



October 21, 2013
Company Report
Rating: BUY
TP: HK\$ 10.22

H-Share price (HK\$)	8.30
Est. share price return	23.13%
Est. dividend yield	1.82%
Est. total return	24.95%

Previous Rating & TP	(Initiation)
Previous Report Date	N/A

Analyst: Steve Wong
Tel: (852) 2147 8869
Email: stevecwong@abci.com.hk

Key Data

52Wk H/L(HK\$)	9.54 / 5.97
Issued shares (mn)	12,337
H-Shares (mn)	2,076
A-Shares (mn)	10,261
Market cap	
H-shares (HK\$ mn)	17,231
A-Shares (RMB mn)	53,152
3-mth avg daily turnover (HK\$ mn)	109.8
Major shareholder(s) (%):	
CRCCG	61.33

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Construction operation	84.95
Survey, Design & Consultancy	1.39
Equipment Manufacturing	2.35
Property Development	1.95
Others	14.62
Inter-segment sales	(5.26)

Source(s): Company, ABCI Securities

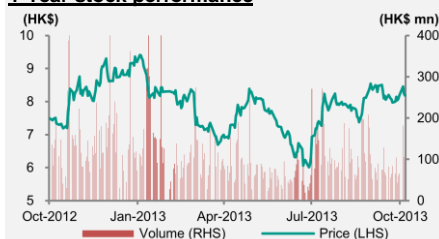
Share performance (%)

	Absolute	Relative*
1-mth	(0.12)	(0.70)
3-mth	11.89	2.80
6-mth	13.42	7.38

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CRCC (1186 HK)
Biggest winner in urban rail expansion

Urban rail development in 2014-15 is expected to stay strong with NDRC's support. Based on the construction pipelines in major cities, we expect urban rail investment to grow at 37.97% CAGR in 2013-15. We prefer CRCC for its low net gearing that enables low-cost funding. We expect CRCC's revenue in urban rail segment will grow at 44.48% CAGR in 2013-15, higher than that of the overall urban rail industry. Its increased participation in urban rail projects will also help offset the slowdown in other sub-segments. We expect net income to grow at 17.03% CAGR in FY13E-15E. We initiate with **BUY** on CRCC with TP at HK\$ 10.22, representing 1.26x FY13E P/B. The counter is currently trading at 1.02x FY13E P/B, and has an upside potential of 24.95% that incorporates an estimated share price return of 23.13% and FY13E dividend yield of 1.82%.

Low gearing - huge advantage in expanding urban rail development. The net gearing of CRCC is lower than its main competitors in urban rail construction industry including CRG, Sinohydro and Shanghai Tunnel. This enables the Group to obtain funding at lower costs. We expect CRCC's market share in urban rail construction industry to increase. Based on its construction pipeline in seven major cities (Shanghai, Beijing, Guangzhou, Shenzhen, Chongqing, Wuhan and Nanjing), we estimate the urban rail projects have a total track of 1,678.45km to be completed by 2015. We estimate the total investment to grow at 37.97% CAGR in 2013-15, mitigating the investment slowdown in railway and roadway industry. CRCC's revenue in urban rail business will grow at 44.48% CAGR in 2013-15, higher than that of the urban rail industry in China.

Huge backlog enhances earnings visibility. Total backlog as of June 2013 was RMB 1,594.5bn. The backlog-to-revenue ratio is 3.48x in 1H13, the highest since 2006. Considering the accelerated investment in 2013-15, we expect most projects in the backlog to be delivered in 2H13-2015. We estimate overall revenue to grow at 12.74% CAGR in FY13E-15E.

Cost ratio improvement. We expect the CAPEX-to-revenue ratio to decrease after the high growth in FY07-11, and the depreciation and amortization expenses-to-revenue will trend down in the future. We expect net income margin to rise and net income to grow at 17.03% CAGR in FY13E-15E.

Initiate with BUY with TP at HK\$10.22. Our target valuation at 1.26x of FY13E P/B reflects 40% discount to the median of its forward P/B in 2008-10. The high discount is justified by our assumption that earnings growth in 2013-15 will slow compared to 2008-10. The counter is trading at 1.02x of FY13E P/B, 19.05% below our target P/B. We initiate our coverage on CRCC with a **BUY** rating, and TP is set at HK\$10.22. Potential upside, including the dividend yield is 24.95%.

Risk factors: 1) Lower-than-expected rise in GPM in FY14E-15E under prudent monetary policy; 2) Heavy debt in CRC may reduce railway investment; 3) Earnings growth may slow in 2H13 due to high base in 2H12.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	443,319	469,872	546,817	626,312	694,977
Chg (% YoY)	(2.82)	5.99	16.38	14.54	10.96
Net Income (RMB mn)	7,854	8,479	9,987	11,740	13,678
Chg (% YoY)	84.97	7.96	17.78	17.56	16.50
EPS (RMB)	0.637	0.687	0.809	0.952	1.109
P/E (x)	-	9.70	8.24	7.01	6.01
BVPS (RMB)	5.248	5.833	6.513	7.343	8.309
P/B (x)	-	1.14	1.02	0.91	0.80
DPS (RMB)	0.100	0.110	0.121	0.143	0.166
Yield (%)	-	1.65	1.82	2.14	2.49
ROAE (%)	12.86	12.40	13.11	13.74	14.17
Net gearing (%)	Net Cash	Net Cash	11.68	13.54	20.98

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Benefited from national development of urban rail

Strong growth in urban rail

We estimate the total FAI on urban rail to grow at 37.97% CAGR in 2013-15, and the investment in the corresponding infrastructure construction to grow at 35.95% CAGR. With the support of the Chinese government, we expect urban rail development in second and third tier cities will pace up in 2016-20.

CRCC is the second largest urban rail builder in China with an estimated market share of 30% in 2012 (estimated to increase to 35% in 2013). With its low gearing, the Group can obtain funds at lower costs. We expect growth in the Group's urban rail construction business will outpace the industry. Its segmental revenue will grow at 44.48% CAGR in 2013-15.

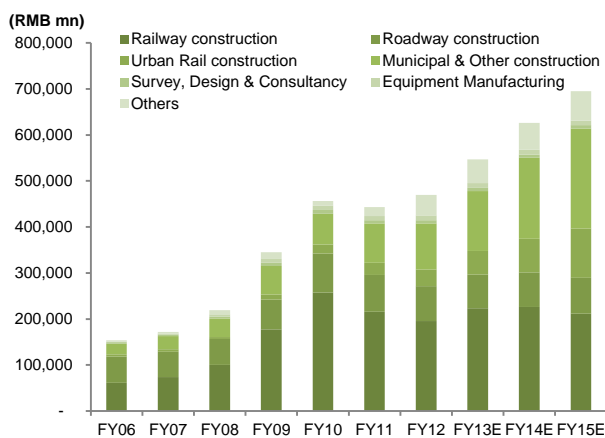
Mitigating the slowdown in railway and roadway investment

With China Railway Corporation (CRC)'s heavy debts and declining profitability of toll road operators, we expect the fixed asset investment (FAI) in railway and roadway transportation segments to slow in FY13E-15E. We estimate segments to grow at -2.68% and 3.14% CAGR in 2013-15 (last three years of the 12th Five-Year Plan), respectively, as opposed to their respective CAGRs at 59.99% and 23.58% 2008-10 (last three years of the 11th Five-Year Plan). However, thanks to the urban development of China, we expect urban rail investment to surge in the future and mitigate the impact from the slowdown of railway and roadway investment.

Diversified via increased exposure to non-railway-and-roadway-transport infrastructure construction

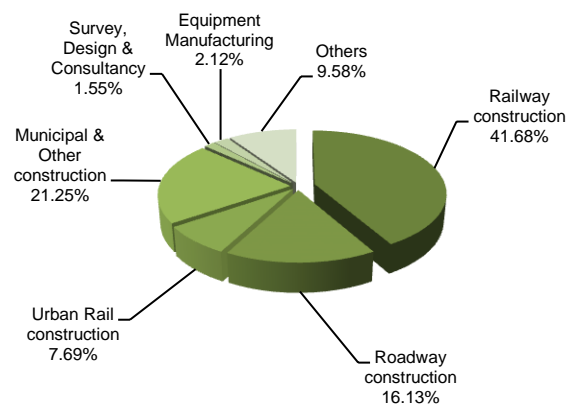
We expect CRCC's exposure to municipal construction projects, including affordable housing, government building construction projects, and urban rail projects to increase as roadway and railway investments slow. Contribution from non-core business segments (businesses excluding railway and roadway constructions), as a percentage of total revenue, increased from 24.90% in FY10 to 42.19% in FY12 (1H13: 45.13%). New contracts of non-core businesses accounted for 29.35% in FY10, and increased to 61.47% in FY12, of total new contracts (1H13: 60.79%).

Exhibit 1: Revenue breakdown and projection for CRCC in FY06-15E



Source(s): Company, ABCI Securities estimates

Exhibit 2: Revenue breakdown of CRCC in FY12 (%)



Source(s): Company, ABCI Securities

Huge backlog enhancing earnings visibility

The backlog-to-revenue ratio increased from 1.33x in FY06 to 3.18x in FY12 (1H13: 3.48x), while the contract backlog value increased from RMB 1,492bn at end-2012 to RMB 1,595bn at end-June 2013. The high backlog of CRCC indicates a clear construction pipeline in upcoming years. For CRCC, growth in revenue is strongly correlated to change in backlog-to-revenue ratio with a two-year lag time. For example, acceleration of backlog-to-revenue ratio in FY11-12 indicates growth acceleration of revenue in FY13E-14E.

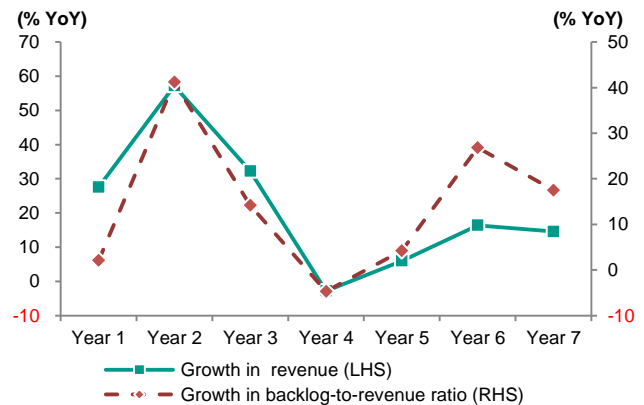
Exhibit 3: Correlation of revenue growth and growth in backlog-to-revenue ratio in FY06-FY14E

		Revenue (Rmb mn)	Growth (% YoY)	backlog-to-revenue ratio (x)	Growth (% YoY)
Year 1	FY08	219,410	27.57	FY06	1.33
Year 2	FY09	344,976	57.23	FY07	1.88
Year 3	FY10	456,187	32.24	FY08	2.15
Year 4	FY11	443,319	(2.82)	FY09	2.05
Year 5	FY12	469,872	5.99	FY10	2.13
				Correlation(%)¹ 90.81	
Year 6	FY13E	546,817	16.38	FY11	2.70
Year 7	FY14E	626,312	14.54	FY12	3.18

1: The correlation is calculated from "growth in revenue in FY08-12" and "growth in backlog-to-revenue ratio in FY06-10"

Source(s): Company, ABCI Securities estimates

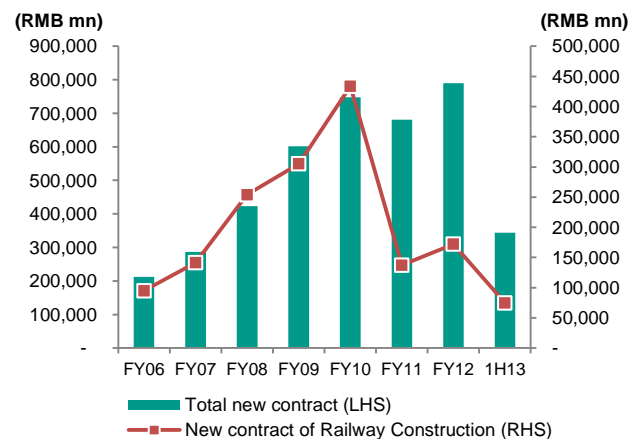
Exhibit 4: Revenue growth and growth in backlog-to-revenue ratio in FY08-14E



Source: Company, ABCI Securities estimates

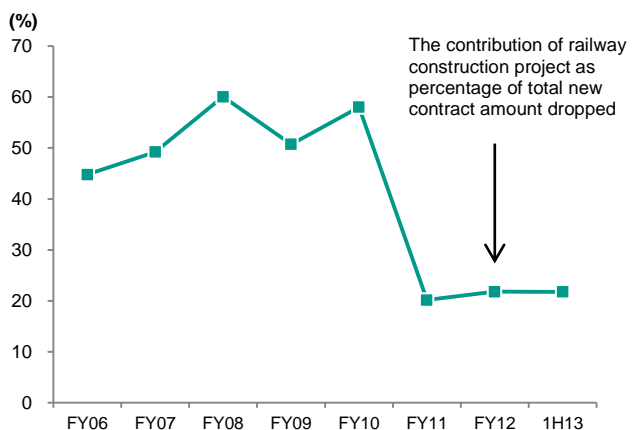
Although the pace of expansion in China's high-speed rail has slowed in 2011 after the Chinese Railways Minister, Liu Zhijun, was arrested for corruption and a fatal high-speed railway accident near Wenzhou in July 2011, declines in railway construction was offset by growth in urban rail segment, reflecting CRCC's strong technological capability enables it to diversify into other segments to drive growth.

Exhibit 5: Growth in overall new contracts railway construction new contracts in FY06-1H13



Source(s): Company

Exhibit 6: New contracts from railway construction as a percentage of total, FY06-1H13



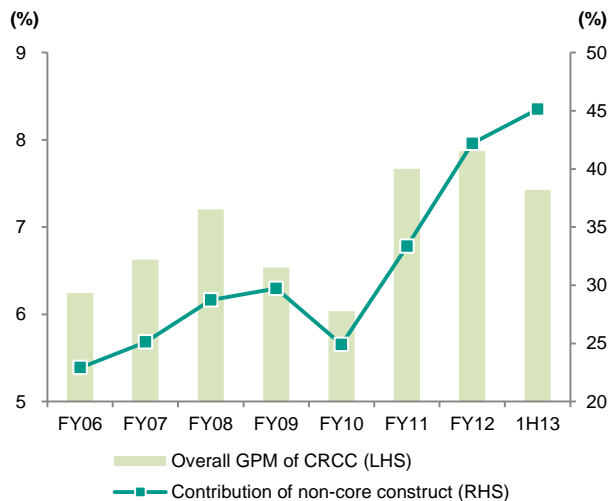
Source(s): Company

GPM expected to regain in FY14E-15E

We expect GPM to increase gradually in FY14E-15E with the increased contribution from urban rail segment. GPM of urban rail construction is higher than that of railway and roadway constructions. We estimate that GPMs (ex. surcharges and business tax) of urban rail construction projects were 7%-9% in FY10-12, while that of railway and roadway construction project were 4%-7% and 3%-6%.

To diversify income, contribution from non-core businesses segments has been increasing since FY06. We expect its contribution will continue to rise in FY13E-15E. As non-transportation construction projects have higher margins at 7%-10% and that for properties development and consultancy businesses are even higher at 25%-30%, we expect CRCC's GPM of CRCC to rise in FY13E-15E due to change of product-mix.

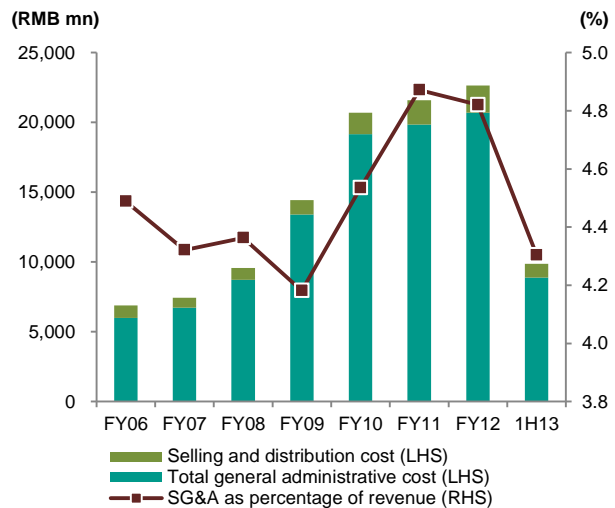
Exhibit 7: CRCC's GPM and contribution from non-core construction businesses as a percentage of total revenue in FY06-1H13



* Overall GPM of CRCC is calculated exclusion of surcharges and business tax

Source(s): Company, ABCI Securities

Exhibit 8: Selling & distribution cost, general administrative cost and SG&A-to-revenue ratio in FY06-1H13



Source(s): Company

Cost ratio improvement

CRCC's selling and distribution expenses (SG&A) has been improving since FY12. The SG&A-to-revenue ratio declined from 4.87% in FY11 to 4.82% in FY12. The ratio dropped to 4.30% in 1H13, down 0.47ppt YoY.

Going forward, CAPEX as percentage of revenue will lessen after escalating in FY07-11. The ratio was 3.08%-5.44% in FY07-11, and dropped to 2.39% in FY12. We expect the CAPEX-to-revenue ratio to stay below 2.5% in FY13E-15E. The slowdown in CAPEX ratio would help to the reduction in total cost ratio as the drop in depreciation and amortization expenses as percentage of revenue. The depreciation-and-amortization-expenses-to-revenue ratio dropped from 2.26% in FY11 to 2.13% in FY12.

Under these backdrops, we estimate that the SG&A-to-revenue ratio will spiral down from 4.82% in FY12 to 4.63% in 4.63% in FY15E.

Outlook and recommendation

Outlook of CRCC

CRCC's 1H13 results improved on recovery in railway investment since 2H12, Net income was up 46.61% YoY in 1H13. For 2H13, however, we expect the Y-o-Y revenue growth to slow due to the high base in 2H12. Looking forward, infrastructure investment in railway transportation will stay flat in 2014-15. On the other hand, we believe development and investment in urban rail infrastructure construction will remain strong with NDRC's support, which in turn will help CRCC offset the declining revenue from railway construction. Furthermore, CRCC's lower-than-peer gearing (1H13 net gearing: 36.10%) allow the company to obtain lower-cost funding for urban rail construction projects. We expect growth in CRCC's urban rail segment to outpace the industry. We estimate the overall net income of CRCC to grow 17.03% CAGR in FY13E-15E.

Exhibit 9: Debt position and net gearing of the major domestic transport infrastructure builders, as at June 2013

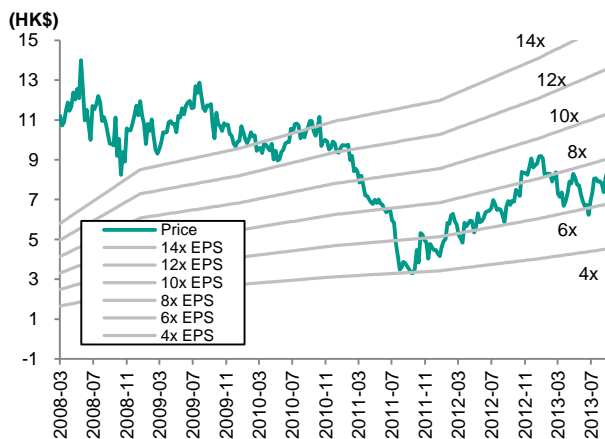
	CRCC (1186 HK)	CRG (390 HK)	CCCC (1800 HK)	CREC (600528 CH)	Sinohydro (601669 CH)	Shanghai Tunnel (600528 CH)
Total Debt (RMB mn)	123,867	189,316	167,526	11,565	65,182	16,226
Cash (RMB mn)	96,162	82,328	63,160	6,205	29,330	4,894
Net Debt (RMB mn)	27,705	106,988	104,366	5,360	35,852	11,332
Total Equity (RMB mn)	76,740	90,334	97,700	5,687	31,850	11,323
Net gearing (%)	36.10	118.44	106.82	94.25	112.57	100.08

Source(s): Companies, Bloomberg

Valuation and recommendation: BUY

We set our target valuation at 1.26x of FY13E P/B, equivalent to 40% discount to the median of forward P/B of CRCC in 2008-10. The discount is justified by our assumption that earnings growth in FY13E-15E will be lower than that of FY08-10 (17.03% CAGR vs. 40.08% CAGR). The counter is currently trading at 1.02x of FY13E P/B, 19.05% below our target P/B. We initiate **BUY** on the counter with TP at HK\$ 10.22, reflecting an upside potential of 24.95% (share price gain and FY13E dividend yield).

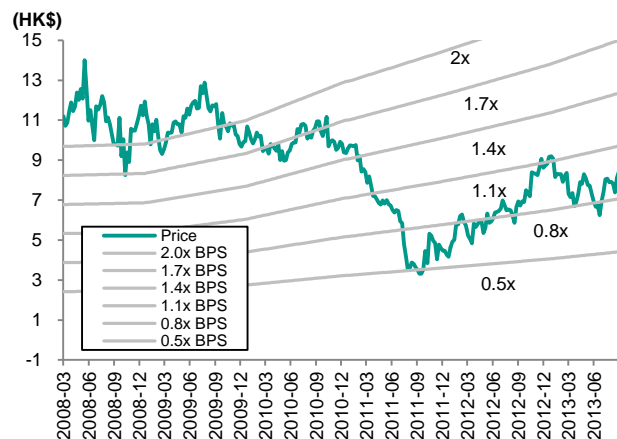
Exhibit 10: P/E band of CRCC-H (HK\$), 1M08-10M13



* The net income of CRCC was after the adjustment of one-off provision of Mecca Project in 2010

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

Exhibit 11: P/B band of CRCC-H (HK\$), 1M08-10M13



* The net income of CRCC was after the adjustment of one-off provision of Mecca Project in 2010

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



Exhibit 12: 1H13 results summary of CRCC

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	205,160	238,159	179,290	290,582	229,369	27.93	(21.07)
Construction operation	191,220	216,321	163,635	243,966	194,854	19.08	(20.13)
Survey, Design & Consultancy	3,267	4,197	2,800	4,487	3,178	13.50	(29.17)
Equipment Manufacturing	4,393	4,522	4,075	5,909	5,384	32.12	(8.88)
Property Development	1,214	12,324	1,360	16,777	4,468	228.53	(73.37)
Others	17,363	15,559	16,565	36,153	33,543	102.49	(7.22)
Inter-segment sales	(12,297)	(14,764)	(9,145)	(16,710)	(12,058)	31.85	(27.84)
Gross Profit (RMB mn)	14,407	19,585	13,997	22,986	17,035	21.71	(25.89)
Construction operation	11,727	14,486	11,035	16,438	12,619	14.36	(23.23)
Survey, Design & Consultancy	998	1,047	885	1,126	967	9.23	(14.18)
Equipment Manufacturing	658	672	670	885	923	37.88	4.38
Property Development	386	3,346	412	4,098	1,068	159.09	(73.94)
Others	781	101	547	537	614	12.19	14.20
Inter-segment sales	(143)	(67)	448	(98)	844	88.35	(959.29)
GPM (%)	7.02	8.22	7.81	7.91	7.43	(0.38ppt)	(0.48ppt)
Construction operation	6.13	6.70	6.74	6.74	6.48	(0.27ppt)	(0.26ppt)
Survey, Design & Consultancy	30.55	24.94	31.61	25.10	30.42	(1.19ppt)	5.31ppt
Equipment Manufacturing	14.98	14.85	16.44	14.97	17.15	0.72ppt	2.18ppt
Property Development	31.76	27.15	30.31	24.42	23.90	(6.41ppt)	(0.52ppt)
Others	4.50	0.65	3.30	1.49	1.83	(1.47ppt)	0.34ppt
Inter-segment sales	1.16	0.45	(4.90)	0.59	(7.00)	(2.10ppt)	(7.59ppt)
Major cost (RMB mn)							
Selling and distribution cost	776	970	667	1,279	996	49.33	(22.13)
Administrative cost ¹	8,602	11,249	7,889	12,817	8,876	12.51	(30.75)
Cost ratio (%)							
Selling and distribution cost	0.38	0.41	0.37	0.44	0.43	0.06ppt	(0.01ppt)
Administrative cost ¹	4.19	4.72	4.40	4.41	3.87	(0.53ppt)	(0.54ppt)
Net profit (RMB mn)	3,639	4,215	3,188	5,291	4,674	46.61	(11.66)
Net profit margin (%)	1.77	1.77	1.78	1.82	2.04	0.26ppt	0.22ppt

1: Including research and development expenses
Source(s): Company

Exhibit 13: Peer valuation table for construction contractors

Company	Ticker	Mkt cap (HK\$ mn)	As of 20/08/2013		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	17,231	HKD	8.30	8.24	7.01	17.78	17.56	1.02	0.91	13.11	13.74
CRCC-A	601186 CH	67,595	RMB	5.18	6.40	5.44	17.78	17.56	0.80	0.71	13.11	13.74
CRG-H	390 HK	17,880	HKD	4.25	8.30	7.23	19.17	14.72	0.85	0.77	10.74	11.19
CRG-A	601390 CH	60,862	RMB	2.80	6.81	5.93	19.17	14.72	0.70	0.63	10.74	11.19
CCCC-H	1800 HK	27,852	HKD	6.29	6.25	5.82	6.74	7.31	0.85	0.76	14.26	13.74
CCCC-A	601800 CH	61,693	RMB	4.13	5.11	4.76	6.74	7.31	0.69	0.62	14.26	13.74
CREGC	600528 CH	10,410	RMB	5.61	12.75	10.79	10.50	18.18	1.33	1.23	11.25	11.85
Shanghai Tunnel Eng Co	600820 CH	15,028	RMB	9.10	9.29	7.91	10.57	17.35	0.97	0.89	11.48	11.73
Xiangyu Dredging	871 HK	1,672	HKD	2.09	6.22	5.17	8.00	20.37	0.79	0.69	14.80	14.27
Sector Weighted Average					6.81	5.98	13.93	13.51	0.80	0.72	12.67	12.85
Domestic Infrastructure Construction Contractor												
CSCEC	601668 CH	123,224	RMB	3.23	5.29	4.59	17.50	15.22	0.82	0.71	18.04	16.59
Sinohydro Group	601669 CH	39,432	RMB	3.23	6.51	5.54	16.30	17.54	0.58	0.55	16.06	10.25
China Gezhouba Group	600068 CH	18,449	RMB	4.16	8.67	7.85	7.14	10.42	1.05	0.96	13.52	12.76
CSCI	3311 HK	51,643	HKD	13.28	18.89	14.63	22.64	29.16	3.25	2.79	18.71	20.91
CAMC	002051 CH	18,896	RMB	23.32	17.83	13.60	17.84	31.12	2.99	2.53	19.63	20.18
CMEC	1829 HK	20,257	HKD	4.91	8.81	6.52	(4.18)	35.01	1.42	1.22	17.29	20.17
Sector Weighted Average					9.41	7.62	16.01	20.46	1.46	1.26	17.63	16.75
International Transportation Construction Contractors												
Vinci S.A.	DG FP	295,413	EUR	46.36	13.50	12.80	(3.78)	5.47	1.81	1.70	13.66	13.39
Bouygues Construction	EN FP	98,489	EUR	29.10	12.58	11.54	15.34	9.04	1.04	1.01	8.64	9.10
Hochtief A.G.	HOT GR	52,675	EUR	64.50	19.40	17.98	54.60	7.94	1.64	1.59	8.98	9.83
Skanska A.B.	SKAB SS	62,717	SEK	123.50	14.36	13.42	24.28	7.03	2.46	2.31	18.51	19.63
Strabag S.E.	STR AV	22,852	EUR	18.90	17.78	14.58	83.28	21.92	0.66	0.66	3.74	4.46
FCC S.A.	FCC SM	19,618	EUR	14.53	(59.79)	31.93	(97.26)	(287.24)	2.26	2.03	(21.62)	6.90
Ferrovial S.A.	FER SM	106,425	EUR	13.68	28.62	30.07	(50.62)	(4.81)	1.79	1.81	5.59	5.73
BAM Groep	BAMNB NA	10,712	EUR	4.12	17.75	12.63	(129.37)	40.52	1.21	1.14	6.97	17.90
SNC-Lavalin	SNC CN	48,149	CAD	42.15	(155.54)	21.81	(113.22)	(813.28)	3.24	3.09	3.64	14.51
Obrascon Huarte	OHL SM	31,154	EUR	29.45	10.11	8.83	(71.10)	14.49	1.20	1.09	12.99	13.48
Sacyr S.A.	SYV SM	19,465	EUR	3.94	18.32	17.28	(109.68)	6.05	1.20	1.11	8.82	6.69
Sector Weighted Average					3.65	16.49	(15.35)	(52.67)	1.77	1.69	9.90	11.58
International Infrastructure Construction Contractors												
ACS	ACS SM	83,467	EUR	25.01	10.82	10.00	(134.96)	8.22	2.49	2.23	25.30	23.61
Jacobs Engineering Group	JEC US	61,131	USD	59.97	18.40	16.13	9.73	14.11	1.87	1.67	10.83	11.18
Hyundai Eng & Const	000720 KP	49,891	KRW	61,400	11.26	9.31	74.93	21.03	1.36	1.22	12.74	13.83
WorleyParsons Ltd	WOR AU	41,392	AUD	22.42	15.69	14.25	9.25	10.08	2.43	2.31	16.43	16.14
Abengoa S.A.	ABG SM	11,170	EUR	2.48	13.85	9.25	(22.17)	49.72	0.92	0.86	8.93	5.63
Daewoo Eng & Const	047040 KP	26,143	KRW	8,620	15.05	10.63	47.63	41.53	0.99	0.92	6.90	9.03
Impregilo SpA	IPG IM	17,793	EUR	4.12	20.79	13.11	(86.71)	58.59	1.26	1.32	6.19	9.83
Sector Weighted Average					14.29	11.99	(24.38)	19.58	1.89	1.72	15.39	15.42
Overall Weighted Average					7.09	12.35	(6.60)	(15.76)	1.57	1.45	12.68	13.36

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue¹	443,319	469,872	546,817	626,312	694,977
Construction operation	407,541	407,601	477,873	550,216	614,096
Survey, Design & Consultancy	7,464	7,287	7,411	7,525	7,233
Equipment Manufacturing	8,915	9,984	10,036	10,175	9,506
Property Development	13,538	18,137	23,266	28,331	31,178
Others	32,922	52,718	57,872	63,536	69,760
Inter-segment sales and surcharges	(27,060)	(25,855)	(29,641)	(33,471)	(36,795)
COGS	(409,327)	(432,889)	(504,760)	(577,812)	(641,052)
Gross profit	33,992	36,983	42,057	48,500	53,926
SG&A	(21,597)	(22,652)	(26,361)	(29,748)	(32,211)
Other income and gains	(2,339)	(3,435)	(2,649)	(3,414)	(3,847)
Pre-tax profit	10,056	10,896	13,047	15,337	17,867
Income tax	(2,174)	(2,375)	(2,870)	(3,374)	(3,931)
Net profit	7,882	8,521	10,176	11,963	13,937
Profit attributable to:					
Minority interests	28	42	189	223	259
Equity shareholders of the Company	7,854	8,479	9,987	11,740	13,678
Basic EPS (RMB)	0.637	0.687	0.809	0.952	1.109
DPS (RMB)	0.100	0.110	0.121	0.143	0.166
EBIT	13,739	16,736	19,050	21,718	24,779
EBITDA	23,752	26,756	29,491	32,289	35,709

1: Revenue is excluding business tax and surcharges
Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	360,324	416,287	451,810	498,195	546,237
Cash and equivalent	83,058	92,274	88,627	91,514	88,643
Trade and bill receivables	64,933	74,013	88,834	97,687	109,283
Construction contracts	74,176	86,555	93,220	112,691	115,795
Inventories	76,006	84,782	94,600	101,121	127,816
Other current assets	62,151	78,663	86,529	95,182	104,700
Non-current assets	62,659	64,374	68,509	71,250	75,305
Property, plant and equipment	40,572	40,271	41,017	41,498	42,896
Intangible assets	6,791	8,304	9,118	9,622	10,115
Long term investments	4,445	5,626	6,189	6,807	7,488
Long term receivables	8,504	7,694	9,235	10,155	11,360
Other non-current assets	2,346	2,479	2,951	3,168	3,445
Total assets	422,983	480,661	520,318	569,445	621,542
Current liabilities	318,742	368,812	399,124	437,888	477,789
Trade and bill payables	160,371	180,875	186,693	202,436	218,752
Receipts in advance	53,414	62,098	72,734	81,700	89,665
Short term borrowings	41,665	60,649	66,714	73,385	80,724
Other current liabilities	63,291	65,190	72,983	80,367	88,649
Non-current liabilities	38,522	38,520	39,314	39,245	39,303
Long-term payables	1,472	140	145	157	169
Long-term borrowings	30,611	31,390	31,480	30,630	29,830
Other non-current liabilities	6,439	6,990	7,689	8,458	9,304
Total liabilities	357,264	407,332	438,437	477,132	517,092
Minority interests	970	1,365	1,526	1,716	1,936
Shareholders' equities	64,749	71,964	80,355	90,597	102,514
BVPS (RMB)	5.248	5.833	6.513	7.343	8.309

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	10,056	10,896	13,047	15,337	17,867
Changes in depreciation and amortization	10,013	10,020	10,440	10,571	10,930
Changes in working capital	(34,588)	(9,460)	(15,769)	(17,313)	(16,938)
Financial cost	3,422	5,518	4,983	5,296	5,737
Income tax paid	(1,008)	(1,405)	(2,263)	(2,706)	(3,196)
Others	(471)	(10,024)	-	-	-
CF Operating	(12,576)	5,545	10,438	11,185	14,400
Increase in PP&E	(13,051)	(9,540)	(11,000)	(10,856)	(12,121)
Increase in intangible assets	(588)	(1,692)	(1,000)	(700)	(700)
Others	3,036	2,923	-	-	-
CF Investing	(10,603)	(8,309)	(12,000)	(11,556)	(12,821)
Capital injection	116	437	-	-	-
Net debt financing	33,618	19,763	6,155	5,821	6,539
Dividend payout	(617)	(1,234)	(1,385)	(1,531)	(1,800)
Interest paid	(3,422)	(5,518)	(4,983)	(5,296)	(5,737)
Others	11,954	(2,525)	(1,872)	4,264	(3,452)
CF Financing	41,649	10,923	(2,086)	3,259	(4,450)
Net change in cash	18,470	8,159	(3,647)	2,887	(2,871)
Cash at the beginning	65,207	83,058	92,274	88,627	91,514
Adjustment (Time deposit & FX effect)	(619)	1,057	-	-	-
Cash at the end	83,058	92,274	88,627	91,514	88,643

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Construction operation	91.93	86.75	87.39	87.85	88.36
Survey, Design & Consultancy	1.68	1.55	1.36	1.20	1.04
Equipment Manufacturing	2.01	2.12	1.84	1.62	1.37
Property Development	3.05	3.86	4.25	4.52	4.49
Others	7.43	11.22	10.58	10.14	10.04
Inter-segment sales and surcharges	(6.10)	(5.50)	(5.42)	(5.34)	(5.29)
Profit & loss ratios (%)					
Gross margin	7.67	7.87	7.69	7.74	7.76
Net profit margin	1.77	1.80	1.83	1.87	1.97
Effective tax rate	21.62	21.80	22.00	22.00	22.00
Growth (%)					
Revenue	(2.82)	5.99	16.38	14.54	10.96
Gross profit	23.43	8.80	13.72	15.32	11.19
EBIT	78.26	21.82	13.83	14.00	14.10
EBITDA	51.81	12.65	10.22	9.49	10.59
Net profit					
Balance sheet ratios					
Current ratio (x)	1.13	1.13	1.13	1.14	1.14
Quick ratio (x)	0.89	0.90	0.89	0.91	0.88
Cash ratio (x)	0.26	0.25	0.22	0.21	0.19
Trade and bill receivables days	54.08	60.26	60.00	60.00	60.00
Trade and bill payables turnover days	135.75	144.54	133.00	123.00	120.00
Inventory turnover days	60.46	67.79	64.86	61.82	65.18
Total debt / equity ratio (%)	109.98	125.52	119.92	112.68	105.84
Net debt / equity ratio (%)	Net Cash	Net Cash	11.68	13.54	20.98
Returns (%)					
ROAE	12.86	12.40	13.11	13.74	14.17
ROAA	2.03	1.88	2.00	2.15	2.30
Payout ratio	15.71	16.00	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Steve Wong, 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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company



Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

Tel: (852) 2868 2183