



Key Sector Data

Average 2012 PER (x)	8.0
Average 2012 PBV (x)	0.9
Average 2012 Dividend yield (%)	2.6
Average 3 mth avg vol (HK\$mn)	278

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Infrastructure construction	81.1
Survey, design and consultancy services	2.8
Manufacturing operations	4.2
Others	12.0

Source: Company

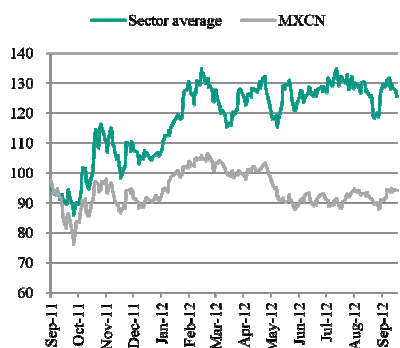
Share performance (%)

	Absolute	Relative*
1-mth	1.5	(2.5)
3-mth	(1.9)	(9.1)
6-mth	11.8	13.7

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Name: Francis Chu
Tel: (852) 2147 8313
Email: francischu@abci.com.hk

Railway Infrastructure Sector

Re-rating party is on the march

We anticipate the upward re-valuation would continue for China Railway Construction (“CRCC”), China Railway Group (“CRG”) and China Communication Construction (“CCCC”). Among them, CRCC has the strongest balance sheet with a net gearing of 9.2% as of the end of 1H12.

Valuation continues upward re-rating. We anticipate the valuation of the three giant construction players could be re-rated to forward PBV of 1x by the end of 2013. As shown in the PB band charts in next page, they started an uptrend since October last year. CRCC, CRG and CCCC started from forward PBV of 0.47x, 0.34x and 0.70x to 0.87x, 0.70x and 0.89x respectively. The ramping up of railway spending to achieve the new target of Rmb496bn in 2012 could support their share prices in the near future.

CRCC has room to leverage up. With 9.2% net gearing, CRCC has financial resources to secure more new orders in 4Q12 and 2013. On the other hand, CRG and CCCC had the net debt-to-equity ratio of 115.4% and 90.5% respectively as of 30/6/2012.

CCCC more defensive. CCCC could be more defensive should the business environment become worse. As shown in its PB band chart, the ratio of 0.70x provide strong support. Firstly, it has a higher ROE of 15.6% and a higher gross margin of 10.6% than the other two. Besides, it has a more diversified business portfolio in the segment of infrastructure construction and better management track records.

Risk factors: High net gearing, risk of macroeconomic policies; overseas projects risk.

Sector Valuation Summary

Company	Code	Price HK\$	PER (x)	PBV (x)	ROE (%)	Net D/E (%)
CRCC	1186	6.43	8.3	0.9	11.4	9.2
CRG	390	3.20	8.4	0.7	9.0	115.4
CCCC	1800	6.11	6.6	0.9	15.6	90.5

Source: Company, Bloomberg, ABCI Securities estimates

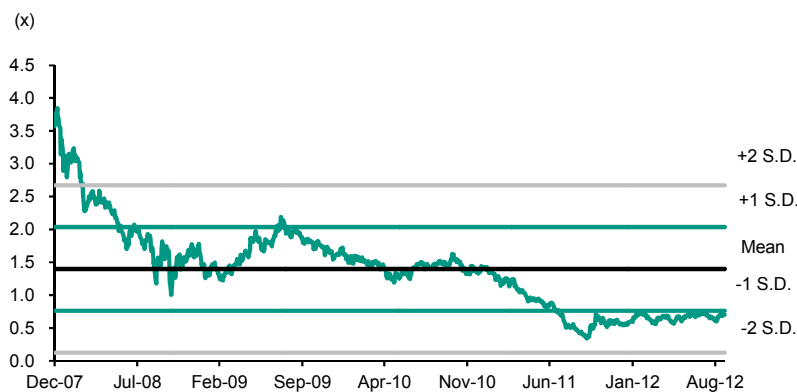


CRCC (1186 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates

CRG (390 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates

CCCC (1800 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates

Comparison among major construction players

	CRCC		CRG		CCCC	
	2011	1H12	2011	1H12	2011	1H12
New Contract composition (%)						
Construction operations	86.2%	83.1%	72.3%	69.1%	79.6%	82.0%
Survey, design & consultancy operations	1.1%	1.3%	1.8%	1.9%	3.3%	3.7%
Manufacturing operations	1.8%	1.4%	2.9%	3.3%	4.4%	5.8%
Other businesses	10.9%	14.2%	23.0%	25.8%	8.5%	7.4%
Total	100.0%	100.0%	100.0%	100.0%	95.8%	99.0%
Revenue composition (%)						
Construction operations	87.9%	87.9%	83.2%	81.6%	75.4%	73.8%
Survey, design & consultancy operations	1.6%	1.5%	1.9%	2.0%	5.0%	4.7%
Manufacturing operations	1.6%	1.9%	2.4%	2.4%	6.7%	8.2%
Other businesses	8.8%	8.7%	12.6%	14.0%	12.9%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit composition (%)						
Construction operations	79.6%	83.0%	62.0%	65.2%	64.8%	65.6%
Survey, design & consultancy operations	4.7%	5.0%	8.0%	7.5%	13.0%	11.2%
Manufacturing operations	3.1%	4.1%	5.5%	8.1%	3.8%	6.8%
Other businesses	12.5%	7.8%	24.5%	19.2%	18.5%	16.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit margin (%)						
Construction operations	9.5%	9.8%	5.1%	5.6%	8.0%	9.4%
Survey, design & consultancy operations	30.4%	34.6%	29.1%	25.6%	24.3%	25.0%
Manufacturing operations	20.3%	22.7%	16.1%	23.3%	5.2%	8.7%
Other businesses	14.9%	9.4%	13.5%	9.7%	13.3%	13.1%
Book-to-bill ratio	1.49	1.52	1.21	1.44	1.52	1.85
Major financial position						
Net debt to equity ratio	0.3%	9.2%	86.0%	115.4%	75.3%	90.5%
Short-term loans to total ratio	16.8%	24.7%	43.4%	42.2%	51.2%	55.8%

Source: Company, ABCI Securities estimates

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**