

# China / Hong Kong Company Update

## West China Cement

Bloomberg: 2233 HK Equity | Reuters: 2233.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jun 2022

**HOLD** (Downgrade from BUY)

Last Traded Price (6 Jun 2022): HK\$1.02 (HSI : 21,654)

Price Target 12-mth: HK\$1.10 (8% upside) (Prev HK\$1.47)

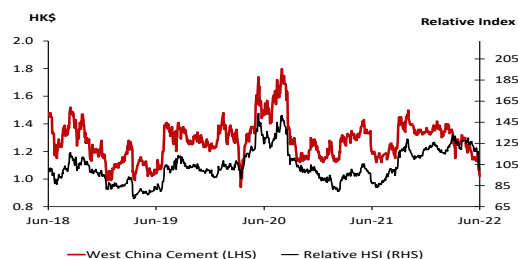
### Analyst

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### What's New

- Slow progress of construction projects to cloud cement sales outlook
- Shaanxi cement market's near-term price pressure remains
- Revised down earnings by 8%-11%; on lower sales volume assumptions for the corresponding period
- Downgrade to HOLD and lower TP to HK\$1.1 based on 0.4x FY22F P/BV

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	7,131	8,003	7,646	7,603
EBITDA	2,719	3,260	2,713	3,102
Pre-tax Profit	1,847	2,084	1,620	1,915
Net Profit	1,560	1,585	1,233	1,457
Net Pft (Pre Ex) (core profit)	1,560	1,585	1,233	1,457
Net Profit Gth (Pre-ex) (%)	(13.4)	1.6	(22.2)	18.2
EPS (RMB)	0.29	0.29	0.23	0.27
EPS (HK\$)	0.34	0.34	0.27	0.32
EPS Gth (%)	(13.5)	1.6	(22.2)	18.2
Diluted EPS (HK\$)	0.34	0.34	0.27	0.32
DPS (HK\$)	0.14	0.10	0.08	0.09
BV Per Share (HK\$)	2.23	2.45	2.63	2.86
PE (X)	3.0	3.0	3.8	3.2
P/Cash Flow (X)	1.8	2.4	1.7	1.5
P/Free CF (X)	nm	nm	13.6	8.2
EV/EBITDA (X)	2.7	1.9	2.4	2.1
Net Div Yield (%)	13.9	10.0	7.8	9.2
P/Book Value (X)	0.5	0.4	0.4	0.4
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	16.1	14.6	10.5	11.5
Earnings Rev (%)			(8)	(11)
Consensus EPS (RMB)			0.30	0.41
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

## Cloudy with a chance of western projects

### Investment Thesis

Short-term sales momentum expected to remain subdued.

Considering the slow investment growth amid the COVID outbreaks during the first five months of the year, our previous sales assumptions were overly optimistic, and we believe there will be a downward revision in consensus estimates during the interim reporting period.

**Shaanxi cement expected to be underpriced in the near term.**

Amid weaker-than-expected downstream market demand, Shaanxi cement prices have been under pressure since 2Q. This has led us to revise our unit GP estimate for the company, down to the Rmb90-95 per tonne level for 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\$1.1 is based on 0.4x FY22F P/B, pegged to its historical mean between 2018 and 2022. We believe that the cloudy development prospects for the company have been priced in the counter's valuation, at a discount to peers.

### 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, and demand recovery exceeding expectations.

**Downside risk.** Weaker-than-expected pricing and GP.

### At A Glance

Issued Capital (m shrs)	5,439
Mkt Cap (HKm/US\$m)	5,548 / 707
Major Shareholders (%)	
Zhang (Jimin)	32.3
Anhui Conch Cement Co Ltd	29.1
Free Float (%)	38.6
3m Avg. Daily Val. (US\$m)	2.61
GICS Industry: Materials / Construction Materials	



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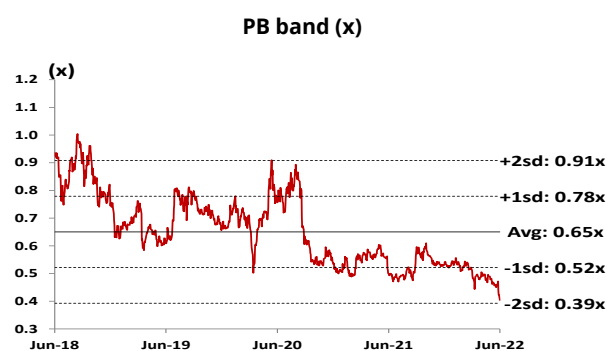
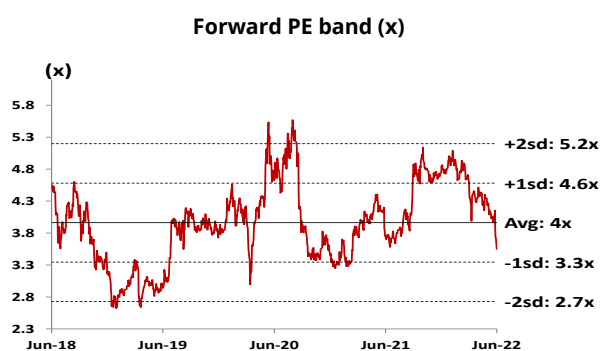
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## West China Cement

### Company Background

West China Cement is 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

## West China Cement

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Sales volume for cement products (Mt)	19.3	19.9	20.3	19.4	19.2
ASP for cement products (RMB/t)	333.0	301.0	339.0	335.0	335.0
Gross profit for cement products (RMB/t)	120.0	100.0	105.0	90.0	95.0

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Cement	6,427	5,990	6,882	6,499	6,435
Aggregates	820	1,141	1,121	1,147	1,168
<b>Total</b>	<b>7,247</b>	<b>7,131</b>	<b>8,003</b>	<b>7,646</b>	<b>7,603</b>
<b>Gross profit (RMB m)</b>					
Cement	2,055	1,842	1,787	1,402	1,481
Aggregates	385	501	589	603	615
<b>Total</b>	<b>2,440</b>	<b>2,342</b>	<b>2,377</b>	<b>2,004</b>	<b>2,095</b>
<b>Gross profit Margins (%)</b>					
Cement	32.0	30.7	26.0	21.6	23.0
Aggregates	46.9	43.9	52.6	52.5	52.6
<b>Total</b>	<b>33.7</b>	<b>32.8</b>	<b>29.7</b>	<b>26.2</b>	<b>27.6</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	7,247	7,131	8,003	7,646	7,603
Cost of Goods Sold	(4,807)	(4,789)	(5,626)	(5,642)	(5,508)
<b>Gross Profit</b>	<b>2,440</b>	<b>2,342</b>	<b>2,377</b>	<b>2,004</b>	<b>2,095</b>
Other Opng (Exp)/Inc	(440)	(469)	(629)	(601)	(597)
<b>Operating Profit</b>	<b>2,001</b>	<b>1,874</b>	<b>1,748</b>	<b>1,404</b>	<b>1,498</b>
Other Non Opg (Exp)/Inc	180	(73)	426	(74)	126
Associates & JV Inc	22	17	2	5	5
Net Interest (Exp)/Inc	41	31	(92)	286	286
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,244</b>	<b>1,847</b>	<b>2,084</b>	<b>1,620</b>	<b>1,915</b>
Tax	(394)	(264)	(301)	(234)	(276)
Minority Interest	(48)	(22)	(198)	(154)	(182)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,801</b>	<b>1,560</b>	<b>1,585</b>	<b>1,233</b>	<b>1,457</b>
Net Profit before Except.	1,801	1,560	1,585	1,233	1,457
EBITDA	3,040	2,719	3,260	2,713	3,102
<b>Growth</b>					
Revenue Gth (%)	22.6	(1.6)	12.2	(4.5)	(0.6)
EBITDA Gth (%)	21.2	(10.6)	19.9	(16.8)	14.3
Opg Profit Gth (%)	25.4	(6.4)	(6.7)	(19.7)	6.7
Net Profit Gth (%)	55.4	(13.4)	1.6	(22.2)	18.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	33.7	32.8	29.7	26.2	27.6
Opg Profit Margin (%)	27.6	26.3	21.8	18.4	19.7
Net Profit Margin (%)	24.9	21.9	19.8	16.1	19.2
ROAE (%)	21.7	16.1	14.6	10.5	11.5
ROA (%)	13.4	9.3	7.0	4.6	5.3
ROCE (%)	15.6	11.3	7.9	5.3	5.4
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	4,201	4,339
Inventory	666	731	1,111	924	902
Debtors	2,135	3,064	3,502	3,089	3,071
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>14,580</b>	<b>18,906</b>	<b>26,648</b>	<b>27,148</b>	<b>28,274</b>
ST Debt	1,126	1,879	3,250	3,250	3,250
Creditors	1,736	2,735	3,789	3,271	3,193
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	12,178	13,199
Minority Interests	173	196	478	632	814
<b>Total Cap. &amp; Liab.</b>	<b>14,580</b>	<b>18,906</b>	<b>26,648</b>	<b>27,148</b>	<b>28,274</b>
Non-Cash Wkg. Capital	718	728	128	46	84
Net Cash/(Debt)	(1,703)	(2,337)	(1,032)	(1,053)	(914)
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	1.0
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

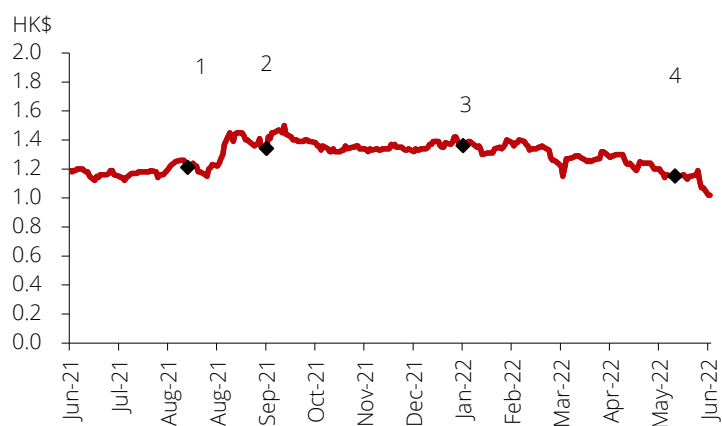
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	2,244	1,847	2,084	1,620	1,915
Dep. & Amort.	837	902	1,085	1,379	1,473
Tax Paid	(474)	(313)	(300)	52	10
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)	82	(38)
Other Operating CF	57	185	4	(286)	(286)
<b>Net Operating CF</b>	<b>2,613</b>	<b>2,682</b>	<b>1,960</b>	<b>2,847</b>	<b>3,074</b>
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
<b>Net Investing CF</b>	<b>(2,014)</b>	<b>(3,118)</b>	<b>(3,517)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Div Paid	(279)	(350)	(665)	(368)	(435)
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
<b>Net Financing CF</b>	<b>(706)</b>	<b>322</b>	<b>4,453</b>	<b>(368)</b>	<b>(435)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(107)	(114)	2,896	(21)	138
Opg CFPS (RMB)	0.49	0.48	0.53	0.51	0.57
Free CFPS (RMB)	0.18	(0.01)	(0.29)	0.06	0.11

Source: Company, DBS HK

**West China Cement**

**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
4:	18-May-22	HK\$1.16	HK\$1.47	Buy

Source: DBS HK

Analyst: Duncan Chan

## West China 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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## West China Cement

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