

China Resources Cement

Bloomberg: 1313 HK Equity | Reuters: 1313.HK

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DBS Group Research . Equity

7 Jun 2022

SELL (Downgrade from FULLY VALUED)

Last Traded Price (6 Jun 2022): HK\$5.71 (HSI : 21,654)

Price Target 12-mth: HK\$5.00 (12% downside) (Prev HK\$6.00)

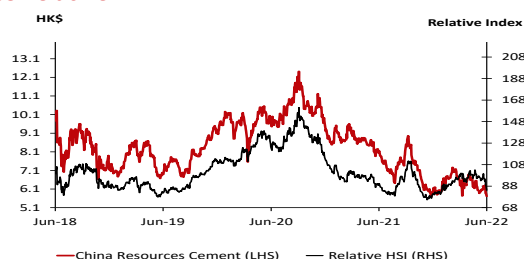
Analyst

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What's New

- Weaker-than-expected sales rebound anticipated
- Revised down earnings by 14%-16%, after slashing our sales volume assumptions for the corresponding period
- Risk of ROE contraction and potential cut on dividends
- Downgrade to SELL and lower TP to HK\$5.0 based on low end of the historical range P/BV multiple of 0.6x

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	40,087	43,963	40,369	40,383
EBITDA	14,303	13,062	10,474	10,209
Pre-tax Profit	11,893	10,291	7,864	7,589
Net Profit	8,960	7,767	5,931	5,723
Net Pft (Pre Ex) (core profit)	8,960	7,767	5,931	5,723
Net Profit Gth (Pre-ex) (%)	4.0	(13.3)	(23.6)	(3.5)
EPS (HK\$)	1.28	1.11	0.85	0.82
EPS Gth (%)	4.0	(13.3)	(23.6)	(3.5)
Diluted EPS (HK\$)	1.28	1.11	0.85	0.82
DPS (HK\$)	0.62	0.52	0.37	0.35
BV Per Share (HK\$)	7.11	7.86	8.34	8.81
PE (X)	4.5	5.1	6.7	7.0
P/Cash Flow (X)	3.9	4.4	4.5	4.9
P/Free CF (X)	7.9	11.8	6.7	7.1
EV/EBITDA (X)	2.4	3.2	3.7	3.5
Net Div Yield (%)	10.8	9.1	6.4	6.2
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE(%)	19.6	14.9	10.5	9.6
Earnings Rev (%)			(14)	(16)
Consensus EPS (HK\$)			0.99	1.07
Other Broker Recs:		B:16	S:3	H:4

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

Consensus looks too optimistic

Investment Thesis

Less resilient outlook. The cement product price outlook is clouded in view of the increase in new capacity in Guangdong and Guangxi. Even with the region's infrastructure project development in progress, overall construction development in the Southern China market could be less than expected, driving a sales volume decline ahead.

More non-cement development ahead. The company has increased capex on its prefabricated materials business, instead of pursuing acquisitions for expansion as the market has long been expecting. We are concerned that the cash layout and return from these businesses may, at the current stage, be unable to support its generous payout and, in turn, would lead to a cut in future dividends.

Consensus estimate seems unachievable. In anticipation of dimmer growth prospects, we slash our net profit estimate by 14%-16% on lower sales assumptions for the corresponding periods. Downgrade to SELL.

Valuation:

Our TP of HK\$5.0 is based on 0.6x FY22F P/BV, which is pegged to the trough of its five-year historical range during 2018 and 2022, in view of CRC's ROE contraction trend continuing over the period.

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:

Tighter market supply curb and environmental inspections, and demand recovery exceeding expectations.

At A Glance

Issued Capital (m shrs)	6,983
Mkt Cap (HKm/US\$m)	39,873 / 5,083
Major Shareholders (%)	
CRH (Cement) Ltd.	68.6
Free Float (%)	31.4
3m Avg. Daily Val. (US\$m)	10.93
GICS Industry: Materials / Construction Materials	



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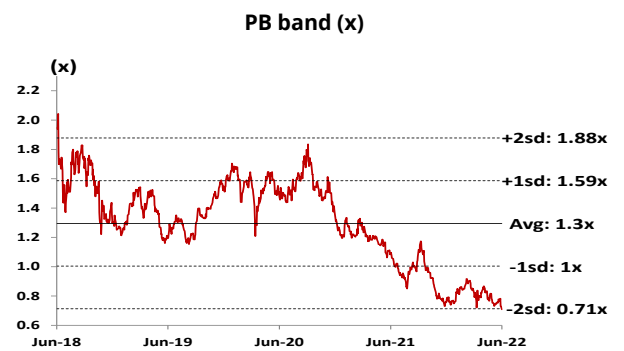
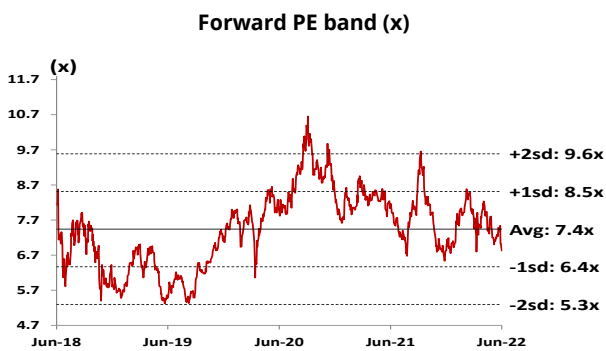
Live more, Bank less

China Resources Cement

Company Background

China Resources Cement (CRC) is an SOE and China's fourth largest and South China's largest cement producer. It also has associates and JVs in Inner Mongolia, Fujian, Yunnan, and Guangzhou. The company had annual cement, clinker, and concrete output capacities of 97.2m tonnes, 108.2m tonnes, and 39.1m³, respectively, as at end-2021.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Resources Cement

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	87.0	90.8	84.6	78.8	78.8
Sales volume for concrete (Mn m3)	14.2	13.4	14.8	13.3	13.3
ASP for cement products (HK\$/t)	368.2	369.2	427.0	422.9	422.9
ASP for Concrete (HK\$/m3)	486.3	489.8	528.3	529.0	530.0
Gross profit for cement products (HK\$/t)	161.6	154.4	146.4	128.2	125.3

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Cement	30,593	32,463	35,065	32,827	32,827
Clinker	1,447	1,068	1,072	513	513
Concrete	6,915	6,556	7,826	7,030	7,043
Total	38,956	40,087	43,963	40,369	40,383
Gross Profit (HK\$ m)					
Cement	13,461	13,602	12,133	9,989	9,756
Clinker	606	425	256	123	123
Concrete	1,597	1,593	1,729	1,511	1,469
Total	15,664	15,620	14,118	11,622	11,348
Gross Profit Margins (%)					
Cement	44.0	41.9	34.6	30.4	29.7
Clinker	41.9	39.8	23.9	23.9	23.9
Concrete	23.1	24.3	22.1	21.5	20.9
Total	40.2	39.0	32.1	28.8	28.1

Source: Company, DBS HK

China Resources Cement

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	38,956	40,087	43,963	40,369	40,383
Cost of Goods Sold	(23,298)	(24,451)	(29,840)	(28,747)	(29,035)
Gross Profit	15,658	15,636	14,123	11,622	11,348
Other Opng (Exp)/Inc	(4,315)	(4,990)	(5,053)	(4,640)	(4,642)
Operating Profit	11,342	10,647	9,070	6,982	6,707
Other Non Opg (Exp)/Inc	572	824	764	701	702
Associates & JV Inc	548	696	689	443	443
Net Interest (Exp)/Inc	(454)	(274)	(232)	(263)	(263)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	12,008	11,893	10,291	7,864	7,589
Tax	(3,314)	(2,864)	(2,566)	(1,966)	(1,897)
Minority Interest	(77)	(70)	43	33	31
Preference Dividend	0	0	0	0	0
Net Profit	8,618	8,960	7,767	5,931	5,723
Net Profit before Except.	8,618	8,960	7,767	5,931	5,723
EBITDA	14,588	14,303	13,062	10,474	10,209
Growth					
Revenue Gth (%)	0.4	2.9	9.7	(8.2)	0.0
EBITDA Gth (%)	3.8	(2.0)	(8.7)	(19.8)	(2.5)
Opg Profit Gth (%)	4.2	(6.1)	(14.8)	(23.0)	(3.9)
Net Profit Gth (%)	8.1	4.0	(13.3)	(23.6)	(3.5)
Margins & Ratio					
Gross Margins (%)	40.2	39.0	32.1	28.8	28.1
Opg Profit Margin (%)	29.1	26.6	20.6	17.3	16.6
Net Profit Margin (%)	22.1	22.4	17.7	14.7	14.2
ROAE (%)	21.6	19.6	14.9	10.5	9.6
ROA (%)	14.2	13.8	10.5	7.4	6.9
ROCE (%)	16.1	14.8	11.0	7.8	7.1
Div Payout Ratio (%)	48.2	47.9	46.7	43.0	43.0
Net Interest Cover (x)	25.0	38.9	39.1	26.6	25.5

Source: Company, DBS HK

China Resources Cement

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	27,081	28,485	29,556	30,100	30,242
Invt in Associates & JVs	8,007	8,200	9,548	9,548	9,548
Other LT Assets	7,340	11,272	23,522	23,522	23,522
Cash & ST Invt	12,848	13,346	7,165	10,585	13,747
Inventory	1,510	1,853	2,941	2,309	2,332
Debtors	3,982	5,377	6,416	5,197	5,198
Other Current Assets	403	0	0	0	0
Total Assets	61,171	68,532	79,149	81,262	84,591
ST Debt	1,298	3,564	7,336	7,336	7,336
Creditors	8,255	9,328	11,052	9,816	9,915
Other Current Liab	1,771	1,350	2,625	2,625	2,625
LT Debt	6,628	3,300	1,362	1,362	1,362
Other LT Liabilities	953	966	1,133	1,133	1,133
Shareholder's Equity	41,980	49,627	54,856	58,236	61,499
Minority Interests	287	397	785	753	721
Total Cap. & Liab.	61,171	68,532	79,149	81,262	84,591
Non-Cash Wkg. Capital	(4,131)	(3,448)	(4,319)	(4,935)	(5,008)
Net Cash/(Debt)	4,922	6,481	(1,533)	1,886	5,049
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)	0.6	0.6	0.6	0.5	0.5
Current Ratio (x)	1.7	1.4	0.8	0.9	1.1
Quick Ratio (x)	1.5	1.3	0.6	0.8	1.0
Net Debt/Equity (X)	CASH	CASH	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.0	CASH	CASH
Capex to Debt (%)	26.6	75.8	65.6	33.2	28.7
Z-Score (X)	4.7	4.7	4.7	4.7	4.7

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	12,008	11,893	10,291	7,864	7,589
Dep. & Amort.	2,126	2,136	2,539	2,347	2,358
Tax Paid	(3,128)	(3,796)	(2,798)	(2,229)	(2,160)
Assoc. & JV Inc/(loss)	(548)	(696)	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	431	(250)	(1,166)	616	74
Other Operating CF	367	982	232	263	263
Net Operating CF	11,258	10,268	9,098	8,861	8,123
Capital Exp.(net)	(2,111)	(5,200)	(5,709)	(2,891)	(2,500)
Other Invt.(net)	189	493	0	0	0
Invt in Assoc. & JV	(1,043)	(291)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	347	(6)	0	0	0
Net Investing CF	(2,618)	(5,004)	(5,709)	(2,891)	(2,500)
Div Paid	(3,722)	(4,260)	(3,631)	(2,550)	(2,461)
Chg in Gross Debt	(4,439)	(1,271)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	324	(158)	0	0	0
Net Financing CF	(7,837)	(5,688)	(3,631)	(2,550)	(2,461)
Currency Adjustments	0	0	0	0	0
Chg in Cash	803	(424)	(242)	3,420	3,162
Opg CFPS (HK\$)	1.55	1.51	1.47	1.18	1.15
Free CFPS (HK\$)	1.31	0.73	0.49	0.85	0.81

Source: Company, DBS HK

China Resources Cement

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Aug-21	HK\$7.43	HK\$7.70	Hold
2:	27-Sep-21	HK\$7.93	HK\$9.00	Hold
3:	17-Jan-22	HK\$6.56	HK\$8.00	Hold
4:	21-Mar-22	HK\$6.67	HK\$6.00	Fully Valued

Source: DBS HK

Analyst: Duncan Chan

China Resources Cement

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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