



January 9, 2014
Equity Focus
Rating: BUY
TP: HK\$ 5.14

H-Share price (HK\$) 3.75
Est. share price return 37.07%
Est. dividend yield 2.05%
Est. total return 39.12%

Previous Rating & TP BUY; HK\$ 5.14
Previous Report Date October 31, 2013

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Key Data

52Wk H/L(HK\$)	4.98 / 3.17
Issued shares (mn)	21,300
H-Shares (mn)	4,207
A-Shares (mn)	17,093
Market cap	
H-shares (HK\$ mn)	15,776
A-Shares (RMB mn)	41,707
3-mth avg daily turnover (HK\$ mn)	93.4
Major shareholder(s) (%):	
CRECG	56.10

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Construction operation	85.56
Survey, Design & Consultancy	1.77
Equipment Manufacturing	2.64
Property Development	3.17
Others	12.67
Inter-segment sales	(5.81)

Source(s): Company, ABCI Securities

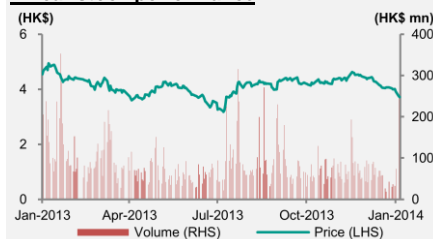
Share performance (%)

	Absolute	Relative*
1-mth	(16.44)	(13.41)
3-mth	(11.88)	(11.97)
6-mth	14.51	4.18

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

CRG (390 HK)

BUY on upbeat contract flow amid recent pullback

- On Jan 7, 2013, the Group announced new contract awards totaling RMB 51.7bn. We expect CRG's total backlog by end-2013 to be ~RMB 1,585bn, equivalent to 2.63x of FY14E revenue
- According to CRIC, CRG's property presale was up 65.33% YoY to RMB 32.9bn in 2013. This would help mitigate impacts of the expected slowdown in the railway and highway construction segments on revenue
- CRG, as the largest player in urban rail construction industry with a market share of ~50% in 2013, would benefit from the urban rail transport development in 2014-15. The Group's share price was down 16.44% since Dec and we view its recent pullback as a buying opportunity. Reiterate **BUY**

RMB 51.7bn of new contracts granted. The Group announced on Jan 7 that it had won 22 construction contracts with a total value of RMB 51.7bn, representing 9.65% of FY13E revenue. We estimate CRG's FY13E/14E total new contract value would be RMB 820bn (+12.18% YoY) and RMB 935bn (+14.02% YoY), while total backlog would reach RMB 1,585bn by end-2013, equivalent to 2.63x of FY14E revenue or 2.45x of FY15E revenue. Its diversified contract mix that includes urban rail projects and property development would help alleviate impacts of the expected slowdown in railway construction in 2014-15.

Good presale indicates strong growth in property segment in 2H13-FY14E. According to CRIC, CRG's presale was RMB 32.9bn for 2013, up 65.33% YoY from RMB 19.9bn in 2012. Although presales ASP fell 2.28% YoY to RMB 9,216/sqm in 2013 from RMB 9,431/sqm in 2012 which implies a lower segmental FY14E GPM, increased contribution of the property segment would raise the Group's overall GPM.

Heavy debts as a major concern. CRG's net gearing as at Sep 2013 was 107.67% (vs. CRCC's 21.91%). We expect the total interest cost (before capitalization) to increase 19.89% YoY from RMB 6,360mn in FY12 to RMB 7,625mn in FY13E. However, we believe the Group would enhance its debt financing control and estimate its interest coverage ratio to improve from 2.78x in FY13E to 2.93x in FY14E.

Reiterate BUY on fast growth in urban rail development. Although both railway and highway constructions are expected to slow in 2014, urban rail construction would pace up. We believe CRG, the largest player in the urban rail construction industry with a market share of ~50% in 2013, would gain from the booming urban rail development. With the counter pull back by 16.44% in a month, we think this is a buying opportunity. The counter is trading at 0.75x FY13E P/B. Reiterate BUY with TP at HK\$ 5.14

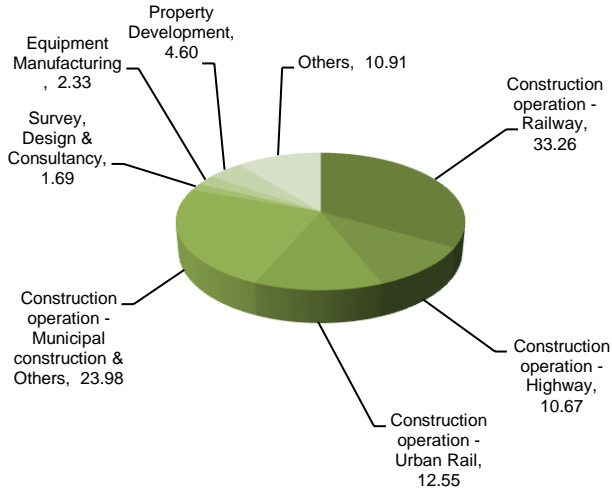
Risk factors: 1) China's prudent monetary policy may affect capital inflow and delay construction; 2) Heavy debt burden of CRC may limit growth in infrastructure investment; 3) Changes in willingness to grant loans by creditors; 4) Current high gearing may limit business expansion.

Results and Valuation

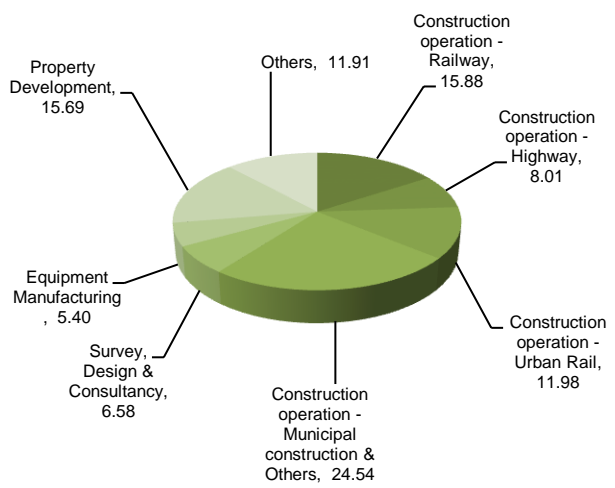
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	442,216	465,625	536,177	601,767	647,830
Chg (% YoY)	(3.06)	5.29	15.15	12.23	7.65
Net Income (RMB mn)	6,690	7,354	8,763	10,054	10,997
Chg (% YoY)	(9.57)	9.93	19.17	14.72	9.39
EPS (RMB)	0.314	0.345	0.411	0.472	0.516
P/E (x)	-	8.72	7.32	6.38	5.83
BVPS (RMB)	3.373	3.652	4.012	4.422	4.867
P/B (x)	-	0.82	0.75	0.68	0.62
DPS (RMB)	0.048	0.052	0.062	0.071	0.077
Yield (%)	-	1.73	2.05	2.35	2.57
ROAE (%)	9.64	9.83	10.74	11.19	11.12
Net gearing (%)	81.93	101.34	112.13	124.05	128.06

*Net gearing=Net debt/Total equity

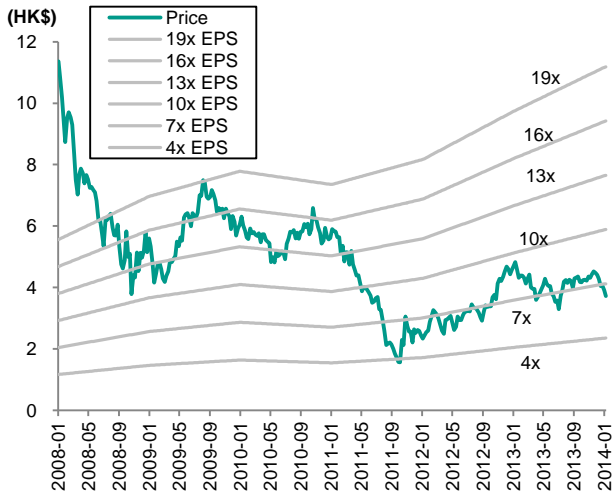
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Estimated revenue breakdown by segment, FY13E (%)


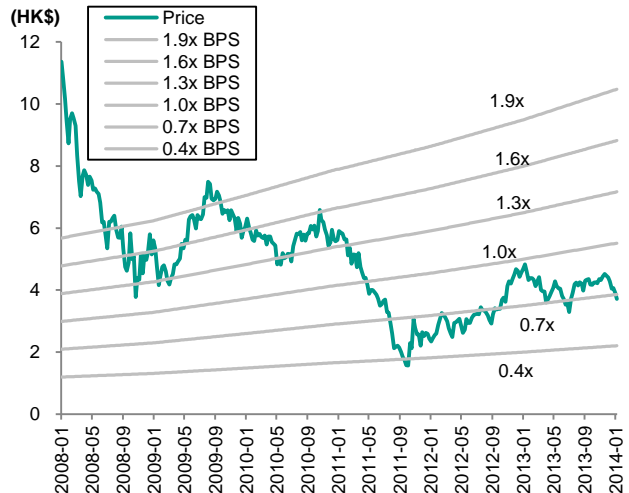
Source(s): ABCI Securities estimates

Exhibit 2: Estimated gross profit breakdown by segment, FY13E (%)


Source(s): ABCI Securities estimates

Exhibit 3: P/E band of CRG (H-shares) in 1M08-1M14 (HK\$)


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

Exhibit 4: P/B band of CRG (H-shares) in 1M08-1M14 (HK\$)


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

Exhibit 5: Peer valuation of construction contractors

Company	Ticker	Mkt cap (HK\$ mn)	As of 8/1/2014 CRY Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Domestic Transportation Project Contractor												
CRCC-H	1186 HK	14,698	HKD	7.08	7.03	5.98	17.78	17.56	0.87	0.77	13.11	13.74
CRCC-A	601186 CH	55,356	RMB	4.21	5.20	4.42	17.78	17.56	0.65	0.57	13.11	13.74
CRG-H	390 HK	15,776	HKD	3.75	7.32	6.38	19.17	14.72	0.75	0.68	10.74	11.19
CRG-A	601390 CH	53,441	RMB	2.44	5.93	5.17	19.17	14.72	0.61	0.55	10.74	11.19
CCCC-H	1800 HK	26,169	HKD	5.91	5.87	5.47	6.74	7.31	0.79	0.71	14.26	13.74
CCCC-A	601800 CH	58,249	RMB	3.87	4.79	4.46	6.74	7.31	0.65	0.58	14.26	13.74
CREGC	600528 CH	8,806	RMB	4.71	10.70	9.06	10.50	18.18	1.10	1.02	11.25	11.68
Shanghai Tunnel Eng Co	600820 CH	14,078	RMB	8.46	8.63	7.36	10.57	17.35	0.85	0.79	11.48	11.10
Xiangyu Dredging	871 HK	2,104	HKD	2.63	7.82	6.50	8.00	20.37	0.99	0.87	14.80	14.27
Sector Weighted Average					5.99	5.27	13.67	13.32	0.70	0.63	12.70	12.81
Domestic Infrastructure Construction Contractor												
CSCEC	601668 CH	115,706	RMB	3.01	4.87	4.23	18.85	15.21	0.76	0.66	18.33	16.73
Sinohydro Group	601669 CH	34,935	RMB	2.84	5.76	4.96	15.59	16.23	0.80	0.72	14.99	15.21
China Gezhouba Group	600068 CH	16,981	RMB	3.80	7.92	7.17	7.14	10.42	0.92	0.84	13.52	12.23
CSCI	3311 HK	51,565	HKD	13.26	19.11	14.72	21.07	29.83	3.27	2.81	18.57	20.53
CAMC	002051 CH	14,541	RMB	17.81	13.73	10.60	16.85	29.53	2.18	1.87	19.45	18.96
CMEC	1829 HK	25,167	HKD	6.10	12.50	9.11	(16.10)	37.23	1.80	1.57	15.30	18.43
Sector Weighted Average					9.27	7.44	14.57	20.89	1.46	1.26	17.38	17.28
International Transportation Construction Contractor												
Vinci S.A.	DG FP	306,455	EUR	48.28	14.35	13.41	(5.77)	7.02	1.92	1.80	13.37	13.36
Bouygues Construction	EN FP	94,216	EUR	27.98	11.78	11.29	18.38	4.34	1.01	0.98	8.73	8.85
Hochtief A.G.	HOT GR	50,378	EUR	62.02	20.66	18.20	39.63	13.52	1.45	1.39	7.84	8.76
Skanska A.B.	SKAB SS	64,514	SEK	129.50	15.44	14.34	21.17	7.69	2.58	2.42	18.51	20.59
Strabag S.E.	STR AV	25,417	EUR	21.14	18.54	15.76	96.55	17.63	0.74	0.72	4.03	4.62
FCC S.A.	FCC SM	24,509	EUR	18.25	(63.59)	31.57	(96.77)	(301.39)	2.87	2.58	0.45	8.62
Ferrovial S.A.	FER SM	109,956	EUR	14.21	25.33	30.76	(42.04)	(17.65)	1.85	1.90	7.05	6.16
BAM Groep	BAMNB NA	10,857	EUR	3.82	20.00	11.94	(124.18)	67.54	1.16	1.13	7.18	19.90
SNC-Lavalin	SNC CN	51,942	CAD	47.74	(57.94)	26.23	(140.20)	(320.87)	3.61	3.47	1.68	13.48
Obrascon Huarte	OHL SM	31,366	EUR	29.81	10.42	9.38	(71.63)	11.15	1.23	1.11	13.32	12.45
Sacyr S.A.	SYV SM	17,537	EUR	3.57	13.72	12.65	(111.71)	8.46	1.07	1.00	8.28	8.17
Sector Weighted Average					8.92	17.25	(17.85)	(26.14)	1.87	1.79	10.32	11.63
International Infrastructure Construction Contractor												
ACS	ACS SM	85,808	EUR	25.85	11.69	10.68	(133.45)	9.50	2.58	2.31	24.49	23.66
Jacobs Engineering Group	JEC US	64,288	USD	62.92	17.00	14.81	13.21	14.75	1.76	1.57	10.83	11.10
Hyundai Eng & Const	000720 KP	47,868	KRW	59,100	10.84	8.96	74.93	21.03	1.32	1.18	12.55	13.93
WorleyParsons Ltd	WOR AU	27,893	AUD	16.35	14.68	12.64	(14.83)	16.16	1.80	1.73	16.43	13.08
Abengoa S.A.	ABG SM	20,265	EUR	2.56	16.43	13.28	(32.17)	23.72	1.07	1.17	7.47	5.63
Daewoo Eng & Const	047040 KP	20,466	KRW	6,770	11.96	9.13	45.88	30.95	0.78	0.73	6.74	8.80
Sector Weighted Average					13.51	11.65	(26.79)	16.26	1.82	1.66	15.55	15.27
Overall Weighted Average					9.29	12.76	(8.98)	(4.82)	1.61	1.49	12.76	13.38

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	442,216	465,625	536,177	601,767	647,830
Construction operation	392,540	396,906	458,732	523,719	566,968
Survey, Design & Consultancy	8,926	9,069	9,644	9,357	9,315
Equipment Manufacturing	11,147	11,464	13,275	12,734	12,749
Property Development	17,135	20,175	26,228	30,162	34,686
Others	42,211	56,432	62,213	62,713	63,213
Inter-segment sales	(29,743)	(28,421)	(33,913)	(36,917)	(39,101)
COGS	(409,963)	(430,064)	(496,428)	(555,867)	(597,897)
Gross profit	32,253	35,561	39,749	45,900	49,933
SG&A	(16,138)	(17,302)	(18,750)	(22,326)	(23,977)
Other income (loss)	(6,117)	(7,174)	(7,327)	(7,893)	(8,808)
Pre-tax profit	9,998	11,085	13,672	15,681	17,148
Income tax	(2,758)	(3,052)	(3,760)	(4,312)	(4,716)
Net profit	7,240	8,033	9,912	11,369	12,433
Profit attributable to:					
Minority interests	550	679	1,149	1,315	1,435
Equity shareholders of the Company	6,690	7,354	8,763	10,054	10,997
EPS (RMB)	0.314	0.345	0.411	0.472	0.516
DPS (RMB)	0.048	0.052	0.062	0.071	0.077
EBIT	16,210	20,827	25,403	27,788	29,671
EBITDA	22,430	26,890	32,657	35,514	37,924

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	360,099	434,855	516,518	549,226	540,101
Cash and equivalent	63,583	72,491	87,599	73,912	67,001
Trade and bill receivables	95,758	100,556	114,334	117,567	115,441
Construction contracts	56,747	78,522	91,880	96,070	84,968
Inventories	94,952	119,506	152,548	184,503	187,799
Other current assets	49,059	63,780	70,158	77,174	84,891
Non-current assets	108,461	115,806	124,178	130,979	137,613
Property, plant and equipment	37,668	41,513	44,949	48,249	51,942
Intangible assets	42,756	42,108	42,418	42,428	42,438
Long term investments	15,834	16,156	17,772	19,549	21,504
Long term receivables	3,336	6,678	7,593	7,808	7,667
Other non-current assets	8,867	9,351	11,446	12,946	14,062
Total assets	468,560	550,661	640,696	680,205	677,714
Current liabilities	305,572	366,119	429,558	456,840	441,068
Trade and bill payables	158,458	179,608	200,262	209,900	185,523
Receipts in advance	35,282	49,685	67,833	70,656	64,235
Short term borrowings	56,490	73,762	89,865	97,351	105,587
Other current liabilities	55,342	63,064	71,598	78,933	85,723
Non-current liabilities	81,809	96,552	114,516	116,886	119,458
Long-term payables	632	450	502	526	465
Long-term borrowings	73,606	87,899	106,073	108,653	111,491
Other non-current liabilities	7,571	8,203	7,941	7,707	7,501
Total liabilities	387,381	462,671	544,074	573,726	560,526
Minority interests	9,330	10,197	11,176	12,293	13,513
Shareholders' equities	71,849	77,793	85,446	94,186	103,675
BVPS (RMB)	3.373	3.652	4.012	4.422	4.867

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	9,998	11,085	13,672	15,681	17,148
Changes in depreciation and amortization	6,220	6,063	7,254	7,725	8,253
Changes in working capital	(30,314)	(20,939)	(29,359)	(25,394)	(17,269)
Financial cost	4,148	6,360	7,625	7,870	8,139
Income tax paid	(2,712)	(3,705)	(3,883)	(4,447)	(4,864)
Others	(59)	(1,608)	-	-	-
CF Operating	(12,719)	(2,744)	(4,691)	1,435	11,408
Increase in PP&E	(10,877)	(10,288)	(11,000)	(11,335)	(12,257)
Increase in intangible assets	(10,637)	(494)	(1,000)	(700)	(700)
Others	9,040	(2,636)	-	-	-
CF Investing	(12,474)	(13,418)	(12,000)	(12,035)	(12,957)
Capital injection	195	610	-	-	-
Net debt financing	44,961	31,565	34,277	10,067	11,073
Dividend payout	(1,407)	(1,253)	(1,280)	(1,512)	(1,723)
Interest paid	(5,799)	(9,686)	(11,731)	(12,108)	(12,522)
Others	(7,350)	2,437	10,534	466	(2,190)
CF Financing	30,600	23,673	31,799	(3,086)	(5,362)
Net change in cash	5,407	7,511	15,108	(13,687)	(6,911)
Cash at the beginning	57,218	63,583	72,491	87,599	73,912
Adjustment (Time deposit & FX effect)	958	1,397	-	-	-
Cash at the end	63,583	72,491	87,599	73,912	67,001

Source(s): Company, ABCI Securities estimates

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

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Construction operation	88.77	85.24	85.56	87.03	87.52
Survey, Design & Consultancy	2.02	1.95	1.80	1.55	1.44
Equipment Manufacturing	2.52	2.46	2.48	2.12	1.97
Property Development	3.87	4.33	4.89	5.01	5.35
Others	9.55	12.12	11.60	10.42	9.76
Inter-segment sales	(6.73)	(6.10)	(6.32)	(6.13)	(6.04)
Profit & loss ratios (%)					
Gross margin	7.29	7.64	7.41	7.63	7.71
Net profit margin	1.51	1.58	1.63	1.67	1.70
Effective tax rate	27.59	27.53	27.50	27.50	27.50
Growth (%)					
Revenue	(3.06)	5.29	15.15	12.23	7.65
Gross profit	18.83	10.26	11.78	15.47	8.79
EBIT	18.77	28.48	21.97	9.39	6.77
EBITDA	20.27	19.88	21.45	8.75	6.79
Net profit	(9.57)	9.93	19.17	14.72	9.39
Balance sheet ratios					
Current ratio (x)	1.18	1.19	1.20	1.20	1.22
Quick ratio (x)	0.87	0.86	0.85	0.80	0.80
Cash ratio (x)	0.21	0.20	0.20	0.16	0.15
Trade and bill receivables days	75.78	80.87	78.00	75.00	70.00
Trade and bill payables turnover days	131.69	143.92	140.00	135.00	121.00
Inventory turnover days	72.73	91.01	100.01	110.66	113.64
Total debt / equity ratio (%)	160.26	183.73	202.79	193.47	185.24
Net debt / equity ratio (%)	81.93	101.34	112.13	124.05	128.06
Returns (%)					
ROAE	9.64	9.83	10.74	11.19	11.12
ROAA	1.56	1.44	1.47	1.52	1.62
Payout ratio	15.28	15.07	15.00	15.00	15.00

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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