

West China Cement

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DBS Group Research . Equity

18 May 2022

BUY

Last Traded Price (17 May 2022): HK\$1.16 (HSI : 20,603)
Price Target 12-mth: HK\$1.47 (27% upside) (Prev HK\$1.60)

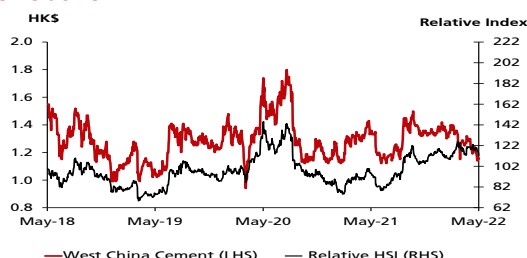
Analyst

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What's New

- 1Q22 earnings dragged by slower progress of construction projects due to Covid
- Expect sales volume recovery ahead
- Cut FY22F/FY23F earnings by 33%/27% on lower GP assumptions
- Maintain BUY with new TP of HK\$1.47 based on 0.5x (0.6x previously) FY22F P/BV

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	7,131	8,003	8,083	8,444
EBITDA	2,719	3,260	2,871	3,347
Pre-tax Profit	1,847	2,084	1,779	2,167
Net Profit	1,560	1,585	1,353	1,649
Net Profit Gth (Pre-ex) (%)	(13.4)	1.6	(14.6)	21.8
EPS (RMB)	0.29	0.29	0.25	0.30
EPS (HK\$)	0.33	0.34	0.29	0.35
EPS Gth (%)	(13.5)	1.6	(14.6)	21.8
Diluted EPS (HK\$)	0.33	0.34	0.29	0.35
DPS (HK\$)	0.14	0.10	0.09	0.11
BV Per Share (HK\$)	2.21	2.42	2.62	2.87
PE (X)	3.5	3.4	4.0	3.3
P/Cash Flow (X)	2.0	2.8	1.9	1.7
P/Free CF (X)	nm	nm	13.3	7.3
EV/EBITDA (X)	2.9	2.1	2.5	2.1
Net Div Yield (%)	12.1	8.7	7.5	9.1
P/Book Value (X)	0.5	0.5	0.4	0.4
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	16.1	14.6	11.5	12.8
Earnings Rev (%):			(34)	(27)
Consensus EPS (RMB)			0.32	0.40
Other Broker Recs:		B:3	S:1	H:0

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

Riding on a pick-up in construction projects

Investment Thesis

Sales outlook intact. Since the company's 10,000tpd clinker line in the Tongchuan Plant commenced operations in mid-2021, the company's average capacity utilisation rate has improved to 91% (FY20: 84%) in FY21. Based on the schedule of the key railway and expressway projects in Shaanxi, we foresee the company's sales volume growth to achieve 3% CAGR during 2021-2023.

Stable GP outlook. We foresee the company's unit GP to improve with the gradual recovery in the cement sector. We estimate unit GP to reach RMB95-100 per tonne level in the next two years.

Strategic shareholder continues to raise stake. China cement industry leader Anhui Conch continues to raise its stake in the company and is now the second largest shareholder. In view of the improving construction market outlook, we believe WCC would benefit from developments and projects in the western part of China.

Valuation:

Our TP of HK\$1.47 is based on a 0.5x FY22F P/B, pegged to its historical mean between 2016 and 2020. The share price is trading at a deeper than historical average valuation discount to the peer. We expect the sales pick up would drive a re-rating.

Where we differ:

Our FY22F/FY23F earnings are higher than the consensus, in anticipation of Shaanxi's construction activities rebound.

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)	5,439
Mkt Cap (HKm/US\$m)	6,309 / 804
Major Shareholders (%)	
Zhang (Jimin)	32.3
Anhui Conch Cement Co Ltd	29.1
Free Float (%)	38.6
3m Avg. Daily Val. (US\$m)	2.86
GICS Industry: Materials / Construction Materials	



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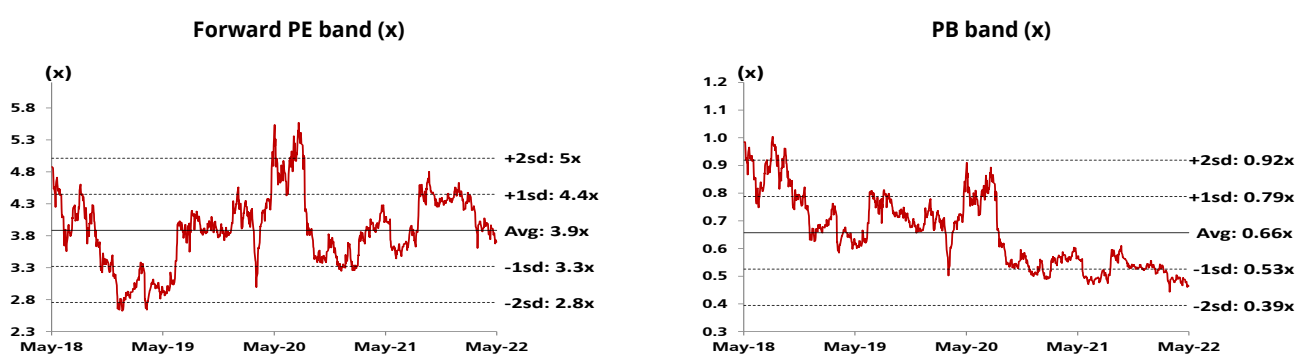
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Company Background

The largest cement producer in Shaanxi with a total cement capacity of 29.0mt p.a. (21.7mt p.a. in Shaanxi, 3.5mt p.a. in Xinjiang, 1.8mt p.a. in Guizhou, and 2.0mtpa in Mozambique) as at end-2021.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Quarterly Income Statement (RMBm) – Yaobai Special Cement Group Co., Ltd

FY Dec	1Q2021	1Q2022	% chg_yoy
Revenue	1,423	1,345	-5.5
Cost of Goods Sold	(974)	(990)	1.6
Gross Profit	449	355	-20.9
Other Oper. (Exp)/Inc	(95)	(102)	6.7
Operating Profit	354	253	-28.3
Other Non Opg (Exp)/Inc	41	22	-46.5
Associates & JV Inc	0	0	nm
Net Interest (Exp)/Inc	(34)	(65)	93.3
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	360	210	-41.8
Tax	(56)	(35)	-37.3
Minority Interest	(25)	(11)	-56.9
Net Profit	280	164	-41.4
Net profit bef Except.	280	164	-41.4
EBITDA	280	164	-41.4
Margins (%)			
Gross Margins	31.5	26.4	
Opg Profit Margins	24.8	18.8	
Net Profit Margins	19.6	12.2	

Source: Company, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	19.3	19.9	20.3	20.4	21.4
ASP for cement products (RMB/t)	333.0	301.0	339.0	340.0	340.0
Gross profit for cement products (RMB/t)	120.0	100.0	105.0	95.0	100.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Cement	6,427	5,990	6,882	6,936	7,276
Aggregates	820	1,141	1,121	1,147	1,168
Total	7,247	7,131	8,003	8,083	8,444
Gross profit (RMB m)					
Cement	2,055	1,842	1,787	1,594	1,796
Aggregates	385	501	589	603	615
Total	2,440	2,342	2,377	2,196	2,410
Gross profit Margins (%)					
Cement	32.0	30.7	26.0	23.0	24.7
Aggregates	46.9	43.9	52.6	52.5	52.6
Commercial Concrete	N/A	N/A	N/A	N/A	N/A
Total	33.7	32.8	29.7	27.2	28.5

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	7,247	7,131	8,003	8,083	8,444
Cost of Goods Sold	(4,807)	(4,789)	(5,626)	(5,887)	(6,033)
Gross Profit	2,440	2,342	2,377	2,196	2,410
Other Opng (Exp)/Inc	(440)	(469)	(629)	(635)	(663)
Operating Profit	2,001	1,874	1,748	1,561	1,747
Other Non Opg (Exp)/Inc	180	(73)	426	(74)	122
Associates & JV Inc	22	17	2	5	5
Net Interest (Exp)/Inc	41	31	(92)	287	293
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,244	1,847	2,084	1,779	2,167
Tax	(394)	(264)	(301)	(257)	(313)
Minority Interest	(48)	(22)	(198)	(169)	(206)
Preference Dividend	0	0	0	0	0
Net Profit	1,801	1,560	1,585	1,353	1,649
Net Profit before Except.	1,801	1,560	1,585	1,353	1,649
EBITDA	3,040	2,719	3,260	2,871	3,347
Growth					
Revenue Gth (%)	22.6	(1.6)	12.2	1.0	4.5
EBITDA Gth (%)	21.2	(10.6)	19.9	(11.9)	16.6
Opg Profit Gth (%)	25.4	(6.4)	(6.7)	(10.7)	11.9
Net Profit Gth (%)	55.4	(13.4)	1.6	(14.6)	21.8
Margins & Ratio					
Gross Margins (%)	33.7	32.8	29.7	27.2	28.5
Opg Profit Margin (%)	27.6	26.3	21.8	19.3	20.7
Net Profit Margin (%)	24.9	21.9	19.8	16.7	19.5
ROAE (%)	21.7	16.1	14.6	11.5	12.8
ROA (%)	13.4	9.3	7.0	5.0	5.9
ROCE (%)	15.6	11.3	7.9	5.9	6.2
Div Payout Ratio (%)	30.0	41.9	29.9	29.9	29.9
Net Interest Cover (x)	NM	NM	19.1	NM	NM

Source: Company, DBS HK

West China Cement

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	7,793	11,161	13,885	15,006	16,033
Invt in Associates & JVs	80	78	0	0	0
Other LT Assets	2,772	2,497	3,928	3,928	3,928
Cash & ST Invt	1,134	1,375	4,222	4,226	4,476
Inventory	666	731	1,111	964	988
Debtors	2,135	3,064	3,502	3,265	3,411
Other Current Assets	0	0	0	0	0
Total Assets	14,580	18,906	26,648	27,390	28,837
ST Debt	1,126	1,879	3,250	3,250	3,250
Creditors	1,736	2,735	3,789	3,413	3,498
Other Current Liab	348	332	696	696	696
LT Debt	1,711	1,833	2,004	2,004	2,004
Other LT Liabilities	434	1,600	5,118	5,118	5,118
Shareholder's Equity	9,053	10,331	11,314	12,262	13,418
Minority Interests	173	196	478	647	853
Total Cap. & Liab.	14,580	18,906	26,648	27,390	28,837
Non-Cash Wkg. Capital	718	728	128	121	205
Net Cash/(Debt)	(1,703)	(2,337)	(1,032)	(1,028)	(778)
Debtors Turn (avg days)	32.9	33.9	33.9	33.9	33.9
Creditors Turn (avg days)	43.4	44.4	44.4	44.4	44.4
Inventory Turn (avg days)	33.4	34.4	34.4	34.4	34.4
Asset Turnover (x)	0.5	0.4	0.4	0.3	0.3
Current Ratio (x)	1.2	1.0	1.1	1.1	1.2
Quick Ratio (x)	1.0	0.9	1.0	1.0	1.1
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.1
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	0.1
Capex to Debt (%)	58.5	74.2	67.8	47.6	47.6
Z-Score (X)	2.3	2.1	2.3	2.3	2.3

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	2,244	1,847	2,084	1,779	2,167
Dep. & Amort.	837	902	1,085	1,379	1,473
Tax Paid	(474)	(313)	(300)	30	(20)
Assoc. & JV Inc/(loss)	(22)	17	2	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(28)	44	(914)	8	(85)
Other Operating CF	57	185	4	(287)	(293)
Net Operating CF	2,613	2,682	1,960	2,909	3,243
Capital Exp.(net)	(1,659)	(2,753)	(3,562)	(2,500)	(2,500)
Other Invt.(net)	15	23	64	0	0
Invt in Assoc. & JV	(726)	(288)	(232)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	356	(99)	214	0	0
Net Investing CF	(2,014)	(3,118)	(3,517)	(2,500)	(2,500)
Div Paid	(279)	(350)	(665)	(404)	(493)
Chg in Gross Debt	(243)	846	5,387	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(185)	(173)	(268)	0	0
Net Financing CF	(706)	322	4,453	(404)	(493)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(107)	(114)	2,896	4	250
Opg CFPS (RMB)	0.49	0.48	0.53	0.53	0.61
Free CFPS (RMB)	0.18	(0.01)	(0.29)	0.08	0.14

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	HK\$1.23	HK\$1.35	Hold
2:	27-Sep-21	HK\$1.35	HK\$1.65	Buy
3:	17-Jan-22	HK\$1.39	HK\$1.60	Buy

Source: DBS HK

Analyst: Duncan Chan

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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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