Company Report

China Rail Cons (1186 HK) – Buy
Construction & Engineering Industry
12-month target price: HK$9.33

Key data

H-share price (HK$) (30/10/2012)	7.20
Target price (HK$)	9.33
Upside potential (%)	29.6
52Wk H/L(HK$)	7.70/4.00
Issued shares (mn)	12,338
H-share	2,076
A-share	10,261
H-share market cap (HK$mn)	14,949
30-day avg vol (HK$mn)	101
Auditors	E&YHM
Major shareholder (%)	
CRCC Group	61.3

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Construction operations	82.6
Infrastructure design	11.7
Manufacturing operations	5.0
Others	0.8

Source: Company

Share performance (%)

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

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 31 October 2012 (Initiation)
Francis Chu
Tel: (852) 2147 8313
Email: francischu@abci.com.hk

Previous report
Date: N/A
Rating: N/A
Target price: N/A

Powerful to leverage up

The low leverage ratio of China Railway Construction ("CRCC") is a major edge of the group. As we anticipate the business cycle is recovering and new orders flow will surge, the group is in better position to compete with its two major competitors which are at uncomfortable leverage levels. We initiate "Buy" rating to the stock with target price of HK$9.33 based on 10% discount to its 4-year mean P/B of 1.41x .

CRCC has room to leverage up. With net debt/equity of 24.4% at Sep 30, CRCC is able to leverage up to secure more new orders in 4Q12 and 2013. The high gearing of its two major competitors China Railway Group (123.9%) and China Communication Construction (80.3%) will constrain them to compete with the group in securing new orders in foreseeable future.

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

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

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

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

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (Rmb mn)	355,521	470,159	457,366	495,563	518,612
Chg (%YoY)	57.2	32.2	(2.7)	8.4	4.7
Net Income (Rmb mn)	6,599	4,246	7,854	8,460	8,858
Chg (%YoY)	81.1	(35.7)	85.0	7.7	4.7
EPS (Rmb)	0.53	0.34	0.64	0.69	0.72
Chg (%YoY)	81.1	(35.7)	85.0	7.7	4.7
PE (x)	-	-	9.0	8.4	8.0
PB (x)	-	-	1.1	1.1	1.0
Yield (%)	-	-	1.7	1.9	2.0
ROAA (%)	2.7	2.5	2.0	1.9	1.7
ROAE (%)	13.2	7.7	12.7	12.0	10.3
Net gearing (%)	Net Cash	Net Cash	0.3	31.7	66.3

**We assume Rmb1 = HK$1.25*
Source: Company, ABCI Securities estimates

Contents

3QFY12 Key Financial Data

Key financial ratio & data on 9M12	CRCC (1186) 31/12/2011	30/9/2012	CRG(390) 31/12/2011	30/9/2012	CCCC (1800) 31/12/2011	30/9/2012
Net debt to equity	0.3%	24.4%	91.6%	123.9%	64.4%	80.3%
Short-term loans/total loans	63.2%	74.4%	46.7%	47.1%	48.8%	49.0%
	9M11	9M12	9M11	9M12	9M11	9M12
Net operating cash flow to net profit	-352.2%	37.8%	-678.9%	-291.8%	-53.4%	-29.0%
ROAA		1.2%		0.9%		1.8%
ROAE		7.5%		5.1%		8.0%
(Rmbmn)	9M11	9M12	9M11	9M12	9M11	9M12
Net profit to shareholders of the company	4,990	5,093	3,567	4,273	8,087	6,917
Chg (YoY)		2.1%		19.8%		-14.5%
Net operating cash flow	(17,574)	1,925	(24,218)	(12,468)	(4,320)	(2,005)
(Rmbmn)	31/12/2011	30/9/2012	31/12/2011	30/9/2012	31/12/2011	30/9/2012
Short-term loans	52,637	77,130	64,517	80,636	48,274	66,910
Long-term loans	30,611	26,546	73,606	90,469	50,577	69,508
Total loans	83,249	103,676	138,124	171,105	98,851	136,418
Cash	83,058	86,730	63,583	65,860	46,043	64,021
Net Debt	191	16,946	74,541	105,245	52,807	72,397
Total Asset	422,983	457,287	468,732	519,865	359,568	418,389
Total Equity	65,719	69,398	81,350	84,934	82,036	90,156
Average Asset		440,135		494,299		388,979
Average Equity		67,558		83,142		86,096

Note: First nine-months results based on the PRC Accounting Standards
Source: Companies' announcements, ABCI Securities

We identify the following bright spots of CRCC (1186) against its two major competitors CRG (390) & CCCC (1800) in the latest quarterly results.

- CRCC has relatively low net debt/equity ratio which allows the group to leverage up when business cycle is recovering and new orders flow rises. A minor drawback is its short-term loans accounted for 74% of total loans. The group needs to re-finance its short-term loans. Given its low gearing ratio and positive operating cash flow, we believe it is not hard for the group to re-finance its short-term loans.

- Its operating cash flow turned to positive for the first nine months this year. Meanwhile, its two major competitors recorded negative cash flow during the same period. We regard CRCC has better earnings quality than its two competitors. We consider that earnings quality is more important than earnings quantity when we evaluate the sustainability of business model given that three groups are operating at identical macro-environment in the domestic market. In particular, CRG and CCCC were at uncomfortable high net debt/equity ratios with negative net operating cash flow. The sustainability of their business models are in doubt. CRG and CCCC need to adjust their businesses, downside their assets or constrain the growth of their assets.

- ROAA and ROAE of CRCC for the first nine months this year were higher than CRG but slightly lower than CCCC. However, earnings quality ratio (measured by net operating cash flow/net profit ratio) of CRCC is better, given the other two were in negative operating cash flow.

One of the Largest Engineering Contractor in China

Focus on construction operations

China Railway Construction Corporation Limited ("CRCC") is one of the largest engineering contractors in China. In terms of railway construction, it has 40% market share in the PRC. CRCC has established its leadership position in project design and construction fields in plateau railways, high-speed railways, highways, bridges, tunnels and urban rail traffic.

Construction operations contributed 87.9% of the total revenue and 79.6% of total gross profit in FY11, among which, we estimate the total revenue from railway infrastructure was 50% of the total revenue. For the 1HFY12, construction operations contributed 87.9% of total revenue and 83.0% of total gross profit.

CRCC covers project contracting, survey design consultation, industrial manufacturing, real estate development, logistics, trade of goods and materials as well as capital operations. It has developed mainly from construction contract into a complete industrial chain of research, planning, prospecting and designing, construction, supervision, maintenance, operation and financing, and is able to provide proprietors with one-stop integrated services.

Survey, design & consultancy operations, manufacturing operations and other businesses contributed 1.6%, 1.6% and 8.8% of total revenue for FY11 respectively. These three divisions contributed 4.7%, 3.1% and 12.5% of total gross profit for FY11 respectively. Proportion of total gross profit of these three divisions reduced to 17.0% in 1H FY12 from 20.3% in FY11.

The overall business performance of the group is sensitive to the business performance of construction operation division in foreseeable future.

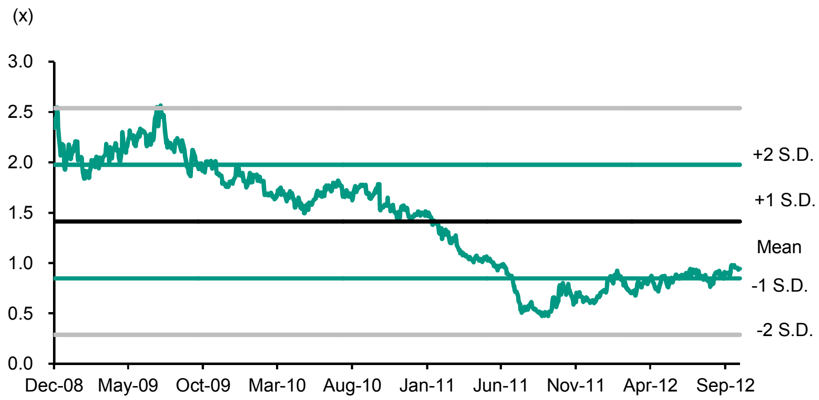
Valuation

H-share investors taking bullish view

The H-share of CRCC is trading at a premium of 21.7% to the A-share of CRCC (601186 CH). The huge premium reflects H-share investors and A-share investors have different investment attitude on the group.

As shown in the PB band chart below, the Group started an uptrend since October last year. Valuation continues upward re-rating. We anticipate the valuation of the Group could be re-rated to forward PBV of 1.27 in 12 months. The forward PBV of 1.27 is based on 10% discount on the mean forward PBV of 1.41 since 31/12/2008. We set target price of HK$9.33, or 27% premium on its FY12E BV or 10.8X FY12E EPS. We initiate our coverage for CRCC with a "BUY" recommendation.

CRCC (1186 HK) – PB band chart



Source: Company, Bloomberg, ABCI Securities estimates

Peer Group Comparison

Company	Ticker	Mkt cap (HK$ mn)	PE (x) Cur Yr	PE (x) Next Yr	ROE (%) Cur Yr	ROE (%) Next Yr	PB (x) Cur Yr	PB (x) Next Yr
CHINA COMMUNICATIONS CONST-H	1800 HK	31,967	7.5	6.8	15.6	15.5	1.1	1.0
CHINA RAILWAY CONSTRUCTION-H	**1186 HK**	**14,949**	**8.4**	**8.0**	**12.0**	**10.3**	**1.1**	**1.0**
CHINA RAILWAY GROUP LTD-H	390 HK	15,441	9.4	8.4	9.0	9.2	0.8	0.8
H-share Mean			**8.7**	**7.8**	**12.0**	**12.0**	**1.0**	**0.9**
CHINA COMMUNICATIONS CONST-A	601800 HK	52,510	5.7	5.0	16.2	15.9	0.8	0.7
CHINA RAILWAY CONSTRUCTION-A	601186 CH	76,500	8.0	8.2	10.9	10.7	0.9	-
CHINA RAILWAY GROUP LTD-A	601390 CH	70,632	8.6	8.3	7.9	7.9	0.8	-
A-share Mean			**7.4**	**7.2**	**11.7**	**11.5**	**0.8**	**-**

Source: Company, Bloomberg, ABCI Securities estimates

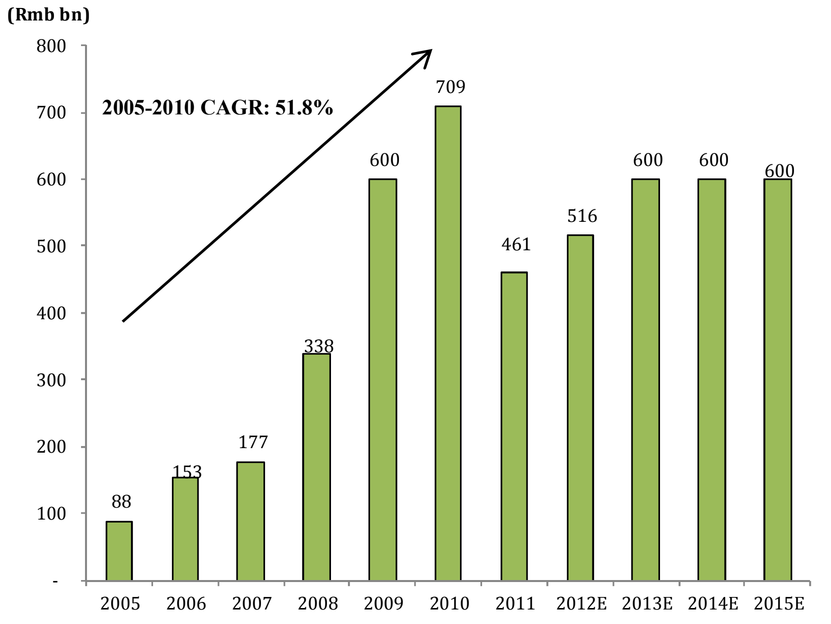
Industry Analysis

Infrastructure construction, including the construction of railways and highways, is expected to play an important role in facilitating the development of the Chinese economy. The PRC Government will continue to invest in developing China's infrastructure. Specifically, the PRC Government is expected to continue investing in railway construction in order to solve the shortage of transportation capacity. According to the MOR, the PRC Government approved railway projects totaling over Rmb2,000bn between 2004 and 2008, of which 70 projects, valued at Rmb1,500bn, commenced in 2009. Considering the typical construction period of 3 to 5 years for railway projects, this will sustain the railway infrastructure investment till 2014.

According to the National Bureau of Statistics of China, the MOR invested Rmb461bn in 2011 on railway infrastructure construction (a decrease from Rmb709bn in 2010), and intends to invest Rmb2,300bn during the 12th Five-Year Period ("FYP"). The continuous investment in infrastructure construction will likely sustain demand for railway construction in China. The chart below illustrates the PRC Government's investment in railways for the period from 2005 to 2015.

We expect Rmb600bn being spent per year during 2013-2015.

Railway Infrastructure FAI



Source: MOR; WIND; ABCI Securities estimates

As a developing country, China has enormous room for infrastructure spending. In time of economic slowdown, the PRC government could increase public investment to boost up the economy. What we had seen so far, underground railway in the cities and Inter-rail between cities in 1st and 2nd tiers approved by NDRS. We find this as an improved solution after learning lessons from the Rmb4tn stimulus in 2008. It has a leverage effect to benefit downstream enterprises related to these constructions and hence help sustain economic growth.

As shown in the table below, the cumulative railway infrastructure FAI for 9M12 was Rmb292.1bn. It equals to 56.6% of the annual target of Rmb516mn. To achieve the annual target in 2012, MOR has to ramp up a monthly average FAI spending of Rmb74.7mn. This means 130% higher than the monthly average FAI spending of Rmb32.5mn in the first nine months. Thus, we expect a turnaround in earnings outlook in 4Q12 for railway infrastructure contractors, namely CRCC (1186 HK) and CRG (390 HK).

FAI in railway infrastructure

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011											
Monthly (Rmbmn)	40,436	23,588	44,993	47,207	42,367	43,604	41,234	33,040	30,410	20,476	28,963	64,764
Cumulative (Rmbmn)	1M11	2M11	1Q11	4M11	5M11	1H11	7M11	8M11	3Q11	10M11	11M11	CY11
	36,404	64,024	109,017	156,224	198,591	242,195	283,430	316,469	346,880	367,356	396,319	461,084
	2012											
Monthly (Rmbmn)	12,282	8,515	21,793	29,120	33,771	43,226	39,737	39,330	64,277	74,650*	74,650*	74,650*
Cumulative (Rmbmn)	1M12	2M12	1Q12	4M12	5M12	1H12	7M12	8M12	3Q12	10M12	11M12	CY12
	8,732	20,797	42,590	71,710	105,480	148,706	188,444	227,774	292,051	366,701	441,351	516,001
YoY growth	***-76.0%***	***-67.5%***	***-60.9%***	***-54.1%***	***-46.9%***	***-38.6%***	***-33.5%***	***-28.0%***	***-15.8%***	***-0.2%***	***11.4%***	***11.9%***
Monthly growth (YoY)	***-69.6%***	***-63.9%***	***-51.6%***	***-38.3%***	***-20.3%***	***-0.9%***	***-3.6%***	***19.0%***	***111.4%***	***264.6%***	***157.7%***	***15.3%***
Monthly growth (MoM)		***-30.7%***	***155.9%***	***33.6%***	***16.0%***	***28.0%***	***-8.1%***	***-1.0%***	***63.4%***	***16.1%***	***0.0%***	***0.0%***

*Note: *We assume monthly spending of Rmb74,650mn from Oct12 to Dec 12*
Source: MOR

In response to safety issues, we believe the MOR would now set more realistic and reasonable construction progress schedules in order to avoid product deficiency. This change should reduce the contractors' outsourcing needs and therefore allowing them to enjoy a higher margin.

Metropolitan railway segment

With the expansion of Chinese cities and urban population growth, transportation infrastructure has been deteriorating in a number of cities.

We believe Urban Subway construction is a good solution. It will improve urban transportation to enhance social well-beings. According to NDRC, the Mainland China had about 1,600km of urban rail transit lines at the end of 2011. At the end of 2015, the length of urban rail transit track is to reach 3,000km based on a total investment of Rmb1,200bn, according to the 12^{th} FYP. In the long run, NDRC expects 40 cities to operate more than 7,000km of urban rail transit lines by 2020.

According to the Chinese Academy of Engineering, 70 to 80% of the population in Tokyo and Paris choose to commute through the metropolitan railway system while only 40% in Beijing and Shanghai. The per-capita track length in Tokyo is 20cm while it is only 2.1cm in Beijing. Without a doubt, China needs more rail construction to solve its transportation bottlenecks.

According to the website of NDRC, NDRC unveiled on Sep 5 that it has approved 23 projects of intercity rail, urban subway, etc in 20 major cities (e.g. Shenzhen, Guangzhou, Shanghai, Tianjin, Hangzhou, Chengdu, Ningbo, Xian, Qingdao, Suzhou, Changzun, Lanzhou, Harbin, Shenyang, Changzhou, Xiamen, Inner Mongolia, etc. In particular, the underground railway project in Hangzhou which MTR (66) has 49% stake is also approved.

We observe that the underground railway projects are mainly in tier 1 or 2 cities and the intercity railway projects are mainly in affluent provinces such as Jiangsu Province. Based on the disclosures, the total investment amount of these projects will approach Rmb775.4bn, of which local governments will contribute approximately 41%.

Financing of urban subway has been more flexible in recent years. Use of build-transfer ("BT") for construction is common. Many cities have set up real estate development subsidiaries under the subway operator (a local government owned entity) to tender out property development projects along the railway lines. This "railway plus property" model has been successfully used in Japan and Hong Kong in the past.

Overseas segment

The onset of the financial crisis in 2008 has yet to impede the long-term growth of the world's economy. Various governments' fiscal policy driven investments and export stimulus, quickened development of the emerging regional markets, and continuous urbanization led by the developing countries as well as the ongoing increase in production level will be the main driving forces of the world's economic growth. According to the estimates set out in the "Global Construction 2020 Report", the total investments of the global construction market will grow at a compound annual growth rate of 4% in the next 3 years and such investment will reach US$2.46tn by 2015. Based on this, we assume China's overseas contracting market will maintain a compound annual growth rate of around 20% by 2015 due to its competitive pricing.

Interest rate down cycle

The PBOC announced on 5 July to cut 1-year benchmark loan rate by 31bps. We believe it is a downtrend of the interest rate cycle after the benchmark rate cut on 8 Jun. This rate cut happened less than one month after the previous rate cut, considering historical pattern of PBOC's benchmark rate actions, this high rate cut frequency would only be a kick off, hinting to more benchmark rate and RRR cuts for the rest of 2012. CRCC with a net debt-to-equity ratio of 9.2% will benefit from lower interest costs.

Sensitivity to interest rate

If the interest rate of bank and other borrowings with floating rates had changed by +/- 100bp with all other variables held constant, profit before tax for 1H12 would have changed by -/+ Rmb282mn (or 7.0% of 1H12 profit before tax).

We expect that the M2 growth rate will climb up to 14% for the rest of 2012. The expected growth of money supply provides liquidity to meet the Government goals, such as Rmb516bn spent on railway infrastructure in 2012.

Profitability Comparison of the PRC Leading Infrastructure Contractors

CAGR growth of 29.2% on net income

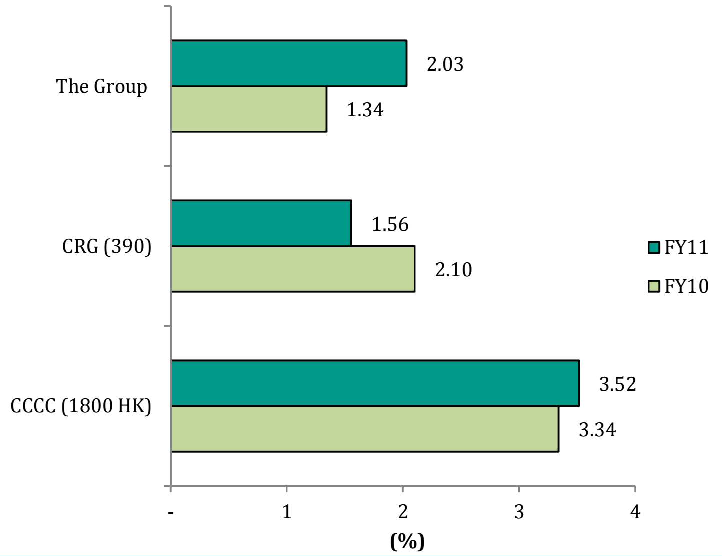
The company enjoyed the strongest CAGR on revenue of 26.5% for the period FY08-11 among the PRC leading infrastructure Contractors as listed below. The net income of the Group grew at a CAGR of 29.2% from FY08 to FY11. The comparatively low net income of Rmb4,246mn in FY10 was mainly due to the loss from overseas project on Mecca Light Rail in Saudi Arabia. The Group had its record high net income in FY11. We foresee no exceptional losses due to overseas projects in FY12 and FY13.

Profitability of leading infrastructure contractors

		FY08	FY09	FY10	FY11	*CAGR (FY08-11)*
1186 HK Equity	**Revenue (Rmb mn)**	226,141	355,521	470,159	457,366	*26.5%*
CHINA RAIL CN-H	**Gross profit (Rmb mn)**	22,534	33,093	41,512	48,039	*28.7%*
	Net income (Rmb mn)	3,644	6,599	4,246	7,854	*29.2%*
	Gross margin	*10.0*	*9.3*	*8.8*	*10.5*	
	Net margin	*1.6*	*1.9*	*0.9*	*1.7*	
	ROAA	*1.9*	*2.6*	*1.3*	*2.0*	
	ROAE	*13.6*	*12.9*	*7.6*	*12.7*	
1800 HK Equity	**Revenue (Rmb mn)**	176,054	226,920	272,734	294,281	*18.7%*
CHINA COM CONS-H	**Gross profit (Rmb mn)**	17,694	21,705	23,247	27,907	*16.4%*
	Net income (Rmb mn)	5,875	7,200	9,599	11,767	*26.1%*
	Gross margin	*10.1*	*9.6*	*8.5*	*9.5*	
	Net margin	*3.3*	*3.2*	*3.5*	*4.0*	
	ROAA	*3.0*	*3.0*	*3.3*	*3.5*	
	ROAE	*13.0*	*14.4*	*16.3*	*17.7*	
390 HK Equity	**Revenue (Rmb mn)**	227,246	334,045	456,162	442,216	*24.8%*
CHINA RAIL GR-H	**Gross profit (Rmb mn)**	17,059	20,442	27,143	32,253	*23.7%*
	Net income (Rmb mn)	1,115	6,875	7,398	6,690	*81.7%*
	Gross margin	*7.5*	*6.1*	*6.0*	*7.3*	
	Net margin	*0.5*	*2.1*	*1.6*	*1.5*	
	ROAA	*0.5*	*2.4*	*2.1*	*1.6*	
	ROAE	*2.0*	*11.7*	*11.5*	*9.6*	

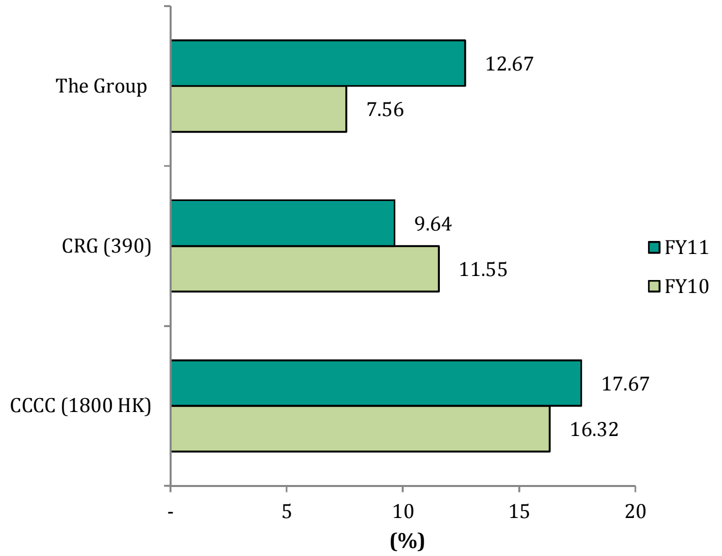
Source: Companies, Bloomberg, ABCI Securities

ROAA comparison



Source: Companies, ABCI Securities

ROAE comparison



Source: Companies, ABCI Securities

Financial Analysis

New Contract and Revenue Composition Comparison

The Group secured new contracts for its core construction operations in amount of Rmb232.7bn, up 48%YoY in 1H12. We estimate it represents 1.43x of total revenue from construction operations in 1H12. The new contracts are boosting up the order book of the Group. The amount of backlog in the order book as of 30/6/2012 was Rmb1,290bn. The amount of backlog represented 282% of total revenue of the group for FY11. We expect that the amount of backlog as of 30/6/2012 will be mainly factored into the income statements in 2H12 and FY13-14.

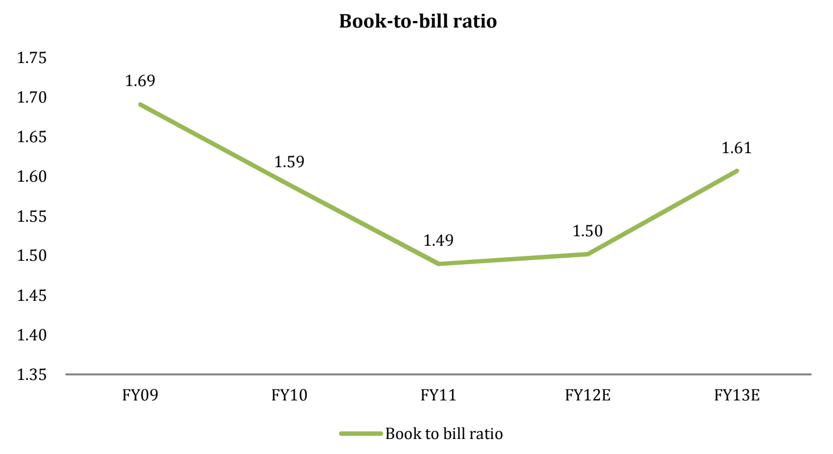
CRCC is more focus on construction operations than its peers. 83.1% and 87.9% of its total new contract and revenue respectively in 1H12 came from construction operations.

Comparison among major construction players

	CRCC		CRG		CCCC	
	2011	1H12	2011	1H12	2011	1H12
New Contract composition (%)						
Construction operations	86.2%	83.1%	72.3%	69.1%	79.6%	82.0%
Survey, design & consultancy operations	1.1%	1.3%	1.8%	1.9%	3.3%	3.7%
Manufacturing operations	1.8%	1.4%	2.9%	3.3%	4.4%	5.8%
Other businesses	10.9%	14.2%	23.0%	25.8%	8.5%	7.4%
Total	100.0%	100.0%	100.0%	100.0%	95.8%	99.0%
Revenue composition (%)						
Construction operations	87.9%	87.9%	83.2%	81.6%	75.4%	73.8%
Survey, design & consultancy operations	1.6%	1.5%	1.9%	2.0%	5.0%	4.7%
Manufacturing operations	1.6%	1.9%	2.4%	2.4%	6.7%	8.2%
Other businesses	8.8%	8.7%	12.6%	14.0%	12.9%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Book-to-bill ratio	**1.49**	**1.52**	**1.21**	**1.44**	**1.52**	**1.85**

Source: Company, ABCI Securities estimate

Book-to-bill ratio



Source: Company; ABCI Securities estimates

Gross profit margin analysis projection

Gross profit margin ("GPM") of the Group increased 1.2ppts to 10.5% in FY11 from 9.3% in FY09. We believe that the increase of GPM was because of starting real estate development business since 2010 with a higher gross margin of 33.3% in 1H12.

We believe the railway infrastructure contractors could improve their profit margin as the MOR becomes more realistic in setting its deadline for railway projects. Such that the Group could reduce the outsourcing needs to have a higher margin.

We conservatively expect the GPM will stabilize. We estimate that GPM will improve to 10.7% in FY12 and stay flat in FY13.

Return on Investment Ratios

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Gross profit margin (%)	9.5	10.0	9.3	8.8	10.5	10.7	10.7
Operating profit margin (%)	2.8	2.1	2.3	1.2	2.2	2.1	2.1
Effective tax rate (%)	36.7	18.9	19.0	29.1	21.6	21.6	21.6
ROAA (%)	4.0	1.9	2.6	1.9	2.0	1.9	1.9
ROAE (%)	119.2	13.6	12.9	7.6	12.7	12.0	11.6

Source: Company, ABCI Securities estimate

More focus on construction operations

80% and 83% of gross profit of the Group came from construction operations in FY11 and 1H12 respectively. CRCC has a higher GPM than its peers.

GPM Comparison among major construction players

	CRCC		CRG		CCCC	
Gross Margin	2011	1H12	2011	1H12	2011	1H12
Revenue composition						
Construction operations	87.9%	87.9%	83.2%	81.6%	75.4%	73.8%
Survey, design & consultancy operations	1.6%	1.5%	1.9%	2.0%	5.0%	4.7%
Manufacturing operations	1.6%	1.9%	2.4%	2.4%	6.7%	8.2%
Other businesses	8.8%	8.7%	12.6%	14.0%	12.9%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit composition						
Construction operations	79.6%	83.0%	62.0%	65.2%	64.8%	65.6%
Survey, design & consultancy operations	4.7%	5.0%	8.0%	7.5%	13.0%	11.2%
Manufacturing operations	3.1%	4.1%	5.5%	8.1%	3.8%	6.8%
Other businesses	12.5%	7.8%	24.5%	19.2%	18.5%	16.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit margin						
Construction operations	9.5%	9.8%	8.6%	8.5%	8.0%	9.4%
Survey, design & consultancy operations	30.4%	34.6%	29.1%	25.6%	24.3%	25.0%
Manufacturing operations	20.3%	22.7%	16.1%	23.3%	5.2%	8.7%
Other businesses	14.9%	9.4%	13.5%	9.7%	13.3%	13.1%

Source: Company, ABCI Securities estimate

More financial resources to secure new orders than its peers

With 9.2% net gearing, the Group has financial resources to secure more new orders in 4Q12 and 2013. On the other hand, CRG and CCCC had the net debt-to-equity ratio of 115% and 90.5% respectively as of 30/6/2012.

Loan repayment capability of CRCC

(Rmbmn)	2010	2011	1H12
Short-term loans	16,243	34,160	33,572
Short-term bonds payable	-	7,505	9,548
Bills payable	13,608	10,972	16,612
Long-term loans	7,485	18,219	14,328
Bonds payable	14,930	12,393	12,401
Cash and bank balances	65,207	83,058	80,258
Net debt	(12,941)	191	6,203
Equity	58,231	65,719	67,487
Net debt to equity ratio	**-22.2%**	**0.3%**	**9.2%**
Profit before tax	6,089	10,056	4,010
Depreciation and amortization	7,806	9,388	4,631
Finance costs	(511)	(1,982)	(1,710)
EBITDA	14,406	21,425	10,351
Interest expense	1,618	3,683	2,829
EBITDA/Interest expense	8.9	5.8	3.7
EBITDA/(ST loans + interest exp.)	**0.81**	**0.57**	**0.28**
Total loans (HK$mn)	23,727	52,379	47,901
Short-term loans	16,243	34,160	33,572
Long-term loans	7,485	18,219	14,328
ST loans/Total loan ratio	68.5%	65.2%	70.1%
Operating cash flow (HK$mn)	**3,115**	**2,665**	**(1,768)**
Operating cash flow / ST loans	**0.19**	**0.08**	**(0.05)**

Comparison among major construction players

	CRCC		CRG		CCCC	
	2011	1H12	2011	1H12	2011	1H12
Net debt to equity ratio	0.3%	9.2%	86.0%	115%	75.3%	90.5%
Short-term loans to total ratio	16.8%	24.7%	43.4%	42.2%	51.2%	55.8%

Source: Company, ABCI Securities estimate

1H12 Results Key financial summary

Key financial summary on 1HFY12 results of the Group

	1H10	2H10	FY10	1H11	2H11	FY11	1H12	YoY	HoH
Turnover (Rmb mn)	**179,320**	**290,838**	**470,159**	**211,406**	**245,960**	**457,366**	**184,532**	***(12.7)***	***(25.0)***
Construction operations	160,624	265,545	426,169	189,443	212,575	402,018	162,257	*(14.4)*	*(23.7)*
Survey, design & consultancy operations	3,589	4,737	8,326	3,267	4,195	7,463	2,799	*(14.3)*	*(33.3)*
Manufacturing operations	4,099	4,054	8,154	4,083	3,373	7,456	3,488	*(14.6)*	*3.4*
Other businesses	11,008	16,502	27,510	14,613	25,817	40,430	15,988	*9.4*	*(38.1)*
Real estate development		5,189	5,189	1,214	12,324	13,538	1,360	*12.0*	*(89.0)*
Logistics & materials trading		25,909	25,909	-	-	31,186	-	-	-
Gross Profit	**17,073**	**24,438**	**41,512**	**20,653**	**27,385**	**48,039**	**19,239**	***(6.8)***	***(29.7)***
GPM (%)	***9.5***	***8.4***	***8.8***	***9.8***	***11.1***	***10.5***	***10.4***	***0.7***	***(0.7)***
Major cost (Rmb mn)									
Selling cost	(550)	(981)	(1,531)	(776)	(970)	(1,746)	(667)	*(14.1)*	*(31.3)*
Admin cost	(6,760)	(12,399)	(19,159)	(8,602)	(11,249)	(19,851)	(7,889)	*(8.3)*	*(29.9)*
Finance cost	(266)	(245)	(511)	(635)	(1,347)	(1,982)	(1,710)	*169.2*	*27.0*
Cost ratio (%)									
Selling cost	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*(0.0)*	*(0.0)*
Admin cost	*3.8*	*4.3*	*4.1*	*4.1*	*4.6*	*4.3*	*4.3*	*0.2*	*(0.3)*
Finance cost	*0.1*	*0.1*	*0.1*	*0.3*	*0.5*	*0.4*	*0.9*	*0.6*	*0.4*
Net income (Rmb mn)	**3,378**	**868**	**4,246**	**3,639**	**4,215**	**7,854**	**3,188**	***(12.4)***	***(24.4)***
NM (%)	***1.9***	***0.3***	***0.9***	***1.7***	***1.7***	***1.7***	***1.7***	***0.0***	***0.0***
Trade and bill receivables	43,958		50,016	54,670		64,933	58,109		
Average receviables	44,427	46,987	47,456	52,343	59,802	57,475	61,521		
Recevivable turnover days	*45.2*	*29.5*	*36.8*	*45.2*	*44.4*	*45.9*	*60.8*		
Trade and bill payables	106,613		141,196	149,664		160,371	161,310		
Average payables	104,297	123,905	121,588	145,430	155,018	150,784	160,841		
Payable turnover days	*117.3*	*84.9*	*103.5*	*139.1*	*129.4*	*134.5*	*177.6*		
Total Assets	312,355		350,265	395,613		422,983	442,449		
Total Equity	55,045		58,231	61,335		65,719	67,487		
Average assets	297,673	331,310	316,628	372,939	409,298	386,624	432,716		
Average equity	54,562	56,638	56,155	59,783	63,527	61,975	66,603		
ROAA (%)	*2.3*	*0.5*	*1.3*	*2.0*	*2.1*	*2.0*	*1.5*		
ROAE (%)	*12.4*	*3.1*	*7.6*	*12.2*	*13.3*	*12.7*	*9.6*		

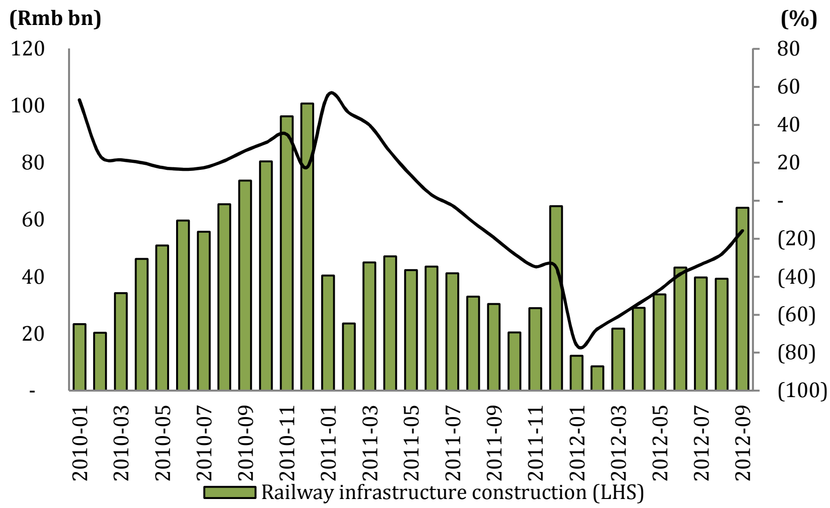
Source: Company, ABCI Securities

Outlook 2013

We believe the earnings in 4Q12 and 2013 would be 21%QoQ and 7.7%YoY respectively higher. The railway infrastructure FAI was bottomed out since Feb 2012. The cumulative railway infrastructure FAI for 9M12 was Rmb291.2bn. It equals to 56.6% of the annual target of Rmb516bn. The monthly FAI in 4Q12 would be 30% higher than the monthly average FAI spending of Rmb31.5mn in the first nine months. On the other hand, we conservatively anticipate the railway infrastructure FAI would be Rmb600bn in 2013, 4.7%YoY higher.

As shown in the graph below, the Sep 2012's figure was similar to the highest level in 2011. The ramping up of MOR to achieve the annual target of Rmb516bn in 2012 translates to higher and sustainable monthly spending in 4Q12.

Monthly railway infrastructure FAI



Source: MOR, ABCI Securities

Company Profile

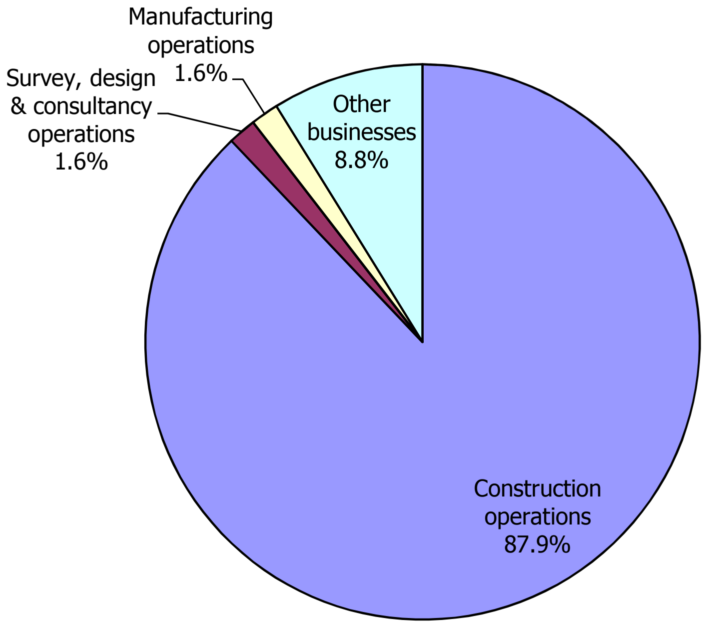
China Railway Construction Corporation Limited ("CRCC") is one of the largest engineering contractors in China. In terms of railway construction, it has 40% market share in the PRC. CRCC has established its leadership position in project design and construction fields in plateau railways, high-speed railways, highways, bridges, tunnels and urban rail traffic.

Construction operations contributed 87.9% of the total revenue and 79.6% of total gross profit in FY11, among which, we estimate the total revenue from railway infrastructure was 50% of the total revenue. For the 1HFY12, construction operations contributed 87.9% of total revenue and 83.0% of total gross profit.

CRCC covers project contracting, survey design consultation, industrial manufacturing, real estate development, logistics, trade of goods and materials as well as capital operations. It has developed mainly from construction contract into a complete industrial chain of research, planning, prospecting and designing, construction, supervision, maintenance, operation and financing, and is able to provide proprietors with one-stop integrated services.

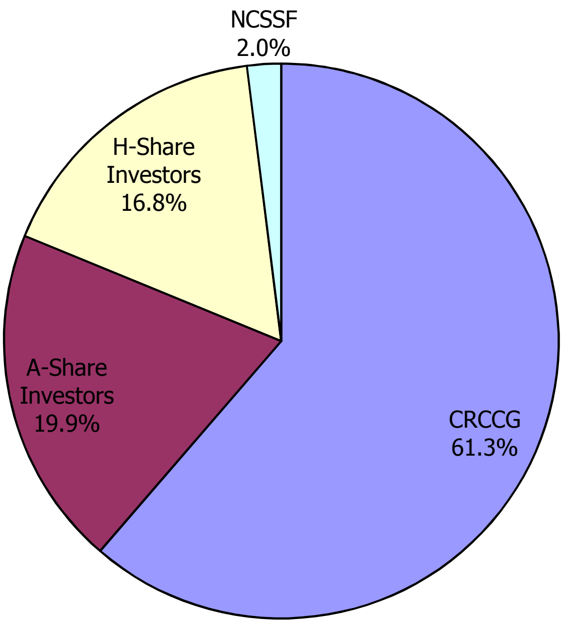
Survey, design & consultancy operations, manufacturing operations and other businesses contributed 1.6%, 1.6% and 8.8% of total revenue for FY11 respectively. These three divisions contributed 4.7%, 3.1% and 12.5% of total gross profit for FY11 respectively. Proportion of total gross profit of these three divisions reduced to 17.0% in 1H FY12 from 20.3% in FY11.

Revenue composition in FY11



Source: Company, ABCI Securities estimate

Shareholder Structure



Source: Company, ABCI Securities estimate

Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue	**355,521**	**470,159**	**457,366**	**495,563**	**518,612**
Cost of sales	(322,428)	(428,647)	(409,327)	(442,328)	(462,901)
Gross profit	**33,093**	**41,512**	**48,039**	**53,235**	**55,711**
Other income	300	410	522	522	522
Selling and distribution	(1,016)	(1,531)	(1,746)	(1,982)	(2,074)
Administrative expenses	(13,409)	(19,159)	(19,851)	(20,814)	(21,782)
Other expenses	(10,451)	(14,767)	(15,094)	(16,415)	(17,139)
EBIT	**8,517**	**6,465**	**11,869**	**14,545**	**15,237**
Finance costs	(366)	(511)	(1,982)	(3,965)	(4,149)
Associates	-	2	78	63	63
Adjustments	156	133	91	186	186
Pre-tax profit	**8,307**	**6,089**	**10,056**	**10,829**	**11,337**
Tax expenses	(1,576)	(1,772)	(2,174)	(2,341)	(2,451)
Minority interests	(133)	(70)	(28)	(28)	(28)
Net income	**6,599**	**4,246**	**7,854**	**8,460**	**8,858**

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Current assets	**239,019**	**291,996**	**360,324**	**385,841**	**400,102**
Cash and equivalent	62,370	65,207	83,058	74,096	49,546
Other deposits	25,371	35,059	36,708	42,805	44,552
Trade and other receivables	66,629	72,011	90,377	97,980	117,613
Construction contracts	52,021	60,120	74,176	80,371	84,109
Inventories	32,629	59,598	76,006	90,588	104,282
Non-current assets	**43,971**	**58,269**	**62,659**	**67,785**	**71,567**
Fixed assets	30,441	35,172	38,507	40,692	42,727
Intangible assets	5,677	6,373	6,791	7,738	8,535
Lease prepayment	61	72	117	127	127
Trade and other receivables	1,905	7,923	8,504	9,214	9,643
Construction contracts	-	2,192	2,064	2,799	3,091
Other non-current assets	5,887	6,537	6,675	7,325	7,553
Total assets	**282,990**	**350,265**	**422,983**	**453,626**	**471,669**
Current liabilities	**207,595**	**262,809**	**318,742**	**338,811**	**347,217**
Trade and other payables	101,980	141,196	160,371	155,606	161,963
Receipts in advance	-	60,187	53,414	61,964	61,964
Short term borrowings	12,579	16,243	41,665	46,694	48,397
Other	93,036	45,182	63,291	74,546	74,893
Non-current liabilities	**21,316**	**29,225**	**38,522**	**41,331**	**44,699**
Trade and other payables	-	1,791	3,454	3,483	3,483
Long term borrowings	-	7,485	18,219	20,041	22,045
Other	21,316	19,949	16,850	17,807	19,171
Total liabilities	**228,911**	**292,034**	**357,264**	**380,142**	**391,916**
Minority interests	**814**	**828**	**970**	**1,051**	**1,100**
Shareholders' equity	**53,265**	**57,403**	**64,748**	**72,433**	**78,653**
Total equity	**54,079**	**58,231**	**65,719**	**67,487**	**73,484**

Source: Company, ABCI Securities estimates

Consolidated cash flow statement forecast

FY ended Dec 31 (Rmb mn)	FY10A	FY11A	FY12E	FY13E
Cash flows from operating activities				
Cash received from the sale of goods & services	448,367	414,320	422,452	450,943
Tax refunds	223	274	140	140
Cash received from other operating activities	2,529	2,238	1,913	1,913
Subtotal of cash inflows from operating activities	451,119	416,832	424,505	452,996
Cash paid for goods and services	(402,757)	(384,340)	(380,485)	(398,182)
Cash paid to & on behalf of employees	(22,670)	(25,864)	(24,577)	(26,543)
Cash paid for all types of taxes	(14,293)	(14,558)	(15,798)	(16,533)
Cash paid for other operating activities	(5,147)	(4,646)	(4,978)	(4,978)
Subtotal of cash outflows from operating activities	(444,867)	(429,408)	(425,839)	(446,237)
Net cash flows (used in)/from operating activities	**6,253**	**(12,576)**	**(1,334)**	**6,759**
Cash flows from investing activities				
Capex	(18,440)	(13,250)	(15,863)	(17,154)
Other	2,915	2,647	5,419	5,377
Net cash flows used in investing activities	**(15,525)**	**(10,603)**	**(10,444)**	**(11,777)**
Cash flows from financial activities				
Capital injection	177	116	283	195
Net debt financing	13,930	46,307	11,297	(10,995)
Dividend payout	(3,888)	(4,805)	(4,805)	(5,282)
Others	140	30	-137	-49
Net cash flows from financing activities	**10,359**	**41,649**	**6,639**	**(16,131)**
Effect of changes in exchange rate on cash & cash equivalents	(233)	(225)	(225)	(225)
Net increase in cash & cash equivalents (eq)	853	18,244	(5,365)	(21,375)
Cash & cash eq at beginnings	55,070	55,923	69,878	64,513
Cash & cash eq at the end	55,923	74,168	64,513	43,138
Fx and other adjustments	9,283	8,890	9,583	6,408
Cash & cash equivalents	65,207	83,058	74,096	49,546

Source: Company, ABCI Securities estimates

Risk factors

Risk of overseas operations

Overseas operations will be greatly affected by the politics, economy, policies and laws of the countries they operate in. The Group's overseas operations are mainly located at developing countries or economically under-developed areas where there are certain political and economic uncertainties. Particularly, the continuous unrest, wars and riots in North Africa and Middle East since 2011 has affected the Group's overseas operations. The weak global economic recovery, overall bleak prospect of international economy and growth of trade protectionism all led to a relatively high uncertainty to the investment of overseas construction operations.

Risk of cost and expense

The fluctuation in prices of steel, cement, fuel, sands and other main materials will have certain effect on the Group's costs and expenses. Due to reasons such as insufficient capital of certain projects, there may also be an increase in direct costs, management fees, risk of prolonged construction period and debts for the projects, therefore imposing a higher pressure of cost management and control.

Liquidity risk

As at 30 Jun, 70.5% of the group's borrowings would mature in less than one year. Such would be close to the ceiling of no more than 75% of borrowings in the following 12 months set by the CRCC.

Disclosures

I, Chu Chia Hsien, Francis , being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its member companies ("ABCI") may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2007-2011
Time horizon of share price target: 12-month

Definition of share price risk

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

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183