



September 4, 2013
 Equity Focus
 Rating: BUY
 TP: HK\$ 5.17

H-Share price (HK\$) 4.26
 Est. share price return 21.36%
 Est. dividend yield 1.80%
 Est. total return 23.16%

Previous Rating & TP BUY; HK\$ 5.17
 Previous Report Date June 4, 2013

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Key Data

52Wk H/L(HK\$)	4.98/ 2.83
Issued shares (mn)	21,300
H-Shares (mn)	4,207
A-Shares (mn)	17,093
Market cap	
H-shares (HK\$ mn)	17,922
A-Shares (RMB mn)	47,006
3-mth avg daily turnover (HK\$ mn)	83.6
Major shareholder(s) (%):	
CRECG (State-owned)	56.1
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	

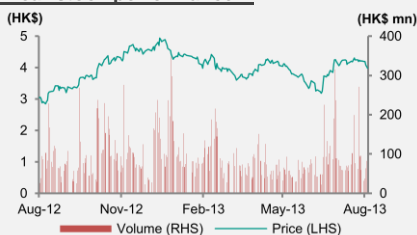
Share performance (%)

	Absolute	Relative*
1-mth	0.47	(0.44)
3-mth	10.08	8.48
6-mth	1.43	2.18

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

CRG (390 HK)

Urban rail development to drive momentum

- Urban rail development in China will support CRG's growth. We estimate FY13E-15E revenue to grow at 13.3% CAGR
- GPM expected to recover in 2H13 as the construction projects proceed to later stages
- The gearing as at end-1H13 was 209.57%, higher than that of CRCC and CCCC. We believe the Group will place more emphasis on increasing its liquidity to lower the debt ratio. Net operating cash outflow narrowed from RMB 17bn in 1H12 to RMB 7bn in 1H13
- We revise up our FY13E/14E net income slightly by 0.60%/0.39%. Maintain BUY with TP at HK\$ 5.17

Stable growth supported by urban rail development. We estimate urban rail investment in China will grow at a CAGR of 24.65% from 2013-15. CRG, as the largest urban rail construction project contractor with a 50% market share in 2012, will benefit most. We estimate that the new contract value of urban rail construction projects increased 64.25% YoY in 1H13. Assuming that growth in the urban rail segment will offset the slowdown in the Group's roadway and railway segments, we estimate FY13E-15E revenue to grow at a CAGR of 13.30%.

GPM squeeze in 1H13 on projects initiation. Due to the large amount of new railway construction contracts in 2H12 and 1H13 (RMB 213bn in total, or 1.12x FY13E railway construction segment revenue) and most were in the initial construction stage, 1H13 GPM dropped 0.41ppt to 6.98%. We believe the GPM will recover gradually in 2H13 as the construction projects proceed to further stages of development.

Gearing increased with BT investment. The gearing (total debt / total equity) increased from 183.73% at end-2012 to 209.57% at end-June 2013. The higher gearing was mainly driven by the increased exposure in BT investment. CRG's gearing as of June 2013 was higher than that of CRCC (1186 HK) at 161.41% and CCCC (1800 HK) at 171.47%. We believe CRG will emphasize more on receivables collection in the future to release more working capital to lower its gearing. Net operating cash outflow narrowed from RMB 17bn in 1H12 to RMB 7bn in 1H13.

Maintain BUY with TP at HK\$ 5.17. YoY growth of 2H13 net profit is expected to slow on the high base effect in 2H12. We believe that growth in urban rail development in China will support CRG's growth in FY14E-15E. We maintain our BUY recommendation with TP at HK\$ 5.17.

Risk factors: 1) Y-o-Y growth of 2H13 net income may slow; 2) Higher gearing than peers; 3) Liquidity strained by increased exposure in BT projects

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	442,216	465,625	536,177	601,767	688,247
Chg (% YoY)	(3.06)	5.29	15.15	12.23	14.37
Net Income (RMB mn)	6,690	7,354	8,763	9,858	11,215
EBITDA	22,430	26,890	32,657	35,209	38,365
Chg (% YoY)	20.27	19.88	21.45	7.82	8.96
EPS (RMB)	0.314	0.345	0.411	0.463	0.527
Chg (% YoY)	(9.57)	9.93	19.17	12.49	13.76
BVPS (RMB)	3.373	3.652	4.012	4.413	4.870
Chg (% YoY)	(16.28)	1.98	9.24	2.34	3.24
P/E (x)	-	9.91	8.32	7.39	6.50
P/B (x)	-	0.94	0.85	0.78	0.70
ROAE (%)	9.64	9.83	10.74	10.99	11.34
ROAA (%)	1.56	1.44	1.47	1.49	1.61
DPS(RMB)	0.048	0.052	0.062	0.069	0.079
Yield (%)	-	1.52	1.80	2.03	2.31
Net gearing (%)	81.93	101.34	112.13	124.51	126.68

*Net gearing=Net debt/Total equity

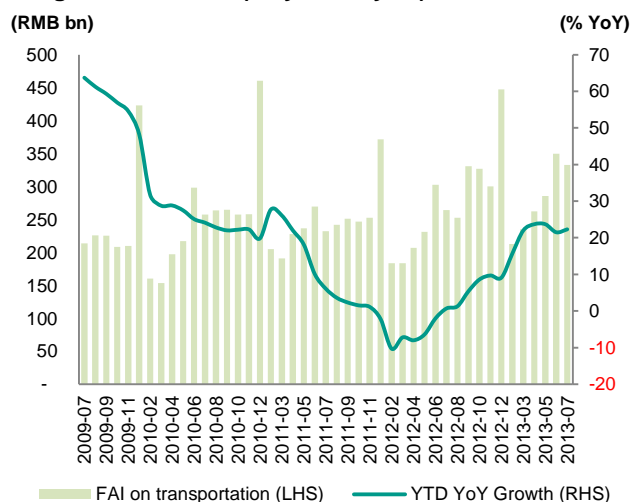
Source(s): Bloomberg, ABCI estimates

Slowdown in railway investment mitigated by strong growth in urban rail investment

Looking forward, with the target budget staying flat YoY for railway investment in 2013, we expect that growth in railway and highway investment will decelerate in 2H13. On the other hand, thanks to the fast-growing urban rail development in tier 1/2 cities and the existing project pipeline, we expect the growth momentum of urban rail investment will remain high in 2H13 to 2015.

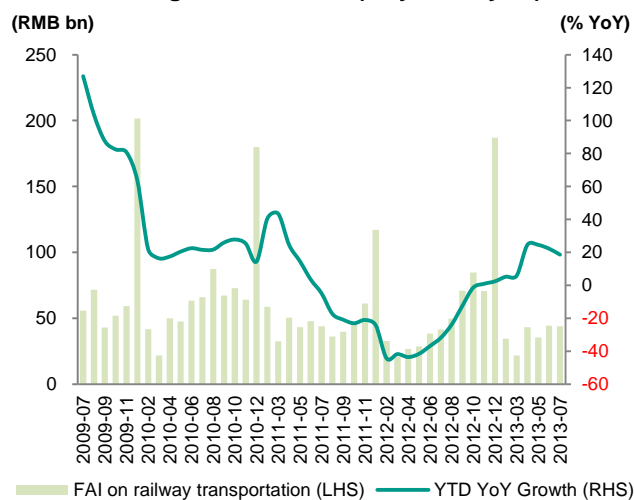
The growth in cumulative FAI on railway transportation dropped 3.60ppt MoM in 7M13 to 18.60% YoY (1H13 growth: 22.20% YoY) due to the high base in 2H12. The overall transportation FAI accelerated 0.80ppt MoM in 7M13 to 22.30% YoY (1H13 growth: 21.50% YoY), thanks to the strong growth in urban rail investment encouraged by the Chinese government. We estimate that the cumulative FAI on urban rail grew 7.40ppt in 7M13 to 46.21% YoY (1H13 growth: 38.81%).

Exhibit 1: Monthly transportation FAI and cumulative YoY growth in China (July 09-July 13)



Source(s): NBS

Exhibit 2: Monthly railway transportation FAI and cumulative YoY growth in China (July 09-July 13)



Source(s): NBS

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

	Previous	FY13E New	Chg (%)	Previous	FY14E New	Chg (%)	Previous	FY15E New	Chg (%)
Revenue (RMB mn)	548,070	536,177	(2.17)	619,011	601,767	(2.79)	674,137	688,247	2.09
Construction operation	476,064	458,732	(3.64)	548,068	523,719	(4.44)	603,989	609,313	0.88
Survey, Design & Consultancy	9,128	9,644	5.65	8,929	9,357	4.79	8,520	9,315	9.33
Equipment Manufacturing	11,654	13,275	13.90	11,287	12,734	12.82	10,280	12,749	24.02
Property Development	23,201	26,228	13.04	25,521	30,162	18.18	28,074	34,686	23.55
Others	62,213	62,213	0.00	62,713	62,713	0.00	63,213	63,213	0.00
Inter-segment sales	(34,190)	(33,913)	(0.81)	(37,507)	(36,917)	(1.57)	(39,938)	(41,029)	2.73
Gross profit (RMB mn)	42,033	39,749	(5.43)	46,702	45,900	(1.72)	51,117	52,704	3.10
GPM (%)	7.67	7.41	-0.26ppt	7.54	7.63	0.08ppt	7.58	7.66	0.08ppt
Net income (RMB mn)	8,711	8,763	0.60	9,820	9,858	0.39	11,021	11,215	1.76
Net margin (%)	1.59	1.63	0.05ppt	1.59	1.64	0.05ppt	1.63	1.63	-0.01ppt
EPS (RMB)	0.409	0.411	0.60	0.461	0.463	0.39	0.517	0.527	1.76
BVPS (RMB)	4.028	4.012	(0.41)	4.428	4.413	(0.34)	4.876	4.870	(0.13)
DPS (RMB)	0.061	0.062	0.60	0.069	0.069	0.39	0.078	0.079	1.76

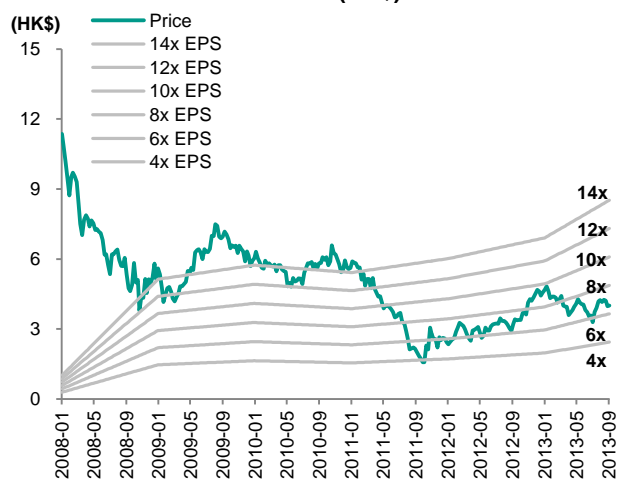
Source(s): ABCI Securities estimates

Exhibit 4: 1H13 results summary of CRG

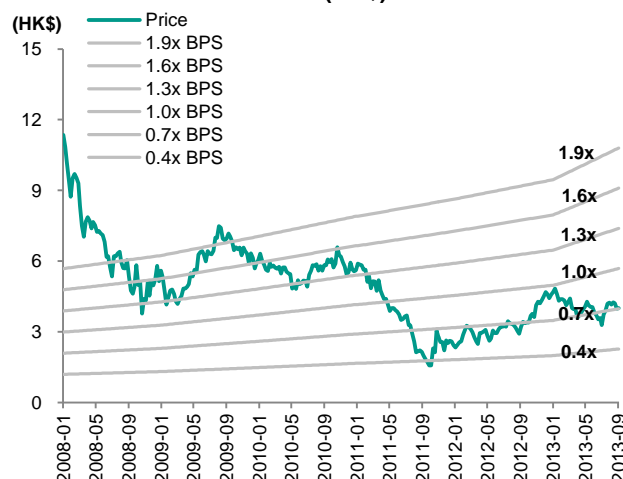
	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	214,571	227,645	190,915	274,710	238,956	25.16	(13.02)
Construction operation	192,556	199,984	164,235	232,671	204,450	24.49	(12.13)
Survey, Design & Consultancy	4,484	4,442	4,106	4,963	4,226	2.92	(14.85)
Equipment Manufacturing	6,029	5,118	4,900	6,564	6,316	28.90	(3.78)
Property Development	4,487	12,648	4,227	15,948	7,579	79.30	(52.48)
Others	19,002	23,209	23,871	32,561	30,276	26.83	(7.02)
Inter-segment sales	(11,987)	(17,756)	(10,424)	(17,997)	(13,891)	33.26	(22.81)
Gross Profit (RMB mn)	13,041	19,212	14,103	21,458	16,676	18.24	(22.29)
Construction operation	9,146	12,051	9,312	13,510	10,652	14.39	(21.16)
Survey, Design & Consultancy	1,317	1,575	1,055	1,801	1,188	12.57	(34.06)
Equipment Manufacturing	912	1,273	1,032	1,111	1,076	4.24	(3.16)
Property Development	1,219	3,134	1,340	4,343	2,127	58.72	(51.01)
Others	1,478	2,996	2,184	3,154	2,407	10.20	(23.69)
Inter-segment sales	(1,031)	(1,816)	(821)	(2,462)	(774)	(5.72)	(68.55)
GPM (%)	6.08	8.44	7.39	7.81	6.98	-0.41ppt	-0.83ppt
Construction operation	4.75	6.03	5.67	5.81	5.21	-0.46ppt	-0.60ppt
Survey, Design & Consultancy	29.38	35.45	25.70	36.30	28.11	2.41ppt	-8.19ppt
Equipment Manufacturing	15.12	24.88	21.07	16.93	17.04	-4.03ppt	0.11ppt
Property Development	27.16	24.78	31.71	27.23	28.07	-3.64ppt	0.84ppt
Others	7.78	12.91	9.15	9.69	7.95	-1.20ppt	-1.74ppt
Inter-segment sales	8.60	10.23	7.88	13.68	5.57	-2.30ppt	-8.11ppt
Major cost (RMB mn)							
Selling and distribution cost	794	1,019	681	1,350	1,010	48.31	(25.19)
Administrative cost	6,959	7,366	7,188	8,083	7,604	5.79	(5.93)
Cost ratio (%)							
Selling and distribution cost	0.37	0.45	0.36	0.49	0.42	0.07ppt	-0.07ppt
Administrative cost	3.24	3.24	3.77	2.94	3.18	-0.58ppt	0.24ppt
Net profit (RMB mn)	2,444	4,246	2,390	4,964	3,488	45.94	(29.73)
Net profit margin (%)	1.14	1.87	1.25	1.81	1.46	0.21ppt	-0.35ppt

1: Including R&D expenses

Source(s): Company

Exhibit 5: P/E band of CRG-H (HK\$)


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

Exhibit 6: P/B band of CRG-H (HK\$)


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

Exhibit 7: Peer group valuation and earnings forecasts summary (share price as of Sep 3, 2013)

Company	Ticker	Mkt cap (HK\$ mn)	As of 03/09/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Domestic Transportation Project Contractor												
CRCC-H	1186 HK	16,400	HKD	7.90	8.19	7.53	12.32	8.77	0.97	0.88	12.53	12.22
CRCC-A	601186 CH	63,703	RMB	4.90	6.32	5.81	12.32	8.77	0.75	0.68	12.53	12.22
CRG-H	390 HK	17,922	HKD	4.26	8.32	7.39	19.17	12.49	0.85	0.78	10.74	10.99
CRG-A	601390 CH	59,552	RMB	2.75	6.68	5.94	19.17	12.49	0.69	0.62	10.74	10.99
CCCC-H	1800 HK	27,542	HKD	6.22	6.01	5.48	7.92	9.63	0.84	0.76	15.31	15.97
CCCC-A	601800 CH	60,570	RMB	4.07	4.90	4.47	7.92	9.63	0.68	0.62	15.31	15.97
CREGC	600528 CH	10,464	RMB	5.66	12.86	10.88	10.50	18.18	1.35	1.24	11.25	11.85
Shanghai Tunnel Eng Co	600820 CH	14,923	RMB	9.07	9.26	7.89	10.57	17.35	0.96	0.89	11.48	11.73
Xiangyu Dredging	871 HK	1,712	HKD	2.14	5.73	3.78	20.00	51.67	0.70	0.62	16.27	17.40
Sector Weighted Average					6.32	5.67	5.95	27.65	0.80	0.73	12.13	12.43
Domestic Infrastructure Construction Contractor												
CSCEC	601668 CH	122,765	RMB	3.23	5.29	4.61	17.50	14.57	0.82	0.71	17.96	16.50
Sinohydro Group	601669 CH	35,393	RMB	2.91	5.84	4.99	16.76	17.07	0.53	0.50	16.06	10.25
China Gezhouba Group	600068 CH	18,380	RMB	4.16	8.67	7.85	7.14	10.42	1.05	0.96	13.52	12.76
CSCI	3311 HK	47,754	HKD	12.28	17.39	13.51	23.17	28.75	3.01	2.58	18.74	20.88
CAMC	002051 CH	21,151	RMB	26.20	20.03	15.28	17.84	31.12	3.36	2.85	19.63	20.18
CMEC	1829 HK	17,947	HKD	4.35	7.80	5.78	(4.18)	35.01	1.26	1.08	17.29	20.17
Sector Weighted Average					9.15	7.44	16.26	19.91	1.43	1.23	17.62	16.74
International Transportation Construction Contractors												
Vinci S.A.	DG FP	243,828	EUR	39.85	11.60	11.00	(3.75)	5.41	1.57	1.47	13.66	13.34
Bouygues Construction	EN FP	77,431	EUR	23.75	10.12	9.27	16.98	9.16	0.85	0.83	8.65	9.19
Hochtief A.G.	HOT GR	43,521	EUR	55.33	17.10	14.61	50.47	17.03	1.34	1.29	8.68	10.18
Skanska A.B.	SKAB SS	59,022	SEK	119.80	14.01	13.04	23.57	7.41	2.42	2.29	18.39	19.57
Strabag S.E.	STR AV	19,290	EUR	16.57	15.87	13.19	80.00	20.31	0.58	0.57	3.68	4.33
FCC S.A.	FCC SM	18,622	EUR	14.32	753.68	24.99	(100.21)	2,915.79	2.03	1.83	(9.06)	8.11
Ferrovial S.A.	FER SM	95,685	EUR	12.77	27.88	28.25	(52.68)	(1.31)	1.68	1.71	5.27	5.67
BAM Groep	BAMNB NA	8,163	EUR	3.26	10.82	9.36	(138.10)	15.61	0.88	0.84	10.13	21.04
SNC-Lavalin	SNC CN	44,118	CAD	39.57	329.75	26.94	(94.15)	1,124.17	2.74	2.76	10.84	10.21
Obrascon Huarte	OHL SM	26,796	EUR	26.30	8.66	7.56	(69.88)	14.56	1.08	0.97	13.54	14.06
Sacyr S.A.	SYV SM	13,388	EUR	2.81	14.96	17.26	(108.47)	(13.30)	0.84	0.78	7.31	4.69
Sector Weighted Average					57.34	15.28	(15.36)	165.74	1.58	1.52	10.61	11.39
International Infrastructure Construction Contractors												
ACS	ACS SM	71,492	EUR	21.70	9.31	8.65	(135.28)	7.59	2.13	1.92	25.35	24.02
Jacobs Engineering Group	JEC US	59,419	USD	58.28	17.87	15.66	9.83	14.07	1.81	1.62	10.83	11.21
Hyundai Eng & Const	000720 KP	46,226	KRW	58,800	10.79	8.91	74.93	21.03	1.29	1.15	12.67	13.64
WorleyParsons Ltd	WOR AU	38,490	AUD	22.28	15.05	13.71	13.15	9.80	2.41	2.28	16.43	16.65
Abengoa S.A.	ABG SM	11,460	EUR	2.28	12.73	9.57	(22.17)	32.96	0.87	0.83	6.27	5.63
Daewoo Eng & Const	047040 KP	22,770	KRW	7,760	13.87	9.46	44.16	46.63	0.89	0.83	6.79	9.26
Impregilo SpA	IPG IM	14,214	EUR	3.40	17.19	10.84	(86.71)	58.59	1.04	1.09	4.33	9.83
Sector Weighted Average					13.30	11.24	(21.20)	18.93	1.73	1.58	15.00	15.41
Overall Weighted Average					30.69	11.25	(6.53)	85.88	1.43	1.32	12.96	13.28

* The market capital value of the companies are translated into HKD
 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	688,247
Construction operation	392,540	396,906	458,732	523,719	609,313
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)	(41,029)
COGS	(409,963)	(430,064)	(496,428)	(555,867)	(635,543)
Gross profit	32,253	35,561	39,749	45,900	52,704
SG&A	(16,138)	(17,302)	(18,750)	(22,627)	(26,432)
Other income (loss)	(6,117)	(7,174)	(7,327)	(7,897)	(8,784)
Pre-tax profit	9,998	11,085	13,672	15,376	17,488
Income tax	(2,758)	(3,052)	(3,760)	(4,228)	(4,809)
Net profit	7,240	8,033	9,912	11,148	12,679
Profit attributable to:					
Minority interests	550	679	1,149	1,289	1,464
Equity shareholders of the Company	6,690	7,354	8,763	9,858	11,215
Basic EPS (RMB)	0.314	0.345	0.411	0.463	0.527
DPS (RMB)	0.048	0.052	0.062	0.069	0.079

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	549,012	574,497
Cash and equivalent	63,583	72,491	87,599	73,698	68,551
Trade and bill receivables	95,758	100,556	114,334	117,567	129,979
Construction contracts	56,747	78,522	91,880	96,070	96,263
Inventories	94,952	119,506	152,548	184,503	194,813
Other current assets	49,059	63,780	70,158	77,174	84,891
Non-current assets	108,461	115,806	124,178	130,976	139,305
Property, plant and equipment	37,668	41,513	44,949	48,249	52,649
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
Trade and other receivables	3,336	6,678	7,593	7,808	8,632
Other non-current assets	8,867	9,351	11,446	12,943	14,081
Total assets	468,560	550,661	640,696	679,988	713,801
Current liabilities	305,572	366,119	429,558	456,840	477,039
Trade and bill payables	158,458	179,608	200,262	209,900	210,421
Receipts in advance	35,282	49,685	67,833	70,656	72,651
Short term borrowings	56,490	73,762	89,865	97,351	105,587
Other current liabilities	55,342	63,064	71,598	78,933	88,381
Non-current liabilities	81,809	96,552	114,516	116,886	119,520
Long-term payables	632	450	502	526	527
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	596,559
Minority interests	9,330	10,199	11,176	12,272	13,516
Shareholders' equities	71,849	77,791	85,446	93,990	103,726
BVPS (RMB)	3.373	3.652	4.012	4.413	4.870

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	15,376	17,488
Changes in depreciation and amortization	6,220	6,063	7,254	7,725	8,354
Changes in working capital	(30,314)	(20,939)	(29,359)	(25,394)	(19,894)
Financial cost	4,148	6,360	7,625	7,870	8,139
Income tax paid	(2,712)	(3,705)	(3,883)	(4,363)	(4,958)
Others	(59)	(1,608)	-	0	-
CF Operating	(12,719)	(2,744)	(4,691)	1,214	9,130
Increase in PP&E	(10,877)	(10,288)	(11,000)	(11,335)	(13,065)
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)	(13,765)
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)	(1,508)	(1,698)
Interest paid	(5,799)	(9,686)	(11,731)	(12,108)	(12,522)
Others	(7,350)	2,437	10,534	469	2,636
CF Financing	30,600	23,673	31,799	(3,080)	(511)
Net change in cash	5,407	7,511	15,108	(13,901)	(5,146)
Cash at the beginning	57,218	63,583	72,491	87,599	73,698
Adjustment (Time deposit & FX effect)	958	1,397	-	-	-
Cash at the end	63,583	72,491	87,599	73,698	68,551

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Wong Cheuk Wai, Steve, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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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