

China / Hong Kong Company Update

China Hongqiao Group

Bloomberg: 1378 HK Equity | Reuters: 1378.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Feb 2022

BUY

Last Traded Price (14 Feb 2022): HK\$10.54 (HSI : 24,557)
Price Target 12-mth: HK\$15.00 (42% upside)

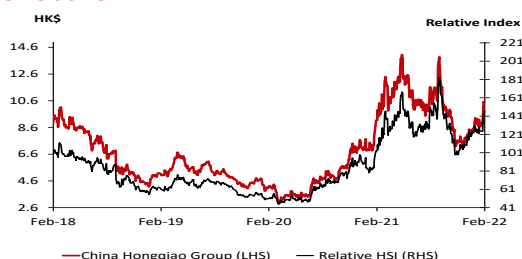
Analyst

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What's New

- 2021 net profit expected to increase by 60%
- Growth slowed in 2H21 on higher base and increase in raw materials and energy cost as expected
- Higher 1Q22 aluminium price to drive earnings momentum
- Attractive valuation; BUY, TP HK\$15

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	86,145	115,448	120,794	128,670
EBITDA	23,898	33,646	35,864	38,520
Pre-tax Profit	12,704	22,511	24,790	27,540
Net Profit	10,496	16,966	18,683	20,756
Net Profit Gth (Pre-ex) (%)	72.2	61.6	10.1	11.1
EPS (RMB)	1.22	1.86	2.05	2.28
EPS (HK\$)	1.50	2.28	2.51	2.79
EPS Gth (%)	72.3	52.3	10.1	11.1
Diluted EPS (HK\$)	1.50	2.28	2.51	2.79
DPS (HK\$)	0.80	1.10	1.21	1.34
BV Per Share (HK\$)	10.17	10.65	11.82	13.13
PE (X)	7.0	4.6	4.2	3.8
P/Cash Flow (X)	4.2	6.6	3.3	3.2
P/Free CF (X)	5.9	12.2	4.4	4.1
EV/EBITDA (X)	4.3	3.3	2.8	2.4
Net Div Yield (%)	7.6	10.4	11.4	12.7
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	0.3	0.3	0.2	0.1
ROAE (%)	15.6	22.6	22.4	22.4
Earnings Rev (%)		(5)	(2)	(2)
Consensus EPS (RMB)		2.07	2.24	2.38
Other Broker Recs:		B:10	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

2021 earnings uptrend to continue

Investment Thesis

Profit alert for 2021 net profit growth is within our expectation. Hongqiao disclosed that net profit for 2021 would increase by 60% although earnings growth in the second half had slowed due to higher base and coal price increase. Despite so, higher aluminium selling prices to support revenue and net profit growth last year.

Earnings on an uptrend, superior GP. We believe the stronger aluminium prices to drive higher GP in 1Q22. We think sales volume would remain stable in anticipation of higher sales contribution from Yunnan, outweighing the impact of the shutdown in Shandong. The company should enjoy cheaper hydro power energy source and lower production cost, which would enable CHG to deliver above-industry average earnings performance.

Concerns on risk of power surcharges is overdone. It is believed the government has low priority for imposing such surcharge in the current energy shortage environment.

Valuation:

Our TP of HK\$15.0 is based on 1.3x FY22F P/B, which is +1SD of its five-year historical mean, against ROE of 22% in 2022 (exceeding its 2013 peak). The net dividend yield in FY22F is attractive at >11%.

Where we differ:

We are more optimistic than the street that CHG's GPM can sustain at a high level supported by its production efficiency.

Key Risks to Our View:

A market collapse on an unexpected shift in the supply market landscape and/or energy policy swings.

At A Glance

Issued Capital (m shrs)	8,878
Mkt Cap (HK\$/US\$m)	93,574 / 11,994
Major Shareholders (%)	
China Hongqiao Holdings Ltd.	66.6
CITIC Trust Co., Ltd.	8.8
Free Float (%)	24.5
3m Avg. Daily Val. (US\$m)	14.83
GICS Industry: Materials / Metals & Mining	



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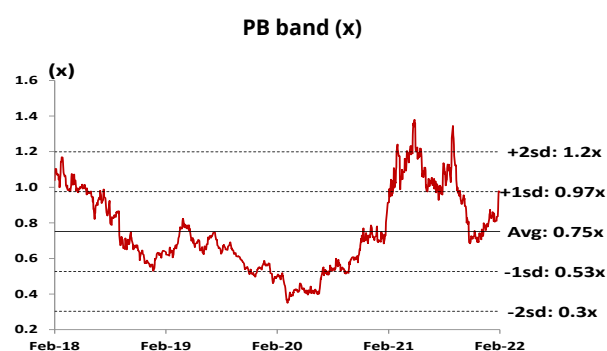
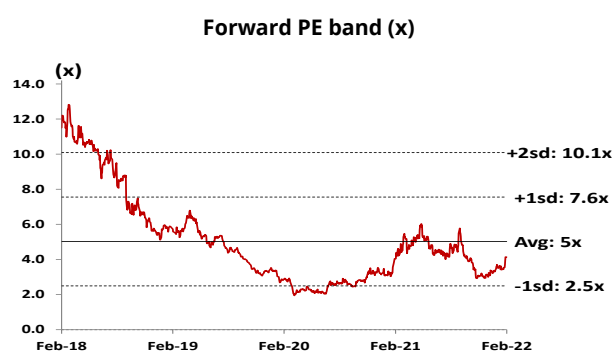


China Hongqiao Group

Company Background

China Hongqiao Group ("CHG") is a vertically integrated aluminium producer in China. CHG is engaged in production of a wide range of products from bauxite, alumina, and aluminium to fabricated products. CHG was the largest aluminium producer in China as at end-2020, with a 6.46mtpa aluminium production capacity. CHG has codeveloped a bauxite mine in Guinea and operates an alumina plant in Indonesia. The company's sales volumes of aluminium and alumina were 5.0m tons and 6.7m tons respectively in 2020.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Hongqiao Group

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales volume for alumina ('000 tonnes)	5,277.0	6,734.0	5,800.0	5,500.0	5,500.0
Sales volume for aluminum products ('000 tonnes)	5,058.0	5,060.0	5,500.0	5,500.0	5,600.0
ASP for alumina (RMB/tonne)	2,372.8	2,002.8	2,103.0	2,208.1	2,318.5
ASP for aluminum products (RMB/tonne)	12,236.3	12,498.2	16,814.2	17,699.1	18,584.1
GPM for aluminum products (%)	19.4	23.8	29.6	30.5	31.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Alumina	12,521	13,487	12,197	12,145	12,752
Aluminum products	70,996	72,038	102,583	107,982	115,240
Others	663	619	668	668	679
Total	84,179	86,145	115,448	120,794	128,670
Gross Profit (RMB m)					
Alumina	2,708	2,210	2,095	2,278	2,688
Aluminum products	13,752	17,121	30,376	32,887	36,624
Others	4	25	27	27	27
Total	16,464	19,355	32,498	35,192	39,339
Gross Profit Margins (%)					
Alumina	21.6	16.4	17.2	18.8	21.1
Aluminum products	19.4	23.8	29.6	30.5	31.8
Others	0.6	4.0	4.0	4.0	4.0
Total	19.6	22.5	28.1	29.1	30.6

Source: Company, DBS HK

China Hongqiao Group

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	84,179	86,145	115,448	120,794	128,670
Cost of Goods Sold	(67,715)	(66,789)	(82,949)	(85,603)	(89,331)
Gross Profit	16,464	19,355	32,498	35,192	39,339
Other Opng (Exp)/Inc	(4,095)	(4,452)	(7,763)	(8,135)	(9,532)
Operating Profit	12,370	14,903	24,735	27,057	29,807
Other Non Opng (Exp)/Inc	1,112	1,793	1,793	1,793	1,793
Associates & JV Inc	509	515	515	515	515
Net Interest (Exp)/Inc	(5,220)	(4,506)	(4,532)	(4,575)	(4,575)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	8,771	12,704	22,511	24,790	27,540
Tax	(2,316)	(2,260)	(5,628)	(6,197)	(6,885)
Minority Interest	(360)	51	83	91	101
Preference Dividend	0	0	0	0	0
Net Profit	6,095	10,496	16,966	18,683	20,756
Net Profit before Except.	6,095	10,496	16,966	18,683	20,756
EBITDA	21,209	23,898	33,646	35,864	38,520
Growth					
Revenue Gth (%)	(6.7)	2.3	34.0	4.6	6.5
EBITDA Gth (%)	1.9	12.7	40.8	6.6	7.4
Opg Profit Gth (%)	10.8	20.5	66.0	9.4	10.2
Net Profit Gth (%)	12.7	72.2	61.6	10.1	11.1
Margins & Ratio					
Gross Margins (%)	19.6	22.5	28.1	29.1	30.6
Opg Profit Margin (%)	14.7	17.3	21.4	22.4	23.2
Net Profit Margin (%)	7.2	12.2	14.7	15.5	16.1
ROAE (%)	9.9	15.6	22.6	22.4	22.4
ROA (%)	3.4	5.8	9.1	9.5	10.1
ROCE (%)	6.2	8.2	11.8	12.2	12.8
Div Payout Ratio (%)	44.9	53.2	48.0	48.0	48.0
Net Interest Cover (x)	2.4	3.3	5.5	5.9	6.5

Source: Company, DBS HK

China Hongqiao Group

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	71,019	64,750	63,647	62,647	61,741
Invt in Associates & JVs	4,723	6,681	6,681	6,681	6,681
Other LT Assets	10,674	12,666	12,666	12,666	12,666
Cash & ST Invt	43,281	47,007	44,376	52,432	60,623
Inventory	21,847	19,718	25,811	26,636	27,796
Debtors	27,526	28,620	36,562	37,833	39,705
Other Current Assets	534	2,089	2,089	2,089	2,089
Total Assets	179,604	181,531	191,831	200,984	211,301
ST Debt	31,942	45,552	45,552	45,552	45,552
Creditors	31,595	25,483	27,932	28,438	29,149
Other Current Liab	1,782	2,317	2,317	2,317	2,317
LT Debt	43,479	24,829	24,829	24,829	24,829
Other LT Liabilities	4,790	6,549	6,549	6,549	6,549
Shareholder's Equity	63,164	71,196	79,130	87,868	97,575
Minority Interests	2,852	5,606	5,523	5,432	5,330
Total Cap. & Liab.	179,604	181,531	191,831	200,984	211,301
Non-Cash Wkg. Capital	16,530	22,627	34,214	35,804	38,124
Net Cash/(Debt)	(32,140)	(23,374)	(26,005)	(17,949)	(9,758)
Debtors Turn (avg days)	86.6	86.7	74.2	84.8	84.1
Creditors Turn (avg days)	81.0	73.1	61.5	60.6	59.6
Inventory Turn (avg days)	112.3	113.6	113.6	113.6	113.6
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.6
Current Ratio (x)	1.4	1.3	1.4	1.6	1.7
Quick Ratio (x)	1.1	1.0	1.1	1.2	1.3
Net Debt/Equity (X)	0.5	0.3	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.5	0.3	0.3	0.2	0.1
Capex to Debt (%)	4.3	7.5	7.8	7.8	7.8
Z-Score (X)	1.4	1.6	1.7	1.7	1.7

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	8,771	12,704	22,511	24,790	27,540
Dep. & Amort.	7,218	6,688	6,604	6,500	6,406
Tax Paid	(2,219)	(2,430)	(5,628)	(6,197)	(6,885)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(4,263)	(3,414)	(11,587)	(1,590)	(2,320)
Other Operating CF	5,034	4,231	0	0	0
Net Operating CF	14,541	17,779	11,900	23,502	24,740
Capital Exp.(net)	(3,228)	(5,268)	(5,500)	(5,500)	(5,500)
Other Invt.(net)	(2,316)	(113)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(718)	(1,593)	0	0	0
Net Investing CF	(6,263)	(6,974)	(5,500)	(5,500)	(5,500)
Div Paid	(1,921)	(3,768)	(9,032)	(9,946)	(11,049)
Chg in Gross Debt	(4,444)	(6,365)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(5,451)	2,984	0	0	0
Net Financing CF	(11,816)	(7,150)	(9,032)	(9,946)	(11,049)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(3,537)	3,655	(2,632)	8,056	8,191
Opg CFPS (RMB)	2.19	2.47	2.57	2.75	2.97
Free CFPS (RMB)	1.32	1.46	0.70	1.97	2.11

Source: Company, DBS HK

China Hongqiao Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	HK\$10.38	HK\$11.00	Buy
2:	29-Mar-21	HK\$10.40	HK\$15.00	Buy
3:	18-May-21	HK\$12.26	HK\$16.00	Buy
4:	29-Jul-21	HK\$9.46	HK\$16.00	Buy
5:	13-Aug-21	HK\$11.44	HK\$18.00	Buy
6:	17-Jan-22	HK\$8.93	HK\$15.00	Buy

Source: DBS HK

Analyst: Duncan CHAN

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 15 Feb 2022 08:02:45 (HKT)

Dissemination Date: 15 Feb 2022 08:27:23 (HKT)

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