CH ENERGY ENG (3996.HK)

Exceed intended newly signed contracts, proportion of non-power business further increase

February 4, 2020

Hong Kong | Construction and Engineering | Company Update

Newly Signed Contracts Updates in 2019

In 2019, the value of newly signed contracts of the company amounted to RMB520.398 billion, representing 108.3% of the value of the intended new contracts for the year with a YoY increase of 12.65%. Among them, in terms of geographical location, the value of newly signed domestic contracts amounted to RMB366.407 billion, accounting for approximately 70.41% of the total value of newly signed contracts with a YoY increase of 14.56%, whereas the value of newly signed overseas contracts is equivalent to RMB153.991 billion, accounting for approximately 29.59% of the total value of newly signed contracts with a YoY increase of 8.35%. Among them, in terms of business segments, the value of newly signed contracts of the power business amounted to RMB300.016 billion, accounting for approximately 57.65% of the total value of newly signed contracts with a YoY increase of 7.79%, whereas the value of newly signed contracts of nonpower business amounted to RMB220.381 billion, accounting for approximately 42.35% of the total value of newly signed contracts with a YoY increase of 20.02%. As a summary, the proportion of newly signed contracts for non-power business further increased, while the proportion of newly signed contracts for international business decreased slightly. We believe that it will benefit the performance of gross profit margin and further accelerate the transformation of domestic business to the non-power market.

In 2019, the subsidiaries of the company have obtained 1,424 licensed patents from National Intellectual Property Administration, increasing 144 patents compared with last year; among which, 204 are licensed invention patents, decreasing 25 patents compared with last year. As at the end of 2019, the company owns a total of 9,272 valid patents, among which, 1,717 are licensed invention patents. The number of valid patents in the company has increased significantly in the past four years, from 6,766 in 2016 to 9,272 in 2019, with an average annual growth rate of 11.07%. Among them, the number of valid invention patents has increased from 968 in 2016 to 1,717 in 2019, with an average annual growth rate of 21.05%. The company's continued increase in R&D investment and the application of effective patents can help the company continuously overcome technical difficulties, effectively occupying the industry's commanding heights, and continuing to bring significant economic and social benefits to the company.

According to the National Bureau of Statistics, the cumulative annual growth rate of China's fixed asset investment was 5.4% in December 2019, increasing 0.2% MoM, 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 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 strategic cooperation agreements with China National Nuclear Corporation to promote business transformation and development

In January 2019, the company and China National Nuclear Corporation have entered into a strategic cooperation framework agreement. Both parties unanimously agreed to establish a comprehensive strategic co-operative partnership in various aspects such as planning of power and nuclear power projects in China, optimization of the design of nuclear power, cooperation in international market, research, development and manufacturing of nuclear power equipment and relevant equipments, engineering construction of nuclear power and new energy projects, capital cooperation, technology consulting as well as human resources cooperation. The two parties would fully utilize their respective advantages in various aspects such as technology, capital, talents, management, market and resources, achieving a win-win situation with mutual benefits and joint development. Entering into the strategic cooperation framework agreement is beneficial to further strengthen the cooperation of both parties, broaden the scope of their cooperation and enhance the level of their cooperation, which will have a significant impact for the company to further explore new markets and enhance its high quality development.

ACCUMULATE (Maintained)

CMP HKD 0.91
(Closing price at 31 January 2020)
TARGET HKD 1.08 (+18.68%)

COMPANY DATA

O/S SHARES (MN)	9,262
MARKET CAP (HKDMN)	8,429
52 - WK HI/LO (HKD):	0.99/0.74

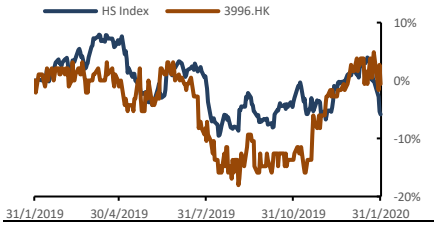
SHARE HOLDING PATTERN

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

PRICE PERFORMANCE

	1M	3M	1Y
CH ENERGY ENG	-3.19%	15.19%	-0.56%
HSI	-6.66%	-2.21%	-5.83%

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn HKD	FY17A	FY18A	FY19E	FY20E	FY21E
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	4.66	5.34	5.43	5.09	4.82
BVPS RMB	1.64	1.70	1.82	1.95	2.09
P/B	0.50	0.48	0.45	0.42	0.39
ROE	11.27%	9.18%	8.56%	8.54%	8.42%

Source: Company reports, Phillip Securities Est.

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China National Nuclear Corporation is mainly engaged in scientific research, development, construction, production and operation in the fields of nuclear military industry, nuclear power, nuclear fuel cycle, nuclear technology application, nuclear environmental protection engineering, and foreign economic cooperation and import and export business. It is the major investor in nuclear power construction, nuclear power technology development entity, and most important nuclear power design and engineering general contractor, nuclear power operation technology service provider, and nuclear power plant exporter, domestic nuclear fuel cycle franchise supplier, nuclear environmental protection engineering professional and backbone of nuclear technology applications.

Adjust TP to HKD 1.08, maintain "ACCUMULATE" rating

We adjusted target price to HKD 1.08, corresponding to FY19/FY20/FY21 6.45x/6.04x/5.72x PE, which was +18.68% higher than the current price (HKD 0.91 as of January 31, 2020), maintaining "ACCUMULATE" rating.

Figure-1: Domestic and Overseas New Contract

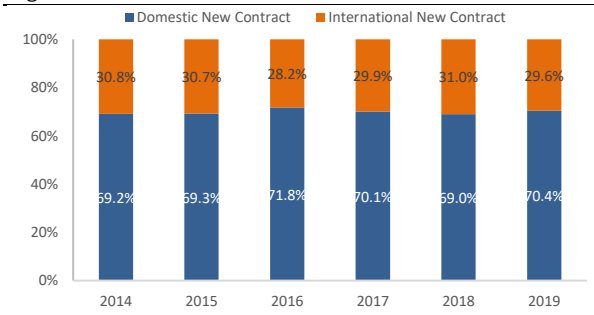
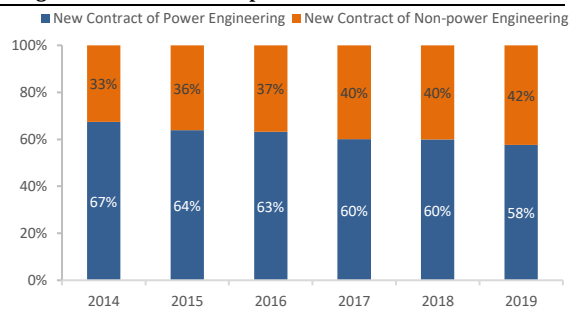


Figure-2: Power and Nonpower New Contract



Source: Phillip Securities (HK) Research

Figure-3: Forward P/E Band

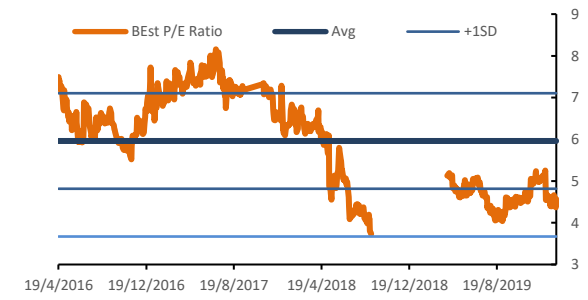
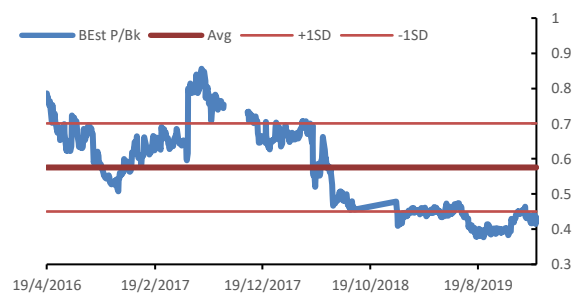


Figure-4: Forward P/B Band



Source: Phillip Securities (HK) Research, Bloomberg

Table-1: Comparable Companies

Co Name	Ticker	Mkt Cap (bn HKD)	EV (bn HKD)	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	P/FCF	Dividend
CNY (1 security)											
METALLURGICAL CORP OF CHIN-A	601618 CH	58.38	207.92	N.A.	10.99	9.94	8.34	7.75	6.86	44.76	2.6
HKD (6 securities)											
Median		83.68	270.37	6.85	8.25	7.55	4.89	4.74	4.33	3.93	4.07
Average		81.78	256.04	6.85	8.27	7.57	5.12	4.8	4.31	3.93	4.57
CHINA RAILWAY GROUP LTD-H	390 HK	145.33	415.20	N.A.	8.25	7.55	4.8	4.73	4.2	N.A.	3.39
CHINA RAILWAY CONSTRUCTION-H	1186 HK	137.70	370.40	N.A.	6.82	6.11	4.98	4.59	4.13	N.A.	3.12
CHINA COMMUNICATIONS CONST-H	1800 HK	135.55	533.18	N.A.	10.4	9.73	3.94	3.91	3.6	N.A.	4.72

CHINA STATE CONSTRUCTION INT	3311 HK	31.81	59.29	6.85	7.05	6.27	6.57	5.61	4.86	N.A.	4.44
CHINA ENERGY ENGINEERING C-H	3996 HK	28.26	170.35	N.A.	8.84	8.19	5.62	5.23	4.57	3.93	3.69
CHINA MACHINERY ENGINEERIN-H	1829 HK	12.05	-12.15	N.A.	N.A.	N.A.	4.81	4.74	4.46	N.A.	8.03

Source: Phillip Securities (HK) Research, Bloomberg

Risk

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

Financials

Table-2: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	4.66	5.34	5.43	5.09	4.82
P/B	0.50	0.48	0.45	0.42	0.39
Dividend Yield	3.74%	3.74%	3.67%	3.92%	4.14%
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	5,261.15	4,570.69	4,490.25	4,792.92	5,060.41

Source: Company, Phillip Securities (HK) Research
(Financial data as of January 31, HKD/CNY=0.900)

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 ± 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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