

Key Data

Share price (HK\$)	3.88
52Wk H/L(HK\$)	7.58 / 3.78
Issued shares (mn)	6,519
Share market cap (HK\$m)	25,294
30-day avg vol (HK\$m)	59.4
Major shareholder (%):	
China Resources National Corporation	73.34

*: Domestic shares

Source: Company, Bloomberg, ABCI Securities

Sales of cement breakdown in 1HFY12 (%)

Guangdong	34.5
Guangxi	34.6
Fujian	11.6
Hainan	8.8
Shanxi	4.9
Yunnan	5.6

*Sales of cement contributed 69.5% of total revenue of the Group in 1HFY12

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(11.3)	(15.9)
3-mth	(24.2)	(27.5)
6-mth	(37.7)	(35.2)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Chinares Cement (1313 HK) – Unrated Construction Materials Industry

Expand market share under distressed environment

Chinares Cement's 1HFY12 results were disappointing. 1HFY12 net income dropped 68.9% YoY. The drop in profit was mainly because of the diminishing GPM. The sector is suffering, while the Group seize on the weak market environment to strengthen its market position. With the recovery of infrastructure project, we expect the sales of the Group will regain in 4QFY12. Moreover, sharp decline of coal prices in 3Q12 will ease energy cost of the Group in 2H12.

GPM was squeezing. Although the top line increased by 9.8% YoY to HK\$1,034mn in 1HFY12, gross profit margin (“GPM”) shrunk from 33.1% in 1HFY11 (29.5% in 2HFY11) to 20.2% in 1HFY12. The decline of GPM was mainly due to: increase in energy cost (coal price) and the decline in ASP of cement. The average coal cost increased from HK\$810/ton in 1HFY11 to HK\$868/ton in 1HFY12. Coal cost represented 45.4% of the cost of production of cement in 1HFY12. The decrease in ASP of cement was due to keen market competition and over-supply of cement.

Market share expanded during weak environment. The total cement sales volume of the Group was 22.97mn tons during 1HFY12, up 18.7% YoY, while the market production volume in the corresponding provinces was 188.67mn tons, up 6.8% YoY. We estimate its market share increased from 11.0% in 1HFY11 (11.3% in 2HFY11) to 12.2% in 1HFY12. We believe the gain in market share mainly due to the market consolidation induced by the elimination of obsolete cement production lines.

Earnings are to recovering in 4QFY12. The market expects that the net income of the Group was HK\$3,443mn, down 17.6% YoY in FY12. The counter is trading at 7.5x FY12E PE. We believe the sales of the Group will improve in 4QFY12 following the recovery of infrastructure construction projects, as well as the affordable housing. Moreover, 4Q is peak season of construction industry each year.

Risk factors: Currency and financial risks; Construction cycle risk; Sustainability of recovery of downstream demand

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09E	FY10A	FY11A
Revenue (HK\$ mn)	3,743	5,781	6,907	14,142	23,240
<i>Chg (%YoY)</i>	77.3	54.4	19.5	104.7	64.3
Net Income (HK\$ mn)	360	761	1,010	2,041	4,179
<i>Chg (%YoY)</i>	339.6	111.2	32.8	102.0	104.8
EPS (HK\$)	0.461	0.973	0.400	0.313	0.641
<i>Chg (%YoY)</i>	215.8	111.1	(58.9)	(21.8)	104.8
PE (x)	--	--	--	--	6.2
PB (x)	--	--	--	--	1.3
Yield (%)	--	--	--	--	2.8
ROAA (%)	5.3	8.3	5.8	6.9	9.7
ROAE (%)	15.0	21.5	12.2	15.1	24.5
Net debt/total equity (%)	118.0	93.9	28.9	59.9	88.8

Source: Company, Bloomberg, ABCI Securities estimates



Cement sales volume of the Group

	1HFY11	2HFY11	1HFY12	1HFY12 vs. 1HFY11 Chg (% YoY)	1HFY12 vs. 2HFY11 Chg (% HoH)
	(mn tons)	(mn tons)	(mn tons)		
Guangdong	8.30	9.43	7.39	(10.97)	(21.58)
Guangxi	7.66	10.07	8.71	13.71	(13.50)
Fujian	1.17	2.43	2.60	122.73	7.05
Hainan	1.63	1.79	1.79	9.79	0.45
Shanxi	0.59	1.13	1.29	118.58	14.61
Yunnan	-	-	1.18	N/A	N/A
Total	19.35	24.84	22.97	18.68	(7.52)

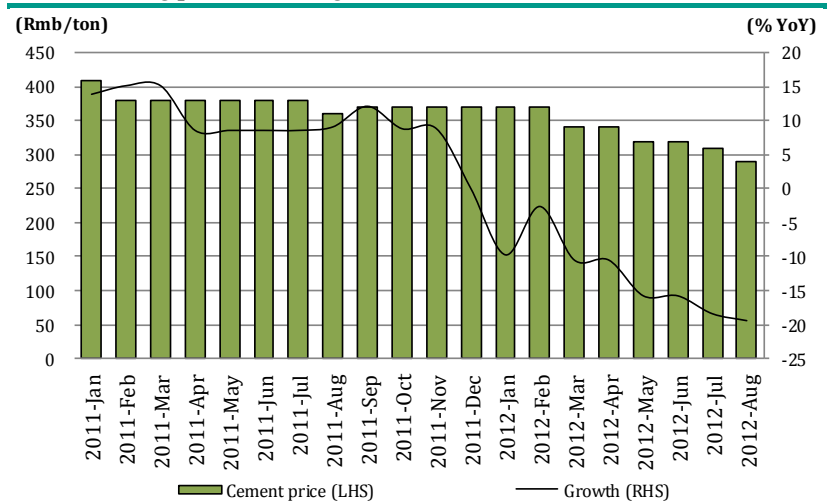
Source: Company

Market production volume of cement

	1H11	2H11	1H12	1H12 vs. 1H11 Chg (% YoY)	1H12 vs. 2H11 Chg (% HoH)
	(mn tons)	(mn tons)	(mn tons)		
Guangdong	53.99	71.60	49.71	(7.93)	(30.57)
Guangxi	38.13	47.71	40.47	6.14	(15.17)
Fujian	30.25	35.71	36.27	19.90	1.58
Hainan	7.13	7.94	7.03	(1.40)	(11.51)
Shanxi	16.47	22.90	19.24	16.82	(15.98)
Yunnan	30.65	33.45	35.95	N/A	N/A
Total	176.62	219.30	188.67	6.82	(13.97)

Source: Wind

Cement selling price in Guangzhou



Source: Wind



Disclosures

Analyst Certification

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