



Key Data

H-Share price (HK\$)	7.20
52Wk H/L(HK\$)	7.70 /4.00
Issued shares (mn)	12,338
H-shares	2,076
A-shares	10,261
Market cap	
H-shares (HK\$mn)	14,949
A-shares (Rmbmn)	49,562
30-day avg vol (HK\$mn)	101
Major shareholder (%):	
CRCCG	61.3

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Construction operations	87.9
Survey, design and consultancy operations	1.5
Manufacturing operations	1.9
Others	8.7

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	4.6	1.3
3-mth	6.9	(1.6)
6-mth	17.3	15.0

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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**China Rail Cons (1186 HK) – Unrated
Construction & Engineering Industry**

Powerful to leverage up

The low leverage ratio of China Railway Construction (“CRCC”) is a major edge of the group. As we anticipate the business cycle is recovering and new orders flow will surge, the group is in better position to compete with its two major competitors which are at uncomfortable leverage levels.

CRCC has room to leverage up. With net debt/equity of 9.2%, CRCC is able to leverage up to secure more new orders in 4Q12 and 2013. The high gearing of its two major competitors China Railway Group (115.4%) and China Communication Construction (90.5%) will constrain them to compete with the group in securing new orders in foreseeable future.

Rmb600bn railway infrastructure FAI spending support CRCC. After the adjustment in 2011, we anticipate the railway infrastructure FAI will fetch to Rmb600bn in average per year from 2013 to 2015. When new orders flow surge next year, the financial strength of the group is a crucial factor to differentiate it from peers.

Project execution capability. The gross profit margins of its construction operations and survey, design & consultancy operations are higher than its two major competitors in FY11 & 1HFY12, we regard this is a proof of its execution capability from project evaluation, implementation, cost control to completion stage.

Bullish view in HK market. The H-share of CRCC is trading at a premium of 21.7% to its A-share (601186 CH). We regard this is a huge premium among stocks with dual listing in China and HK stock markets. Our analysis indicates the group will benefit from the recovery of the business cycle in coming twelve months, but weak A-share price is a dragging factor to its H-share in the short-term.

Risk factors: overseas project risks, higher raw materials costs, liquidity risk.

Results and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmb mn)	171,997	219,410	344,976	456,187	443,319
<i>Chg (% YoY)</i>	12.0	27.6	57.2	32.2	(2.8)
Gross Profit (Rmb mn)	11,399	15,262	22,548	27,540	33,992
<i>Chg (% YoY)</i>	18.8	33.9	47.7	22.1	23.4
Net Income (Rmb mn)	2,301	3,644	6,599	4,246	7,854
<i>Chg (% YoY)</i>	89.7	58.4	81.1	(35.7)	85.0
EPS (Rmb)	0.29	0.32	0.535	0.340	0.640
<i>Chg (% YoY)</i>	89.7	11.3	67.2	(36.4)	88.2
PE (x)	20.0	18.0	10.8	16.9	9.0
PB (x)	9.1	1.5	1.3	1.2	1.1
Yield (%)	-	1.7	2.8	1.7	1.7
ROAA (%)	1.6	1.9	2.6	1.3	2.0
ROAE (%)	59.8	13.8	13.1	7.7	12.9
Net debt/total equity (%)	6.9	Net Cash	Net Cash	Net Cash	30.7

Source: Company, Bloomberg, 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	$2.6 \leq 180$ 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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