

CH ENERGY ENG (3996.HK)

Newly signed contracts keep growing, promising in business transformation

November 5, 2019

Hong Kong | Construction and Engineering | Company Update

Company update

For the nine months ended September 30, 2019, the company recorded revenue of RMB 159.19 billion, showing an increase of 5.40% YoY; gross profit was RMB 21.10 billion, showing an increase of 8.94% YoY; gross profit margin was 13.26%, increasing 0.43 pts YoY. We expect that the performance increase was mainly due to the growth of the construction and contracting segment and the industrial manufacturing segment businesses, while the increase in gross profit margin was mainly attributable to the faster growth of related sectors with higher gross profit margins. The net profit attributable to owners was RMB 3.19 billion, showing a YoY decrease of 3.32%, which was slightly slower than that of 1H2019.

Newly signed contracts maintained steady growth and sufficient reserve in hand orders

In 2019Q3, the company's new contract value was RMB 357.95 billion, a YoY increase of 11.73%, which was further accelerated compared with the new contract in 1H2019. When divided by region, the newly signed domestic contract amounted to RMB 235.71 billion, accounting for 65.85% of the total new contract, increasing 11.82% YoY; the international new contract amount was equivalent to RMB 122.24 billion, accounting for 34.15% of the total new contract, increasing 11.56% YoY. When divided by business, the newly signed contract value of power engineering business was RMB 217.92 billion, accounting for 60.88% of the total new contract value, increasing 13.70% YoY; the newly signed contract value of non-power engineering business was RMB 140.04 billion, accounting for 39.12% of the total amount of newly signed contracts, which resumed growth with an increase of 8.80% YoY. According to the National Bureau of Statistics, the cumulative annual growth rate of China's fixed asset investment was 5.4% in September 2019, maintaining moderate growth. However, the current downward pressure on the economy is increasing, government is expected to continue introducing relevant policies to increase the infrastructure investment to drag the bottom of the economy. In addition, the growth rate of aggregate financing to the real economy is rising steadily, and the monetary policy remains stable and loose, which will benefit the development of the infrastructure sector. We expect that the new contract value of the company will continue to grow steadily.

Signed a strategic cooperation agreement with SHIG to promote business transformation and development

On July 26, 2019, the company has entered into a strategic cooperation framework agreement with Shandong Heavy Industry Group Co., Ltd. (SHIG). Both parties unanimously agreed to establish a comprehensive strategic co-operative partnership in various aspects such as engineering construction and equipment procurement, international business, high-end equipment and industrial park construction, new energy, capital cooperation, technological services as well as talent cooperation. The two parties would fully utilize their respective advantages in various aspects such as their technology, capital, talents, management, market and resources, achieving a win-win situation with mutual benefits and joint development. It is understood that SHIG is a Shandong Provincial state-owned enterprise, and is a Chinese leading and internationally renowned automobile and equipment manufacturing group. Its business covers six major segments including powertrain system, automobile, engineering machinery, intelligent logistics, luxury yacht and financial service. SHIG owns Weichai Power (2338.HK, 000338.SZ), Weichai Heavy Machinery (000880.SZ), Shantui Construction Machinery (000680.SZ), Zhongtong Coach (000957.SZ), Asiatra Coach (600213.SH), Germany KION Group (KGX.DE) and many other listed companies. Weichai heavy-duty engine, Shantui bulldozer, Zhongtong Coach, SHACMAN heavy-duty truck, FAST heavy-duty gearbox, Hanhe heavy-duty axle, Torch sparking plug, Ferretti yachts, KION forklift, Linde hydraulics and Dematic etc. are well-known brands at domestic and abroad.

BUY (Maintained)

CMP HKD 0.80

(Closing price at 1 November 2019)

TARGET HKD 1.00 (+25.00%)

COMPANY DATA

O/S SHARES (MN)	9,262
MARKET CAP (HKDMN)	7,410
52 - WK HI/LO (HKD):	1.08/0.74

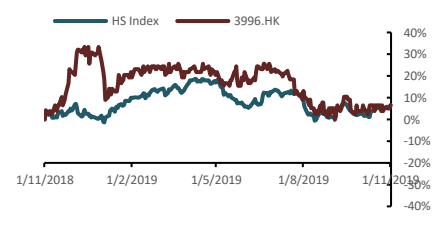
SHARE HOLDING PATTERN

China Energy Engineering Group Co.,	60.32%
China Reform Holdings Corporation	6.76%

PRICE PERFORMANCE

	1M	3M	1Y
CH ENERGY ENG	2.56%	-5.88%	6.47%
HSI	3.87%	-1.69%	6.63%

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn HKD	FY17 A	FY18 A	FY19 E	FY20 E	FY21 E
Revenue	234,370	224,034	238,933	247,645	256,900
Net Profit for Owners	5,261	4,571	4,490	4,793	5,060
EPS RMB	0.18	0.15	0.15	0.16	0.17
P/E	4.14	4.75	4.83	4.52	4.28
BVPS RMB	1.64	1.70	1.82	1.95	2.09
P/B	0.44	0.43	0.40	0.37	0.35
ROE	11.2%	9.18%	8.56%	8.54%	8.42%

Source: Company reports, Phillip Securities Est.

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Cut TP to HKD 1, maintain "BUY" rating

We adjusted our forecast for FY19/FY20/FY21 incomes to RMB 238.9/247.6/256.9 billion, showing increases of 6.65%/3.65%/3.74% YoY; net profit attributable to shareholders were RMB 4.5/4.8/5.1 billion, with increase of -1.76%/6.74%/5.58% YoY; the corresponding EPS was RMB 0.15/0.16/0.17. The target price was adjusted to HKD 1.00, corresponding to FY19/FY20/FY21 6.04x/5.65x/5.36x PE, which was +25.00% higher than the current price (HKD 0.80 as of November 1, 2019), maintaining a "BUY" rating.

Figure-1: Forward P/E Band

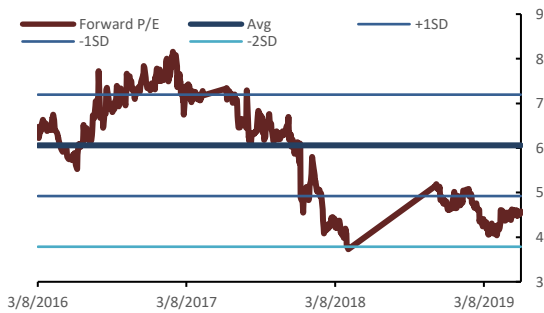
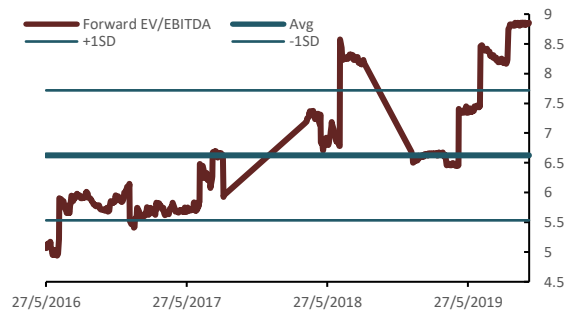


Figure-2: Forward EV/EBITDA Band



Source: Phillip Securities (HK) Research, Bloomberg

Risk

International business fails expectations;
 China infrastructure investment fails expectations;
 China electricity investment fails expectations.

Financials

Table-1: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	4.14	4.75	4.83	4.52	4.28
P/B	0.44	0.43	0.40	0.37	0.35
Dividend Yield	4.20%	4.20%	4.13%	4.41%	4.66%
Per Share Data in RMB					
EPS	0.18	0.15	0.15	0.16	0.17
DPS	0.03	0.03	0.03	0.03	0.03
BVPS	1.64	1.70	1.82	1.95	2.09
Growth & Margins (%)					
Growth					
Revenue	5.49%	-4.41%	6.65%	3.65%	3.74%
Operating Profit	7.80%	3.82%	12.18%	10.56%	6.06%
Net Profit	21.85%	-5.66%	5.88%	6.74%	5.58%
Margins					
Gross Margin	11.79%	13.29%	13.51%	13.97%	14.21%
Operating Profit Margin	4.67%	5.08%	5.34%	5.70%	5.82%
Net Profit Margin	3.87%	3.82%	3.79%	3.90%	3.97%
Key Ratios					
ROA	1.65%	1.25%	1.09%	1.05%	1.02%
ROE	11.27%	9.18%	8.56%	8.54%	8.42%
Income Statement in mn RMB					
Revenue	234,370.11	224,034.35	238,932.82	247,644.50	256,900.20
Gross Profit	27,628.71	29,763.35	32,275.88	34,593.10	36,494.79
EBIT	14,317.81	14,708.28	15,696.57	17,043.49	17,897.68
EBT	11,955.26	11,676.81	12,367.57	13,201.20	13,937.96
Net Profit	9,064.24	8,551.51	9,054.30	9,664.60	10,203.98
Net Profit for Owners	3,510.65	3,263.21	3,793.86	4,101.50	4,373.39

Source: Company, Phillip Securities (HK) Research
(Financial data as of November 1, HKD/CNY=0.910)

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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