

December 3, 2014

## Sector Rating Rating: Overweight

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### Key Data

Avg.15E P/E (x)	10.51
Avg.15E P/B (x)	1.56
Avg.15E Dividend Yield (%)	2.13

Source(s): Company, Bloomberg, ABCI Securities

### Growth (% YoY)

#### Fixed-asset investment in 9M14:

Railway FAI	25.10
Investment in railway infrastructure	11.06

#### Net income of 9M14:

CRCC (1186 HK)	5.22
CRG (390 HK)	12.70
CSR (1766 HK)	58.33
ZCSR (3898 HK)	105.89

Source(s): Companies, NBSC, CSR, ABCI Securities

### Sector performance (%)

	Absolute	Relative
1-month	6.31	4.93
3-month	23.46	27.08
6-month	43.19	40.20
12-month	13.99	14.80

\*: Relative to Hang Seng Index

Source(s): Bloomberg, ABCI Securities

### Sector performance



Source(s): Bloomberg, ABCI Securities

## Railway Transport Sector “New Silk Road” strategy to propel growth

- Under the “New Silk Road” strategy, we expect railway investment in the countries near China would increase. We estimate the total length of planned major high-speed railway (HSR) in countries under the scheme may exceed 15,000 km, higher than China’s 14,000 km in 2015E-20E
- The Railway Development Fund in China would secure 1/4 of the CAPEX of China Railway Corporation (CRC). Visibility of the railway investment for 2015-16 would be enhanced. We expect the growth in domestic railway transport would peak off after 2014 due to high base in the year.
- We like the leading railway infrastructure constructors with exposure in overseas market. These companies would benefit from the growth in overseas construction. Maintain **BUY** for CRCC (1186) and CRG (390)
- The rolling stock manufacturers, which are the downstream machinery provider in the railway transport industry, could benefit from the hiking railway delivery in overseas market. Furthermore, with the HSR delivery peaking in 2014-15, we expect growth in rolling stock players would higher than that of the infrastructure constructors in 2015. Maintain **BUY** on CSR (1766) and ZCSR (3898).

**China’s Marshall Plan.** The “New Silk Road” strategy, or “One Belt and One Road”, was expressed by China as early as 2013 during President Xi Jinping’s visit to Kazakhstan. China would offer technology and financial support for the countries along the “Silk Road” to promote partnership and economic cooperation. Later on, President Xi announced that China will establish a Silk Road Fund with US\$ 40bn to support infrastructure investments in countries involved in the scheme. We expect a large amount of funding will be directed to the construction of transport infrastructure, power plants and telecom facilities. The overseas construction projects would be the growth driver of China’s construction contractors in the next five years.

**Domestic railway outlook in 2015.** According to CRC, 64 new projects would be commenced in 2014. We estimate the total investment of these projects, which are mostly located in Central and Eastern China, would be ~RMB 1,046bn. Major projects commenced include the railway from Inner Mongolia to Central China for coal transportation. Total length of the railway is ~1,800km with an estimated total CAPEX of RMB 193bn. Other than rail freight transport, there are 4 passenger rail lines that have started construction in 2014, which include the Shangqiu-Hangzhou Rail Line connecting Henan and Zhejiang, Wuhan-Shiyan Intra-provincial Rail Line in Hubei, Yinchuan-Xi’an Rail Line connecting Ningxia and Shaanxi, and Jinan-Qingdao Intra-provincial Rail Line in Shandong. We estimate the total investment on these rail lines to be ~RMB 283bn. The 64 projects would provide support to the industry pipeline in 2015-16, enhancing the flow of new contracts as well as earnings visibility of the railway constructors and rolling stock manufacturers over the next few years. CAPEX growth of domestic railway transport segment would peak in 2014 and slow thereafter due to the high base.

**Risk factors:** 1) Domestic railway investment is peaking off under high bases; 2) China’s overseas expansion is subject to the political situations in the targeted countries; 3) Market competition from international and overseas constructors and rolling stock manufacturers

### Sector Valuation Summary

Company	Ticker	Rating	Price 2014/12/2 (HK\$)	TP (HK\$)	FY14E P/E(x)	FY15E P/E (x)	FY14E P/B (x)	FY15E P/B (x)	FY14E Yield (%)	FY15E Yield (%)
<b>Railway infrastructure construction contractor</b>										
CRCC	1186 HK	BUY	8.87	10.29	7.46	6.62	0.98	0.87	2.01	2.27
CRG	390 HK	BUY	5.50	6.16	8.95	8.04	0.98	0.89	1.68	1.87
<b>Railway rolling stock maker</b>										
CSR	1766 HK	BUY	7.89	10.34	15.69	13.75	2.14	1.92	1.91	2.18
ZCSR	3898 HK	BUY	33.35	44.05	15.21	13.63	2.94	2.54	1.97	2.20

Source(s): Bloomberg, ABCI Securities estimates

**CRCC (1186 HK, BUY).** We like its leading position in the railway construction industry and its expansion in overseas market. Total new overseas contracts in 9M14 amounted to RMB 16bn, or 20.3% of the company's new contract value, up from 9.4% in FY13. We roll our valuation forward to 2015E, and raised our TP to HK\$10.29 based on 9x FY15E P/E (CRCC's upper ceiling in the past 3 years). The upward revision is justified based on the upside potential brought about by internal restructuring reform and increased flow of overseas contracts propelled by China's diplomatic policy.

**CRG (390 HK, BUY).** CRG is another major railway constructor in the duopolistic market in China. Although CRG's profit margins and asset return are lower than those of CRCC, its profitability has been improving under the SOE restructuring. CRG's 9M14 GPM was up 0.66ppt YoY to 7.81%. While CRCC has a higher ROE than CRG, the gap shrank from 2.3% in 9M13 to 1.2% in 9M14. Our new TP is HK\$ 6.16 is equivalent to 9x of FY15E P/E (CRG's upper ceiling in the past 3 years).

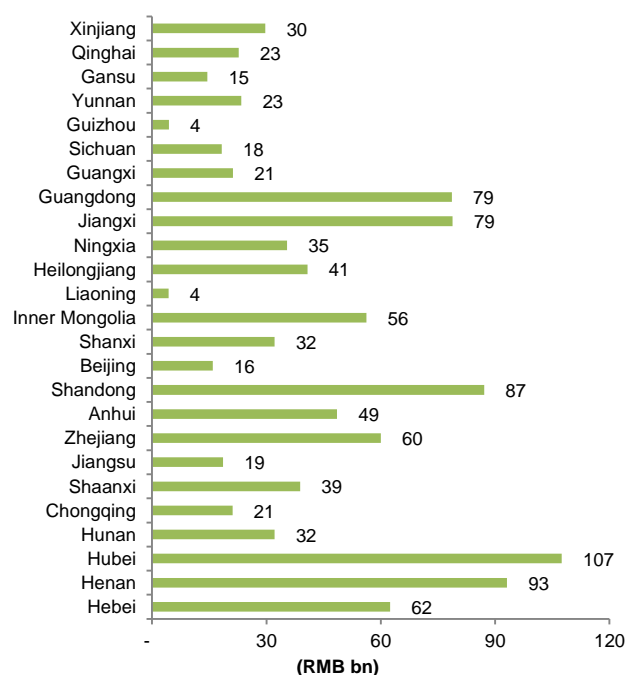
**CSR (1766 HK, BUY).** With more HSR operating in 2014-15 and the introduction of Railway Development Fund, we expect the delivery of rolling stocks in 2015 would be on schedule. Furthermore, with the new Silk Road Fund, CAPEX acceleration in the involved countries would offset the slowdown in domestic infrastructure investment in 2015E-20E. We expect market sentiment to stay bullish. Our new TP for CSR is HK\$10.34, representing 18x FY15E P/E

**ZCSR (3898 HK, BUY).** As the subsidiary of CSR supplying components for rolling stock electrical system, we believe the company's sales growth would be spurred by the increase demand for MUs and electrical locomotive in China. Currently, about 52.1% of all locomotives in China were electrical ones as of end-2013. The Chinese government targeted to increase the electrical ratio of railway transport industry to 60% by 2015 (end-2013: 54%). Besides, it is expected CSR and CNR (6199 HK) will cooperate to develop overseas business. Additional demand from overseas market would be the potential upside for this upstream supplier. Our new TP for ZCSR is HK\$ 44.05, equivalent to 18x FY15E P/E.

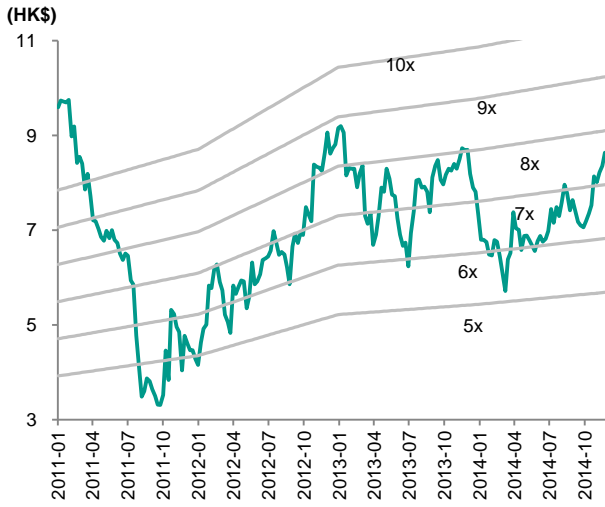
**Exhibit 1: The major rail lines planned/under construction in countries near China**

Countries	Rail line	Designed Speed (km/h)	Length (km)
<b>Middle-Asia</b>			
Kazakhstan	Astana - Almaty	250	1,011
<b>Asia</b>			
India	Howrah - Haldia	300	135
	Delhi - Patna	350	991
	Delhi - Amritsar		450
	Delhi - Chennai	300	1,754
	Mumbai-Ahmedabad	320	534
	Chennai - Thiruvananthapuram	350	850
Indonesia	Jakarta-Surabaya	300	785
Singapore	Kuala Lumpur - Singapore	300	353
Malaysia	Kuala Lumpur - Penang		356
Pakistan	Peshawar - Karachi		1,340
Pilipinas	Laoag - Bicol		902
Thailand	Bangkok-Chiang Mai	250	745
	Bangkok-Nong Khai	250	625
	Bangkok-Ubon Ratchathani	250	610
	Bangkok-Rayong	250	178
	Bangkok-Padang Besar	250	990
Vietnam	Hanoi - Ho Chi Minh City	250	1,630
<b>Africa</b>			
Algeria	Tlemcen - Akkid Abbas	220	66
Morocco	Kenitra-Tangier high-speed rail line	320	200
South Africa	Johannesburg-Durban	240	721
<b>Total</b>			<b>15,226</b>
<b>The planned new HSR delivery in 2015-20</b>			<b>14,000</b>

Source(s): Medias, ABCI Securities

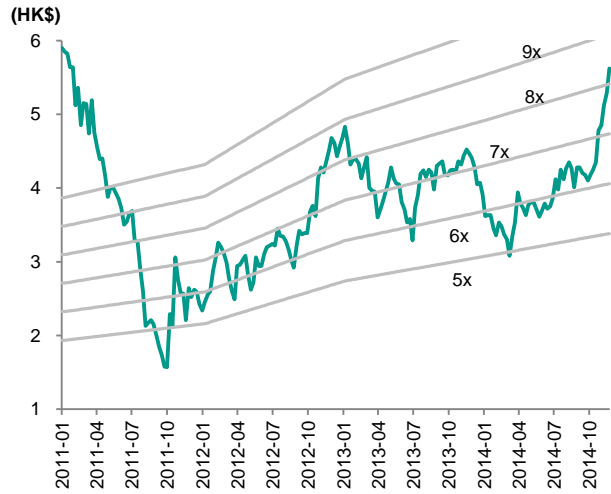
**Exhibit 2: Breakdown of new railway starts in 2014**


Source(s): China Railway Tender, ABCI Securities estimates

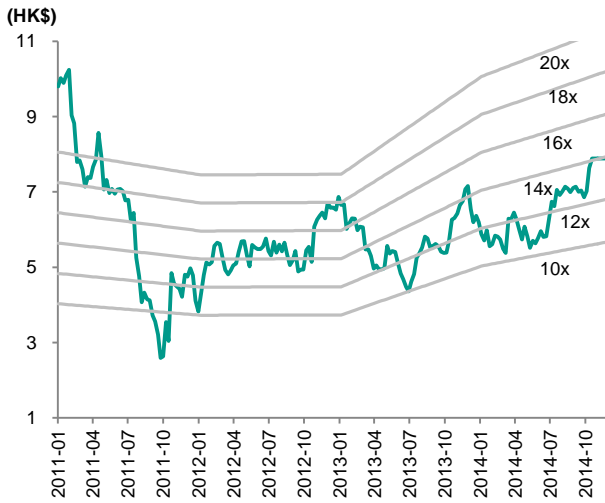
**Exhibit 3: P/E band of CRCC-H in 1M11-11M14**


\* Net income of CRCC was adjusted with deductions of the one-off provision for the Mecca Project in 2010

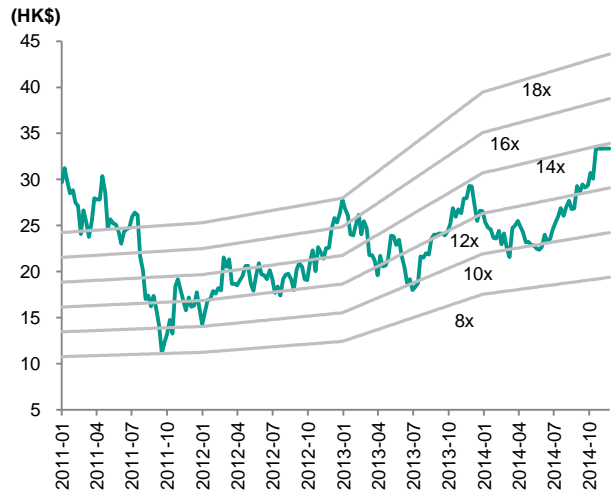
Source(s): CRCC, Bloomberg, ABCI Securities estimates

**Exhibit 4: P/E band of CRG-H in 1M11-11M14**


Source(s): CRG, Bloomberg, ABCI Securities estimates

**Exhibit 5: P/E band of CSR-H in 1M11-11M14**


Source(s): CSR, Bloomberg, ABCI Securities estimates

**Exhibit 6: P/E band of ZCSR in 1M11-11M14**


Source(s): ZCSR, Bloomberg, ABCI Securities estimates

**Exhibit 7: Valuation of infrastructure contractors**

Company	Ticker	Mkt cap (HK\$ mn)	CRY	As of 2/12/2014 Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
					FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
<b>Domestic Transportation Project Contractors</b>												
CRCC-H	1186 HK	18,414	HKD	8.87	7.46	6.62	13.89	12.70	0.98	0.87	13.84	13.97
CRCC-A	601186 CH	113,344	RMB	8.76	9.17	8.14	13.89	12.70	1.21	1.07	13.84	13.97
CRG-H	390 HK	23,139	HKD	5.50	8.95	8.04	12.22	11.32	0.98	0.89	11.56	11.64
CRG-A	601390 CH	108,194	RMB	5.02	10.16	9.13	12.22	11.32	1.12	1.01	11.56	11.64
CCCC-H	1800 HK	33,786	HKD	7.63	7.31	6.64	7.90	10.04	0.94	0.85	13.54	13.42
CCCC-A	601800 CH	108,274	RMB	7.31	8.72	7.92	7.90	10.04	1.12	1.01	13.54	13.42
Shanghai Tunnel Eng Co	600820 CH	24,136	RMB	6.72	11.59	9.74	17.17	18.97	1.26	1.15	11.30	12.31
Xiangyu Dredging	871 HK	1,343	HKD	1.57	9.34	5.37	(35.71)	74.07	0.58	0.53	6.41	10.28
<b>Sector Weighted Average</b>					<b>9.21</b>	<b>8.23</b>	<b>11.44</b>	<b>11.94</b>	<b>1.12</b>	<b>1.01</b>	<b>12.88</b>	<b>12.97</b>
<b>Domestic Infrastructure Construction Contractors</b>												
CSCEC	601668 CH	167,197	RMB	4.42	5.50	4.78	18.09	16.06	0.96	0.83	18.85	18.81
China Gezhouba Group	600068 CH	34,721	RMB	5.98	13.44	11.73	(1.98)	14.61	1.33	1.22	10.28	10.84
CSCI	3311 HK	44,560	HKD	11.44	12.83	10.06	24.98	27.38	2.35	2.00	19.27	21.41
CAMC	002051 CH	24,732	RMB	25.35	22.45	18.22	19.89	23.21	3.57	3.08	16.27	18.14
CMEC	1829 HK	22,568	HKD	5.47	9.51	8.84	(2.72)	7.66	1.41	1.28	15.49	15.19
<b>Sector Weighted Average</b>					<b>9.29</b>	<b>7.84</b>	<b>15.32</b>	<b>17.56</b>	<b>1.47</b>	<b>1.28</b>	<b>17.42</b>	<b>17.93</b>

Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 8: Valuation of international rolling-stock manufacturers**

Company	Ticker	Mkt cap (HK\$ mn)	CRY	As of 2/12/2014 Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
					FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
<b>Domestic Transportation Project Contractors</b>												
CSR-H	1766 HK	15,969	HKD	7.89	15.69	13.75	34.70	14.11	2.14	1.92	14.40	14.73
CSR-A	601766 CH	86,143	RMB	5.80	14.36	12.58	34.70	14.11	1.96	1.76	14.40	14.73
CNR-H	6199 CH	16,346	HKD	7.66	15.83	13.90	21.00	13.84	1.90	1.71	13.70	13.76
CNR-A	601299 CH	82,352	RMB	6.45	13.38	11.26	20.50	18.88	1.58	1.45	13.20	13.25
ZCSR	3898 HK	39,202	HKD	33.35	15.21	13.63	41.11	11.64	2.94	2.54	21.00	20.02
Zhuzhou Times	600458 CH	10,158	RMB	12.18	33.83	25.38	71.43	33.33	2.89	2.74	8.23	11.05
Changchun Eurasia Group	600697 CH	4,363	RMB	21.75	11.59	9.53	21.82	21.70	2.17	1.82	22.18	20.81
Jinxi Axle	600495 CH	21,362	RMB	25.24	100.96	74.24	17.65	36.00	5.32	4.96	5.41	6.92
<b>Sector Weighted Average</b>					<b>21.73</b>	<b>17.68</b>	<b>30.39</b>	<b>17.69</b>	<b>2.29</b>	<b>2.07</b>	<b>14.14</b>	<b>14.34</b>

Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 9: Consolidated income statement of CRCC**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Revenue<sup>1</sup></b>	<b>469,872</b>	<b>569,963</b>	<b>635,229</b>	<b>680,504</b>	<b>725,453</b>
Construction operation	407,601	468,015	508,252	554,529	592,807
Survey, Design & Consultancy	7,287	7,761	8,108	8,515	7,832
Equipment Manufacturing	9,984	11,756	11,461	12,140	11,105
Property Development	18,137	24,710	27,696	29,533	32,487
Logistic, materials trading and others	52,718	89,330	115,707	114,686	122,719
Inter-segment sales	(25,855)	(31,609)	(35,995)	(38,900)	(41,496)
<b>COGS</b>	<b>(432,889)</b>	<b>(527,248)</b>	<b>(584,276)</b>	<b>(625,689)</b>	<b>(666,894)</b>
<b>Gross profit</b>	<b>36,983</b>	<b>42,715</b>	<b>50,953</b>	<b>54,815</b>	<b>58,559</b>
SG&A	(22,484)	(25,229)	(29,749)	(31,576)	(33,547)
Other income (loss)	<b>(3,435)</b>	<b>(4,446)</b>	<b>(5,960)</b>	<b>(6,048)</b>	<b>(6,380)</b>
<b>Pre-tax profit</b>	<b>11,064</b>	<b>13,040</b>	<b>15,244</b>	<b>17,191</b>	<b>18,633</b>
Income tax	(2,393)	(2,600)	(3,049)	(3,438)	(3,727)
<b>Net profit</b>	<b>8,671</b>	<b>10,440</b>	<b>12,195</b>	<b>13,753</b>	<b>14,906</b>
Profit attributable to:					
Minority interests	42	95	413	474	513
<b>Equity shareholders of the Company</b>	<b>8,629</b>	<b>10,345</b>	<b>11,782</b>	<b>13,279</b>	<b>14,393</b>
<b>EPS (RMB)</b>	<b>0.699</b>	<b>0.838</b>	<b>0.955</b>	<b>1.076</b>	<b>1.167</b>
<b>DPS (RMB)</b>	<b>0.110</b>	<b>0.130</b>	<b>0.143</b>	<b>0.161</b>	<b>0.175</b>
<b>EBIT</b>	<b>16,904</b>	<b>20,454</b>	<b>25,395</b>	<b>27,735</b>	<b>29,433</b>
<b>EBITDA</b>	<b>26,925</b>	<b>31,791</b>	<b>35,612</b>	<b>38,276</b>	<b>40,310</b>

1: Revenue is excluding business tax and surcharges  
 Source(s): CRCC, ABCI Securities estimates

**Exhibit 10: Consolidated balance sheet of CRCC**

<b>As of Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Current assets</b>	<b>416,287</b>	<b>471,062</b>	<b>532,097</b>	<b>561,167</b>	<b>605,031</b>
Cash and equivalent	92,274	93,434	94,164	86,046	86,249
Trade and bill receivables	74,013	91,264	94,482	104,503	107,626
Construction contracts	86,555	88,715	120,127	133,430	144,826
Inventories	84,782	112,923	130,125	134,670	153,561
Other current assets	78,663	84,726	93,199	102,518	112,770
<b>Non-current assets</b>	<b>64,397</b>	<b>81,957</b>	<b>92,042</b>	<b>97,650</b>	<b>100,612</b>
Property, plant and equipment	40,271	43,164	47,947	50,406	51,529
Land lease prepayment	5,357	5,283	5,441	5,605	5,773
Intangible assets	2,947	5,448	7,949	7,949	7,949
Long term investments	5,626	5,675	6,243	6,867	7,553
Long term receivables	7,694	19,899	20,601	22,786	23,466
Other non-current assets	2,502	2,488	3,861	4,038	4,341
<b>Total assets</b>	<b>480,684</b>	<b>553,019</b>	<b>624,139</b>	<b>658,817</b>	<b>705,643</b>
<b>Current liabilities</b>	<b>368,812</b>	<b>390,906</b>	<b>433,291</b>	<b>457,229</b>	<b>490,418</b>
Trade and bill payables	180,875	200,616	215,581	230,116	244,932
Receipts in advance	62,098	66,225	73,003	76,148	82,855
Short term borrowings	70,353	66,390	76,606	77,883	81,678
Other current liabilities	55,486	57,675	68,101	73,082	80,953
<b>Non-current liabilities</b>	<b>38,665</b>	<b>78,288</b>	<b>98,337</b>	<b>97,163</b>	<b>97,962</b>
Long-term borrowings	31,390	71,686	91,075	89,175	89,175
Other non-current liabilities	7,275	6,602	7,262	7,988	8,787
<b>Total liabilities</b>	<b>407,477</b>	<b>469,194</b>	<b>531,628</b>	<b>554,392</b>	<b>588,381</b>
<b>Minority interests</b>	<b>1,366</b>	<b>2,838</b>	<b>3,189</b>	<b>3,592</b>	<b>4,028</b>
<b>Shareholders' equities</b>	<b>71,841</b>	<b>80,987</b>	<b>89,322</b>	<b>100,833</b>	<b>113,235</b>
<b>BVPS (RMB)</b>	<b>5.823</b>	<b>6.564</b>	<b>7.240</b>	<b>8.173</b>	<b>9.178</b>

Source(s): CRCC, ABCI Securities estimates

**Exhibit 11: Consolidated cash flow statement of CRCC**

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Profit before tax</b>	<b>11,064</b>	<b>13,040</b>	<b>15,244</b>	<b>17,191</b>	<b>18,633</b>
Changes in depreciation and amortization	9,689	9,906	10,434	10,780	11,128
Changes in working capital	(9,600)	(35,819)	(30,238)	(15,386)	(19,592)
Financial cost	5,518	6,558	8,425	8,751	8,964
Income tax paid	(1,445)	(2,108)	(2,394)	(2,718)	(2,935)
Others	(8,489)	1,918	(5,000)	(5,000)	(5,000)
<b>CF Operating</b>	<b>6,737</b>	<b>(6,505)</b>	<b>(3,529)</b>	<b>13,618</b>	<b>11,198</b>
Increase in PP&E	(9,209)	(12,618)	(15,000)	(13,000)	(12,000)
Increase in intangible assets	(1,692)	(2,608)	(2,877)	(402)	(419)
Others	2,592	(4,771)	-	-	-
<b>CF Investing</b>	<b>(8,309)</b>	<b>(19,997)</b>	<b>(17,877)</b>	<b>(13,402)</b>	<b>(12,419)</b>
Capital injection	437	1,506	-	-	-
Net debt financing	29,467	36,333	29,605	(623)	3,795
Dividend payout	(1,234)	(1,372)	(1,666)	(1,838)	(2,069)
Interest paid	(5,518)	(6,558)	(8,425)	(8,751)	(8,964)
Others	(15,985)	(3,118)	2,622	2,878	8,663
<b>CF Financing</b>	<b>7,167</b>	<b>26,791</b>	<b>22,136</b>	<b>(8,335)</b>	<b>1,425</b>
<b>Net change in cash</b>	<b>5,595</b>	<b>289</b>	<b>730</b>	<b>(8,119)</b>	<b>203</b>
Cash at the beginning	83,058	92,274	93,434	94,164	86,046
Adjustment (Time deposit & FX effect)	3,621	871	-	-	-
<b>Cash at the end</b>	<b>92,274</b>	<b>93,434</b>	<b>94,164</b>	<b>86,046</b>	<b>86,249</b>

\*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): CRCC, ABCI Securities estimates

**Exhibit 12: Key operating and financial ratios of CRCC**

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Sales mixed (%)</b>					
Construction operation	86.75	82.11	80.01	81.49	81.72
Survey, Design & Consultancy	1.55	1.36	1.28	1.25	1.08
Equipment Manufacturing	2.12	2.06	1.80	1.78	1.53
Property Development	3.86	4.34	4.36	4.34	4.48
Logistic, materials trading and others	11.22	15.67	18.22	16.85	16.92
Inter-segment sales	(5.50)	(5.55)	(5.67)	(5.72)	(5.72)
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	7.87	7.49	8.02	8.06	8.07
Net profit margin	1.84	1.82	1.85	1.95	1.98
Effective tax rate	21.63	19.94	20.00	20.00	20.00
<b>Growth (%)</b>					
Revenue	5.99	21.30	11.45	7.13	6.61
Gross profit	8.80	15.50	19.29	7.58	6.83
EBIT	23.04	21.00	24.16	9.21	6.12
EBITDA	13.36	18.07	12.02	7.48	5.32
Net profit	9.87	19.89	13.89	12.70	8.39
<b>Balance sheet ratios</b>					
Current ratio (x)	1.13	1.21	1.23	1.23	1.23
Quick ratio (x)	0.90	0.92	0.93	0.93	0.92
Cash ratio (x)	0.25	0.24	0.22	0.19	0.18
Trade and bill receivables days	60	62	65	65	65
Trade and bill payables turnover days	144	132	130	130	130
Inventory turnover days	68	68	76	77	79
Total debt / equity ratio (%)	138.98	164.72	181.26	159.98	145.70
Net debt / equity ratio (%)	12.93	53.26	79.47	77.58	72.15
<b>Returns (%)</b>					
ROAE	12.63	13.54	13.84	13.97	13.45
ROAA	1.91	2.00	2.00	2.07	2.11
Payout ratio	15.73	15.51	15.00	15.00	15.00

Source(s): CRCC, ABCI Securities estimates



**Exhibit 13: Consolidated income statement of CRG**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Revenue</b>	<b>465,625</b>	<b>540,394</b>	<b>602,451</b>	<b>664,836</b>	<b>723,956</b>
Construction operation	396,906	456,272	513,286	574,250	630,504
Survey, Design & Consultancy	9,069	9,180	10,164	9,907	9,837
Equipment Manufacturing	11,464	13,711	15,435	14,367	14,229
Property Development	20,175	27,566	29,880	32,001	34,274
Others	56,432	68,958	72,706	76,617	80,698
Inter-segment sales	(28,421)	(35,293)	(39,020)	(42,305)	(45,586)
<b>COGS</b>	<b>(430,064)</b>	<b>(500,054)</b>	<b>(557,629)</b>	<b>(615,197)</b>	<b>(669,731)</b>
<b>Gross profit</b>	<b>35,561</b>	<b>40,340</b>	<b>44,822</b>	<b>49,639</b>	<b>54,224</b>
SG&A	(17,257)	(16,722)	(18,032)	(20,528)	(22,297)
Other income (loss)	(7,174)	(8,799)	(9,996)	(10,419)	(10,802)
<b>Pre-tax profit</b>	<b>11,130</b>	<b>14,819</b>	<b>16,794</b>	<b>18,693</b>	<b>21,125</b>
Income tax	(3,061)	(4,744)	(5,038)	(5,608)	(6,338)
<b>Net profit</b>	<b>8,069</b>	<b>10,075</b>	<b>11,756</b>	<b>13,085</b>	<b>14,788</b>
Profit attributable to:					
Minority interests	679	701	1,237	1,375	1,551
<b>Equity shareholders of the Company</b>	<b>7,390</b>	<b>9,374</b>	<b>10,519</b>	<b>11,710</b>	<b>13,237</b>
<b>EPS (RMB)</b>	<b>0.347</b>	<b>0.440</b>	<b>0.494</b>	<b>0.550</b>	<b>0.621</b>
<b>DPS (RMB)</b>	<b>0.052</b>	<b>0.066</b>	<b>0.074</b>	<b>0.082</b>	<b>0.093</b>
<b>EBIT</b>	<b>20,588</b>	<b>25,673</b>	<b>28,116</b>	<b>30,378</b>	<b>33,212</b>
<b>EBITDA</b>	<b>26,773</b>	<b>32,394</b>	<b>35,277</b>	<b>38,110</b>	<b>41,573</b>

1: Revenue is excluding business tax and surcharges  
 Source(s): CRG, ABCI Securities estimates

**Exhibit 14: Consolidated balance sheet of CRG**

<b>As of Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Current assets</b>	<b>434,855</b>	<b>503,090</b>	<b>487,095</b>	<b>551,076</b>	<b>574,863</b>
Cash and equivalent	72,491	81,423	76,038	87,041	83,491
Trade and bill receivables	100,556	126,451	138,560	147,013	163,954
Construction contracts	78,522	90,560	74,495	89,437	89,072
Inventories	119,506	135,015	121,397	143,320	145,653
Other current assets	63,780	69,641	76,605	84,266	92,692
<b>Non-current assets</b>	<b>115,806</b>	<b>124,940</b>	<b>133,184</b>	<b>145,693</b>	<b>153,171</b>
Property, plant and equipment	41,513	44,183	48,234	52,868	57,956
Land lease prepayment	8,062	8,077	8,319	8,569	8,826
Intangible assets	34,046	34,044	33,639	33,319	33,092
Long term investments	16,156	18,836	20,720	22,792	25,071
Long term receivables	6,678	7,435	8,147	8,644	9,640
Other non-current assets	9,351	12,365	14,125	19,501	18,586
<b>Total assets</b>	<b>550,661</b>	<b>628,030</b>	<b>620,279</b>	<b>696,769</b>	<b>728,034</b>
<b>Current liabilities</b>	<b>366,119</b>	<b>420,242</b>	<b>400,532</b>	<b>463,541</b>	<b>479,594</b>
Trade and bill payables	179,608	205,678	175,123	194,577	207,895
Receipts in advance	49,685	57,251	58,287	80,144	70,597
Short term borrowings	73,762	82,348	90,038	98,497	107,802
Other current liabilities	63,064	74,965	77,084	90,322	93,300
<b>Non-current liabilities</b>	<b>96,552</b>	<b>111,158</b>	<b>112,958</b>	<b>115,139</b>	<b>117,552</b>
Long-term payables	450	614	523	581	621
Long-term borrowings	87,899	104,084	106,155	108,434	110,940
Other non-current liabilities	8,203	6,460	6,280	6,124	5,991
<b>Total liabilities</b>	<b>462,671</b>	<b>531,400</b>	<b>513,491</b>	<b>578,680</b>	<b>597,146</b>
<b>Minority interests</b>	<b>10,197</b>	<b>10,167</b>	<b>11,218</b>	<b>12,387</b>	<b>13,705</b>
<b>Shareholders' equities</b>	<b>77,793</b>	<b>86,463</b>	<b>95,570</b>	<b>105,703</b>	<b>117,183</b>
<b>BVPS (RMB)</b>	<b>3.652</b>	<b>4.059</b>	<b>4.487</b>	<b>4.963</b>	<b>5.502</b>

Source(s): CRG, ABCI Securities estimates

**Exhibit 15: Consolidated cash flow statement of CRG**

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Profit before tax</b>	<b>11,130</b>	<b>14,819</b>	<b>16,794</b>	<b>18,693</b>	<b>21,125</b>
Changes in depreciation and amortization	6,185	6,721	7,161	7,732	8,362
Changes in working capital	(20,939)	(12,920)	(14,312)	(4,746)	(21,230)
Financial cost	6,360	6,363	7,595	7,770	8,068
Income tax paid	(3,705)	(4,025)	(5,110)	(5,686)	(6,424)
Others	(1,775)	(1,462)	(1,436)	(6,403)	(1,527)
<b>CF Operating</b>	<b>(2,744)</b>	<b>9,496</b>	<b>10,692</b>	<b>17,360</b>	<b>8,374</b>
Increase in PP&E	(10,288)	(9,489)	(11,136)	(12,292)	(13,374)
Increase in intangible assets	(494)	(830)	(913)	(1,004)	(1,105)
Others	(2,636)	(3,344)	-	-	-
<b>CF Investing</b>	<b>(13,418)</b>	<b>(13,663)</b>	<b>(12,049)</b>	<b>(13,297)</b>	<b>(14,479)</b>
Capital injection	610	447	-	-	-
Net debt financing	31,565	24,771	9,761	10,737	11,811
Dividend payout	(1,253)	(1,507)	(1,592)	(1,784)	(1,989)
Interest paid	(9,686)	(10,956)	(11,321)	(11,686)	(12,086)
Others	2,437	(591)	(877)	9,672	4,820
<b>CF Financing</b>	<b>23,673</b>	<b>12,164</b>	<b>(4,029)</b>	<b>6,940</b>	<b>2,555</b>
<b>Net change in cash</b>	<b>7,511</b>	<b>7,997</b>	<b>(5,385)</b>	<b>11,003</b>	<b>(3,550)</b>
Cash at the beginning	63,583	72,491	81,423	76,038	87,041
Adjustment (Time deposit & FX effect)	1,397	935	-	-	-
<b>Cash at the end</b>	<b>72,491</b>	<b>81,423</b>	<b>76,038</b>	<b>87,041</b>	<b>83,491</b>

\*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): CRG, ABCI Securities estimates

**Exhibit 16: Key operating and financial ratios of CRG**

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Sales mixed (%)</b>					
Construction operation	85.24	84.43	85.20	86.37	87.09
Survey, Design & Consultancy	1.95	1.70	1.69	1.49	1.36
Equipment Manufacturing	2.46	2.54	2.56	2.16	1.97
Property Development	4.33	5.10	4.96	4.81	4.73
Others	12.12	12.76	12.07	11.52	11.15
Inter-segment sales	(6.10)	(6.53)	(6.48)	(6.36)	(6.30)
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	7.64	7.46	7.44	7.47	7.49
Net profit margin	1.59	1.73	1.75	1.76	1.83
Effective tax rate	27.50	32.01	30.00	30.00	30.00
<b>Growth (%)</b>					
Revenue	5.29	16.06	11.48	10.36	8.89
Gross profit	10.26	13.44	11.11	10.75	9.24
EBIT	27.01	24.70	9.51	8.05	9.33
EBITDA	18.57	21.00	8.90	8.03	9.09
Net profit	10.46	26.85	12.22	11.32	13.03
<b>Balance sheet ratios</b>					
Current ratio (x)	1.19	1.20	1.22	1.19	1.20
Quick ratio (x)	0.86	0.88	0.91	0.88	0.89
Cash ratio (x)	0.20	0.19	0.19	0.19	0.17
Trade and bill receivables days	81	81	85	83	83
Trade and bill payables turnover days	144	141	125	110	110
Inventory turnover days	91	93	84	79	79
Total debt / equity ratio (%)	183.73	192.93	183.72	175.23	167.12
Net debt / equity ratio (%)	101.34	108.67	112.52	101.52	103.33
<b>Returns (%)</b>					
ROAE	9.92	11.41	11.56	11.64	11.88
ROAA	1.45	1.59	1.69	1.78	1.86
Payout ratio	14.99	15.00	15.00	15.00	15.00

Source(s): CRG, ABCI Securities estimates



**Exhibit 17: Consolidated income statement of CSR**

FY Ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Revenue</b>	<b>89,019</b>	<b>96,525</b>	<b>123,565</b>	<b>142,815</b>	<b>152,027</b>
Locomotives	14,396	19,846	21,490	24,714	27,882
Passenger carriages	7,753	6,590	7,044	7,886	8,832
Freight wagons	10,419	9,932	10,645	12,488	14,203
MUs	21,524	19,189	34,375	41,378	36,921
Rapid transit vehicles	7,947	8,251	15,561	19,999	25,745
New Businesses	10,902	13,053	13,803	14,672	15,681
Others	16,078	19,664	20,647	21,680	22,764
<b>COGS</b>	<b>(73,264)</b>	<b>(79,896)</b>	<b>(100,838)</b>	<b>(116,920)</b>	<b>(124,695)</b>
<b>Gross profit</b>	<b>15,755</b>	<b>16,629</b>	<b>22,727</b>	<b>25,895</b>	<b>27,332</b>
SG&A	(10,840)	(11,647)	(15,164)	(17,361)	(18,365)
Other income and gains	678	951	721	904	986
<b>Pre-tax profit</b>	<b>5,593</b>	<b>5,933</b>	<b>8,284</b>	<b>9,438</b>	<b>9,953</b>
Income tax	(741)	(859)	(1,243)	(1,416)	(1,493)
<b>Net profit</b>	<b>4,852</b>	<b>5,074</b>	<b>7,042</b>	<b>8,022</b>	<b>8,460</b>
Profit attributable to:					
Minority interests	843	934	1,464	1,654	1,737
<b>Equity shareholders of the Company</b>	<b>4,009</b>	<b>4,140</b>	<b>5,578</b>	<b>6,369</b>	<b>6,723</b>
<b>EPS (RMB)</b>	<b>0.299</b>	<b>0.300</b>	<b>0.404</b>	<b>0.461</b>	<b>0.487</b>
<b>DPS (RMB)</b>	<b>0.093</b>	<b>0.090</b>	<b>0.121</b>	<b>0.138</b>	<b>0.146</b>
<b>EBIT</b>	<b>6,422</b>	<b>6,530</b>	<b>9,029</b>	<b>10,203</b>	<b>10,719</b>
<b>EBITDA</b>	<b>8,205</b>	<b>8,470</b>	<b>11,113</b>	<b>12,379</b>	<b>12,983</b>

Source(s): CSR, ABCI Securities estimates

**Exhibit 18: Consolidated balance sheet of CSR**

As of Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Current assets</b>	<b>72,261</b>	<b>82,953</b>	<b>95,699</b>	<b>103,113</b>	<b>105,394</b>
Cash and equivalent	15,044	16,400	22,105	18,406	20,384
Trade and bill receivables	30,355	40,317	40,931	49,062	46,736
Inventories	18,770	17,721	23,719	26,252	28,409
Other current assets	8,092	8,515	8,943	9,393	9,865
<b>Non-current assets</b>	<b>32,956</b>	<b>38,177</b>	<b>42,482</b>	<b>47,488</b>	<b>47,530</b>
Property, plant and equipment	22,996	25,231	26,396	27,485	28,504
Intangible assets	5,367	5,818	6,252	6,669	7,071
Long-term investments	3,099	3,662	4,028	4,431	4,874
Other non-current assets	1,494	3,466	5,806	8,902	7,082
<b>Total assets</b>	<b>105,217</b>	<b>121,130</b>	<b>138,181</b>	<b>150,601</b>	<b>152,924</b>
<b>Current liabilities</b>	<b>61,538</b>	<b>67,000</b>	<b>78,253</b>	<b>84,316</b>	<b>80,057</b>
Trade and bill payables	39,663	45,373	51,321	56,310	49,596
Receipts in advance	7,272	7,142	9,785	9,779	11,047
Short term borrowings	8,596	7,606	9,580	9,904	10,259
Other current liabilities	6,007	6,879	7,567	8,324	9,156
<b>Non-current liabilities</b>	<b>4,169</b>	<b>7,975</b>	<b>8,413</b>	<b>8,916</b>	<b>9,469</b>
Long-term borrowings	727	3,569	3,566	3,585	3,605
Other non-current liabilities	3,442	4,406	4,847	5,331	5,864
<b>Total liabilities</b>	<b>65,707</b>	<b>74,975</b>	<b>86,665</b>	<b>93,232</b>	<b>89,526</b>
<b>Minority interests</b>	<b>6,754</b>	<b>9,595</b>	<b>10,620</b>	<b>11,777</b>	<b>12,993</b>
<b>Shareholders' equities</b>	<b>32,756</b>	<b>36,560</b>	<b>40,896</b>	<b>45,591</b>	<b>50,404</b>
<b>BVPS (RMB)</b>	<b>2.444</b>	<b>2.649</b>	<b>2.963</b>	<b>3.303</b>	<b>3.652</b>

Source(s): CSR, ABCI Securities estimates

**Exhibit 19: Consolidated cash flow statement of CSR**

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Profit before tax</b>	<b>5,593</b>	<b>5,933</b>	<b>8,284</b>	<b>9,438</b>	<b>9,953</b>
Changes in depreciation and amortization	1,783	1,940	2,084	2,176	2,263
Changes in working capital	(4,764)	(2,034)	(4,220)	(6,653)	(6,127)
Financial cost	764	546	707	726	728
Income tax paid	(855)	(968)	(1,250)	(1,423)	(1,501)
Others	(126)	(5)	-	-	-
<b>CF Operating</b>	<b>2,395</b>	<b>5,412</b>	<b>5,606</b>	<b>4,265</b>	<b>5,316</b>
Increase in PP&E	(3,104)	(4,123)	(3,000)	(3,000)	(3,000)
Increase in intangible assets	(768)	(458)	(683)	(683)	(683)
Others	(373)	(2,664)	-	-	-
<b>CF Investing</b>	<b>(4,245)</b>	<b>(7,245)</b>	<b>(3,683)</b>	<b>(3,683)</b>	<b>(3,683)</b>
Capital injection	9,310	2,697	-	-	-
Net debt financing	(11,166)	1,847	1,971	342	375
Dividend payout	(2,782)	(1,507)	(1,242)	(1,673)	(1,911)
Interest paid	(970)	(545)	(707)	(726)	(728)
Others	(64)	(1,019)	3,760	(2,224)	2,608
<b>CF Financing</b>	<b>(5,672)</b>	<b>1,473</b>	<b>3,783</b>	<b>(4,281)</b>	<b>345</b>
<b>Net change in cash</b>	<b>(7,522)</b>	<b>(360)</b>	<b>5,705</b>	<b>(3,699)</b>	<b>1,978</b>
Cash at the beginning	23,730	15,044	16,400	22,105	18,406
Adjustment (Time deposit & FX effect)	(1,164)	1,716	-	-	-
<b>Cash at the end</b>	<b>15,044</b>	<b>16,400</b>	<b>22,105</b>	<b>18,406</b>	<b>20,384</b>

\*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): CSR, ABCI Securities estimates

**Exhibit 20: Key operating and financial ratios of CSR**

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Sales mixed (%)</b>					
Locomotives	16.17	20.56	17.39	17.30	18.34
Passenger carriages	8.71	6.83	5.70	5.52	5.81
Freight wagons	11.70	10.29	8.61	8.74	9.34
MUs	24.18	19.88	27.82	28.97	24.29
Rapid transit vehicles	8.93	8.55	12.59	14.00	16.93
New Businesses	12.25	13.52	11.17	10.27	10.31
Others	18.06	20.37	16.71	15.18	14.97
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	17.70	17.23	18.39	18.13	17.98
Net profit margin	4.50	4.29	4.51	4.46	4.42
Effective tax rate	13.25	14.48	15.00	15.00	15.00
<b>Growth (%)</b>					
Revenue	11.95	8.43	28.01	15.58	6.45
Gross profit	5.95	5.55	36.67	13.94	5.55
EBIT	(1.25)	1.68	38.26	13.00	5.06
EBITDA	1.77	3.23	31.20	11.40	4.87
Net profit	3.75	3.27	34.73	14.18	5.57
<b>Balance sheet ratios</b>					
Current ratio (x)	1.17	1.24	1.22	1.22	1.32
Quick ratio (x)	0.68	0.64	0.70	0.64	0.73
Cash ratio (x)	0.24	0.24	0.28	0.22	0.25
Trade and bill receivables days	99	134	120	115	115
Trade and bill payables turnover days	168	194	175	168	155
Inventory turnover days	91	83	75	78	80
Total debt / equity ratio (%)	23.60	24.21	25.52	23.51	21.87
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROAE	14.49	11.95	14.40	14.73	14.01
ROAA	4.05	3.66	4.30	4.41	4.43
Payout ratio	30.98	30.00	30.00	30.00	30.00

Source(s): CSR, ABCI Securities estimates

**Exhibit 21: Consolidated income statement of ZCSR**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Revenue<sup>1</sup></b>	<b>7,186</b>	<b>8,781</b>	<b>11,245</b>	<b>13,104</b>	<b>13,925</b>
Train-borne electrical systems (Locomotives)	1,584	2,906	1,875	2,063	2,269
Train-borne electrical systems (EMUs)	2,229	2,315	5,018	5,047	3,888
Train-borne electrical systems (Metro)	928	956	1,873	2,810	3,166
Train-borne electrical systems (Others)	1,589	1,674	1,734	2,166	2,702
Electric components and others	856	930	744	1,018	1,900
<b>COGS</b>	<b>(4,803)</b>	<b>(5,695)</b>	<b>(7,189)</b>	<b>(8,436)</b>	<b>(8,995)</b>
<b>Gross profit</b>	<b>2,383</b>	<b>3,086</b>	<b>4,056</b>	<b>4,668</b>	<b>4,931</b>
SG&A	(1,197)	(1,503)	(1,724)	(2,062)	(2,188)
Other income and gains	218	121	106	114	126
<b>Pre-tax profit</b>	<b>1,404</b>	<b>1,704</b>	<b>2,438</b>	<b>2,721</b>	<b>2,869</b>
Income tax	(179)	(238)	(366)	(408)	(430)
<b>Net profit</b>	<b>1,225</b>	<b>1,466</b>	<b>2,072</b>	<b>2,313</b>	<b>2,439</b>
Profit attributable to:					
Minority interests	1.0	(1.0)	2.1	2.0	1.9
<b>Equity shareholders of the Company</b>	<b>1,224</b>	<b>1,467</b>	<b>2,070</b>	<b>2,311</b>	<b>2,437</b>
<b>Basic EPS (RMB)</b>	<b>1.129</b>	<b>1.248</b>	<b>1.761</b>	<b>1.966</b>	<b>2.073</b>
<b>DPS (RMB)</b>	<b>0.350</b>	<b>0.350</b>	<b>0.528</b>	<b>0.590</b>	<b>0.622</b>
<b>EBIT</b>	<b>1,420</b>	<b>1,707</b>	<b>2,444</b>	<b>2,725</b>	<b>2,874</b>
<b>EBITDA</b>	<b>1,577</b>	<b>1,875</b>	<b>2,624</b>	<b>2,916</b>	<b>3,074</b>

1: Revenue is excluding business tax and surcharges  
 Source(s): ZCSR, ABCI Securities estimates

**Exhibit 22: Consolidated balance sheet of ZCSR**

<b>As of Dec 31 (RMB mn)</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
<b>Current assets</b>	<b>7,203</b>	<b>10,813</b>	<b>13,079</b>	<b>14,949</b>	<b>16,908</b>
Cash and equivalent	2,319	3,136	2,971	3,905	5,713
Trade and bill receivables	3,628	4,908	6,182	6,742	6,992
Inventories	1,110	1,428	2,511	2,805	2,617
Other current assets	146	1,341	1,415	1,497	1,586
<b>Non-current assets</b>	<b>2,454</b>	<b>2,586</b>	<b>2,773</b>	<b>2,953</b>	<b>3,135</b>
Property, plant and equipment	1,701	1,830	1,952	2,064	2,169
Land lease prepayment	160	173	182	191	200
Intangible assets	111	74	73	74	77
Long term investments	255	233	256	282	310
Other non-current assets	227	276	310	342	379
<b>Total assets</b>	<b>9,657</b>	<b>13,399</b>	<b>15,852</b>	<b>17,902</b>	<b>20,043</b>
<b>Current liabilities</b>	<b>3,033</b>	<b>3,821</b>	<b>4,566</b>	<b>4,894</b>	<b>5,244</b>
Trade and bill payables	1,988	2,679	3,230	3,473	3,673
Receipts in advance	292	388	536	541	604
Short term borrowings	41	31	5	5	5
Other current liabilities	712	723	795	875	962
<b>Non-current liabilities</b>	<b>305</b>	<b>428</b>	<b>454</b>	<b>485</b>	<b>530</b>
Long-term borrowings	28	52	40	30	30
Other non-current liabilities	277	376	414	455	500
<b>Total liabilities</b>	<b>3,338</b>	<b>4,249</b>	<b>5,020</b>	<b>5,379</b>	<b>5,775</b>
<b>Minority interests</b>	<b>135</b>	<b>134</b>	<b>135</b>	<b>137</b>	<b>138</b>
<b>Shareholders' equities</b>	<b>6,184</b>	<b>9,016</b>	<b>10,697</b>	<b>12,386</b>	<b>14,130</b>
<b>BVPS (RMB)</b>	<b>5.703</b>	<b>7.670</b>	<b>9.100</b>	<b>10.537</b>	<b>12.021</b>

Source(s): ZCSR, ABCI Securities estimates

**Exhibit 23: Consolidated cash flow statement of ZCSR**

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Profit before tax</b>	<b>1,404</b>	<b>1,704</b>	<b>2,438</b>	<b>2,721</b>	<b>2,869</b>
Changes in depreciation and amortization	157	168	180	190	200
Changes in working capital	(201)	(831)	(1,699)	(507)	174
Financial cost	16	3	(6)	(4)	(4)
Income tax paid	(129)	(318)	(346)	(387)	(407)
Others	-	-	-	-	-
<b>CF Operating</b>	<b>1,247</b>	<b>726</b>	<b>567</b>	<b>2,013</b>	<b>2,832</b>
Increase in PP&E	(337)	(275)	(280)	(280)	(280)
Increase in intangible assets	(30)	2	(30)	(33)	(36)
Others	383	(1,054)	-	-	-
<b>CF Investing</b>	<b>16</b>	<b>(1,327)</b>	<b>(310)</b>	<b>(313)</b>	<b>(316)</b>
Capital injection	10	1,776	-	-	-
Net debt financing	(632)	28	(38)	(10)	-
Dividend payout	(369)	(380)	(411)	(621)	(693)
Interest paid	(28)	(3)	6	4	4
Others	-	-	21	(139)	(19)
<b>CF Financing</b>	<b>(1,019)</b>	<b>1,422</b>	<b>(423)</b>	<b>(766)</b>	<b>(708)</b>
<b>Net change in cash</b>	<b>244</b>	<b>821</b>	<b>(165)</b>	<b>934</b>	<b>1,808</b>
Cash at the beginning	2,158	2,319	3,136	2,971	3,905
Adjustment (Time deposit & FX effect)	(83)	(4)	-	-	-
<b>Cash at the end</b>	<b>2,319</b>	<b>3,136</b>	<b>2,971</b>	<b>3,905</b>	<b>5,713</b>

\*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): ZCSR, ABCI Securities estimates

**Exhibit 24: Key operating and financial ratios of ZCSR**

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Sales mixed (%)</b>					
Train-borne electrical systems (Locomotives)	22.04	33.09	16.67	15.74	16.29
Train-borne electrical systems (EMUs)	31.02	26.36	44.63	38.51	27.92
Train-borne electrical systems (Metro)	12.91	10.89	16.66	21.44	22.73
Train-borne electrical systems (Others)	22.11	19.06	15.42	16.53	19.41
Electric components and others	11.91	10.59	6.62	7.77	13.65
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	33.16	35.14	36.07	35.62	35.41
Net profit margin	17.03	16.71	18.41	17.63	17.50
Effective tax rate	12.75	13.97	15.00	15.00	15.00
<b>Growth (%)</b>					
Revenue	1.51	22.20	28.05	16.54	6.26
Gross profit	(3.92)	29.50	31.42	15.10	5.62
EBIT	0.46	20.21	43.16	11.52	5.45
EBITDA	(2.51)	18.90	39.95	11.11	5.42
Net profit	3.34	19.85	41.11	11.62	5.47
<b>Balance sheet ratios</b>					
Current ratio (x)	2.37	2.83	2.86	3.05	3.22
Quick ratio (x)	2.01	2.46	2.31	2.48	2.73
Cash ratio (x)	0.76	0.82	0.65	0.80	1.09
Trade and bill receivables days	147	177	180	180	180
Trade and bill payables turnover days	127	150	150	145	145
Inventory turnover days	106	81	100	115	110
Total debt / equity ratio (%)	1.09	0.91	0.42	0.28	0.25
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Returns (%)</b>					
ROAE	21.29	19.30	21.00	20.02	18.38
ROAA	13.37	12.73	14.15	13.69	12.84
Payout ratio	31.00	28.04	30.00	30.00	30.00

Source(s): ZCSR, ABCI Securities estimates

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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