

China National Building Material

Bloomberg: 3323 HK Equity | Reuters: 3323.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Mar 2022

BUY

Last Traded Price (25 Mar 2022): HK\$9.02 (HSI : 21,405)
Price Target 12-mth: HK\$16.50 (83% upside) (Prev HK\$16.00)

Analyst

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What's New

- FY21 net earnings increased 29% y-o-y on non cement growth drivers; cement sales volume was better-than-expected and flattish unit GP
- New materials and engineering technical services' contribution exceed one-third of total earnings
- Three-year debt reduction target is on track and FY21 dividend is generous
- Maintain BUY and TP of HK\$16.5 based on a higher 1.0x FY22F P/BV (0.7x previously)

Rising from the ashes

Investment Thesis

The first results post group's cement asset restructure. Net earnings growth was better than expected at 29% and outpaced revenue increase of 7% in the period. Cement sales volume dropped by only 4% despite the power shortage. Unit GP was stable at RMB95/t (FY20: RMB96/t). Meanwhile, contribution from non-cement (new materials and engineering services) businesses increased to 35% of total net profit (FY20: 23%) amid accelerating expansion in those markets.

Three-year debt reduction plan is progressing well. Net gearing fell to 76% at end-2021 from 85% the year before. With the latest guidance that capex will not be more than RMB35b for FY22F, gearing should be less than 70% by FY23F. On increased earnings and cashflow, the company's final dividend was increased by 47% to RMB0.693 per share on a payout of 36%, the highest in the past three years.

Maintain BUY in view of the continuous value unlocking from the group efficiency improvement. We raised our FY22F/FY23F net earnings by 4% each on faster growth expansion in the non-cement business.

Valuation:

Our TP of HK\$16.5 is based on 1.0x FY22F P/B, pegged to the historical mean during 2009 and 2021. Higher ROE should drive a valuation re-rating.

Where we differ:

Our FY22F/FY23F earnings are higher than consensus, in anticipation of a better unit cement GP to be delivered.

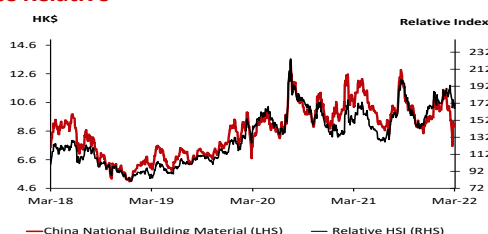
Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	4,558
Mkt Cap (HK\$m/US\$m)	41,114 / 5,252
Major Shareholders (%)	
China Cinda Asset Management Co., Ltd.	6.3
Free Float (%)	93.7
3m Avg. Daily Val. (US\$m)	36.67
GICS Industry: Materials / Construction Materials	

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	254,843	273,683	271,340	278,313
EBITDA	51,637	56,253	63,603	68,129
Pre-tax Profit	30,060	33,588	39,237	42,468
Net Profit	12,563	16,218	17,892	19,365
Net Profit Gth (Pre-ex) (%)	14.5	29.1	10.3	8.2
EPS (HK\$)	1.83	2.36	2.61	2.82
EPS Gth (%)	14.5	29.1	10.3	8.2
Diluted EPS (HK\$)	1.83	2.36	2.61	2.82
DPS (HK\$)	0.58	0.85	0.78	0.85
BV Per Share (HK\$)	13.17	14.85	16.68	18.65
PE (X)	4.9	3.8	3.5	3.2
P/Cash Flow (X)	1.0	1.2	1.4	1.2
P/Free CF (X)	1.8	4.3	370.6	4.0
EV/EBITDA (X)	5.4	4.9	4.6	4.3
Net Div Yield (%)	6.4	9.4	8.7	9.4
P/Book Value (X)	0.7	0.6	0.5	0.5
Net Debt/Equity (X)	0.8	0.8	0.7	0.6
ROAE (%)	14.7	16.9	16.5	16.0
Earnings Rev (%)			4	4
Consensus EPS (RMB)			2.19	2.34
Other Broker Recs:		B:21	S:0	H:3

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



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China National Building Material

Company Background

China National Building Material ("CNBM") is a central government-owned enterprise. The company is the largest cement and concrete producer in China with a clinker annual capacity of 380mt as at end-2021. The company is also a leading manufacturer of concrete gypsum boards, glass fibres, rotor blades, and other related products. Cement, new materials, and other businesses (mainly engineering services) accounted for 49%/19%/32% of total sales revenue in FY21.

Income Statement (RMB m)

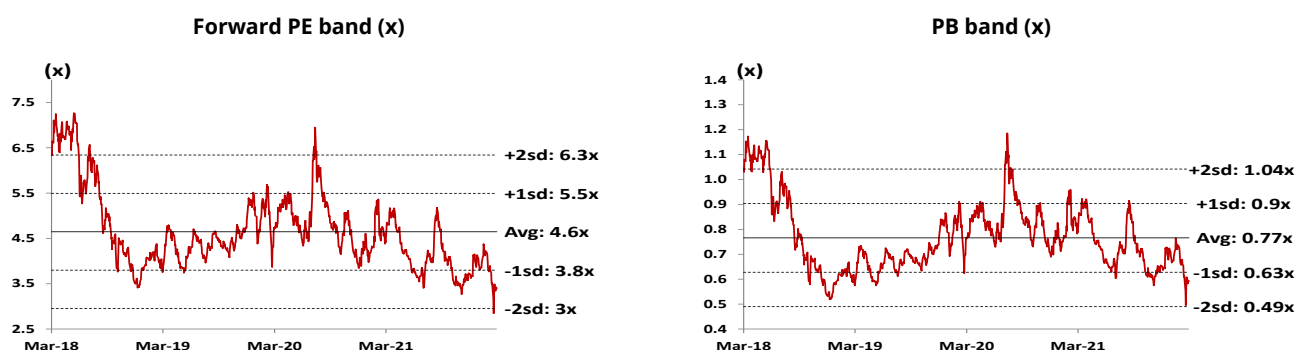
FY Dec	2020A	2021A	% cha yoy
Revenue	254,843	273,683	7.4
Cost of Goods Sold	(187,995)	(208,315)	10.8
Gross Profit	66,847	65,368	(2.2)
Other Opng (Exp)/Inc	(35,300)	(33,442)	(5.3)
Operating Profit	31,547	31,927	1.2
Other Non Opng (Exp)/Inc	2,318	4,878	110.5
Associates & JV Inc	3,274	4,019	22.7
Net Interest (Exp)/Inc	(7,079)	(7,236)	2.2
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	30,060	33,588	11.7
Tax	(8,396)	(7,969)	(5.1)
Minority Interest	(9,102)	(9,401)	3.3
Net Profit	12,563	16,218	29.1
Net Profit before Except.	12,563	16,218	29.1

Margins & Ratio

Gross Margins (%)	26.2	23.9
Opg Profit Margin (%)	12.4	11.7
Net Profit Margin (%)	4.9	5.9

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China National Building Material

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	389.5	388.8	372.5	353.9	353.9
Sales volume for concrete (Mn m ³)	111.8	111.5	111.8	111.8	111.8
ASP for cement products (HK\$/t)	336.6	327.9	362.6	360.7	364.3
ASP for Concrete (HK\$/m ³)	464.7	458.6	378.5	378.5	378.5
Gross profit for cement products (HK\$/t)	113.6	94.7	94.2	96.8	101.4

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Cement	131,130	127,497	135,099	127,645	128,921
Concrete	51,946	51,110	50,760	42,323	42,323
Aggregate	70,328	76,236	87,824	101,372	107,069
Total	253,403	254,843	273,683	271,340	278,313
Gross profit (RMB m)					
Cement	44,246	36,828	35,091	34,266	35,896
Concrete	12,986	9,711	7,614	7,195	7,195
Aggregate	19,357	20,308	22,663	21,833	22,967
Total	76,590	66,847	65,368	63,294	66,058
Gross profit Margins (%)					
Cement	33.7	28.9	26.0	26.8	27.8
Concrete	25.0	19.0	15.0	17.0	17.0
Aggregate	27.5	26.6	25.8	21.5	21.5
Total	30.2	26.2	23.9	23.3	23.7

Source: Company, DBS HK

China National Building Material

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	253,403	254,843	273,683	271,340	278,313
Cost of Goods Sold	(176,813)	(187,995)	(208,315)	(208,046)	(212,255)
Gross Profit	76,590	66,847	65,368	63,294	66,058
Other Opng (Exp)/Inc	(47,144)	(35,300)	(33,442)	(27,002)	(27,696)
Operating Profit	29,446	31,547	31,927	36,292	38,362
Other Non Opg (Exp)/Inc	4,297	2,318	4,878	5,878	6,878
Associates & JV Inc	2,459	3,274	4,019	3,984	4,087
Net Interest (Exp)/Inc	(8,754)	(7,079)	(7,236)	(6,917)	(6,859)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	27,448	30,060	33,588	39,237	42,468
Tax	(9,019)	(8,396)	(7,969)	(9,417)	(10,192)
Minority Interest	(7,455)	(9,102)	(9,401)	(11,928)	(12,910)
Preference Dividend	0	0	0	0	0
Net Profit	10,974	12,563	16,218	17,892	19,365
Net Profit before Except.	10,974	12,563	16,218	17,892	19,365
EBITDA	50,338	51,637	56,253	63,603	68,129
Growth					
Revenue Gth (%)	15.7	0.6	7.4	(0.9)	2.6
EBITDA Gth (%)	14.6	2.6	8.9	13.1	7.1
Opg Profit Gth (%)	9.8	7.1	1.2	13.7	5.7
Net Profit Gth (%)	38.4	14.5	29.1	10.3	8.2
Margins & Ratio					
Gross Margins (%)	30.2	26.2	23.9	23.3	23.7
Opg Profit Margin (%)	11.6	12.4	11.7	13.4	13.8
Net Profit Margin (%)	4.3	4.9	5.9	6.6	7.0
ROAE (%)	14.4	14.7	16.9	16.5	16.0
ROA (%)	2.5	2.8	3.5	3.8	3.9
ROCE (%)	5.7	6.6	6.9	7.5	7.5
Div Payout Ratio (%)	26.9	31.6	36.0	30.0	30.0
Net Interest Cover (x)	3.4	4.5	4.4	5.2	5.6

Source: Company, DBS HK

China National Building Material

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	173,141	172,457	181,241	208,792	224,990
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	116,250	127,721	131,583	131,583	131,583
Cash & ST Invt	29,210	34,820	31,041	25,840	35,383
Inventory	20,022	20,309	21,199	20,727	21,146
Debtors	98,054	93,113	87,003	89,286	91,581
Other Current Assets	9,871	8,224	10,475	10,475	10,475
Total Assets	446,548	456,643	462,542	486,704	515,158
ST Debt	97,737	89,441	73,751	73,751	73,751
Creditors	89,285	98,213	98,540	98,250	100,237
Other Current Liab	11,343	10,557	10,586	10,586	10,586
LT Debt	88,496	85,629	93,093	93,093	93,093
Other LT Liabilities	8,430	7,507	7,949	7,949	7,949
Shareholder's Equity	80,636	90,324	101,873	114,398	127,954
Minority Interests	70,621	74,972	76,751	88,679	101,590
Total Cap. & Liab.	446,548	456,643	462,542	486,704	515,158
Non-Cash Wkg. Capital	27,318	12,874	9,551	11,653	12,380
Net Cash/(Debt)	(157,023)	(140,250)	(135,802)	(141,003)	(131,461)
Debtors Turn (avg days)	140.8	136.9	120.1	120.1	120.1
Creditors Turn (avg days)	173.7	182.0	172.4	172.4	172.4
Inventory Turn (avg days)	8.1	(6.0)	(15.9)	(15.9)	(15.9)
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.6
Current Ratio (x)	0.8	0.8	0.8	0.8	0.9
Quick Ratio (x)	0.6	0.6	0.6	0.6	0.7
Net Debt/Equity (X)	1.0	0.8	0.8	0.7	0.6
Net Debt/Equity ex MI (X)	1.9	1.6	1.3	1.2	1.0
Capex to Debt (%)	14.3	16.8	21.3	27.0	21.0
Z-Score (X)	1.0	1.1	1.1	1.2	1.2

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	27,448	30,060	33,588	39,237	42,468
Dep. & Amort.	14,135	14,497	15,429	17,449	18,802
Tax Paid	(8,083)	(8,115)	(8,831)	(9,417)	(10,192)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	8,590	11,917	2,037	(2,102)	(726)
Other Operating CF	21,257	15,869	7,867	0	0
Net Operating CF	63,348	64,230	50,090	45,167	50,352
Capital Exp.(net)	(26,580)	(29,343)	(35,590)	(45,000)	(35,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(26,580)	(29,343)	(35,590)	(45,000)	(35,000)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(22,110)	(11,234)	5,489	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(11,401)	(17,644)	(22,210)	(5,368)	(5,810)
Net Financing CF	(33,510)	(28,878)	(16,721)	(5,368)	(5,810)
Currency Adjustments	0	0	0	0	0
Chg in Cash	3,257	6,008	(2,222)	(5,201)	9,543
Opg CFPS (RMB)	6.49	6.20	5.70	5.60	6.06
Free CFPS (RMB)	4.36	4.14	1.72	0.02	1.82

Source: Company, DBS HK

China National Building Material

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-21	HK\$11.04	HK\$14.00	Buy
2:	13-Aug-21	HK\$10.06	HK\$12.50	Buy
3:	9-Sep-21	HK\$12.12	HK\$14.00	Buy
4:	27-Sep-21	HK\$10.94	HK\$16.00	Buy
5:	17-Jan-22	HK\$10.34	HK\$16.00	Buy

Source: DBS HK

Analyst: Duncan Chan

China National Building Material

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

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