



October 28, 2013
Equity Focus
Rating: HOLD
TP: HK\$ 6.15

H-Share price (HK\$) 6.38
Est. share price return (3.61%)
Est. dividend yield 1.08%
Est. total return (2.53%)

Previous Rating & TP HOLD; HK\$ 6.18
Previous Report Date October 21, 2013

Analyst: Steve Wong
Tel: (852) 2147 8869
Email: stevecwwong@abci.com.hk

Key Data

52Wk H/L(HK\$)	7.20 / 4.16
Issued shares (mn)	13,803
H-Shares (mn)	2,024
A-Shares (mn)	11,779
Market cap	
H-shares (HK\$ mn)	12,913
A-Shares (RMB mn)	53,359
3-mth avg daily turnover (HK\$ mn)	83.6
Major shareholder(s) (%):	
CSRG (State-owned)	56.48

Source(s): Company, Bloomberg, ABCI Securities

9M13 Revenue breakdown (%)

Locomotives	21.52
Passenger carriages	5.50
Freight wagons	10.83
MUs	13.82
Rapid transit vehicles	8.87
New Businesses	16.62
Others	22.83

Source(s): Company, ABCI Securities

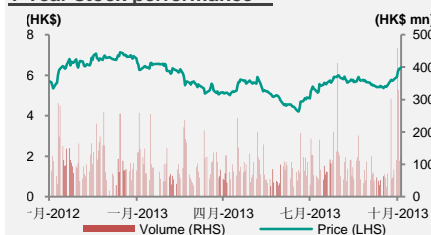
Share performance (%)

	Absolute	Relative*
1-mth	16.21	18.40
3-mth	19.25	15.42
6-mth	24.12	23.30

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

CSR (1766 HK)

3Q recovery slower than expected; maintain HOLD

- 3Q13 recovery is weaker than expected. 9M13 net income missed our estimates by 12.15% and the market expectation by 15.74%
- Decline in the production volume narrowed from 52.7% YoY in 8M13 to 35.8% YoY in 9M13. We expect CSR's delivery will accelerate in 4Q13, driving its YoY revenue growth back to flat level (-0.75%) in FY13 from -10.92% in 9M13
- We revise down FY13E/14E net income by 4.64% and 4.18%. Our target valuation, however, remains at 1.93x of FY13E P/B. Earnings visibility in FY14E-15E is still weak, thus we reiterate **HOLD** with new TP at HK\$ 6.15

Slower-than-expected recovery in 3Q13. Although the decline in revenue narrowed from 12.92% YoY in 1H13 to 10.92% YoY in 9M13, the recovery pace is slower than expected. Therefore, we lower FY13E-14E revenue projection by 6.27% and 5.25%. With the resumption of tenders from CRC and the rebounding production volume of locomotive, we expect the Group's delivery will accelerate in 4Q13. We estimate the total value of CRC's tenders would amount to RMB 107bn in 2013. However, under the heavy debt problem of CRC, we believe procurement growth in 2014-15 will still be lethargic.

Production volume started to turn around. Domestic demand of locomotive is turning around. The production volume in Sep was 274 units, the highest monthly production volume since Mar 2011. Declines in production volume narrowed from 52.7% YoY in 8M13 to 35.8% YoY in 9M13. We expect the Group's rolling stock delivery in 4Q13 to accelerate. We estimate CSR's revenue to recover from -10.92% YoY in 9M13 to a -0.75% YoY for FY13E

GPM expected to decline on low margin products. With the effective cost control of the Group, GPM has remained stable for the first three quarters this year when compared to the previous year. For 4Q13, we expect deliveries of freight wagons and passenger carriages to accelerate, lowering the overall GPM. We estimate overall GPM will decrease to 17.42% in FY13E from 18.05% in 9M13.

Maintain HOLD with TP at HK\$ 6.15. We lower our FY13E-14E earnings projections based on the lower-than-expected delivery in 3Q13. We revise down FY13E/14E net income by 4.64% and 4.18%, and maintain our target valuation at 1.93x of FY13E P/B. This represents a 30% discount to the median of CSR's forward P/B in 2008-10 (the last three years of China's 11th Five-Year Plan), justified by our assumption that net income growth in FY13E-15E will be lower than that in FY08-10. We reiterate our HOLD rating on CSR with new TP at HK\$ 6.15.

Risk factors: 1) Increased competition from CNR and international players; 2) Slowdown in rolling stock purchases from CRC due to its heavy debt problem.

Results and Valuation

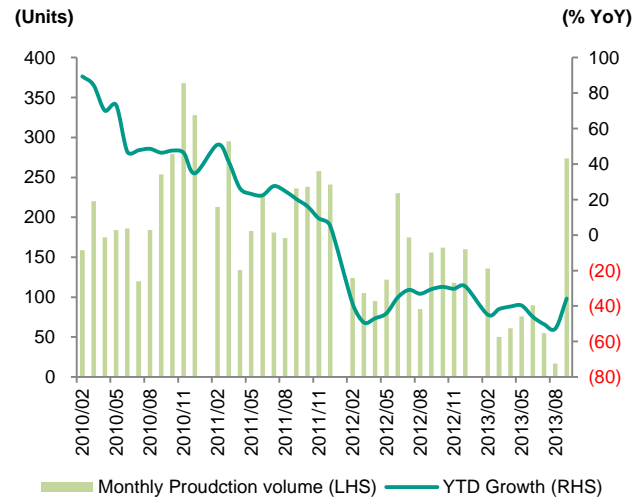
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	79,517	89,019	88,349	97,983	109,750
Chg (% YoY)	23.99	11.95	(0.75)	10.90	12.01
Net Income (RMB mn)	3,864	4,009	3,829	4,102	4,741
Chg (% YoY)	52.96	3.75	(4.50)	7.15	15.56
EPS (RMB)	0.326	0.299	0.277	0.297	0.343
P/E (x)	-	17.13	18.47	17.24	14.92
BVPS (RMB)	1.906	2.444	2.561	2.802	3.086
P/B (x)	-	2.10	2.00	1.83	1.66
DPS (RMB)	0.210	0.093	0.055	0.059	0.069
Yield (%)	-	1.81	1.08	1.16	1.34
ROAE (%)	18.48	14.49	11.24	11.08	11.67
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: Production volume of locomotive and the cumulative YoY growth in 2M10-9M13



Source(s): NBS

Exhibit 2: Key financial summary of CSR in 1-3Q13

	9M12	FY12	9M13	(% YoY)
Revenue (RMB mn)	62,838	89,019	55,974	(10.92)
Locomotives	9,042	14,396	12,046	33.22
Passenger carriages	5,866	7,753	3,081	(47.48)
Freight wagons	8,694	10,419	6,061	(30.29)
MUs	18,030	21,524	7,737	(57.09)
Rapid transit vehicles	4,639	7,947	4,966	7.05
New Businesses	7,554	10,902	9,304	23.17
Others and surcharges & tax adjustment	9,013	16,078	12,779	41.78
Gross Profit (RMB mn)	11,367	15,755	10,101	(11.14)
GPM (%)	18.09	17.70	18.05	(0.04ppt)
Net profit (RMB mn)	2,853	4,009	2,510	(12.02)
Net profit margin (%)	4.54	4.50	4.48	(0.06ppt)
Trade and bill receivables (RMB mn)	36,645	30,355	34,866	(4.85)
Trade and bill receivables / revenue (%)	58.32	34.10	62.29	3.97ppt

Source(s): Company

Exhibit 3: Major changes in our FY13E-15E forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	94,262	88,349	(6.27)	103,412	97,983	(5.25)	113,962	109,750	(3.70)
Locomotives	16,762	16,762	-	18,019	18,019	-	19,382	19,382	-
Passenger carriages	8,291	6,284	(24.20)	8,858	6,683	(24.55)	9,467	7,110	(24.90)
Freight wagons	9,084	9,084	-	9,728	9,728	-	10,420	10,420	-
MUs	21,806	17,899	(17.91)	24,398	21,143	(13.34)	27,313	25,458	(6.79)
Rapid transit vehicles	9,957	9,957	-	12,532	12,532	-	15,839	15,839	-
New Businesses	11,482	11,482	-	12,152	12,152	-	12,929	12,929	-
Others	16,882	16,882	-	17,726	17,726	-	18,612	18,612	-
Gross profit (RMB mn)	16,280	15,390	(5.47)	17,569	16,738	(4.73)	19,303	18,714	(3.05)
GPM (%)	17.27	17.42	0.15ppts	16.99	17.08	0.09ppts	16.94	17.05	0.11ppts
Net income (RMB mn)	4,015	3,829	(4.64)	4,281	4,102	(4.18)	4,841	4,741	(2.07)
Net margin (%)	4.26	4.33	0.07ppts	4.14	4.19	0.05ppts	4.25	4.32	0.07ppts
EPS (RMB)	0.291	0.277	(4.64)	0.310	0.297	(4.18)	0.351	0.343	(2.07)
BVPS (RMB)	2.574	2.561	(0.52)	2.826	2.802	(0.84)	3.115	3.086	(0.91)
DPS (RMB)	0.058	0.055	(4.64)	0.062	0.059	(4.18)	0.070	0.069	(2.07)

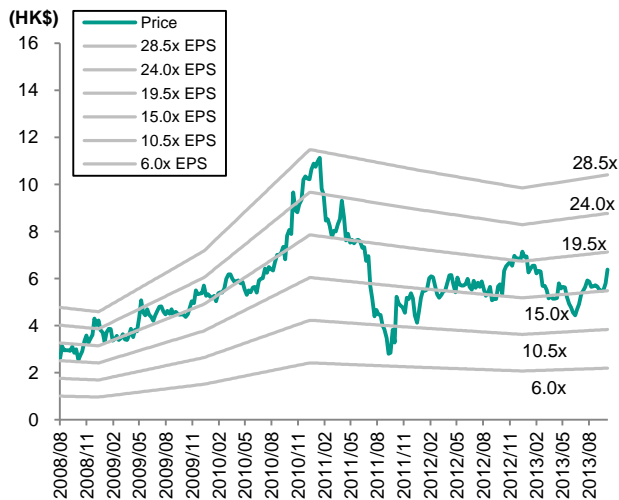
Source(s): ABCI Securities estimates

Exhibit 4: Peer valuation table for rolling stock manufacturer

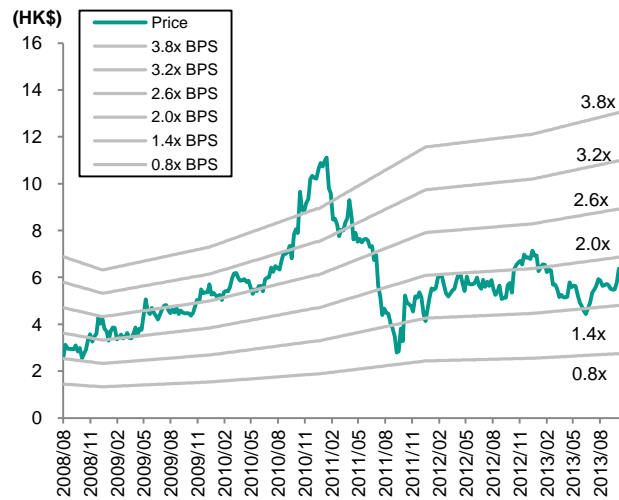
Company	Ticker	Mkt cap (HK\$ mn)	As of 27/08/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Domestic Rolling Stock Maker												
CSR-H	1766 HK	12,913	HKD	6.38	18.47	17.24	(7.28)	7.15	2.00	1.83	11.24	11.08
CSR-A	601766 CH	68,014	RMB	4.53	16.33	15.24	(7.28)	7.15	1.77	1.62	11.24	11.08
CSR Times Electric	3898 HK	28,679	HKD	26.45	20.39	17.44	(7.49)	16.92	2.82	2.52	16.28	15.24
CNR	601299 CH	66,693	RMB	5.07	13.89	11.87	7.35	16.99	1.39	1.26	10.48	11.37
Zhuzhou Times	600458 CH	9,318	RMB	11.12	29.03	22.33	23.55	30.03	2.40	2.40	8.82	8.58
Changchun Eurasia Group	600697 CH	3,812	RMB	18.80	12.09	9.71	22.44	24.50	2.20	1.84	22.43	20.64
Jinxi Axle	600495 CH	7,941	RMB	14.85	29.12	22.00	27.50	32.35	1.46	1.97	11.00	7.63
Sector Weighted Average					17.27	15.05	1.06	14.32	1.83	1.70	11.81	11.71
International Rolling Stock Maker												
Alstom	ALO FP	90,132	EUR	27.29	9.22	8.21	11.28	12.33	1.48	1.32	19.78	16.24
Bombardier Inc.	BBD/A CN	70,100	CAD	5.39	13.06	10.10	23.44	29.37	4.38	3.25	44.34	35.67
CAF	CAF SM	14,000	EUR	381.60	12.47	10.97	5.52	13.63	1.61	1.47	14.94	14.03
Vossloh A.G.	VOS GR	10,525	EUR	73.80	27.47	17.85	(45.61)	53.85	1.83	1.73	7.16	9.99
Faiveley Transport	LEY FP	8,860	EUR	56.65	12.63	11.94	7.60	5.73	1.39	1.28	13.11	11.15
Nippon Sharyo	7102 JP	6,284	JPY	538.00	11.42	13.74	325.47	(16.88)	1.22	1.13	2.03	8.55
Kinki Sharyo	7122 JP	1,721	JPY	313.00	(13.49)	107.93	(436.72)	N/A ¹	0.64	0.63	(4.62)	0.59
Sector Weighted Average					11.76	10.75	17.94	18.25	2.50	2.01	26.27	21.92
Overall Weighted Average					14.48	12.88	9.59	16.30	2.17	1.85	19.12	16.87

1: EPS turns positive in FY14E

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 5: P/E band of CSR-H in 1M08-10M13 (HK\$)


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

Exhibit 6: P/B band of CSR-H in 1M08-10M13 (HK\$)


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



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	79,517	89,019	88,349	97,983	109,750
Locomotives	17,803	14,396	16,762	18,019	19,382
Passenger carriages	6,354	7,753	6,284	6,683	7,110
Freight wagons	9,692	10,419	9,084	9,728	10,420
MUs	20,981	21,524	17,899	21,143	25,458
Rapid transit vehicles	8,217	7,947	9,957	12,532	15,839
New Businesses	11,637	10,902	11,482	12,152	12,929
Others	4,832	16,078	16,882	17,726	18,612
COGS	(64,647)	(73,264)	(72,959)	(81,245)	(91,036)
Gross profit	14,870	15,755	15,390	16,738	18,714
SG&A	(9,752)	(10,840)	(10,728)	(11,798)	(13,023)
Other income and gains	324	678	646	761	895
Pre-tax profit	5,442	5,593	5,308	5,701	6,586
Income tax	(699)	(741)	(690)	(741)	(856)
Net profit	4,743	4,852	4,618	4,960	5,730
Profit attributable to:					
Minority interests	879	843	789	857	989
Equity shareholders of the Company	3,864	4,009	3,829	4,102	4,741
EPS (RMB)	0.326	0.299	0.277	0.297	0.343
DPS (RMB)	0.210	0.093	0.055	0.059	0.069
EBIT	6,503	6,422	6,099	6,535	7,461
EBITDA	8,062	8,205	8,016	8,548	9,566

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	63,607	72,261	74,057	85,498	84,717
Cash and equivalent	23,730	15,044	17,392	20,693	22,176
Trade and bill receivables	17,891	30,355	30,158	34,269	31,882
Inventories	17,842	18,770	18,009	21,612	21,288
Other current assets	4,144	8,092	8,498	8,924	9,372
Non-current assets	29,179	32,956	34,887	36,776	38,474
Property, plant and equipment	21,390	22,996	24,306	25,531	26,677
Intangible assets	5,003	5,367	5,514	5,589	5,611
Long-term investments	2,340	3,099	3,409	3,750	4,125
Other non-current assets	446	1,494	1,658	1,906	2,062
Total assets	92,786	105,217	108,944	122,274	123,190
Current liabilities	59,185	61,538	58,707	67,336	62,795
Trade and bill payables	27,946	39,663	36,294	41,612	35,706
Receipts in advance	7,409	7,272	7,251	8,856	9,185
Short term borrowings	18,099	8,596	8,554	9,600	9,908
Other current liabilities	5,732	6,007	6,608	7,268	7,995
Non-current liabilities	5,513	4,169	7,508	8,187	8,933
Long-term borrowings	2,325	727	3,722	4,022	4,352
Other non-current liabilities	3,188	3,442	3,786	4,165	4,581
Total liabilities	64,698	65,707	66,215	75,523	71,728
Minority interests	5,526	6,754	7,386	8,071	8,863
Shareholders' equities	22,562	32,756	35,343	38,679	42,600
BVPS (RMB)	1.906	2.444	2.561	2.802	3.086

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	5,442	5,593	5,308	5,701	6,586
Changes in depreciation and amortization	1,559	1,783	1,917	2,013	2,105
Changes in working capital	58	(4,764)	(2,353)	(2,216)	(3,038)
Financial cost	994	764	752	793	831
Income tax paid	(568)	(855)	(689)	(740)	(855)
Others	(544)	(126)	-	-	-
CF Operating	6,941	2,395	4,935	5,551	5,629
Increase in PP&E	(5,611)	(3,165)	(3,000)	(3,000)	(3,000)
Increase in intangible assets	(646)	(581)	(374)	(314)	(273)
Others	(1,286)	(499)	-	-	-
CF Investing	(7,543)	(4,245)	(3,374)	(3,314)	(3,273)
Capital injection	278	9,310	-	-	-
Net debt financing	10,408	(11,101)	2,953	1,346	637
Dividend payout	(719)	(2,782)	(1,242)	(766)	(820)
Interest paid	(931)	(970)	(752)	(793)	(831)
Others	(138)	(129)	(173)	1,277	140
CF Financing	8,898	(5,672)	786	1,065	(874)
Net change in cash	8,296	(7,522)	2,348	3,302	1,482
Cash at the beginning	14,541	23,730	15,044	17,392	20,693
Adjustment (Time deposit & FX effect)	894	(1,164)	-	-	-
Cash at the end	23,730	15,044	17,392	20,693	22,176

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Locomotives	22.39	16.17	18.97	18.39	17.66
Passenger carriages	7.99	8.71	7.11	6.82	6.48
Freight wagons	12.19	11.70	10.28	9.93	9.49
MUs	26.39	24.18	20.26	21.58	23.20
Rapid transit vehicles	10.33	8.93	11.27	12.79	14.43
New Businesses	14.63	12.25	13.00	12.40	11.78
Others	6.08	18.06	19.11	18.09	16.96
Profit & loss ratios (%)					
Gross margin	18.70	17.70	17.42	17.08	17.05
Net profit margin	4.86	4.50	4.33	4.19	4.32
Effective tax rate	12.84	13.25	13.00	13.00	13.00
Growth (%)					
Revenue	23.99	11.95	(0.75)	10.90	12.01
Gross profit	35.34	5.95	(2.31)	8.75	11.81
EBIT	62.10	(1.25)	(5.02)	7.14	14.16
EBITDA	51.55	1.77	(2.30)	6.64	11.90
Net profit	52.96	3.75	(4.50)	7.15	15.56
Balance sheet ratios					
Current ratio (x)	1.07	1.17	1.26	1.27	1.35
Quick ratio (x)	0.77	0.68	0.75	0.76	0.84
Cash ratio (x)	0.40	0.24	0.30	0.31	0.35
Trade and bill receivables days	70.67	98.91	125.00	120.00	110.00
Trade and bill payables turnover days	149.38	168.41	190.00	175.00	155.00
Inventory turnover days	100.60	91.20	92.00	89.00	86.00
Total debt / equity ratio (%)	72.72	23.60	28.73	29.14	27.71
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAE	18.48	14.49	11.24	11.08	11.67
ROAA	4.64	4.05	3.58	3.55	3.86
Payout ratio	64.30	30.98	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates

Disclosures

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183