

CRSC (3969.HK)

Investment in infrastructure projects rebounded in 2019; listing in STI board could be a catalyst

Hong Kong | TMT | Company Report

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Investment Summary

CRSC is a leader in the global rail transportation control system market, which mainly engaged in design and integration, equipment manufacturing and system implementation of rail transportation control systems. It is the only rail transportation control system solution provider in the world, which is capable of independently providing the entire suite of products and services with competitive advantages across the whole industry value chain. We derived a TP of HK\$6.64, and upgraded to a “Buy” rating due to the recent drop in share price, with a potential upside of 29.7%. (Closing price at 4 Jun 2019)

Buy

CMP HKD 5.12

(Closing price at 4 Jun 2019)

TARGET HKD 6.64 (+29.7%)

COMPANY DATA

O/S SHARES (MN)	1,969
MARKET CAP (HKDMN)	10,080
52 - WK HI/LO (HKD)	7.26 / 4.41

Remarkable growth in revenue and external contracts, while GPM dropped

On Mar 20, The Group released its 2018 annual result, which the revenue grew by 15.7% to RMB 39.84 bn, whereas the net profit just rose by 8% to RMB 3.8 bn. During the period, the GPM dropped by 2%, due to the increasing proportion of the business which has a lower GPM; the NPM also reduced by 0.7% to 9.5%. In 2018, the total aggregate amount of external contracts signed by the Group was RMB 68.29 bn, representing an increase of 12.4% over the same period in 2017. The total amount of external contracts signed in Railway, Urban Transit, and Subway were RMB25.08, 11.61 and 11.6 bn respectively. The amount in the General Construction Contracting Business and Other Businesses was RMB 29.85 bn.

SHARE HOLDING PATTERN , %

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

PRICE PERFORMANCE , %

	1M	3M	1Y
CRCS	-9.06	-17.5	-11.36
HSI	-10.19	-6.66	-11.8

Besides, the Group also released the total aggregate amount of external contracts signed for the first quarter. As of 31 Mar 2019, the total aggregate amount of external contracts signed was RMB 7.48 bn, up by 16.1% YoY, in which the amount of external contracts signed in Railway was RMB 3.98 bn, up by 22.5% YoY; the amount in Urban Transit was RMB 1.86 bn, increased by 14.4%; the amount in the Oversea Business was RMB 130 mn, rose sharply by 282.4% YoY; the amount in the General Construction Contracting Business and Other Businesses was RMB 1.52 bn, down by 1.4%

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

Investment in infrastructure projects rebounded in 2019

Since the government has vigorously promoted de-leveraging in 2018, making local governments difficult to finance, fixed assets investment in transportation, warehousing and postal services has only increased by 4.4% in 2018 and 7.2% YoY in October-December. The Group also indicated that many projects have been suspended. However, as China-US trade conflicts heat up, the uncertainty in China's economic growth rises. At the meeting, the Politburo of the Communist Party of China proposed “Six stables” (Stable employment, Stable finance, Stable foreign trade, Stable foreign investment, Stable investment, Stable expectations).

KEY FINANCIALS

RMB mn	FY17	FY18	FY19F	FY20F
Revenue	34,434	39,844	46,282	53,972
Net Profit	3,513	3,796	4,466	5,258
EPS, RMB	0.377	0.398	0.472	0.556
PER, x	12.09	11.43	9.63	8.18
BVPS, RMB	2.73	3.29	3.55	3.85
P/BV, x	1.67	1.38	1.28	1.18
ROE, %	14.5	13.2	13.8	15.0

Source: Company reports, Phillip Securities Est.

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Among them, "Stable investment" is regarded as an incentive for investment in fixed assets, because in the past when the economic growth slowed down, the investment in fixed assets was used as a countermeasure. In February this year, the National Development and Reform Commission released the "2018 National Fixed Assets Investment Development Trend Monitoring Report and the 2019 Investment Situation Outlook", indicating that infrastructure investment is expected to maintain a medium-speed growth in 2019. We believe that infrastructure projects such as transportation will be rebounded in 2019 to offset the impact from foreign trade.

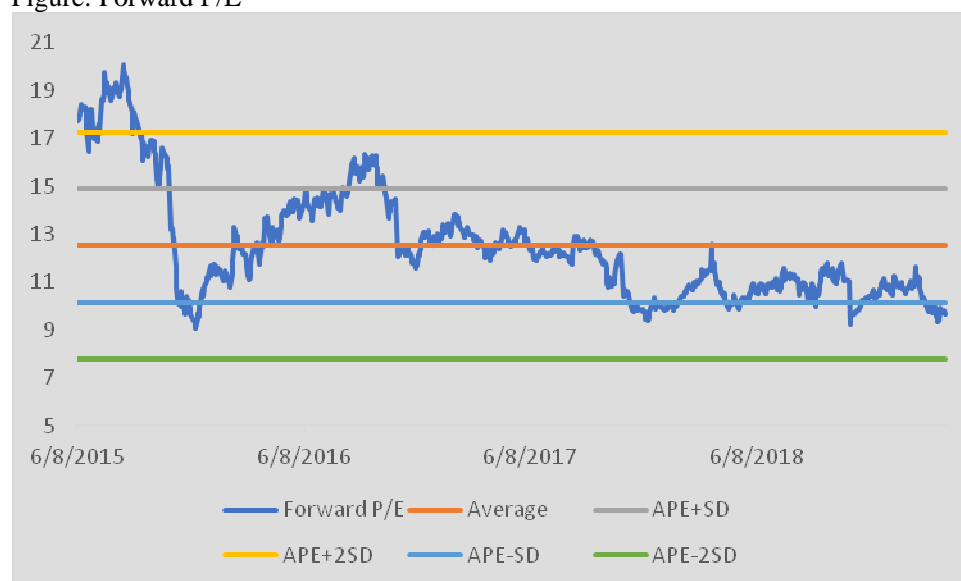
Listing in Science and technology innovation board could become a valuation catalyst

The Group plans to issue A shares on the Science and Technology Board and has been accepted by the Shanghai Stock Exchange. The Group plans to issue no more than 2.197 billion new A shares, and the net proceeds are estimated to be RMB 10.5 bn. It will be used for advanced and intelligent technology research and development projects (including advanced rail transit control systems and key technology research, rail transit intelligent integrated operation and maintenance). System and technology research, smart city and industry communication information system research, etc.), advanced and intelligent manufacturing base projects and supplementary liquidity. As the average valuation of the A-share market is higher than that of the Hong Kong stock market, we expect the Group's valuation in STI Board to be higher than the current Hong Kong market, and could drive up the valuation in Hong Kong market in the future.

Valuation

Based on a P/E ratio of 12.5x (the average of the past forward P/E), we derived a TP of HK\$6.64, implying a P/E of 10.6x in 2020F. Due to the recent drop in share price, we upgraded to a "Buy" rating, with a potential upside of 29.7%. (HKD/CNY=0.889)

Figure: Forward P/E



Source: Bloomberg, Phillip Securities (HK) Research

Risk

1. Growth of railway investment fails to meet expectations
2. Fierce competition in urban rail market leads to bidding failure
3. Profitability level fails to meet expectations

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj	16.03	13.12	12.09	11.43	9.63	8.18
P/B (X)	2.12	1.85	1.67	1.38	1.28	1.18
Dividend Yield (%)	0.6%	2.2%	3.6%	4.6%	4.2%	4.9%
Per share data (RMB)						
EPS, (Basic)	0.284	0.347	0.377	0.398	0.472	0.556
EPS, (Diluted)	0.284	0.347	0.377	0.398	0.472	0.556
DPS (HKD)	0.03	0.113	0.184	0.234	0.213	0.250
BVPS	2.14	2.46	2.73	3.29	3.55	3.85
Growth & Margins (%)						
Growth						
Revenue	38.2%	22.8%	17.1%	15.7%	16.2%	16.6%
Operating profit	43.4%	18.1%	14.4%	7.9%	17.2%	18.4%
Net Profit	28.6%	21.7%	10.1%	8.0%	17.6%	17.7%
Margins						
Gross profit margin	25.1%	25.3%	24.4%	22.4%	22.2%	22.0%
Operating profit margin	12.9%	12.4%	12.2%	11.3%	11.4%	11.6%
Net Profit Margin	11.0%	10.9%	10.2%	9.5%	9.6%	9.7%
Key Ratios						
ROA	6.3%	6.9%	6.3%	5.4%	5.4%	5.8%
ROE	15.0%	15.1%	14.5%	13.2%	13.8%	15.0%
Income statement (RMB mn)						
Revenue	23,951	29,402	34,434	39,844	46,282	53,972
EBIT	2,423	3,399	3,923	4,211	4,952	5,883
Operating profit	3,100	3,660	4,186	4,515	5,292	6,264
EBT	3,143	3,816	4,286	4,599	5,380	6,335
Net Profit	2,623	3,191	3,513	3,796	4,466	5,258
Minority Interest	127	142	203	294	313	368
Net profit for owners	2,496	3,049	3,310	3,501	4,153	4,890

Source: Company, Phillip Securities (HK) Research

Exchange rate (0.889) is HKDCNY1Y forward contract price on June 4 from Wind.

(Financial figures as at 4 June 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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