

CRSC (3969.HK)

Increasing Proportion of High Margin Railway Projects to Boost Profitability

Hong Kong | Telecommunication | Company report

14 February 2019

Investment Summary

In 2018, the total external contracts signed increased by 12.4% yoy. Railway orders with high profit margin increased significantly, which is expected to improve overall profitability. With the rising domestic capital investment and municipal bond issuance, the infrastructure industry is facing a favorable policy environment. We maintain our target price of HK\$7.1, Accumulate rating. (Closing price at 12 Feb 2019)

Company Business

In 2018, the total external contracts signed increased notably. Totally external contracts of RMB68.29bn has been signed, an increase of 12.4% compared with that in 2017. In terms of segments, railway orders amounted to RMB25.08bn, rising by 44.8% yoy. Urban transit contracts amounted to RMB11.61bn, climbing by 6.4% yoy, among which the amount of metro contracts newly signed was 11.6bn, an increase of 20.2% yoy. Overseas orders reached RMB0.95bn, declining by 64.8% yoy. General construction contracting and other business contributed to contract sales of RMB29.85bn, a yoy increase of 0.3%.

Figure: New projects

Business	Projects
Comprehensive and debugging	Beijing-Tianjin Intercity Railway
Railway projects of "Four Electric" integration	Guangzhou-Qingyuan Intercity Railway, Qianjiang-Zhangjiajie-Changde Railway, Henan and Hubei Sections of Zhengzhou-Wanzhou High Speed Railway, Datong-Zhangjiakou High Speed Railway, Lunan High Speed Railway, Xuzhou-Huai'an-Yancheng Railway, Fuzhou-Pingtang Railway and Lhasa-Nyingchi Railway
Urban transit signaling system integration	Beijing Metro Line 12, Southern Extension Line of Wuxi Metro Line 1, Changchun Metro Line 2, Zhengzhou Metro Line 2, Phase I of Chengdu Metro Line 9, Phase III of Shenzhen Metro Line 2, Wuhan Metro Caidian Line, Jinan Metro R3 Line, Qingdao Metro Line 1, Hefei Metro Line 3, Hohhot Metro Line 2 and Hangzhou-Haining Intercity Railway

Source: Company, Phillip Securities

Optimizing business structure and improving profit margins. Although the growth of external contracts signed in 2018 (12.4%) is lower than that in 2017 (22.7%), the structure of business has been improved dramatically. Railway orders with high gross profit margin has increased significantly, while the general construction contracting business with low GPM has remained stable with contracting proportion. The optimized business structure will help to improve overall profitability.

Accelerated national infrastructure investment and municipal bond issuance. In 2018, the national railway fixed asset investment reached RMB802.8bn, 9.7% higher than the target of RMB732bn at the beginning of 2018. It is expected that the railway investment will reach RMB850bn in 2019E. Besides, according to Wind, just in Jan 2019, China's newly issued municipal bond reached RMB417.96bn, exceeding the total amount in 18Q4. Funds will be used in material industries including infrastructure. Meanwhile, we see that the market share of CRSC's railway business has always maintained above 60%, and that of urban transit business has remained around 40%, keeping a leading position in industry. CRSC is expected to achieve good performance in a favorable external environment.

Accumulate

CMP HKD6.3

(Closing price at 12 Feb 2019)

TARGET HKD7.10 (+13%)

COMPANY DATA

O/S SHARES (MN) :	9,245
MARKET CAP (HKDMN) :	12,403
52 - WK HI/LO (HKD):	4.65/ 7.02

SHARE HOLDING PATTERN • %

CRSC Group	75.14
SSF	2.04
CRSC HK	1.40
Shanghai Zhenhua	1.40
China Shipping HK Holdings	1.40
Total	81.38

PRICE PERFORMANCE • %

	1M	3M	1Y
CRSC	7.88	17.76	13.05
HSI	5.64	9.81	-4.37

RETURN VS. HSI



Source: Aastocks, Phillip Securities

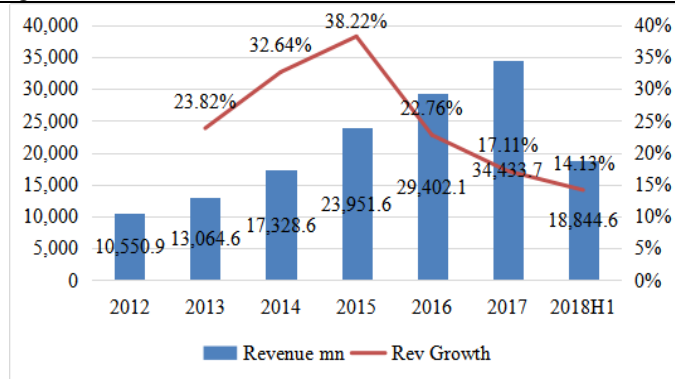
KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	29,402.1	34,433.7	39,785.6	47,128.8
Net Profit	3,191.5	3,513.1	3,911.2	5,298.1
EPS, RMB	0.35	0.38	0.42	0.57
PER, x	15.98	14.72	13.22	9.76
BVPS, RMB	2.46	2.73	3.15	3.73
P/BV, x	2.27	2.05	1.77	1.50
ROE, %	14.23	13.92	13.42	15.35

Source: Company, Phillip Securities Est.

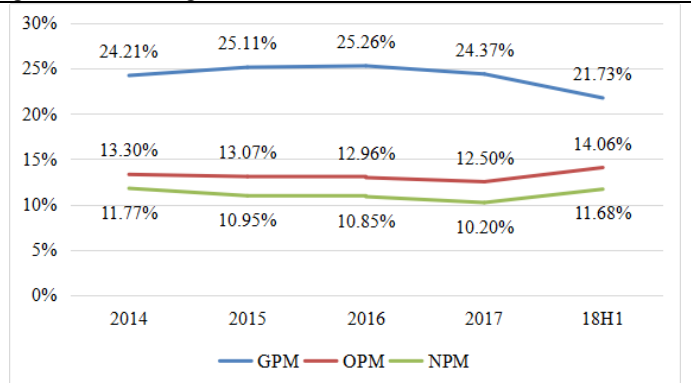
Eurus Zhou (2277 6515)
euruszhou@phillip.com.hk

Figure: Revenue and Growth from FY2012 to 18H1



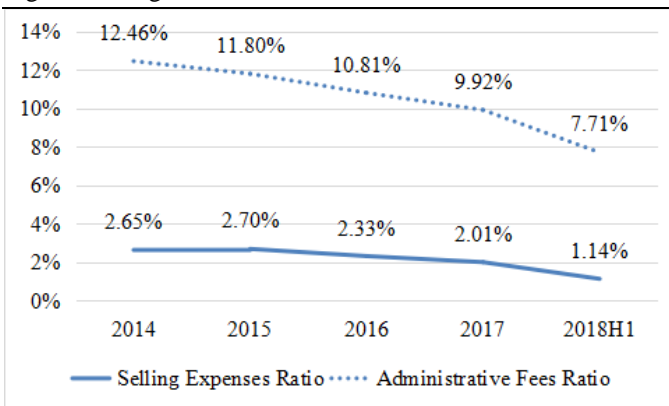
Source: Company, Phillip Securities

Figure: Profit Margins



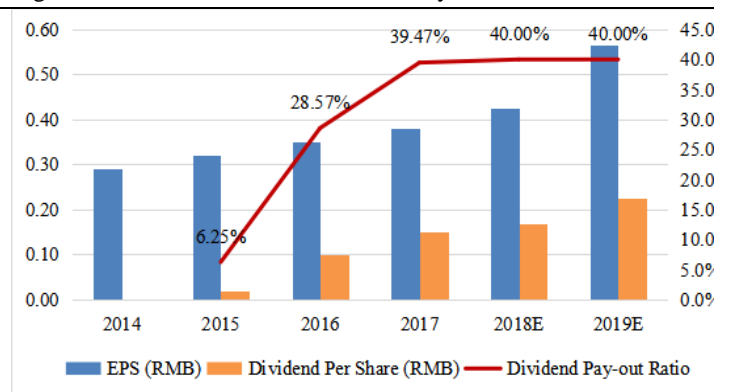
Source: Company, Phillip Securities

Figure: Selling and Administrative Fees



Source: Company, Phillip Securities

Figure: EPS, Dividend and Dividend Pay-out Ratio



Source: Company, Phillip Securities

Valuation and Risks

We give target price of HK\$7.10. We forecast revenue growth of 15.54%/18.46% and EPS of RMB0.42/0.57 in 2018E/19E. Giving a target price-earnings ratio of 11 times, we get the target price of HK\$7.10 for 2019E. **Risks include:** Growth of railway investment fail expectations; Fierce competition in urban rail market leads to bidding failure; Profitability level fail expectations.

Figure: PE Band

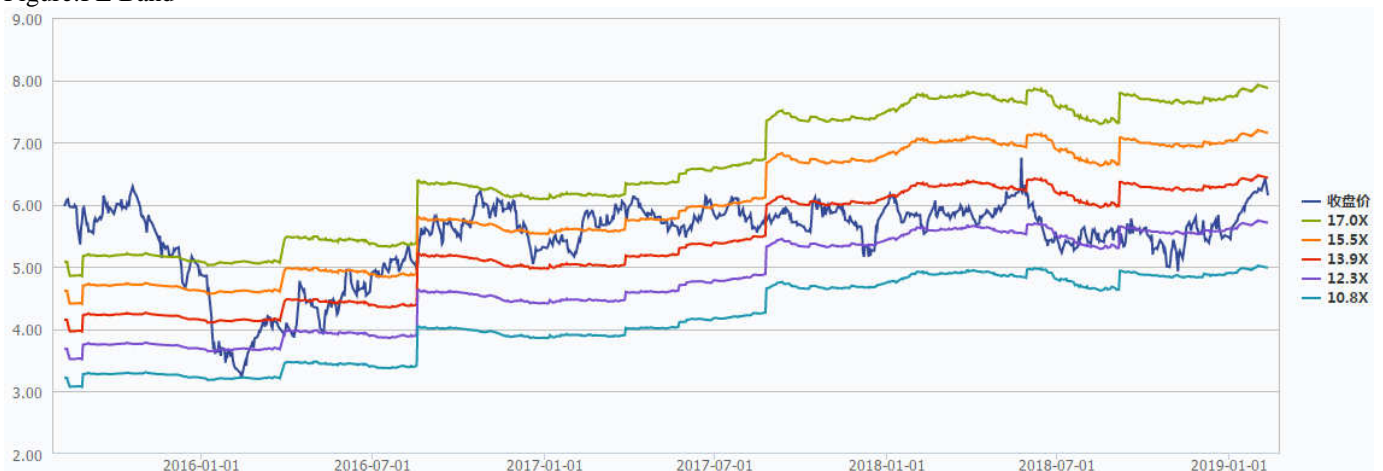
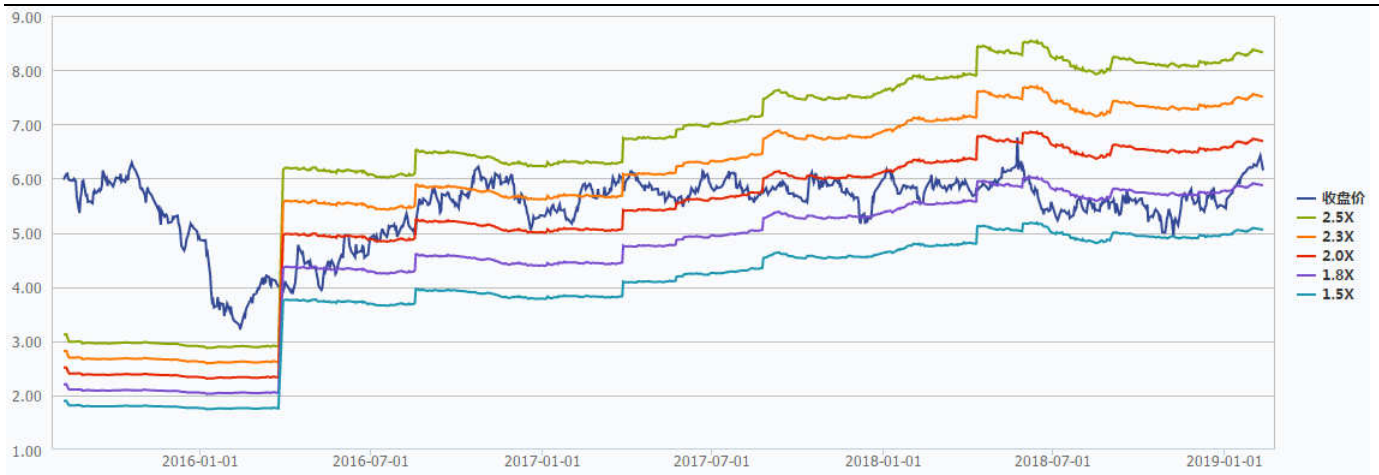


Figure: PB Band



Source: Wind (as at Feb 11st), Phillip Securities

Financials

	2015	2016	2017	2018E	2019E
Valuation Ratios					
P/E	17.48	15.98	14.72	13.22	9.76
P/B	2.61	2.27	2.05	1.77	1.50
Per Share Data (RMB)					
EPS	0.32	0.35	0.38	0.42	0.57
Book Value Per Share	2.14	2.46	2.73	3.15	3.73
Dividend Per Share	0.02	0.10	0.15	0.17	0.23
Growth & Margin(%)					
Growth					
Revenue	38.22	22.76	17.11	15.54	18.46
Gross Profit	43.39	23.50	12.95	7.64	27.71
Operating Income	35.82	21.69	12.97	12.79	35.68
Net Profit	28.61	21.65	10.07	11.33	35.46
Margins					
Gross Profit Margin	25.11	25.26	24.37	22.70	24.48
Operating Profit Margin	13.07	12.96	12.50	12.20	13.98
Net Profit Margin	10.95	10.85	10.20	9.83	11.24
Key Ratios					
ROE (%)	14.95	14.23	13.92	13.42	15.35
ROA (%)	6.25	6.35	5.74	5.37	6.14
Income Statement (RMB Mn)					
Revenue	23,951.6	29,402.1	34,433.7	39,785.6	47,128.8
- Cost of Goods Sold	(17,936.9)	(21,973.8)	(26,043.3)	(30,753.9)	(35,594.0)
Gross Income	6,014.7	7,428.4	8,390.4	9,031.7	11,534.8
- Operating Expenses	(2,884.0)	(3,618.7)	(4,086.5)	(4,177.5)	(4,948.5)
Operating Income	3,130.7	3,809.7	4,303.9	4,854.2	6,586.3
- Income Tax Expenses	(520.7)	(624.6)	(772.6)	(858.5)	(1,163.0)
Profit for the Period	2,623.5	3,191.5	3,513.1	3,911.2	5,298.1
-Minority Interest	(127.1)	(142.2)	(203.0)	(195.6)	(264.9)
Attributable Profit	2,496.4	3,191.5	3,513.1	3,911.2	5,298.1

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate assumption is 0.888RMB/HKD.

(Financial figures as at Feb 12th 2019)

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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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