



**Key Data**

H-Share price (HK\$)	5.46
52Wk H/L(HK\$)	6.35 / 2.38
Issued shares (mn)	13,803
H-shares	2,024
A-shares	5,263
State-owned shares	6,516
Market cap	
H-shares (HK\$mn)	11,112
A-shares (Rmbmn)	22,315
30-day avg vol (HK\$mn)	98
Major shareholder (%):	
CSRG	56.4

Source: Company, Bloomberg, ABCI Securities

**Revenue composition in 1H12 (%)**

Locomotives	14.8
Passenger carriages	7.3
Freight wagons	13.9
Multiple Units	32.9
Rapid transit vehicles	7.4
New businesses	12.9
Others	10.7

Source: Company

**Share performance (%)**

	Absolute	Relative*
1-mth	(2.1)	(1.4)
3-mth	(3.7)	(8.0)
6-mth	2.0	8.2

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

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**CSR (1766 HK) – Unrated  
 Capital Goods Industry**

**Better outlook**

We are optimistic on CSR's working capital based on the gesture of NDRC in approving significant bond issuance for the rest of 2012. We find the long-term outlook promising from recent NDRC approval of Rmb774.4bn of rail projects. The group's net debt to equity was 7.5% as of the end of 1H12 after issuing A-shares in March.

**Improving working capital.** We expect CSR's working capital would improve in 4Q12 as the MoR accelerated its bond issuance from late August. The NDRC gave its approval for the MoR to issue a further Rmb112bn of bonds in August to December, after the MoR had issued only Rmb38bn in the first seven months. Inventory turnover days improved slightly to 96.2 days in 1H12 from 100.6 days in FY11. Receivable turnover days deteriorated to 119.3 days in 1H12 from 70.7 days in FY11. Trade payable turnover days were 169 days in 1H12.

**205.3% QoQ growth of new orders in 3Q12.** We expect more new orders in the 4Q12 based on the strong QoQ growth of 205.3% in 3Q12. Moreover, NDRC unveiled on Sep 5 that it had approved 25 projects of intercity railway projects are mainly in affluent provinces such as Jiangsu Province. Based on the disclosures, we estimate total investment amount of these projects fetched to Rmb774.4bn, of which local governments will contribute approximately 41% of the total amount. CSR will be beneficiary in later stage. Such guarantee its revenue from 2013 to 2015.

**Resilient financial position.** The net debt to equity ratio as of the end of 1H12 was 7.5% after raising Rmb8,755mn from non-public issuing of 1,963mn A shares at Rmb4.46 per share in March. With 7.5% net gearing, CSR has financial resources to secure more new orders in 4Q12.

**Risk factors:** Risk of macroeconomic policies; deteriorating working capital turns; overseas projects risk.

**Results and Valuation**

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmb mn)	26,804	35,093	45,621	64,132	79,517
Chg (% YoY)	16.3	30.9	30.0	40.6	24.0
Gross Profit (Rmb mn)	4,019	5,814	7,167	10,987	14,870
Chg (% YoY)	23.9	44.7	23.3	53.3	35.3
Net Income (Rmb mn)	613	1,384	1,678	2,526	3,864
Chg (% YoY)	12.5	125.8	21.2	50.5	53.0
EPS (Rmb)	0.09	0.16	0.142	0.213	0.326
Chg (% YoY)	12.7	76.4	(9.6)	50.0	53.1
PE (x)	-	-	-	-	13.7
PB (x)	-	-	-	-	2.3
Yield (%)	-	-	-	-	4.0
ROAA (%)	2.1	3.5	3.3	3.9	4.6
ROAE (%)	15.8	13.6	10.1	13.8	18.5
Net debt/total equity (%)	34.2	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates



## Disclosures

### Analyst Certification

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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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