



Key Data

H-Share price (HK\$)	4.06
52Wk H/L(HK\$)	4.20 /2.20
Issued shares (mn)	21,300
H-shares	4,207
A-shares	17,093
Market cap	
H-shares (HK\$m)	17,082
A-shares (Rmbmn)	47,346
30-day avg vol (HK\$m)	90.2
Major shareholder (%):	
CRECG	56.1

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Infrastructure construction	81.6
Survey, design and consultancy services	2.0
Manufacturing operations	2.4
Property development	2.1
Others	11.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	19.8	14.4
3-mth	24.2	13.2
6-mth	48.7	38.8

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Name: Francis Chu
Tel: (852) 2147 8313
Email: francischu@abci.com.hk

**China Railway (390 HK) – Unrated
Construction & Engineering Industry**

Better Outlook

We anticipate the book-to-bill ratio of China Railway Group (“CRG”) to continue to edge up to 1.42 in 4Q due to more approvals of new railway and subway projects in 2H12. Moreover, railway FAI has to be ramped up in order to achieve the new target of Rmb516bn in 2012.

Improving Book-to-bill ratio. We predict the book-to-bill ratio will be 1.42 in 4Q12. We find CRG’s outlook has been improving since 4Q10. As shown in the graph, the ratio increased from 0.97 in 4Q10 to 1.32 in 3Q12. CRG’s new contracts increased 26% YoY to Rmb450.6bn in 9M12 while its revenue dropped 4.8% YoY to Rmb319.6bn in 9M12.

130% higher monthly average FAI spending. We expect CRG would benefit from ramping up of railway spending from October to the end of 2012. The cumulative railway spending for 9M12 was Rmb292.1bn. To achieve the annual target of Rmb516bn in 2012, MOR has to ramp up a monthly average FAI spending of Rmb74.7bn. This means 130% higher than the monthly average FAI spending of Rmb32.5bn in 9M12.

Better YoY net income growth. Management expected a better 2H12 result than the 1H12. The Group’s 3Q12 net profit came in at Rmb1,882mn, up 67.5% YoY. The growth was better than its main competitor, China Railway Cons (1186 HK) of 41.0% YoY. The management expected its gross margin will improve by time as they accumulate experience in high-speed railway project pricing.

Improving cash flow from operation. We anticipate its cash flow from operation would improve as the MoR accelerated its bond issuance. The net operating cash outflow reduced to Rmb12.47bn in 9M12 from Rmb24.22bn in 9M11.

Risk factors: High net gearing, risk of macroeconomic policies; overseas projects risk.

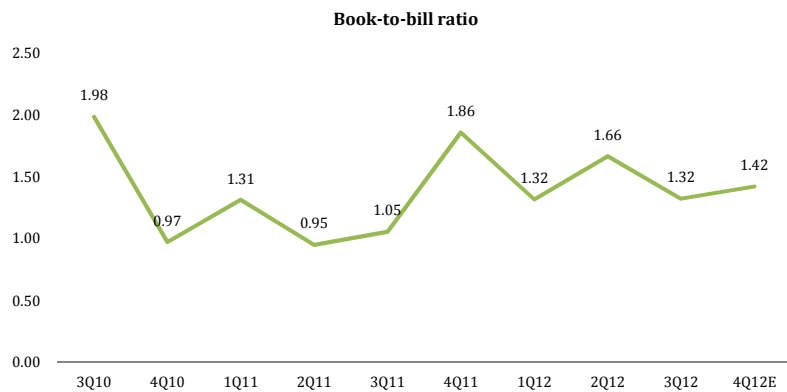
Results and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmb mn)	178,697	227,246	334,045	456,162	442,216
Chg (% YoY)	15.5	27.2	47.0	36.6	(3.1)
Gross Profit (Rmb mn)	12,984	17,059	20,442	27,143	32,253
Chg (% YoY)	7.0	31.4	19.8	32.8	18.8
Net Income (Rmb mn)	3,228	1,115	6,875	7,398	6,690
Chg (% YoY)	96.1	(65.5)	516.5	7.6	(9.6)
EPS (Rmb)	0.24	0.05	0.323	0.347	0.314
Chg (% YoY)	-	(79.2)	546.0	7.4	(9.5)
PE (x)	-	-	-	-	10.5
PB (x)	-	-	-	-	1.0
Yield (%)	-	-	-	-	1.5
ROAA (%)	1.8	0.5	2.4	2.1	1.6
ROAE (%)	10.3	2.0	11.7	11.5	9.6
Net debt/total equity (%)	Net Cash	13.4	10.4	41.0	86.6

Source: Company, Bloomberg, ABCI Securities estimates



Book-To-Bill Ratio



Source: Company, ABCI Securities estimates

Quarterly Results Comparison between CRCC (1186 HK) and CRG (390 HK)

	1Q11	2Q11	3Q11	4Q11	FY11	1Q12	2Q12	3Q12	YoY	QoQ
1186 HK										
Turnover (Rmb mn)	87,356	124,050	112,864	344,502	457,366	66,336	118,196	118,645	5.1	0.4
COGS	78,886	111,867	102,307	307,020	409,327	59,106	106,187	106,825	4.4	0.6
Gross Profit	8,470	12,183	10,557	37,482	48,039	7,230	12,009	11,820	12.0	(1.6)
GPM (%)	9.70	9.8	9.4	10.9	10.5	10.9	10.2	10.0	6.5	(1.9)
Operating Profit	1,978	2,485	1,626	8,303	9,930	1,453	2,430	2,210	35.9	(9.0)
Net income (Rmb mn)	1,692	1,947	1,351	6,504	7,854	1,211	1,977	1,904	41.0	(3.7)
NM (%)	1.9	1.6	1.2	1.9	1.7	1.8	1.7	1.6	34.1	(4.1)
390 HK										
Turnover (Rmb mn)	97,131	125,804	112,917	347,803	460,720	78,568	119,746	121,243	7.4	1.2
COGS	88,336	114,225	102,360	309,673	412,033	70,252	107,511	108,988	6.5	1.4
Gross Profit	8,795	11,579	10,557	38,130	48,687	8,316	12,235	12,255	16.1	0.2
GPM (%)	9.05	9.2	9.3	11.0	10.6	10.6	10.2	10.1	8.1	(1.1)
Operating Profit	1,983	1,382	1,680	7,345	9,024	1,271	2,154	2,534	50.9	17.7
Net income (Rmb mn)	1,708	736	1,123	5,232	6,356	937	1,453	1,882	67.5	29.5
NM (%)	1.8	0.6	1.0	1.5	1.4	1.2	1.2	1.6	56.0	27.9

Note: Quarterly figures based on the PRC Accounting Standards

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

Tel: (852) 2868 2183