business growth of the company.

Valuation and Rating

Since the acquisition of investment property in May, the stock price of the company slumped dramatically and stood at around HKD10.00. We believe that the present stock price is a typical reflection of the influence of allotment on EPS dilution. Based on the steady performance of core businesses and the sufficient contracts, we are positive about the solid business growth of the company in the future. Thus, we give the company an estimation of 13.0x EPS in 2016 with the target price of HKD 14.8. Rating is "Buy". (Closing price as at 27 July 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Catalyst

- Acquisition of overseas businesses;
- Higher target of new contract amount;

Risk warnings

- Slowdown of investments in mainland China;
- Risk of capital recovery from the PPP projects;

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	14.7	11.8	10.2	9.2	7.7
Price to Book(P/B)	2.6	2.1	2.0	1.9	1.6
Per share data(RMB)					
EPS,Adjusted	0.71	0.89	1.03	1.14	1.37
Book Value Per Share	4.10	4.89	5.21	5.58	6.60
Dividends Per Share	0.21	0.26	0.33	0.34	0.41
Growth & Margins(%)					
Growth					
Revenue	24.5%	26.2%	10.1%	17.4%	14.3%
Operating income	39.2%	37.3%	16.3%	25.1%	15.6%
Net profit	30.1%	24.7%	20.1%	23.6%	19.6%
Margins					
Gross profit margin	13.7%	13.8%	13.3%	14.0%	14.3%
Operating profit margin	10.7%	11.7%	12.3%	13.1%	13.3%
Net income margin	10.2%	10.0%	11.0%	11.5%	12.1%
Key Ratios					
ROE(%)	17.1%	17.3%	19.5%	20.5%	20.7%
ROA(%)	6.1%	5.8%	6.1%	7.1%	7.6%
Income Statement(HKD mn)					
Revenue	27,286	34,440	37,913	44,510	50,875
- Cost of Goods Sold	23,540	29,696	32,883	38,279	43,600
Gross Income	3,746	4,743	5,030	6,231	7,275
- Operating Expenses	1,045	1,031	996	1,090	1,272
Operating Income	2,925	4,017	4,670	5,841	6,753
- Net Non-Operating Losses (Gains)	-541	-455	-655	-850	-1,200
Pretax Income	3,174	4,048	4,756	6,023	7,216
- Income Tax Expense	503	660	655	940	1,126
Net profit	2,772	3,457	4,153	5,134	6,140

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 27 July 2016)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005