



October 21, 2013
Company Report
Rating: BUY
TP: HK\$ 5.14

H-Share price (HK\$)	4.25
Est. share price return	20.94%
Est. dividend yield	1.81%
Est. total return	22.75%

Previous Rating & TP	BUY; HK\$ 5.17
Previous Report Date	Sept 4, 2013

Analyst: Steve Wong
Tel: (852) 2147 8869
Email: stevecwong@abci.com.hk

Key Data

52Wk H/L(HK\$)	4.98 / 3.17
Issued shares (mn)	21,300
H-Shares (mn)	4,207
A-Shares (mn)	17,093
Market cap	
H-shares (HK\$ mn)	17,880
A-Shares (RMB mn)	47,860
3-mth avg daily turnover (HK\$ mn)	93.35
Major shareholder(s) (%):	
CRECG	56.10

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Construction operation	85.56
Survey, Design & Consultancy	1.77
Equipment Manufacturing	2.64
Property Development	3.17
Others	12.67
Inter-segment sales	(5.81)

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(1.86)	(2.44)
3-mth	8.18	(0.63)
6-mth	11.02	5.09

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CRG (390 HK)
Urban rail development to drive momentum

Urban rail development in 2014-15 is expected to stay strong with NDRC's support. CRG is the largest builder of urban rail in China, and we believe the increasing income from urban rail development will be able to compensate partially for the declining income from railway segment. However, we believe CRG's high gearing (1H13 net gearing: 118.44%) may increase its financial costs, posting limits on its ability to obtain funds for working capital expansion. We maintain our **BUY** recommendation for CRG with our TP at HK\$ 5.14, representing 1.03x FY13E P/B. The counter is trading at 0.85x FY13E P/B, and has an upside potential of 22.75% (share price gain and FY13E dividend yield).

Urban rail development to mitigate railway slowdown. We believe CRG's railway segment will decline at 2.01% CAGR in FY14E-15E on slowing railway infrastructure investment from CRC. Strong growth in China's urban rail development can support CRG's growth in FY14-15. We estimate that its urban rail segment will grow at 19.58% CAGR in FY14E-15E.

High gearing - a heavy burden. CRG's net gearing was 118.44% as at end-June 2013, much higher than CRCC's 36.10%. The high gearing limits the room for CRG to seek funding in the future. It may restrict the number of projects to be undertaken as financial costs could be high.

Huge backlog enhances earnings visibility. The backlog-to-revenue ratio was 2.95x as of end-June 2013. Our statistical analysis shows that growth in backlog-to-revenue ratio is a leading indicator of revenue growth. Based on growth in backlog-to-revenue ratio in FY12-13E, we estimate CRG's overall revenue of will grow at 9.92% CAGR in FY13E-15E.

Cost ratio improvement. We believe GPM will recover gradually in 2H13 as the construction projects proceed to further stages of development. Furthermore, we expect CRG to maintain an effective control on expenses. CRG's SG&A-to-revenue ratio was improving from 5.74% in FY06 to 3.72% in FY12 (1H13: 3.60%). We expect the Group's net income margin to rise in FY13E-15E while net income will grow at 12.02% CAGR over FY13E-15E.

Maintain BUY with. Our target valuation at 1.03x of FY13E P/B, 40% discount on the median of its forward P/B during 2008-10, for the slowdown on earnings growth comparing with that in the previous Five-Year Plan. The counter is trading at 0.85x of FY13E P/B, 17.48% below our target P/B. We maintain BUY on CRG with TP at HK\$5.14 for the upside potential of 22.75%.

Risk factors: Risk factors: 1) YoY growth of 2H13 net income may slow due to high base in 2H12; 2) Higher gearing than peers; 3) Liquidity strained by increased exposure to BT projects.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	442,216	465,625	536,177	601,767	647,830
Chg (% YoY)	(3.06)	5.29	15.15	12.23	7.65
Net Income (RMB mn)	6,690	7,354	8,763	10,054	10,997
Chg (% YoY)	(9.57)	9.93	19.17	14.72	9.39
EPS (RMB)	0.314	0.345	0.411	0.472	0.516
P/E (x)	-	9.89	8.30	7.23	6.61
BVPS (RMB)	3.373	3.652	4.012	4.422	4.867
P/B (x)	-	0.93	0.85	0.77	0.70
DPS(RMB)	0.048	0.052	0.062	0.071	0.077
Yield (%)	-	1.52	1.81	2.07	2.27
ROAE (%)	9.64	9.83	10.74	11.19	11.12
Net gearing (%)	81.93	101.34	112.13	124.05	128.06

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Urban rail: Growth driver for FY13E-15E

We estimate total investment in urban rail infrastructure construction will grow at 35.95% from 2013-15. Looking forward, we expect that the urban rail development in second and third tier cities will pace up in 13th 5-Year under the government's support. Accelerated growth in urban rail can partially offset the slowdown in railway and roadway transportation investments.

Urban rail to offset slowdown in railway and roadway investments

With CRC's high debts and declining profitability of toll road operators, we expect fixed asset investment in railway and roadway transportation to decline in FY13E-15E. Revenue from railway and roadway construction will grow at 0.83% and 0.72% CAGRs over 2013-15, respectively, as opposed to their respective revenue CAGRs of 29.18% and 36.80% over 2008-10. Accelerated development in urban rail is expect to partially offset the slowdown in railway and roadway investments,

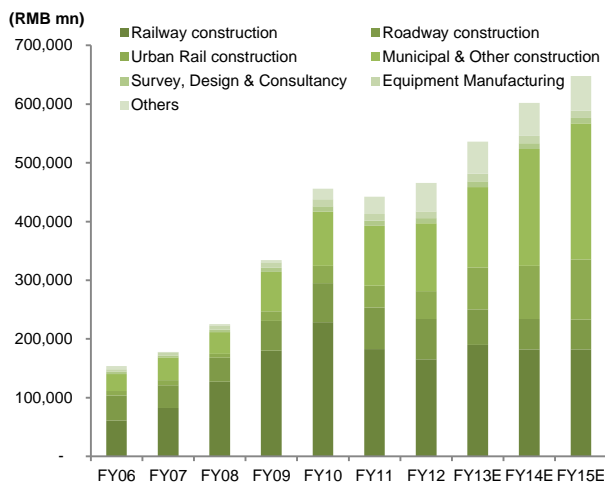
High gearing may restrict funding and lower business growth

CRG's high gearing (1H13 net gearing: 118.44%) compared to CRCC (1186 HK) and Shanghai Tunnel (600820 CH) hinders it from expanding its coverage in lower-tier cities.

CRG is the largest urban rail builder in China with an estimated market share of 50% in 2012. CRG's bidding for projects in lower tier cities, which usually follows the BT mode, will be limited as a large amount of upfront capital is usually required. The Group's high gearing could drive up its financial costs and reduce profitability. We estimate revenue from urban rail construction segment to growth at 19.58% CAGR over 2012-15, lower than CRCC's 44.48%.

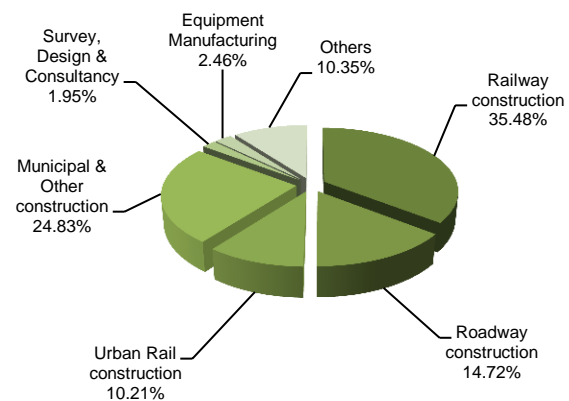
All in all, we estimate CRG's overall revenue to grow at 9.92% CAGR over FY12-15.

Exhibit 1: Revenue breakdown and projections for CRG in FY06-15E



Source(s): Company, ABCI Securities estimates

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



Source(s): Company, ABCI Securities

Income-mix diversification

Aside from urban rail, we expect the exposure of municipal construction projects, including affordable housing and government building construction projects, and hydraulic and electric engineering projects will outpace that of the roadway and railway investment in the future.

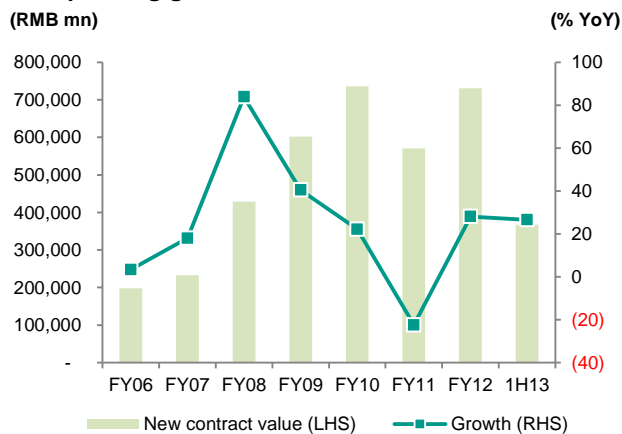
We estimate contribution from non-core businesses (non-railway-and-roadway transportation infrastructure construction), as percentage of total revenue, to rise from 35.29% in FY10 to 49.80% in FY12 (1H13: 48.62%). The new contracts value of non-core businesses increased from 34.29% in FY10 to 72.38% in FY12 (1H13: 60.24%).

High backlog on hand

The backlog-to-revenue ratio was increasing from 1.04x in FY06 to 2.79x in FY12 (1H13: 2.95x). Although the CRG's backlog-to-revenue ratio is lower than that of CRCC at 3.48x in 1H13, the figure is above one, showing that the Group's business is expanding. Value of contract backlog increased from RMB 1,301bn at end- 2012 to RMB 1,412bn at end-1H13. Based on our statistical analysis, growth in backlog-to-revenue ratio is a leading indicator of revenue growth in CRG.

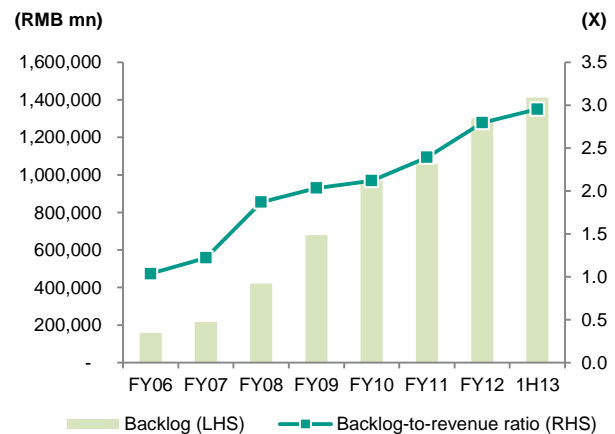
For CRG, revenue growth lags behind the growth in backlog-to-revenue ratio by one year. Growth in backlog-to-revenue ratio during FY12-13E indicates that project delivery will accelerate and drive up revenue in FY13E-14E.

Exhibit 3: New contract of CRG during the year and the corresponding growth in FY06-1H13



Source(s): Company

Exhibit 4: Backlog value and backlog-to-revenue ratio of CRG in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 5: Correlation of the revenue growth and growth in backlog-to-revenue ratio, FY05-FY14E

		Revenue (RMB mn)	Growth (% YoY)		backlog-to-revenue ratio (X)	Growth (% YoY)
Year 1	FY07	177,391	15.51	FY06	1.04	(11.72)
Year 2	FY08	225,029	26.85	FY07	1.22	17.87
Year 3	FY09	334,075	48.46	FY08	1.87	53.23
Year 4	FY10	456,162	36.54	FY09	2.03	8.78
Year 5	FY11	442,216	(3.06)	FY10	2.12	4.19
Year 6	FY12	465,625	5.29	FY11	2.39	12.90
					Correlation(%)¹	67.28
Year 7	FY13E	536,177	15.15	FY12	2.79	16.78
Year 8	FY14E	601,767	12.23	FY13E	2.64	(5.56)

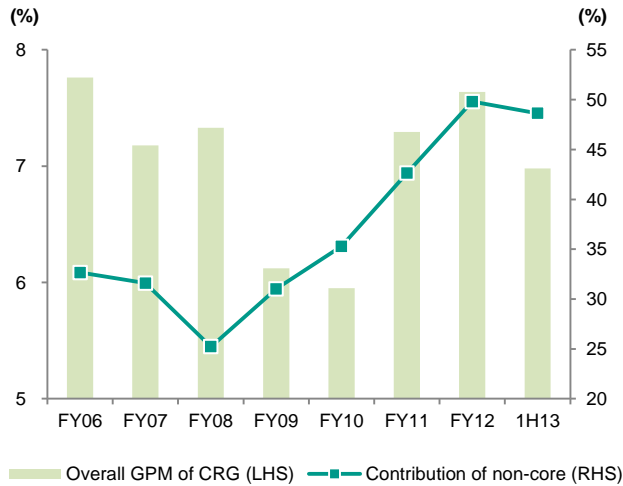
1: The correlation is calculated from "growth of revenue from FY07-12" and "growth of backlog-to-revenue ratio from FY06-11"
 Source: Company, ABCI Securities estimates

Higher GPM in FY14E-15E

Due to the large amount of new railway construction contracts in 2H12 and 1H13 (RMB 213bn in total, or 1.12x of FY13E railway construction segment revenue) and most were in the initial construction stage, 1H13 GPM dropped 0.41ppt YoY to 6.98%. We believe the GPM will recover gradually in 2H13 as the construction projects proceed to further stages of development.

Looking forward, we expect the GPM to regain strength in FY14E-15E with the increased contribution from urban rail and other municipal infrastructure construction projects. For 2013-15, GPMs of urban rail and municipal construction projects are expected to be at 7%-9% and 7%-10%, higher than that of railway and roadway construction projects at 4%-5.5% and 3.5%-5.5%, respectively.

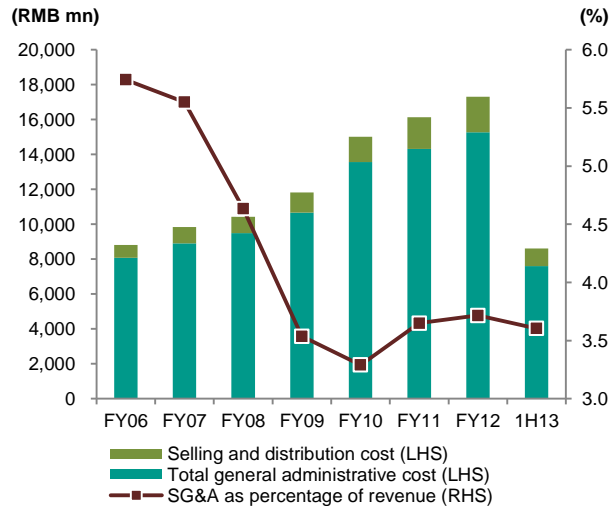
Exhibit 6: CRG's GPM and contribution from non-core construction business as a percentage of total revenue during FY06-1H13



* The overall GPM of CRCC is calculated exclusion of surcharges and business tax

Source(s): Company, ABCI Securities

Exhibit 7: Selling & distribution cost, general administrative cost and SG&A-to-revenue ratio in FY06-1H13



Source(s): Company

Cost ratio to stay low in FY13E-15E

SG&A-to-revenue ratio of CRG improved from 5.74% in FY06 to 3.72% in FY12, and further to 3.60% in 1H13, lower than CRCC's 4.30% in and CCCC's 4.44% during the same period.

Excluding the depreciation and amortization expenses, the cash cost ratio of CRG was stable at 2.2%-2.4% during FY09-1H13, and we expect the trend to be sustained in FY14E-15E. Based on its depreciation schedule for PP&E, we estimate the SG&A-to-revenue ratio to stay at relatively low levels at be 3.50%-3.71% in FY13E-15E.

Exhibit 8: SG&A-to-revenue ratio in FY06-1H13 (%)

(%)	FY06	FY07	FY08	FY09	FY10	FY11	FY12	1H13
CRCC (1186 HK)	4.49	4.32	4.36	4.18	4.54	4.87	4.82	4.30
CRG (390 HK)	5.74	5.55	4.64	3.54	3.29	3.65	3.72	3.60
CCCC (1800 HK)	5.01	4.29	4.44	4.48	3.95	4.61	4.97	4.44

Source: Companies

Outlook and recommendation

Outlook of CRG

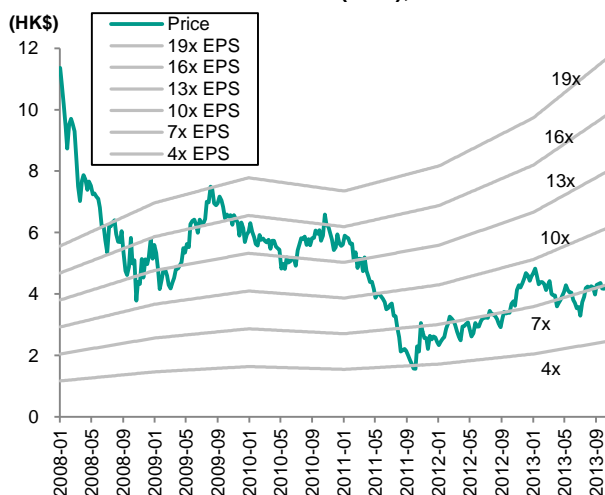
We expect CRG's net income growth will be lower than that of 1H13 (up 45.94% YoY) due to the high base in 2H12 when railway and roadway construction investments recovered. We expect China will continue to adopt a prudent monetary policy in 2014-15 and CRG's debt problem will persist, thus roadway and railway FAI in 2014-15 will be similar to that of 2013. Hence, CRG's businesses in the relevant domain will be limited.

CRG, as the largest player of urban rail construction contractor in China with an estimated market share of 50% in 2012, will benefit from the growth in China's urban rail development of China. However, due to the high financial leverage of CRG (1H13 net gearing: 118.44%) compared to its closest competitor, CRCC (1H13 net gearing: 36.10%), we believe its financing capability could be weaker than CRCC's, especially in terms of low-cost funding. We estimate its revenue CAGR in urban rail construction segment to be 19.58% in FY13E-15E, lower than CRCC's 44.48% for the same period. CRG's net income will grow at 12.02% CAGR over FY13E-15E.

Recommend BUY with TP at HK\$5.14

Our target valuation at 1.03x of FY13E P/B represents a 40% discount to the median of forward P/B of CRG in 2008-10. Such discount is justified by our assumption of earnings slowdown in FY13E-15E (the last three years of China's 12th 5-Year Plan) at 12.02% CAGR, compared to FY08-10 (the last three years of China's 11th 5-Year Plan of China)'s growth at 16.09% CAGR (excluding the FX loss relevant to H share IPO proceeds in FY08). The counter is trading at 0.85x FY13E P/B, 17.48% below our target P/B. We have made a minor adjustment on the earnings projection for CRG based on CRG's 1H13 results in the updated economic data. We maintain our **BUY** rating on CRG with new TP at HK\$5.14 (previous TP: HK\$5.17). The upside potential is 22.75% (share price gain and FY13E dividend yield).

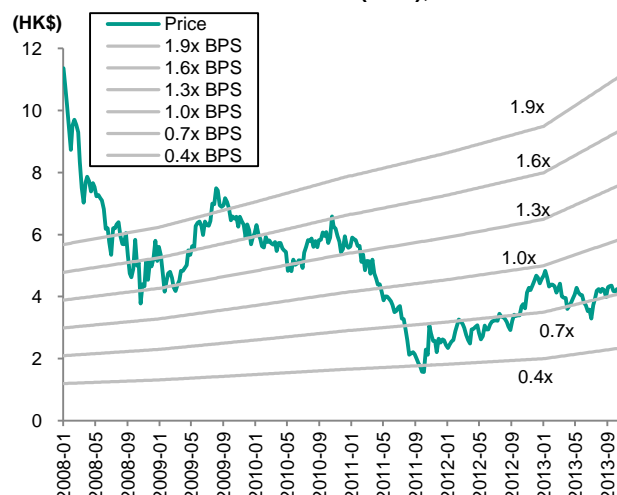
Exhibit 9: P/E band of CRG-H (HK\$), 1M08-10M13



*FY08 EPS excludes FX loss of RMB 4,139mn due to the H share IPO proceeds

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

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



*FY08 BPS excludes the FX loss of RMB 4,139mn due to the H share IPO proceeds

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



Exhibit 11: 1H13 results summary of CRG

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	214,571	227,645	190,915	274,710	238,956	25.16	(13.02)
Construction operation	192,556	199,984	164,235	232,671	204,450	24.49	(12.13)
Survey, Design & Consultancy	4,484	4,442	4,106	4,963	4,226	2.92	(14.85)
Equipment Manufacturing	6,029	5,118	4,900	6,564	6,316	28.90	(3.78)
Property Development	4,487	12,648	4,227	15,948	7,579	79.30	(52.48)
Others	19,002	23,209	23,871	32,561	30,276	26.83	(7.02)
Inter-segment sales	(11,987)	(17,756)	(10,424)	(17,997)	(13,891)	33.26	(22.81)
Gross Profit (RMB mn)	13,041	19,212	14,103	21,458	16,676	18.24	(22.29)
Construction operation	9,146	12,051	9,312	13,510	10,652	14.39	(21.16)
Survey, Design & Consultancy	1,317	1,575	1,055	1,801	1,188	12.57	(34.06)
Equipment Manufacturing	912	1,273	1,032	1,111	1,076	4.24	(3.16)
Property Development	1,219	3,134	1,340	4,343	2,127	58.72	(51.01)
Others	1,478	2,996	2,184	3,154	2,407	10.20	(23.69)
Inter-segment sales	(1,031)	(1,816)	(821)	(2,462)	(774)	(5.72)	(68.55)
GPM (%)	6.08	8.44	7.39	7.81	6.98	(0.41ppt)	(0.83ppt)
Construction operation	4.75	6.03	5.67	5.81	5.21	(0.46ppt)	(0.60ppt)
Survey, Design & Consultancy	29.38	35.45	25.70	36.30	28.11	2.41ppt	(8.19ppt)
Equipment Manufacturing	15.12	24.88	21.07	16.93	17.04	(4.03ppt)	0.11ppt
Property Development	27.16	24.78	31.71	27.23	28.07	(3.64ppt)	0.84ppt
Others	7.78	12.91	9.15	9.69	7.95	(1.20ppt)	(1.74ppt)
Inter-segment sales	8.60	10.23	7.88	13.68	5.57	(2.30ppt)	(8.11ppt)
Major cost (RMB mn)							
Selling and distribution cost	794	1,019	681	1,350	1,010	48.31	(25.19)
Administrative cost ¹	6,959	7,366	7,188	8,083	7,604	5.79	(5.93)
Cost ratio (%)							
Selling and distribution cost	0.37	0.45	0.36	0.49	0.42	0.07ppt	(0.07ppt)
Administrative cost ¹	3.24	3.24	3.77	2.94	3.18	(0.58ppt)	0.24ppt
Net profit (RMB mn)	2,444	4,246	2,390	4,964	3,488	45.94	(29.73)
Net profit margin (%)	1.14	1.87	1.25	1.81	1.46	0.21ppt	-0.35ppt

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

Exhibit 12: Major changes in our FY13E-15E forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	536,177	536,177	-	601,767	601,767	-	688,247	647,830	(5.87)
Construction operation	458,732	458,732	-	523,719	523,719	-	609,313	566,968	(6.95)
Survey, Design & Consultancy	9,644	9,644	-	9,357	9,357	-	9,315	9,315	-
Equipment Manufacturing	13,275	13,275	-	12,734	12,734	-	12,749	12,749	-
Property Development	26,228	26,228	-	30,162	30,162	-	34,686	34,686	-
Others	62,213	62,213	-	62,713	62,713	-	63,213	63,213	-
Inter-segment sales	(33,913)	(33,913)	-	(36,917)	(36,917)	-	(41,029)	(39,101)	(4.70)
Gross profit (RMB mn)	39,749	39,749	-	45,900	45,900	-	52,704	49,933	(5.26)
GPM (%)	7.41	7.41	-	7.63	7.63	-	7.66	7.71	0.05ppt
Net income (RMB mn)	8,763	8,763	(0.01)	9,858	10,054	1.98	11,215	10,997	(1.94)
Net margin (%)	1.63	1.63	(0.01ppt)	1.59	1.67	0.08ppt	1.63	1.70	0.06ppt
EPS (RMB)	0.411	0.411	(0.01)	0.463	0.472	1.94	0.527	0.516	(2.09)
BVPS (RMB)	4.012	4.012	(0.01)	4.413	4.422	0.20	4.870	4.867	(0.06)
DPS (RMB)	0.062	0.062	(0.01)	0.069	0.071	2.90	0.079	0.077	(2.53)

Source(s): ABCI Securities estimates

Exhibit 13: Peer valuation table for construction contractors

Company	Ticker	Mkt cap (HK\$ mn)	As of 20/08/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	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	442,216	465,625	536,177	601,767	647,830
Construction operation	392,540	396,906	458,732	523,719	566,968
Survey, Design & Consultancy	8,926	9,069	9,644	9,357	9,315
Equipment Manufacturing	11,147	11,464	13,275	12,734	12,749
Property Development	17,135	20,175	26,228	30,162	34,686
Others	42,211	56,432	62,213	62,713	63,213
Inter-segment sales	(29,743)	(28,421)	(33,913)	(36,917)	(39,101)
COGS	(409,963)	(430,064)	(496,428)	(555,867)	(597,897)
Gross profit	32,253	35,561	39,749	45,900	49,933
SG&A	(16,138)	(17,302)	(18,750)	(22,326)	(23,977)
Other income (loss)	(6,117)	(7,174)	(7,327)	(7,893)	(8,808)
Pre-tax profit	9,998	11,085	13,672	15,681	17,148
Income tax	(2,758)	(3,052)	(3,760)	(4,312)	(4,716)
Net profit	7,240	8,033	9,912	11,369	12,433
Profit attributable to:					
Minority interests	550	679	1,149	1,315	1,435
Equity shareholders of the Company	6,690	7,354	8,763	10,054	10,997
Basic EPS (RMB)	0.314	0.345	0.411	0.472	0.516
DPS (RMB)	0.048	0.052	0.062	0.071	0.077
EBIT	16,210	20,827	25,403	27,788	29,671
EBITDA	22,430	26,890	32,657	35,514	37,924

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	360,099	434,855	516,518	549,226	540,101
Cash and equivalent	63,583	72,491	87,599	73,912	67,001
Trade and bill receivables	95,758	100,556	114,334	117,567	115,441
Construction contracts	56,747	78,522	91,880	96,070	84,968
Inventories	94,952	119,506	152,548	184,503	187,799
Other current assets	49,059	63,780	70,158	77,174	84,891
Non-current assets	108,461	115,806	124,178	130,979	137,613
Property, plant and equipment	37,668	41,513	44,949	48,249	51,942
Intangible assets	42,756	42,108	42,418	42,428	42,438
Long term investments	15,834	16,156	17,772	19,549	21,504
Long term receivables	3,336	6,678	7,593	7,808	7,667
Other non-current assets	8,867	9,351	11,446	12,946	14,062
Total assets	468,560	550,661	640,696	680,205	677,714
Current liabilities	305,572	366,119	429,558	456,840	441,068
Trade and bill payables	158,458	179,608	200,262	209,900	185,523
Receipts in advance	35,282	49,685	67,833	70,656	64,235
Short term borrowings	56,490	73,762	89,865	97,351	105,587
Other current liabilities	55,342	63,064	71,598	78,933	85,723
Non-current liabilities	81,809	96,552	114,516	116,886	119,458
Long-term payables	632	450	502	526	465
Long-term borrowings	73,606	87,899	106,073	108,653	111,491
Other non-current liabilities	7,571	8,203	7,941	7,707	7,501
Total liabilities	387,381	462,671	544,074	573,726	560,526
Minority interests	9,330	10,197	11,176	12,293	13,513
Shareholders' equities	71,849	77,793	85,446	94,186	103,675
BVPS (RMB)	3.373	3.652	4.012	4.422	4.867

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	9,998	11,085	13,672	15,681	17,148
Changes in depreciation and amortization	6,220	6,063	7,254	7,725	8,253
Changes in working capital	(30,314)	(20,939)	(29,359)	(25,394)	(17,269)
Financial cost	4,148	6,360	7,625	7,870	8,139
Income tax paid	(2,712)	(3,705)	(3,883)	(4,447)	(4,864)
Others	(59)	(1,608)	-	-	-
CF Operating¹	(12,719)	(2,744)	(4,691)	1,435	11,408
Increase in PP&E	(10,877)	(10,288)	(11,000)	(11,335)	(12,257)
Increase in intangible assets	(10,637)	(494)	(1,000)	(700)	(700)
Others	9,040	(2,636)	-	-	-
CF Investing¹	(12,474)	(13,418)	(12,000)	(12,035)	(12,957)
Capital injection	195	610	-	-	-
Net debt financing	44,961	31,565	34,277	10,067	11,073
Dividend payout	(1,407)	(1,253)	(1,280)	(1,512)	(1,723)
Interest paid	(5,799)	(9,686)	(11,731)	(12,108)	(12,522)
Others	(7,350)	2,437	10,534	466	(2,190)
CF Financing	30,600	23,673	31,799	(3,086)	(5,362)
Net change in cash	5,407	7,511	15,108	(13,687)	(6,911)
Cash at the beginning	57,218	63,583	72,491	87,599	73,912
Adjustment (Time deposit & FX effect)	958	1,397	-	-	-
Cash at the end	63,583	72,491	87,599	73,912	67,001

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	88.77	85.24	85.56	87.03	87.52
Survey, Design & Consultancy	2.02	1.95	1.80	1.55	1.44
Equipment Manufacturing	2.52	2.46	2.48	2.12	1.97
Property Development	3.87	4.33	4.89	5.01	5.35
Others	9.55	12.12	11.60	10.42	9.76
Inter-segment sales	(6.73)	(6.10)	(6.32)	(6.13)	(6.04)
Profit & loss ratios (%)					
Gross margin	7.29	7.64	7.41	7.63	7.71
Net profit margin	1.51	1.58	1.63	1.67	1.70
Effective tax rate	27.59	27.53	27.50	27.50	27.50
Growth (%)					
Revenue	(3.06)	5.29	15.15	12.23	7.65
Gross profit	18.83	10.26	11.78	15.47	8.79
EBIT	18.77	28.48	21.97	9.39	6.77
EBITDA	20.27	19.88	21.45	8.75	6.79
Net profit	(9.57)	9.93	19.17	14.72	9.39
Balance sheet ratios					
Current ratio (x)	1.18	1.19	1.20	1.20	1.22
Quick ratio (x)	0.87	0.86	0.85	0.80	0.80
Cash ratio (x)	0.21	0.20	0.20	0.16	0.15
Trade and bill receivables days	75.78	80.87	78.00	75.00	70.00
Trade and bill payables turnover days	131.69	143.92	140.00	135.00	121.00
Inventory turnover days	72.73	91.01	100.01	110.66	113.64
Total debt / equity ratio (%)	160.26	183.73	202.79	193.47	185.24
Net debt / equity ratio (%)	81.93	101.34	112.13	124.05	128.06
Returns (%)					
ROAE	9.64	9.83	10.74	11.19	11.12
ROAA	1.56	1.44	1.47	1.52	1.62
Payout ratio	15.28	15.07	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

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

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

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

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183