



Key Data

| | |
|------------------------|------------|
| H-Share price (HK\$) | 3.34 |
| 52Wk H/L(HK\$) | 3.58 /1.43 |
| Issued shares (mn) | 21,300 |
| H-shares | 4,207 |
| A-shares | 17,093 |
| Market cap | |
| H-shares (HK\$m) | 14,053 |
| A-shares (Rmbmn) | 41,535 |
| 30-day avg vol (HK\$m) | 79.2 |
| Major shareholder (%): | |
| CRECG | 56.1 |

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

| | |
|---|------|
| Infrastructure construction | 81.6 |
| Survey, design and consultancy services | 2.0 |
| Manufacturing operations | 2.4 |
| Property development | 2.1 |
| Others | 11.9 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 5.7 | 3.2 |
| 3-mth | 4.4 | (3.7) |
| 6-mth | 30.0 | 31.9 |

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

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**China Railway (390 HK) – Unrated
 Construction & Engineering Industry**

Brighter in near future

We anticipate the book-to-bill ratio of China Railway Group (“CRG”) to continue to edge up in 3Q and 4Q due to accelerating approvals of new railway and subway projects in 2H12. Moreover, railway FAI has to be ramped up in order to achieve the new target of Rmb496bn in 2012. Management envisaged a better 2H12 outlook.

Rising Book-to-bill ratio. We predict the book-to-bill ratio will be better in 4Q12. We find CRG’s outlook has been improving since 4Q10. As shown in the graph, the ratio increased from 0.97 in 4Q10 to 1.66 in 2Q12. We expect more new orders in 4Q12 as Rmb28,091mn new orders announced on Sep 13, which was 3.1 times more than new orders of Rmb6,844mn announced on Jun 29.

Monthly Rail FAI growth of 21.5% MoM until the end of 2012. We expect CRG would benefit from ramping up of railway spending aggressively from September to the end of 2012. The cumulative railway spending for 8M12 was Rmb227.8bn only, implying a monthly growth of 21.5% MoM until the end of 2012 to achieve the new target of Rmb496bn in 2012.

Improving cash flow from operation. We anticipate its cash flow from operation would improve as the MoR accelerated its bond issuance. 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.

Better 2H12 results. Management expected a better 2H12 result than the 1H12. It implies that the better than peers’ net profit growth can roll to the second half.

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

Results and Valuation

| FY ended Dec 31 | FY07A | FY08A | FY09A | FY10A | FY11A |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (Rmb mn) | 178,697 | 227,246 | 334,045 | 456,162 | 442,216 |
| Chg (% YoY) | 15.5 | 27.2 | 47.0 | 36.6 | (3.1) |
| Gross Profit (Rmb mn) | 12,984 | 17,059 | 20,442 | 27,143 | 32,253 |
| Chg (% YoY) | 7.0 | 31.4 | 19.8 | 32.8 | 18.8 |
| Net Income (Rmb mn) | 3,228 | 1,115 | 6,875 | 7,398 | 6,690 |
| Chg (% YoY) | 96.1 | (65.5) | 516.5 | 7.6 | (9.6) |
| EPS (Rmb) | 0.24 | 0.05 | 0.323 | 0.347 | 0.314 |
| Chg (% YoY) | - | (79.2) | 546.0 | 7.4 | (9.5) |
| PE (x) | - | - | - | - | 8.6 |
| PB (x) | - | - | - | - | 0.8 |
| Yield (%) | - | - | 2.3 | 2.0 | 1.8 |
| ROAA (%) | 1.8 | 0.5 | 2.4 | 2.1 | 1.6 |
| ROAE (%) | 10.3 | 2.0 | 11.7 | 11.5 | 9.6 |
| Net debt/total equity (%) | Net Cash | 13.4 | 10.4 | 41.0 | 86.6 |

Source: Company, Bloomberg, ABCI Securities estimates



Book-To-Bill Ratio



Source: Company, 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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