China / Hong Kong Company Update

Anhui Conch Cement

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

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jun 2022

H: HOLD (Downgrade from BUY)

Last Traded Price (6 Jun 2022):HK$32.70(HSI : 21,654)
Price Target 12-mth: HK$36.00 (10.1% upside) (Prev HK$58.00)

A: HOLD (Downgrade from BUY)

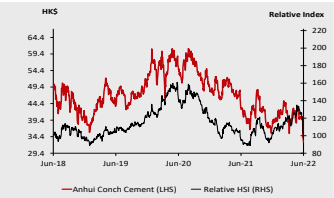
Last Traded Price (6 Jun 2022):RMB35.21(CSI300 Index : 4,166)
Price Target 12-mth: RMB39.00 (10.8% upside) (Prev RMB55.00)

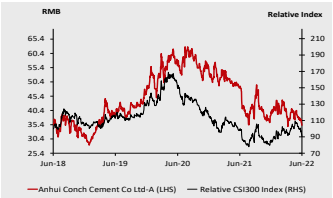
Analyst
Duncan Chan +852 36684178 duncanchan@dbs.com

What's New

- Victim of the weak downstream market demand
- Long-term prospects supported by progress in its energy transformation initiative
- Cut earnings on lower cement sales assumptions
- Downgrade to HOLD and lower TP to HK$36 based on lower end of historical range P/BV multiple of 0.8x

Price Relative





Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	176,295	167,953	161,680	160,638
EBITDA	53,067	50,442	46,403	46,847
Pre-tax Profit	47,173	44,152	38,505	37,576
Net Profit	35,192	33,301	28,118	27,439
Net Pft (Pre Ex) (core profit)	35,192	33,301	28,118	27,439
Net Profit Gth (Pre-ex) (%)	4.6	(5.4)	(15.6)	(2.4)
EPS (RMB)	6.64	6.28	5.31	5.18
EPS (HK$)	7.82	7.40	6.25	6.10
Core EPS (RMB)	6.64	6.28	5.31	5.18
Core EPS (HK$)	7.82	7.40	6.25	6.10
EPS Gth (%)	4.6	(5.4)	(15.6)	(2.4)
Core EPS Gth (%)	4.6	(5.4)	(15.6)	(2.4)
Diluted EPS (HK$)	7.82	7.40	6.25	6.10
DPS (HK$)	2.50	2.80	2.38	2.32
BV Per Share (HK$)	35.94	40.81	44.68	48.46
PE (X)	4.2	4.4	5.2	5.4
CorePE (X)	4.2	4.4	5.2	5.4
P/Cash Flow (X)	4.2	4.3	3.9	4.0
P/Free CF (X)	5.9	7.9	14.1	14.5
EV/EBITDA (X)	1.9	1.9	2.1	2.1
Net Div Yield (%)	7.6	8.6	7.3	7.1
P/Book Value (X)	0.9	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	23.6	19.3	14.6	13.1
Earnings Rev (%):			(19)	(22)
Consensus EPS (RMB)			6.11	6.35
Other Broker Recs:		B:22	S:2	H:5

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

Short-term risk weighing on slower sales

Investment Thesis

Near-term cement demand rebound may be disappointing clouding the longer term prospect. Our scenario analysis of cement demand suggests that infrastructure spending is unable to offset the shortfall from the property decline over the next two years, and is a negative for Conch, as a pure cement company.

A longer term prospect amid the green transition. Conch is able to deliver a superior GP compared to its major listed peers. Meanwhile, Conch's capacity expansion will boost its self-supply of green energy and aggregate production during 2021-2023. This is expected to provide an additional driver to increase its cost efficiency, thereby enhancing its position as a cost leader.

And the room for market consolidation although less immediate share impact. Conch raised its stakes in four cement peers last year. Its strong balance sheet should enable it to raise its stake further or embark on market consolidation initiatives.

Valuation:

Our H-share TP of HK$36 is based on 0.8x FY22F P/BV, pegged to the low end of its historical range during 2010-2022, against its ROE, which is expected to gradually decline over 2022-2023. Our TP for Conch A-shares is RMB39, pegged to 1.0x FY22F P/BV.

Where we differ:

Our FY22F/FY23F earnings are below the consensus, so as to reflect the possible impact of delays in construction projects.

Key Risks to Our View:

Upside risk. Tighter market supply curb and environmental inspections, demand recovery exceeding expectation.
Downside risk. Weaker-than-expected pricing and GP.

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)	208,536 / 26,582
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)	37.73

GICS Industry: Materials / Construction Materials

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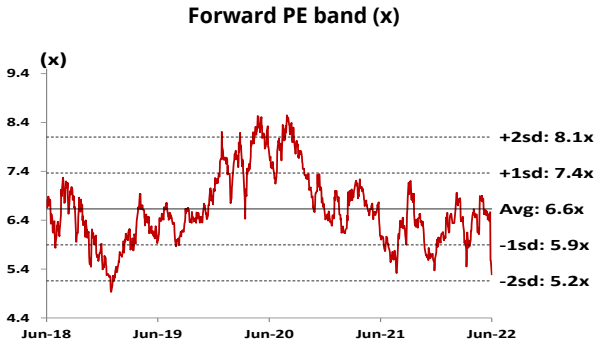
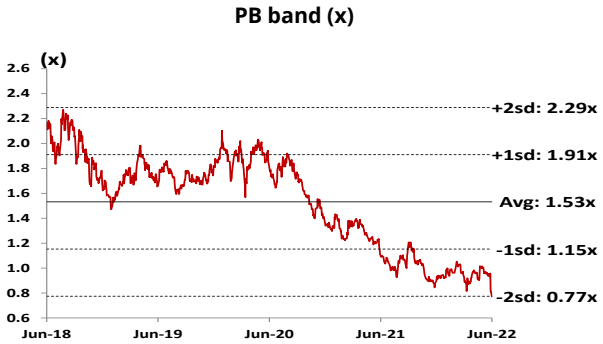
Company Background

Anhui Conch (Conch) is an Anhui province government-owned enterprise, and is China's second-largest cement producer with an 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.

Historical PE and PB band





Source: Thomson Reuters, DBS HK

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	322.7	325.0	304.0	291.8	288.9
ASP for cement products (RMB/t)	336.7	325.1	360.6	357.0	357.0
Unit gross profit for cement products (RMB/t)	158.2	152.4	157.2	147.5	145.4
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	104,173	103,132
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	161,680	160,638
Gross Profit (RMB m)					
Cement	50,748	50,047	48,406	43,050	42,015
Trading	63	96	76	76	76
Others	96	56	81	(143)	(143)
Total	50,906	50,199	48,564	42,983	41,947
Gross Profit Margins (%)					
Cement	46.7	47.4	44.2	41.3	40.7
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	26.6	26.1

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	157,030	176,295	167,953	161,680	160,638
Cost of Goods Sold	(106,124)	(126,096)	(119,389)	(118,697)	(118,691)
Gross Profit	50,906	50,199	48,564	42,983	41,947
Other Opng (Exp)/Inc	(10,526)	(8,338)	(8,519)	(8,201)	(8,148)
Operating Profit	40,380	41,861	40,045	34,782	33,800
Other Non Opg (Exp)/Inc	3,808	4,973	3,783	3,641	3,712
Associates & JV Inc	854	804	658	461	461
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	38,505	37,576
Tax	(10,205)	(10,737)	(9,950)	(9,626)	(9,394)
Minority Interest	(761)	(1,244)	(901)	(761)	(742)
Preference Dividend	0	0	0	0	0
Net Profit	33,630	35,192	33,301	28,118	27,439
Net Profit before Except.	33,630	35,192	33,301	28,118	27,439
EBITDA	50,313	53,067	50,442	46,403	46,847
Growth					
Revenue Gth (%)	22.3	12.3	(4.7)	(3.7)	(0.6)
EBITDA Gth (%)	11.5	5.5	(4.9)	(8.0)	1.0
Opg Profit Gth (%)	6.3	3.7	(4.3)	(13.1)	(2.8)
Net Profit Gth (%)	12.6	4.6	(5.4)	(15.6)	(2.4)
Margins & Ratio					
Gross Margins (%)	32.4	28.5	28.9	26.6	26.1
Opg Profit Margin (%)	25.7	23.7	23.8	21.5	21.0
Net Profit Margin (%)	21.4	20.0	19.8	17.4	17.1
ROAE (%)	26.9	23.6	19.3	14.6	13.1
ROA (%)	20.5	18.5	15.4	11.8	10.8
ROCE (%)	22.0	19.3	16.1	12.1	10.9
Div Payout Ratio (%)	31.5	31.9	37.9	38.0	38.0
Net Interest Cover (x)	90.5	90.1	120.0	91.7	85.2

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	70,164	72,753	80,992	100,474	118,599
Invts 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 Invts	54,977	62,178	69,536	69,287	69,028
Inventory	5,572	7,002	9,896	8,400	8,399
Debtors	36,316	43,635	43,991	41,919	41,807
Other Current Assets	348	291	597	597	597
Total Assets	178,777	200,973	230,515	246,180	263,934
ST Debt	3,918	3,109	8,024	8,024	8,024
Creditors	15,832	12,515	17,399	14,870	14,869
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	201,011	218,023
Minority Interests	4,944	6,382	8,130	8,891	9,633
Total Cap. & Liab.	178,777	200,973	230,515	246,180	263,934
Non-Cash Wkg. Capital	18,732	29,814	29,837	28,799	28,687
Net Cash/(Debt)	43,690	52,261	57,764	57,515	57,257
Debtors Turn (avg days)	55.4	37.5	39.3	41.6	39.4
Creditors Turn (avg days)	51.8	41.0	45.7	49.6	45.7
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	0.6
Current Ratio (x)	3.5	4.7	3.8	4.0	4.0
Quick Ratio (x)	3.3	4.4	3.5	3.7	3.7
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	38,505	37,576
Dep. & Amort.	5,271	5,430	5,957	7,518	8,875
Tax Paid	(10,713)	(10,550)	(9,950)	(9,626)	(9,394)
Assoc. & JV Inc/(loss)	854	804	658	461	461
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	2,614	(1,970)	(2,556)	1,039	112
Other Operating CF	(2,311)	(6,065)	(4,360)	(461)	(461)
Net Operating CF	40,309	34,822	33,901	37,436	37,168
Capital Exp.(net)	(7,991)	(9,971)	(15,202)	(27,000)	(27,000)
Other Invts.(net)	223	890	615	0	0
Invts 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)	(10,685)	(10,427)
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)	(10,685)	(10,427)
Currency Adjustments	0	0	0	0	0
Chg in Cash	12,137	(5,139)	629	(249)	(259)
Opg CFPS (RMB)	7.11	6.94	6.88	6.87	6.99
Free CFPS (RMB)	6.10	4.69	3.53	1.97	1.92

Source: Company, DBS HK

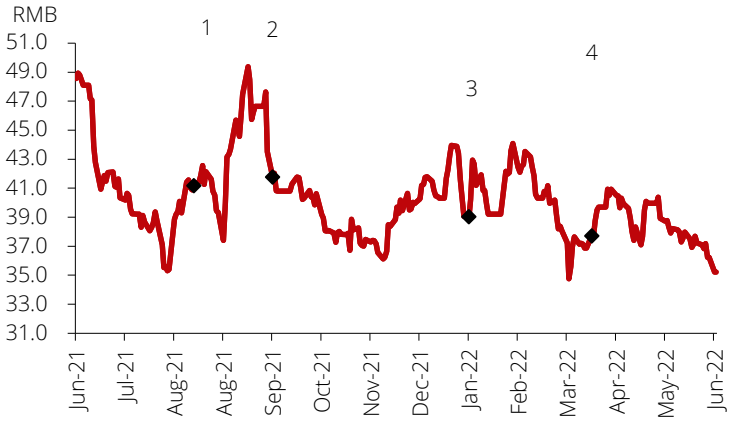
H Share - Target Price & Ratings History

S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	HK$42.90	HK$55.00	Buy
2:	27-Sep-21	HK$43.80	HK$60.00	Buy
3:	17-Jan-22	HK$40.60	HK$58.00	Buy
4:	28-Mar-22	HK$38.05	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:	13-Aug-21	RMB41.15	RMB45.00	Buy
2:	27-Sep-21	RMB43.51	RMB55.00	Buy
3:	17-Jan-22	RMB39.06	RMB55.00	Buy
4:	28-Mar-22	RMB36.87	RMB55.00	Buy

Source: DBS HK

Analyst: Duncan Chan

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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

DBS Regional Research Offices

HONG KONG
DBS Bank (Hong Kong) Ltd
Contact: Dennis Lam
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: Paul Yong
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 Piwat 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
Securities and Exchange Commission, Thailand