

China / Hong Kong Company Update

China Hongqiao Group

Bloomberg: 1378 HK Equity | Reuters: 1378.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jan 2024

HOLD (Downgrade from Buy)

Last Traded Price (23 Jan 2024): HK\$5.42 (HSI : 15,354)

Price Target 12-mth: HK\$6.00 (11% upside) (Prev HK\$8.70)

Analyst

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What's New

- Despite drag from weak product GP on 2023 performance, earnings growth to resume in 2024 on growing transportation and power consumption
- Expect progress of capacity relocation into Yunnan might limit overall business development prospects
- Revised down earnings by 16% each for FY23F and FY24F on our new aluminium product GP assumption
- New TP of HK\$6.0 pegged to 0.6x target P/B multiple (from 0.8x previously), downgrade HOLD on lower earnings visibility

Lower earnings visibility

Investment Thesis

Beneficiary of growing consumption from new energy segment.

Hongqiao is the main beneficiary of the growing demand from the new energy sectors. Meanwhile, Hongqiao plans to relocate over 40% of its total capacity (6.46m tonnes p.a.) to the Yunnan province by 2025. We believe the company's rising bargaining power with suppliers and operational efficiency would bode well for a rebound in its product GP.

Tight market supply to support price outlook. We believe the expected industry capacity cap (45m tonnes p.a.) in China would continue to ensure relatively tight supply this year and support the company's product GP outlook. Our aluminium price assumptions of RMB19,000/tonne for 2024 and RMB19,500/tonne for 2025, from RMB18,319/tonne provide a support for revenue growth.

Aluminium product GP in focus. As the company's capacity relocation plan progresses, it could benefit from diversification because of gaining access to hydropower resources, which would further optimise the group's capacity efficiency. Meanwhile, we assume the company's aluminium GP would rebound towards 2022's level towards 2025, which could bring about an above-consensus earnings CAGR (2023-2025) of >20%.

BUY, TP of HK\$6.0 (previously: HK\$8.7) on our revised earnings. We peg our TP to 0.6x FY24F PB, which is at its five-year historical average. We expect the company's asset-driven ROE expansion, i.e., returning to the low-teen level, to be a share rerating catalyst. Also, the projected net dividend yield of c.8% should help support the share price.

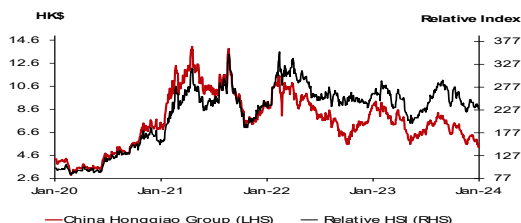
Key Risks

Every 1% change in the aluminium and alumina price will swing earnings by 8% and c.1%, respectively. Meanwhile, an unexpected expansion in industry supply or collapse in demand may adversely impact our assumptions. Company wise, the progress of its capacity relocation plan would affect the group's sales performance as well.

At A Glance

Issued Capital (m shrs)	9,476
Mkt Cap (HKm/US\$m)	52,402 / 6,703
Major Shareholders (%)	
China Hongqiao Holdings Ltd.	64.1
CITIC Trust Co., Ltd.	8.5
Free Float (%)	27.4
3m Avg. Daily Val. (US\$m)	17.3
GICS Industry: Materials / Metals & Mining	

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	131,699	130,355	133,692	136,029
EBITDA	22,389	21,021	22,986	25,637
Pre-tax Profit	12,607	10,366	12,181	15,093
Net Profit	8,702	7,081	8,321	10,310
Net Profit Gth (Pre-ex) (%)	(45.9)	(18.6)	17.5	23.9
EPS (RMB)	0.94	0.76	0.89	1.11
EPS (HK\$)	1.02	0.83	0.98	1.21
EPS Gth (%)	(47.2)	(18.6)	17.5	23.9
Diluted EPS (HK\$)	1.02	0.83	0.98	1.21
DPS (HK\$)	0.56	0.40	0.47	0.58
BV Per Share (HK\$)	9.91	10.29	10.73	11.28
PE (X)	5.3	6.5	5.6	4.5
P/Cash Flow (X)	6.1	2.9	2.1	2.5
P/Free CF (X)	nm	6.7	3.0	4.0
EV/EBITDA (X)	3.5	3.7	2.9	2.4
Net Div Yield (%)	10.3	7.4	8.6	10.7
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.2	0.2	0.1	0.0
ROAE(%)	10.5	8.2	9.3	11.0
Earnings Rev (%)		(16)	(16)	New
Consensus EPS (RMB)		1.10	1.28	1.34
Other Broker Recs:		B:14	S:1	H:0

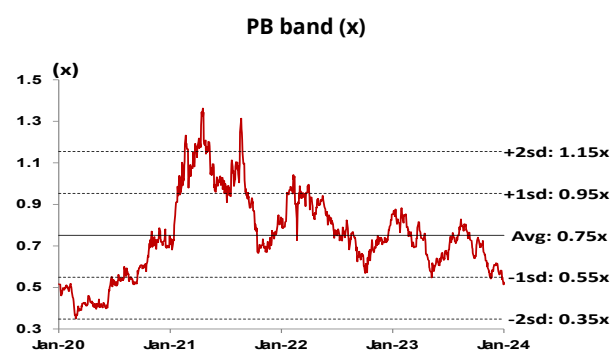
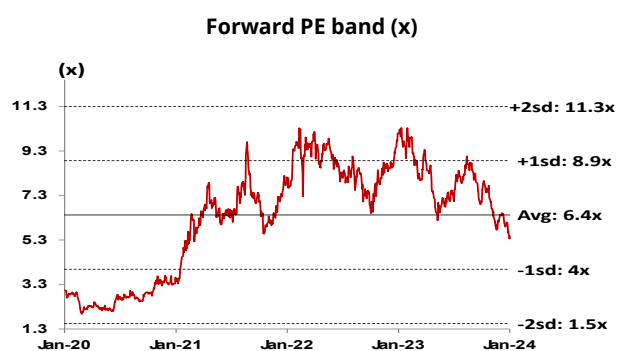
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

China Hongqiao Group

Company Background

China Hongqiao Group (“CHG”) is a vertically integrated aluminium producer in China. CHG is engaged in the production of a wide range of products from bauxite, alumina, and aluminium to fabricated products. CHG was the largest aluminum producer in China as at end-2022, with a 6.46m tonnes p.a. production capacity. CHG has codeveloped a bauxite mine in Guinea and operates an alumina plant in Indonesia. The company’s sales volumes of aluminium and alumina were 5.4m tonnes and 8.2m tonnes, respectively, in 2022.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Hongqiao Group

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Sales volume for alumina ('000 tonnes)	7,163.0	8,298.0	6,980.0	6,760.0	6,760.0
Sales volume for aluminum products ('000 tonnes)	5,052.0	5,473.0	6,000.0	6,100.0	6,100.0
ASP for alumina (RMB/tonne)	2,368.7	2,579.5	2,605.3	2,683.5	2,629.8
ASP for aluminum products (RMB/tonne)	16,689.0	17,582.1	16,532.7	16,814.2	17,256.6
GPM for aluminum products (%)	27.6	14.0	11.6	13.7	15.7

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Alumina	16,967	21,405	18,185	18,140	17,777
Aluminum products	96,837	109,529	111,345	114,715	117,414
Others	687	765	825	838	838
Total	114,491	131,699	130,355	133,692	136,029
Gross Profit (RMB m)					
Alumina	3,986	3,269	2,777	3,069	3,158
Aluminum products	26,733	15,356	12,875	15,743	18,442
Others	(266)	(386)	(416)	(422)	(422)
Total	30,453	18,239	15,236	18,389	21,178
Gross Profit Margins (%)					
Alumina	23.5	15.3	15.3	16.9	17.8
Aluminum products	27.6	14.0	11.6	13.7	15.7
Others	(38.6)	(50.4)	(50.4)	(50.4)	(50.4)
Total	26.6	13.8	11.7	13.8	15.6

Source: Company, DBS HK

China Hongqiao Group

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	114,491	131,699	130,355	133,692	136,029
Cost of Goods Sold	(84,038)	(113,460)	(115,118)	(115,303)	(114,851)
Gross Profit	30,453	18,239	15,236	18,389	21,178
Other Opng (Exp)/Inc	(6,234)	(6,531)	(6,465)	(6,630)	(6,746)
Operating Profit	24,219	11,708	8,772	11,759	14,432
Other Non Opg (Exp)/Inc	1,899	3,415	3,415	2,415	2,415
Associates & JV Inc	62	503	1,591	1,591	1,591
Net Interest (Exp)/Inc	(3,626)	(3,020)	(3,411)	(3,584)	(3,344)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	22,554	12,607	10,366	12,181	15,093
Tax	(5,705)	(2,798)	(2,384)	(2,802)	(3,471)
Minority Interest	(775)	(1,107)	(901)	(1,059)	(1,312)
Preference Dividend	0	0	0	0	0
Net Profit	16,073	8,702	7,081	8,321	10,310
Net Profit before Except.	16,073	8,702	7,081	8,321	10,310
EBITDA	32,696	22,389	21,021	22,986	25,637
Growth					
Revenue Gth (%)	32.9	15.0	(1.0)	2.6	1.7
EBITDA Gth (%)	36.8	(31.5)	(6.1)	9.3	11.5
Opg Profit Gth (%)	62.5	(51.7)	(25.1)	34.1	22.7
Net Profit Gth (%)	53.1	(45.9)	(18.6)	17.5	23.9
Margins & Ratio					
Gross Margins (%)	26.6	13.8	11.7	13.8	15.6
Opg Profit Margin (%)	21.2	8.9	6.7	8.8	10.6
Net Profit Margin (%)	14.0	6.6	5.4	6.2	7.6
ROAE (%)	21.1	10.5	8.2	9.3	11.0
ROA (%)	8.7	4.7	3.8	4.4	5.2
ROCE (%)	11.9	6.0	4.4	5.7	6.8
Div Payout Ratio (%)	63.1	54.5	48.0	48.0	48.0
Net Interest Cover (x)	6.7	3.9	2.6	3.3	4.3

Source: Company, DBS HK

China Hongqiao Group

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	63,442	68,060	69,817	69,596	69,396
Invt in Associates & JVs	6,065	10,297	10,297	10,297	10,297
Other LT Assets	15,386	19,817	19,817	19,817	19,817
Cash & ST Invt	50,851	29,105	30,171	41,117	47,069
Inventory	22,705	37,268	29,962	26,851	26,746
Debtors	29,972	20,235	26,123	26,534	26,822
Other Current Assets	0	960	960	960	960
Total Assets	188,421	185,742	187,146	195,172	201,107
ST Debt	24,610	39,041	37,479	37,479	37,479
Creditors	30,215	27,268	26,550	29,732	29,663
Other Current Liab	8,242	5,064	5,064	5,064	5,064
LT Debt	24,916	10,955	10,517	10,517	10,517
Other LT Liabilities	8,000	7,108	7,108	7,108	7,108
Shareholder's Equity	81,308	84,499	87,721	91,507	96,198
Minority Interests	11,131	11,807	12,708	13,766	15,078
Total Cap. & Liab.	188,421	185,742	187,146	195,172	201,107
Non-Cash Wkg. Capital	14,220	26,131	25,431	19,550	19,801
Net Cash/(Debt)	1,326	(20,891)	(17,825)	(6,879)	(927)
Debtors Turn (avg days)	61.7	14.1	36.8	44.4	44.6
Creditors Turn (avg days)	67.0	48.0	42.1	47.1	47.1
Inventory Turn (avg days)	92.1	96.5	95.0	85.0	85.0
Asset Turnover (x)	0.6	0.7	0.7	0.7	0.7
Current Ratio (x)	1.6	1.2	1.3	1.3	1.4
Quick Ratio (x)	1.3	0.7	0.8	0.9	1.0
Net Debt/Equity (X)	CASH	0.2	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.2	0.2	0.1	0.0
Capex to Debt (%)	12.1	17.7	18.8	14.6	14.6
Z-Score (X)	1.7	1.7	1.7	NA	NA

Source: Company, DBS HK

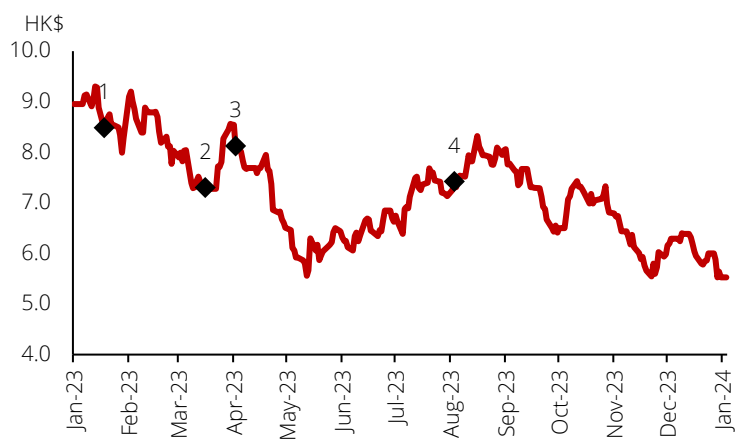
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	22,554	12,607	10,366	12,181	15,093
Dep. & Amort.	6,516	6,763	7,244	7,221	7,200
Tax Paid	(5,001)	(6,148)	(2,384)	(2,802)	(3,471)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	376	(8,660)	700	5,881	(251)
Other Operating CF	4,204	3,060	0	0	0
Net Operating CF	28,650	7,622	15,925	22,481	18,571
Capital Exp.(net)	(5,999)	(8,848)	(9,000)	(7,000)	(7,000)
Other Invt.(net)	(454)	(1,045)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	990	(6,879)	0	0	0
Net Investing CF	(5,463)	(16,773)	(9,000)	(7,000)	(7,000)
Div Paid	(7,288)	(9,023)	(3,859)	(4,535)	(5,619)
Chg in Gross Debt	(24,918)	(11,889)	(2,000)	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	12,809	8,122	0	0	0
Net Financing CF	(19,396)	(12,790)	(5,859)	(4,535)	(5,619)
Currency Adjustments	0	0	0	0	0
Chg in Cash	3,790	(21,941)	1,066	10,946	5,952
Opg CFPS (RMB)	3.12	1.75	1.64	1.79	2.02
Free CFPS (RMB)	2.50	(0.13)	0.74	1.66	1.24

Source: Company, DBS HK

China Hongqiao Group

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	6-Feb-23	HK\$8.88	HK\$8.50	HOLD
2	4-Apr-23	HK\$7.24	HK\$8.00	HOLD
3	21-Apr-23	HK\$8.54	HK\$11.00	BUY
4	22-Aug-23	HK\$7.26	HK\$8.70	BUY

Source: DBS HK

Analyst: Duncan Chan

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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