



## Company Report: China Resources Cement (01313 HK)

公司报告: 华润水泥 (01313 HK)

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# Optimistic on Southern China Cement Momentum, "Accumulate" 看好中国南方水泥势头, "增持"

- CR Cement's FY13 revenue rose 15.8% YoY to HK\$29,341 million. GP/t reached HK\$93, up by HK\$19. **Net profit arrived at HK\$3,338 million, up 43.6% YoY, in line with expectation.**
- **We expect ASP/t to increase and unit cost to largely stay flat in FY14.** We believe limited new clinker capacity and modest cement demand in Southern China could lift up ASP. We also expect unit cost to largely stay flat. As such, GP/t is expected to further improve in FY14-16F. However, higher SG&A expenses and tax rate might erode earnings, therefore we leave our FY14-15F EPS largely unchanged.
- **We are optimistic on demand and supply balance in Southern China. We believe factors such as 1) industry consolidation via M&A, 2) further pollutant emission standards and 3) P.C. 32.5 grade cement cancellation could increase ASP and limit cement supply.** More importantly, the sizable cement producers like CR Cement should be the winners during the process. Share price is expect to be weak in 1Q14 following the weak cement price trend in off season, but we believe share price is likely pick up, once the downstream demand gradually improves in April. We maintain our investment rating of "Accumulate" with TP of HK\$6.70, implying FY14-16F PER of 10.4x, 8.8x and 7.6x, respectively.
- 华润水泥 2013 财年收入同比增长 15.8%，至 29,341 百万港元。GP/t 达 93 港元，增加 HK\$19 港元。净利润至 3,338 百万港元，同比增长 43.6%，符合预期。
- 我们预计 2014 年 ASP/t 将有所上升和单位成本大致保持不变。我们相信有限新增熟料产能和在中国南方地区温和的水泥需求可以提升 ASP。我们还预计单位成本在大致持平。因此，GP/t 预计在 FY14-16F 进一步提升。然而，更高的经营费用和税率可能会削弱盈利，因此，我们维持我们的 FY14-15F EPS 预测大致不变。
- 我们对中国南方地区供需平衡乐观。我们相信一些因素，如 1) 通过收购合并令行业整合，2) 进一步加强对污染物排放标准 3) P.C. 32.5 级水泥取消，可以提升 ASP 和限制水泥供应。更重要的是，大型的水泥生产商，如华润水泥应在过程中成为最后的赢家。股价在水泥淡季相对疲弱，但一旦下游需求在四月份逐步改善，可以令股价回升。我们维持投资评级“收集”目标价 6.70 港元，相当于 FY14-16F 市盈率分别为的 10.4 倍，8.8 倍和 7.6 倍。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$6.70**

Revised from 原目标价:

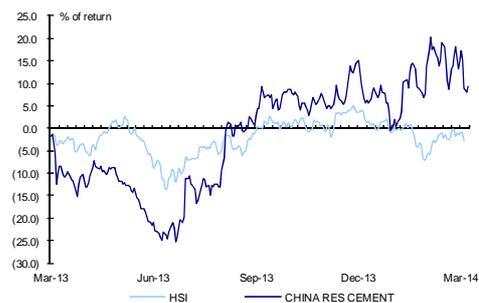
HK\$6.70

Share price 股价:

HK\$5.530

### 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 %	(7.3)	(3.2)	8.9
Rel. % to HS index 相对恒指变动 %	(8.6)	3.0	11.7
Avg. share price(HK\$) 平均股价 (港元)	5.7	5.4	4.9

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2012A	25,345	2,324	0.357	(44.4)	15.5	3.279	1.7	0.070	1.3	11.4
2013A	29,341	3,338	0.512	43.6	10.8	3.805	1.5	0.105	1.9	14.5
2014F	33,038	4,216	0.645	26.1	8.6	4.306	1.3	0.139	2.5	15.9
2015F	37,600	4,951	0.758	17.4	7.3	4.897	1.1	0.167	3.0	16.5
2016F	43,582	5,771	0.883	16.6	6.3	5.575	1.0	0.205	3.7	16.9

Shares in issue (m) 总股数 (m)	6,532.9	Major shareholder 大股东	CR Limited 73.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	36,127.1	Free float (%) 自由流通比率 (%)	26.7
3 month average vol. 3 个月平均成交股数 ( '000)	11,336.5	FY14 Net gearing (%) FY14 净负债/股东资金 (%)	66.6
52 Weeks high/low (HK\$) 52 周高/低	5.970/3.555	FY14 Est. NAV (HK\$) FY14 每股估值 (港元)	7.1

Source: the Company, Guotai Junan International.

**Net profit surged 43.6% YoY in FY13, in line with expectation.** CR Cement revenue rose 15.8% YoY to HK\$29,341million, thanks to the stable sales volume growth of cement and concrete. Sales volume of cement and concrete rose 20.1% and 13.4% YoY respectively. Blended ASP was largely flat, while blended unit cost decreased 5.6% YoY, thanks to the low coal price in FY13 and effective cost reduction; GP/t reached HK\$93, up by HK\$19 YoY. Selling expenses and administrative expenses surged 33.5% YoY, mainly due to higher transportation costs as more cement and clinker being delivered from Guangxi to Guangdong in FY13. During the year, the Company decided to shut down operations of two inefficient 1200 tons per day clinker production lines, thus incurred impairment loss of HK\$353.3 million, which was one of the reasons that administrative expenses surged 50.9% YoY. Effective tax rate was 24.0%, up from 18.4% in FY12, as tax holidays ended for some of its subsidiaries. Net profit arrived at HK\$3,338 million, up 43.6% YoY, largely in line with our earnings forecast (our FY13F net profit was HK\$3,307 million).

**Table-1: FY13 Results**

HK\$ mn	FY12	FY13	YoY %	Comment
Revenue	25,345	29,341	15.8%	Led by cement and concrete strong sales growth
Cost of Sales	(19,246)	(20,981)	9.0%	
Gross profit	6,100	8,360	37.1%	ASP was largely flat, while unit cost reduced on effective costs control
Selling expenses	(1,223)	(1,633)	33.5%	Higher transportation costs due to more cement clinker being delivered from Guangxi to Guangdong
Administrative expenses	(1,808)	(2,727)	50.9%	One-off impairment loss of two inefficient clinker production and extra bonus payments
Other income	414	812	96.3%	Exchange gain on RMB borrowing
Operation profit	3,482	4,811	38.2%	
Change in fair value / non recurring	8	10	25.0%	
Finance costs	(835)	(704)	-15.7%	
Share of results of joint ventures	82	100	21.7%	
Share of results of associates	137	98	-28.0%	
Profit before tax	2,873	4,314	50.1%	
Tax	(528)	(1,036)	96.1%	Tax holidays for some subsidiaries ceased in FY13
Profit after tax	2,345	3,279	39.8%	
Minority interests	(21)	60	n.a	
Net profit	2,324	3,338	43.6%	
EPS	0.36	0.51	43.6%	
Per Ton (HK\$)				
ASP	325	326	0.3%	
Unit cost	247	233	-5.6%	
GP	78	93	18.7%	
Gross Margin	24.1%	28.5%	4.4 ppt	
Operation Margin	13.7%	16.4%	2.7 ppt	
Net profit Margin	9.2%	11.4%	2.2 ppt	

Source: the Company

**Management believes supply and demand balance will be improved in 2014.** CR Cement's management believes that national cement demand to increase 6-8% in 2014, with Southern China cement demand up 8% in 2014. Management also states that cement demand from property to remain solid on the back of strong property sales in 2013, while the social housing target in 2014 could also support cement demand. Moreover, management indicated that 1Q14 sales volume largely flat YoY and inventory level was around 70%. On the supply side, CR Cement's management sees that cement supply to be improved by 1) limited new supply, 2) P.C. 32.5 cement cancellation and 3) possible more capacity closure.

**Cement price drop is narrowing, while demand recovery is ongoing.** On 7<sup>th</sup> March 14, national cement price was RMB341/t, down 0.29% WoW. Most of the regions' cement price remained stable, except Hunan, Zhejiang and Taizhou, and cement price was down ~RMB20/t in these regions, while Sichuan and Chongqing increased cement price by RMB10/t. In

early March, Southern China's cement demand affected by rainfall, cement demand was slightly below market expectations. In Northern China, downstream demand has started to pick up significantly in Beijing and Tianjin, most of the producers' shipment reached ~50%. In Guangdong, Guangxi and Pearl River delta, cement price largely flat with producers more discipline on pricing stability. Despite, recent cement price drop in some of the regions, we still remain optimistic on cement price outlook, construction activities are expected to be more active in April, with better weather condition and traditional kick off season.

**Southern China's cement price momentum could outperform national cement price in 2014.** After CNY holiday, only Southern China (Guangdong and Guangxi) attempted to increase cement price by the way of collective price mechanism, even downstream demand has not yet pick up. We believe most of the producers in these regions are disciplined on pricing. Moreover, most of the new clinker capacity will be located in Southwest and Northwest China, and only 3 clinker lines will be added in Southern China (in Guangdong and Guangxi and no new clinker capacity in Hainan and Fujian) in 2014. In addition, the P.C.32.5 cement cancellation could further improve cement supply condition and increase clinker demand, we expect more detail to be released in the mid 2014. With limited new supply and stable demand outlook, we believe CR Cement to benefit from improving supply and demand balance in Southern China in 2014.

**We expect ASP/t to increase and unit cost to largely stay flat in FY14.** We slightly trim down FY14F revenue by 2.1% to reflect modest sales volume growth. We believe limited new clinker capacity and modest cement demand in Southern China could lift up ASP, ASP is expected to reach HK\$335/t, HK\$341/t and HK\$348/t in FY14-16F compared to HK\$314/t in FY12. We also expect unit cost to largely stay flat, as coal price is likely to remain weak and CR Cement will continue focus on cost reduction. As such, GP/t is expected to reach HK\$110/t, HK\$115/t and HK\$118/t in FY14-16F, respectively. However, higher SG&A expenses and tax rate might erode earnings, therefore we leave our FY14-15F EPS largely unchanged.

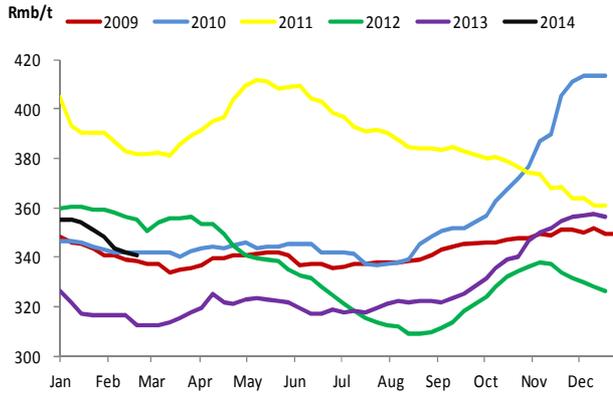
**Table-2: Earnings Revision**

HK\$ Mn	New			Old			Change		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Revenue	33,038	37,600	43,582	33,737	36,706	N.A	-2.1%	2.4%	N.A
Gross profit	10,258	11,909	13,878	9,187	10,407	N.A	11.7%	14.4%	N.A
Gross margin (%)	31.0%	31.7%	31.8%	27.2%	28.4%	N.A	3.8 p.p.	3.3 p.p.	N.A
Net profit	4,216	4,951	5,771	4,185	4,931	N.A	0.7%	0.4%	N.A
EPS (HK\$)	0.645	0.758	0.883	0.641	0.755	N.A	0.7%	0.4%	N.A
Cement & Clinker Per ton (HK\$)									
ASP	335	341	348	320	326	N.A	4.7%	4.7%	N.A
Unit cost	225	227	230	232	233	N.A	-3.2%	-2.8%	N.A
GP	110	115	118	88	93	N.A	25.5%	23.5%	N.A

Source: the Company, Guotai Junan International.

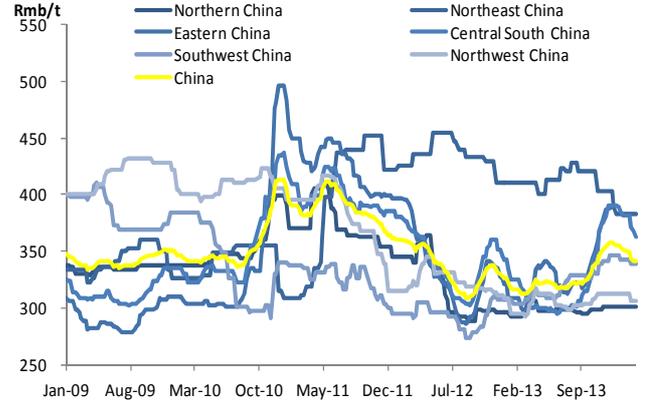
**Maintain investment rating of "Accumulate" with TP of HK\$6.70.** We are optimistic on demand and supply balance in Southern China. We believe catalysts, such as 1) industry consolidation via M&A, 2) further reinforce on pollutant emission standard and limit the consumption of energy and resources and 3) P.C. 32.5 grade cement cancellation could supply ASP and limit cement supply. More importantly, the sizable cement producers like CR Cement should be the winner during the process. Share price is expected to be weak in 1Q14 following the weak cement price trend in off season, but we believe share price is likely pick up, once the downstream demand gradually improve in April. We maintain our investment rating of "Accumulate" with TP of HK\$6.70, implying FY14-16F PER of 10.4x, 8.8x and 7.6x, respectively.

**Figure-1: China Cement Price**



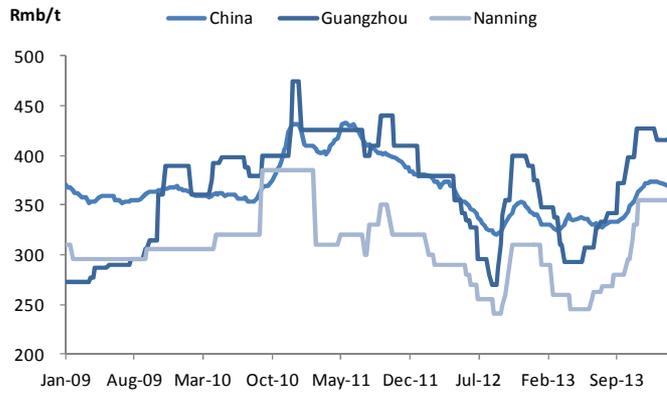
Source: Dcement, Guotai Junan International.

**Figure-2: Cement Price Trend in China**



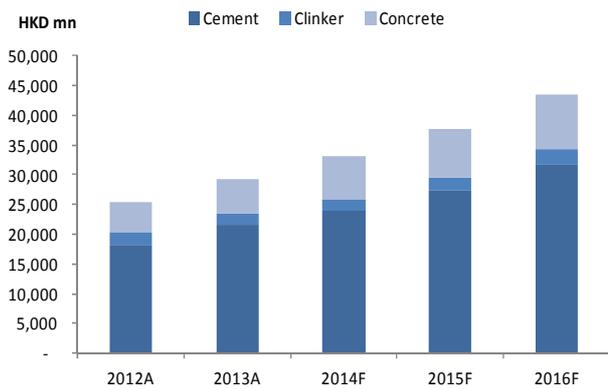
Source: Dcement, Guotai Junan International.

**Figure-3: Cement Price Trend in Southern China**



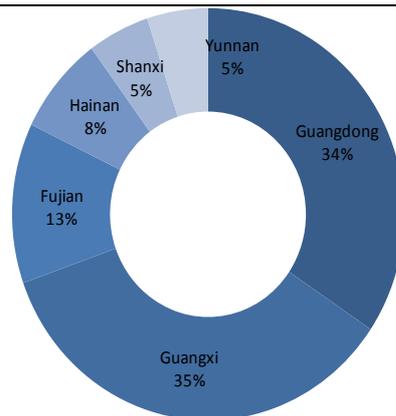
Source: Dcement, Guotai Junan International.

**Figure-4: CR Cement's Revenue Breakdown in FY12-16F**



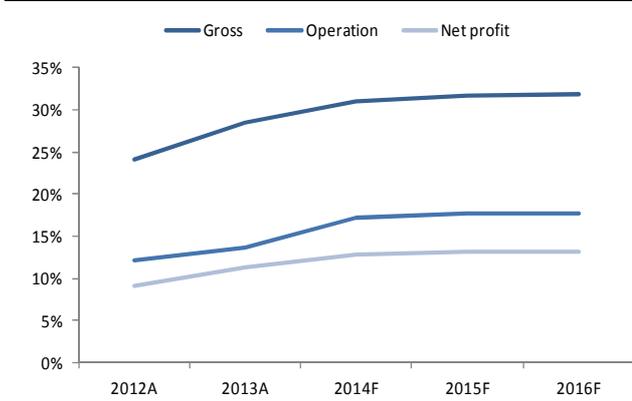
Source: the Company, Guotai Junan International.

**Figure-5: CR Cement's Revenue Breakdown by Region in FY13**



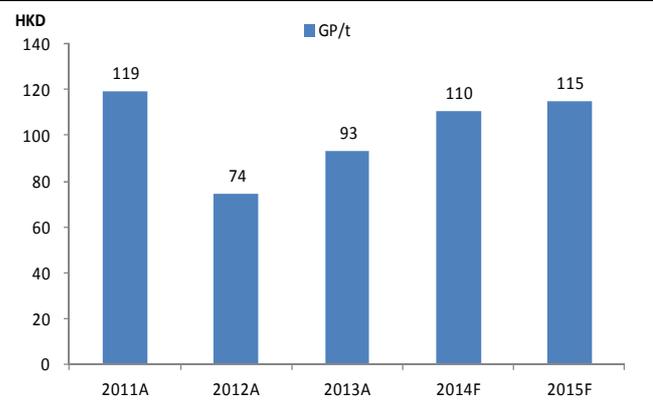
Source: the Company, Guotai Junan International.

Figure-6: CR Cement's Margins in FY12-16F



Source: the Company, Guotai Junan International.

Figure-7: CR Cement's Cement & Clinker GP/t in FY12-16F



Source: the Company, Guotai Junan International.



### 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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