



Key Data

Share price (HK\$)	1.87
52Wk H/L(HK\$)	3.09 / 1.29
Issued shares (mn)	1,026.3
Market cap (HK\$m)	1,919.1
30-day avg vol (HK\$m)	6.3
Major shareholder (%): Consen Group	44.6

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Petrochemical segment	54.9
Railway segment	45.1

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	12.0	6.1
3-mth	5.6	(3.9)
6-mth	(14.6)	(17.8)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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**Ch Automation (569 HK) – Unrated
Capital Goods Industry**

Key takeaways from Company Visit

We visited China Automation Group (“CAG”), a safety and control system provider for petrochemical and railway industries yesterday. The ramping up of railway FAI together with its recent increased investment in the lucrative business of control valves market are likely to give a boost to its business in the coming years.

Railway FAI signals ramping up. MOR announced railway FAI figures on Oct 10. The railway FAI in Sep increased by 58.7% MoM to Rmb72.7bn from Rmb45.8bn in Aug. The cumulative railway FAI for 9M12 was Rmb344.2bn. The figures signal MOR is to ramp up railway FAI spending to achieve the annual target of Rmb610bn in 2012.

Lucrative market of control valves with market potential. CAG entered into the control valves market with a size of Rmb8bn by acquiring Wuzhong Instrument, the biggest domestic control valve manufacturer with 50 years of history. We expect the acquisition has synergies due to similar clients base. Control valves products have a product life cycle of 6-18 months, and with a current market share of 4%, the move is expected to generate recurring revenue flow and provide much room for expansion in coming years.

Improving business environment. CAG gave the representation that there were backlogs of Rmb2.1bn as of the end of Jul 2012, which represents 106% of total revenue in FY11. Besides, CAG also pointed out that the account receivables have slightly improved from its Rmb1.71bn level.

Attractive valuation with revenue bottom out. The counter was trading at 9.2X FY12 PER and 1.0 FY12 PBR. With its railway segment bottoming out and bearing fruits from its new acquisitions, we expect its business risk to reduce.

Risk factors: China railway FAI slowdown; liquidity risk; become technological uncompetitive.

Results and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmbmn)	403	867	1,125	1,595	1,981
Chg (% YoY)	39.6	114.8	29.9	41.7	24.2
Gross Profit (Rmbmn)	174	330	489	664	758
Chg (% YoY)	40.0	89.9	48.2	35.9	14.1
Net Income (Rmbmn)	100	149	212	286	196
Chg (% YoY)	45.9	49.3	42.2	34.7	(31.4)
EPS (Rmb)	0.14	0.17	0.219	0.281	0.194
Chg (% YoY)	16.8	17.4	32.2	28.3	(31.2)
PE (x)	-	-	-	-	9.7
PB (x)	-	-	-	-	1.1
Yield (%)	-	-	-	-	2.2
ROA (%)	20.6	13.7	11.9	11.9	5.8
ROE (%)	28.2	20.4	19.4	20.1	12.0
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	29.1

Source: Company, Bloomberg, ABCI Securities estimates



Revenue breakdown and GP Margin by segment

RMB Million	Segment Revenue					GP Margin	
	1H2012		1H2011		% change in revenue	1H2012	1H2011
	For the six months ended 30 June					For the six months ended 30 June	
	RMB million	% to revenue	RMB million	% to revenue			
System Sales and Related Services							
Petrochemical							
• Safety systems	479.5	42.5	489.0	45.6	-1.9%	43.4%	48.1%
• Control valve	77.3	6.9	-	-	N/A	31.3%	N/A
Railway	295.3	26.2	299.5	27.9	-1.4%	46.8%	45.7%
Sub-total	852.1	75.6	788.5	73.5	+8.1%	43.7%	47.2%
Provision of engineering & maintenance services	64.3	5.7	41.1	3.8	+56.4%	67.9%	61.6%
Distribution of equipment	211.4	18.7	242.8	22.7	-12.9%	13.1%	11.5%
Total	1,127.8	100.0	1,072.4	100.0	+5.21%	39.3%	39.7%

*In terms of industry segment, petrochemical business and railway business contributed 54.9% (1H2011: 51.6%) and 45.1% (1H2011: 48.4%) respectively to the Group's revenue
Turnover of the petrochemical segment increased by 11.9% whereas that of railway segment slightly dropped by 2.0%*

Source: CAG

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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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