農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

CMEC H-share (1829 HK) – Buy
Construction Industry
12-month target price: HK$8.21

Key data

Share price (HK$)	7.38
12-mth target price (HK$)	8.21
Upside potential	11.2%
Issued shares (mn shares):	4,125.70
Domestic shares	3,217.43
H-shares	908.27
H-share mkt cap (HK$)	6,703
% free-float of H shares	74.0%
IPO price (HK$)	5.40
Listing date	Dec 20, 2012
Share px H/L since listing (HK$)	7.61/5.40
20 days avg. shares vol (mn)	15.0
Auditors	KPMG
Shareholding (% issued shares) :	
Un-listed shares:	
SINOMACH*	77.99%
H-shares:	
NSSF**	2.34%
5 cornerstone investors	5.73%
Others	13.94%

Note: Refer to China National Machinery Industry Corp (Chinese name: 中国机械工业集团有限公司);*
*Note**:Refer to National Council for Social Security Fund*
Source: Company, HK Exchanges, Bloomberg

Business Composition

	FY11	1H12
Revenue composition (%):		
By business lines:		
Int'l engineering contracts	58.8	62.1
Power	46.6	48.5
Transportation	5.4	5.1
Telecommunications	0.01	3.3
Non-core	6.7	5.2
Trading business	37.5	34.0
Others	3.8	3.9
Total revenue	**100.0**	**100.0**
By geographic:		
China	19.5	12.2
Overseas	80.5	87.8
Total revenue	**100.0**	**100.0**
Gross profit composition (%)		
By business lines:		
Int'l engineering contracts	79.7	75.7
Power	71.2	68.2
Transportation	2.1	4.2
Telecommunications	0.01	1.5
Non-core	6.4	1.8
Trading business	11.9	14.1
Others	8.4	10.2
Total gross profit	**100.0**	**100.0**

Source: Company, ABCI Securities

Analysts

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A Leading Flagship in International EPC Industry

As a leading international player in EPC industry, the Group demonstrates its deal sourcing power, risk management and project execution capability. With strategic positioning of its EPC business in fast-growing developing countries and strong business focus on power sector, it has secured huge backlog orders and become an international flagship of Chinese enterprises to compete globally in power sector of EPC industry. Its asset-light business model and careful selection of new contracts allow the Group to manage risks effectively and post relatively fast earnings growth with high earnings quality. These financial characteristics differentiate the Group from domestic or international peers. We appraise the stock at HK$8.21 which represent 10.78x of its est. FY13 EPS or 3.09% gross yield, based on combination methods. BUY

Strong deal sourcing power. Amount of backlog of effective contracts was US$6.05bn as of 30/6/2012, representing 3.19x of total int'l engineering contracting revenue for FY11. The amount of signed contracts pending to be effective was US$12.4bn as of 3/12/2012 (or 2.05x of backlog). These contracts will further enlarge the size of backlog in the future. We estimate its book-to-bill ratio of int'l engineering contracts at 2.22x in 1HFY12 that will enhance the visibility of future earnings.

Good earnings quality. We consider earnings quality as important as quantity when we evaluate int'l contractors. The Group posted solid earnings growth with strong positive net cash flow from operation. Its earnings quality ratio (net operating cash flow/net profit) fetched to 191.7% for FY11 and we estimate it will be 254.0% for FY12. These were the results of proper business and market positioning, competitive edges of the Group in the int'l markets, and efforts of competent management team.

Proven project execution capability. We see competent management team is one of most important intangible assets to the Group. From collection of market intelligent, project evaluation, risk management and project execution, the capability of the management to complete the strategically important projects in foreign countries is to differentiate the Group from its comparable peers.

Financial Summary

FY ended Dec 31	2009A	2010A	2011A	2012E	2013E	2014E
Revenue (Rmb mn)	19,288	19,077	20,518	22,813	27,072	33,928
Chg (%YoY)	-	*(1.1)*	*7.6*	*11.2*	*18.7*	*25.3*
Net profit (Rmb mn)	614	1,136	1,475	2,007	2,523	3,226
Chg (%YoY)	-	*85.2*	*29.8*	*36.1*	*25.7*	*27.9*
Pro-forma FD EPS (Rmb)	0.186	0.344	0.447	0.486	0.611	0.782
Pro-forma FD PER (x)	-	-	-	12.19	9.69	7.58
Post-listing NBV (Rmb)	-	-	-	2.420	2.995	3.593
P/B (x)	-	-	-	2.45	1.98	1.65
Post-listing DPS (Rmb)	-	-	-	0.146	0.183	0.235
Yield (%)	-	-	-	2.47	3.09	3.97
ROAA (%)	-	5.0	5.7	6.6	7.2	8.5
ROAE (%)	-	32.6	31.7	26.2	22.6	23.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

FD EPS in FY09-11 based on 3,300mn shares, FD EPS in FY12-14 based on 4,125.7mn shares @HK$1.245/Rmb;
Source: Company, ABCI Securities estimates

Contents

Financial and Business Matrix

CMEC - Good business quality at attractive valuation

- ✓ Good assets quality in terms of ROAA
- ✓ High return rate (ROAE) to enhance shareholders value
- ✓ Good earnings quality in terms of net operating cash flow to net profit
- ✓ Strong new orders flow
- ✓ Est. FY13 PEG at 0.38 vs. sector average of 0.63

Financial and Business Performance

		Assets quality		Return to shareholders		Earnings quality		Business flow	
		FY2011 ROAA (%)	1HFY12 ROAA# (%)	FY11 ROAE (%)	1HFY12 ROAE# (%)	FY11 OCF^ / net profit (x)	1HFY12 OCF^ / net profit (x)	FY11 Book-to -bill ratio (x)	1HFY12 Book-to -bill ratio (x)
1829 HK	**CMEC**	**5.7**	**3.4**	**31.7**	**17.4**	**1.9**	**6.1**	**1.22**	**2.22**
3311 HK	China State Cons	6.7	3.1	21.4	9.0	-0.7	-1.0	1.63	3.07
1800 HK	China Comm Cons	3.6	1.3	17.7	6.8	0.2	-1.0	1.56	1.89
1186 HK	China Rail Cons	2.0	1.5	12.9	9.4	-1.6	-1.0	1.49	1.52
390 HK	China Railway	1.7	0.5	9.6	3.3	-2.0	-2.1	1.29	1.52

Note#: Half-year ratio; Note^: OCF = Net cash flow from operating activities during the period
Book-to-bill ratio = New orders value/revenue booked during the same period
Source: Companies, ABCI Securities estimates

Composition of Orders Book in International Engineering Contract Business

	31/12/2011 Backlog in order book	Newly effective contracts in 1HFY12	Orders delivered in 1HFY12	**30/6/2012 Backlog in order book**	Signed contracts pending to be effective	Backlog + pending to effective contracts
Amount (US$mn)	5,285	2,159	1,392	**6,051**	12,404	18,456
Composition						
Power	78.7%	99.1%	83.1%	**85.0%**	42.4%	56.3%
Transportation	8.9%	0.1%	5.9%	**6.4%**	20.8%	16.1%
Telecom	4.0%	0.5%	4.0%	**2.7%**	1.1%	1.6%
Others	8.4%	0.3%	7.0%	**5.8%**	35.8%	26.0%

Source: the company

Market valuation of comparable stocks

Code	**Stocks**	**Share price**	**Report Curncy**	**FY12E EPS**	**FY13E EPS**	**FY13 EPS Chg**	**FY13 NBV /share**	**FY12E PER (x)**	**FY13E PER (x)**	**FY13E PEG (x)**	**FY13E P/B (x)**	**EV / EBITDA (x)**
	Listing in HK	(HK$)										
1829 HK	**CMEC**	7.38	**Rmb**	**0.486**	**0.611**	**25.70%**	**3.01**	**12.19**	**9.69**	**0.38**	**2.45**	**13.34**
3311 HK	China State Cons	10.18	HK$	0.562	0.706	25.60%	3.78	18.11	14.42	0.56	2.69	19.74
1800 HK	China Comm Cons	7.87	Rmb	0.72	0.801	11.30%	5.86	8.76	7.98	0.71	1.08	7.71
1186 HK	China Rail Cons	8.38	Rmb	0.657	0.73	11.10%	6.48	10.23	9.23	0.83	1.04	3.68
390 HK	China Railway	4.42	Rmb	0.328	0.374	14.00%	4.04	10.80	9.50	0.68	0.88	8.45
	Average							**12.02**	**10.16**	**0.63**	**1.63**	**10.58**
	High							18.11	14.42	0.83	2.69	19.74
	Low							8.76	7.98	0.38	0.88	3.68
	Peers in A-share mkts	(Rmb)										
601669 CH	Sinohydro	3.81	Rmb	0.442	0.526	19.00%	3.73	8.62	7.24	0.38	1.02	6.1
601668 CH	China State Cons Eng	3.65	Rmb	0.52	0.61	17.30%	3.94	7.02	5.98	0.35	0.93	5.37
601800 CH	China Comm Cons	5.29	Rmb	0.7	0.783	11.90%	5.81	7.56	6.76	0.57	0.91	7.37
600068 CH	China Gezhouba	5.81	Rmb	0.472	0.544	15.30%	3.50	12.31	10.68	0.70	1.66	11.06
601186 CH	China Rail Cons	5.83	Rmb	0.662	0.735	11.00%	6.26	8.81	7.93	0.72	0.93	3.08
601390 CH	China Railway	3.18	Rmb	0.328	0.366	11.60%	3.96	9.70	8.69	0.75	0.80	8.45
	Average							**9.00**	**7.88**	**0.58**	**1.04**	**6.91**
	High							12.31	10.68	0.75	1.66	11.06
	Low							7.02	5.98	0.35	0.80	3.08
	Overseas peers	(local)										
DG FP	Vinci SA	37.89	EUR	3.445	3.501	1.60%	25.76	11.00	10.82	6.76	1.47	6.56
EN FP	Bouygues SA	21.32	EUR	2.119	2.486	17.30%	27.74	10.06	8.58	0.50	0.77	4.05
WOR AU	Worleyparsons	25.23	AUD	1.425	1.584	11.20%	9.25	17.71	15.93	1.42	2.73	11.11
000720 KS	Hyundai Eng	68,600	KRW	4,519	5,052	11.80%	53,068	15.18	13.58	1.15	1.29	15.35
JEC US	Jacobs Eng	48.04	USD	2.94	3.317	12.80%	36.71	16.34	14.48	1.13	1.31	6.82
	Average							**14.06**	**12.68**	**2.19**	**1.51**	**8.78**
	High							17.71	15.93	6.76	2.73	15.35
	Low							10.06	8.58	0.50	0.77	4.05

Share prices based on Feb 1, 2012; Forex: Rmb0.8017/HK$
Source: Bloomberg, ABCI Securities estimates

Investment Themes

A leading international EPC player with focus on power sector

China Machinery Engineering Corp ("the Group") is a leading international EPC ("engineering, procurement and construction" or "turnkey") contractor with business specialty in power industry. It ranked sixth among 225 top international contractors in terms of total revenue generated from international contracting work in the power sector performed in 2011, based on the financial data derived from Engineering News-Record Magazine ("ENR"). We believe the Group has become an international flagship of Chinese main contractors in the global EPC industry and its success is the demonstration of integrated business strengths of China's engineering and contracting industries from engineering design capability, scope of equipment supply and sourcing, civil work capability, aggregate price competitiveness to project management knowhow.

Its international engineering contracting business contributed 58.8% and 62.1% of total revenue for FY11 and 1HFY12 respectively. The power segment of its international engineering contracting business contributed 71.2% and 68.2% of total Group's gross profit for FY11 and 1HFY12 respectively.

Backlog orders to jump, backed by IPO proceeds

The amount of backlog and the change in backlog is a good indication to show the growth momentum of the Group's international engineering contracting business. Its backlog has increased from US$5.28bn at 31/12/2011 to US$6.05bn at 30/6/2012. We estimate its backlog will increase to US$6.3-6.5bn at 31/12/2012. The backlog may fetch to US$10.5-11.8bn at the end 2013.

The Group reported total backlog orders of US$6,051.4mn in its international engineering contracting business at 30/6/2012. The Group had added newly effective contract value in amount of US$2,158.6mn into backlog orders in 1HFY12. Since the end of 1HFY12 to Dec 3, 2012, the Group added additional US$1,578.5mn newly effective contracts to backlog orders. By the end of 2012, we estimate its backlog orders would increase to US$6.3-6.5bn. Its backlog orders will further increase after it succeeded in raising funds in late 2012 to kick-start new projects in 2013.

The Group raised net proceeds of HK$4,259mn (or approx. US$549.5mn @HK$7.75/US$) from issuing of 825.7mn new H-shares at @HK$5.4 in late Dec 2012 and earlier Jan 2013. The Group plans to apply 90% of the net proceeds to financing 4 on-going projects and 7 other pending to be effective contracts. The net proceeds are used for providing working capital to ongoing or to kick-start new projects. The net proceeds will be spent in areas such as payment to subcontractors and suppliers for payments of subcontracting services and equipment and machinery. We estimate total contract amount of these seven pending to be effective contracts at US$7.0-8.1bn. Hence, these seven pending to be effective contracts will be included into the backlog orders in FY13 if they become effective contracts this year. The backlog orders book will increase sharply if these seven contracts have become effective and included into the backlog orders book.

IPO proceeds to kick-start new projects

Use of net proceeds in	Estimated amount (US$mn)	Proportion	No. of projects involved	Location of Projects	Contract amount (US$mn)
Power	285.7	52%	4 ongoing*; 5 new#	Asia (1), Africa (2), S America (2), Europe (4)	5,574
Transportation	131.9	24%	1 new#	S America	2,500
Non-core sectors	76.9	14%	1 new#	Asia	1,450
Sub-total	**494.5**	**90%**	**4 ongoing*; 7 new #**	**Asia (2) Africa (2), S America (3), Europe (4)**	**9,524**
Working capital	55.0	10%			
Total net proceeds	549.5	100%			

Note: Est. backlog of US$808.7mn at 30/6/2012*
Note#: New projects pending to be effective
Source: the Company

Backlog orders book of international engineering contracting

	No. of ongoing projects	30/6/2012 Backlog orders (US$mn)	Proportion	Signed contracts pending to be effective# (US$mn)	Proportion
Power	28	5,144.3	85.0%	5,254.4	42.4%
Transportation	8	388.5	6.4%	2,575.4	20.8%
Telecom	2	165.6	2.7%	133.0	1.1%
Subtotal	38	5648.4	94.2%	7,962.8	64.2%
Non-core	12	353.0	5.8%	4,441.4	35.8%
Total	50	6,051.4	100.0%	12,404.2	100.0%

Note#: as of Dec 3, 2012; Source: the Company

Proven track record to compete internationally, differentiating from domestic peers

Unlike HK-listed China's EPC contractors such as China Communications Construction Company Limited ("CCCC" 1800 HK), China Railway Construction Corporation Limited ("CRCC" 1186 HK), China Railway Group Limited ("CRG" 390 HK) and China State Construction International Holdings Limited ("China State Con Int'l" 3311 HK) revenues of which generated from overseas accounted for less than 11% of their total revenues for FY11, the Group has engaged its international engineering contracting business since 1980. Its revenue generated from overseas accounted for 80.5% of total revenue for FY11.

Delivered strong earnings growth when global economies are volatile, backed by its competitive strengths

Although the global economies were volatile from 2009 to 2012, the Group managed to post CAGR of 55.0% of its net profit from FY2009 to FY2011 and 54.1% YoY growth of net profit for 1HFY2012. The strong earnings growth is a result of the combined factors, including strong business focus, market positioning, brand reputation, services quality and scope, execution power, etc. We see the Group has the following competitive edges.

1. Able to maintain leading position in power sector in the international EPC industry among int'l engineering contractors;

2. Position its international engineering contracting business strategically in developing countries where demand for power is keen and provide business opportunities in fast-growing markets;

3. Establish long proven track record to project owners in order to allow the Group to differentiate itself from its domestic or international competitors;

4. Able to offer one-stop customized and integrated engineering contracting solution and services;

5. Focus on providing high quality project management services and effective financing options for project with light assets in operations;

6. Establish extensive worldwide business networks and professional business team with a deep industry knowledge; and

7. Own competent management team and strong technical team of professional experts.

Rewarded by careful selection on new projects, ranked profit quality more important than market share

We see the above-mentioned business strengths enable the Group to have better control in new project evaluation such as analysis of risks, costs, returns and cash flow. Hence, the Group is able to be more selective in evaluating and bidding new projects. This project evaluation knowhow is crucial for an international engineering contractor such as the Group to avoid un-expected risks (such as local labor or government resistances, cost overrun, technical resistances and payment defaults) and enhance returns (such as profit margins, return on assets, earnings quality).

The positive effects of careful selection of projects have factored into the Group's results. Its revenue generated from international contracting engineering contracting business declined by CAGR of 6.0% from FY09 to FY11 but up 16.7% YoY for 1HFY12. Its gross profit generated from international contracting engineering business grew by CAGR of 60.8% from FY09 to FY11 and surged by 34.7% YoY for 1HFY12. Gross profit margins of international engineering contracting business improved from 8.3% in FY09 to 24.2% in FY11 and 22.4% in 1HFY12.

The Group generated positive net cash flow from operating activities during FY09-11 and 1HFY12. Its net operating activities cash flow to net profit ratio (we consider this ratio is an indication of earnings quality when external economies were volatile during the period) was 1.9x for FY11 and 6.1x for 1HFY12. The financial performance of its international engineering contracting business for FY09-FY11 and 1HFY12 indicated the Group put more efforts on selecting projects with higher profit margins and earnings quality.

Strong orders flow improving future earnings visibility and gathering growth momentum

The Group has secured newly effective contracts (i.e. new contracts that became effective during a specified period) in an amount of US$2,226.8mn and US$2,158.6mn for FY2011 and 1HFY2012, of which we estimate that it represented 1.22x and 2.22x of total revenue from international engineering contracting business for FY2011 and 1HFY2012 respectively. The signed and effective new contracts are boosting up the order book of the Group. The amount of backlog (excluding signed contracts pending to be effective) in the order book as of 30/6/2012 was US$6,051.4mn (or approx. Rmb38,451mn at Rmb6.354/US$ at 29/6/2012 quoted from Bloomberg), of which 85.0%, 6.4% and 2.7% is from power, transportation and telecommunications projects respectively. The amount of backlog represented 319% of total revenue of international engineering contracting business for FY11 or 187% of total revenue of the group for FY11. We expect that the amount of backlog as of 30/6/2012 will be mainly factored into the income statements in 2HFY12 and FY13-FY14.

Besides the backlog of orders (excluding signed contracts pending to be effective), the Group has entered contracts but pending to be effective in amount of US$12,404.2mn as of 3/12/2012 (or approx. Rmb77,262mn at Rmb6.2287/US$ at 3/12/2012 quoted from Bloomberg), of which 44.5% and 20.0% is from power and transportation respectively. We expect that the amount of signed contracts pending to be effective is a reserve of new orders to be added into the backlog in the future.

We use book-to-bill ratio analysis to measure the potential growth momentum of major business segments in international engineering contracting business. If book-to-bill (newly effective contract amount of a business segment during the period divided by revenue recognized of the same segment during the same period) is higher than one, it indicates inflow of newly effective contracts is larger than revenue recognized. In such a case, this business segment has higher chance to recognize higher revenue in the following periods. If book-to-bill ratio is below one, the business segment will have higher chance to recognize lower revenue in the following periods.

The book-to-bill ratio of the international engineering contracting was 1.71x in FY10 and dropped to 1.22x in FY11 but climbed up to 2.22x in 1HFY12. Although the ratio was volatile, it stayed above 1.0x. We expect that the growth of its international engineering contracting business is sustainable.

The book-to-bill ratio of the Group's power business segment in international engineering contracting was 1.84x in FY10 and dropped to 1.10x in FY11 but climbed up to 2.81x in 1HFY12. The surge of book-to-bill ratio in 1HFY12 and the ratio maintained at above 1.0 during FY11 and 1HFY12 suggests the group will recognize higher revenue from power segment in foreseeable future.

Gathering global market intelligent from the trading business

The Group's trading business plays an important role to track international or domestic supply of and demand for various types of machinery and parts and their prices. We agree its trading business division posted relatively thin gross profit margin compared to its international engineering contracting business. However, the trading business helps the Group to penetrate into foreign markets efficiently and to understand the various business conditions of foreign markets effectively. We believe its trading business is able to provide useful information pool to the group to develop its international engineering contracting business in later stages. To have a better understanding of the foreign markets is one of important elements to evaluate and contain business risks there.

The trading business division contributed 37.5% and 34.0% of total revenue for FY11 and 1HFY12 respectively. The trading business division contributed 11.9% and 14.1% of total gross profit for FY11 and 1HFY12 respectively. Gross profit margin of this division declined from 7.4% in FY10 to 5.7% in FY11, and edged up to 7.6% in 1HFY12 respectively. The Group conducts the trading business through its trading network which covers over 150 countries and regions. Such network spans primarily in Asia, Europe and Africa and to a smaller extent in North America, South America and Oceania.

Asset-light business model with short cash-conversion cycle

The beauty of the Group's business model is its asset-light model in the EPC industry. Unlike the HK-listed power equipment suppliers, such as Shanghai Electric (2727 HK), Harbin Power (1133 HK) and Dongfang Electric (1072 HK), and HK-listed railway contractors, such as CRCC (1186 HK), CRG (390 HK) and CCCC (1800 HK), which have large amount of fixed assets in manufacturing business, the Group employs asset-light business model in the EPC industry. The Group plays a role of main contractor in the EPC industry and sub-contracts various parts of the main contract to other parties such as equipment suppliers and civil work contractors, etc. The Group is able to share the business risk of a project with the sub-contractors. Hence, the group does not need to keep huge production factories and a large workforce to conduct civil works.

Based on our calculation, its sales/average assets ratio of its construction contracts segment was 1.08x (i.e. reported segment revenue/average reported segment assets) for FY11. Its assets turnover ratio is higher than its peers. With light-assets business model and high assets turnover, the Group has short cash-conversion cycle. From FY09 to FY11 and 1HFY12, total amount of trade and bills payables were larger than the aggregate amounts of trade and bills receivables and inventories. The Group is utilizing the suppliers' credits to finance its business operation. We believe the long credit period offered by suppliers is the demonstration of the Group's bargaining power in picking suppliers or subcontractors to take part into the EPC projects. Subsequently, the Group posted high cash profit ratio (i.e. net cash flow from operating activities/net profit to the group) that we mentioned in earlier section.

The asset-light business model also helps the Group to differentiate from its peers in terms of ROAA. Its ROAA was 5.7% in FY11, against CRCC (2.0%), CRG (1.7%) and CCCC (3.6%) during the same period.

Leveraged up by suppliers' credit to enhance ROAE, with low reliance on bank loans

The Group recorded net cash (i.e. total cash minus total short-term and long-term loans) of Rmb9,130mn and Rmb14,783mn as of 31/12/2011 and 30/6/2012 respectively. However, total liabilities/equity ratio increased from 395% as of 31/12/2011 to 416% as of 30/6/2012. The Group is leveraged up by suppliers' credit to finance its business operations. Although its ROAA was 5.7% for FY11 and with net cash in the balance sheet as of 31/12/2011, its ROAE was 31.7% high for FY11, against its peers CRCC (12.9%), CRG (9.6%) and CCCC (17.7%) during the same period.

Earnings boosted by recognition of high margin contracts

Based on the backlog of orders and the continuity of profitability ratios of ongoing projects, we predict its total revenue to grow by 11.2% YoY in FY12. As the amount of effective new contracts surged in 1HFY12, we expect these new contracts to be factored into the income statements in FY13 and FY14. We predict total revenue to grow by 18.7% YoY and 25.3% YoY for FY13 and FY14 respectively. High margin contracts which entered last several years will continue to recognize in foreseeable future and will accelerate the net profit growth subsequently. We predict net profit to grow by 36.1% YoY to Rmb2,007mn for FY12. Net profit will advance 25.4% YoY and 31.0% YoY to Rmb2,517mn and Rmb3,297mn for FY13 and FY14 respectively.

Rewarding shareholders with clear dividend policy

With strong operating cash inflow and low reliance on bank loans, we expect the Group to have a dividend payout ratio of 30% for FY12 and FY13 respectively. The Group is going to reward its shareholders with clear dividend policy.

Valuation justified at premium to peers

We apply PER rating method, P/B rating method and DCF method to appraise the counter. The valuation is in range of Rmb4.433-8.776/share with mid-point at Rmb6.588/share (or HK$8.21/share). Details of the valuation method can be found at "Valuation" section.

Valuation summary

Method	Valuation (Rmb/share)	Remark
PER rating	6.556	10.73x of FY13 PER
P/B rating	4.433	1.48x of FY13 P/B
DCF method	8.776	Cost of equity:18.9%; cost of debt (After tax):3.8%; Debt/total cap:3%

Source: ABCI Securities estimates

Latest Development of China's Contractors Overseas

The China's "Going out" policy encourages domestic enterprises such as the Group to seek business or investment opportunities overseas. In 2010, the Ministry of Commerce had established a reporting system to monitor the Chinese enterprises to obtain the contracts overseas. For 2012, the revenue of contracted projects overseas increased by 12.7%yoy to US$116.6bn, according to the Ministry of Commerce ("MOC"); whereas the value of new orders grew by 10.0%yoy to US$156.53bn. The book-to-bill ratio (i.e. new orders value/revenue recognized ratio) was 1.34x in 2012.

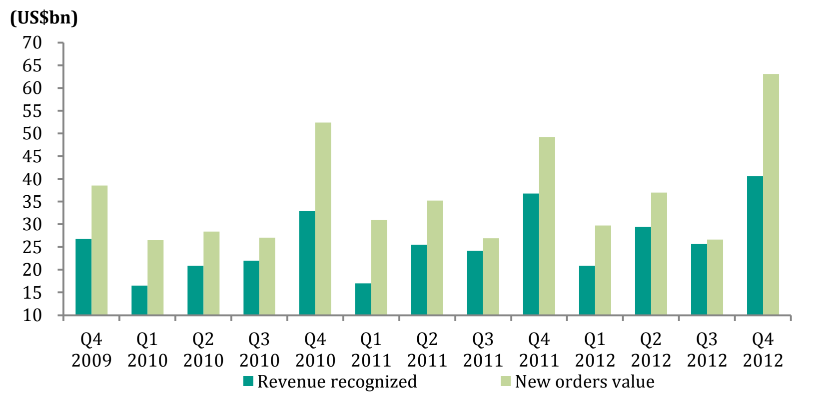
We estimate the revenue of contracted projects overseas grew by CAGR of 14.5% from 2009 to 2012. Meanwhile, value of new orders grew by CAGR of 7.4% from 2009 to 2012.

Revenue and new orders of contracted projects overseas

Year	Turnover of contracted projects overseas (US$bn)	Chg (YoY)	New orders (US$bn)	Chg (YoY)	Book-to-bill ratio (x)
2009	77.7	37.3%	126.2	20.7%	1.62
2010	92.2	18.7%	134.4	6.5%	1.46
2011	103.4	12.2%	142.3	5.9%	1.38
2012	116.6	12.7%	156.5	10.0%	1.34
CAGR	**14.5%**		**7.4%**		

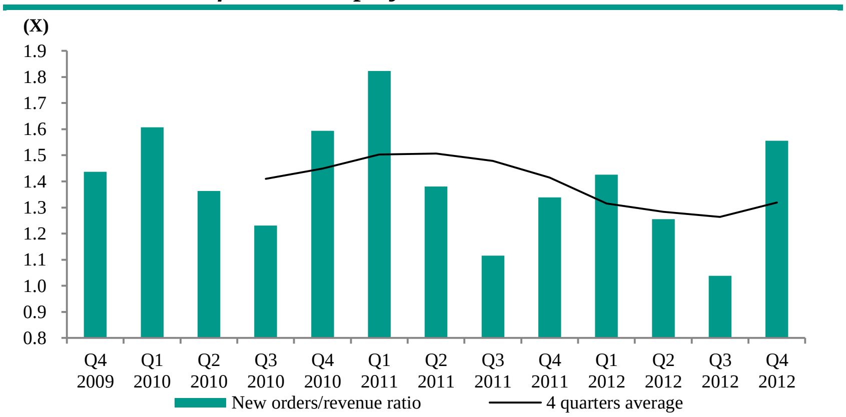
Source: Ministry of Commerce, ABCI Securities estimates

Revenue recognized and new orders of contracts overseas



Source: Ministry of Commerce

Book-to-bill ratio of contracted projects overseas



Source: Ministry of Commerce

Revenue recognized, new orders, book-to-bill ratio of contracted projects overseas

	Turnover of contracted projects overseas (US$bn)	Chg (QoQ)	Chg (YoY)	New orders (US$bn)	Chg (QoQ)	Chg (YoY)	Book-to-bill ratio (x)
Q4 2009	26.81	-	-	38.53	-	-	1.44
Q1 2010	16.50	-38.5%	-	26.52	-31.2%	-	1.61
Q2 2010	20.84	26.3%	-	28.42	7.2%	-	1.36
Q3 2010	21.98	5.5%	-	27.04	-4.9%	-	1.23
Q4 2010	32.88	49.6%	22.6%	52.42	93.9%	36.0%	1.59
Q1 2011	16.98	-48.4%	2.9%	30.95	-41.0%	16.7%	1.82
Q2 2011	25.53	50.4%	22.5%	35.24	13.9%	24.0%	1.38
Q3 2011	24.15	-5.4%	9.9%	26.93	-23.6%	-0.4%	1.12
Q4 2011	36.76	52.2%	11.8%	49.21	82.7%	-6.1%	1.34
Q1 2012	20.88	-43.2%	23.0%	29.76	-39.5%	-3.8%	1.43
Q2 2012	29.47	41.1%	15.4%	37.00	24.3%	5.0%	1.26
Q3 2012	25.67	-12.9%	6.3%	26.65	-28.0%	-1.0%	1.04
Q4 2012	40.58	58.1%	10.4%	63.12	136.8%	28.3%	1.56

Source: Ministry of Commerce, ABCI Securities estimates

The book-to-bill ratio is a key quantitative barometer to indicate the sustainability of turnover growth in the future. The book-to-bill ratio was declining from 1.62x in 2009 to 1.38x in 2011 and 1.34x in 2012. In 2012, the ratio fell to 1.04x in the Q3 2012, the lowest since Q4 2009. The new orders rebounded sharply in Q4 2012, boosting the ratio to 1.56x in this quarter. Although the ratio maintained at above one last four years, the decline of ratio indicates the turnover growth momentum is weakening as new orders flow is slowing.

The Group is one of leading EPC players in the global infrastructure projects with strong business focus on the markets outside China. Hence, the monthly survey conducted by the Ministry of Commerce in respect of China's contracted projects overseas will give us yardstick to monitor the business trend of Chinese's EPC players in overseas. In fact, the Group is one of respondents in the survey.

According to the surveys conducted in previous years, the Group is ranked in leading positions among top 50 domestic contractors engaged in contracted projects overseas.

Ranking of the Group in Top 50 Chinese Contractors
(in terms of turnover of contracted projects overseas)

Year	2012	2011	2010	2009
Rank	7	8	11	7

Source: Ministry of Commerce

Ranking of the Group in Top 50 Chinese Contractors
(in terms of value of newly-signed overseas contracts)

Year	2012	2011	2010	2009
Rank	9	13	13	16

Source: Ministry of Commerce

According to the Ministry of Commerce, the Group was ranked seventh in terms total turnover of contracted projects overseas in 2012 and ninth in terms of total value of newly-signed contracts in 2012.

Top 10 Chinese Enterprises in Contracted Projects Overseas in 2012

Rank	Total turnover of contracted projects overseas	Total value of newly-signed contracts
1	华为技术有限公司 *Huawei Technologies Co., Ltd.*	华为技术有限公司 *Huawei Technologies Co., Ltd.*
2	中国水利水电建设股份有限公司 *Sinohydro Group Ltd (601669 CH)*	中国水利水电建设股份有限公司 *Sinohydro Group Ltd (601669 CH)*
3	中国建筑工程总公司 *China State Construction Engineering Corporation (Note 1)*	中国建筑工程总公司 *China State Construction Engineering Corporation (Note 1)*
4	中兴通讯股份有限公司 *ZTE Corporation (763 HK)*	中信建设有限责任公司 *CITIC Construction Co., Ltd.*
5	中国港湾工程有限责任公司 *China Harbour Engineering Co., Ltd. (Note 2)*	中国葛洲坝集团股份有限公司 *China Gezhouba Group Co., Ltd. (600068 CH)*
6	中信建设有限责任公司 *CITIC Construction Co., Ltd.*	中国港湾工程有限责任公司 *China Harbour Engineering Co., Ltd. (Note 2)*
7	**中国机械设备工程股份有限公司** ***The Group***	中兴通讯股份有限公司 *ZTE Corporation (763 HK)*
8	山东电力基本建设总公司 *Shandong Electric Power Construction Corporation*	中国土木工程集团有限公司 *China Civil Engineering Construction Corporation (Note 3)*
9	中国葛洲坝集团股份有限公司 *China Gezhouba Group Co., Ltd. (600068 CH)*	**中国机械设备工程股份有限公司** ***The Group***
10	中国路桥工程有限责任公司 *China Road and Bridge Corporation (Note 2)*	中铁国际经济合作有限公司 *China Railway Int'l Economic Cooperation Co., Ltd. (Note 4)*

Note 1: Parent group of China State Construction Engineering Corp Ltd (601668 CH) and China State Construction International Holdings Ltd (3311 HK);
Note 2: Subsidiaries of China Communications Construction Co Ltd (1800 HK; 601800 CH)
Note 3: A subsidiary of China Railway Construction Corp Ltd (1186 HK; 601186 CH)
Note 4: A subsidiary of China Railway Group Ltd (390 HK; 601390 CH)
Source: Ministry of Commerce, ABCI Securities

Except Huawei Technologies and ZTE Corp which their business focuses are in telecom industry, the other eight enterprises in the top 10 domestic contractors are engaged in infrastructure projects in various sectors such as power, roadways, railways, ports, etc. They are potential competitors of the Group in various types of infrastructure projects outside China. Besides the top ten enterprises in above table, there are many domestic contractors which their business scale may be smaller than the Group will also compete with the Group.

Among the stocks listed in the A-share markets and the HK stock market, we identify the following stocks are major comparable stocks to the Group.

Major comparable stock to the Group

Code	Stock
1829 HK	**CMEC (i.e. the Group)**
601669 CH	Sinohydro
601668 CH	China State Construction Engin
3311 HK	China State Con
1800 HK, 601800 CH	China Comm Cons
600068 CH	China Gezhouba
1186 HK, 601186 CH	China Rail Cons
390 HK, 601390 CH	China Railway

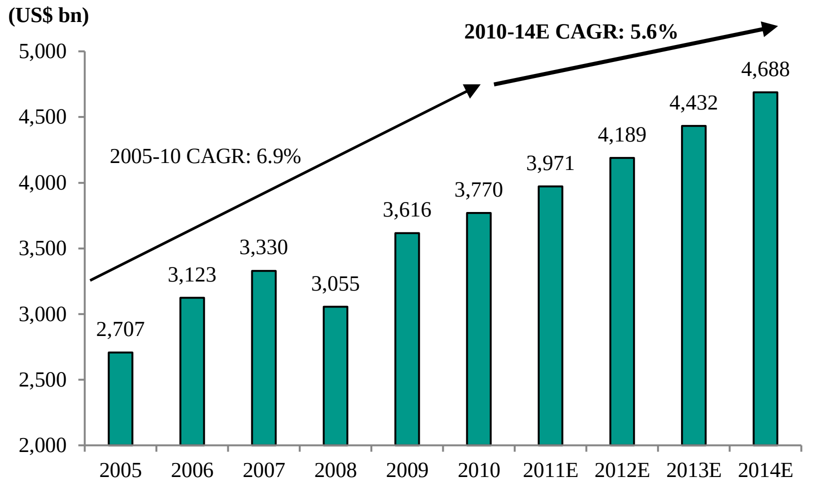
Source: ABCI Securities

Industry Analysis

Global Infrastructure Engineering Industry

According to the World Bank, global infrastructure engineering investment grew from US$2,707bn in 2005 to US$3,770bn in 2010, representing a CAGR of 6.9%. Due to a slightly slower global economic growth forecast in coming years, the World Bank estimated global infrastructure engineering investment will grow at a CAGR of 5.6% from 2010 to US$4,688bn in 2014.

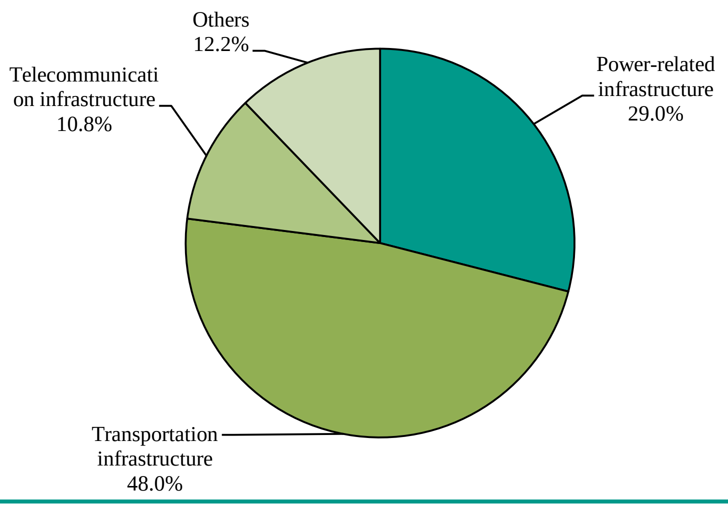
Global infrastructure engineering investment



Source: World Bank (Dec 2011), Ipsos Report

Global infrastructure engineering investment mainly consists of power related infrastructure, transportation infrastructure and telecommunication infrastructure which respectively accounted for 29.0%, 48.0% and 10.8% (or total of 87.8%) of the total investment value in 2011, according to Ipsos.

Breakdown of global infrastructure engineering investment in 2011



Source: Ipsos Report

Although transportation infrastructure accounted for nearly half of the investment value, power related infrastructure is expected to be the major growth driver for global infrastructure engineering investment. According to the Ipsos Report, power related infrastructure, transportation infrastructure and telecommunication infrastructure are expected to grow at a CAGR of 11.8%, 1.5% and 5.9% respectively from 2010 to 2014.

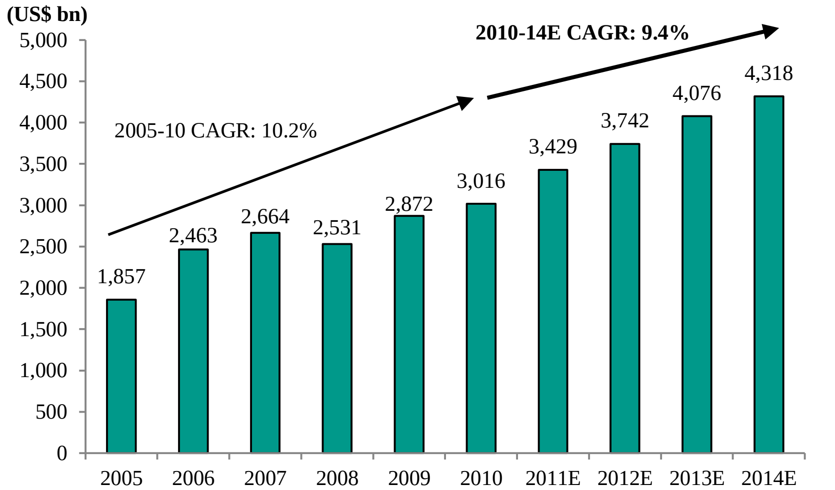
Global infrastructure engineering investment by infrastructure types

Year	Power-related infrastructure (US$ mn)	*Growth (% YoY)*	Transportation infrastructure (US$ mn)	*Growth (% YoY)*	Telecommunication infrastructure (US$ mn)	*Growth (% YoY)*	Others (US$ mn)	*Growth (% YoY)*
2005	596	*N/A*	1,112	*N/A*	282	*N/A*	717	*N/A*
2006	662	*11.1*	1,249	*12.3*	337	*19.5*	852	*18.8*
2007	932	*40.8*	1,409	*12.8*	366	*8.6*	569	*-33.1*
2008	825	*-11.5*	1,362	*-3.3*	320	*-12.6*	563	*-1.2*
2009	973	*17.9*	1,729	*26.9*	376	*17.5*	493	*-12.4*
2010	1,018	*4.6*	1,855	*7.3*	410	*9.0*	475	*-3.7*
2011E	1,152	*13.2*	1,906	*2.7*	429	*4.6*	468	*-1.5*
2012E	1,257	*9.1*	1,927	*1.1*	457	*6.5*	538	*14.9*
2013E	1,418	*12.8*	1,906	*-1.1*	488	*6.8*	608	*13.1*
2014E	1,594	*12.4*	1,969	*3.3*	516	*5.7*	593	*-2.5*
2010-14E CAGR (%):		***11.8***		***1.5***		***5.9***		***5.7***

Source: Ipsos Report

Infrastructure Engineering Industry in Developing Countries
According to the World Bank, infrastructure engineering investment in developing countries grew at a CAGR of 10.2% during 2005-2010 versus CAGR of 6.9% in developed countries. Due to higher growth in end-market demand, developing countries are expected to continue to post higher investment growth than developed countries. The World Bank estimates that total infrastructure engineering investment in developing countries will grow at a CAGR of 9.4% from 2010 to 2014, as compared to global CAGR of 5.6% during the same period.

Infrastructure Engineering Investment Value in Developing Countries



Source: The World Bank (December 2011), Ipsos Report

Similar to the global figures, power-related infrastructure, transportation infrastructure and telecommunication infrastructure are the major constituents of the total infrastructure engineering investment value in developing countries. According to Ipsos Report, power-related infrastructure, transportation infrastructure and telecommunication infrastructure are estimated to account for 15.1%, 49.3% and 5.8% (or a total of 70.2%) of total infrastructure engineering investment in 2011.

But different from the global trend, not only power-related infrastructure will become the main growth driver of investment, telecommunication infrastructure will also be an import factor of driving investment growth. According to the Ipsos Report, power-related infrastructure, transportation infrastructure and telecommunication infrastructure will grow at a CAGR of 22.6%, 4.1% and 10.2% from 2010 to 2014 respectively.

Infrastructure engineering investment by infrastructure types in developing countries

Year	**Power-related infrastructure (US$ mn)**	***Growth (% YoY)***	**Transportation infrastructure (US$ mn)**	***Growth (% YoY)***	**Telecommunication infrastructure (US$ mn)**	***Growth (% YoY)***	**Others (US$ mn)**	***Growth (% YoY)***
2005	421	*N/A*	785	*N/A*	132	*N/A*	519	*N/A*
2006	505	*20.0*	1,084	*38.1*	160	*21.2*	656	*26.4*
2007	507	*0.4*	1,200	*10.7*	157	*-1.9*	789	*20.3*
2008	437	*-13.8*	1,189	*-0.9*	146	*-7.0*	774	*-1.9*
2009	459	*5.0*	1,413	*18.8*	138	*-5.5*	838	*8.3*
2010	402	*-12.4*	1,587	*12.3*	122	*-11.6*	905	*8.0*
2011E	512	*27.4*	1,673	*5.4*	198	*62.3*	1,013	*11.9*
2012E	608	*18.8*	1,750	*4.6*	239	*20.7*	1,122	*10.7*
2013E	748	*23.0*	1,826	*4.3*	218	*-8.8*	1,257	*12.0*
2014E	907	*21.3*	1,867	*2.2*	180	*-17.4*	1,340	*6.7*
2010-14E CAGR (%):		***22.6***		***4.1***		***10.2***		***10.3***

Source: Ipsos Report

Factors affecting development of infrastructure engineering industry in developing countries

There are 3 major factors causing higher infrastructure engineering industry growth in developing countries than in developed countries. They are:

1. Economic growth
2. Government policy and investment
3. Industrialization

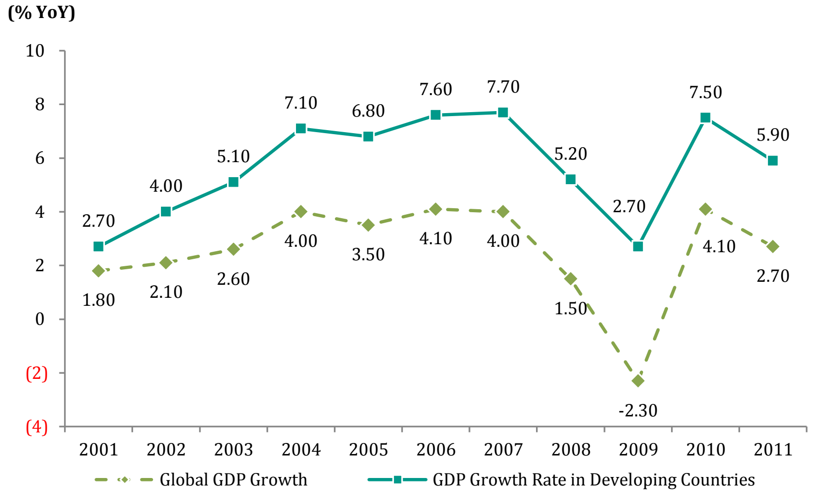
Economic growth

Global GDP grew from US$47,344bn in 2006 to US$52,145bn in 2011, representing CAGR of 2.0%, compared to CAGR of 3.3% during 2001-2006. The slower growth during 2006-2011 was mainly due to the financial crisis in 2008 and sovereign debt crisis emerged in 2011.

The market turnmoils in 2011 not only limited governments in developed countries to invest in large-scale projects, but also continued to undermine investors' confidence in new project investment, which impeded construction development in the developed countries, including the US and Europe.

On the other hand, developing countries posted GDP growth of 5.9% as compared to the global GDP growth of 2.7% in 2011 despite of the global financial crisis. Faster economic growth has fostered high demand for power consumption, transportation volume, and telecommunication service which in turn lead to a faster infrastructure engineering investment growth in developing countries than in developed countries.

Global and developing countries GDP trend



Source: Economic Research Service (Jan 2012)

Government policy and investment

Financial crisis in late 2008 and early 2009 has hampered investors' confidence and raised financing costs of investments, resulting in diminished private investment in new projects. To stimulate economic growth, governments with adequate capital which are mainly governments from developing countries, increased or planned to increase their infrastructure investment substantially for the period 2009-2015 to support their long term economic growth.

For instance, most regional government in Asia have announced plans to invest in more than US$600bn over the next several years on regional infrastructure after the financial crisis in 2009 and an estimated of US$8.2tn is needed for infrastructure investment during 2010-2020 in Southeast Asia; government in Middle East's governments pledged over US$100bn on high-speed railway projects and water and renewable engineering; India's 11th and 12th Five-Year Plan require investment value of US$514bn and US$1tn respectively, while African Development Bank has proposed to spend US$10bn on infrastructure in African countries during 2011-2015. Due to stronger financial capability of governments in developments, investment in infrastructure engineering is more resilient to global market turmoil as compared to developed countries.

Industrialization

The focus of industrial activities in the past ten years had shifted from developed countries to developing countries, especially the BRIC, namely, Brazil, Russia, India and China. According to the World Bank and IMF, the growth rate of output value of industrial activities in developing countries increased from 2.3% in 2001 to 9.8% in 2007. Although the global financial crisis caused a significant drop in industrial activities in developing countries, the particular indicator recovered quickly from 1.1% in 2009 to 10.9% in 2010 and 7.1% in 2011. The high growth rate of industrial activities will continue to be one of the drivers of infrastructure investment growth in developing countries.

Growth rate of industrial activities in developing countries

Source: The World Bank; International Monetary Fund (January 2012)

International Engineering Contracting Industry

As a result of stronger infrastructure engineering investment growth in developing countries, total new contract value of infrastructure engineering projects grew faster than that for the global market during 2006-2011. According to the Ipsos Report, infrastructure engineering in global market grew at a CAGR of 6.8% during 2006-2011 to reach US$845.7bn in 2011 while infrastructure engineering in developing countries grew at a CAGR of 7.8% during the same period to reach US$779.5bn in 2011.

Total new contract value of infrastructure engineering projects for global market and in developing countries from 2006-2011

Year	Infrastructure engineering in global market (US$ bn)	Infrastructure engineering in developing countries (US$ bn)
2006	609.2	535.5
2007	616.7	528.2
2008	627.3	556.1
2009	747.4	665.2
2010	799.2	719.3
2011	845.7	779.5
CAGR (%)	**6.78**	**7.80**

Source: Ipsos Report

In developing countries, power related infrastructure projects, transportation infrastructure projects and telecommunication infrastructure projects respectively accounted for 30.6%, 26.7% and 14.6% (or a total of 71.8%) of the total new contract value of infrastructure engineering projects. According to the Ipsos report, growth in the new contract value was mainly driven by growth in power-related infrastructure projects. New contract value of power grew at a CAGR of 26.9% during 2006-2011 while new contract value of transportation and telecommunication grew at a CAGR of 0.3% and 12.9% respectively during the same period.

New contract value of infrastructure engineering projects by infrastructure types in developing countries from 2006-2011

Year	Telecommunication Infrastructure (US$ bn)	Transportation infrastructure (US$ bn)	Power-related infrastructure (US$ bn)
2006	61.8	204.6	72.4
2007	62.7	142.0	171.4
2008	62.7	136.9	143.6
2009	66.3	215.1	167.3
2010	82.1	211.9	204.2
2011	113.6	207.7	238.5
CAGR (%)	**12.9**	**0.3**	**26.9**

Source: Ipsos Report

Chinese contractors are gaining importance in the international infrastructure engineering contracting market

There are approximately 3,000 Chinese contractors operating in over 180 countries. Among the top 225 contractors in the world, 50 were Chinese contractors in 2011.

Chinese contractors possess huge comparative advantages over their competitors in other developing countries in terms of labour supply, technology, management skills and access to capital. China's international engineering contracting business, which began in the Middle East in early 1980's, has expanded rapidly into developing Asian markets over the past decade and is moving into the European and American markets. Total revenue of Chinese contractors reached US$103.4bn in 2011. In particular, revenues from Asia Pacific and Africa regions reached US$53.4bn and US$36.1bn and respectively accounted for 51.6% and 34.9% of total revenue of Chinese contractors in 2011.

Revenue of Chinese contractors in 2011

Rank	**Region**	**Revenue of Chinese contractors in 2011 (US$ bn)**	***Geographic breakdown in 2011 (%)***
1	Asia Pacific	53.4	*51.6*
2	Africa	36.1	*34.9*
3	Latin America	7.9	*7.7*
4	Europe	4.6	*4.4*
5	North America	1.4	*1.4*
	Total	**103.4**	***100***

Source: Ipsos Report

Chinese contractors: Types of international infrastructure engineering and construction

Rank	**Types of international infrastructure engineering and construction**	**New Contract Value (US$ bn)**	***Value Contribution (%)***
1	Power	31.1	*21.9*
2	Housing Construction	27.8	*19.5*
3	Transportation	27.1	*19.0*
4	Petrochemical	18.1	*12.7*
5	Telecommunications	14.8	*10.4*
6	Water and Sewage	5.7	*4.0*
7	Manufacturing	5.4	*3.8*
8	Mining and Metals	1.7	*1.2*
9	Environment Protection	0.4	*0.3*
10	Others	10.2	*7.2*
	Total	**142.3**	***100.0***

Source: Ipsos Report

In 2011, new contracts value of the Chinese contractors reached US$142.3bn, accounted for 16.5% of the global total new contract value of infrastructure engineering and 18.3% of the total new contract value of infrastructure engineering in developing countries. In particular, new contract value from power, housing construction and transportation reached US$31.1bn, US$27.8bn and US$27.1bn in 2011 respectively, which accounted for 21.9%, 19.5% and 19.0% of total new contract value of the Chinese contractors in 2011.

Competitive Landscape of Chinese contractors

International Engineering

Despite of their growing importance in the international engineering contracting market, Chinese contractors are operating in a very competitive market. Revenues from the top 10 Chinese contractors only accounted for 28.7% of the total revenue of international engineering in 2011. The top 3 players are CCC, Sinohydro and China State Construction Engineering, each of them has less than 5% of the market share in terms of revenues. The group is one of the top 10 Chinese contractors and accounted for 1.8% of the total revenues of the Chinese contractors in 2011.

Top Chinese contractors in International Engineering

Rank	**Name of Company**	**Revenue of International Engineering in 2011 (US$ bn)**	***Share by Revenue (%)***
1	China Communications Construction Group	4,981	*4.8*
2	Sinohydro Corp.	4,470	*4.3*
3	China State Construction Engineering Corp.	4,349	*4.2*
4	China Railway Group Ltd.	2,760	*2.7*
5	China Railway Construction Corp.	2,665	*2.6*
6	CITIC Construction Co., Ltd.	2,274	*2.2*
7	China Petroleum Engineering & Construction	2,141	*2.1*
8	China Metallurgical Group Corp.	2,165	*2.1*
9	SEPCO III Electric Power Construction Corp.	2,020	*2.0*
10	**The Group**	**1,866**	***1.8***
	Others	73,729	*71.3*
	Total	**103,420**	***100.0***

Source: Company reports; MOFCOM, China, Ipsos Report

International Engineering in Power Sector

The power sector of international engineering has a relatively higher market concentration as compared to the overall international engineering market. However, the power sector is becoming more competitive as seen in the declining market share of the top 5 Chinese contractors over the past five years.

In terms of revenue from international power market, the market share of top 5 Chinese contractors declined from 53.8% in 2007 to 41.4% in 2011. In 2011, Sinohydro, SEPCOIII Electric Power and Shandong Electric Power were the top 3 players of international engineering in power sector. They accounted for 11.2%, 10.1% and 7.7% of total revenues from the international power projects in 2011, respectively. The group ranked first during 2007-2009, but has been losing its market shares to its competitors during 2010-2011. During 2007-2009, Chinese contractors' revenues from international power projects grew at a CAGR of 45.3% and reached US$19,920mn in 2011. For the same period, revenues from international power projects of the group grew at a CAGR of 13.6% to US$1,481.5mn in 2011. Due to its slower revenue growth in the power sector, the Group's market share in the particular market dropped from 19.9% in 2007 to 7.4% in 2011.

However, since each engineering contracting project has a relatively long life cycle (around three to five years for the group) and fluctuations in revenues could be affected by certain projects with high contract values, change in rankings in a particular year may not be able to reflect the whole picture of the competitive landscape of the Chinese contractors. And it could be more insightful to look at the rankings with a longer time span. On an accumulative basis, the Group ranked second in terms of total revenues generated from international power projects during 2007-2011 and accounted for 9.8% of total market share. Sinohydro and SEPCOIII ranked first and third and accounted for 11.7% and 8.4% of the total market share during 2007-2011.

Top Chinese Contractors by International Power Projects in Global Market in 2007-2011

Year	Rank	Name of Company	Revenue from int' power projects (US$ bn)	Share by Revenue %
2007	**1**	**The Group**	**890.1**	**19.9**
	2	Sinohydro Corp.	556	12.4
	3	Shandong Electric power construction Corp.	378.9	8.5
	4	Shanghai Electric Group Co., Ltd.	348.7	7.8
	5	Harbin Power Engineering Co., Ltd.	230.6	5.2
		Others	2,066.4	46.2
		Total	**4,470.70**	**100.0**
2008	**1**	**The Group**	**1,217.5**	**14.3**
	2	Sinohydro Corp.	1,183.0	13.9
	3	Shanghai Electric Group Co., Ltd.	742.1	8.7
	4	SEPCOIII Electric Power Construction Corp.	710	8.4
	5	Shandong Electric power construction Corp.	433.9	5.1
		Others	4,206.3	49.6
		Total	**8,492.80**	**100.0**
2009	**1**	**The Group**	**1,514.4**	**10.3**
	2	Sinohydro Corp.	1,194.9	8.1
	3	SEPCOIII Electric Power Construction Corp.	1,012.7	6.9
	4	Shanghai Electric Group Co., Ltd.	847.9	5.7
	5	Shandong Electric power construction Corp.	707.9	4.8
		Others	9,486.4	64.2
		Total	**14,764.20**	**100.0**
2010	1	Sinohydro Corp.	2,567.5	13.9
	2	SEPCOIII Electric Power Construction Corp.	1,579.8	8.6
	3	**The Group**	**1,393.4**	**7.6**
	4	Shanghai Electric Group Co., Ltd.	925.8	5.0
	5	Harbin Electric International Co., Ltd.	886.0	4.8
		Others	11,087.5	60.1
		Total	**18,440.0**	**100.0**
2011	1	Sinohydro Corporation	2,234.9	11.2
	2	SEPCOIII Electric Power Construction Corp.	2,019.6	10.1
	3	Shandong Electric Power Construction Corp.	1,535.5	7.7
	4	**The Group**	**1,481.5**	**7.4**
	5	Shanghai Electric Group Co., Ltd	999.0	5.0
		Others	11,649.5	58.6
		Total	**19,920.**	**100.0**
2007-2011	1	Sinohydro Corporation	7,736.3	11.7
	2	**The Group**	**6,496.9**	**9.8**
	3	SEPCOIII Electric Power Construction Corporation	5,548.6	8.4
	4	Shanghai Electric Group Co., Ltd.	4,048.5	6.1
	5	Shandong Electric Power Construction	3,800.3	5.8
		Others	38,457.0	58.2
		Total	**66,087.7**	**100.0**

Source: Company reports, Ministry of Commerce (Jan 2011 and 2012), Ipsos

International Trading Business

The aggregate international trading value grew from US$24,550bn in 2006 to US$35,779bn in 2011, representing a CAGR of 7.8% during 2006-2011. Due to the financial crisis in late 2008 and early 2009, international trading value dropped substantially by 22.7% YoY in 2009 but quickly returned to the pre-financial crisis level in 2011. The increase in 2010-2011 was attributable to the rise in merchandise prices and demand in commodities due to the recovery of the global economy.

China's International Trading

International trading value in China has grown rapidly since 2001 after China's accession to the World Trade Organization in Dec 2001. Export/import value of China grew from US$968.9/US$791.5bn in 2006 to US$1,898.6/US$1,743.5bn in 2011, representing a CAGR of 14.4%/17.1% during 2006-2011. In 2010, China still ranked first in export value and second in import value in the world.

Similar to aggregate international trading business in the world, China's export and import value has dropped 16.0% YoY and 11.2% YoY in 2009, respectively due to the global financial crisis. But international trade business in China has quickly returned to its pre-financial crisis value in 2010. However, the substantial increase in international trade values in China has made China a major target for trade protectionism from other countries.

Apart from the increasing trade protection from other countries, China has to face other challenges including the appreciation of Rmb against a broad basket of currencies and the increase in prices of raw material and labour wage. The real effective exchange rate of Rmb against a broad basket of currencies rose at 2.7% in 2011, while the real effective depreciation of US dollar against trading partner's currencies was at -4.9% across the same period.

On the favorable side, expectation of Rmb appreciation is declining while recent inflationary pressures in China is slowing down, helping China to gain its competitive advantage over other countries in terms of international trades.

Competitive Strengths

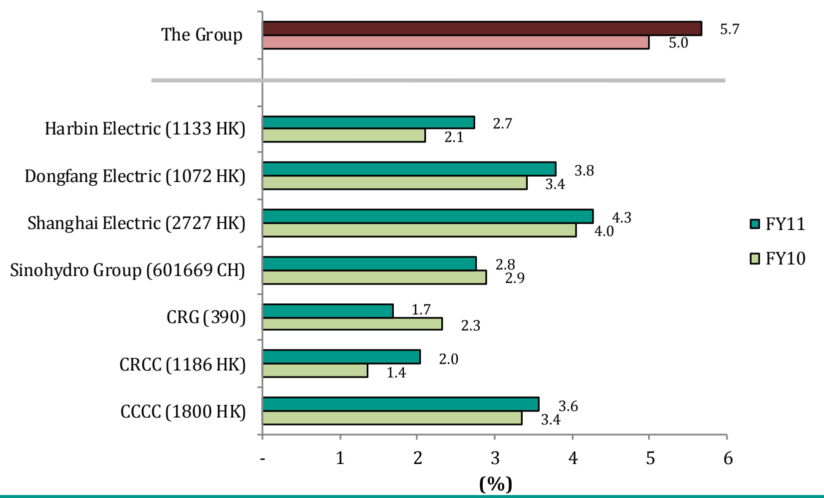
Offering one-stop customized and integrated engineering contracting solutions and services

Throughout years of international operations, the Group has developed upstream and downstream strategic partnerships. The stable and long-term cooperative relationships with subcontractors and suppliers have allowed the Group to benefit in terms of timely delivery, quality assurance, cost-effective supplies and efficient service. It is able to provide the Group's customers with a full spectrum of integrated turnkey services across different phases of a project, such as customized financing solutions, design, procurement, logistics, construction, installation, commissioning and related works. The capability to provide one-stop customized and integrated engineering contracting solutions and services let the Group give a competitive pricing edge over the competitors.

Asset-light operating model with high assets return

The Group adopts an asset-light operating model as it subcontracts substantially all of the construction works which are capital intensive. It puts the focus on execution, management and supervision of the projects as well as achieving high internal efficiency. We believe that the asset-light operating model is one the major reason of which the Group can post a relatively high assets return compared with its peers.

ROAA of the Group and the peers

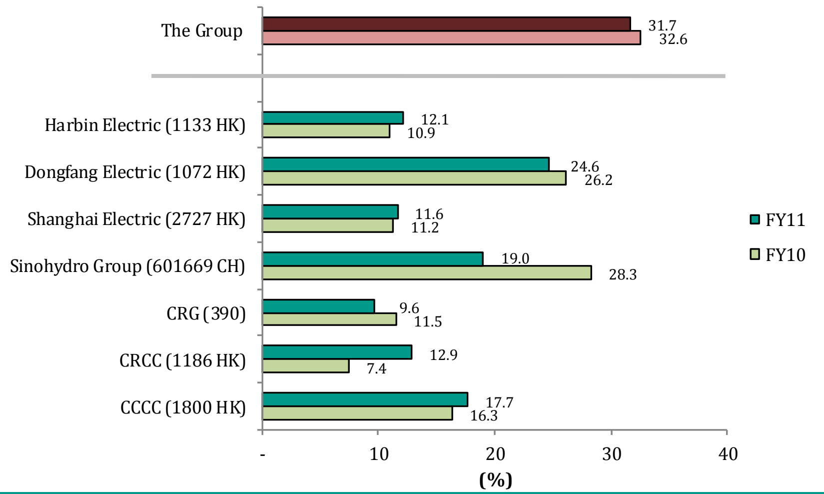


Source: Companies, ABCI Securities

The return on average assets ("ROAA" = Total net profit to group/average assets during the year) of the Group were 5.0% in FY10 and 5.7% in FY11, which was the highest among the peers of which they conduct the construction works, such as China Communications Construction Company ("CCCC", 1800 HK) at 3.4% in FY10 and 3.6% in FY11, China Railway Construction Corporation ("CRCC", 1186 HK) at 1.4% in FY10 and 2.0% in FY11. The ROAA of the Group was higher than that of the subcontractors, such as Shanghai Electric (2727 HK) at 4.0% in FY10 and 4.3% in FY11.

The return on average equity ("ROAE" = Net profit attributed to equity owner of the company/average equity attributable to the equity owners of the company during the year) of the Group were 32.6% in FY10 and 31.7% in FY11, which is the highest among the peers of which they implement the construction works, such as CCCC at 16.3% in FY10 and 17.7% in FY11, CRCC at 7.4 % in FY10 and 12.9% in FY11. The ROAE of the Group was higher than that of its subcontractors, such as Shanghai Electric (2727 HK) at 11.2% in FY10 and 11.6% in FY11.

ROAE of the Group and the peers



Source: Companies, ABCI Securities

Besides enhancing the assets return for stakeholders, we believe the asset-light operating model can reduce financial burden of the capital expenditure. The capital expenditures ("capex") of the Group were Rmb21mn in FY09, Rmb21mn in FY10 and Rmb1,051mn in FY11.

The capex of the Group was lower than that of its peers. The capex of CCCC was Rmb19,355mn in FY09, Rmb17,249mn in FY10 and Rmb18,019mn in FY11. The capex of CRCC was Rmb15,571mn in FY09, Rmb16,727mn in FY10 and Rmb14,800mn in FY11. The capex of CRG was Rmb18,529mn in FY09, Rmb19,231mn in FY10 and Rmb21,730mn in FY11.

Capital expenditures of the Group and peers

(Rmb mn)	FY09	FY10	FY11
The Group	**21**	**21**	**1,051**
CCCC (1800 HK)	19,355	17,249	18,019
CRCC (1186 HK)	15,571	16,727	14,800
CRG (390)	18,529	19,231	21,730

Source: Companies, Bloomberg, ABCI Securities

Focus on the developing countries

Most of the international players suffered an earnings decline during the financial crisis from FY09 to FY11. However, the Group was able to post a gain of net profit. We believe one of the reasons is because the Group focuses on developing countries.

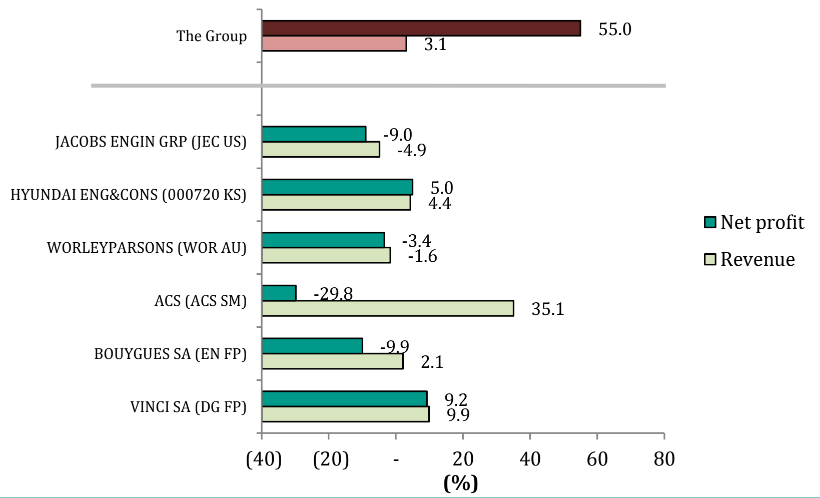
The Group focuses on the power engineering project in developing countries, such as Pakistan, Angola, Congo, etc. The Group is the leading international engineering contractor with a primary focus on EPC projects and particular expertise in the power projects. The Group was one of the first Chinese engineering contractors that offered engineering contracting services for international power projects. According to the Ipsos Report, the Group ranked fourth among all Chinese contractors in terms of revenue generated from international power projects in 2011, and it ranked second among all Chinese contractors in terms of total accumulated revenue generated from international power projects from 2007 to 2011.

We believe it is one of the major reasons on which the Group has a higher growth compared with the international players. We consider this business feature can bring the Group a growth opportunity for the following decades.

The revenue of the Group grew at a CAGR of 3.1% from FY09 to FY11, while some international players suffered from decline. For example, Revenue of Worleyparsons (WOR AU) declined at a CAGR of -1.6% during from FY09 to FY11 and revenue of Jacobs Engineering Group (JEC US) declined at a CAGR of -4.9% from FY09 to FY11.

The net profit of the Group grew at a CAGR of 55.0% from FY09 to FY11, which was the highest among the international peers. The average CAGR of the international peers' was -6.3% from FY09 to FY11.

CAGR from FY09 to FY11 of revenue and net profit growth of the Group and international peers



Source: Companies, Bloomberg, ABCI Securities

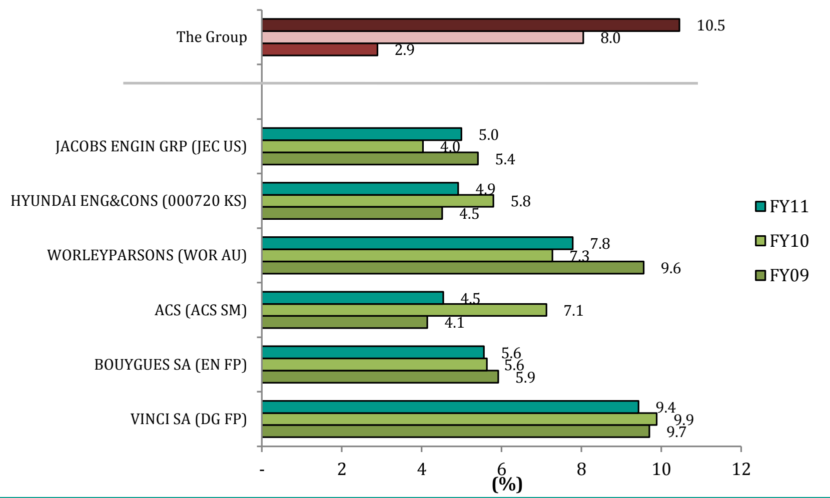
Cost benefit from strong relationship with China suppliers

The China background of the Group, on one hand, helps it to strengthen its market position in developing countries in Africa. On the other hand, in terms of procurement of complete sets of plants and equipment, the Group maintains close access to the supply chains by leveraging the long-established business relationship with the PRC manufacturers with strong manufacturing capabilities on a full range of quality boilers, power generators and power transformation equipment at lower cost.

The Group worked with more than 350 subcontractors in the area of design, exploration, logistics, installation, construction and supervision as at June 30, 2012, including Dongfang Electric Corporation, Shanghai Electric Group Co., Ltd., Harbin Electric Corporation, Hangzhou Steam Turbine Co., Ltd. Tebian Electric Apparatus Stock Co., Ltd., Central Southern China Electric Power Design Institute of China Power Engineering Consulting Group Corporation, Northeast Electric Power Design Institute of China Power Engineering Consulting Group and Changjiang Institute of Survey, Planning, Design and Research.

Its solid and long lasting relationship with the China equipment and material suppliers and subcontractors help the Group to lower its building and subcontract cost, such that it can offer the bidding price at a competitive level and achieve sweet profit margin. The operating profit margin (Profit from operations / revenue during the year) of the Group increased from 2.9% in FY09 to 10.5% in FY11. The operating profit margin of the Group in FY11 was the highest among the international peers showing in the chart below.

Operating profit margin of the Group and the peers



Source: Companies, Bloomberg, ABCI Securities

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

A diversified business with extensive business network

The Group was one of the first PRC enterprises engaged in the business of international engineering contracting since the first international engineering contracting project of the Group in 1980, and have accumulated over 30 years of experience in the industry, in particular the EPC industry, in more than 45 countries around the world. The business of the Group is diversified geographically, as well as the political risks.

Over the years, the Group has gained recognition of the brand of “CMEC”. It has built strong relationships and strategic partnerships with governments and corporate clients through co-operation, services and the profile of the PRC pioneers in the international EPC market.

Business network of the Group*

**Up to June 30, 2012. The Group will not undertake any projects in Sudan and Iran in the future*
Source: Company

Furthermore, with the long history co-operations with various governments and state-owned enterprises on large scale infrastructure projects, the Group has reinforced its reputation among these governments and state-owned enterprises as well as other corporate clients as a reliable contractor, which has enabled the Group to draw on their support for new, related or follow-up projects.

We believe that the Group will continue to benefit from synergies created through its customers’ satisfaction and broader market recognition of its brand.

Experienced and innovative management team and a strong technical team of professional experts

The senior management team of the Group has an average of over 20 years of industry experience. The team has extensive management skills, operating experience, industry expertise and knowledge, which provide the Group with innovative ideas and proposals. Among the Group's Directors and members of the senior management, four of them are professor-level senior engineers, four are senior engineers, two are certified public accountants, two are senior accountants and three are senior economists in the PRC. In particular, the management and technical teams have extensive participation in the management of power projects, export of complete sets of plants and equipment, and trading of machineries and electrical products, which enables them to accumulate a wide spectrum of experiences and knowledge on project management, cost control and risk management.

We believe that both the senior management team and the specialized technical personnel will continue to be a core element to the Group to sustain its strengths and comparative advantage in the engineering projects management.

Profitability Summary of Chinese Engineering and Construction Contractors

Profitability summary of Chinese engineering and construction contractors

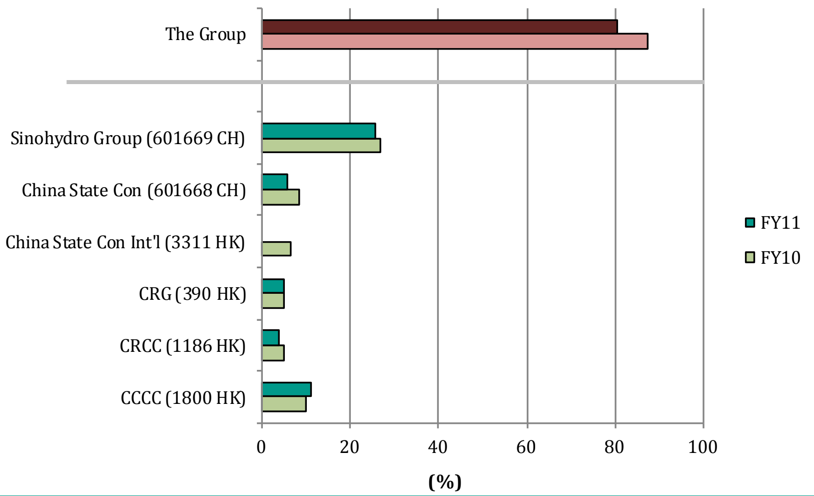
		FY09	FY10	FY11	*FY09-11 CAGR(%)*	1HFY12	*Chg (%YoY)*
The Group	**Revenue (Rmb mn)**	19,288	19,077	20,518	*3.1*	10,354	*5.2*
	Gross profit (Rmb mn)	1,760	2,942	3,659	*44.2*	1,904	*31.2*
	Net profit (Rmb mn)	614	1,136	1,475	*55.0*	991	*54.3*
	Gross profit margin (%)	*9.1*	*15.4*	*17.8*		*18.4*	*+3.64ppt*
	Net margin (%)	*3.2*	*6.0*	*7.2*		*9.6*	*+3.04ppt*
	ROAA (%)	*N/A*	*5.0*	*5.7*		*3.4*	
	ROAE (%)	*N/A*	*32.6*	*31.7*		*17.4*	
CCCC	**Revenue (Rmb mn)**	226,920	272,734	294,281	*13.9*	124,737	*-10.2*
1800 HK	**Gross profit (Rmb mn)**	21,705	23,247	27,907	*13.4*	13,543	*12.7*
	Net profit (Rmb mn)	7,200	9,599	11,767	*27.8*	5,016	*-13.9*
	Gross profit margin (%)	*9.6*	*8.5*	*9.5*		*10.9*	*+2.21ppt*
	Net margin (%)	*3.2*	*3.5*	*4.0*		*4.0*	*-0.17ppt*
	ROAA (%)	*N/A*	*3.4*	*3.6*		*1.3*	
	ROAE (%)	*N/A*	*16.3*	*17.7*		*6.8*	
CRCC	**Revenue (Rmb mn)**	344,976	456,187	443,319	*13.4*	184,532	*-12.7*
1186 HK	**Gross profit (Rmb mn)**	22,548	27,540	33,992	*22.8*	19,239	*-6.8*
	Net profit (Rmb mn)	6,599	4,246	7,854	*9.1*	3,188	*-12.4*
	Gross profit margin (%)	*6.5*	*6.0*	*7.7*		*10.4*	*+0.66ppt*
	Net margin (%)	*1.9*	*0.9*	*1.8*		*1.7*	*+0.01ppt*
	ROAA (%)	*N/A*	*1.4*	*2.0*		*1.5*	
	ROAE (%)	*N/A*	*7.4*	*12.9*		*9.4*	
CRG	**Revenue (Rmb mn)**	334,045	456,162	442,216	*15.1*	190,915	*-11.0*
390 HK	**Gross profit (Rmb mn)**	20,442	27,143	32,253	*25.6*	14,103	*8.1*
	Net profit (Rmb mn)	6,875	7,398	6,690	*-1.4*	2,390	*-2.2*
	Gross profit margin (%)	*6.1*	*6.0*	*7.3*		*7.4*	*+1.31ppt*
	Net margin (%)	*2.1*	*1.6*	*1.5*		*1.3*	*+0.11ppt*
	ROAA (%)	*N/A*	*2.3*	*1.7*		*0.5*	
	ROAE (%)	*N/A*	*11.5*	*9.6*		*3.3*	
China State Con Int'l	**Revenue (HK$ mn)**	9,706	11,983	16,379	*29.9*	8,958	*47.5*
3311 HK	**Gross profit (HK$ mn)**	750	1,316	1,798	*54.9*	1,005	*71.6*
	Net profit (HK$ mn)	674	1,036	1,507	*49.5*	887	*35.8*
	Gross profit margin (%)	*7.7*	*11.0*	*11.0*		*11.2*	*+1.57ppt*
	Net margin (%)	*6.9*	*8.6*	*9.2*		*9.9*	*-0.85ppt*
	ROAA (%)	*N/A*	*6.6*	*6.7*		*3.1*	
	ROAE (%)	*N/A*	*25.5*	*21.4*		*9.0*	
China State Con	**Revenue (Rmb mn)**	250,346	355,531	463,877	*36.1*	253,492	*14.8*
601668 CH	**Gross profit (Rmb mn)**	21,578	29,648	39,173	*34.7*	30,575	*15.8*
	Net profit (Rmb mn)	6,092	9,240	13,537	*49.1*	7,174	*10.1*
	Gross profit margin (%)	*8.6*	*8.3*	*8.4*		*12.1*	*+0.10ppt*
	Net margin (%)	*2.4*	*2.6*	*2.9*		*2.8*	*-0.12ppt*
	ROAA (%)	*N/A*	*2.7*	*3.0*		*1.8*	
	ROAE (%)	*N/A*	*12.4*	*16.3*		*7.9*	
Sinohydro Group	**Revenue (Rmb mn)**	73,381	99,054	110,647	*22.8*	55,189.0	*8.9*
601669 CH	**Gross profit (Rmb mn)**	8,259	10,075	13,173	*26.3*	2,452.9	*6.5*
	Net profit (Rmb mn)	2,290	2,911	3,619	*25.7*	2,014.4	*10.7*
	Gross profit margin (%)	*11.3*	*10.2*	*11.9*		*4.4*	*-0.10ppt*
	Net margin (%)	*3.1*	*2.9*	*3.3*		*3.7*	*+0.06ppt*
	ROAA (%)	*N/A*	*2.9*	*2.8*		*1.2*	
	ROAE (%)	*N/A*	*28.3*	*19.0*		*7.2*	

Source: Companies, Bloomberg, ABCI Securities

Focus on overseas business

Unlike other Chinese engineering and construction contractors, the Group focuses its business in overseas, which contributed 80.5% of total revenue in FY11. The weighting on overseas business in FY11 of: CCCC was 10.9%, CRCC was 3.8%, CRG was 5.0%, China State Con Int'l was zero, China State Construction was 5.8% and Sinohydro Group was 25.8%.

Percentage of overseas revenue to total revenue



Source: Companies, ABCI Securities

Geographic breakdown on revenue of the Group

	FY09 (Rmb mn)	(%)	FY10 (Rmb mn)	(%)	FY11 (Rmb mn)	(%)	1HFY12 (Rmb mn)	(%)
China (Mainland)	1,984	10.3	2,407	12.6	4,010	19.5	1,262	12.2
Angola	1,746	9.1	1,717	9.0	850	4.1	1,098	10.6
Equatorial Guinea	1,912	9.9	1,886	9.9	1,919	9.4	1,010	9.8
Venezuela	3	0.0	3	0.0	34	0.2	972	9.4
Turkey	2,978	15.4	2,438	12.8	939	4.6	715	6.9
Belarus	-	-	-	-	442	2.2	695	6.7
Sri Lanka	1,893	9.8	1,041	5.5	2,184	10.6	645	6.2
United States	840	4.4	907	4.8	1,257	6.1	630	6.1
The Republic of Congo	2,031	10.5	1,932	10.1	1,575	7.7	380	3.7
Italy	1,018	5.3	805	4.2	447	2.2	244	2.4
Nigeria	7	0.0	554	2.9	1,339	6.5	232	2.2
Sudan	493	2.6	1,202	6.3	1,120	5.5	100	1.0
Pakistan	302	1.6	102	0.5	75	0.4	36	0.4
Malaysia	633	3.3	192	1.0	75	0.4	16	0.2
Others	3,448	17.9	3,892	20.4	4,252	20.7	2,319	22.4
Total revenue	19,288	100.0	19,077	100.0	20,518	100.0	10,354	100.0

Source: Company

Growing book-to-bill ratio

The book-to-bill ratio of the Group was growing from 0.56x in FY09 to 2.22x in FY11. We use book-to-bill ratio analysis to measure the potential growth momentum of major business segments in international engineering contracting business. If book-to-bill (newly effective contract amount of a business segment during the period divided by revenue recognized of the same segment during the same period) is higher than one, it indicates that inflow of new effective contracts is larger than revenue recognized. We see the book-to-bill ratio of the Group is growing compared with its peers which focus on the businesses in China.

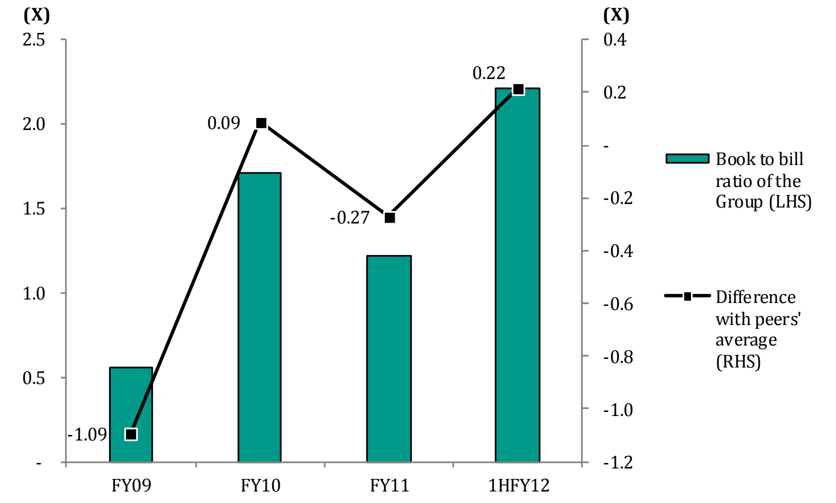
We estimate that the book-to-bill ratio of the Group was 0.56x, 1.71x, 1.22x and 2.22x in FY09, FY10, FY11 and 1HFY12, respectively. The book-to-bill ratio difference between the Group and the peers (book-to-bill ratio of the Group minus the average book-to-bill ratio of the peers) widened from -1.09x in FY09 to 0.22x in 1HFY12. It shows the growth momentum of the Group is faster than that of its peers'.

Book-to-bill ratio of the Group and the peers

	FY09	FY10	FY11	1HFY12
The Group	0.56	1.71	1.22	2.22
CCCC (1800 HK)	1.59	1.51	1.56	1.89
CRCC (1186 HK)	1.69	1.59	1.49	1.52
CRG (390 HK)	1.80	1.61	1.29	1.52
China Stat Con (3311 HK)	1.51	1.78	1.63	3.07
Average of the peers'	**1.65**	**1.62**	**1.49**	**2.00**

Source: Companies, ABCI Securities estimates

Book-to-bill ratio difference between the Group and the peers



Source: Companies, ABCI Securities estimates

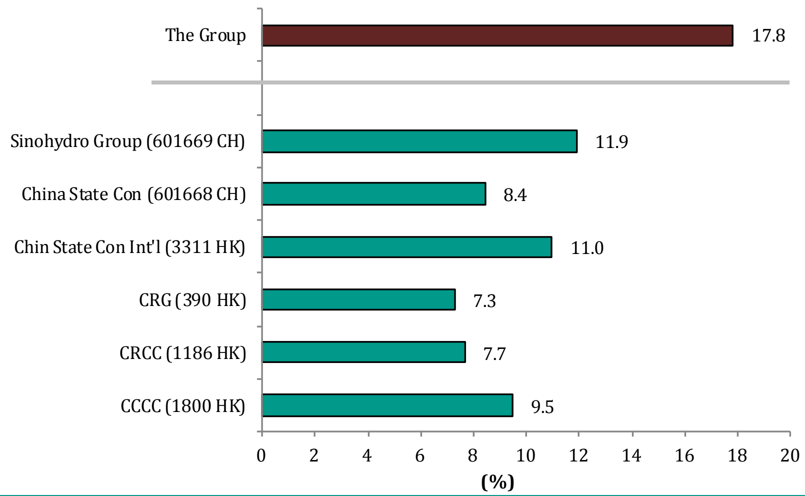
The highest growth on net profit

The revenue and net profit of the Group grew at a CAGR of 3.1% and 55.0% from FY09 to FY11, respectively. The Group had the highest growth on net profit among the seven leading Chinese engineering and construction contractors.

We believe the bottom line growth of the Group during FY09 to FY11 was mainly due to the improvement of gross profit margin ("GPM"). GPM of the Group increased by 8.7ppts from 9.1% in FY09 to 17.8% in FY11. *For the detail of GPM and other financial analysis, please refer to the chapter of "Financial Projection and Analysis"*

GPM of the Group was the highest among the seven leading Chinese engineering and construction contractors in FY11.

Gross profit margin of the Group and the peers



Source: Companies, Bloomberg, ABCI Securities estimate

Asset-light operating model

The return of average assets ("ROAA") of the Group improved from 5.0% in FY10 to 5.7% in FY11, which was higher than that of most of its peers' , except China State Construction International (3311 HK), which operating model is similar to the Group of which it subcontracts most of the construction works. The average ROAA among the seven leading Chinese engineering and construction contractors was 3.3% in FY11.

Return on average equity ("ROAE") of the Group edged down from 32.6% in FY10 to 31.7% in FY11, but maintained at a relatively high level. The ROAE of the Group was the highest among the seven leading Chinese engineering and construction contractors in both FY10 and FY11.

The asset-light operating model allows the Group concentrates on the project execution, management and supervision of the projects, which capital investment is relatively low compared with the construction works. We believe it is one of the major reasons for the high assets return ratios.

Better earnings quality

Our analysis indicates the Group with better than earnings quality than its peers. The operating cash flow of the Group maintained positive from FY09 to FY11. We use the operating cash flow to net profit ratio to quantify the earnings quality. The higher the ratio, the better the quality on earnings is. The ratio of the Group fluctuated between 1.16x to 4.93x during FY09 to FY11, but it was larger than 1.0x, which imply the operating cash flow of the Group was larger than the Group's net profit. The strong operating cash flow is the result of its asset-light business model, project execution power and credit risk control. In particular, we put more emphasis on earnings quality when global economy is volatile.

The average operating cash flow to net profit ratio of the peers was -0.71x and -1.20x for FY11 and 1HFY12, respectively.

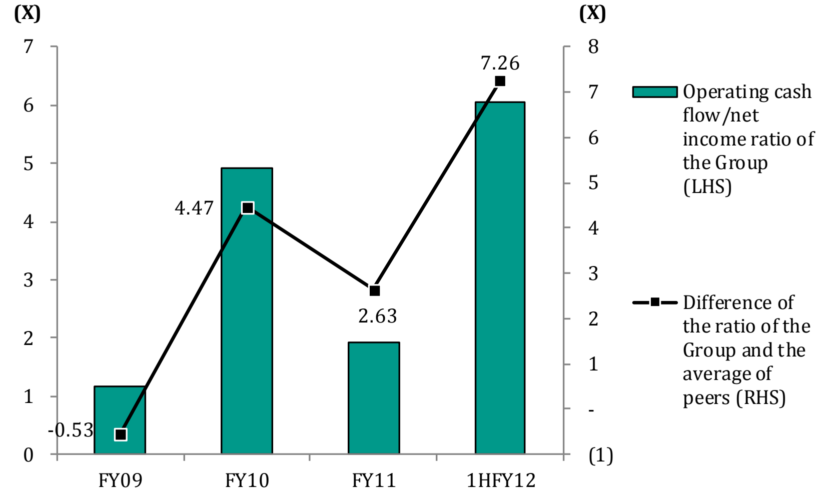
We see the Group has a better earnings quality and the spread of the earnings quality ratio of the Group and its peers is widening.

Operating cash flow to net profit ratio of the Group and peers

(X)	FY09	FY10	FY11	1HFY11	1HFY12
The Group	**1.16**	**4.93**	**1.92**	**3.75**	**6.06**
CCCC (1800 HK)	2.03	1.62	0.15	-1.31	-1.04
CRCC (1186 HK)	2.65	1.47	-1.60	-3.47	-1.03
CRG (390 HK)	2.76	0.14	-2.02	-2.47	-2.14
Chin State Con Int'l (3311 HK)	-0.22	0.04	-0.67	0.41	-1.04
China State Con (601668 CH)	1.88	-0.49	-0.85	-2.71	-1.13
Sinohydro Group (601669 CH)	1.04	0.00	0.71	0.72	-0.84
Average	**1.69**	**0.46**	**-0.71**	**-1.47**	**-1.20**

Source: Companies, Bloomberg

Operating cash flow to net profit ratio difference between the Group and the peers



Source: Companies, ABCI Securities estimates

Business Strategies of the Group

To strengthen the leading position

The Group will strengthen the leading position as an international engineering contractor. The Group will carry on focusing on EPC projects especially in the power sector. Besides, the Group will enlarge the market share in the transportation and telecommunications sectors into other industries and countries and exploring new contracting models. In order to achieve these goals, the Group will carry out the following measures:

1. Continue to maintain and strengthen the competitiveness in the international engineering contracting business in the power sector by promoting reform and innovation. The Group intends to enhance the capabilities in the power sector by entering into the renewable energy sector, and by developing specialties in energy management and similar new business lines.

2. Enlarge the market share of international engineering contracting business in the transportation and telecommunications sectors. The Group intends to extend the leading position in the power sector into the transportation and telecommunications sectors by benefiting from the PRC's relatively cost-effective manufacturing capabilities, leveraging the "CMEC" brand and existing client relationship.

3. Continue to increase the market share globally by leveraging the experiences in business development and project management. In particular, the Group plans to increase the business development efforts in regions such as Eastern Europe, and engage in power projects with higher profit margins.

4. Continue to explore new contracting models to grow the business and gain global market share. The new contracting models include BOT, BT and PPP

5. Continue to improve the international project coordination, management and implementation capabilities. The Group intends to increase the product integration level as well as service quality. To do this, the Group intends to focus on enhancing the current engineering technology and capabilities in terms of on-site construction, comprehensive project planning, R&D and design.

Selectively enter into international projects in the non-Core Sectors

The Group will continue to stay on top of development trends and characteristics of the international engineering contracting industry, and utilize the competitive strengths in the international engineering contracting business to explore new business opportunities in the non-Core Sectors, such as manufacturing and processing plant projects, environmental protection projects and mineral and resources exploitation projects.

Consolidate the strength and enlarge market share in trading business

The Group intends to target the marketing efforts on overseas governmental organizations, business associations and industry organizations, and large corporate customers in various ways, including business visits, publicity and other marketing methods.

The Group expects to capitalize on the synergies that are potentially enjoyed between the international engineering contracting business and trading business and to increase the size of each transaction by leveraging on the ability in sourcing complete sets of plants and equipment and various mechanical, electrical and instrumental products as well as the leading position in the international engineering contracting industry.

Utilize local resources to improve margin and efficiency

The Group intends to control the labor costs, improve project implementation and increase the project operational efficiency by utilizing engineering and construction resources both locally in project sites and from locations nearby the project sites. It plans to establish an international procurement network.

Increase profitability through efficient fund usage and capital structure management

The Group intends to further centralize the fund management system, which will enable the Group to efficiently allocate the available funds, limit the amount of potentially idle funds and manage currency risks.

The Group plans to improve the capital management system in areas such as procurement and internal operations, which will allow the Group to speed up the cost recovery rate and increase the return on investment for the projects.

The Group will continue to purchase equipment from the PRC suppliers with which it have long-established business relationship. The Group also intends to continue to manage the currency risks by utilizing local currencies to purchase certain products or services locally.

Strengthen the information system and increase operational efficiency and improve the risk management system

The Group plans to strengthen the integrated information system which contains the information of the various business divisions and departments. It will strengthen the information management capability and raise the standard and productivity in the areas of engineering technology management.

The Group also aims to enhance the capabilities in the areas of marketing, cost control, project management, technology, quality control, procurement, construction and logistics.

Continue to advance and enhance the quality of personnel

The Group intends to continue providing systematic and ongoing training to its business team and project team. To build up a competent business development and project execution team is crucial to the Group to implement its business expansion plan and execute the projects.

Financial Projections and Analysis

Revenue analysis and projection

The Group is focusing on the international engineering contracting business mainly in developing countries, which contributed 58.8% and 79.7% of total revenue and total gross profit, respectively in FY11. With the growth of economy and infrastructure in developing countries, we expect that the Group is able to experience a high growth in the future. We estimate that revenue of the Group will grow at a CAGR of 18.3% from FY11 to FY14.

Revenue projection of the Group

	International engineering contracting business (Rmb mn)	Trading business (Rmbmn)	Others (Rmb mn)	Total (Rmb mn)
FY09A	13,647	4,979	662	**19,288**
FY10A	12,020	6,296	762	**19,077**
FY11A	12,055	7,689	774	**20,518**
FY12E	14,594	7,246	973	**22,813**
FY13E	17,482	8,520	1,070	**27,072**
FY14E	22,706	10,045	1,177	**33,928**

Source: Company, ABCI Securities estimates

Strong backlog and pending to be effective contacts on hand

The total backlog of the Group was US$6,051mn as at 30 June 30 2012, which includes US$5,144mn in the power sector, US$389mn in the transportation sector, US$166mn in telecommunication sector and US$353mn in the non-core sectors.

Backlog of the Group

(US$ mn)	FY09	FY10	FY11	1HFY12
Power	2,863	4,012	4,162	5,144
Transportation	262	234	469	389
Telecommunications	67	5	211	166
Non-Core Sectors	460	631	444	353
Total	3,653	4,882	5,285	6,051

Source: Company

Newly effective contract value of the Group

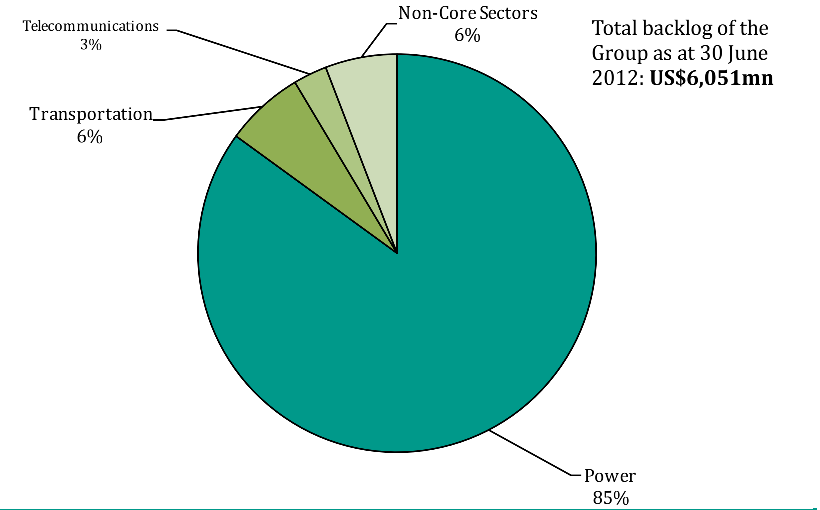
(US$ mn)	FY09	FY10	FY11	1HFY12
Power	789	2,515	1,583	2,139
Transportation	-	112	407	3
Telecommunications	-	-	209	10
Non-Core Sectors	312	328	28	7
Total	1,100	2,955	2,227	2,159

Remark: The Group had added newly effective contract value of US$1,578.5mn from end-1HFY12 to 3/12/2013

Source: Company

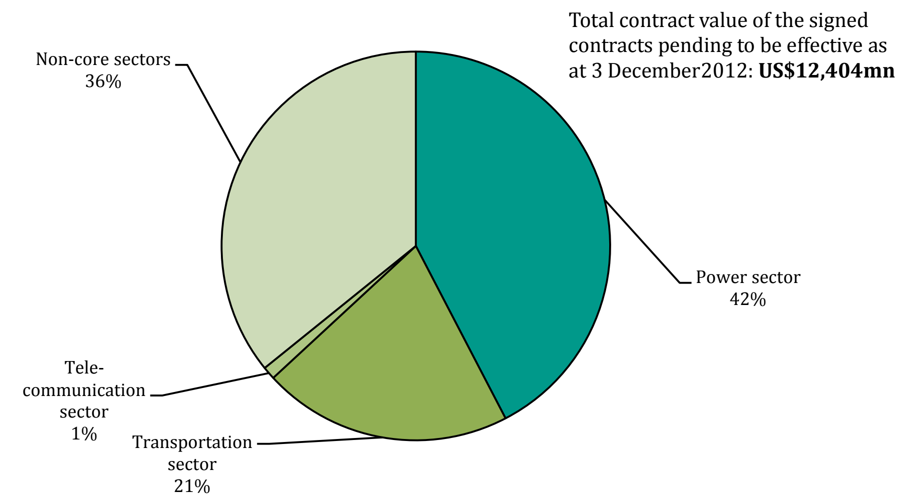
Furthermore, the aggregate contract value of the signed contracts pending to be effective was US$12,404mn as at 30 June 2012, which includes US$5,254mn in the power sector, US$2,575mn in the transportation sector, US$133mn in telecommunication sector and US$4,441mn in the non-core sectors. The signed contracts pending to be effective will become part of backlog in the future if those contracts have become effective. We believe that the backlog contracts and the signed contracts pending to be effective will support the revenue growth of the Group for coming few years.

Backlog breakdown as at 30 June 2012



Source: Company

Signed contracts pending to be effective breakdown as at 3 December 2012



Source: Company

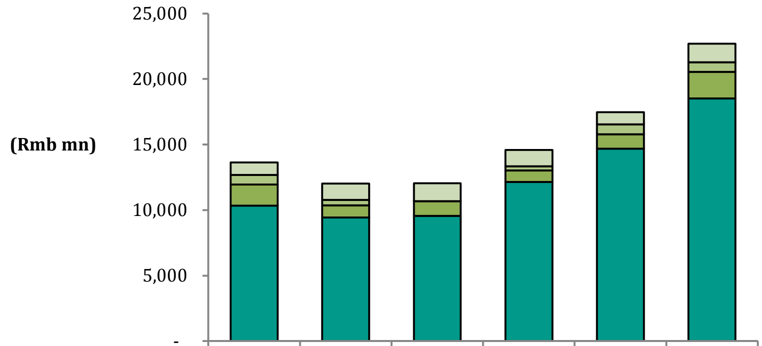
1) International engineering contracting business segment

The Group is a leading international engineering contractor by revenue with a primary focus on engineering and procurement and construction ("EPC") projects and particular expertise in the power projects.

The total contracts size recognized of the Group dropped at a CAGR of -6.0% from Rmb13,647mn in FY09 to Rmb12,055mn in FY11. The drop in total contract size was mainly due to the decrease in the newly effective contract value of engineering contracting projects in FY09 as a result of the global financial crisis and the subsequent reduction in actual performance on engineering contracting projects in FY10.

The revenue from the international engineering contracting business segment had remained relatively stable from FY10 to FY11, slightly increasing from Rmb12,020mn in FY10 to Rmb12,055mn in FY11. This was mainly attributable to stable and consistent progress made on the performance of the power and non-core sector (such as water supply systems, cement plant, residential units) projects in FY11, which offset the decline in revenue from the telecommunications sector.

Revenue breakdown of EPC segment



	FY09	FY10	FY11	FY12E	FY13E	FY14E
Non-core sectors	954	1,239	1,379	1,244	937	1,428
Telecommunication sector	735	410	2	333	755	719
Transportation sector	1,613	939	1,104	860	1,101	2,041
Power sector	10,345	9,432	9,569	12,157	14,689	18,518

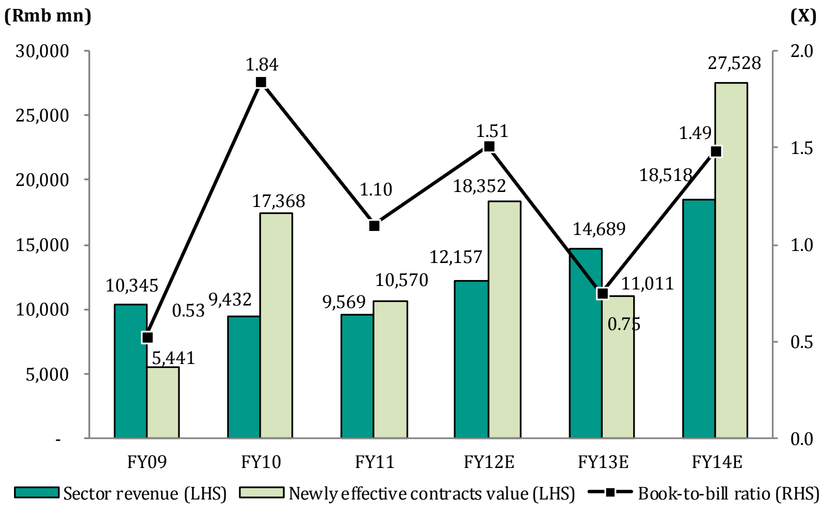
Source: Company, ABCI Securities estimates

1.1) Power sector

The power sector was the major income pillar of the Group. Revenue attributed to power sector was 79.4% of the total segment revenue in FY11. The power sector revenue dropped at a CAGR of -3.8% from Rmb10,345mn in FY09 to Rmb9,569mn in FY11 due to the financial crisis.

We expect the growth of the demand for the power will remain at a high speed in the developing countries. The total backlog as of 30 June 2012 for power sector was US$5,144mn. Therefore we estimate the growth of newly effective contracts for power project of the Group will increase at a CAGR of 38.1% from US$1,583mn in FY11 to US$4,171mn in FY14.

Projection of power sector revenue and book-to-bill ratio



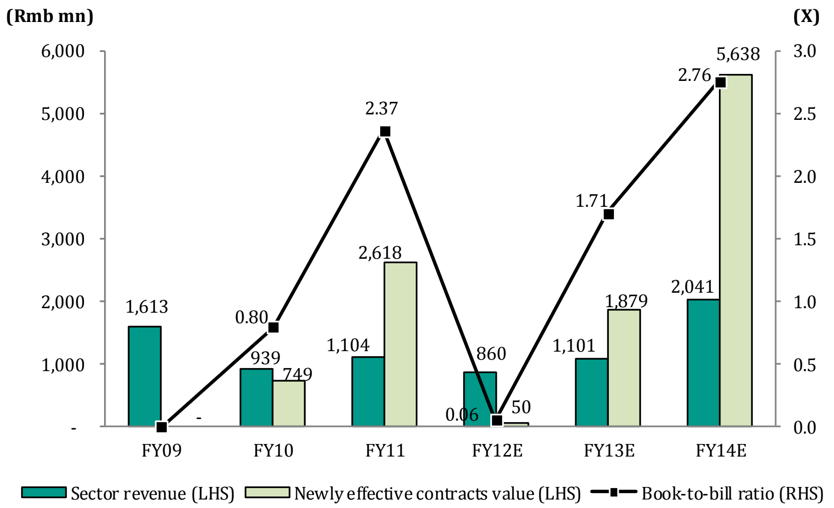
** The new contracts value and book-to-bill ratios were estimated by ABCI Securities*
Source: Company, ABCI Securities estimates

Our revenue forecasts of power sector are Rmb12,157mn in FY12, Rmb14,689mn in FY13 and Rmb18,518mn in FY14. It represents a CAGR of 24.6% for the sector revenue from FY11 to FY14.

1.2) Transportation sector

The revenue attributed to transportation sector decreased as percentage of segment revenue from 11.8% in FY09 to 9.2% in FY11. Transportation projects include railways and highways as well as shipbuilding. The transportation sector of the Group dropped at a CAGR of -17.3% from Rmb1,613mn in FY09 to Rmb1,104mn in FY11. We believe the drop in revenue because the Group completed a majority portion of the transportation projects in FY09 and had not achieved substantial performance of new transportation contracts due to the global financial crisis, which were at the beginning stages in FY10.

Projection of transportation sector revenue and book-to-bill ratio



** The new contracts value and book-to-bill ratios were estimated by ABCI Securities*
Source: Company, ABCI Securities estimates

As the slowdown of global economy, we expect the growth of investment in transportation infrastructure and the new orders of container vessels will decelerate in FY12. Therefore we estimate that the growth of newly effective contracts value for transportation project of the Group will decrease from US$407mn in FY11 to US$8mn in FY12. The total newly effective contracts value was US$2.5mn during 1HFY12.

However, with the expansion of the Group in transportation infrastructure project in the developing countries, we expect that the newly effective contract growth of the Group will pick up in FY13. The amount of signed contracts pending to be effective was US$2,575mn as at 3 Dec 2012, and total backlog in transportation sector was US$389mn as at 30 June 2012, respectively.

Our revenue forecasts of transportation sector are Rmb860mn in FY12, Rmb1,101mn in FY13 and Rmb2,041mn in FY14. It represents a CAGR of 22.7% for the sector revenue from FY11 to FY14.

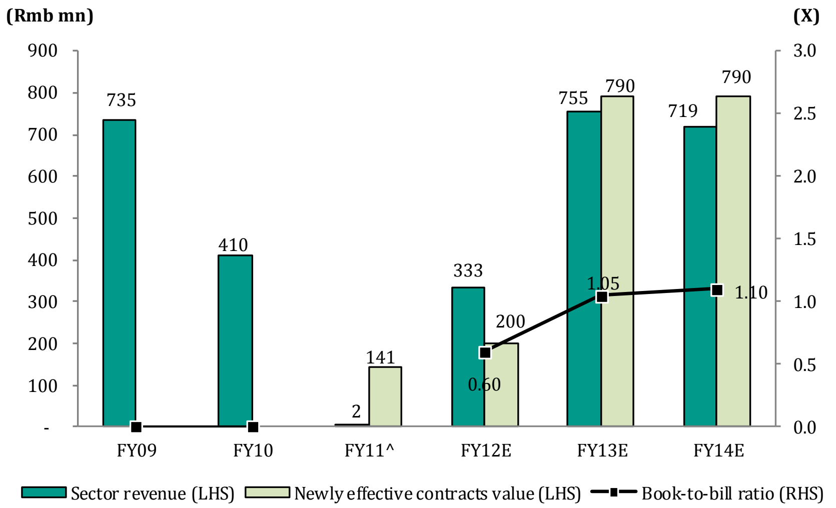
1.3) Telecommunication sector

The revenue attributed to telecommunication sector decreased as percentage of segment revenue from 5.4% in FY09 to 0.02% in FY11. Telecommunication projects include television broadcasting stations as well as wired and wireless networks. The telecommunication sector of the Group dropped at a CAGR of -94.4% from Rmb735mn in FY09 to Rmb2mn in FY11. We believe the drop in revenue of the sector is because the Group had completed most previous projects over FY09 and FY10 but not yet to begin the performance of new telecommunications projects that the Group had signed.

We estimate that the growth of newly effective contract for telecommunication project of the Group will decrease at a CAGR of -17.0% from US$209mn in FY11 to US$120mn in FY14. The total backlog of the sector as at 30 June 2012 was US$166mn.

Our revenue forecasts of telecommunication sector are Rmb333mn in FY12, Rmb755mn in FY13 and Rmb719mn in FY14. It represents a CAGR of 578.7% for the sector revenue from FY11 to FY14. The high growth of the sector is mainly due to the low base in FY11.

Projection of telecommunication sector revenue and book-to-bill ratio



** The new contracts value and book-to-bill ratios were estimated by ABCI Securities*
***The newly effective contracts value was zero in FY09 and FY11*
^The book-to-bill ratio of the sector was estimated at 61.5x in FY11
Source: Company, ABCI Securities estimates

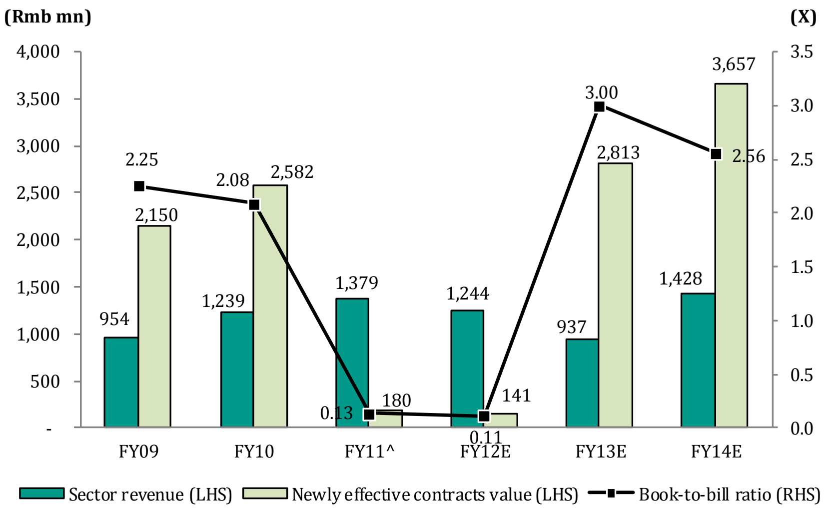
1.4) Non-core sectors

The revenue attributed to the non-core sectors increased as percentage of segment revenue from 7.0% in FY09 to 11.4% in FY11. Non-core sectors include water supply systems, cement plants and residential properties construction projects.

We estimate the growth of new contracts for non-core sectors projects of the Group will decrease from US$28mn in FY11 to US$21mn in FY12. With the expansion of global network of the Group, we expect the growth of the non-core sectors' newly effective contracts value will regain in FY13 and FY14. The total signed contracts pending to be effective of the non-core sectors was US$4,441mn as at 3 Dec 2012.

Our revenue forecasts of non-core sectors are Rmb1,244mn in FY12, Rmb937mn in FY13 and Rmb1,428mn in FY14. It represents a CAGR of 1.2% for the sector revenue from FY11 to FY14. The growth of revenue of non-core sectors is expected to slow down in FY12 to FY14 as the slowdown in new contracts being effective in FY11 and FY12.

Projection of non-core sectors revenue & book-to-bill ratio



** The new contracts value and book-to-bill ratios were estimated by ABCI Securities*
Source: Company, ABCI Securities estimates

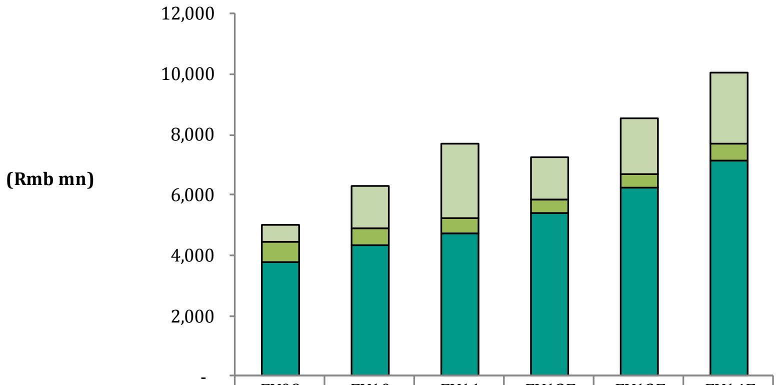
2) Trading business segment

Trading business segment, the second largest business segment of the Group, accounted for 37.5% of the total revenue in FY11. The Group has network in more than 150 countries and regions across the world. For FY11, domestic trade and international trade accounted for 32.2% and 67.8% of total trading business revenue respectively. In terms of geographical location, Asia, North American and Europe accounted for 63.4%, 17.0% and 11.5% of total trading business revenue for FY11, respectively. In the Asia markets, the Asia excluding China market accounted for 31.1% of trading business revenue in FY11.

The Group trading items included complete sets of plants and equipment, various machinery, electrical, and instrumental products including mining equipment, ship components, automobile parts, medical instrument, household appliances, office equipment, electrical hardware and construction materials for customers in the PRC and overseas.

Revenue of the segment increased at a CAGR of 24.3% from Rmb4,979mn in FY09 to Rmb7,689mn in FY11. The contribution of the segment to total revenue increased from 25.8% in FY09 to 37.5% in FY11 We estimate that the segment revenue will grow at CAGR of 9.3% from FY11 to FY14

Projection of trading business segment revenue



	FY09	FY10	FY11	FY12E	FY13E	FY14E
Domestic trade	512	1,379	2,479	1,393	1,810	2,353
International import trade	708	561	474	442	487	535
International export trade	3,759	4,355	4,736	5,411	6,223	7,157

Source: Company, ABCI Securities estimates

Revenue breakdown by geographic location

(Rmb mn)	FY09	(%)	FY10	(%)	FY11	(%)	1HFY12	(%)
Asia	2,264	45.5	3,015	47.9	4,874	63.4	1,605	45.6
Africa	349	7.0	925	14.7	132	1.7	740	21.0
Europe	875	17.6	988	15.7	884	11.5	455	12.9
North America	1,145	23.0	1,139	18.1	1,310	17.0	646	18.3
Central/South America	282	5.7	140	2.2	372	4.8	50	1.4
Oceania	65	1.3	89	1.4	117	1.5	26	0.7
Total	**4,979**	**100.0**	**6,296**	**100.0**	**7,689**	**100.0**	**3,522**	**100.0**

Source: Company

3) Other business segments

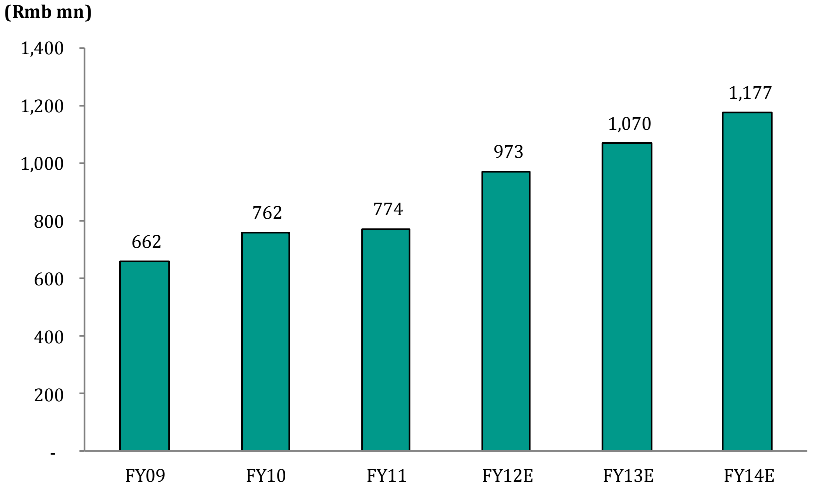
In addition to international engineering contracting segment and trading business segment, the Group also operates other business segments including logistics services, exhibitions services, tendering agency services, export-import agency services, design services, and strategic equity investment.

The total revenue of other business segments accounted for 3.8% of total Group's revenue in FY11, increased from 3.4% in FY09.

As the Group focus on the core international engineering contracting segment, we believe the growth of the other business segments will be lower than that of international engineering contracting segment. We estimate the total revenue from other business segments will grow at a CAGR of 15.0% from Rmb774mn in FY11 to Rmb1,177mn in FY14.

We estimate that the revenue of other business segments as percentage of total revenue decrease from 3.8% in FY11 to 3.5% in FY14.

Projection of other business segments revenue



Source: Company, ABCI Securities estimates

Revenue breakdown by different services

	FY09 (Rmb mn)	(%)	FY10 (Rmb mn)	(%)	FY11 (Rmb mn)	(%)	1HFY12 (Rmb mn)	(%)
Logistics services	173	26.1	129	17.0	192	24.8	107	26.3
Exhibition services	135	20.4	160	20.9	199	25.7	114	28.1
Tendering agency services	109	16.5	134	17.6	43	5.5	16	3.9
Export-import agency services	104	15.7	155	20.3	75	9.7	28	6.8
Design services	101	15.3	135	17.7	234	30.2	101	24.9
Others	40	6.1	50	6.5	31	4.1	41	10.0
Total	**662**	**100.0**	**762**	**100.0**	**774**	**100.0**	**406**	**100.0**

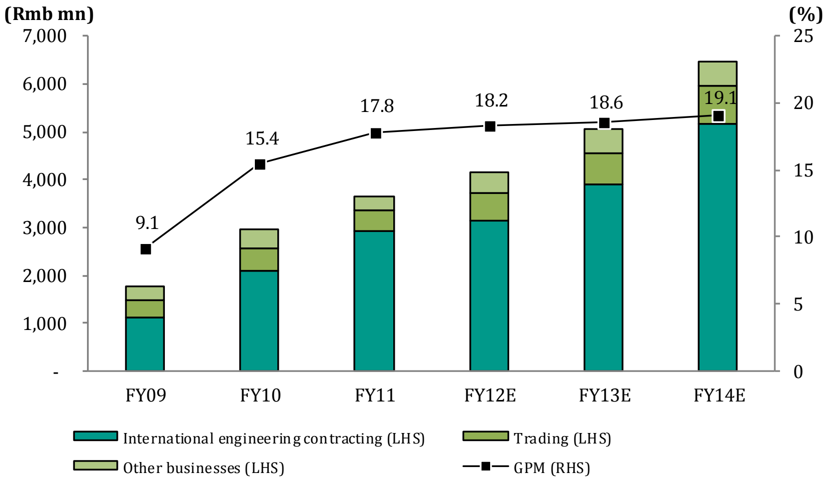
Source: Company

Gross profit margin analysis and projection

Gross profit margin ("GPM") of the Group increased 8.7ppts from 9.1% in FY09 to 17.8% in FY11, mainly due to the improvement of GPM of international engineering contracting business segment.

We estimate the GPM will keep surging to 18.2% in FY12, 18.6% in FY13 and 19.1% in FY14, mainly due to the improvement of GPM of international engineering contracting business segment. The details on breakdown of GPM are as follow.

Projection of gross profit and GPM of the Group



Source: Company, ABCI Securities estimates

1) International engineering contracting business segment

Subcontracting costs and equipment costs are the two major components of the cost of sales of international engineering contracting business. We estimate that they are attributed 80.0% of cost of sales from this business segment in FY12.

The segment GPM increased 15.9ppts from 8.3% in FY09 to 24.2% in FY11. The improvement of segment GPM was mainly due to the GPM increment of power sector increased 19.1ppts from 8.1% in FY09 to 27.2% in FY11. We believe the reason of low GPM in FY09 was because of global financial crisis which lowered the infrastructure budgeting in developing countries. With the gradual improvement of economy in developing countries, the Group managed to select and enter high margin contracts in Africa and Asia after the global financial crisis. We believe the Group will focus on the high margin projects in the future.

By considering with the extensive experience and well-established track record in the power sector, we believe that the Group is able to maintain high GPM for the power sector, and it will support the segment GPM. We estimate GPM for power sector is 21.6% in FY12.

GPMs of transportation, telecommunication and non-core sector are during FY09 to FY11. We estimate the sector GPMs will increase be 13.6%, 6.5% and 5.0% in FY12, respectively.

We estimate the overall segment GPM of international engineering contracting business segment will edge down to 21.6% in FY12 due to change of project-mix, and surge to 22.2% in FY13 and 22.7% in FY14.

International engineering contracting business segment GPM breakdown

(%)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
Power	8.1	20.7	27.2	23.5	30.3	25.9
Transportation	7.9	1.7	7.0	5.5	9.3	15.2
Telecom	5.4	31.1	10.8	N/A	13.0	8.0
Non-core	13.3	1.2	16.9	2.6	25.3	6.6
Segment GPM	**8.3**	**17.5**	**24.2**	**19.4**	**28.2**	**22.4**

**The sector and segment GPM in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

2) Trading business segment

The segment GPM dropped from 7.0% in FY09 to 5.7% in FY11. As we see the GPM of international trade enhanced from 6.0% in FY11 to 8.2% in 1HFY12 and it contributed 80.9% of the segment revenue in 1HFY12, we expect that the overall segment GPM will lift up to 7.9% in FY12. We assume the segment GPM will maintain at 7.9% in FY13 and FY14.

Trading business segment GPM breakdown

(%)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
International trade	6.9	7.2	6.0	6.5	5.5	8.2
Domestic trade	7.6	8.1	5.0	2.5	8.5	5.1
Segment GPM	**7.0**	**7.4**	**5.7**	**5.0**	**6.4**	**7.6**

**The sector and segment GPM in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

3) Other business segments

The GPM of other business segments fluctuated from 39.7% to 48.6% during FY09 to FY11. We assume it will stay flat at 45.0% during FY12 to FY14. As the segments were mainly comprised by services, such as import and export agency services, engineering bidding agency services, exhibition services, property leasing services and transportation services, GPM for services is relatively higher and boosted up the segments GPM.

GPM of other businesses of the Group

(%)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
Segment GPM	**42.9**	**48.6**	**39.7**	**55.8**	**28.4**	**47.8**

**The sector and segment GPM in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

Net profit analysis and projection

Net profit of the Group surged at a CAGR of 55.0% from Rmb614mn in FY09 to Rmb1,475mn in FY11. Net profit margin ("NM") increased by 4.0ppts from 3.2% in FY09 to 7.2% in FY11. We believe the improvement of NM mainly due to the increase in GPM from 9.1% in FY09 to 17.8% in FY11.

We estimate that the net profit will grow at a CAGR of 29.8% from Rmb1,475mn in FY11 to Rmb3,226mn in FY14.

GPM projection

Gross profit margin ("GPM") of the Group increased by 8.7ppts from 9.1% in FY09 to 17.8% in FY11. We estimate it will keep surging to 19.1% in FY14. For the details of our GPM forecasts, please refer to *"Gross profit margin analysis and projection"*.

Selling and marketing expenses

The selling and marketing cost as percentage of revenue increased from 4.0% in FY09 to 4.8% in FY11. Its selling and marketing cost consists of wages and benefits, marketing and promotion expenses. The marketing and promotion related traveling expenses constitute the major component.

We expect the growth of wages and benefits expenses of the Group will be in line with the growth of revenue. We estimate that it will be Rmb844mn in FY12, Rmb1,001mn in FY13 and Rmb1,255mn in FY14.

The marketing and promotion and transportation expenses as percentage of revenue ranged between 0.6% and 0.8%, we estimate that it will stay flat at 0.7% in FY12 to FY14.

The depreciation and amortization expenses for selling and distribution maintained at a relatively stable level ranging from Rmb9.2mn to Rmb10.3mn. As the Group plans to increase capex for office buildings construction in China, we assume the depreciation and amortization component will increase at CAGR of 24.8% from Rmb10.3mn in FY11 to Rmb20.0mn in FY14.

In all, we estimate that the selling and marketing cost as percentage of revenue will be 5.0% in FY12, 5.0% in FY13 and 5.1% in FY14.

Selling and marketing expenses breakdown of the Group

(Rmb mn)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
Wage and benefits	576	569	692	300	392	383
Marketing and promotion	100	126	133	46	87	52
Transportation	11	12	18	10	8	7
Depreciation and amortization	9	10	10	5	5	5
Others	67	89	125	48	77	58
Total selling and marketing expenses	**763**	**806**	**978**	**409**	**569**	**505**

**The cost breakdown in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

Administrative expenses

The administrative expenses as percentage of revenue increased from 1.5% in FY09 to 2.0% in FY11. The administrative expenses of the Group include wages and benefits, depreciation and amortization of administration-related assets, traveling expenses, office expenses, consulting expenses and entertainment expenses.

Selling and distribution cost breakdown of the Group

(Rmb mn)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
Wages and benefits	135	137	184	78	106	88
Depreciation and amortization	23	26	62	25	37	48
Traveling expenses	24	27	30	11	18	16
Office expenses	22	25	31	12	19	13
Consulting expenses	26	29	31	13	18	14
Entertainment expenses	14	15	18	8	11	7
Others	45	31	50	25	26	26
Total administrative expenses	**288**	**290**	**406**	**172**	**235**	**212**

**The cost breakdown in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

The increment of administrative expenses as percentage of revenue form 1.5% in FY10 to 2.0 in FY11 mainly due to the increases in wage and benefits expenses and depreciation and amortization expenses as percentage of revenue. We expect the growth of wage and benefit expenses will in line with that of the Group's total revenue.

We expect the total administrative expenses will maintain at a stable level as percentage of revenue. We estimate that the administrative expenses as percentage of revenue will be 2.3% in FY12, 2.1% in FY13 and 2.1% in FY14.

Other operating expenses

Other operating expenses mainly consist of impairment losses in respect of trade and other receivables and provisions arising from guarantees issued. The other operating expenses as percentage of revenue were fluctuated between 0.7% and 1.7% during FY09 to FY11. We estimate that the expenses as percentage of revenue will be 1.1% in FY12, 1.2% in FY13 and 1.0% in FY14.

Finance expenses

The finance expenses increased Rmb310mn, or 405.1%, from Rmb76mn in FY09 to Rmb386mn in FY10. This increase was primarily due to the increase of foreign exchange losses in FY10 because the RMB appreciated against the US dollar in 2010, whereas the exchange rate of RMB against US dollars remained relatively stable in FY09.

As the translation between RMB and US dollar became stable in 2012, we expect the foreign exchange losses will dropped significantly in FY12. We estimate the total finance expenses will be Rmb21mn in FY12, Rmb14mn in FY13 and Rmb11mn in FY14.

Breakdown of finance income and expenses of the Group

(Rmb mn)	FY09	FY10	FY11	1HFY11	2HFY11	1HFY12
Financial income						
Financial income from receivables	290	282	210	123	87	148
Interest income	63	129	193	82	110	101
Total financial income	**353**	**412**	**402**	**205**	**197**	**249**
Financial expenses						
Interest cost	122	80	36	24	12	13
Foreign exchange losses/(gains), net	**25**	**332**	**505**	**163**	**342**	**-14**
Bank charges and others	10	11	20	11	9	4
Less: Interest expense capitalized	-80	-38	-2	-2	-	-
Total financial expenses	**76**	**386**	**560**	**196**	**363**	**3**

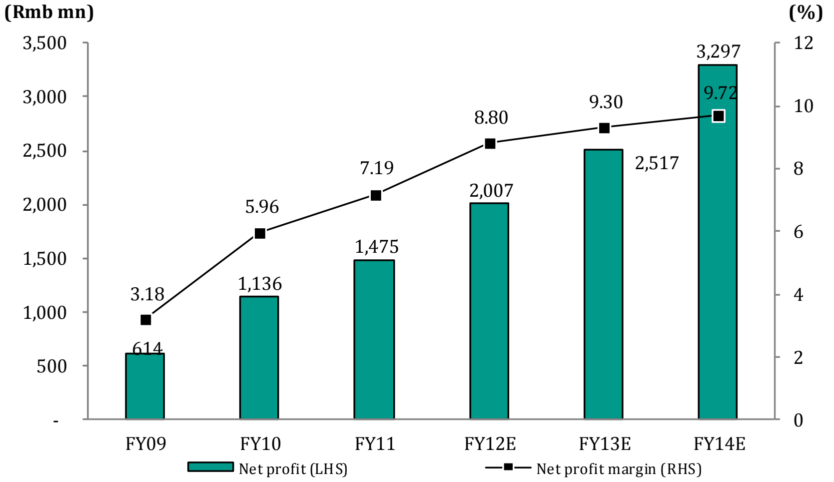
**The cost breakdown in 2HFY11 was calculated by ABCI Securities*
Source: Company, ABCI Securities estimates

Thanks for the improvement of GPM, the net profit margin ("NM") increase significantly by 4.0ppts from 3.2% in FY09 to 7.2% in FY11. We expect the GPM will keep improving in the future. We estimate that the NM will increase from 7.2% in FY11 to 8.8% in FY12, 9.3% in FY13 and 9.5% in FY14 based on our cost assumption mentioned above.

We estimate that the net profit will be up 36.1% YoY in FY12 from Rmb1,475mn in FY11 to Rmb2,007mn in FY12. Excluding the foreign exchange loss at Rmb505mn in FY11, we estimate that the core net profit of the Group was Rmb1,849mn in FY11. Our net profit forecast represents that the net profit will be up 8.5% YoY in FY12 compared with the core net profit in FY11.

We estimate that the net profit will grow at a CAGR of 29.8% from Rmb1,475mn in FY11 to Rmb3,226mn in FY14.

Projection of net profit and net profit margin



Source: Company, ABCI Securities estimates

Cash conversion analysis

Trade and bill receivables

The trade and other receivables of the Group increased from Rmb1,414mn in FY09 to Rmb3,488mn in FY11. We estimate that the trade and bill receivables turnover days (365 x average trade and bill receivables / revenue during the year) of the Group were 35.0 days in FY10 and 51.0 days in FY11. We estimate that the receivables turnover days of the Group will be 60.0 days in FY12, 60.0 days in FY13 and 65.0 days in FY14.

Construction contract

The outstanding balance of gross amount due from customers for construction work less the gross amount due to contract customers for construction work decreased from Rmb9,460mn in FY09 to Rmb7,950mn FY11. We believe the Group will lower the construction contract receivables in the future in order to enhance the assets quality. We estimate it will reduce to Rmb5,262mn in FY12, Rmb4,147 in FY13 and Rmb3,477mn in FY14.

Inventories

Inventories of the Group increased from Rmb175mn in FY09 to Rmb212mn in FY11. We estimate that the inventories turnover days (365 x average inventories level / cost of sales) of the Group were 4.0 days in FY10 and 4.2 days in FY11. We estimate that the inventory turnover days will stay flat at 7.0 days in FY12 to FY14.

Trade and bill payables

The trade and bill payables of the Group increased from Rmb8,632mn in FY09 to Rmb9,802mn in FY11. Based on our calculation, we estimate that the trade and bill payables turnover days (365 x average trade and bill payables / cost of sales) were 161.9 days in FY10 and 175.1 days in FY11. Under the expansion of international engineering contracting, we estimate that the payables turnover days of the Group will decrease to 174.1 days in FY12, 157.3 days in FY13 and 106.3 days in FY14.

Cash conversion cycle

We estimate that the cash conversion cycle ("trade and bill receivables turnover days" plus "inventories turnover days" minus "trade and bill payables turnover days") was -122.9 days in FY10 and -119.9 days in FY11. We estimate the cash conversion cycle will be -107.1 days in FY12, -90.3 days in FY13 and -34.3 days in FY14. Negative number of cash conversion days indicates that the Group collected receivables before paid its payables.

Operating cash flow / net profit

The operating cash flow of the Group was Rmb709mn in FY09, Rmb5,603mn in FY10 and Rmb2,828mn in FY11. The operating cash flow to net profit ratio were 1.16x in FY09, 4.93x in FY10 and 1.92% in FY11. We estimate the ratio will be 2.56x in FY12, 0.63x in FY13 and 0.37x in FY14. The expected drop in ratio is mainly because of the expansion of the Group trading off the short term liquidity.

Debt ratio analysis

The net debt/total equity ratio of the Group was in net cash position in FY09, FY10 and FY11 based on our calculation, which was lower than that of CCCC at 77.5%, CRG at 85.7% and CSC at 9.9%.

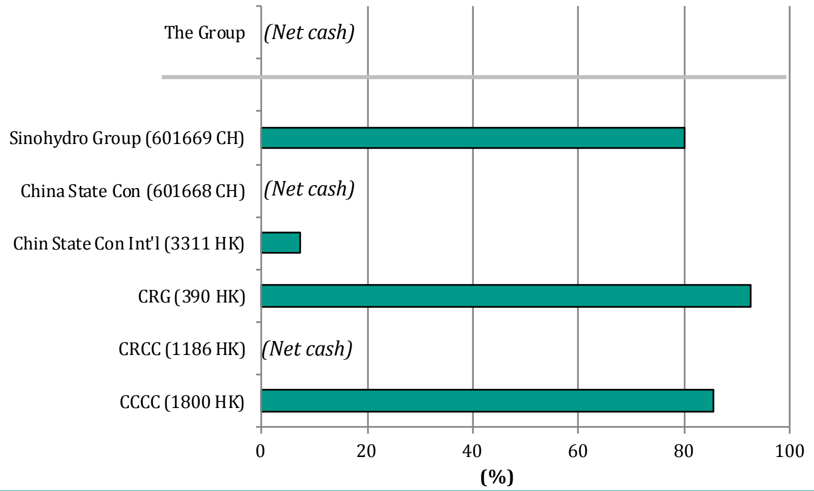
Total debt

The total debt of the Group decreased from Rmb2,263mn at end-FY09, Rmb1,836mn at end-FY10 and Rmb386mn at end-FY11.

Net gearing

The total cash on hand (cash and cash equivalents plus time deposits and restricted deposits) of the Group was Rmb4,647mn at end-FY09, Rmb9,623mn at end-FY10 and Rmb9,516mn at end-FY11. The net cash was Rmb2,384mn at end-FY09, Rmb7,787mn at end-FY10 and Rmb9,130 at end-FY11.

Net gearing ratio of the Group and peers as of end-FY11



Source: Companies, ABCI Securities

Interest coverage ratio

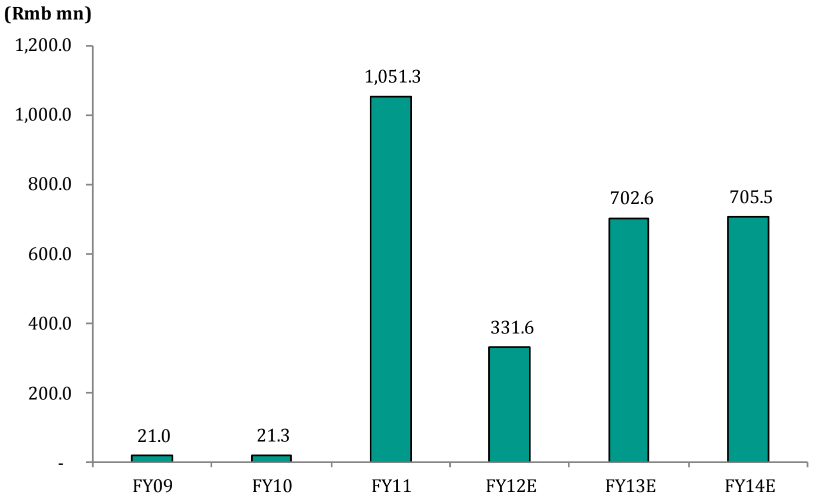
The total interest cost of the Group was Rmb132mn in FY09, Rmb91mn in FY10 and Rmb56mn in FY11. We estimate the EBIT of the Group was Rmb911mn in FY09, Rmb1,947mn in FY10 and Rmb2,547mn in FY11. The interest coverage ratio ("EBIT/Interest cost") of the Group was 6.9x in FY09, 21.3x in FY10 and 45.4x in FY11.

Capital Expenditures

Capital expenditures ("capex") consisted primarily of the purchase of property, plant and equipment, investment properties, lease prepayments and intangible assets. The capex were Rmb21.0mn and Rmb21.3mn, respectively in FY09 and FY10. The capex in FY09 and FY10 were mainly used for the purchase of equipment. The capex increased significantly to Rmb1,052.3mn in FY11.

The increase was mainly attributable to the acquisition of the land use right for a piece of land in Beijing for a consideration of Rmb1,000mn, on which the Group's new headquarters will be constructed. We estimate that the capex is Rmb331.6mn in FY12, Rmb702.6mn in FY13 and 705.5mn in FY14, mainly for the construction of new headquarters in Beijing and the new office buildings in Shanghai, Shenzhen and Changsha, as well as acquisition of a new office building in Wuxi.

Capital expenditure projection of the Group



Source: Companies, ABCI Securities estimates

As the Group does not own the projects incurring in international engineering contracting business, the expenditures incurred in these projects are not capitalized expenditure in nature.

In order to finance the ongoing projects, we believe the Group will seek more mid-term funding, such as mid-term bank loans, supplier credits, capital injection in the future.

Capital Raising

The Group issued 825.7mn new shares (or 20.01% of enlarged share capital) at HK$5.4/share to raise estimated net proceeds of HK$4,259.1 mn (or Rmb3,424.3mn @Rmb0.8040/HK$ on Dec 31, 2012) in December 2012 to finance its ongoing projects and new projects in areas such as payment to subcontractors and suppliers for payments of subcontracting services and equipment and machinery.

Use of proceeds

% of net proceeds	Purposes
52%	Financing 9 projects (1 in Asia, 2 in Africa, 2 in S Africa, 4 in Europe) in power sector with total contract amount of US$5,574mn
24%	Financing 1 project in transportation sector in South America with total contract amount of US$2,500mn
14%	Financing 1 project in non-core sector in Asia with total contract amount of US$1,450mn.
10%	Working capital

Source: the Company

Four of the nine projects in power sector were ongoing projects with an estimated backlog of US$808.7mn (or Rmb5,138.5mn, @Rmb6.354/US$ at 30/6/2012) as of Jun 30, 2012. The rest of seven projects in power, transportation and non-core sectors have not become effective contracts. Hence, these seven projects have no recognition of revenue before they have become effective contracts. If the contracts of these seven projects become effective in FY13, they will become new revenue drivers to the Group for FY13 and onwards.

As the fund raising exercise was completed at the last month of FY12, the consolidated balance sheet at 31/12/2012 of the Group will be positively distorted by this fund raising exercise.

Offering details

	Global offering	Over-allotment	Overall
Completion	19/12/2012	27/12/2012	
Offering shares (mn)	718.00	107.70	**825.70**
Offering price (HK$/share)	5.40	5.40	**5.40**
Gross proceeds (HK$ mn)	3,877.20	581.58	**4,458.78**
Est. net proceeds (HK$ mn)	3,693.60	565.50	**4,259.10**
Cost ratio	95.26%	97.24%	**95.52%**

Source: the Company

Capital change history

Share capital (mn shares)	Pre-IPO	Add (reduce)[1]	Post-IPO 31/12/2012	Add (reduce)[2]	**31/1/2013**
H shares	-	789.80	789.80	118.47	**908.27**
Domestic shares	3,300.00	(71.80)	3,228.20	(10.77)	**3,217.43**
Issued shares	3,300.00	718.00	4,018.00	107.70	**4,125.70**

1: Refer to effect of global offering exercise
2: Refer to effect of exercise of over-allotment option
Source: the Company, Hong Kong Exchanges

Shareholding Structure

Latest shareholding structure[1]

	No. of shares (mn shr)	Weighting of issued shares (%)
Domestic shares:		
Sinomach[2]	3,185.26	77.21%
China United (wholly owned by Sinomach)	32.17	0.78%
Total domestic shares	**3,217.43**	**78.0%**
H-shares:		
NSSF (29/1/2013)[3]	96.49	2.34%
5 cornerstone investors (@HK$5.4/share)[4]	236.59	5.73%
Public shareholder s(@HK$5.4/share)	575.19	13.94%
Total H-shares	**908.27**	**22.01%**
Total issued shares	4,125.70	100.0%

1: After global offering shares and exercise of over-allotment option
2: Sinomach: China National Machinery Industry Corporation
3: NSSF: National Council for Social Security Fund of the PRC
4: With 6 months lock up period from Dec 20, 2012
Source: the Company

Details of cornerstone investors

	No. of shares (mn shr)	Weighting of H-shares (%)
The People's Insurance Company (Group) of China Limited	71.76	7.90%
CSR (Hong Kong) Company Limited	71.76	7.90%
Nanjing Turbine & Electric Machinery (Group) Co., Ltd	43.06	4.74%
Xi Lian International Co., Ltd.	28.70	3.16%
China Overseas Finance Investment Limited	21.31	2.35%
Total	236.59	26.05%

Source: the Company

Valuation and Recommendations

We combine following valuation methods: 1) "PE multiple" method, 2) "PB multiple" method and 3) "DCF" method, to estimate the fair value of the Group. Our target price of the Group is HK$8.21 based on our target valuation of FY13E PE at 10.78x. We initiate "Buy" rating on the Group.

The Group is a leading international engineering contractor with Chinese background. Therefore we consider the closest peers of the Group are the following six companies: CCCC (1800 HK), CRCC (1186 HK), CRG (390 HK), China State Construction Int'l (3311 HK), China State Construction (601668 CH) and Sinohydro Group (601669 CH).

1) Estimated from peers' PE multiple

Based on referencing with the peers' PE multiple, our target valuation of the Group is Rmb6.556/share (or HK$8.162, @HK$1.245/Rmb) which represent FY13E PE of 10.73x. The valuation PE is equal to the upper quartile of the peers' FY13E PE. We believe this valuation is justified because of the better in profitability of the Group compared with that of its peers.

2) Estimated from peers' PB multiple

Based on referencing with the peers' PB multiple, our target valuation of the Group is 1.48x of FY13E PB, which is equal to the upper quartile of the peers' FY13E PB. As we estimate that the total book value of the Group is Rmb12,366mn at end-2013, and net income is Rmb2,523mn. The target valuation under the PB multiple method represents 7.26x of FY13E PE.

Close peer of the Group

Company	Bloomberg ticker	FY13 PE (X)	FY13 PB (X)	Market capital (HK$ mn)
CHINA COM CONS-H	1800 HK	7.98	1.08	112,331
CHINA RAIL CN-H	1186 HK	9.23	1.04	91,993
CHINA RAIL GR-H	390 HK	9.50	0.88	86,372
CHINA STATE CONS	3311 HK	14.42	2.69	39,574
CHINA STATE -A	601668 CH	5.98	0.93	136,537
SINOHYDRO GROU-A	601669 CH	7.24	1.02	45,607
Upper quarter		10.73	1.48	118,383
Median		8.61	1.03	89,183
Lower quarter		6.93	0.91	44,099

**The data in the table above is as at 1 February 2013*
Source: Bloomberg, ABCI Securities

3) DCF method

We assume a three-stage DCF in our valuation model. Stage one is the high growth stage with CAGR of 11.7% on EBIT. We assume stage 1 lasts for 5 years from 2012. The CAGR of EBIT in stage two (another 5 years after stage 1) is estimated to be 1.5%. We assume that the terminal growth rate on the free cash flow is 1.0%. We assumed that the "beta" of the Company equals to the mean of the peer group at 1.4. The WACC of the Company is 18.4%. We have performed a sensitivity analysis on the change of WACC and terminal growth rate. The details on our WACC calculation of the sensitivity analysis are shown below.

WACC calculation details

Key Item	Assumption
Cost of debt	5.0%
Tax rate	25.0%
After-tax cost of debt	**3.8%**
Risk free rate in the related market	1.0%
Market risk premium	12.8%
Assumed Beta	1.40
Cost of equities	**18.9%**
Debt/(Debt+Equity)	3.0%
WACC	18.4%

Source: Bloomberg, ABCI Securities estimates

Under this DCF valuation method, the fair value of the common equity value should be ranged in between Rmb35,426mn and Rmb36,988mn (or Rmb8.587-8.965/share). The base case is Rmb36,207mn (or Rmb8.776/share), which represents 14.35x of our estimated net profit for FY13.

Valuation of the Group

We consider the mean of the estimated valuation from the "PE multiple", "PB multiple" and "DCF" methods as our target valuation of the Group. Our target price of the Group is HK$8.21 based on our target valuation of FY13E PE at 10.78x. We initiate "Buy" rating on the Group.

Peer Group Valuation

Market valuation of comparable stocks

Code	Stocks	Share price	Report Curncy	FY12E EPS	FY13E EPS	FY13 EPS Chg	FY13 NBV /share	FY12E PER (x)	FY13E PER (x)	FY13E PEG (x)	FY13E P/B (x)	EV / EBITDA (x)
	Listing in HK	(HK$)										
1829 HK	**CMEC**	7.38	**Rmb**	**0.486**	**0.611**	**25.70%**	**3.01**	**12.19**	**9.69**	**0.38**	**2.45**	**13.34**
3311 HK	China State Cons	10.18	HK$	0.562	0.706	25.60%	3.78	18.11	14.42	0.56	2.69	19.74
1800 HK	China Comm Cons	7.87	Rmb	0.72	0.801	11.30%	5.86	8.76	7.98	0.71	1.08	7.71
1186 HK	China Rail Cons	8.38	Rmb	0.657	0.73	11.10%	6.48	10.23	9.23	0.83	1.04	3.68
390 HK	China Railway	4.42	Rmb	0.328	0.374	14.00%	4.04	10.80	9.50	0.68	0.88	8.45
	Average							**12.02**	**10.16**	**0.63**	**1.63**	**10.58**
	High							18.11	14.42	0.83	2.69	19.74
	Low							8.76	7.98	0.38	0.88	3.68
	Peers in A-share mkts	(Rmb)										
601669 CH	Sinohydro	3.81	Rmb	0.442	0.526	19.00%	3.73	8.62	7.24	0.38	1.02	6.1
601668 CH	China State Cons Eng	3.65	Rmb	0.52	0.61	17.30%	3.94	7.02	5.98	0.35	0.93	5.37
601800 CH	China Comm Cons	5.29	Rmb	0.7	0.783	11.90%	5.81	7.56	6.76	0.57	0.91	7.37
600068 CH	China Gezhouba	5.81	Rmb	0.472	0.544	15.30%	3.50	12.31	10.68	0.70	1.66	11.06
601186 CH	China Rail Cons	5.83	Rmb	0.662	0.735	11.00%	6.26	8.81	7.93	0.72	0.93	3.08
601390 CH	China Railway	3.18	Rmb	0.328	0.366	11.60%	3.96	9.70	8.69	0.75	0.80	8.45
	Average							**9.00**	**7.88**	**0.58**	**1.04**	**6.91**
	High							12.31	10.68	0.75	1.66	11.06
	Low							7.02	5.98	0.35	0.80	3.08
	Overseas peers	(local)										
DG FP	Vinci SA	37.89	EUR	3.445	3.501	1.60%	25.76	11.00	10.82	6.76	1.47	6.56
EN FP	Bouygues SA	21.32	EUR	2.119	2.486	17.30%	27.74	10.06	8.58	0.50	0.77	4.05
WOR AU	Worleyparsons	25.23	AUD	1.425	1.584	11.20%	9.25	17.71	15.93	1.42	2.73	11.11
000720 KS	Hyundai Eng	68,600	KRW	4,519	5,052	11.80%	53,068	15.18	13.58	1.15	1.29	15.35
JEC US	Jacobs Eng	48.04	USD	2.94	3.317	12.80%	36.71	16.34	14.48	1.13	1.31	6.82
	Average							**14.06**	**12.68**	**2.19**	**1.51**	**8.78**
	High							17.71	15.93	6.76	2.73	15.35
	Low							10.06	8.58	0.50	0.77	4.05

Share prices based on Feb 1, 2012; Forex: Rmb0.8017/HK$
Source: Bloomberg, ABCI Securities estimates

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	**19,288**	**19,077**	**20,518**	**22,813**	**27,072**	**33,928**
International engineering contracting	13,647	12,020	12,055	14,594	17,482	22,706
Trading	4,979	6,296	7,689	7,246	8,520	10,045
Other	662	762	774	973	1,070	1,177
Cost of sales	(17,528)	(16,135)	(16,859)	(18,649)	(22,031)	(27,449)
Gross profit	**1,760**	**2,942**	**3,659**	**4,163**	**5,041**	**6,479**
Other revenue	13	19	10	14	14	13
Other expenses, net	(25)	(10)	(3)	(25)	(30)	(36)
Selling and distribution	(763)	(806)	(978)	(1,145)	(1,363)	(1,733)
Administrative expenses	(288)	(290)	(406)	(516)	(569)	(704)
Other operating expenses	(139)	(320)	(136)	(223)	(286)	(296)
Profit from operations	**558**	**1,535**	**2,145**	**2,268**	**2,808**	**3,723**
Finance income	353	412	402	462	613	645
Finance expenses	(76)	(386)	(560)	(21)	(14)	(11)
Pre-tax profit	**835**	**1,561**	**1,987**	**2,709**	**3,406**	**4,357**
Tax expenses	(225)	(429)	(515)	(704)	(886)	(1,133)
Net profit	**610**	**1,132**	**1,472**	**2,005**	**2,521**	**3,224**
Attributable to:						
Minority interests	3	4	3	2	2	2
Net profit to equity owner	**614**	**1,136**	**1,475**	**2,007**	**2,523**	**3,226**

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Sales mixed (%)						
International engineering contracting	70.8	63.0	58.8	64.0	64.6	66.9
Trading	25.8	33.0	37.5	31.8	31.5	29.6
Other	3.4	4.0	3.8	4.3	4.0	3.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)						
Gross profit margin	9.1	15.4	17.8	18.2	18.6	19.1
Operating profit margin	2.9	8.0	10.5	9.9	10.4	11.0
Pre-tax margin	4.3	8.2	9.7	11.9	12.6	12.8
Net profit margin	3.2	6.0	7.2	8.8	9.3	9.5
Selling & marketing expenses/revenue	4.0	4.2	4.8	5.0	5.0	5.1
Administrative expenses / revenue	1.5	1.5	2.0	2.3	2.1	2.1
Effective tax rate	26.9	27.5	25.9	26.0	26.0	26.0
Growth (%)						
Revenue	N/A	(1.1)	7.6	11.2	18.7	25.3
Gross profit	N/A	67.2	24.4	13.8	21.1	28.5
Profit from operations	N/A	175.1	39.7	5.8	23.8	32.6
Net profit	N/A	85.2	29.8	36.1	25.7	27.9

Source: Company, ABCI Securities estimates

Productivity of staff and assets of the Group

FY	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
No of employees (people)	2,049	2,153	2,447	2,692	2,961	3,257
Revenue per employee (Rmb mn)	9.413	8.861	8.385	8.475	9.143	10.417
Net profit per employee (Rmb mn)	0.298	0.526	0.602	0.745	0.851	0.990
Revenue / average assets (%)	N/A	84.3	78.9	75.4	77.3	89.7

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Current assets	**13,038**	**18,620**	**19,331**	**27,179**	**29,175**	**32,362**
Cash and equivalent	2,353	5,079	5,171	12,038	12,952	12,872
Time deposits	1,997	4,347	3,955	4,351	4,786	5,264
Restricted deposits	297	198	390	429	472	519
Trade and other receivables	4,658	4,919	6,427	7,227	8,343	10,910
Construction contracts	3,558	3,903	3,176	2,631	2,281	2,086
Inventories	175	175	212	503	342	711
Non-current assets	**6,842**	**6,768**	**7,277**	**6,744**	**6,936**	**7,185**
Property, plant and equipment	371	345	392	1,061	1,465	1,849
Investment properties	48	32	32	30	27	25
Intangible assets	4	7	5	4	3	2
Lease prepayment	76	74	1,630	1,586	1,542	1,500
Trade and other receivables	164	282	107	135	230	339
Construction contracts	5,902	5,705	4,774	2,631	1,866	1,391
Other non-current assets	277	323	336	1,296	1,802	2,079
Total assets	**19,879**	**25,388**	**26,608**	**33,922**	**36,112**	**39,547**
Current liabilities	**14,486**	**19,446**	**20,497**	**22,950**	**22,927**	**23,591**
Trade and other payables	8,454	9,605	9,671	10,766	10,963	7,086
Receipts in advance	5,077	8,671	10,316	11,709	11,412	15,884
Borrowings	513	576	160	90	90	90
Other	442	594	350	385	462	531
Non-current liabilities	**2,373**	**1,977**	**737**	**974**	**810**	**1,111**
Trade and other payables	178	321	131	380	224	528
Borrowings	1,750	1,260	226	176	126	76
Other	444	396	381	419	461	507
Total liabilities	**16,859**	**21,423**	**21,234**	**23,924**	**23,737**	**24,702**
Minority interests	**1**	**4**	**6**	**7**	**8**	**10**
Shareholders' equities	**3,019**	**3,961**	**5,368**	**9,991**	**12,366**	**14,835**

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Balance sheet ratios						
Current ratio (x)	0.9	1.0	0.9	1.2	1.3	1.4
Quick ratio (x)	0.9	0.9	0.9	1.2	1.3	1.3
Cash ratio (x)	0.2	0.3	0.3	0.5	0.6	0.6
Trade and bill receivables turnover days	N/A	35.0	51.0	60.0	60.0	65.0
Trade and bill payables turnover days	N/A	161.9	175.1	174.1	157.3	106.3
Inventory turnover days	N/A	4.0	4.2	7.0	7.0	7.0
Total debt / equity ratio (%)	74.9	46.3	7.2	2.7	1.7	1.1
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)						
ROAA	N/A	5.0	5.7	6.6	7.2	8.5
ROAE	N/A	32.6	31.7	26.2	22.6	23.7
Payout ratio	18.0	11.7	9.6	30.0	30.0	30.0
Per share data (Rmb)						
Pro-forma issued shares (mn)	3,300	3,300	3,300	4,126	4,126	4,126
Pro-forma FD EPS	0.186	0.344	0.447	0.486	0.611	0.782
BVPS	0.914	1.199	1.625	2.420	2.995	3.593
DPS	0.033	0.040	0.043	0.146	0.183	0.235

Source: Company, ABCI Securities estimates

Consolidated cash flow statements forecast

YE Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Profit before tax	**835**	**1,561**	**1,987**	**2,709**	**3,406**	**4,357**
Depreciation and amortization	37	41	72	105	121	143
Change in working capital	134	4,291	1,434	3,610	144	(1,107)
Income tax paid	(436)	(445)	(683)	(1,011)	(1,271)	(1,626)
Others	139	155	18	(316)	(816)	(560)
CF Operating	**709**	**5,603**	**2,828**	**5,097**	**1,585**	**1,207**
Increase in PP&E	(19)	(16)	(51)	(726)	(478)	(481)
Increase in intangible assets	(2)	(6)	(1,001)	(0)	(0)	(0)
Other	(1,638)	(2,159)	519	(0)	5	0
CF Investing	**(1,659)**	**(2,180)**	**(533)**	**(726)**	**(474)**	**(481)**
Capital injection	3	100	20	2,970	455	-
Net debt financing	640	(427)	(1,450)	(120)	(50)	(50)
Dividend payout	(216)	(272)	(698)	(354)	(602)	(757)
Others	(110)	(52)	(2)	-	-	1
CF Financing	**316**	**(652)**	**(2,130)**	**2,496**	**(197)**	**(806)**
Net change in cash	(634)	2,770	165	6,867	914	(80)
Cash at the beginning	2,992	2,353	5,079	5,171	12,038	12,952
Effect of foreign exchange rate	(4)	(45)	(73)	-	-	-
Cash at the end	**2,353**	**5,079**	**5,171**	**12,038**	**12,952**	**12,872**

Source: Company, ABCI Securities estimates

Key data of half-year breakdown on earnings of the Group

	1HFY11	2HFY11	FY11	1HFY12	2HFY12E	FY12E
Revenue	**9,839**	**10,679**	**20,518**	**10,354**	**12,458**	**22,813**
International engineering contracting	5,507	6,548	12,055	6,426	8,168	14,594
Trading	4,011	3,678	7,689	3,522	3,724	7,246
Other	321	453	774	406	567	973
Cost of sales	(8,387)	(8,471)	(16,859)	(8,450)	(10,199)	(18,649)
Gross profit	**1,452**	**2,208**	**3,659**	**1,904**	**2,259**	**4,163**
GPM (%)	***14.8***	***20.7***	***17.8***	***18.4***	***18.1***	***18.2***
Operating profit	**851**	**1,294**	**2,145**	**1,095**	**1,173**	**2,268**
Operating profit margin (%)	***8.6***	***12.1***	***10.5***	***10.6***	***9.4***	***9.9***
Financial income	205	197	402	249	213	462
Financial expenses	(196)	(363)	(560)	(3)	(18)	(21)
Pretax profit	**859**	**1,128**	**1,987**	**1,341**	**1,368**	**2,710**
Income tax	(217)	(298)	(515)	(352)	(353)	(704)
Net profit	**642**	**830**	**1,472**	**989**	**1,016**	**2,005**
Minority interest	(3)	6	3	1	1	2
Net profit to equity owners	**639**	**836**	**1,475**	**990**	**1,017**	**2,007**
Net profit margin (%)	***6.5***	***7.8***	***7.2***	***9.6***	***8.2***	***8.8***

Source: Company, ABCI Securities estimates

Risk Factors

Risks relating to new projects

From FY2009 to 1HFY12, the Group recorded accumulated revenue of Rmb4,180.2 (or approx. US$632mn) in the transportation sector of its international engineering contracting business. The Group plans to use part of its IPO proceeds to kick-start a new transportation project in S America at contract amount of US$2,500mn which is approx. 3.9x of total revenue of the transportation sector segment from FY09 to 1HFY12. The Group lacks of experience to handle and complete this type of mega project in its track record. The business risk of this new project is tremendous at this stage.

From FY2009 to 1HFY12, the Group recorded accumulated revenue of Rmb4,107.1mn (or approx. US$621mn) in the non-core sectors of its international engineering contracting business. The Group plans to use part of its IPO proceeds to kick-start a new project in Asia in the non-core sectors at contract amount of US$1,450mn which is approx. 2.3x of total revenue of the non-core sectors segment from FY09 to 1HFY12. The Group lacks of experience to handle and complete this type of mega project in its track record. The business risk of this new project is tremendous at this stage.

Risks relating to the U.S. sanctions

On July 25, 2002, the predecessor of the Group, China National Machinery & Equipment Import & Export Corporation (Chinese name: 中国机械设备进出口总公司), and one of the Group's subsidiaries, CMEC Machinery & Electric, were listed in a notice appearing in the Federal Register of the United States as parties determined by the US Department of State (the "Department of State") to have engaged in conduct proscribed by the Iran-Iraq Arms Non-Proliferation Act of 1992 (the "1992 Act") and the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the "1991 Act"). On January 24, 2002, and May 16, 2002, variations on the name of CMEC Machinery & Electric were listed in Federal Register notices as parties determined by the Department of State to have engaged in conduct proscribed by the Iran Nonproliferation Act of 2000 (the "2000 Act").

Furthermore, because of the international activities of the Group, it is subject to the laws and regulations of the various countries and regions in which the Group do business. In particular, if any of its transactions is conducted in or through the United States, or otherwise involves US persons, US dollar clearing in the United States or US-origin goods, OFAC regulations may be applicable to some or all of such transactions. In the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenues generated from the business in countries which are currently subject to comprehensive US sanctions, namely Cuba, Iran, Sudan, and Syria (the "Sanctioned Countries"), in the aggregate amounted to Rmb744mn, Rmb1,382mn, Rmb1,665mn and Rmb316mn, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of the total revenue.

The Group has restructured the business to terminate future activities in these countries, although it will continue to receive certain payments relating to four completed projects financed by export seller's credit. The limited activities in the US and the decision to terminate existing business of the Group with US-sanctioned countries substantially mitigate any risk to the Group under OFAC sanctions.

Nevertheless, the restrictions under OFAC regulations are far-reaching and complex, and despite the Group limited activities in the United States, the Group cannot provide absolute assurance that its compliance efforts will be completely effective. If the Group was to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions.

Currency Risk

The Group is exposed to currency risk primarily through sales and purchases and the international engineering contracting business overseas which give rise to receivables, payables and cash balances that are denominated in foreign currencies, other than the functional currency of the operations, RMB, to which these transactions relates. The currencies giving rise to this risk are primarily US dollars, Euros and other currencies of countries where the Group has operations. The Group entered into foreign currency forward contracts to lock in the value in RMB of future income. As at December 30, 2009, 2010 and 2011 and June 30, 2012, the notional amounts of the foreign currency forward contracts accounted for approximately 1.1%, 0.7%, 7.0% and 20.0%, respectively, of the gross exposure to foreign currency risk arising from recognized assets or liabilities denominated in currency other than the RMB.

Interest Rate Risk

We believe that the interest rate risk arises primarily from borrowings of the Group. As at December 31, 2009, 2010 and 2011 and June 30, 2012, we estimated that a general increase/decrease of 100 basis points in interest rates of net variable rate instruments, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by Rmb10.4mn, Rmb13.7mn, Rmb20.5mn and Rmb33.2mn, respectively. They represent 1.7%, 1.2%, 1.4% and 3.4% of net profit for FY09, FY10, FY11 and 1HFY12, respectively.

Credit Risk

We believe that the credit risk is primarily attributable to trade and other receivables. As at December 31, 2009, 2010 and 2011 and June 30, 2012, 6.2%, 8.6%, 7.8% and 9.0% of the total trade and other receivables was due from the largest customer of the Group, respectively, and 21.3%, 26.3%, 21.5% and 24.6% of the total trade and other receivables was due from the five largest customers, respectively.

Liquidity Risk

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the Group's net current liabilities amounted to Rmb1,448.7mn, Rmb826.8mn, Rmb1,166.2mn and Rmb555.8mn, respectively. We believe that the net current liabilities as of those dates are the results of the Group to have relatively large trade and bill payables in running the Group's business. This situation will continue if the Group maintains this business practice.

Decrease of investment in the industries and countries

From FY09 to FY10, revenue from international engineering contracting business decreased by 11.9% because of the decrease in the newly effective contract value in FY09 as a result of the global financial crisis and the subsequent reduction in actual performance of engineering contracting projects that was undertaken in FY10.

Experience delays or defaults in realizing accounts receivables

As at December 31, 2009, 2010 and 2011 and June 30, 2012, 6.2%, 8.6%, 7.8% and 9.0% of the total trade and other receivables was due from the largest customer, respectively, and 21.3%, 26.3%, 21.5% and 24.6% of the total trade and other receivables was due from the five largest customers, respectively. In order to control the risk, the customers generally pay an advance equal to 10% to 15% of the overall contract value.

Concentration of customers and suppliers

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the five largest customers accounted for approximately 42.3%, 34.0%, 36.1% and 25.5% of the total revenue, respectively, and the largest customer for each period accounted for approximately 12.2%, 10.1%, 10.6% and 9.3% of the total revenue, respectively.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, all of the five largest suppliers (which include subcontractors) accounted for approximately 13.2%, 13.0%, 13.8% and 18.9%, respectively, of the cost of sales. The largest supplier for the same period accounted for approximately 3.3%, 3.5%, 4.2% and 6.9%, respectively, of the cost of sales.

The Group faces potential competition with SINOMACH Group

The international engineering contracting business of the Group focuses on EPC as a general contractor. The core sectors of the Group are: power, transportation and telecommunications sectors (the Core Sectors). They are reinforced by the arrangement under the Non-competition Agreement. SINOMACH retains certain excluded international engineering contracting business, including CAMC Engineering which is a company listed on the SZSE. In order to safeguard the interests of the Group and Shareholders in respect of the excluded international engineering contracting business, the Group has entered into the Non-competition Agreement with SINOMACH, pursuant to which SINOMACH has undertaken that, so long as it remains as its controlling shareholder, it shall not, and shall procure its subsidiaries which are engaged in the excluded international engineering contracting business (excluding CAMC Engineering) not to, compete with the Group in respect of the Core Sectors conducted by the Group. The Non-competition Agreement does not include CAMC Engineering. If the competition between CAMC Engineering and the Group intensifies, the Group’s business, results of operations and financial condition may be materially and adversely affected.

The trading business mainly consists of the import and export and domestic trade of complete sets of plants and equipment and various machinery, electrical and instrumental products. On the other hand, the excluded trading business includes the manufacture, import and export of machinery and electrical products, including electric power tools and gardening tools, power generating machinery and various industrial products and consumer goods (such as antennas, cookers, motorcycles, etc). The excluded trading business is mainly carried out through SUMEC, which is incorporated in the PRC and is 80% owned by SINOMACH. Although the business nature, mode of trading and focuses of product types of the Group's trading business and the excluded trading business of SINOMACH Group are different, there are overlapping to a certain extent between the trading business and the excluded trading business given the trading market is sizeable with a large number of participants.

Additionally, although the Group and SUMEC have different target markets and target customers because of the diversified range of products, different geographical location of the customers and different sectors in which their respective business is operated, SUMEC may, from time to time, operate in more or less the same regions as the Group does.

The Non-competition Agreement includes a non-competition undertaking in relation to the Group's trading business and the excluded trading business operated by SUMEC. It is possible that potential competition may arise in the future should SINOMACH Group decide to expand its scope to include products similar to those traded by the Group, or operate in regions where the Group conducts the trading business, which could affect the Group's profitability, financial condition and results of operations.

Appendix I – Representative Completed Projects of the Group

Representative power projects (thermal power) of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Thermal Power Station in Pakistan	July 2010	The Group contracted with a leading industrial conglomerate in Pakistan for an EPC project in relation to a thermal power station with an installed capacity of 200+ MW in Sahiwal, Pakistan.	161.2

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Thermal power station in Malaysia	September 2010	The Group contracted with a Kuala Lumpur-listed enterprise for an EPC project in relation to a thermal power station with an installed capacity of 225 MW in Sarawak, Malaysia. Prior to this project, The Group had completed two projects in Kuching, Sarawak, Malaysia in relation to the construction of two thermal power stations with an installed capacity of 100 MW and 110 MW, respectively.	202.9

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Thermal power station in Indonesia	November 2009	The Group contracted with the Indonesian government for an EPC project in relation to a thermal power station with an installed capacity of 230 MW in Sumatera, Indonesia	224.3

Source: Company

Representative power projects (hydropower power) of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Hydropower station in India	July 2011	The Group contracted with a stated-owned electricity company in India for an EPC project in relation to a hydropower station in India which includes 6x39 MW turbine hydro-generator units and other auxiliary machinery.	64.7
Hydropower station in the Republic of Congo	November 2010	The Group contracted with the government of the Republic of Congo for an EPC project in relation to a hydropower station project with an installed capacity of 120 MW in Brazzaville, the Republic of Congo. It was the largest engineering project undertaken by a Chinese contractor in the Republic of Congo at the time and the largest hydropower station built there	306.8

Source: Company

Representative power projects (power transformation stations and transmission lines) of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Power infrastructure in the Republic of Angola	October 2010	The Group contracted with an Angolan state-owned enterprise for two EPC projects in relation to two 15kV power transformation stations and 60kV transmission lines as well as the household electricity lines in Luanda, the capital of the Republic of Angola. 	39.2
Power transformation station in the Republic of Equatorial Guinea	May 2011	The Group contracted with the government of the Republic of Equatorial Guinea for an EPC project in relation to a 66kV power transformation station in Malabo, Equatorial Guinea.	79.5
Transmission lines and power transformation project in the Republic of Sudan	June 2011	The Group contracted with the government of the Republic of Sudan for an EPC project in relation to 220kV transmission lines and three 220/33/11kV power transformation substations.	219.7

Source: Company

Representative transportation projects of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Shipbuilding projects in Germany	January 2010	The Group contracted with a German company for two projects in relation to the design and construction of two 4,250 TEU (twenty-foot equivalent unit) container vessels respectively. These vessels were approximately 261 m long and weighed approximately 50,000 tonnes.	124.0

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Railway project in the Republic of Angola	May 2009	The Group contracted with an Angolan railway company for two EPC projects in relation to the redeveloping and reconstructing of three railroads spanning from Bongo-Baia, Luanda Harbor Area and Viana-Baia.	115.9
Shipbuilding projects in the Republic of Angola	December 2010	The Group contracted with the government of the Republic of Angola for three projects in relation to the design and procurement of 3,000 canoes.	117.8

Source: Company

Representative telecommunications projects of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Tele-communications projects in the Republic of Angola	March 2011	The Group contracted with an Angolan telecommunication enterprise for four EPC projects of the "next generation network" ("NGN") in Angola which was a packet-based network that offered telecommunications services. The NGN project covered 15 states of Angola.	274.8

Source: Company

Representative non-core sectors projects of the Group

Project	Completion Date	Brief Description	Contract Value (US$ mn)
Reinforcement of water supply network in the Republic of Angola (Phase I)	October 2010	The Group contracted with the government of the Republic of Angola for Phase I of an EPC project in relation to the reinforcement of the water supply system in Huambo, Angola which involved the construction of 20 water stations and, water supply pipes and connecting pipelines to individual households.	9.6
Expansion of alkali mine in Turkey (Phase III)	August 2011	The Group formed a consortium with a PRC enterprise and contracted with a Turkish enterprise for Phase III of an EPC project as a follow-up project in relation to the expansion of an alkali mine in Beypazari, Turkey with 16 vertical wells and 16 horizontal wells. It completed the first two phases of the project which involved the construction of 30 priced pits.	14.8

Source: Company

Appendix II – Representative Ongoing Projects of the Group

Representative on-going power projects (thermal power) of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Thermal power station in Turkey	February 2011	June 2014	The Group contracted with a private Turkish enterprise for an EPC project in relation to a thermal power station with an installed capacity of 2 x 135 MW.	244.8	40.4	204.4
Thermal power plant in Sri Lanka	July 2007	February 2014	The Group contracted with the government of Sri Lanka for two EPC projects in relation to a thermal power plant on Kalpitiya Peninsula, Sri Lanka in two phases. Phase I of the project involved the construction of one thermal power station with an installed capacity of 300 MW, and phase II involved the construction of two thermal power stations each with an installed capacity of 300 MW. It was the largest bilateral trade between the PRC and Sri Lanka and the largest government infrastructure project in Sri Lanka at the time.	1,346.0	914.3	431.7

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Thermal power station in Brest and Vitebsk, the Republic of Belarus	February 2011	January 2014	The Group contracted with two state-owned power enterprises for two EPC projects in relation to two thermal power stations, each with an installed capacity of 427 MW, in Brest and Vitebsk.	746.0	173.9	572.1

Source: Company

Representative on-going power projects (hydropower power) of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Hydro power station in Pakistan	April 2008	June 2016	The Group formed a consortium with a PRC state-owned enterprise specialized in hydropower infrastructure construction, and contracted with the Pakistan government for an EPC project in relation to a hydropower station with an installed capacity of 972 MW in Muzaffarabad, Pakistan. Its consortium partner was responsible for the three phases of the project, being the construction of civil engineering works at Nauseri, Thotha and Agar Nullah while The Group was responsible for the other three phases being the procurement and installation of the machinery and electrical equipment as well as the design of the metallic structure of the hydropower station.	497.3	39.8	457.5
Hydro power station in Myanmar	October 2010	December 2013	The Group contracted with the government of Myanmar for an engineering contracting project in relation to a hydropower station with an installed capacity of 3x40 MW in Myanmar.	51.4	36.2	15.3

Source: Company

Representative on-going power projects (power transformation stations and transmission lines) of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Power transmission and transformation station in the Republic of Chad	October 2011	January 2014	The Group contracted with the government of the Republic of Chad for an EPC project in relation to a 90kV loop transmission line, foursets of 90/15kV power substations and a distribution network.	130.4	5.7	124.7
Reconstruction and expansion of electricity grid in the Republic of Angola (Phases I and II)	November 2008	March 2013	The Group contracted with an Angolan state-owned enterprise for an EPC project in relation to the restructuring and expansion of the electricity grid in two phases in Luanda. The restructuring and expansion work involved eight power transformation stations, 60kV transmission lines in a total distance of 37.5 km, 125 substations with capacity of 1,000kV each and other residential electricity supply systems.	205.6	144.4	61.2

Source: Company

Representative on-going transportation projects of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Highway construction in the Republic of Cote d'Ivoire	November 2011	December 2015	The Group contracted with the government of the Republic of Cote d'Ivoire for an EPC project in relation to the construction of a 23km highway. The Group was responsible for site clearance, earthworks, road construction, bridge construction, drainage structures, tollbooths construction, incorporation of signal transmission facilities, etc.	135.0	1.5	133.5
Reconstruction of the Naypyidaw Airport in Myanmar	January 2011	July 2014	The Group contracted with the government of Myanmar for an engineering contracting project in relation to the expansion of the Naypyidaw Airport of Myanmar to handle 3.5 million passengers annually. The Group was responsible for: (i) the procurement of building materials for the construction of the terminals; (ii) procurement, installation, examination, adjustment and transfer of part of the mechanical and electrical equipment of the terminals; and (iii) construction of the terminals, walkways, elevated highway and approach road.	94.8	83.5	11.3
Highway reconstruction and asphalt paving in the Republic of Congo	December 2011	March 2015	The Group contracted with the government of the Republic of Congo for an EPC project in relation to the highway reconstruction. The highway was 87 km long and ran across Okoyo, Lekety and Gaboneses border and will link the Republic of Congo with the Gaboneses Republic.	90.5	11.7	78.8

Source: Company

Representative on-going telecommunications projects of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
2.5G network expansion and 3G network project in Bangladesh	January 2012	January 2014	The Group contract with a Bangladesh telecommunications enterprise for an EPC project in relation to the expansion of 2.5G network and the construction of 3G network in Bangladesh.	211.0	55.0	156.0

Source: Company

Representative on-going non-core sectors projects of the Group

Project	Commence-ment Date	Expected Completion Date	Brief Description	Contract Value (US$ mn)	Recognized Revenue (US$ mn)	Estimated Backlog (US$ mn)
Water supply system enhancement in Congo	November 2008	April 2014	The Group contracted with the government of the Republic of Congo for an EPC project in relation to the enhancement of the water supply system of Brazzaville, capital of the Republic of Congo. The Group was responsible for the repair of the old water plant and the construction of a new water plant to increase their production capacity.	305.0	210.5	94.5
Reconstruction of water supply network in the Republic of Angola (Phase II)	October 2009	June 2013	The Group contracted with the government of the Republic of Angola for Phase II of an EPC project as a follow-up project in relation to a water supply network in Luanda, the Republic of Angola.	69.9	49.3	20.6
Cement plant in the Republic of Yemen	May 2009	October 2013	The Group contracted with the government of the Republic of Yemen for an EPC project in relation to the expansion of a cement factory by setting up a clinker production line with a daily clinker capacity of 2,500 tonnes as well as a 32 MW power station.	133.9	83.4	50.5
Construction of 1,000 residential units in Hulhumale, Maldives	September 2010	June 2013	The Group contracted with the government of the Republic of Maldives for the construction of 1,000 residential units in Hulhumale.	76.0	55.8	20.2

Source: Company

Disclosures

I, Chan Sung-yan, Philip, 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.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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