March 27, 2014
Equity Focus
Rating: BUY
TP: HK$ 6.99

H-Share price (HK$)	5.05
Est. share price return	38.42%
Est. dividend yield	4.90%
Est. total return	43.32%

Previous Rating &TP	BUY; HK$ 6.99
Previous Report Date	March 12, 2014

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Key Data

52Wk H/L(HK$)	6.35 / 3.42
Issued shares (mn)	4,125
H-Shares (mn)	908
Domestic Share (mn)	3,217
Market cap	
H-shares (HK$ mn)	4,585
Domestic Share (HK$ mn)	16,246
3-mth avg daily turnover (HK$ mn)	21.6
Major shareholder(s) (%):	
SINOMACH	77.99

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

International engineering contracting	71.81
Trading	22.91
Others	5.28

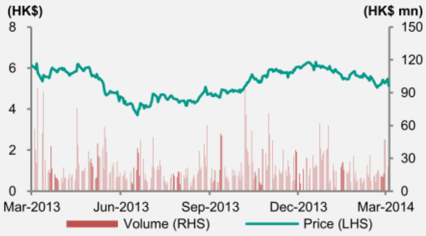
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(8.54)	(6.30)
3-mth	(15.19)	(10.19)
6-mth	9.01	15.60

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

CMEC (1829 HK)

Reiterate BUY on long run growth opportunity

- Revenue edged up 0.6% YoY to RMB 21.4bn in FY13; GPM was stable at 17.46%. Net income was up 1.65% YoY to RMB 1.96bn, beating our expectation by 17.41%.
- CMEC targets to increase new effective contracts by 17.65% YoY to US$ 4.0bn for FY14.
- We expect contribution from power segment, which usually has a higher margin than that of the Group's overall, to reduce based on the decreased flow of new contracts in 2013. CMEC's short-term profitability is expected to fall.
- The counter is trading at 7.15x FY14E P/E and 1.24x FY14E P/B. Its valuation is lower than that of its comparable peer CSCI (3311). Based on the Group's long-term growth potential, we maintain **BUY** with TP at HK$ 6.99.

Earnings exceeded forecasts. FY13 Revenue was RMB 21.4bn, up 0.6% YoY, (our forecast: RMB 20.4bn). Gross profit margin was 17.46% in FY13, down 0.06ppt YoY. Thanks to the gain from disposal of subsidiary and FX contract & interest rate swaps, net income was RMB 1.96bn, up 1.65% YoY and exceeding our forecast by 17.41%. The Group's new effective contracts (US$ 3.4bn) in FY13 were down 22.86% YoY, yet contracts pending to be effective by end-2013 was up 11.35% YoY to US$ 13.5bn . Thus, the Group expects its new effective contracts to increase 17.65% YoY to US$ 4.0bn for FY14.

New contracts of power segment drop. Total new contracts of the Group's power segment dropped from US$ 4.13bn in FY12 to US$ 1.4bn in FY13, while the segment's total new effective contracts contribution dropped from 94.54% in FY12 to 42.92% in FY13. Since GPM of power segment (FY13 segmental GPM: 23.23%) has been higher than that of the Group (FY13 overall GPM: 17.46%), we expect the Group's overall GPM to decline in FY14E-15E and lower our FY14E/15E GPM forecasts by 1.62ppt/1.92ppt.

Slower-than-expected M&A progress. After our discussion with the management, we believe the M&A of CNCEC and CNEEC, which are wholly-owned by SINOMACH (the parent company of CMEC) and focus on civil engineering contracting businesses in China is unlikely to be completed in 2014 as preparatory work for the operation integration is taking more time thane expected.

Positive on long-term growth prospects. The counter is trading at 7.15x FY14E P/E and 1.24x FY14E P/B, lower than that of CSCI (3311), a HK-listed infrastructure constructor with comparable earnings size and profitability. Under the China's "going out" policy, we remain positive on CMEC's prospects in the long run. Our TP is unchanged at HK$ 6.99.

Risk factors: 1) Slowdown in new effective contracts; 2) Delay in project delivery; 3) Foreign exchange loss; 4) Expected decline in contribution from the high-margined power segment.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Revenue (RMB mn)	20,518	21,296	21,426	25,716	29,265
Chg (%,YoY)	7.55	3.79	0.61	20.02	13.80
Net Income (RMB mn)	1,475	1,928	1,959	2,277	2,607
Chg (%,YoY)	29.78	30.69	1.65	16.20	14.51
FD EPS (RMB)	0.447	0.467	0.474	0.552	0.632
P/E (x)	-	-	8.31	7.15	6.24
BVPS (RMB)	1.632	2.405	2.842	3.181	3.620
P/B (x)	-	-	1.39	1.24	1.09
DPS(RMB)	0.043	0.164	0.190	0.193	0.221
Yield (%)	-	-	4.82	4.90	5.61
ROAE (%)	31.58	25.18	18.10	18.32	18.58
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

*Net gearing=Net debt/Total equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Major changes in our forecasts, and comparison of FY13 actual results and our estimates

	FY13A			FY14E			FY15E		
	Estimate	Actual	*Diff (%)*	Previous	New	*Chg (%)*	Previous	New	*Chg (%)*
Revenue (RMB mn)	**20,438**	**21,426**	***4.83***	**23,152**	**25,716**	***11.08***	**27,550**	**29,265**	***6.22***
Gross profit (RMB mn)	**3,477**	**3,742**	***7.62***	**4,333**	**4,395**	***1.44***	**5,143**	**4,903**	***(4.66)***
GPM (%)	*17.01*	*17.46*	*0.45ppt*	*18.71*	*17.09*	*-1.62ppt*	*18.67*	*16.75*	*-1.91ppt*
Net income (RMB mn)	**1,617**	**1,959**	***21.16***	**2,219**	**2,277**	***2.60***	**2,689**	**2,607**	***(3.03)***
Net margin (%)	*7.91*	*9.14*	*1.23ppt*	*9.59*	*8.85*	*-0.73ppt*	*9.76*	*8.91*	*-0.85ppt*
EPS (RMB)	0.392	0.475	*21.16*	0.538	0.552	*2.60*	0.652	0.632	*(3.03)*
BVPS (RMB)	2.718	2.842	*4.57*	3.118	3.181	*2.03*	3.581	3.620	*1.08*
DPS (RMB)	0.137	0.166	*21.15*	0.188	0.193	*2.60*	0.228	0.221	*(3.02)*

Source(s): Company, ABCI Securities estimates

Exhibit 2: Peer valuation of construction contractors

		Mkt cap	As of 27/3/2014		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
Company	**Ticker**	**(HK$ mn)**	**CRY**	**Share Price**	**FY13E**	**FY14E**	**FY13E**	**FY14E**	**FY13E**	**FY14E**	**FY13E**	**FY14E**
Domestic Transportation Project Contractors												
CRCC-H	1186 HK	13,598	HKD	6.55	6.32	5.38	17.78	17.56	0.79	0.70	13.11	13.74
CRCC-A	601186 CH	52,545	RMB	4.10	5.07	4.31	17.78	17.56	0.63	0.56	13.11	13.74
CRG-H	390 HK	14,809	HKD	3.52	6.68	5.83	19.17	14.72	0.69	0.62	10.74	11.19
CRG-A	601390 CH	52,088	RMB	2.44	5.93	5.17	19.17	14.72	0.61	0.55	10.74	11.19
CCCC-H	1800 HK	24,000	HKD	5.42	5.24	4.88	6.74	7.31	0.71	0.64	14.26	13.74
CCCC-A	601800 CH	55,161	RMB	3.76	4.65	4.33	6.74	7.31	0.63	0.57	14.26	13.74
CREGC	600528 CH	8,420	RMB	4.62	10.50	8.88	52.30	18.18	1.05	0.97	11.25	11.39
Shanghai Tunnel Eng Co	600820 CH	16,738	RMB	10.32	10.53	8.97	10.57	17.35	1.04	0.96	11.48	11.10
Xiangyu Dredging	871 HK	2,591	HKD	3.05	8.22	7.22	16.00	13.79	1.03	0.83	15.76	12.74
Sector Weighted Average					**5.95**	**5.23**	**15.22**	**13.35**	**0.69**	**0.62**	**12.68**	**12.75**
Domestic Infrastructure Construction Contractors												
CSCEC	601668 CH	109,030	RMB	2.91	4.73	4.11	18.27	15.12	0.74	0.64	18.33	16.64
Sinohydro Group	601669 CH	32,731	RMB	2.73	5.54	4.65	15.59	19.07	0.77	0.69	14.99	15.56
China Gezhouba Group	600068 CH	22,716	RMB	3.95	8.23	7.45	7.14	10.42	0.95	0.87	13.52	12.23
CSCI	3311 HK	49,232	HKD	12.66	13.84	11.05	28.33	25.25	2.57	2.20	18.44	19.66
CAMC	002051 CH	14,229	RMB	17.88	15.00	11.87	7.39	26.34	2.22	1.93	18.51	17.38
CMEC	**1829 HK**	**20,835**	**HKD**	**5.05**	**8.31**	**7.15**	**1.65**	**16.20**	**1.39**	**1.24**	**18.10**	**18.32**
Sector Weighted Average					**7.85**	**6.56**	**16.88**	**17.95**	**1.26**	**1.10**	**17.47**	**16.88**
International Transportation Construction Contractors												
Vinci S.A.	DG FP	346,323	EUR	53.73	14.54	13.42	3.50	8.36	2.07	1.93	13.58	14.10
Bouygues Construction	EN FP	98,644	EUR	28.95	14.06	12.07	(186.82)	16.51	1.13	1.10	9.27	9.28
Hochtief A.G.	HOT GR	52,390	EUR	63.74	19.30	15.85	39.32	21.80	1.56	1.46	7.16	9.20
Skanska A.B.	SKAB SS	74,370	SEK	147.90	16.09	15.16	0.58	6.09	2.70	2.53	14.78	18.02
Strabag S.E.	STR AV	22,743	EUR	18.69	16.42	14.03	96.21	17.05	0.65	0.63	4.02	4.60
FCC S.A.	FCC SM	21,002	EUR	15.46	33.31	12.27	(103.92)	171.55	2.89	2.37	(0.53)	21.23
Ferrovial S.A.	FER SM	120,304	EUR	15.37	31.94	29.16	(51.90)	9.56	2.02	2.01	5.75	5.96
BAM Groep	BAMNB NA	12,004	EUR	4.17	13.04	10.62	68.42	22.81	1.14	1.08	5.73	19.87
SNC-Lavalin	SNC CN	49,781	CAD	46.87	27.57	18.15	608.33	51.94	3.13	3.03	1.72	16.97
Obrascon Huarte	OHL SM	32,712	EUR	30.73	9.98	8.67	12.82	15.03	1.19	1.08	12.76	13.08
Sacyr S.A.	SYV SM	21,942	EUR	4.41	14.14	11.37	(129.16)	24.36	1.28	1.23	7.88	11.04
Sector Weighted Average					**18.44**	**15.78**	**8.61**	**17.77**	**1.96**	**1.85**	**10.10**	**12.49**
International Infrastructure Construction Contractors												
ACS	ACS SM	92,071	EUR	27.19	11.36	11.58	5.80	(1.88)	2.45	2.34	24.05	22.75
Jacobs Engineering Group	JEC US	64,633	USD	63.16	17.29	14.87	11.74	16.23	1.77	1.58	10.83	11.00
Hyundai Eng & Const	000720 KP	45,028	KRW	55,900	10.26	8.47	68.50	21.03	1.11	0.98	11.81	12.33
WorleyParsons Ltd	WOR AU	26,671	AUD	15.08	13.55	11.57	(14.91)	17.07	1.65	1.59	16.43	12.57
Abengoa S.A.	ABG SM	28,888	EUR	3.93	21.83	14.72	5.34	48.33	1.90	1.71	5.61	5.63
Daewoo Eng & Const	047040 KP	23,811	KRW	7,920	13.24	11.08	(133.05)	19.52	1.03	0.93	0.96	7.43
Sector Weighted Average					**13.99**	**12.12**	**3.44**	**14.72**	**1.83**	**1.69**	**14.48**	**14.36**
Overall Weighted Average					**14.19**	**12.17**	**9.96**	**16.62**	**1.64**	**1.52**	**12.37**	**13.52**

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	**20,518**	**21,296**	**21,426**	**25,716**	**29,265**
International engineering contracting	12,055	13,245	15,386	19,123	22,185
Trading	7,689	7,163	4,908	5,381	5,782
Other	774	888	1,133	1,212	1,298
COGS	**(16,859)**	**(17,564)**	**(17,684)**	**(21,321)**	**(24,362)**
Gross profit	**3,659**	**3,732**	**3,742**	**4,395**	**4,903**
SG&A	(1,385)	(1,565)	(1,715)	(2,070)	(2,341)
Other income and gains	(287)	449	637	753	963
Pre-tax profit	**1,987**	**2,616**	**2,664**	**3,078**	**3,525**
Income tax	(515)	(688)	(704)	(800)	(916)
Net profit	**1,472**	**1,928**	**1,960**	**2,278**	**2,608**
Profit attributable to:					
Minority interests	(3)	0	1	1	1
Equity shareholders of the Company	**1,475**	**1,928**	**1,959**	**2,277**	**2,607**
FD EPS (RMB)	**0.447**	**0.467**	**0.474**	**0.552**	**0.632**
DPS (RMB)	**0.043**	**0.164**	**0.190**	**0.193**	**0.221**
EBIT	**2,547**	**2,646**	**2,566**	**3,092**	**3,532**
EBITDA	**2,619**	**2,745**	**2,679**	**3,228**	**3,685**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Current assets	**19,331**	**27,936**	**25,904**	**37,279**	**37,893**
Cash and equivalent	9,516	19,008	18,423	27,798	29,908
Trade and bill receivables	3,381	3,052	2,306	3,123	2,989
Construction contracts	3,176	3,191	2,373	1,997	1,059
Inventories	212	226	213	352	583
Other current assets	3,046	2,459	2,589	4,009	3,355
Non-current assets	**7,277**	**6,834**	**6,049**	**7,362**	**7,521**
Property, plant and equipment	392	444	485	1,248	1,627
Lease prepayment	1,630	1,827	1,788	1,753	1,720
Intangible assets	5	8	8	7	6
Trade and other receivables	107	39	53	154	148
Construction contracts	4,774	4,114	3,202	2,996	1,966
Other non-current assets	369	402	513	1,203	2,055
Total assets	**26,608**	**34,770**	**31,953**	**44,641**	**45,414**
Current liabilities	**20,497**	**24,271**	**19,790**	**30,489**	**29,292**
Trade and bill payables	8,320	9,596	10,773	11,948	10,745
Receipts in advance	10,316	12,710	7,022	16,393	16,704
Short term borrowings	160	134	234	90	90
Other current liabilities	1,701	1,831	1,761	2,058	1,753
Non-current liabilities	**737**	**582**	**407**	**994**	**1,152**
Long-term payables	131	61	2	581	754
Long-term borrowings	226	155	80	55	5
Other non-current liabilities	381	366	325	358	393
Total liabilities	**21,234**	**24,853**	**20,197**	**31,483**	**30,444**
Minority interests	**(6)**	**(3)**	**16**	**17**	**17**
Shareholders' equities	**5,380**	**9,920**	**11,740**	**13,142**	**14,952**
BVPS	**1.632**	**2.405**	**2.842**	**3.181**	**3.620**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	**1,987**	**2,616**	**2,664**	**3,078**	**3,525**
Change in depreciation and amortization	72	99	113	136	153
Change in working capital	1,434	5,038	(1,533)	11,223	1,325
Net financial cost (income)	(174)	(296)	(336)	(931)	(1,172)
Income tax paid	(683)	(604)	(1,010)	(1,149)	(1,315)
Others	387	391	(490)	455	588
CF Operating	**3,023**	**7,244**	**(593)**	**12,812**	**3,104**
Increase in PP&E	(51)	(84)	(486)	(490)	(494)
Increase in intangible assets	(1,001)	(237)	(0)	(0)	(0)
Others	324	(2,548)	30	0	0
CF Investing	**(728)**	**(2,869)**	**(456)**	**(490)**	**(494)**
Capital injection	20	3,012	455	0	0
Net debt financing	(1,450)	(97)	25	(169)	(50)
Dividend payout	(698)	(354)	(675)	(686)	(797)
Interest paid	(20)	(11)	(402)	(14)	(7)
Others	18	(1)	0	1	1
CF Financing	**(2,130)**	**2,549**	**(597)**	**(868)**	**(853)**
Net change in cash	**165**	**6,924**	**(1,647)**	**11,454**	**1,756**
Cash at the beginning	9,623	9,516	19,008	18,423	27,798
Adjustment (Time deposit & FX effect)	(272)	2,568	1,062	(2,080)	354
Cash at the end	**9,516**	**19,008**	**18,423**	**27,798**	**29,908**

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Sales mixed (%)					
International engineering contracting	58.75	62.19	71.81	74.36	75.81
Trading	37.47	33.64	22.91	20.92	19.76
Other	3.77	4.17	5.28	4.71	4.44
Profit & loss ratios (%)					
Gross margin	17.83	17.52	17.46	17.09	16.75
Net profit margin	7.19	9.05	9.14	8.85	8.91
Effective tax rate	25.91	26.30	26.43	26.00	26.00
Growth (%)					
Revenue	7.55	3.79	0.61	20.02	13.80
Gross profit	24.36	1.99	0.27	17.45	11.55
EBIT	30.81	3.88	(3.01)	20.47	14.24
EBITDA	31.75	4.81	(2.40)	20.50	14.16
Net profit	29.78	30.69	1.65	16.20	14.51
Balance sheet ratios					
Current ratio (x)	0.94	1.15	1.31	1.22	1.29
Quick ratio (x)	0.93	1.14	1.30	1.21	1.27
Cash ratio (x)	0.46	0.78	0.93	0.91	1.02
Trade and bill receivables days	51.00	56.38	46.42	40.00	40.00
Trade and bill payables turnover days	175.08	186.15	210.21	194.48	170.00
Inventory turnover days	4.19	4.55	4.53	4.83	7.00
Total debt / equity ratio (%)	7.18	2.91	2.67	1.10	0.64
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAE	31.58	25.18	18.10	18.32	18.58
ROAA	5.70	6.30	5.90	5.90	5.80
Payout ratio	9.59	35.01	35.00	35.00	35.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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