

July 21, 2014

Sector Rating Rating: Overweight

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Key Data

Avg.14E P/E (x)	7.94
Avg.14E P/B (x)	1.23
Avg.14E Dividend Yield (%)	3.32

Source(s): Company, Bloomberg, ABCI Securities

Growth (% YoY)

Fixed-asset investment in 1H14:

Roadway transport	23.50
Railway transport	14.20
Waterway transport ¹	32.80

Net income of 1Q14:

CRCC (1186 HK)	22.97
CRG (390 HK)	22.92
CCCC (1800 HK)	1.85
CMEC (1829 HK) ²	1.61
CSCI (3311 HK) ³	27.64

1: The data is as of 5M14

2: The growth of CMEC is FY13

3: The growth of CSCI is operating profit

Source(s): Companies, NBS, ABCI Securities

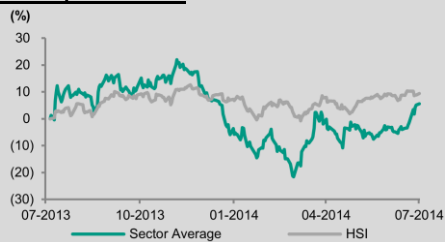
Sector performance (%)

	Absolute	Relative
1-month	8.98	8.86
3-month	7.77	6.28
6-month	11.35	9.41
12-month	5.62	(3.75)

*: Relative to Hang Seng Index

Source(s): Bloomberg, ABCI Securities

Sector performance



Source(s): Bloomberg, ABCI Securities

Railway Infrastructure Construction Construction to speed up in 2H14

- Based on CRC's targeted CAPEX of RMB 800bn for 2014, we expect construction pace of railway projects to accelerate in 2H14 to benefit railway constructors
- FAI on railway industry in 1H14 was up 14.2% YoY, with FAI in 2Q14 soaring by 114.6% QoQ.
- We estimate railway infrastructure investment to grow 20.2% YoY in 2014 with the higher investment target, and expect more new contracts to be announced in 2H14
- We estimate that FAI on urban rail to have increased by ~50% YoY in 1H14, and expect growth to continue based on the construction pipeline of urban rail transit in the major cities
- In anticipation of increased contract flow, we maintain **BUY** on CRCC and CRG with TPs at HK\$ 9.40 and HK\$ 4.72, representing the upper quartiles of their historical P/Es of 8.11x and 8.10x in the H-share market since 2011

Railway FAI to accelerate in 2H14. Fixed-assets investment (FAI) on transport infrastructure was up 22.8% YoY in 1H14; FAI on railway segment was up 14.2% YoY during the period. According to China Railway Corporation (CRC), the targeted CAPEX for 2014 is RMB 800bn, up 20.2% YoY. Hence, we expect railway investment would escalate in 2H14 - a positive catalyst for the railway infrastructure sector.

Bonds issuance to fund projects. To ensure sufficient funding and prompt delivery of the railway projects, CRC has issued five batches of bonds year to date, raising a total of RMB 90bn. A large part of the proceeds (~70% based on our calculation) was mainly used for new projects. Fourteen new railway construction projects with a total construction cost of RMB 327bn were commenced in 2Q14. CRC targets to commence 64 new projects in 2014, compared to 47 in 2013.

Robust new contract flow expected in 2H14. Based on the new contracts disclosed by the 2 railway infrastructure contractors (new contract amount for 1Q14 and the new contracts disclosed in Apr-June), CRCC and CRG have completed 31.8% and 41.0% of their new contract targets for 2014, higher than the 24.7% and 33.8% a year ago. We expect new contract flow to grow stronger in 2H14 with CRC's higher CAPEX.

Robust urban rail development. FAI on roadway segment was up 23.5% YoY, outpacing the industry average thanks to accelerated urban rail development. We estimate that FAI on urban rail to have increased by ~50% YoY in 1H14. According to CCID Consulting, investment on urban rail development is estimated to grow at 17.22% CAGR over 2013-18E, benefiting major contractors such as CRCC and CRG over the long term.

Recommend BUY on CRCC/CRG with lower TPs. We revise down our TPs for CRCC/CRG from HK\$ 10.22/5.14 to HK\$ 9.40/4.72 to account for possible margin squeeze resulted from CRC's high debt level. TPs of CRCC/CRG represent the upper quartiles of their historical P/Es of 8.11/8.10x in the H-share market since 2011. The counters are trading at 6.18x/6.97x FY14E P/E. We expect a re-rating to occur with more new projects with CRC to be announced in 2H14.

Risk factors: 1) High debts in CRC may reduce project margins; 2) Gearing may rise on increased construction pipeline; 3) Sustainability of M2 growth.

Sector Valuation Summary

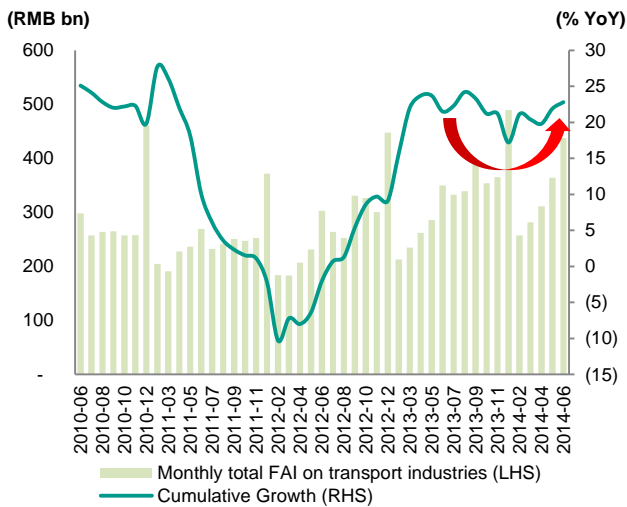
Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY14E P/E(x)	FY15E P/E (x)	FY14E P/B (x)	FY15E P/B (x)	FY14E Yield (%)	FY14E ROAE (%)
Railway infrastructure construction contractor										
CRCC	1186 HK	BUY	7.16	9.40	6.18	5.48	0.80	0.71	2.43	13.51
CRG	390 HK	BUY	4.06	4.72	6.97	6.50	0.73	0.67	2.15	10.98
Other infrastructure construction contractor										
CCCC	1800 HK	Reviewing	5.58	Reviewing	5.29	4.88	0.69	0.63	4.57	14.31
CMEC	1829 HK	Reviewing	4.39	Reviewing	6.32	5.42	1.10	0.97	5.50	18.41
CSCI	3311 HK	Unrated	13.52	N/A	14.92	11.82	2.82	2.38	1.96	20.24

Source(s): Bloomberg, ABCI Securities estimates

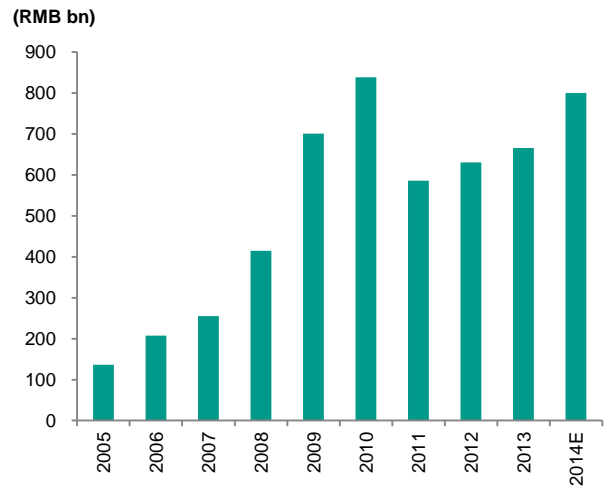
Investment on transport infrastructure

In 1H14, FAI on transport industry was up 22.8% YoY, outpacing the overall FAI growth of 17.3% in China and accounted for 7.76% of overall FAI. Rebounding from the trough at 1Q14, transport FAI was up 106.2% QoQ in 2Q14, thanks to the strong momentum of investment on railway and urban rail industry. To meet the development target of the 12th Five-Year Plan, we believe that construction pace of the railway and urban rail projects has been accelerating.

According to China Railway Corporation (CRC), the targeted CAPEX for 2014 is RMB 800bn, up 20.1% YoY.

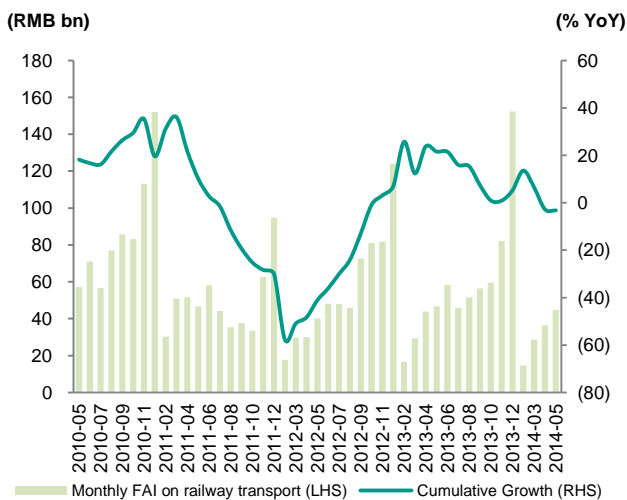
Exhibit 1: Monthly FAI on China's transport industry in 6M10-6M14


Source(s): NBS, ABCI Securities

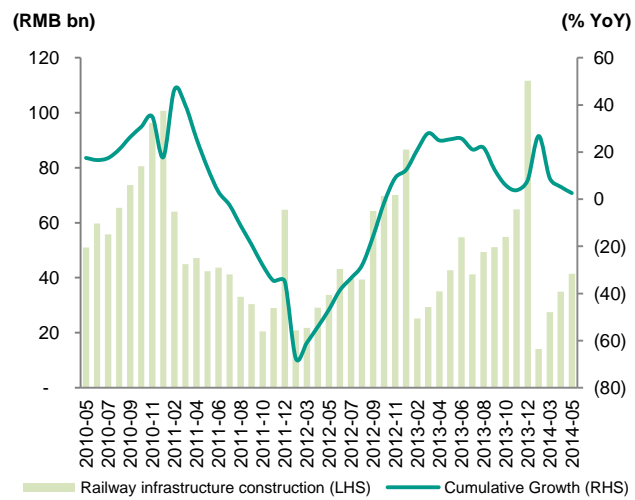
Exhibit 2: CAPEX of China Railway Corporation in 2005-14E


Source(s): China Railway Corporation, ABCI Securities

Total infrastructure investment and CRC's CAPEX for 5M14 were up 2.58% YoY and down 3.22% YoY, lagging behind the targeted CAPEX growth in 2014 at 20.1% YoY. Thus, we expect the railway investment to escalate in 2H14.

Exhibit 3: Monthly fixed-assets investment by CRC and YTD growth in 5M10-5M14


Source(s): China Railway Corporation, ABCI Securities

Exhibit 4: Monthly infrastructure investment by CRC and YTD growth in 5M10-5M14


Source(s): China Railway Corporation, ABCI Securities



Commencement of new railway projects

In order to speed up the pace of railway construction whose completion has been falling behind targets of the 12th Five-Year Plan, CRC has revised the construction plans for 2013 and 1H14 with great support garnered from the government. Looking forward, we expect the investment on railway infrastructure to go up in 2H14. According to CRC, fourteen new construction projects with a total cost of RMB 327bn have commenced in 2Q14. The total number of project starts is expected to increase from 47 in 2013 to 64 in 2014.

Exhibit 5: Major railway project starts since 2014

	Length (km)	Construction Duration (Years)	Construction Cost (RMB mn)
Beijing-Shenyang railway line	705	4	121,050
Jiujiang - Jingdezhen - Quzhou railway line	343	5	34,300
Chengdu - Guiyang railway line (Shigeo section)	515	4	67,800
Hangzhou - Huangshan railway line	213	5	36,500
Liaocheng - Jinan railway line	110	3	11,000
Shanghai - Nantong railway line	249	4	48,680
Zhangjiakou - Hohhot railway line	287	4	34,650
Shijiazhuang - Jinan railway line	319	3	43,600
Longkou - Yantai railway line	113	3	1,200
Harbin - Jiamusi railway line	343	5	34,714
Hengyang - Shaoyang - Huaihua railway line	318	5	32,430
Ejinaqi - Hami railway line	629	5	9,553
Total:	4,144		475,477

Source(s): Media, ABCI Securities

Funding for railway projects

For the bonds issued by CRC in 2014 (as of July 21), a large part of proceeds (~70% based on our calculation) was mainly used for the newly commenced projects in which less than 20% of the required investment has been paid. The 5 batches of bonds issued by CRC this year raised a total of RMB 90bn. With sufficient capital, we expect investment in the railway industry would rebound in 2H14, ensuring that the railway projects under construction would be delivered as scheduled.

Exhibit 6: Bonds issued by CRC in 2014 year to date

Batch No.	Issue date	Maturity (Year)	Consideration (RMB bn)	Interest rate
1	2014-Apr-10	10	20	SHIBOR + 0.78%
2	2014-May-13	10	15	SHIBOR + 0.26%
2	2014-May-13	20	5	SHIBOR + 0.40%
3	2014-May-26	10	15	SHIBOR + 0.41%
3	2014-May-26	20	5	SHIBOR + 0.50%
4	2014-Jun-17	10	15	SHIBOR + 0.26%
5	2014-Jul-08	10	15	SHIBOR + 0.40%
Overall			90	SHIBOR + 0.445%

Source(s): China Bond, ABCI Securities

The fact that most subscribers of CRC's bonds are large, reputable domestic financial institutes reflect that institutional investors are positive on the long-term prospects of railway development in China. These major subscribers include China Development Bank Corporation, Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of Communications, China Postal Savings Bank, CITIC Bank, China Merchants Bank, and HSBC (China).



Exhibit 7: Major projects under construction by CRC as at July 2014

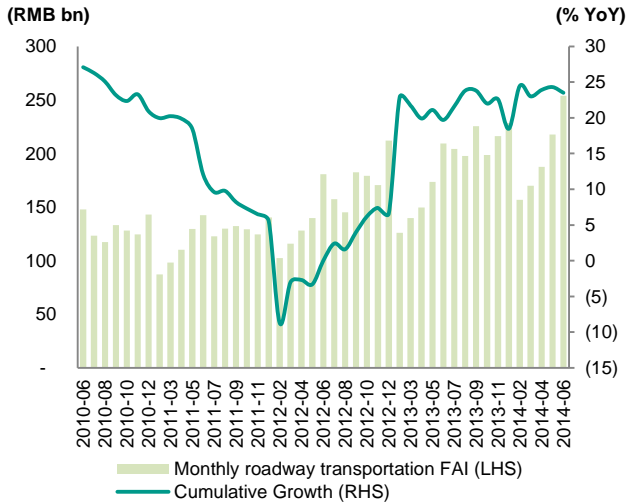
	Total estimated investment (RMB bn)	Capital paid-in (RMB bn)	As percentage of budgeted investment (%)
Changsha - Kunming railway line	160.14	41.59	25.97
Lanzhou - Urumqi railway line	143.50	43.10	30.03
Hangzhou - Changsha railway line (passenger traffic)	130.88	45.55	34.80
Beijing - Shenyang railway line (passenger traffic)	124.50	2.05	1.65
Hefei - Fuzhou railway line	105.84	35.65	33.68
Guiyang - Guangzhou railway line	97.55	28.40	29.11
Kunming - Nanning railway line	89.48	10.85	12.13
Lanzhou - Chongqing railway line	77.40	25.60	33.07
Leshan - Guiyang railway line	74.46	2.50	3.36
Xi'an - Chengdu railway line	69.37	5.43	7.83
Chengdu - Lanzhou railway line	63.60	1.01	1.59
Baoji - Lanzhou railway line (passenger traffic)	63.13	4.15	6.57
Hengyang - Nanning railway line	57.50	9.48	16.49
Chongqing - Guiyang railway line (expansion project)	53.11	5.20	9.79
Xiangtang - Putian railway line	51.80	13.05	25.19
Zhengzhou - Xuzhou railway line (passenger traffic)	46.56	7.60	16.32
Shijiazhuang - Jinan railway line (passenger traffic)	45.47	3.25	7.15
Jilin - Hunchun railway line	41.60	6.10	14.66
Chengdu - Chongqing railway line (passenger traffic)	39.89	7.44	18.65
Shanghai - Nantong railway line	36.13	0.70	1.94
Zhangjiakou - Hohhot railway line	34.65	2.55	7.35
Dongguan - Huizhou intercity railway line	34.28	2.85	8.31
Chongqing - Wanzhou railway line	31.15	1.85	5.94
Hainan West circular line	27.10	3.05	11.25
Shenyang - Dandong railway line (passenger traffic)	26.88	7.85	29.20
Jiujiang - Jingdezhen - Quzhou railway line	26.56	1.85	6.97
Yancheng - Lianyungang railway line	25.98	1.60	6.16
Nanjing - Anqing railway line	25.70	8.90	34.63
Ganzhou - Longyan railway line (expansion project)	24.47	5.60	22.89
Tianjin - Baoding railway line	24.00	6.66	27.75
Changsha - Zhuzhou intercity railway line	23.32	1.25	5.36
Foshan - Zhaoqing intercity railway line	21.38	2.23	10.43
Zhengzhou - Xi'an railway line (Northern circular line)	17.70	2.65	14.97
Guangzhou - Dongguan - Shenzhen intercity railway line	15.75	0.74	4.70
Chengdu - Pujiang railway line	15.71	1.40	8.91
Dali - Guangtong railway line (expansion project)	14.31	1.00	6.99
Zhuanghe - Qianyang railway line	14.01	3.10	22.13
Ningguo - Wuhu railway line (expansion project)	12.80	0.65	5.08
Chengdu - Kunming railway line (expansion project)	11.55	0.35	3.03
Huangling to Seoul to Houma railway	10.80	2.46	22.78
Qinghai - Tibet railway line	10.10	0.80	7.92
Others	109.98	16.38	14.89
Total	2,130.10	374.46	17.58

Source(s): China Railway Corporation, ABCI Securities

Rapid growth in urban rail

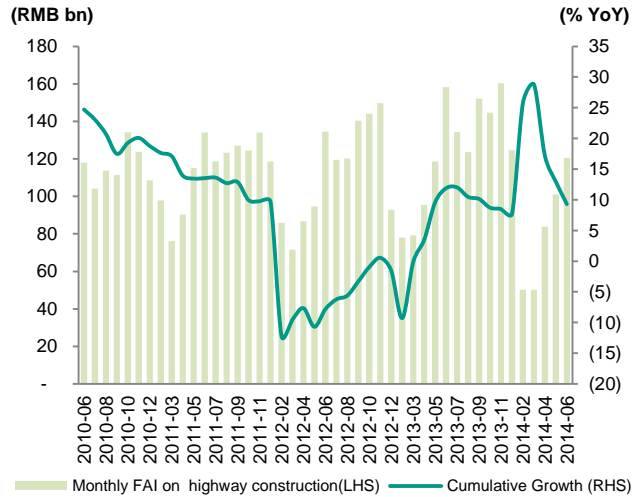
Total FAI on the roadway transport industry, which includes the highway and urban rail segments, has gone up since end-2013 and rose 23.5% YoY in 1H14. According to Ministry of Transportation, overall investment on highway construction was up 9.31% YoY in 5M14. We believe the strong growth in roadway FAI was mainly driven by the robust development of urban rail in China and estimate that FAI on urban rail to have increased by ~50% YoY in 1H14.

Exhibit 8: Monthly fixed-assets investment of roadway transport industry and YTD growth in 6M10-6M14



Source(s): NBS, ABCI Securities

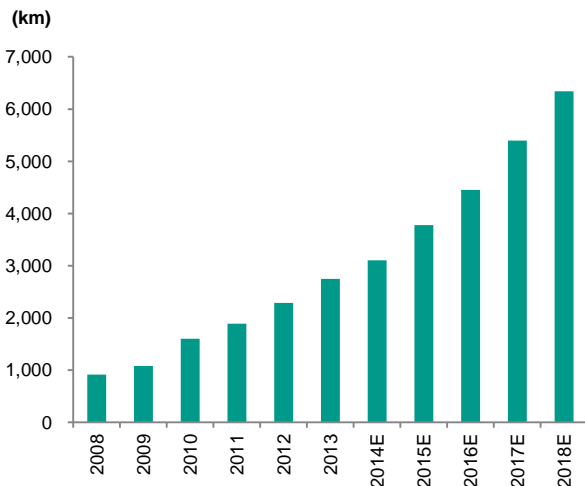
Exhibit 9: Monthly infrastructure investment on highway construction and YTD growth in 6M10-5M14



Source(s): MOT, ABCI Securities

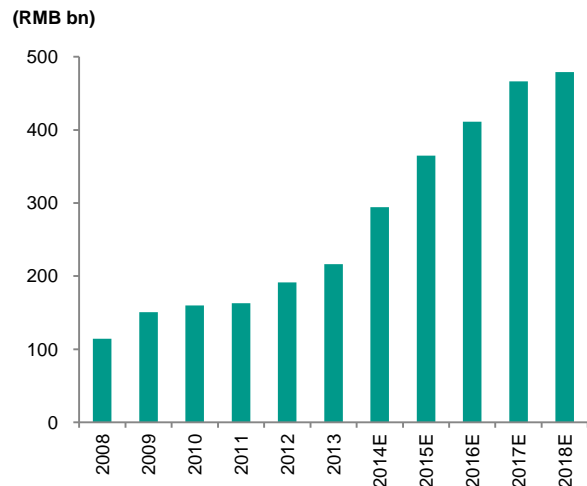
Based on the construction pipeline in the tier 1/2 cities, growth in urban rail industry is expected to continue in the next few years. According to CCID Consulting, investment on urban rail development is estimated to grow at 17.22% CAGR over 2013-18E, benefiting major railway contractors such as CRCC and CRG.

Exhibit 10: Operation length of the urban rail transit in China (2008-2018E)



Source(s): China Association of Metros, CCID Consulting, ABCI Securities

Exhibit 11: Investment on urban rail transit in China (2008-2018E)



Source(s): China Association of Metros, CCID Consulting, ABCI Securities

Exhibit 12: Valuation of domestic and international infrastructure contractors

Company	Ticker	Mkt cap (HK\$ mn)	CRY	As of 18/7/2014 Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
					FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Domestic Transportation Project Contractors												
CRCC-H	1186 HK	14,864	HKD	7.16	6.18	5.48	11.04	12.62	0.80	0.71	13.51	13.67
CRCC-A	601186 CH	62,430	RMB	4.87	5.23	4.64	11.04	12.62	0.67	0.60	13.51	13.67
CRG-H	390 HK	17,080	HKD	4.06	6.97	6.50	6.25	7.33	0.73	0.67	10.98	10.73
CRG-A	601390 CH	57,655	RMB	2.70	5.77	5.38	6.25	7.33	0.61	0.55	10.98	10.73
CCCC-H	1800 HK	24,708	HKD	5.58	5.29	4.88	8.59	8.50	0.69	0.63	14.31	14.90
CCCC-A	601800 CH	54,589	RMB	3.72	4.46	4.15	6.92	7.43	0.57	0.52	14.31	14.90
Shanghai Tunnel Eng Co	600820 CH	16,275	RMB	4.78	6.10	5.12	58.18	19.16	0.92	0.80	15.54	16.71
Xiangyu Dredging	871 HK	1,985	HKD	2.32	6.01	4.84	47.62	24.19	0.74	0.73	13.76	15.19
Sector Weighted Average					5.43	4.94	11.83	10.01	0.67	0.60	13.14	13.39
Domestic Infrastructure Construction Contractors												
CSCEC	601668 CH	112,058	RMB	2.99	4.01	3.48	9.71	15.28	0.66	0.57	17.60	17.64
China Gezhouba Group	600068 CH	23,010	RMB	4.00	9.52	8.33	(7.49)	14.29	0.95	0.87	10.33	10.87
CSCI	3311 HK	52,625	HKD	13.52	14.92	11.82	27.09	26.27	2.82	2.38	20.24	21.86
CAMC	002051 CH	15,698	RMB	16.24	14.23	11.78	21.17	20.86	2.27	1.96	16.95	17.84
CMEC	1829 HK	18,112	HKD	4.39	6.32	5.42	18.72	16.49	1.10	0.97	18.41	18.95
Sector Weighted Average					8.09	6.71	13.60	18.28	1.35	1.16	17.49	18.06
International Transportation Construction Contractors												
Vinci S.A.	DG FP	331,280	EUR	51.70	13.92	12.96	4.01	7.41	1.94	1.82	14.82	14.48
Bouygues Construction	EN FP	101,725	EUR	28.88	14.62	13.92	(183.32)	4.96	1.17	1.16	8.27	8.39
Hochtief A.G.	HOT GR	46,633	EUR	64.13	18.81	15.25	43.84	23.35	1.67	1.56	9.44	10.57
Skanska A.B.	SKAB SS	69,447	SEK	145.50	15.91	14.27	0.05	11.51	2.69	2.50	17.30	18.16
Strabag S.E.	STR AV	25,117	EUR	21.00	15.77	13.38	20.00	17.79	0.72	0.69	4.98	5.27
FCC S.A.	FCC SM	20,595	EUR	15.42	74.85	18.80	(101.74)	298.06	39.14	10.19	N/A	86.00
Ferrovial S.A.	FER SM	118,207	EUR	15.36	32.41	29.71	(52.18)	9.07	2.01	2.07	5.88	6.86
BAM Groep	BAMNB NA	5,866	EUR	2.06	11.09	6.10	(2.11)	81.72	0.59	0.55	5.36	9.37
SNC-Lavalin	SNC CN	61,363	CAD	55.95	65.52	27.47	255.83	138.52	3.69	2.99	5.90	12.04
Obrascon Huarte	OHL SM	32,701	EUR	31.25	9.77	8.60	17.14	13.66	1.23	1.11	13.33	13.59
Sacyr S.A.	SYV SM	22,962	EUR	4.36	16.32	13.58	(124.95)	20.22	1.74	1.54	11.93	12.03
Sector Weighted Average					22.29	16.70	(11.55)	26.79	2.87	2.03	11.15	11.80
International Infrastructure Construction Contractors												
ACS	ACS SM	103,068	EUR	31.22	13.86	12.92	1.05	7.28	2.74	2.51	20.09	20.30
Jacobs Engineering Group	JEC US	55,414	USD	54.05	16.57	13.25	(0.28)	25.08	1.55	1.35	9.54	10.89
WorleyParsons Ltd	WOR AU	32,718	AUD	18.22	16.70	14.31	(16.59)	16.68	2.01	1.94	12.09	13.82
Abengoa S.A.	ABG SM	34,570	EUR	4.29	24.79	15.21	(84.30)	63.01	2.46	2.32	10.60	15.73
Daewoo Eng & Const	047040 KP	28,791	KRW	9,200	12.94	10.30	(139.29)	25.65	1.32	1.19	10.51	12.17
Sector Weighted Average					16.19	13.18	(28.97)	22.01	2.19	2.01	14.39	15.88
Overall Weighted Average					16.59	12.83	(7.09)	22.12	2.19	1.68	12.89	13.61

Source(s): Bloomberg, ABCI Securities estimates

BUY CRCC with TP at HK\$ 9.40

Net gearing of CRCC increased to 36.10% at end-1Q14 from the net cash position at end-3Q13 so as to boost working capital of new projects in the coming years. CRCC's backlog at end-1Q13 was up 14.42% YoY to RMB 1,778bn, equivalent to ~2.7x of our FY14E revenue. Nevertheless, CRCC's gearing ratio is still lower than those of CRG and CCCC (1800 HK; 601800 CH).

We lower CRCC's FY14E/ FY15E net income, considering that the increasing debt ratio in CRC would tighten its budget and eventually squeeze margins in CRCC. The counter is currently trading at 6.18x FY14E P/E, lower than the median of its historical P/E since 2011 at 6.83x.

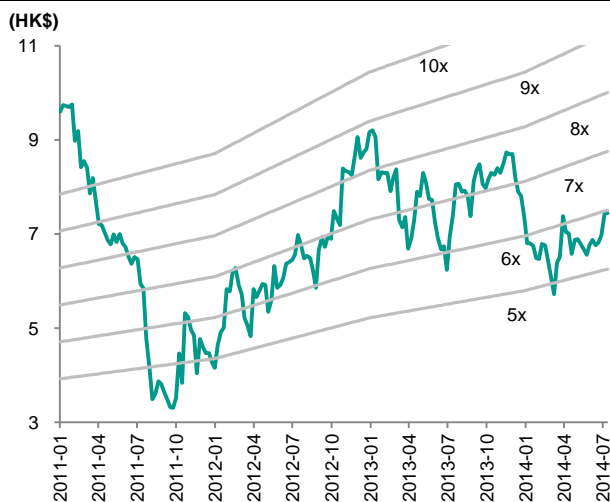
Our TP of HK\$ 9.40 is equivalent to 8.11x of FY14E EPS, representing the upper quartile of CRCC's historical P/E since 2011. This valuation is justified based on the expectation of new contracts from CRC and urban rail construction projects. Maintain **BUY** for CRCC on possible counter's re-rating.

Exhibit 13: FY14E-15E financial projections for CRCC

	FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	626,312	656,798	4.87	694,977	728,889	4.88
Construction operation	550,216	530,530	(3.58)	614,096	596,363	(2.89)
Survey, Design & Consultancy	7,525	8,297	10.26	7,233	9,083	25.58
Equipment Manufacturing	10,175	11,461	12.64	9,506	12,140	27.71
Property Development	28,331	27,696	(2.24)	31,178	29,081	(6.73)
Others	63,536	115,707	82.11	69,760	123,053	76.39
Inter-segment sales	(33,471)	(36,893)	10.22	(36,795)	(40,830)	10.97
Gross profit (RMB mn)	48,500	49,600	2.27	53,926	54,985	1.96
GPM (%)	7.74	7.55	(0.19ppt)	7.76	7.54	(0.22ppt)
Net income (RMB mn)	11,740	11,487	(2.15)	13,678	12,937	(5.42)
Net margin (%)	1.87	1.75	(0.13ppt)	1.97	1.77	(0.19ppt)
EPS (RMB)	0.952	0.931	(2.20)	1.109	1.049	(5.45)
BVPS (RMB)	7.343	7.216	(1.73)	8.309	8.125	(2.22)
DPS (RMB)	0.143	0.140	(2.34)	0.166	0.157	(5.25)

Source(s): ABCI Securities estimates

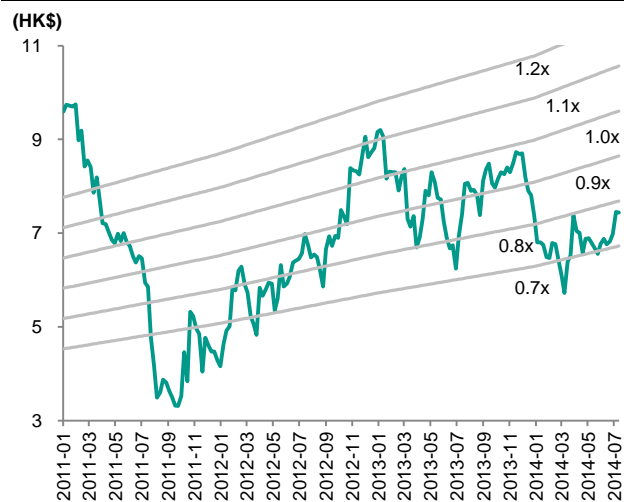
Exhibit 14: P/E band of CRCC-H in 1M11-7M14



* Net income of CRCC was adjusted with deductions of the one-off provision for the Mecca Project in 2010

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

Exhibit 15: P/B band of CRCC-H in 1M11-7M14



* Net income of CRCC was adjusted with deductions of the one-off provision for the Mecca Project in 2010

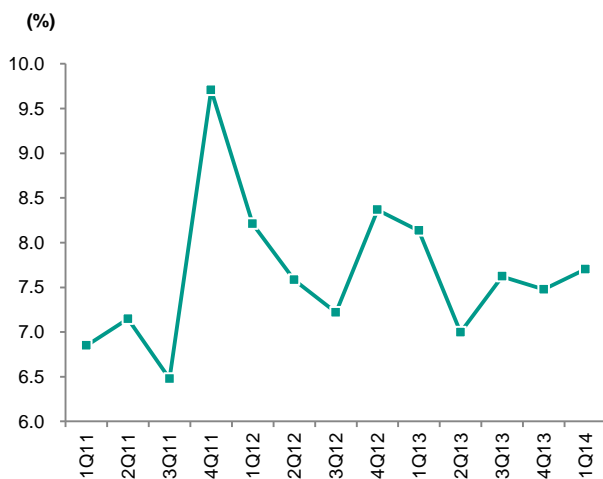
Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 16: CRCC's financial summary by quarter (1Q12-1Q14)

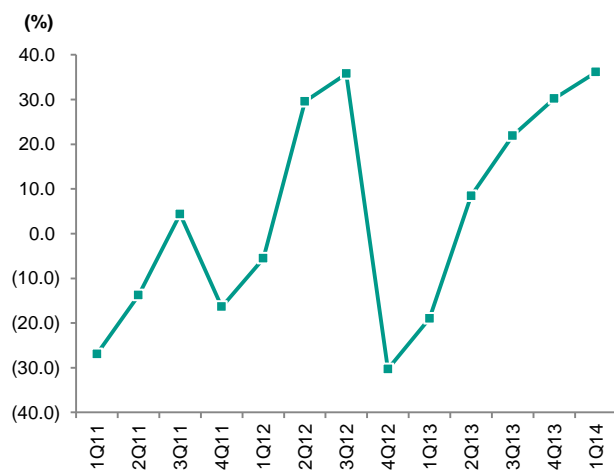
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	(% YoY)
New contracts (RMB mn)	104,830	175,244	158,980	350,283	151,747	192,351	185,550	323,836	145,856	(3.88)
Backlog (RMB mn)	1,236,750	1,289,890	1,356,940	1,491,860	1,554,344	1,594,531	1,628,928	1,743,771	1,778,405	14.42
Reported revenue (RMB mn)	66,336	118,196	118,645	181,136	89,262	146,775	155,474	195,279	108,143	21.15
Business taxes & surcharges (RMB mn)	1,945	3,297	3,510	5,689	2,447	4,221	4,319	5,840	3,127	27.79
Adjusted revenue (RMB mn)	64,391	114,899	115,135	175,447	86,815	142,554	151,155	189,439	105,016	20.97
Less: Operating cost (RMB mn)	59,106	106,187	106,825	160,771	79,754	132,580	139,636	175,278	96,928	21.53
Gross Profit (RMB mn)	5,285	8,712	8,310	14,676	7,061	9,974	11,519	14,161	8,088	14.54
GPM (%)	8.21	7.58	7.22	8.36	8.13	7.00	7.62	7.48	7.70	(0.43ppt)
Selling cost (RMB mn)	284	383	469	810	415	581	552	961	611	47.23
Administrative cost (RMB mn)	2,826	5,063	4,803	7,846	3,802	5,074	6,691	7,153	3,867	1.71
SG&A (RMB mn)	3,110	5,446	5,272	8,656	4,217	5,655	7,243	8,114	4,478	6.19
SG&A-to-revenue (%)	4.83	4.74	4.58	4.93	4.86	3.97	4.79	4.28	4.26	(0.59ppt)
Net profit (RMB mn)	1,211	1,977	1,905	3,536	1,628	3,046	2,329	3,342	2,002	22.97
Net profit margin (%)	1.88	1.72	1.65	2.02	1.88	2.14	1.54	1.76	1.91	0.03ppt
Total debt (RMB mn)	76,039	80,258	86,730	70,087	76,306	102,627	109,155	118,748	125,848	64.93
Total cash and equivalents (RMB mn)	79,774	60,301	61,917	92,274	90,576	96,162	91,724	93,434	94,850	4.72
Net debt (RMB mn)	(3,735)	19,957	24,813	(22,187)	(14,270)	6,465	17,431	25,314	30,998	N/A
Total equity (RMB mn)	66,946	67,487	69,398	73,207	75,024	76,740	79,574	83,825	85,874	14.46
Net gearing (%)	(5.58)	29.57	35.75	(30.31)	(19.02)	8.42	21.91	30.20	36.10	55.12ppt

Source(s): CRCC, ABCI Securities

CRCC's profitability would be pressured by CRC's high debt level, and we believe GPM is unlikely to climb back to its peak in 3Q11. The Group's gearing is likely to stay high in 2H14 on increased working capital required for new contracts with CRC.

Exhibit 17: CRCC's gross profit margin in 1Q11-1Q14


* Gross profit margin excludes business taxes and surcharges
 Source(s): CRCC, ABCI Securities

Exhibit 18: CRCC's net gearing in 1Q11-1Q14


*: Net gearing = (Total debt - Total cash) / Total equity
 Source(s): CRCC, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue¹	469,872	569,963	656,798	728,889	767,047
Construction operation	407,601	468,015	530,530	596,363	630,740
Survey, Design & Consultancy	7,287	7,761	8,297	9,083	8,298
Equipment Manufacturing	9,984	11,756	11,461	12,140	10,182
Property Development	18,137	24,710	27,696	29,081	30,535
Logistic, materials trading and others	52,718	89,330	115,707	123,053	130,306
Inter-segment sales	(25,855)	(31,609)	(36,893)	(40,830)	(43,014)
COGS	(432,889)	(527,248)	(607,198)	(673,904)	(707,931)
Gross profit	36,983	42,715	49,600	54,985	59,117
SG&A	(22,484)	(25,229)	(29,299)	(32,238)	(35,498)
Other income (loss)	(3,435)	(4,446)	(5,439)	(5,998)	(6,457)
Pre-tax profit	11,064	13,040	14,862	16,749	17,162
Income tax	(2,393)	(2,600)	(2,972)	(3,350)	(3,432)
Net profit	8,671	10,440	11,890	13,399	13,730
Profit attributable to:					
Minority interests	42	95	403	462	473
Equity shareholders of the Company	8,629	10,345	11,487	12,937	13,257
EPS (RMB)	0.699	0.839	0.931	1.049	1.075
DPS (RMB)	0.110	0.130	0.140	0.157	0.161
EBIT	16,904	20,454	23,813	26,093	26,762
EBITDA	26,925	31,791	34,030	36,634	37,640

1: Revenue is excluding business tax and surcharges
 Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Current assets	416,287	471,062	512,515	534,049	571,970
Cash and equivalent	92,274	93,434	90,321	83,016	79,561
Trade and bill receivables	74,013	91,264	86,016	104,165	109,775
Construction contracts	86,555	88,715	127,219	124,398	148,797
Inventories	84,782	112,923	115,760	119,952	121,068
Other current assets	78,663	84,726	93,199	102,518	112,770
Non-current assets	64,397	81,957	90,150	97,540	101,001
Property, plant and equipment	40,271	43,164	47,947	50,406	51,529
Intangible assets	8,304	10,731	13,390	13,554	13,722
Long term investments	5,626	5,675	6,243	6,867	7,553
Long term receivables	7,694	19,899	18,755	22,712	23,935
Other non-current assets	2,502	2,488	3,815	4,002	4,261
Total assets	480,684	553,019	602,664	631,589	672,971
Current liabilities	368,812	390,906	432,120	450,611	479,477
Trade and bill payables	180,875	200,616	208,619	216,033	230,060
Receipts in advance	62,098	66,225	77,731	82,026	86,094
Short term borrowings	70,353	66,390	76,606	77,883	81,678
Other current liabilities	55,486	57,675	69,165	74,669	81,645
Non-current liabilities	38,665	78,288	78,337	77,163	77,962
Long-term borrowings	31,390	71,686	71,075	69,175	69,175
Other non-current liabilities	7,275	6,602	7,262	7,988	8,787
Total liabilities	407,477	469,194	510,458	527,775	557,439
Minority interests	1,366	2,838	3,180	3,573	3,975
Shareholders' equities	71,841	80,987	89,027	100,241	111,558
BVPS (RMB)	5.823	6.564	7.216	8.125	9.042

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Profit before tax	11,064	13,040	14,862	16,749	17,162
Changes in depreciation and amortization	9,689	9,906	10,434	10,780	11,128
Changes in working capital	(9,600)	(35,819)	(16,586)	(14,805)	(21,170)
Financial cost	5,518	6,558	7,429	7,755	7,968
Income tax paid	(1,445)	(2,108)	(2,318)	(2,630)	(2,641)
Others	(8,489)	1,918	-	-	-
CF Operating	6,737	(6,505)	13,821	17,849	12,448
Increase in PP&E	(9,209)	(12,618)	(15,000)	(13,000)	(12,000)
Increase in intangible assets	(1,692)	(2,608)	(2,877)	(402)	(419)
Others	2,592	(4,771)	-	-	-
CF Investing	(8,309)	(19,997)	(17,877)	(13,402)	(12,419)
Capital injection	437	1,506	-	-	-
Net debt financing	29,467	36,333	9,605	(623)	3,795
Dividend payout	(1,234)	(1,372)	(1,664)	(1,792)	(2,011)
Interest paid	(5,518)	(6,558)	(7,429)	(7,755)	(7,968)
Others	(15,985)	(3,118)	431	(1,581)	2,702
CF Financing	7,167	26,791	942	(11,752)	(3,483)
Net change in cash	5,595	289	(3,113)	(7,305)	(3,455)
Cash at the beginning	83,058	92,274	93,434	90,321	83,016
Adjustment (Time deposit & FX effect)	3,621	871	-	-	-
Cash at the end	92,274	93,434	90,321	83,016	79,561

*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2016E)

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
Sales mixed (%)					
Construction operation	86.75	82.11	80.78	81.82	82.23
Survey, Design & Consultancy	1.55	1.36	1.26	1.25	1.08
Equipment Manufacturing	2.12	2.06	1.74	1.67	1.33
Property Development	3.86	4.34	4.22	3.99	3.98
Logistic, materials trading and others	11.22	15.67	17.62	16.88	16.99
Inter-segment sales	(5.50)	(5.55)	(5.62)	(5.60)	(5.61)
Profit & loss ratios (%)					
Gross margin	7.87	7.49	7.55	7.54	7.71
Net profit margin	1.84	1.82	1.75	1.77	1.73
Effective tax rate	21.63	19.94	20.00	20.00	20.00
Growth (%)					
Revenue	5.99	21.30	15.24	10.98	5.24
Gross profit	8.80	15.50	16.12	10.86	7.51
EBIT	23.04	21.00	16.42	9.57	2.57
EBITDA	13.36	18.07	7.04	7.65	2.75
Net profit	9.87	19.89	11.04	12.62	2.47
Balance sheet ratios					
Current ratio (x)	1.13	1.21	1.19	1.19	1.19
Quick ratio (x)	0.90	0.92	0.92	0.92	0.94
Cash ratio (x)	0.25	0.24	0.21	0.18	0.17
Trade and bill receivables days	60	62	60	58	62
Trade and bill payables turnover days	144	132	123	115	115
Inventory turnover days	68	68	69	64	62
Total debt / equity ratio (%)	138.98	164.72	160.16	141.66	130.57
Net debt / equity ratio (%)	12.93	53.26	62.21	61.69	61.71
Returns (%)					
ROAE	12.63	13.54	13.51	13.67	12.52
ROAA	1.91	2.00	1.99	2.10	2.03
Payout ratio	15.73	15.51	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates

BUY CRG with TP at HK\$ 4.72

CRG's net gearing has been increasing since 2011, reaching 119.08% at end -1Q14 as compared to CRCC's at 36.10%. CRG's backlog at end-1Q14 was RMB 1,802bn, up 28.68% YoY and is equivalent to ~3.0x FY14E revenue. Based on the Group's project pipeline, we estimate its gearing ratio, which has always been a major concern in the market, to stay high in the coming years.

We lower our FY14E and FY15E net income on reduced margins of projects from CRC because the latter's budget is likely to be squeezed by its rising debt ratio. CRG is currently trading at 6.97x FY14E P/E, which is lower than the median of its historical P/E since 2011 at 7.13x.

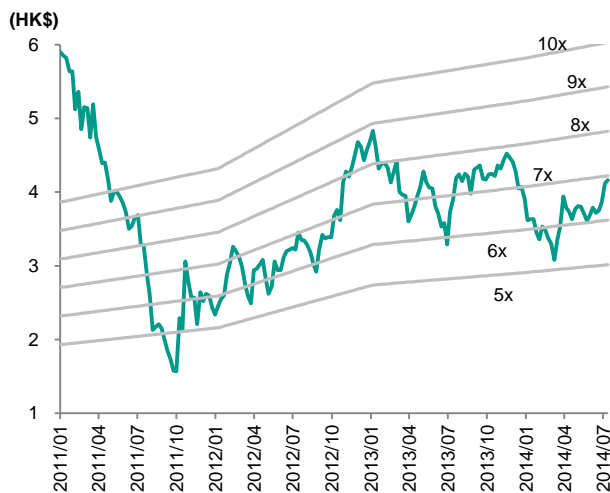
Our TP of HK\$ 4.72 represents 8.10x of our FY14E EPS, representing the upper quartile of CRG's historical P/E since 2011. We believe our valuation is justified based on the expected flow of new contracts with CRC. Maintain **BUY**.

Exhibit 19: FY14E-15E financial projections for CRG

	FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	601,767	607,505	0.95	647,830	674,486	4.11
Construction operation	523,719	512,375	(2.17)	566,968	575,609	1.52
Survey, Design & Consultancy	9,357	10,589	13.16	9,315	10,456	12.25
Equipment Manufacturing	12,734	14,332	12.55	12,749	13,341	4.64
Property Development	30,162	36,520	21.08	34,686	40,975	18.13
Others	62,713	72,706	15.93	63,213	76,617	21.20
Inter-segment sales	(36,917)	(39,017)	5.69	(39,101)	(42,512)	8.72
Gross profit (RMB mn)	45,900	44,321	(3.44)	49,933	47,737	(4.40)
GPM (%)	7.63	7.30	(0.33ppt)	7.71	7.08	(0.63ppt)
Net income (RMB mn)	10,054	9,960	(0.93)	10,997	10,690	(2.79)
Net margin (%)	1.67	1.64	(0.03ppt)	1.70	1.58	(0.11ppt)
EPS (RMB)	0.472	0.468	(0.93)	0.516	0.502	(2.73)
BVPS (RMB)	4.422	4.461	0.87	4.867	4.892	0.52
DPS (RMB)	0.071	0.070	(1.21)	0.077	0.075	(2.23)

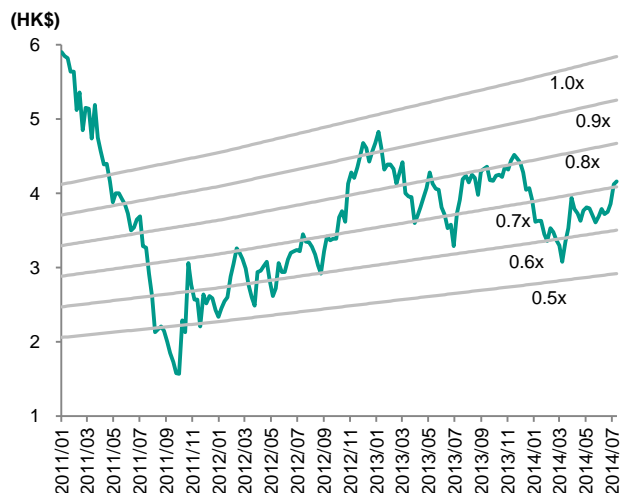
Source(s): ABCI Securities estimates

Exhibit 20: P/E band of CRG-H in 1M11-7M14



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

Exhibit 21: P/B band of CRG-H in 1M11-7M14



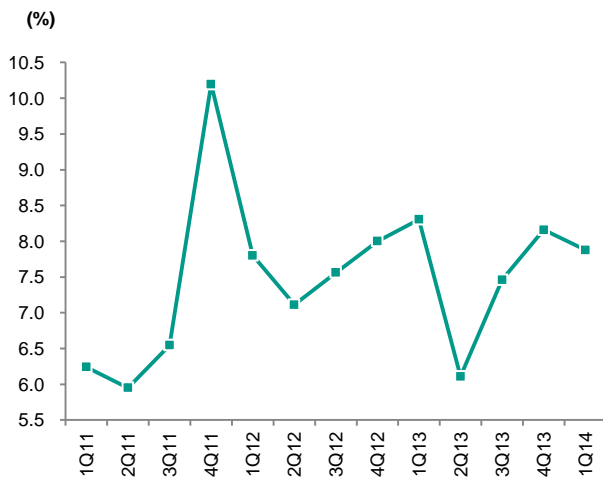
Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 22: CRG's financial data summary by quarter (1Q12-1Q14)

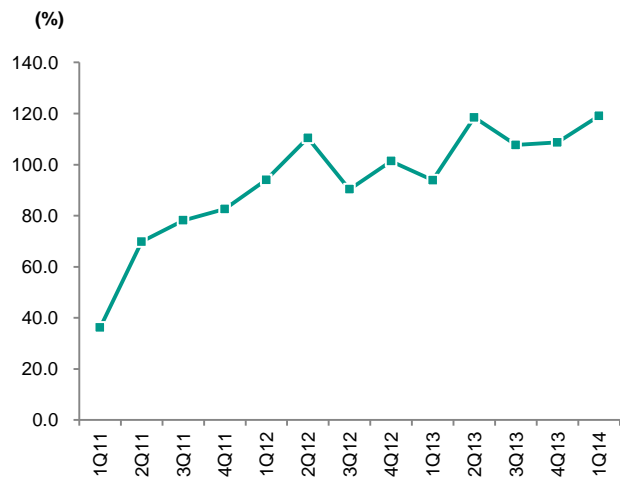
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	(% YoY)
New contracts (RMB mn)	103,378	187,032	160,200	280,390	192,800	174,850	165,140	396,860	201,590	4.56
Backlog (RMB mn)	1,091,390	1,145,338	1,171,995	1,301,026	1,400,070	1,411,539	1,422,123	1,690,282	1,801,680	28.68
Reported revenue (RMB mn)	78,568	119,746	121,243	164,435	97,504	150,148	136,387	176,405	118,091	21.11
Business taxes & surcharges (RMB mn)	2,372	5,027	2,309	8,659	2,993	5,703	3,058	8,296	3,716	24.16
Adjusted revenue (RMB mn)	76,196	114,719	118,934	155,776	94,511	144,445	133,329	168,109	114,375	21.02
Less: Operating cost (RMB mn)	70,252	106,560	109,939	143,313	86,661	135,619	123,381	154,393	105,365	21.58
Gross Profit (RMB mn)	5,944	8,159	8,995	12,463	7,850	8,826	9,948	13,716	9,010	14.78
GPM (%)	7.80	7.11	7.56	8.00	8.31	6.11	7.46	8.16	7.88	(0.43ppt)
Selling cost (RMB mn)	317	364	548	802	472	538	643	674	555	17.58
Administrative cost (RMB mn)	3,343	3,845	5,743	2,295	4,226	3,378	6,217	574	4,479	5.99
SG&A (RMB mn)	3,660	4,209	6,291	3,097	4,698	3,916	6,860	1,248	5,034	7.15
SG&A-to-revenue (%)	4.80	3.67	5.29	1.99	4.97	2.71	5.15	0.74	4.40	(0.57ppt)
Net profit (RMB mn)	915	1,475	2,200	2,800	1,479	2,009	3,201	2,685	1,818	22.92
Net profit margin (%)	1.20	1.29	1.85	1.80	1.56	1.39	2.40	1.60	1.59	0.02ppt
Total debt (RMB mn)	138,713	149,853	151,636	161,661	158,513	189,316	181,612	186,432	195,124	23.10
Total cash and equivalents (RMB mn)	61,407	58,575	65,860	72,491	73,921	82,328	79,370	81,423	76,689	3.74
Net debt (RMB mn)	77,306	91,278	85,776	89,170	84,592	106,988	102,242	105,009	118,435	N/A
Total equity (RMB mn)	82,225	82,670	94,934	87,990	90,099	90,334	94,960	96,630	99,457	10.39
Net gearing (%)	94.02	110.41	90.35	101.34	93.89	118.44	107.67	108.67	119.08	25.19ppt

Source(s): CRCC, ABCI Securities

CRG's GPM was 7.88% in 1Q14, lower than the 8.16% in 4Q13 and 8.31% in 1Q13. With the heavy debt burden of CRC, we expect profitability of the Group's railway projects would be squeezed.

Exhibit 23: CRG's gross profit margin in 1Q11-1Q14


*: The gross profit margin is excluding the business taxes and surcharges
 Source(s): CRCC, ABCI Securities

Exhibit 24: CRG's net gearing in 1Q11-1Q14


*: Net gearing = (total debt – total cash) / total equity
 Source(s): CRCC, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	465,625	540,394	607,505	674,486	709,771
Construction operation	396,906	456,272	512,375	575,609	608,287
Survey, Design & Consultancy	9,069	9,180	10,589	10,456	9,612
Equipment Manufacturing	11,464	13,711	14,332	13,341	11,587
Property Development	20,175	27,566	36,520	40,975	43,885
Others	56,432	68,958	72,706	76,617	80,698
Inter-segment sales	(28,421)	(35,293)	(39,017)	(42,512)	(44,298)
COGS	(430,064)	(500,054)	(563,183)	(626,749)	(659,390)
Gross profit	35,561	40,340	44,321	47,737	50,381
SG&A	(17,257)	(16,722)	(18,247)	(20,044)	(21,283)
Other income (loss)	(7,174)	(8,799)	(10,173)	(10,627)	(10,977)
Pre-tax profit	11,130	14,819	15,902	17,066	18,121
Income tax	(3,061)	(4,744)	(4,771)	(5,120)	(5,436)
Net profit	8,069	10,075	11,132	11,946	12,685
Profit attributable to:					
Minority interests	679	701	1,171	1,256	1,332
Equity shareholders of the Company	7,390	9,374	9,960	10,690	11,352
EPS (RMB)	0.347	0.440	0.468	0.502	0.533
DPS (RMB)	0.052	0.066	0.070	0.075	0.080
EBIT	20,588	25,673	27,223	28,752	30,207
EBITDA	26,773	32,394	34,395	36,515	38,566

1: Revenue is excluding business tax and surcharges
 Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Current assets	434,855	503,090	493,406	559,299	566,821
Cash and equivalent	72,491	81,423	74,602	97,351	82,242
Trade and bill receivables	100,556	126,451	109,344	117,543	139,580
Construction contracts	78,522	90,560	75,880	90,432	84,580
Inventories	119,506	135,015	156,975	169,708	167,727
Other current assets	63,780	69,641	76,605	84,266	92,692
Non-current assets	115,806	124,940	131,392	140,344	150,148
Property, plant and equipment	41,513	44,183	48,324	53,120	57,928
Intangible assets	42,108	42,121	41,958	41,888	41,918
Long term investments	16,156	18,836	20,720	22,792	25,071
Long term receivables	6,678	7,435	6,429	6,911	8,207
Other non-current assets	9,351	12,365	13,961	15,632	17,024
Total assets	550,661	628,030	624,799	699,643	716,969
Current liabilities	366,119	420,242	405,655	468,057	472,105
Trade and bill payables	179,608	205,678	178,916	197,726	205,736
Receipts in advance	49,685	57,251	59,257	81,184	66,604
Short term borrowings	73,762	82,348	90,038	98,497	107,802
Other current liabilities	63,064	74,965	77,444	90,650	91,963
Non-current liabilities	96,552	111,158	112,970	115,148	117,546
Long-term payables	450	614	534	590	614
Long-term borrowings	87,899	104,084	106,155	108,434	110,940
Other non-current liabilities	8,203	6,460	6,280	6,124	5,991
Total liabilities	462,671	531,400	518,625	583,205	589,650
Minority interests	10,197	10,167	11,163	12,230	13,363
Shareholders' equities	77,793	86,463	95,011	104,208	113,956
BVPS (RMB)	3.652	4.059	4.461	4.892	5.350

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Profit before tax	11,130	14,819	15,902	17,066	18,121
Changes in depreciation and amortization	6,185	6,721	7,172	7,763	8,358
Changes in working capital	(20,939)	(12,920)	(15,816)	(7,574)	(11,334)
Financial cost	6,360	6,363	7,603	7,754	8,051
Income tax paid	(3,705)	(4,025)	(4,842)	(5,198)	(5,523)
Others	(1,775)	(1,462)	(1,282)	(1,090)	(1,245)
CF Operating	(2,744)	9,496	8,738	18,720	16,430
Increase in PP&E	(10,288)	(9,489)	(11,237)	(12,485)	(13,091)
Increase in intangible assets	(494)	(830)	(913)	(1,004)	(1,105)
Others	(2,636)	(3,344)	-	-	-
CF Investing	(13,418)	(13,663)	(12,150)	(13,490)	(14,195)
Capital injection	610	447	-	-	-
Net debt financing	31,565	24,771	9,761	10,737	11,811
Dividend payout	(1,253)	(1,507)	(1,582)	(1,682)	(1,803)
Interest paid	(9,686)	(10,956)	(11,321)	(11,686)	(12,086)
Others	2,437	(591)	(267)	20,148	(15,264)
CF Financing	23,673	12,164	(3,408)	17,518	(17,343)
Net change in cash	7,511	7,997	(6,821)	22,749	(15,109)
Cash at the beginning	63,583	72,491	81,423	74,602	97,351
Adjustment (Time deposit & FX effect)	1,397	935	-	-	-
Cash at the end	72,491	81,423	74,602	97,351	82,242

*: We rearrange the cash flow statement for better comparison reason, such that the operating cash flow is including the interest received, while the investing cash flow is excluding the interest received

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2016E)

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
Sales mixed (%)					
Construction operation	85.24	84.43	84.34	85.34	85.70
Survey, Design & Consultancy	1.95	1.70	1.74	1.55	1.35
Equipment Manufacturing	2.46	2.54	2.36	1.98	1.63
Property Development	4.33	5.10	6.01	6.08	6.18
Others	12.12	12.76	11.97	11.36	11.37
Inter-segment sales	(6.10)	(6.53)	(6.42)	(6.30)	(6.24)
Profit & loss ratios (%)					
Gross margin	7.64	7.46	7.30	7.08	7.10
Net profit margin	1.59	1.73	1.64	1.58	1.60
Effective tax rate	27.50	32.01	30.00	30.00	30.00
Growth (%)					
Revenue	5.29	16.06	12.42	11.03	5.23
Gross profit	10.26	13.44	9.87	7.71	5.54
EBIT	27.01	24.70	6.04	5.61	5.06
EBITDA	18.57	21.00	6.18	6.16	5.62
Net profit	10.46	26.85	6.25	7.33	6.19
Balance sheet ratios					
Current ratio (x)	1.19	1.20	1.22	1.19	1.20
Quick ratio (x)	0.86	0.88	0.83	0.83	0.85
Cash ratio (x)	0.20	0.19	0.18	0.21	0.17
Trade and bill receivables days	81	81	75	65	70
Trade and bill payables turnover days	144	141	125	110	112
Inventory turnover days	91	93	95	95	93
Total debt / equity ratio (%)	183.73	192.93	184.78	177.72	171.81
Net debt / equity ratio (%)	101.34	108.67	114.52	94.11	107.21
Returns (%)					
ROAE	9.92	11.41	10.98	10.73	10.41
ROAA	1.45	1.59	1.59	1.61	1.60
Payout ratio	14.99	15.00	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

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

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

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

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ 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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