

Anhui Conch Cement

Bloomberg: 914 HK Equity | 600585 CH Equity | Reuters: 0914.HK | 600585.SS

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DBS Group Research . Equity

28 Mar 2022

H: BUY

Last Traded Price (25 Mar 2022): HK\$38.05 (HSI : 21,405)
Price Target 12-mth: HK\$58.00 (52.4% upside)

A: BUY

Last Traded Price (25 Mar 2022): RMB36.87 (CSI300 Index : 4,175)
Price Target 12-mth: RMB55.00 (49.2% upside)

Analyst

Duncan Chan +852 36684178 duncanchan@dbs.com

What's New

- FY21 net earnings declined 5% on lower sales volume, partly offset by better unit GP; in line
- Accelerating upstream and green energy capacity expansion, raising stake in industry peers
- Optimistic sales guidance, expecting cement volume to resume growth (+c.6%) this year
- Raised FY22F/FY23F earnings by 4%/2%; maintain BUY and HK\$58 TP based on 1.3x FY22 F P/BV

Above peers' GP to maintain

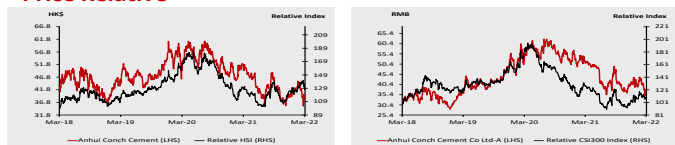
Investment Thesis

FY21 results in line. Revenue and net earnings both dropped by c.5% on lower self-produced cement sales (304m tons) due to disruption from power rationing. On a bright note, Conch has guided that its self-produced sales volume would rebound to 325m tons this year. Unit GP was estimated to be RMB157 for FY21, just behind the record of RMB158/t in FY19. Final dividend increased by 12% to RMB2.38 per share, translating to a payout of 38%, comparable to 2017's 40%.

Above peers' unit GP. Conch has achieved superior GP compared to its major listed peers (CNBM RMB95/t and CRC HK\$146/t) underpinned by its lower cost of production and higher operating efficiency. Meanwhile, Conch's capacity expansion will boost self-supply of green energy and aggregates production during 2021-2023, providing additional growth catalyst.

Room to raise investment stakes in peers. Conch raised its stakes in four cement peers last year. Its strong balance sheet (FY21: net cash) should enable Conch's to raise its stake further or embark on other market consolidation initiatives.

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	176,295	167,953	178,204	181,286
EBITDA	53,067	50,442	55,416	57,646
Pre-tax Profit	47,173	44,152	47,519	48,375
Net Profit	35,192	33,301	34,700	35,325
Net Profit Gth (Pre-ex) (%)	4.6	(5.4)	4.2	1.8
EPS (HK\$)	8.17	7.73	8.05	8.20
EPS Gth (%)	4.6	(5.4)	4.2	1.8
Diluted EPS (HK\$)	8.17	7.73	8.05	8.20
DPS (HK\$)	2.61	2.93	3.06	3.11
BV Per Share (HK\$)	37.52	42.60	47.59	52.67
PE (X)	4.7	4.9	4.7	4.6
P/Cash Flow (X)	4.7	4.8	3.8	3.7
P/Free CF (X)	6.6	8.8	10.4	9.2
EV/EBITDA (X)	2.2	2.3	2.0	1.9
Net Div Yield (%)	6.9	7.7	8.0	8.2
P/Book Value (X)	1.0	0.9	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.6	19.3	17.9	16.4
Earnings Rev (%)			5	2
Consensus EPS (RMB)			6.06	6.17
Other Broker Recs:		B:21	S:0	H:6

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

Valuation:

Our H-share TP of HK\$58 is based on 1.3x FY21F P/BV, pegged to its historical average during 2016-2020, against ROE which is expected to stabilise at 17% over 2022-2023. The stock also offers a net dividend yield of >8%. Our TP for Conch A-shares is RMB55, pegged to 1.4x FY21F P/BV.

Where we differ:

Our FY22F/FY23F earnings are higher than consensus, in view of Conch's consistent delivery of above-peer product GP.

Key Risks to Our View:

Unexpected market supply expansion or collapse in demand may adversely impact our assumptions.

At A Glance

Issued Capital - H shares (m shs)	1,300
- Non H shrs (m shs)	4,000
H shs as a % of Total	25
Total Mkt Cap (HK\$m/US\$m)	230,786 / 29,481
Major Shareholders (%)	
Anhui Conch Group Co., Ltd.	48.2
Major H Shareholders (As % of H shares)	
Taiwan Cement Corp	9.0
Artisan Partners Limited Partnership	5.0
H Shares-Free Float (%)	86.0
3m Avg. Daily Val. (US\$m)	34.11
GICS Industry: Materials / Construction Materials	



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Company Background

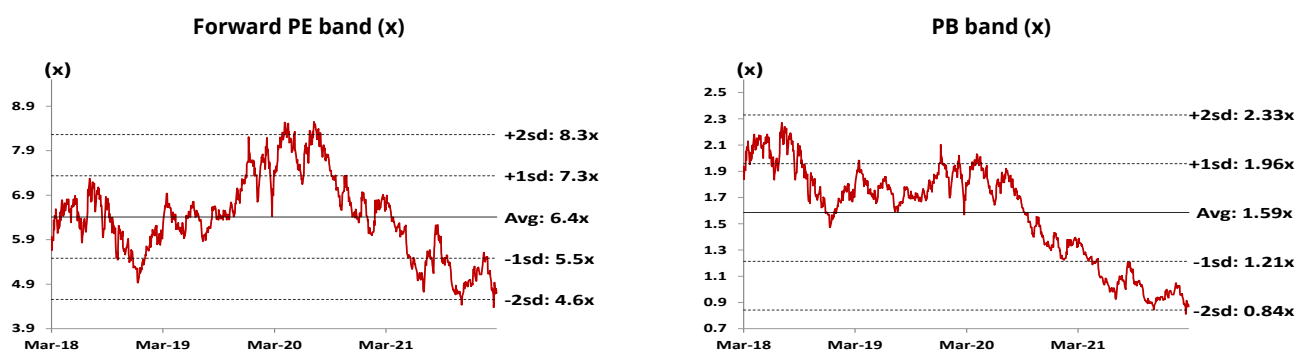
Anhui Conch (Conch) is an Anhui province government-owned enterprise, and is China's second-largest cement producer with output capacity of 269m tonnes of clinker and 384m tonnes of cement as at end-2021. It has sales exposure to East China (29%), Central China (33%), South China (18%), West China (17%) and overseas (3%). Conch is China's largest cement exporter. The company had a 65.8m-tonne output capacity for aggregates as of end-2021.

Income Statement (RMB m)

FY Dec	2020A	2021A	% cha yoy
Revenue	176,295	167,953	-4.7
Cost of Goods Sold	(126,096)	(119,389)	-5.3
Gross Profit	50,199	48,564	-3.3
Other Opng (Exp)/Inc	(8,338)	(8,519)	2.2
Operating Profit	41,861	40,045	-4.3
Other Non Opg (Exp)/Inc	4,973	3,783	-23.9
Associates & JV Inc	804	658	-18.2
Net Interest (Exp)/Inc	(465)	(334)	-28.2
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	47,173	44,152	-6.4
Tax	(10,737)	(9,950)	-7.3
Minority Interest	(1,244)	(901)	-27.6
Net Profit	35,192	33,301	-5.4
Net Profit before Except.	35,192	33,301	-5.4
EBITDA	40,617	39,282	-3.3
Margins & Ratio			
Gross Margins (%)	28.5	28.9	
Opg Profit Margin (%)	23.7	23.8	
Net Profit Margin (%)	20.0	19.8	

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Anhui Conch Cement

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	322.7	325.0	304.0	325.0	330.0
ASP for cement products (RMB/t)	336.7	325.1	360.6	371.4	375.1
Unit gross profit for cement products (RMB/t)	158.2	152.4	157.2	159.9	161.5
Trading volume for cement products (Mt)	110.0	128.0	105.0	105.0	105.0
Gross profit for trading cement products (RMB/t)	62.6	96.4	75.9	75.9	75.9

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Cement	108,673	105,650	109,610	120,697	123,780
Trading	38,349	41,068	36,571	36,571	36,571
Others	10,009	29,577	21,771	20,935	20,935
Total	157,030	176,295	167,953	178,204	181,286
Gross Profit (RMB m)					
Cement	50,748	50,047	48,406	51,968	53,296
Trading	63	96	76	76	76
Others	96	56	81	(143)	(143)
Total	50,906	50,199	48,564	51,901	53,228
Gross Profit Margins (%)					
Cement	46.7	47.4	44.2	43.1	43.1
Trading	0.2	0.2	0.2	0.2	0.2
Others	1.0	0.2	0.4	(0.7)	(0.7)
Total	32.4	28.5	28.9	29.1	29.4

Source: Company, DBS HK

Anhui Conch Cement

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	157,030	176,295	167,953	178,204	181,286
Cost of Goods Sold	(106,124)	(126,096)	(119,389)	(126,303)	(128,058)
Gross Profit	50,906	50,199	48,564	51,901	53,228
Other Opg (Exp)/Inc	(10,526)	(8,338)	(8,519)	(9,039)	(9,195)
Operating Profit	40,380	41,861	40,045	42,862	44,033
Other Non Opg (Exp)/Inc	3,808	4,973	3,783	4,378	4,080
Associates & JV Inc	854	804	658	658	658
Net Interest (Exp)/Inc	(446)	(465)	(334)	(379)	(397)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	44,596	47,173	44,152	47,519	48,375
Tax	(10,205)	(10,737)	(9,950)	(11,880)	(12,094)
Minority Interest	(761)	(1,244)	(901)	(939)	(956)
Preference Dividend	0	0	0	0	0
Net Profit	33,630	35,192	33,301	34,700	35,325
Net Profit before Except.	33,630	35,192	33,301	34,700	35,325
EBITDA	50,313	53,067	50,442	55,416	57,646
Growth					
Revenue Gth (%)	22.3	12.3	(4.7)	6.1	1.7
EBITDA Gth (%)	11.5	5.5	(4.9)	9.9	4.0
Opg Profit Gth (%)	6.3	3.7	(4.3)	7.0	2.7
Net Profit Gth (%)	12.6	4.6	(5.4)	4.2	1.8
Margins & Ratio					
Gross Margins (%)	32.4	28.5	28.9	29.1	29.4
Opg Profit Margin (%)	25.7	23.7	23.8	24.1	24.3
Net Profit Margin (%)	21.4	20.0	19.8	19.5	19.5
ROAE (%)	26.9	23.6	19.3	17.9	16.4
ROA (%)	20.5	18.5	15.4	14.4	13.4
ROCE (%)	22.0	19.3	16.1	14.8	13.8
Div Payout Ratio (%)	31.5	31.9	37.9	38.0	38.0
Net Interest Cover (x)	90.5	90.1	120.0	113.0	111.0

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	70,164	72,753	80,992	100,474	118,599
Invt in Associates & JVs	3,821	4,223	5,563	5,563	5,563
Other LT Assets	7,581	10,891	19,941	19,941	19,941
Cash & ST Invt	54,977	62,178	69,536	72,181	76,677
Inventory	5,572	7,002	9,896	8,938	9,062
Debtors	36,316	43,635	43,991	43,699	44,030
Other Current Assets	348	291	597	597	597
Total Assets	178,777	200,973	230,515	251,392	274,469
ST Debt	3,918	3,109	8,024	8,024	8,024
Creditors	15,832	12,515	17,399	15,823	16,043
Other Current Liab	7,672	8,599	7,247	7,247	7,247
LT Debt	7,369	6,808	3,748	3,748	3,748
Other LT Liabilities	1,856	1,879	2,390	2,390	2,390
Shareholder's Equity	137,186	161,681	183,577	205,092	226,993
Minority Interests	4,944	6,382	8,130	9,069	10,025
Total Cap. & Liab.	178,777	200,973	230,515	251,392	274,469
Non-Cash Wkg. Capital	18,732	29,814	29,837	30,163	30,400
Net Cash/(Debt)	43,690	52,261	57,764	60,410	64,905
Debtors Turn (avg days)	55.4	37.5	39.3	39.6	39.0
Creditors Turn (avg days)	51.8	41.0	45.7	48.0	45.4
Inventory Turn (avg days)	19.9	18.2	25.8	25.8	25.8
Asset Turnover (x)	1.0	0.9	0.8	0.7	0.7
Current Ratio (x)	3.5	4.7	3.8	4.0	4.2
Quick Ratio (x)	3.3	4.4	3.5	3.7	3.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	70.8	100.5	129.1	229.4	229.4
Z-Score (X)	7.4	7.4	7.3	7.3	7.3

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	44,596	47,173	44,152	47,519	48,375
Dep. & Amort.	5,271	5,430	5,957	7,518	8,875
Tax Paid	(10,713)	(10,550)	(9,950)	(11,880)	(12,094)
Assoc. & JV Inc/(loss)	854	804	658	658	658
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	2,614	(1,970)	(2,556)	(326)	(236)
Other Operating CF	(2,311)	(6,065)	(4,360)	(658)	(658)
Net Operating CF	40,309	34,822	33,901	42,831	44,920
Capital Exp.(net)	(7,991)	(9,971)	(15,202)	(27,000)	(27,000)
Other Invt.(net)	223	890	615	0	0
Invt in Assoc. & JV	(25,145)	(20,314)	(6,994)	0	0
Div from Assoc & JV	0	1	1	1	1
Other Investing CF	12,225	2,640	(87)	(1)	(1)
Net Investing CF	(20,689)	(26,754)	(21,667)	(27,000)	(27,000)
Div Paid	(9,249)	(11,403)	(12,139)	(13,186)	(13,424)
Chg in Gross Debt	1,032	(1,285)	268	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	734	(519)	267	0	0
Net Financing CF	(7,483)	(13,207)	(11,604)	(13,186)	(13,424)
Currency Adjustments	0	0	0	0	0
Chg in Cash	12,137	(5,139)	629	2,645	4,496
Opg CFPS (RMB)	7.11	6.94	6.88	8.14	8.52
Free CFPS (RMB)	6.10	4.69	3.53	2.99	3.38

Source: Company, DBS HK

Anhui Conch Cement

H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Mar-21	HK\$49.50	HK\$60.00	Buy
2:	13-Aug-21	HK\$42.90	HK\$55.00	Buy
3:	27-Sep-21	HK\$43.80	HK\$60.00	Buy
4:	17-Jan-22	HK\$40.60	HK\$58.00	Buy

Source: DBS HK

Analyst: Duncan Chan

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Mar-21	RMB51.33	RMB55.00	Hold
2:	13-Aug-21	RMB41.15	RMB45.00	Buy
3:	27-Sep-21	RMB43.51	RMB55.00	Buy
4:	17-Jan-22	RMB39.06	RMB55.00	Buy

Source: DBS HK

Analyst: Duncan Chan

Anhui Conch Cement

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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

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Anhui Conch Cement

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Pivat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

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