



Company Report: China Resources Cement (01313 HK)

公司报告: 华润水泥 (01313 HK)

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1H13 Results Slightly Above Expectations, 'Neutral'

1H13业绩略超预期, “中性”

- **China Resources Cement (CRC)'s 1H13 results were slightly above expectations.** CRC's revenue and net profit in 1H13 reached HKD12,858mn and HKD1,146mn, up 16.5% and 80.3% yoy. Cement and clinker's ASP reached HKD291/t, down 10.1% yoy; GP/t reached HKD66/t, up 2.9% yoy; cement and clinker sales volume reached 35.2mn tonnes, up 28.9% yoy. Effective tax rate reached only 17.7%, down 2.1 ppt yoy.
- **Key points: 1) Cement prices in South China increases.** The management expects GP/t to increase in 4Q13 and current GP/t reached HKD70/t. Our estimates for GP/t in 4Q13 reached HKD83/t. **2) Effective tax rate could increase.** Guangxi government might exclude cement industry from beneficial tax policy, which means CRC's tax rate in Guangxi could increase from 15% in 1H13 to 25% in 2H13. The management guides that FY13 effective tax rate might reach 22%, up 5 ppt from 1H13. **3) Capital expenditure above expectations.** Capex in FY13-14 might reach HKD3.8bn and HKD4.6bn. **4) NDRC announced that total clinker and cement capacity under construction reached 350 mn tonnes and 560 mn tonnes, far above China Cement Association's estimates.**
- **Maintain TP at HKD4.0 and investment rating as 'Neutral'.** We adjusted our EPS estimates in FY13-15 to HKD0.387, HKD0.438 and HKD0.498. If CPI exceeds 3.0 in 4Q13, we expect cement price hike expectations in South China would be weakened. Maintain TP at HKD4.0, representing 10.3x 2013E PE, 12.3x 2013E core EPS, and 1.1x 2013E PB. "Neutral".
- **华润水泥 1H13 业绩略超预期。** 公司 1H13 的收入和盈利分别达到 12,858 百万港元 (港元下同) 和 1,146 百万港币, 同比上涨 16.5% 和 80.3%。水泥和熟料的销售价格达到 291 港元/吨, 同比下降 10.1%。水泥熟料吨毛利 66 港元/吨, 同比上升 2.9%。水泥熟料销售量达到 35.2 百万吨, 同比上升 28.9%。有效税率仅为 17.7%, 同比下降 2.1ppt。
- **要点: 1) 华南水泥市场涨价。** 目前华润水泥吨毛利回升至 HKD70/t, 管理层预期 4Q13 还能继续提高吨毛利。我们 2H13 的吨毛利假设为 HKD83/t。 **2) 有效税率将增加。** 根据管理层透露, 广西优惠税率政策很可能不包括水泥行业, 意味着广西水泥企业的税率要从 15% 提升至 25%。管理层预期 FY13 年的有效税率为 22%, 较 1H13 高 5ppt。 **3) 资本开支超预期。** 公司 FY13-14 年的资本开支约为 38 亿和 46 亿。 **4) 发改委公布 6M13 在建熟料和水泥产能达到 350 百万吨和 560 百万吨, 远超水泥协会预期。**
- **维持目标价 4.0 港元和维持评级“中性”。** 我们调整盈利 FY13-15 年盈利预测至 0.387 港元, 0.438 港元, 和 0.498 港元。如果通胀在 4Q13 超过 3.0, 我们认为华南水泥价格上涨预期将大幅削弱。维持目标价 4.0 港元, 相当于 10.3 倍的 2013 年预测 PE, 12.3 倍的 2013 年预测核心市盈率, 和 1.1 倍的 2013 年 PB。维持“中性”。

Rating:

Neutral
Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$4.00

Revised from 原目标价

HK\$4.00

Share price 股价:

HK\$4.600

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	5.26	3.84	9.26
Rel. % to HS index 相对恒指变动 %	0.59	8.34	(1.34)
Avg. share price(HK\$) 平均股价 (港元)	4.31	4.11	4.46

Source: Bloomberg, Guotai Junan International

Year End 年结	Turnover 收入 (HKD m)	Net Profit 股东净利 (HKD m)	EPS 每股净利 (HKD)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (HKD)	PBR 市净率 (x)	DPS 每股股息 (HKD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2011A	23,240	4,179	0.641	104.8	7.2	2.960	1.6	0.060	1.3	24.9
2012A	25,345	2,345	0.357	(44.3)	12.9	3.279	1.4	0.070	1.5	11.5
2013F	29,279	2,501	0.387	8.5	11.9	3.596	1.3	0.076	1.7	11.3
2014F	32,700	2,814	0.438	13.1	10.5	3.958	1.2	0.086	1.9	11.6
2015F	35,552	3,206	0.498	13.8	9.2	4.370	1.1	0.098	2.1	12.0

Shares in issue (m) 总股数 (m)	6,519.26	Major shareholder 大股东	China Resources Group	73.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	29,988.6	Free float (%) 自由流通比率 (%)		22.5
3 month average vol. 3 个月平均成交股数 ('000)	9,694.0	FY13 Net gearing FY13 净负债/股东资金 (%)		86
52 Weeks high/low (HK\$) 52 周高/低	5.550 / 3.350			

Source: the Company, Guotai Junan International.

China Resources Cement (CRC)'s 1H13 results were slightly above expectations. CRC's revenue and net profit in 1H13 reached HKD12,858mn and HKD1,146mn, up 16.5% and 80.3% yoy. Cement and clinker's ASP reached HKD300/t, down 10.1% yoy; GP/t reached HKD66/t, up 2.9% yoy; cement and clinker sales volume reached 35.2mn tonnes, up 28.9% yoy. Effective tax rate only reached 17.7% yoy, down 2.1ppt yoy. We consider CRC's net profit in 1H13 was mainly driven by sales volume, other income, and lower than expected effective tax rate.

Sales volume target was raised to 75 mn tonnes. The new target was 5mn tonnes over the target made at FY13 beginning, which means sales volume target in 2H13 will reach 35mn tonnes, up only 7.2% yoy, due to capacity limits. The reason why CRC's sales volume increased by 27.7% in 1H13 is that it shut down more capacities due the Spring Festival in 1H12. We raise our FY13-15 sales volume targets reached 75.2 mn tonnes, 81.0 mn tonnes, and 85.4 mn tonnes, up 16%, 8% and 5% yoy. The sales volume driving factor might slow down in the future.

Capital expenditure above expectations. According to the management, Capex in FY13-14 might reach HKD3.8bn and HKD4.6bn, causing negative free cash flows. Currently, there are 6 lines under construction, 2 lines in Guizhou, 1 line in Yunnan, 1 line in Guangxi and 2 lines in Guangzhou. Oversupply risk might increase in Guizhou as Conch, CRC and CNBM all construct new capacities in Guizhou. We consider CRC should slow down its capital expenditure and deleverage. Our FY13-15 net gearing ratio assumption reached 86%, 81% and 69%, respectively.

We are cautious about cement price hike in South China. The management expects GP/t to increase in 4Q13 and current GP/t reached HKD70/t. Our estimates for GP/t in 4Q13 reached HKD83/t, up HKD17/t compared to that in 1H13. However, we are cautious about cement price hike in South China, as oversupply risk, inflation hike and property tightening policy might increase in 4Q13. According to the China Cement Association, new capacities in South and Central China will increase to 26mn tonnes and price wars between CRC and Conch might happen again in 1Q14. According to NDRC's most recent statistics, in 6M13 clinker and cement capacities under construction reached 350 mn tonnes and 560 mn tonnes, far beyond China Cement Association's statistics and representing around 20% of current cement capacities. Furthermore, once CPI in China exceeds 3.0 in 4Q13, we expect investment in China might slow down further and cement price hike expectations might weaken. Moreover, according to Zhongyuan Property (中原房地产), the 2nd hand property prices in Guangzhou and Shenzhen increased by 23.4% and 18.2% yoy, and we think moderate property tightening policy might emerge in South China in 4Q13, thus weakening cement price hike expectations.

Effective tax rate could increase. Guangxi government might exclude cement industry from beneficial tax policy, which means CRC's tax rate in Guangxi could increase from 15% in 1H13 to 25% in 2H13. The management guides that CRC's FY13 effective tax rate might reach 22%, up 5ppt from 1H13. We adjust our effective tax rate assumptions in FY13-15 to 22%, 23% and 24%, respectively.

2H13 net profit growth will slow down. First, its sales volume growth will slow down. According to its new sales target of 75 mn tonnes, sales volume in 2H13 will reach 40 mn tonnes, up only 7.2% yoy, due to a high base in 2H12. Our GP/t estimates in 2H13 reached HKD83/t, flat yoy. Secondly, its other income from exchange gains might reduce to around HKD164mn. Thirdly, its profit tax might increase to HKD471mn in 2H13, up 90% yoy. We expect its net profit and core net profit in 2H13 to reach HKD1,364mn and HKD1,241mn, down 18.8% and 14.4% yoy.

Table 1: CRC's 1H13 Results

		1H12	1H13	yoy	comments
Total revenue	mn HKD	11,034	12,858	16.5%	Driven by sales volume growth.
COGS	mn HKD	(8,734)	(9,892)	13.3%	
Gross Profit	mn HKD	2,300	2,966	29.0%	
Selling and distribution expenses	mn HKD	(543)	(703)	29.6%	
Administrative expenses	mn HKD	(766)	(853)	11.4%	
Share of associate	mn HKD	58	6	-90.4%	West Mongolia Cement was in loss.
Operating Profit (EBIT)	mn HKD	1,049	1,415	35.0%	
Finance costs	mn HKD	(392)	(374)	-4.4%	
Other non operating income	mn HKD	139	357	157.1%	more HKD220mn exchange gains
Income taxes	mn HKD	(158)	(248)	57.4%	
Minorities	mn HKD	(3)	(5)	39.4%	

Net profit	mn HKD	635	1,146	80.3%
One off item	mn HKD	139	357	157.1%
NP-recurring	mn HKD	524	852	62.6%
EPS	mn HKD	0.097	0.176	80.3%
Non-recurring EPS	mn HKD	0.080	0.131	62.6%

selling expenses to revenue		4.9%	5.5%	0.6%
administrative expenses to revenue		6.9%	6.6%	-0.3%
effective tax rate		19.8%	17.7%	-2.1%

Lower effective tax rate is due to favorite tax policy in Guangxi, which might be cancelled after 6M13.

net gearing ratio	%	104.2%	91.8%	-12.5%
AR Turnover days	day	36	35	-3.7%
AP Turnover days	day	87	43	-51.2%
Inventory Turnover Days	day	55	40	-27.9%
Cash Conversion Days	day	4	32	683.0%

sales volume				
cement & clinker	mn tonnes	27.3	35.2	28.9%
concrete	mn tonnes	5.9	6.9	17.4%

FY13 sales volume target increased to 75mn tonnes

ASP				
cement & clinker	Rmb/t	323.8	291.3	-10.1%
concrete	Rmb/t	372.0	376.5	1.2%
GP/t				
cement & clinker	Rmb/t	63.7	65.6	2.9%
concrete	Rmb/t	95.0	94.9	-0.1%

Source: the Company, Guotai Junan International.

Figure-1: New Cement Capacity in 2013

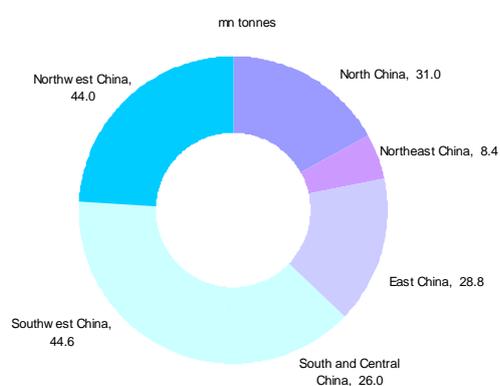
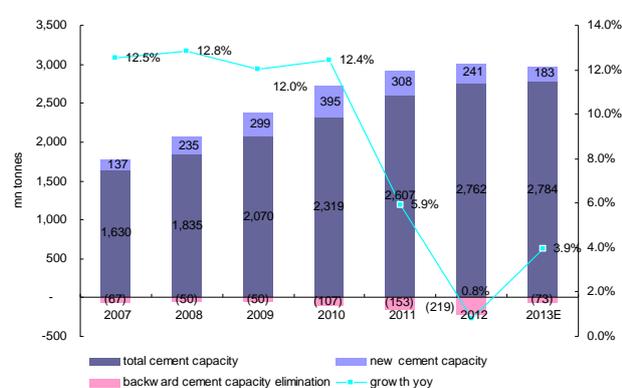


Figure-2: Domestic New Capacity from 2007 to 2013E



Source: China Cement Association, Guotai Junan International.

Source: China Cement Association, Guotai Junan International.

Table 2: Property Investment in 7M13

	New GFA	GFA under construction	GFA completed	sales GFA	Saleable GFA	New GFA yoy	GFA under construction yoy	GFA completed yoy	sales GFA yoy	Saleable GFA yoy
	bn sqm	bn sqm	bn sqm	bn sqm	bn sqm	%	%	%	%	%
2012-02	0.20	3.95	0.10	0.07	0.31	5.1%	35.5%	45.2%	-14.0%	39.4%
2012-03	0.40	4.09	0.18	0.15	0.30	0.3%	25.0%	39.3%	-13.6%	35.5%
2012-04	0.54	4.27	0.22	0.22	0.30	-4.2%	21.2%	30.2%	-13.4%	33.4%
2012-05	0.73	4.51	0.27	0.29	0.31	-4.3%	19.6%	26.3%	-12.4%	33.6%
2012-06	0.92	4.76	0.33	0.40	0.31	-7.1%	17.2%	20.7%	-10.0%	33.1%
2012-07	1.04	4.89	0.39	0.49	0.32	-9.8%	15.3%	19.0%	-6.6%	34.8%
2012-08	1.23	5.12	0.45	0.57	0.32	-6.8%	15.6%	20.2%	-4.1%	33.9%

2012-09	1.35	5.25	0.51	0.68	0.33	-8.6%	14.0%	16.4%	-4.0%	35.6%
2012-10	1.47	5.38	0.58	0.79	0.33	-8.5%	13.3%	17.3%	-1.1%	34.7%
2012-11	1.62	5.57	0.68	0.92	0.34	-7.2%	13.3%	14.1%	2.4%	32.0%
2012-12	1.77	5.73	0.99	1.11	0.36	-7.3%	13.2%	7.3%	1.8%	27.0%
2013-02	0.23	4.55	0.14	0.10	0.42	14.7%	15.3%	34.0%	49.5%	37.3%
2013-03	0.39	4.79	0.19	0.21	0.42	-2.7%	17.0%	8.9%	37.1%	40.9%
2013-04	0.56	5.01	0.24	0.30	0.43	1.9%	17.2%	6.6%	38.0%	40.5%
2013-05	0.74	5.23	0.29	0.39	0.43	1.0%	16.0%	5.3%	35.6%	39.6%
2013-06	0.96	5.49	0.35	0.51	0.44	3.8%	15.5%	6.3%	28.7%	39.2%
2013-07	1.13	5.69	0.42	0.61	0.44	8.4%	16.2%	7.9%	25.8%	39.8%

Source: Wind, Guotai Junan International.

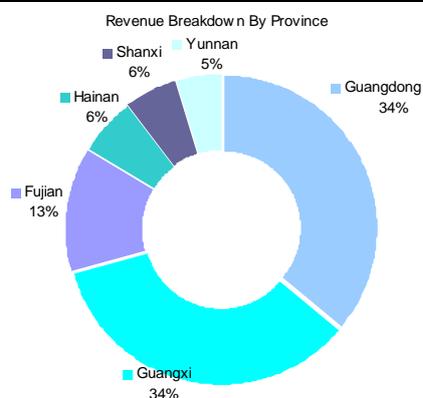
Maintain TP at HKD4.0 and investment rating as 'Neutral'. We adjust our EPS estimates in FY13-15 to HKD0.387, HKD0.438 and HKD0.498. If CPI passes 3.0 in 4Q13, we expect cement price hike expectations in South China would be weakened. Maintain TP at HKD4.0, representing 10.3x 2013E PE, 12.3x 2013E core EPS, and 1.1x 2013E PB. Maintain "Neutral".

Table 3: Assumption Revision

		FY13 (Old)	FY13 (New)	Change %	FY14 (Old)	FY14 (New)	Change %	FY15 (Old)	FY15 (New)	Change %
Cement segment										
Revenue	mn HK\$	28,676	29,279	2%	31,615	32,700	3%	35,493	35,552	0%
Sales Volume	mn tonnes	70	75	7%	74	81	10%	80	85	6%
Avg. Selling Price	HK\$/t	326	313	-4%	336	318	-5%	345	325	-6%
Unit cost	HK\$/t	251	239	-5%	257	240	-7%	267	244	-8%
GP/T	HK\$/t	75	75	-1%	78	78	-1%	78	81	3%
SG&A/Revenue	%	12.0%	12.1%	0%	12.0%	12.1%	0%	12.0%	12.1%	0%
Interest rate	%	3.8%	3.8%	0.0	3.8%	3.8%	0.0	3.8%	3.8%	0.0
Effective income tax	ppt	25.0%	22.0%	-3.0	25.0%	23.0%	-2.0	25.0%	24.0%	-1.0
MI ratio	%	1.0%	1.0%	0%	1.0%	1.0%	0%	1.0%	1.0%	0%
Dividend rate	%	19.6%	19.6%	0%	19.6%	19.6%	0%	19.6%	19.6%	0%
EPS	HK\$	0.376	0.387	3.0%	0.439	0.438	-0.3%	0.491	0.498	1.5%

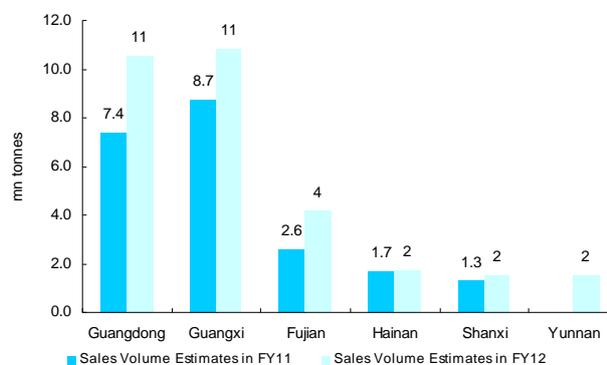
Source: the Company, Guotai Junan International.

Figure-1: CRC's 1H13 Revenue Breakdown by Area

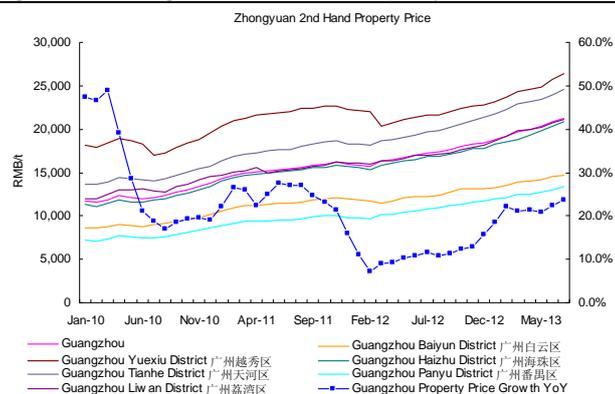


Source: the Company, Guotai Junan International.

Figure-2: CRC's Sales volume in Each Area in 1H12 and 1H13



Source: the Company, Guotai Junan International.

Figure-3: Guangzhou 2nd Hand Property Price


Source: the Company, Guotai Junan International.

Figure-4: Shenzhen 2nd Hand Property Price


Source: the Company, Guotai Junan International.

Table 3: Financial Statements of CRC

Income Statement					
Dec Year End (mHKD)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	23,240	25,345	29,279	32,700	35,552
COGS	(16,016)	(19,246)	(22,166)	(24,546)	(26,493)
Gross profit	7,224	6,100	7,113	8,154	9,059
SG&A	(2,553)	(3,041)	(3,544)	(3,958)	(4,304)
Share of Associate	289	137	16	16	16
Operating Profit	4,960	3,195	3,584	4,212	4,771
Finance costs	(668)	(835)	(867)	(906)	(911)
Other	613	534	552	430	448
Profit before tax and MI	4,906	2,894	3,239	3,702	4,273
Income tax	(562)	(528)	(713)	(859)	(1,034)
Profit before MI	4,345	2,366	2,526	2,843	3,239
Minority interests	(166)	(21)	(25)	(28)	(32)
Net profit	4,179	2,345	2,501	2,814	3,206
Dividend	391	460	490	552	629
EBITDA	6,234	4,831	5,303	6,041	6,746
EPS	0.641	0.357	0.387	0.438	0.498
Recurring EPS	0.558	0.307	0.325	0.391	0.450
DPS	0.060	0.070	0.076	0.086	0.098
Cash Flow Statement					
Dec Year End (mHKD)	FY11A	FY12A	FY13E	FY14E	FY15E
Net Income	4,179	2,345	2,501	2,814	3,206
Working Capital Change	68	472	(196)	(151)	(121)
Dep.&Amortization	1,273	1,635	1,719	1,829	1,975
Minority Interest	166	21	25	28	32
Others	(535)	(169)	(1,253)	(294)	(320)
CFO	5,151	4,305	2,772	4,195	4,746
CAPEX	(10,352)	(3,216)	(3,800)	(4,600)	(3,000)
Others	(2,938)	(1,284)	0	0	0
CFI	(13,290)	(4,500)	(3,800)	(4,600)	(3,000)
New Issues	0	0	0	0	0
New Bank Loans	7,085	834	828	1,206	(936)
Dividend Paid	(619)	(391)	(460)	(490)	(552)
CFF	7,571	20	368	716	(1,488)
Net change in cash	(568)	(175)	(636)	342	285
Cash at beginning of year	4,116	3,738	3,564	2,928	3,270
Cash at end of year	3,738	3,562	2,928	3,270	3,555

Balance Sheet					
Dec Year End (mHKD)	FY11A	FY12A	FY13E	FY14E	FY15E
Cash	3,738	3,562	2,928	3,270	3,555
Trade and other receivables	1,950	2,492	2,879	3,215	3,496
Inventories	2,296	2,322	2,674	2,962	3,197
Other Current Assets	2,832	2,329	2,446	2,568	2,696
Current Assets	10,815	10,705	10,927	12,015	12,944
Property Plant & Equipment	30,014	31,553	34,603	37,374	38,399
Intangibles	1,830	1,965	1,866	1,773	1,684
Others	7,920	7,936	8,333	8,750	9,187
Non-current Assets	39,764	41,454	44,803	47,897	49,270
Total Assets	50,580	52,159	55,729	59,912	62,214
Trade and other payable	3,429	3,386	3,912	4,369	4,750
Bank borrowings-due within one year	11,340	8,938	9,281	9,781	9,419
Others	5,705	4,454	4,587	4,725	4,867
Current Liabilities	20,473	16,778	17,780	18,875	19,036
Bank borrowings - amounts due after one year	10,035	13,270	13,780	14,522	13,984
Deferred income & others	170	152	145	137	130
Non-current Liabilities	10,205	13,423	13,924	14,659	14,114
Total Liabilities	30,678	30,201	31,705	33,535	33,150
Minorities	603	583	608	636	669
Net Assets	19,299	21,376	23,417	25,741	28,395
Shareholders Equity	19,299	21,376	23,417	25,741	28,395
Total Equities	19,901	21,958	24,025	26,377	29,064
BVPS	2.960	3.279	3.596	3.958	4.370

Key Ratios					
	FY11A	FY12A	FY13E	FY14E	FY15E
Growth Ratios					
Revenue Growth	64.3%	9.1%	15.5%	11.7%	8.7%
EBIT Growth	119.3%	-35.6%	12.2%	17.5%	13.3%
EBITDA Growth	103.1%	-22.5%	9.8%	13.9%	11.7%
Net Profit Growth	104.8%	-43.9%	6.6%	12.5%	13.9%
Margin & Return					
Gross Margin	31.1%	24.1%	24.3%	24.9%	25.5%
Net Margin	18.0%	9.3%	8.6%	8.7%	9.1%
ROE	24.9%	11.5%	11.3%	11.6%	12.0%
ROA	9.7%	4.6%	4.7%	4.9%	5.3%
ROIC	10.6%	5.9%	6.0%	6.5%	7.0%
Leverage					
Interest Coverage	6.3	2.8	2.9	3.1	3.5
Net Gearing	91.4%	87.2%	86.0%	81.7%	69.9%
GP/t (HK\$)	119	74	75	78	81
EBIDTA/t (HK\$)	123	75	71	75	79
NP/t (HK\$)	83	36	34	35	38

Source: Guotai Junan International, the Company.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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