

China Resources Cement

Bloomberg: 1313 HK Equity | Reuters: 1313.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Aug 2022

SELL

Last Traded Price (15 Aug 2022): HK\$4.77 (HSI : 20,041)
 Price Target 12-mth: HK\$4.20 (12% downside) (Prev HK\$5.00)

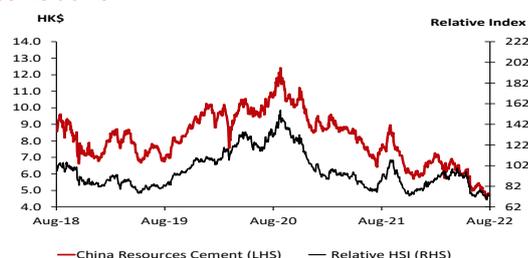
Analyst

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What's New

- 1H22 net earnings plunged 50% y-o-y on rising input costs
- 2Q sales drop was expected; GP contracted to 2016's level
- Cut earnings by 13%-29% on lower GP assumptions
- Maintain SELL and new TP of HK\$4.2 based on low end of the historical range P/B multiple of 0.5x

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	40,087	43,963	37,444	36,491
EBITDA	14,303	13,047	10,042	9,488
Pre-tax Profit	11,893	10,291	6,367	5,327
Net Profit	8,960	7,767	5,121	4,017
Net Pft (Pre Ex) (core profit)	8,960	7,767	5,121	4,017
Net Profit Gth (Pre-ex) (%)	4.0	(13.3)	(34.1)	(21.6)
EPS (HK\$)	1.28	1.11	0.73	0.58
EPS (HK\$)	1.28	1.11	0.73	0.58
Core EPS (HK\$)	1.28	1.11	0.73	0.58
Core EPS (HK\$)	1.28	1.11	0.73	0.58
EPS Gth (%)	4.0	(13.3)	(34.1)	(21.6)
Core EPS Gth (%)	4.0	(13.3)	(34.1)	(21.6)
Diluted EPS (HK\$)	1.28	1.11	0.73	0.58
DPS (HK\$)	0.62	0.52	0.34	0.27
BV Per Share (HK\$)	7.11	7.86	8.24	8.55
PE (X)	3.7	4.3	6.5	8.3
CorePE (X)	3.7	4.3	6.5	8.3
P/Cash Flow (X)	3.2	5.5	5.7	4.3
P/Free CF (X)	6.6	nm	nm	nm
EV/EBITDA (X)	1.9	2.7	4.7	5.2
Net Div Yield (%)	12.9	10.9	7.2	5.7
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	0.0	0.2	0.3
ROAE(%)	19.6	14.9	9.1	6.9
Earnings Rev (%)			(13)	(29)
Consensus EPS (HK\$)			0.72	0.84
Other Broker Recs:		B:13	S:4	H:6

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

Earnings downgrade continues

Investment Thesis

Guangdong price pressure to worsen. The price premium on cement products in peripheral markets in the Guangdong province should eventually disappear amid the continued increase in new supply from the Guangxi province that is transported via the Xijiang River.

Less resilient GP outlook. Apart from the weakening price environment, the sustaining high price of energy used for production may continue to cloud the outlook on unit cement GP. The company demonstrates slower-than-peer development progress in terms of securing renewable power sources.

Gearing up for non-cement development. The company has increased capex on its prefabricated materials and other new businesses. With the slow development progress, rising receivables, returns from the company's businesses may be insufficient to support a generous payout, and thus lead to dividend cut.

Valuation:

Our TP of HK\$4.2 is based on 0.5x 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 curbs and environmental inspections, and demand recovery exceeding expectations.

At A Glance

Issued Capital (m shrs)	6,983
Mkt Cap (HKm/US\$m)	33,309 / 4,250
Major Shareholders (%)	
CRH (Cement) Ltd.	68.6
Free Float (%)	31.4
3m Avg. Daily Val. (US\$m)	8.65
GICS Industry: Materials / Construction Materials	



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China Resources Cement

WHAT'S NEW

Risk of sales target to be cut

1H22 results declined as expected. In 1H22, CR Cement's net profit dropped by 50.3% y-o-y, worse than our and the market's expectations, primarily due to a GP decline and lower sales achieved for the reporting period. Total revenue declined 20.1% y-o-y in the period, resulting from lower cement sales during the China lockdowns. Six-month cement sales were down 24.9% y-o-y and 2Q sales dropped c.18% y-o-y. The interim dividend per share dropped accordingly to HK\$0.12 (1H21: HK\$0.24), translating to an unchanged payout of c.46%.

2Q's GP contraction worse than expected. Unit cement GP contracted due to: (1) lower ASP in 2Q22 of only HK\$385, down HK\$50 y-o-y and HK\$12 q-o-q; and (2) increased unit cost of HK\$323, up HK\$66 y-o-y and HK\$17 q-o-q, due to higher energy prices, more spot coal procurement (term supply <35%), and the expenses incurred due to suspension. In all, 2Q unit GP was HK\$62 (2Q21: HK\$140), HK\$66 lower than 1Q22. Currency fluctuations were immaterial for the period, with the RMB appreciating against the HK\$ by only c.0.7%.

Acquiring for non-cement expansion. The company has completed eight deals in total in 1H, with a total capex of RMB4,741m. Apart from a 51% stake in Hunan Liangtian Cement and 85% stake in Jingang Cement, which were on aggregates, the company plans to make acquisitions in the prefabricated construction and functional building material segments as well, with a target to boost non-cement business revenue to 20% of total revenue (still behind CNBM's 50%) by 2025, from nil at present. The company has budgeted a capex of HK\$18,179m for new business projects over the next 18 months and plans to raise its net gearing level to 30% by Dec 22 from <3% as of end-21.

Guangxi cement price stabilises. Both sales and the silo level of CRC have continued to improve since July to a level

similar to that of last Aug. However, based on our observations over the last two months, cement price pressure in Guangdong has continued undermining the import supply from the peripheral provinces. Considering at least seven new lines are to commence in Guangxi this year, plus the cheap transport cost of getting items over the Xijiang River, we remain conservative towards the price rebound ahead.

Management holds onto sales target. The power shortage had disrupted the company's cement sales in 4Q21, with its sales volume down by approximately c.11m tonnes during the interim period. Management's aim to achieve the sales level of last year would represent >25% y-o-y growth towards 2H. In view of China's excavator manufacturer experiencing a sales improvement in July and growing c.3% y-o-y, the sluggish downstream consumption market may propel a target cut going into 3Q.

Cut earnings and TP. We cut our FY22F/FY23F earnings estimate by 13%-29% on lower GP assumptions. Accordingly, our TP of HK\$4.2 is based on 0.5x 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.

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.

China Resources Cement

Quarterly Income Statement (HK\$m)

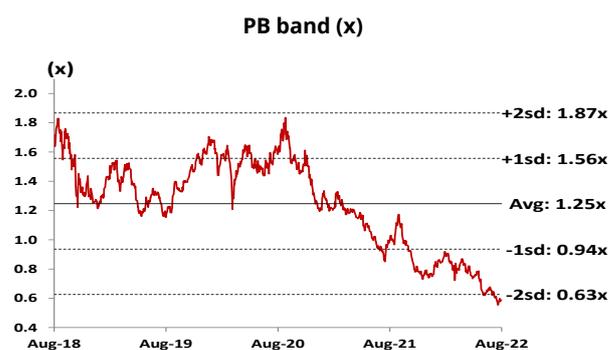
FY Dec	1Q20201	4Q2020	1Q2021	% chg_yoy	% chg_qoq
Revenue	11,668	6,977	9,140	-21.7	31.0
Cost of Goods Sold	(7,811)	(5,319)	(7,495)	-4.0	40.9
Gross Profit	3,857	1,658	1,645	-57.4	-0.8
Other Oper. (Exp)/Inc	(1,147)	(1,059)	(450)	-60.8	-57.5
Operating Profit	2,710	598	1,195	-55.9	99.7
Other Non Opg (Exp)/Inc	180	409	105	-41.8	-74.3
Associates & JV Inc	270	(45)	31	-88.6	nm
Net Interest (Exp)/Inc	(48)	(81)	(90)	87.9	12.1
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	3,112	882	1,240	-60.1	40.7
Tax	(758)	(212)	(146)	-80.7	-31.0
Minority Interest	(10)	60	(19)	nm	nm
Net Profit	2,344	730	1,075	-54.1	47.4
Net profit bef Except.	2,344	730	1,075	-54.1	47.4

Margins (%)

Gross Margins	33.1	23.8	18.0
Opg Profit Margins	23.2	8.6	13.1
Net Profit Margins	20.1	10.5	11.8

Source: Company, DBS HK

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	393.0	383.0
ASP for Concrete (HK\$/m3)	486.3	489.8	528.3	486.2	473.9
Gross profit for cement products (HK\$/t)	161.6	154.4	146.4	98.3	88.3

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	30,510	29,738
Clinker	1,447	1,068	1,072	473	457
Concrete	6,915	6,556	7,826	6,461	6,297
Total	38,956	40,087	43,963	37,444	36,491
Gross Profit (HK\$ m)					
Cement	13,461	13,602	12,133	7,641	6,856
Clinker	606	425	256	113	109
Concrete	1,597	1,593	1,729	943	778
Total	15,664	15,620	14,118	8,697	7,744
Gross Profit Margins (%)					
Cement	44.0	41.9	34.6	25.0	23.1
Clinker	41.9	39.8	23.9	23.9	23.9
Concrete	23.1	24.3	22.1	14.6	12.4
Total	40.2	39.0	32.1	23.2	21.2

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	37,444	36,491
Cost of Goods Sold	(23,298)	(24,451)	(29,840)	(28,747)	(28,747)
Gross Profit	15,658	15,636	14,123	8,697	7,744
Other Opng (Exp)/Inc	(4,315)	(4,990)	(5,053)	(3,098)	(3,019)
Operating Profit	11,342	10,647	9,070	5,599	4,725
Other Non Opg (Exp)/Inc	572	824	764	1,162	1,132
Associates & JV Inc	548	696	689	(28)	(27)
Net Interest (Exp)/Inc	(454)	(274)	(232)	(367)	(503)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	12,008	11,893	10,291	6,367	5,327
Tax	(3,314)	(2,864)	(2,566)	(1,273)	(1,332)
Minority Interest	(77)	(70)	43	28	22
Preference Dividend	0	0	0	0	0
Net Profit	8,618	8,960	7,767	5,121	4,017
Net Profit before Except.	8,618	8,960	7,767	5,121	4,017
EBITDA	14,588	14,303	13,047	10,042	9,488
Growth					
Revenue Gth (%)	0.4	2.9	9.7	(14.8)	(2.5)
EBITDA Gth (%)	3.8	(2.0)	(8.8)	(23.0)	(5.5)
Opg Profit Gth (%)	4.2	(6.1)	(14.8)	(38.3)	(15.6)
Net Profit Gth (%)	8.1	4.0	(13.3)	(34.1)	(21.6)
Margins & Ratio					
Gross Margins (%)	40.2	39.0	32.1	23.2	21.2
Opg Profit Margin (%)	29.1	26.6	20.6	15.0	12.9
Net Profit Margin (%)	22.1	22.4	17.7	13.7	11.0
ROAE (%)	21.6	19.6	14.9	9.1	6.9
ROA (%)	14.2	13.8	10.5	6.1	4.5
ROCE (%)	16.1	14.8	11.0	6.3	4.5
Div Payout Ratio (%)	48.2	47.9	46.7	47.0	47.0
Net Interest Cover (x)	25.0	38.9	39.1	15.3	9.4

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	41,247	45,589
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	3,621	3,516
Inventory	1,510	1,853	2,941	2,757	2,757
Debtors	3,982	5,377	6,416	6,752	6,622
Other Current Assets	403	0	0	0	0
Total Assets	61,171	68,532	79,149	87,447	91,554
ST Debt	1,298	3,564	7,336	14,083	15,770
Creditors	8,255	9,328	11,052	8,663	8,663
Other Current Liab	1,771	1,350	2,625	2,625	2,625
LT Debt	6,628	3,300	1,362	2,615	2,929
Other LT Liabilities	953	966	1,133	1,133	1,133
Shareholder's Equity	41,980	49,627	54,856	57,570	59,699
Minority Interests	287	397	785	757	735
Total Cap. & Liab.	61,171	68,532	79,149	87,447	91,554
Non-Cash Wkg. Capital	(4,131)	(3,448)	(4,319)	(1,780)	(1,910)
Net Cash/(Debt)	4,922	6,481	(1,533)	(13,077)	(15,182)
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	0.4	0.4
Current Ratio (x)	1.7	1.4	0.8	0.5	0.5
Quick Ratio (x)	1.5	1.3	0.6	0.4	0.4
Net Debt/Equity (X)	CASH	CASH	0.0	0.2	0.3
Net Debt/Equity ex MI (X)	CASH	CASH	0.0	0.2	0.3
Capex to Debt (%)	26.6	75.8	98.9	89.8	42.8
Z-Score (X)	4.7	4.7	4.7	4.7	4.7

Source: Company, DBS HK

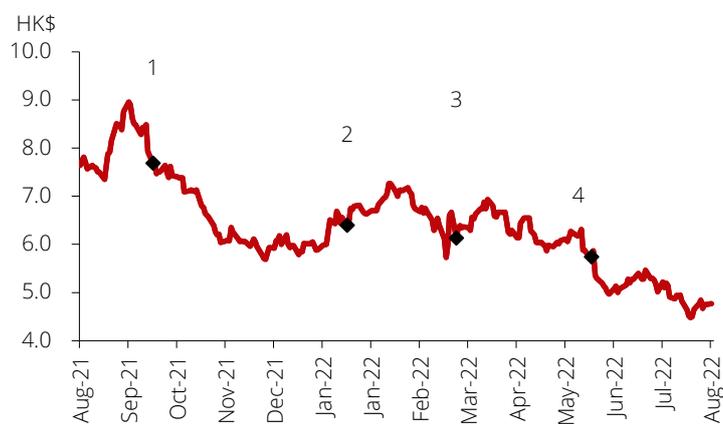
Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	12,008	11,893	10,291	6,367	5,327
Dep. & Amort.	2,126	2,136	2,524	3,309	3,657
Tax Paid	(3,128)	(3,796)	(3,395)	(1,640)	(1,835)
Assoc. & JV Inc/(loss)	(548)	(696)	(689)	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	431	(250)	(2,692)	(2,539)	131
Other Operating CF	367	982	(5)	367	503
Net Operating CF	11,258	10,268	6,034	5,863	7,783
Capital Exp.(net)	(2,111)	(5,200)	(8,604)	(15,000)	(8,000)
Other Invt.(net)	189	493	163	0	0
Invt in Assoc. & JV	(1,043)	(291)	(5,385)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	347	(6)	2,096	0	0
Net Investing CF	(2,618)	(5,004)	(11,730)	(15,000)	(8,000)
Div Paid	(3,722)	(4,260)	(4,050)	(2,407)	(1,888)
Chg in Gross Debt	(4,439)	(1,271)	3,237	8,000	2,000
Capital Issues	0	0	0	0	0
Other Financing CF	324	(158)	59	0	0
Net Financing CF	(7,837)	(5,688)	(755)	5,593	112
Currency Adjustments	0	0	0	0	0
Chg in Cash	803	(424)	(6,451)	(3,544)	(105)
Opg CFPS (HK\$)	1.55	1.51	1.25	1.20	1.10
Free CFPS (HK\$)	1.31	0.73	(0.37)	(1.31)	(0.03)

Source: Company, DBS HK

China Resources Cement

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Sep-21	HK\$7.93	HK\$9.00	Hold
2:	17-Jan-22	HK\$6.56	HK\$8.00	Hold
3:	21-Mar-22	HK\$6.67	HK\$6.00	Fully Valued
4:	7-Jun-22	HK\$5.71	HK\$5.00	Sell

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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Sources for all charts and tables are DBS HK unless otherwise specified.

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