



October 21, 2013
Company Report
Rating: BUY
TP: HK\$ 7.67

H-Share price (HK\$)	6.29
Est. share price return	21.94%
Est. dividend yield	4.00%
Est. total return	25.94%

Previous Rating & TP	(Initiation)
Previous Report Date	N/A

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Key Data

52Wk H/L(HK\$)	8.43 / 5.27
Issued shares (mn)	16,175
H-Shares (mn)	4,428
A-Shares (mn)	11,747
Market cap	
H-shares (HK\$ mn)	27,852
A-Shares (RMB mn)	48,515
3-mth avg daily turnover (HK\$ mn)	122.2
Major shareholder(s) (%):	
CCCC	63.83

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Construction operation	79.07
Survey, Design & Consultancy	5.49
Port Machinery Manufacturing	7.66
Dredging services	9.82
Others	0.82
Inter-segment sales	(2.84)

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	0.16	(0.42)
3-mth	10.65	1.66
6-mth	(15.13)	(19.64)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CCCC (1800 HK)
An undervalued BUY

We expect CCCC to increase exposure in BOT/BOO projects in FY14E-15E to offset the impacts of declining growth in roadway and port infrastructure construction investments. GPM is expected to rise on greater involvement in BOT/BOO projects but working capital requirement will increase at the same time, driving up the Group's net gearing in FY14E-15E. Nevertheless, we recommend investors to accumulate shares based as the counter is currently trading 15.50% below book. We initiate **BUY** with TP at HK\$ 7.67, equivalent to 1.03x FY13E P/B or at a 50% discount to the median of CCCC's forward P/B in 2008-10.

Slowdown in major business segments. Due to the declining profitability in downstream toll road and port operation industries, we expect roadway and port construction to remain sluggish in 2014-15. Contribution from roadway and port construction business in CCCC was estimated to be 51.57% in FY12 (1H13E: 46.55%).

Increased exposure in BOT projects. In order to maintain the earnings growth amid slowdown in roadway investment, we expect CCCC to increase exposure in BOT projects in FY14E-15E. The CAPEX for BOT projects as a percentage of total CAPEX increased from 57.31% in FY12 to 59.91% in 1H13. With the higher GPM of BOT/BOO projects (estimated at 10%-15%) than the Group's average, we expect the GPM will rise in the future due to change of product-mix.

Net gearing to increase in FY14-15. Increased exposure in BOT/ BOO projects also implies that CCCC will require higher levels of working capital. Thus, we expect its FY14E-15E net gearing will increase.

Huge backlog enhances earnings visibility. The backlog-to-revenue ratio increased from 2.37x in FY12 to 2.70x in 1H13, indicating that the Group's business has been expanding. We believe revenue growth to recover from the trough (FY11-12) in FY13E-15E although the growth (CAGR: 7.16%) will be less than that in FY08-10 (CAGR: 23.47%).

Initiate BUY with TP at HK\$7.67. Our target valuation at 1.03x of FY13E P/B represents a 50% discount to the median of forward P/B of CCCC in 2008-10. The 50% discount is justified by our assumption that net income growth in FY13E-15E will be lower than that in FY08-10. The discount applied is higher than that of CRCC and CRG (40%) mainly because CCCC's low involvement in urban rail construction projects, hence its growth prospect in FY14E-15E will be weaker in comparison. Nonetheless, the counter is currently trading below book at by 15.50% and we believe it is undervalued. We initiate with a **BUY** rating on CCCC with TP at HK\$7.67, reflecting an upside potential of 25.94% (share price gain and FY13E dividend yield).

Risk factors: 1) Y-o-Y growth of 2H13 net income may slow; 2) Gearing may increase with increased exposure in BOT/BOO projects; 3) Lack of exposure in policy-supported industry, such as urban rail construction.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	294,281	295,321	325,071	355,870	373,261
Chg (% YoY)	7.90	0.35	10.07	9.47	4.89
Net Income (RMB mn)	11,761	12,248	13,074	14,030	15,175
Chg (% YoY)	22.52	4.14	6.74	7.31	8.17
EPS (RMB)	0.793	0.767	0.808	0.867	0.938
P/E (x)	-	6.67	6.25	5.82	5.38
BVPS (RMB)	4.736	5.355	5.979	6.644	7.365
P/B (x)	-	0.94	0.85	0.76	0.69
DPS (RMB)	0.196	0.185	0.202	0.217	0.235
Yield (%)	-	3.66	4.00	4.29	4.64
ROAE (%)	17.66	15.62	14.26	13.74	13.39
Net gearing (%)	74.13	74.08	77.69	81.70	88.49

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Revenue growth in major segments are slowing

We expect roadway and port construction will remain sluggish in 2014-15 as profitability in downstream toll road and port operation industries are declining. Total infrastructure investment in roadway and port transportation will grow by 1.27% CAGR from 2013-15 decelerated from 26.70% CAGR from 2008-10. Contribution of roadway and port construction as a percentage of revenue was 51.57% in FY12 (1H13: 46.55%). The major business sub-segments of CCCC are suffering.

Furthermore, although railway construction was recovering from the trough in 1H12, we expect its growth to stay flat in 2014-15, partly due to CRC's major debt problem. The net gearing of CRC as of 1H13 was 130.35%. CCCC's growth in railway construction sub-segment will therefore be restricted. We expect the Group's revenue in this sub-segment to grow at 8.67% CAGR in FY13E-15E, slower than that in FY08-10 at 66.03%.

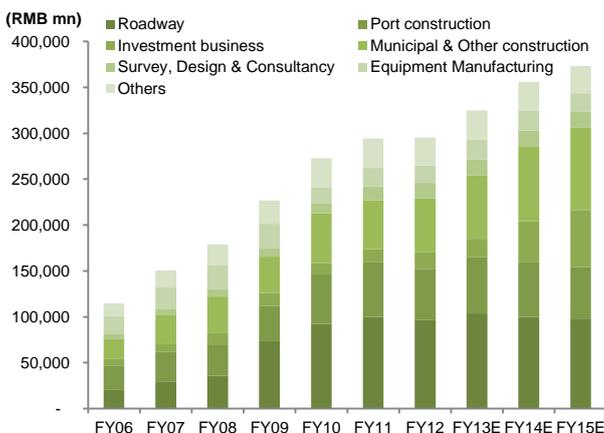
BOT investment to increase

In order to maintain the earnings growth amid the slowdown in roadway investment, CCCC has increased its exposure in BOT projects since FY11. The new contract from investment projects (BT/BOT/BOO projects), as percentage of total new contract, increased from 5.55% in FY10 to 24.28% in FY12 (1H13: 17.71%).

The CAPEX for BOT projects, as a percentage of total CAPEX, increased from 15.61% in FY06 to 57.31% in FY12 (1H13: 59.91%). GPMs of BOT/BOO/BT projects are higher than that of turnkey project. We estimate the GPM of BOT projects to be ~10%-15% in FY06-12, higher than the Group's overall GPM of 8.52%-11.04% for the same period. Although the GPMs of BOT projects are relatively higher, the upfront liquidity requirements of BOT projects are also higher than that of turnkey projects.

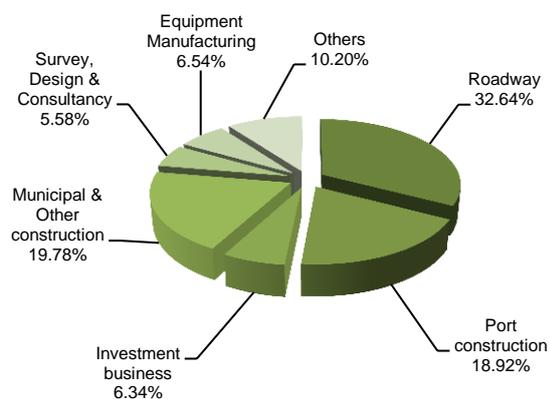
Looking forward, we expect roadway and port construction will maintain sluggish in FY14E-15E. Under these circumstances, we estimate the revenue CAGR of CCCC in FY13E-15E to be 7.16%, lower than the revenue CAGR of 23.47% in FY08-10.

Exhibit 1: Revenue breakdown and projection for CCCC in FY06-15E



Source(s): Company, ABCI Securities estimates

Exhibit 2: Revenue breakdown of CCCC in FY12 (%)



Source(s): Company, ABCI Securities

High backlog on hand

CCCC's backlog-to-revenue ratio increased from 1.35x in FY06 to 2.37x in FY12 (1H13: 2.70x), showing that CCCC is in expansion. Value of the contract backlog increased from RMB 701bn at end-2012 to RMB 761bn at end-1H13, of which RMB 133bn was contributed by roadway construction based on our estimates.

The correlation of growth in backlog-to-revenue ratio (backlog ratio) and revenue growth was 49.70% in FY06-10 with a two-year lag time, lower than CRCC's 90.81% and CRG's 67.28%. We believe the weak correlation can be attributed to the deferred delivery in port machinery manufacturing business. Excluding its port machinery manufacturing business, the correlation between growth of backlog-to-revenue and revenue of CCCC's construction segment, the main revenue contributor of CCCC's revenue, was 77.78% in FY06-10. For the port machinery manufacturing business, the ratio was -11.36% for the same period, which dragged down the overall correlation.

Backlog ratio of construction business increased from 2.03x in FY10 to 2.70x in FY12 (1H13: 3.02x). Thus, we believe revenue from construction business will recover starting from 2013.

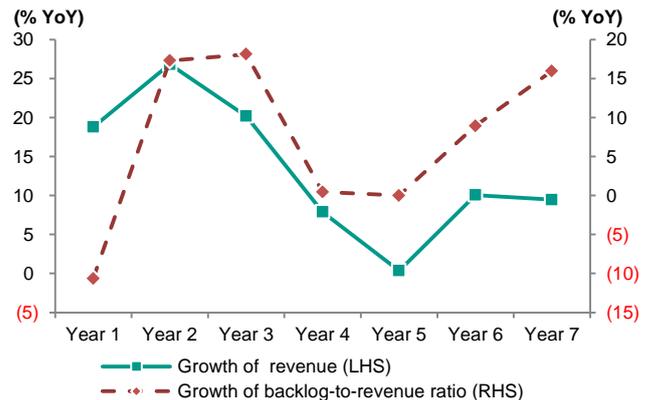
Exhibit 3: Correlation of the growth of overall revenue and growth in overall backlog-to-revenue ratio, FY06- FY14E

		Revenue (Rmb mn)	Growth (% YoY)	backlog-to-revenue ratio (x)	Growth (% YoY)
Year 1	FY08	178,889	18.78	FY06	1.35
Year 2	FY09	226,920	26.85	FY07	1.58
Year 3	FY10	272,734	20.19	FY08	1.87
Year 4	FY11	294,281	7.90	FY09	1.88
Year 5	FY12	295,321	0.35	FY10	1.88
				Correlation(%)¹	49.70
Year 6	FY13E	325,071	10.07	FY11	2.05
Year 7	FY14E	355,870	9.47	FY12	2.37

1: The correlation is calculated from "growth of revenue from FY07 to FY11" and "growth of backlog-to-revenue ratio from FY05 to FY09"

Source(s): Company, ABCI Securities estimates

Exhibit 4: Growth of revenue and backlog-to-revenue ratio of the Group, FY08-13E



Source: Company, ABCI Securities estimates

Exhibit 5: Correlation of the revenue growth and growth in backlog-to-revenue ratio (construction business segment), FY06-FY14E

		Revenue (Rmb mn)	Growth (% YoY)	backlog-to-revenue ratio (x)	Growth (% YoY)
Year 1	FY08	122,107	20.06	FY06	1.35
Year 2	FY09	165,563	35.59	FY07	1.71
Year 3	FY10	212,962	28.63	FY08	2.17
Year 4	FY11	227,068	6.62	FY09	2.16
Year 5	FY12	229,401	1.03	FY10	2.03
				Correlation(%)¹	77.78
Year 6	FY13E	254,449	10.92	FY11	2.25
Year 7	FY14E	285,393	12.16	FY12	2.70

1: The correlation is calculated from "growth of revenue from FY08 to FY12" and "growth of backlog-to-revenue ratio from FY06 to FY10"

Source(s): Company, ABCI Securities estimates

Exhibit 6: Correlation of the growth of revenue and growth of backlog-to-revenue ratio (port machinery manufacturing), FY06-FY14E

		Revenue (Rmb mn)	Growth (% YoY)	backlog-to-revenue ratio (x)	Growth (% YoY)
Year 1	FY08	26,858	12.95	FY06	1.50
Year 2	FY09	27,070	0.79	FY07	1.46
Year 3	FY10	17,221	(36.38)	FY08	1.32
Year 4	FY11	20,166	17.10	FY09	1.11
Year 5	FY12	19,317	(4.21)	FY10	1.59
				Correlation(%)¹	(11.36)
Year 6	FY13E	21,483	11.21	FY11	1.38
Year 7	FY14E	21,477	(0.03)	FY12	0.84

1: The correlation is calculated from "growth of revenue from FY08 to FY12" and "growth of backlog-to-revenue ratio from FY06 to FY10"

Source: Company, ABCI Securities estimates

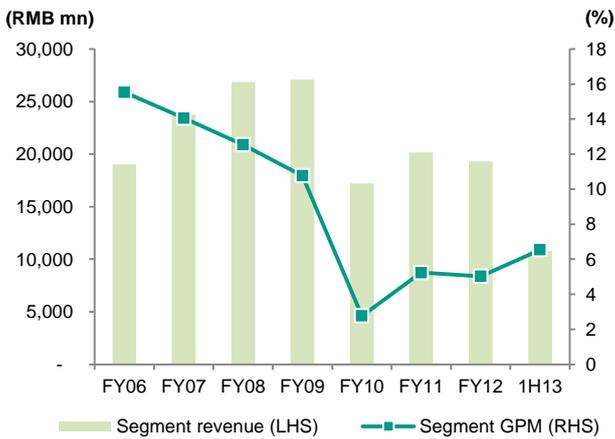
Port machinery manufacturing business

Most of the revenue from port machinery manufacturing business was contributed by Shanghai Zhenhua Heavy Industry Company Limited (ZPMC, 600320 CH), the subsidiary of CCCC with a 46.1% equity interest as of June 2013.

After the global financial crisis in 2007-08, revenue from port machinery manufacturing business suffered a sharp decline. Due to the large capital investment required for offshore heavy machinery purchases, customers were relatively cautious in procurement. Thus, CCCC new orders slowed. The segment revenue was RMB 19,317mn in FY12, compared to its peak at RMB 27,070mn in FY09. Moreover, the increasing fixed cost resulted in declines in profitability. The segment GPM dropped from 10.77% in FY09 to 5.03% in FY12 (1H13: 6.54%)

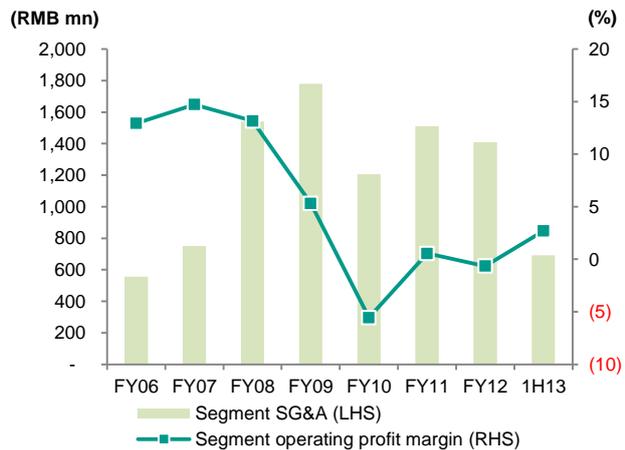
Going forward, we believe it will take time for ZPMC's profitability to recover, and it is unlikely that it would be as high as the ones in FY06-08. ZPMC suffered a net loss of RMB 1,044mn in FY12 (1H13: net gain of RMB 43mn).

Exhibit 7: Segment revenue and GPM of port machinery manufacturing business in FY06-1H13



Source(s): Company

Exhibit 8: Segment SG&A and operating profit margin of port machinery manufacturing business in FY06-1H13



Source(s): Company, ABCI Securities

GPM increased with exposure in BOT/BOO

Due to the higher GPM of BOT/BOO (estimated at 10-15% vs. 3-5% for railway and roadway construction projects and 8-10% for port construction). CCCC increases in exposure in BOT/BOO. The amount of concessional assets has been increasing since 2006. With increased exposure in BOT projects, the segment GPM for construction contracting business increased from 6.40% in FY06 to 9.66% in FY12 (1H13: 8.75%). Looking forward, we expect contribution from BOT/BOO projects will increase, raising the overall GPM in FY14E-15E. However, the major drawback of BOT/BOO project is the liquidity. We expect the gearing of CCCC will surge under liquidity pressure.

Exhibit 9: Concessional assets and overall GPM of CCCC, FY06-1H13 (%)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	1H13
Overall GPM (%)	10.28	10.34	9.98	9.57	8.52	9.48	11.04	10.11
Concessional assets (RMB mn)	2,249	4,822	6,152	10,011	15,078	23,112	35,705	40,773
Concessional assets/total assets (%)	1.77	2.88	2.82	3.79	4.85	6.44	8.23	8.60
Concessional assets/total revenue (%)	1.96	3.20	3.44	4.41	5.53	7.85	12.09	14.45 ¹

1: The concessional assets/total revenue ratio for 1H13: (Concessional assets as at June 2013 / revenue in 1H13) / 2

Source: Companies

Outlook and recommendation

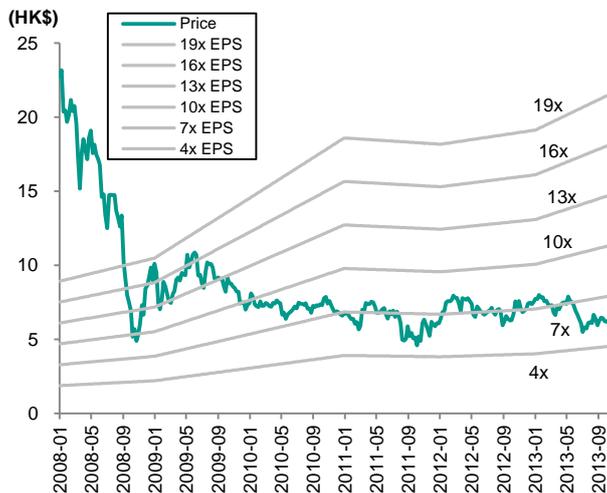
Outlook of CCCC

Based on the lukewarm global economy and deteriorating profitability of port and toll road operators, the corresponding CAPEX growth is expected to decline in 2014-15. We expect sub-segments' revenue from port and roadway construction businesses to decline at 4.48% and 2.68% CAGRs in FY13E-15E, respectively. In order to offset the weakening roadway and port construction businesses, we expect CCCC to increase exposure in BOT, BOO and BT projects, such as the integrated development projects for local governments. Concession assets increased from RMB 2,249mn at end-2006 to RMB 35,705mn at end-2012 (end-1H13: RMB 40,773mn). However, increased exposure in these investment projects will add to the financial burden of CCCC, thus we expect its net gearing will increase in FY14E-15E in order to raise sufficient working capital.

Recommend BUY with TP at HK\$7.67

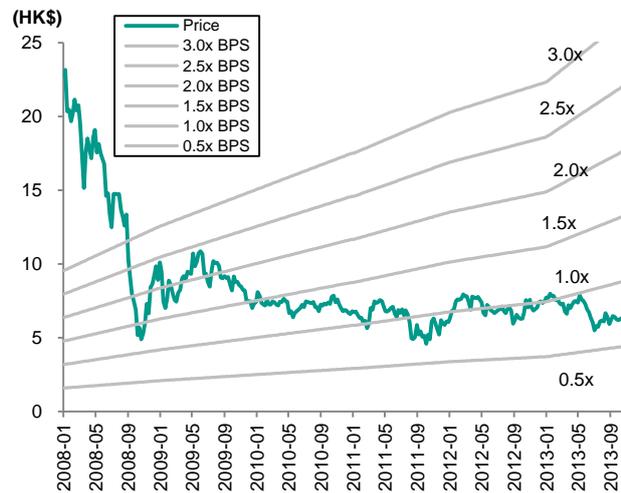
Our target valuation at 1.03x of FY13E P/B reflects a 50% discount to the median of forward P/B of CCCC in 2008-10. The 50% is justified by our assumption that net income growth in FY13E-15E (the last three years of the 12th 5-Year Plan of China) will be lower at 7.74% CAGR compared to the net income CAGR at 25.70% in FY08-10 (the corresponding three years in the previous 5-Year Plan of China). The discount for CCCC at 50% is higher than that of CRCC and CRG (40%) mainly because of the Group's low exposure in urban rail construction projects, which will affect its growth prospect in FY14E-15E. The counter is currently trading at 0.85x FY13E P/B, 17.48% below our target P/B. We initiate with a **BUY** rating on CCCC with TP at HK\$7.67 and an upside of 25.94% (share price gain and FY13E dividend yield).

Exhibit 10: P/E band of CCCC-H (HK\$), 1M08-10M13



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 11: P/B band of CCCC-H (HK\$), 1M08-10M13



Source(s): Company, Bloomberg, ABCI Securities estimates



Exhibit 12: 1H13 results summary of CCCC

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	139,925	154,356	124,829	170,492	141,037	12.98	(17.28)
Construction operation	107,834	119,234	94,330	135,071	111,514	18.22	(17.44)
Survey, Design & Consultancy	5,963	9,045	6,065	10,403	7,737	27.57	(25.63)
Port Machinery Manufacturing	8,965	11,201	10,526	8,791	10,797	2.57	22.82
Dredging services	15,586	16,735	14,194	17,833	13,847	(2.44)	(22.35)
Others	3,952	2,733	2,867	3,595	1,151	(59.85)	(67.98)
Inter-segment sales	(2,375)	(4,592)	(3,153)	(5,201)	(4,009)	27.15	(22.92)
Gross Profit (RMB mn)	12,014	15,894	13,549	19,049	14,256	5.22	(25.16)
Construction operation	7,706	10,509	8,870	13,287	9,757	10.00	(26.57)
Survey, Design & Consultancy	1,420	2,221	1,515	2,724	1,790	18.15	(34.29)
Port Machinery Manufacturing	259	797	913	58	706	(22.67)	1,117.24
Dredging services	2,325	2,223	1,966	2,582	1,968	0.10	(23.78)
Others	304	345	264	319	74	(71.97)	(76.80)
Inter-segment sales	0	(201)	21	79	(39)	(285.71)	(149.37)
GPM (%)	8.59	10.30	10.85	11.17	10.11	(0.75ppt)	(1.06ppt)
Construction operation	7.15	8.81	9.40	9.84	8.75	(0.65ppt)	(1.09ppt)
Survey, Design & Consultancy	23.81	24.56	24.98	26.18	23.14	(1.84ppt)	(3.05ppt)
Port Machinery Manufacturing	2.89	7.12	8.67	0.66	6.54	(2.13ppt)	5.88ppt
Dredging services	14.92	13.28	13.85	14.48	14.21	0.36ppt	(0.27ppt)
Others	7.69	12.62	9.21	8.87	6.43	(2.78ppt)	(2.44ppt)
Inter-segment sales	0.00	4.38	(0.67)	(1.52)	0.97	1.64ppt	2.49ppt
Major cost (RMB mn)							
Selling and distribution cost	286	339	273	338	204	(25.27)	(39.64)
Administrative cost ¹	5,163	7,780	5,681	8,388	6,052	6.53	(27.85)
Cost ratio (%)							
Selling and distribution cost	0.20	0.22	0.22	0.20	0.14	(0.07ppt)	(0.05ppt)
Administrative cost ¹	3.69	5.04	4.55	4.92	4.29	(0.26ppt)	(0.63ppt)
Net profit (RMB mn)	5,829	5,932	5,018	7,230	5,728	14.15	(20.77)
Net profit margin (%)	4.17	3.84	4.02	4.24	4.06	0.04ppt	(0.18ppt)

1: Including research and development expenses
Source(s): Company

Exhibit 13: Peer valuation table for construction contractors

Company	Ticker	Mkt cap (HK\$ mn)	As of 20/08/2013 CRY	Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
					FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Domestic Transportation Project Contractor												
CRCC-H	1186 HK	17,231	HKD	8.30	8.24	7.01	17.78	17.56	1.02	0.91	13.11	13.74
CRCC-A	601186 CH	67,595	RMB	5.18	6.40	5.44	17.78	17.56	0.80	0.71	13.11	13.74
CRG-H	390 HK	17,880	HKD	4.25	8.30	7.23	19.17	14.72	0.85	0.77	10.74	11.19
CRG-A	601390 CH	60,862	RMB	2.80	6.81	5.93	19.17	14.72	0.70	0.63	10.74	11.19
CCCC-H	1800 HK	27,852	HKD	6.29	6.25	5.82	6.74	7.31	0.85	0.76	14.26	13.74
CCCC-A	601800 CH	61,693	RMB	4.13	5.11	4.76	6.74	7.31	0.69	0.62	14.26	13.74
CREGC	600528 CH	10,410	RMB	5.61	12.75	10.79	10.50	18.18	1.33	1.23	11.25	11.85
Shanghai Tunnel Eng Co	600820 CH	15,028	RMB	9.10	9.29	7.91	10.57	17.35	0.97	0.89	11.48	11.73
Xiangyu Dredging	871 HK	1,672	HKD	2.09	6.22	5.17	8.00	20.37	0.79	0.69	14.80	14.27
Sector Weighted Average					6.81	5.98	13.93	13.51	0.80	0.72	12.67	12.85
Domestic Infrastructure Construction Contractor												
CSCEC	601668 CH	123,224	RMB	3.23	5.29	4.59	17.50	15.22	0.82	0.71	18.04	16.59
Sinohydro Group	601669 CH	39,432	RMB	3.23	6.51	5.54	16.30	17.54	0.58	0.55	16.06	10.25
China Gezhouba Group	600068 CH	18,449	RMB	4.16	8.67	7.85	7.14	10.42	1.05	0.96	13.52	12.76
CSCI	3311 HK	51,643	HKD	13.28	18.89	14.63	22.64	29.16	3.25	2.79	18.71	20.91
CAMC	002051 CH	18,896	RMB	23.32	17.83	13.60	17.84	31.12	2.99	2.53	19.63	20.18
CMEC	1829 HK	20,257	HKD	4.91	8.81	6.52	(4.18)	35.01	1.42	1.22	17.29	20.17
Sector Weighted Average					9.41	7.62	16.01	20.46	1.46	1.26	17.63	16.75
International Transportation Construction Contractors												
Vinci S.A.	DG FP	295,413	EUR	46.36	13.50	12.80	(3.78)	5.47	1.81	1.70	13.66	13.39
Bouygues Construction	EN FP	98,489	EUR	29.10	12.58	11.54	15.34	9.04	1.04	1.01	8.64	9.10
Hochtief A.G.	HOT GR	52,675	EUR	64.50	19.40	17.98	54.60	7.94	1.64	1.59	8.98	9.83
Skanska A.B.	SKAB SS	62,717	SEK	123.50	14.36	13.42	24.28	7.03	2.46	2.31	18.51	19.63
Strabag S.E.	STR AV	22,852	EUR	18.90	17.78	14.58	83.28	21.92	0.66	0.66	3.74	4.46
FCC S.A.	FCC SM	19,618	EUR	14.53	(59.79)	31.93	(97.26)	(287.24)	2.26	2.03	(21.62)	6.90
Ferrovial S.A.	FER SM	106,425	EUR	13.68	28.62	30.07	(50.62)	(4.81)	1.79	1.81	5.59	5.73
BAM Groep	BAMNB NA	10,712	EUR	4.12	17.75	12.63	(129.37)	40.52	1.21	1.14	6.97	17.90
SNC-Lavalin	SNC CN	48,149	CAD	42.15	(155.54)	21.81	(113.22)	(813.28)	3.24	3.09	3.64	14.51
Obrascon Huarte	OHL SM	31,154	EUR	29.45	10.11	8.83	(71.10)	14.49	1.20	1.09	12.99	13.48
Sacyr S.A.	SYV SM	19,465	EUR	3.94	18.32	17.28	(109.68)	6.05	1.20	1.11	8.82	6.69
Sector Weighted Average					3.65	16.49	(15.35)	(52.67)	1.77	1.69	9.90	11.58
International Infrastructure Construction Contractors												
ACS	ACS SM	83,467	EUR	25.01	10.82	10.00	(134.96)	8.22	2.49	2.23	25.30	23.61
Jacobs Engineering Group	JEC US	61,131	USD	59.97	18.40	16.13	9.73	14.11	1.87	1.67	10.83	11.18
Hyundai Eng & Const	000720 KP	49,891	KRW	61,400	11.26	9.31	74.93	21.03	1.36	1.22	12.74	13.83
WorleyParsons Ltd	WOR AU	41,392	AUD	22.42	15.69	14.25	9.25	10.08	2.43	2.31	16.43	16.14
Abengoa S.A.	ABG SM	11,170	EUR	2.48	13.85	9.25	(22.17)	49.72	0.92	0.86	8.93	5.63
Daewoo Eng & Const	047040 KP	26,143	KRW	8,620	15.05	10.63	47.63	41.53	0.99	0.92	6.90	9.03
Impregilo SpA	IPG IM	17,793	EUR	4.12	20.79	13.11	(86.71)	58.59	1.26	1.32	6.19	9.83
Sector Weighted Average					14.29	11.99	(24.38)	19.58	1.89	1.72	15.39	15.42
Overall Weighted Average					7.09	12.35	(6.60)	(15.76)	1.57	1.45	12.68	13.36

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	294,281	295,321	325,071	355,870	373,261
Construction operation	227,068	229,401	254,449	285,393	306,043
Survey, Design & Consultancy	15,008	16,468	17,314	17,622	17,716
Port Machinery Manufacturing	20,166	19,317	21,483	21,477	20,160
Dredging services	32,321	32,027	33,759	33,275	30,801
Others	6,685	6,462	6,785	7,124	7,481
Inter-segment sales	(6,967)	(8,354)	(8,719)	(9,021)	(8,940)
COGS	(266,373)	(262,723)	(289,475)	(315,613)	(329,736)
Gross profit	27,908	32,598	35,595	40,257	43,524
SG&A	(13,568)	(14,680)	(16,231)	(19,377)	(21,050)
Other income (loss)	684	(2,403)	(2,909)	(3,022)	(3,185)
Pre-tax profit	15,024	15,515	16,455	17,857	19,289
Income tax	(3,047)	(3,783)	(3,291)	(3,571)	(3,858)
Net profit	11,977	11,732	13,164	14,286	15,431
Profit attributable to:					
Minority interests	216	(516)	90	256	256
Equity shareholders of the Company	11,761	12,248	13,074	14,030	15,175
Basic EPS (RMB)	0.793	0.767	0.808	0.867	0.938
DPS (RMB)	0.196	0.185	0.202	0.217	0.235
EBIT	19,518	22,399	24,110	26,027	28,004
EBITDA	26,010	29,386	31,615	34,088	36,793

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	223,414	271,186	294,917	316,686	325,094
Cash and equivalent	46,043	73,073	77,493	75,248	69,176
Trade and bill receivables	44,972	44,247	48,119	52,998	53,061
Construction contracts	54,261	57,983	59,577	69,122	74,047
Inventories	22,603	26,675	33,599	35,576	36,695
Other current assets	55,535	69,208	76,129	83,742	92,116
Non-current assets	135,571	162,668	178,204	197,466	218,366
Property, plant and equipment	55,163	56,811	58,928	61,630	64,938
Intangible assets	32,040	44,480	53,153	64,790	77,885
Long term investments	17,390	20,315	22,347	24,581	27,039
Trade and other receivables	5,937	6,949	7,557	8,323	8,333
Other non-current assets	25,041	34,113	36,220	38,141	40,171
Total assets	358,985	433,854	473,121	514,152	543,460
Current liabilities	219,088	253,805	269,606	294,985	306,955
Trade and bill payables	95,668	106,226	115,837	126,277	126,671
Receipts in advance	32,715	38,019	42,135	45,613	46,423
Short term borrowings	54,289	69,187	72,536	79,790	87,769
Other current liabilities	36,416	40,373	39,097	43,305	46,091
Non-current liabilities	58,877	83,978	97,290	101,989	107,468
Long-term borrowings	51,756	75,058	87,478	91,196	95,595
Other non-current liabilities	7,121	8,920	9,812	10,793	11,873
Total liabilities	277,965	337,783	366,896	396,974	414,422
Minority interests	10,789	9,454	9,522	9,714	9,906
Shareholders' equities	70,231	86,617	96,703	107,464	119,132
BVPS (RMB)	4.736	5.355	5.979	6.644	7.365

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	15,024	15,515	16,455	17,857	19,289
Changes in depreciation and amortization	6,492	6,987	7,505	8,062	8,788
Changes in working capital	(16,713)	(9,637)	(16,808)	(10,920)	(17,598)
Financial cost	3,355	5,411	6,281	6,667	7,077
Income tax paid	(2,606)	(3,219)	(2,905)	(3,147)	(3,391)
Others	(3,281)	(992)	(1,200)	(1,320)	(1,452)
CF Operating¹	2,271	14,065	9,328	17,199	12,714
Increase in PP&E	(8,277)	(8,209)	(9,030)	(9,933)	(10,926)
Increase in intangible assets	(9,147)	(12,866)	(9,265)	(12,468)	(14,265)
Others	2,883	845	-	-	-
CF Investing¹	(14,541)	(20,230)	(18,295)	(22,401)	(25,191)
Capital injection	142	5,026	-	-	-
Net debt financing	24,716	38,200	15,769	10,971	12,379
Dividend payout	(2,511)	(3,037)	(3,011)	(3,333)	(3,571)
Interest paid	(4,016)	(6,432)	(6,281)	(6,667)	(7,077)
Others	511	(4,835)	6,908	1,986	4,674
CF Financing	18,842	28,922	13,386	2,958	6,405
Net change in cash	6,572	22,757	4,420	(2,244)	(6,072)
Cash at the beginning	39,545	46,043	73,073	77,493	75,248
Adjustment (Time deposit & FX effect)	(74)	4,273	-	-	-
Cash at the end	46,043	73,073	77,493	75,248	69,176

1: Operating cash flow is including interest received, while investing cash flow is excluding interest received

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Construction operation	77.16	77.68	78.27	80.20	81.99
Survey, Design & Consultancy	5.10	5.58	5.33	4.95	4.75
Port Machinery Manufacturing	6.85	6.54	6.61	6.04	5.40
Dredging services	10.98	10.84	10.39	9.35	8.25
Others	2.27	2.19	2.09	2.00	2.00
Inter-segment sales	(2.37)	(2.83)	(2.68)	(2.53)	(2.40)
Profit & loss ratios (%)					
Gross margin	9.48	11.04	10.95	11.31	11.66
Net profit margin	4.00	4.15	4.02	3.94	4.07
Effective tax rate	20.28	24.38	20.00	20.00	20.00
Growth (%)					
Revenue	7.90	0.35	10.07	9.47	4.89
Gross profit	20.05	16.81	9.19	13.10	8.12
EBIT	29.10	14.76	7.64	7.95	7.60
EBITDA	24.65	12.98	7.59	7.82	7.93
Net profit	22.52	4.14	6.74	7.31	8.17
Balance sheet ratios					
Current ratio (x)	1.02	1.07	1.09	1.07	1.06
Quick ratio (x)	0.92	0.96	0.97	0.95	0.94
Cash ratio (x)	0.21	0.29	0.29	0.26	0.23
Trade and bill receivables days	60.84	63.10	60.00	60.00	60.00
Trade and bill payables turnover days	119.38	140.25	140.00	140.00	140.00
Inventory turnover days	30.24	34.23	38.00	40.00	40.00
Total debt / equity ratio (%)	131.01	150.14	150.64	145.92	142.10
Net debt / equity ratio (%)	74.13	74.08	77.69	81.70	88.49
Returns (%)					
ROAE	17.66	15.62	14.26	13.74	13.39
ROAA	3.51	3.09	2.88	2.84	2.87
Payout ratio	24.67	24.40	25.00	25.00	25.00

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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