



December 18, 2013  
Equity Focus  
Rating: BUY  
TP: HK\$ 10.22

H-Share price (HK\$) 7.96  
Est. share price return 28.39%  
Est. dividend yield 1.90%  
Est. total return 30.29%

Previous Rating & TP BUY; HK\$ 10.22  
Previous Report Date October 31, 2013

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**Key Data**

52Wk H/L(HK\$)	9.54 / 5.97
Issued shares (mn)	12,337
H-Shares (mn)	2,076
A-Shares (mn)	10,261
Market cap	
H-shares (HK\$ mn)	16,525
A-Shares (RMB mn)	51,305
3-mth avg daily turnover (HK\$ mn)	82.3
Major shareholder(s) (%):	
CRCCG	61.33

Source(s): Company, Bloomberg, ABCI Securities

**1H13 Revenue breakdown (%)**

Construction operation	84.95
Survey, Design & Consultancy	1.39
Equipment Manufacturing	2.35
Property Development	1.95
Others	14.62
Inter-segment sales	(5.26)

Source(s): Company, ABCI Securities

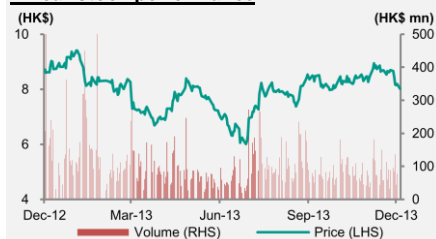
**Share performance (%)**

	Absolute	Relative*
1-mth	(6.12)	(6.28)
3-mth	(3.74)	(3.55)
6-mth	13.19	4.13

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance**



Source(s): Bloomberg

CRCC (1186 HK)  
Reiterate BUY on new contract flow

- The Group announced on Dec 17, 2013 that it had been awarded nine construction contracts with a total amount of RMB 49.1bn. We expect CRCC's total new contract for 2013 will be ~RMB 755.1bn, exceeding the Company's target of RMB 650bn
- With the eighth batch of bonds from CRC being launched in the mid-Dec 2013, the total bonds issued in 2013 reached RMB 150bn. We expect the investment in railway transport industry will speed up. Earning visibility of CRCC, as one of the major railway constructors, will be enhanced in 2014
- Investment in urban rail is supporting the FAI growth in transport industry. NDRC approved the construction projects of urban rail in Qingdao. We expect more new urban rail construction starts will be announced in 2014. Reiterate BUY to CRCC with TP at HK\$ 10.22

**RMB 49.1bn of new contracts granted.** The Group announced on Dec 17 that it had won nine construction contracts with a total value of RMB 49.1bn. YTD, the major contracts disclosed amounted to RMB 642.3bn. Together with the undisclosed contracts of lower values, we expect the total new contracts for 2013E reaches RMB 755.1bn, exceeding CRCC's original target of RMB 650bn.

**Railway investment expected to pace up.** FAI from China Railway Corporation (CRC) was RMB 511bn, up 0.87% YoY in 11M13. Infrastructure investment was RMB 448bn, up 3.79% YoY, whereas investments on railway system and rolling stock totalled RMB 63bn, down 15.94% YoY. With the eighth batch of bonds from CRC being launched in mid-Dec 2013 (so as to reach the target of releasing RMB 150bn of bonds this year to fund railway construction projects), we expect investment in the railway transport industry will speed up and rebound in Dec 2013 to reach the budgeted CAPEX of RMB 690bn. Delivery of ongoing railway transport construction projects turns promising with the investment in place, which in turn will enhance the earning visibility of CRCC.

**Urban rail is still the bright spot.** While the railway and highway construction slowing down, urban rail construction is booming. According to NBS, total FAI on roadway transport (highway plus urban rail) was up 22.60% YoY over 11M13, while FAI on highway transport, according to MOT, was up 8.49% YoY. We estimate that the FAI on urban rail transport was up 68.25% YoY. The urban rail development department of Qingdao announced that NDRC had approved the construction projects for urban rail line one, four and six. We estimate that the total investment for the Qingdao urban rail (rail line 1-8) will approximate to RMB 48bn during 2014-2018, which accounts for 2%-3% of the total urban rail investment in China. We expect more new urban rail construction starts will be announced in 2014 and earnings growth of CRCC will be supported. Reiterate BUY with TP: at HK\$ 10.22

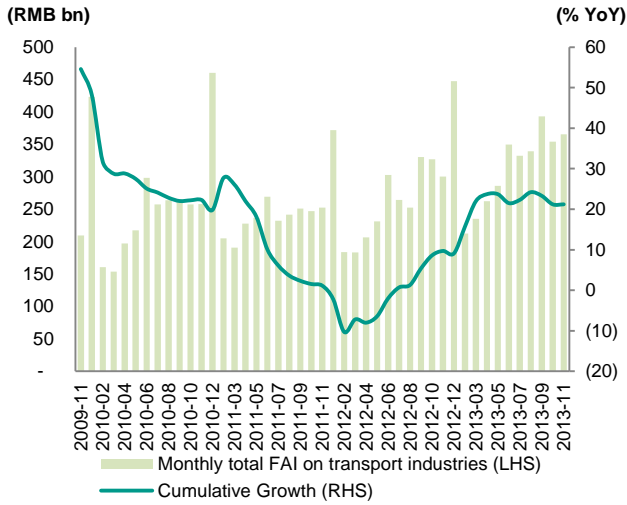
**Risk factors:** 1) Prudent monetary policy may affect capital inflow and delay construction; 2) Heavy debt burden of CRC may limit growth in infrastructure investment; 3) Change in willingness to grant loans by creditors

**Results and Valuation**

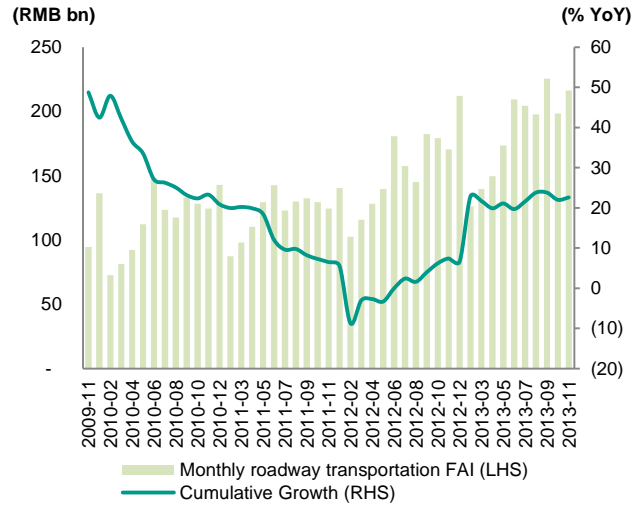
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	443,319	469,872	546,817	626,312	694,977
Chg (% YoY)	(2.82)	5.99	16.38	14.54	10.96
Net Income (RMB mn)	7,854	8,479	9,987	11,740	13,678
Chg (% YoY)	84.97	7.96	17.78	17.56	16.50
EPS (RMB)	0.637	0.687	0.809	0.952	1.109
P/E (x)	-	9.30	7.90	6.72	5.77
BVPS (RMB)	5.248	5.833	6.513	7.343	8.309
P/B (x)	-	1.10	0.98	0.87	0.77
DPS (RMB)	0.100	0.110	0.121	0.143	0.166
Yield (%)	-	1.72	1.90	2.23	2.60
ROAE (%)	12.86	12.40	13.11	13.74	14.17
Net gearing (%)	Net Cash	Net Cash	11.68	13.54	20.98

\*Net gearing=Net debt/Total equity

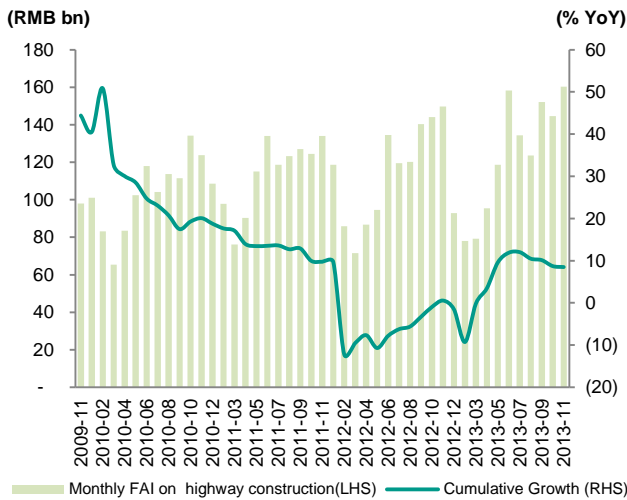
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 1: Fixed-assets investment (FAI) in transport industry, 11M09-11M13**


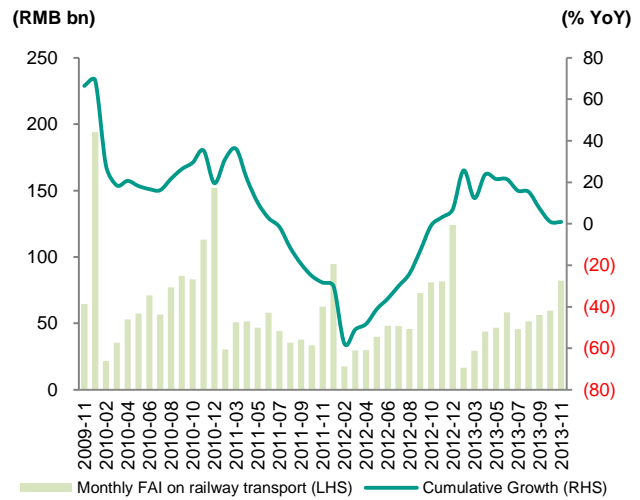
Source(s): NBS

**Exhibit 2: Fixed-assets investment (FAI) in roadway transport (highway & urban rail) industry, 11M09-11M13**


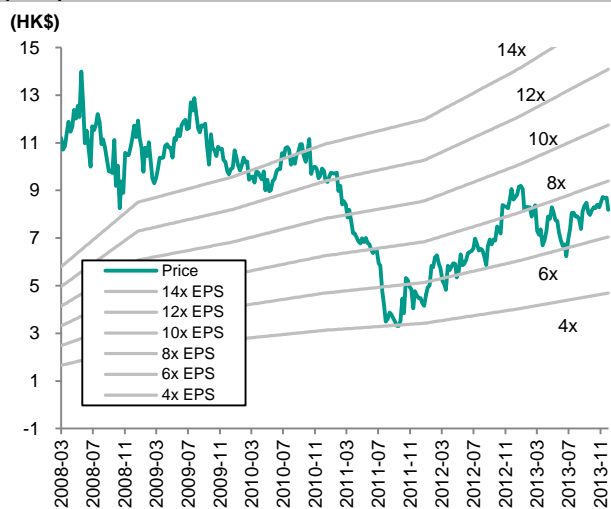
Source(s): NBS

**Exhibit 3: Fixed-assets investment (FAI) in highway transport industry, 11M09-11M13**


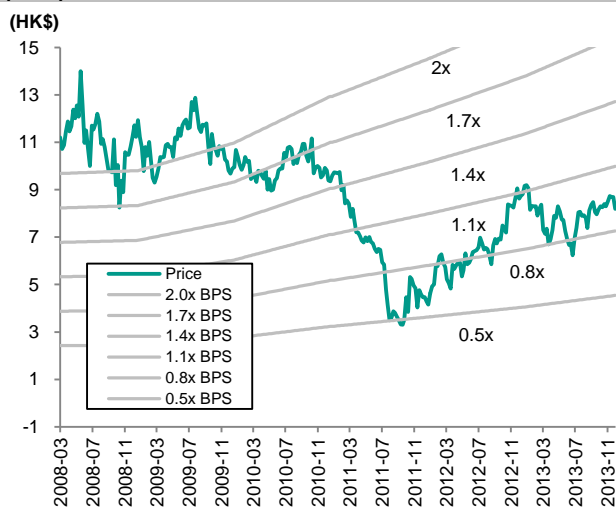
Source(s): MOT

**Exhibit 4: Fixed-assets investment (FAI) in railway transport from CRC, 11M09-11M13**


Source(s): CRC

**Exhibit 5: P/E band of CRCC (H-shares) in 1M08-11M13 (HK\$)**


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

**Exhibit 6: P/B band of CRCC (H-shares) in 1M08-11M13 (HK\$)**


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

**Exhibit 7: Peer valuation of construction contractors**

Company	Ticker	Mkt cap (HK\$ mn)	As of 17/12/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Domestic Transportation Project Contractor</b>												
CRCC-H	1186 HK	16,525	HKD	7.96	7.90	6.72	17.78	17.56	0.98	0.87	13.11	13.74
CRCC-A	601186 CH	65,523	RMB	5.00	6.18	5.25	17.78	17.56	0.77	0.68	13.11	13.74
CRG-H	390 HK	17,459	HKD	4.15	8.10	7.06	19.17	14.72	0.83	0.75	10.74	11.19
CRG-A	601390 CH	60,902	RMB	2.79	6.78	5.91	19.17	14.72	0.70	0.63	10.74	11.19
CCCC-H	1800 HK	27,808	HKD	6.28	6.24	5.82	6.74	7.31	0.84	0.76	14.26	13.74
CCCC-A	601800 CH	63,304	RMB	4.22	5.22	4.87	6.74	7.31	0.71	0.64	14.26	13.74
CREGC	600528 CH	9,839	RMB	5.28	12.00	10.15	10.50	18.18	1.24	1.14	11.25	11.68
Shanghai Tunnel Eng Co	600820 CH	14,909	RMB	8.99	9.17	7.82	10.57	17.35	0.90	0.84	11.48	11.10
Xiangyu Dredging	871 HK	1,952	HKD	2.44	7.26	6.03	8.00	20.37	0.92	0.81	14.80	14.27
<b>Sector Weighted Average</b>					<b>6.70</b>	<b>5.88</b>	<b>13.84</b>	<b>13.43</b>	<b>0.79</b>	<b>0.71</b>	<b>12.68</b>	<b>12.81</b>
<b>Domestic Infrastructure Construction Contractor</b>												
CSCEC	601668 CH	125,661	RMB	3.28	5.31	4.61	18.85	15.21	0.83	0.72	18.33	16.73
Sinohydro Group	601669 CH	38,740	RMB	3.16	6.41	5.51	15.59	16.23	0.89	0.80	14.99	15.21
China Gezhouba Group	600068 CH	17,859	RMB	4.01	8.35	7.57	7.14	10.42	0.97	0.89	13.52	12.23
CSCI	3311 HK	51,876	HKD	13.34	19.14	14.84	21.60	28.98	3.28	2.83	18.65	20.49
CAMC	002051 CH	15,787	RMB	19.40	15.04	11.57	16.22	30.00	2.38	2.03	19.27	18.95
CMEC	1829 HK	24,424	HKD	5.92	12.13	8.84	(16.10)	37.23	1.75	1.53	15.30	18.43
<b>Sector Weighted Average</b>					<b>9.44</b>	<b>7.64</b>	<b>14.88</b>	<b>20.46</b>	<b>1.48</b>	<b>1.29</b>	<b>17.39</b>	<b>17.21</b>
<b>International Transportation Construction Contractors</b>												
Vinci S.A.	DG FP	289,633	EUR	45.10	13.33	12.52	(5.27)	6.53	1.80	1.68	13.37	13.31
Bouygues Construction	EN FP	89,226	EUR	26.18	11.03	10.70	18.33	3.08	0.94	0.92	8.73	8.71
Hochtief A.G.	HOT GR	48,976	EUR	59.57	19.52	17.31	41.95	12.75	1.41	1.35	8.02	8.85
Skanska A.B.	SKAB SS	60,773	SEK	122.30	14.59	13.54	21.17	7.69	2.44	2.29	18.51	20.59
Strabag S.E.	STR AV	25,209	EUR	20.71	18.90	15.59	88.97	21.17	0.72	0.70	3.87	4.57
FCC S.A.	FCC SM	20,457	EUR	15.05	(52.44)	26.88	(96.77)	(295.12)	2.37	2.13	(16.12)	8.35
Ferrovial S.A.	FER SM	104,988	EUR	13.41	24.64	29.66	(43.80)	(16.91)	1.75	1.79	6.56	5.82
BAM Groep	BAMNB NA	9,836	EUR	3.42	18.28	10.72	(123.67)	70.59	1.06	1.02	7.18	19.90
SNC-Lavalin	SNC CN	52,107	CAD	46.93	(52.91)	26.41	(143.27)	(300.34)	3.54	3.41	1.68	13.16
Obrascon Huarte	OHL SM	29,979	EUR	28.15	9.84	8.85	(71.63)	11.15	1.16	1.05	13.32	12.45
Sacyr S.A.	SYV SM	18,551	EUR	3.73	14.23	13.37	(111.80)	6.49	1.14	1.06	8.41	8.22
<b>Sector Weighted Average</b>					<b>8.88</b>	<b>16.41</b>	<b>(18.39)</b>	<b>(24.70)</b>	<b>1.76</b>	<b>1.68</b>	<b>9.79</b>	<b>11.50</b>
<b>International Infrastructure Construction Contractors</b>												
ACS	ACS SM	77,141	EUR	22.96	10.35	9.46	(133.56)	9.42	2.29	2.07	24.49	23.66
Jacobs Engineering Group	JEC US	58,565	USD	57.33	15.47	13.50	13.33	14.60	1.60	1.43	10.82	11.09
Hyundai Eng & Const	000720 KP	48,882	KRW	59,600	10.93	9.03	74.93	21.03	1.33	1.19	12.54	13.91
WorleyParsons Ltd	WOR AU	27,525	AUD	16.10	14.17	12.16	(13.15)	16.55	1.78	1.70	16.43	12.64
Abengoa S.A.	ABG SM	17,347	EUR	2.30	14.20	11.17	(29.57)	27.16	0.91	0.96	7.47	5.63
Daewoo Eng & Const	047040 KP	21,245	KRW	6,940	12.26	9.36	45.88	30.95	0.80	0.75	6.73	8.56
Impregilo SpA	IPG IM	20,462	EUR	4.71	21.71	12.94	(85.44)	67.74	1.39	1.43	6.63	10.89
<b>Sector Weighted Average</b>					<b>13.20</b>	<b>10.89</b>	<b>(27.68)</b>	<b>20.58</b>	<b>1.64</b>	<b>1.51</b>	<b>14.74</b>	<b>14.77</b>
<b>Overall Weighted Average</b>					<b>9.34</b>	<b>12.07</b>	<b>(8.49)</b>	<b>(2.28)</b>	<b>1.52</b>	<b>1.41</b>	<b>12.48</b>	<b>13.29</b>

Source(s): Bloomberg, ABCI Securities estimates

**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Revenue</b>	<b>443,319</b>	<b>469,872</b>	<b>546,817</b>	<b>626,312</b>	<b>694,977</b>
Construction operation	407,541	407,601	477,873	550,216	614,096
Survey, Design & Consultancy	7,464	7,287	7,411	7,525	7,233
Equipment Manufacturing	8,915	9,984	10,036	10,175	9,506
Property Development	13,538	18,137	23,266	28,331	31,178
Others	32,922	52,718	57,872	63,536	69,760
Inter-segment sales	(27,060)	(25,855)	(29,641)	(33,471)	(36,795)
<b>COGS</b>	<b>(409,327)</b>	<b>(432,889)</b>	<b>(504,760)</b>	<b>(577,812)</b>	<b>(641,052)</b>
<b>Gross profit</b>	<b>33,992</b>	<b>36,983</b>	<b>42,057</b>	<b>48,500</b>	<b>53,926</b>
SG&A	(21,597)	(22,652)	(26,361)	(29,748)	(32,211)
Other income and gains	<b>(2,339)</b>	<b>(3,435)</b>	<b>(2,649)</b>	<b>(3,414)</b>	<b>(3,847)</b>
<b>Pre-tax profit</b>	<b>10,056</b>	<b>10,896</b>	<b>13,047</b>	<b>15,337</b>	<b>17,867</b>
Income tax	(2,174)	(2,375)	(2,870)	(3,374)	(3,931)
<b>Net profit</b>	<b>7,882</b>	<b>8,521</b>	<b>10,176</b>	<b>11,963</b>	<b>13,937</b>
Profit attributable to:					
Minority interests	28	42	189	223	259
<b>Equity shareholders of the Company</b>	<b>7,854</b>	<b>8,479</b>	<b>9,987</b>	<b>11,740</b>	<b>13,678</b>
<b>EPS (RMB)</b>	<b>0.637</b>	<b>0.687</b>	<b>0.809</b>	<b>0.952</b>	<b>1.109</b>
<b>DPS (RMB)</b>	<b>0.100</b>	<b>0.110</b>	<b>0.121</b>	<b>0.143</b>	<b>0.166</b>
<b>EBIT</b>	<b>13,739</b>	<b>16,736</b>	<b>19,050</b>	<b>21,718</b>	<b>24,779</b>
<b>EBITDA</b>	<b>23,752</b>	<b>26,756</b>	<b>29,491</b>	<b>32,289</b>	<b>35,709</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Current assets</b>	<b>360,324</b>	<b>416,287</b>	<b>451,810</b>	<b>498,195</b>	<b>546,237</b>
Cash and equivalent	83,058	92,274	88,627	91,514	88,643
Trade and bill receivables	64,933	74,013	88,834	97,687	109,283
Construction contracts	74,176	86,555	93,220	112,691	115,795
Inventories	76,006	84,782	94,600	101,121	127,816
Other current assets	62,151	78,663	86,529	95,182	104,700
<b>Non-current assets</b>	<b>62,659</b>	<b>64,374</b>	<b>68,509</b>	<b>71,250</b>	<b>75,305</b>
Property, plant and equipment	40,572	40,271	41,017	41,498	42,896
Intangible assets	6,791	8,304	9,118	9,622	10,115
Long term investments	4,445	5,626	6,189	6,807	7,488
Long term receivables	8,504	7,694	9,235	10,155	11,360
Other non-current assets	2,346	2,479	2,951	3,168	3,445
<b>Total assets</b>	<b>422,983</b>	<b>480,661</b>	<b>520,318</b>	<b>569,445</b>	<b>621,542</b>
<b>Current liabilities</b>	<b>318,742</b>	<b>368,812</b>	<b>399,124</b>	<b>437,888</b>	<b>477,789</b>
Trade and bill payables	160,371	180,875	186,693	202,436	218,752
Receipts in advance	53,414	62,098	72,734	81,700	89,665
Short term borrowings	41,665	60,649	66,714	73,385	80,724
Other current liabilities	63,291	65,190	72,983	80,367	88,649
<b>Non-current liabilities</b>	<b>38,522</b>	<b>38,520</b>	<b>39,314</b>	<b>39,245</b>	<b>39,303</b>
Long-term payables	1,472	140	145	157	169
Long-term borrowings	30,611	31,390	31,480	30,630	29,830
Other non-current liabilities	6,439	6,990	7,689	8,458	9,304
<b>Total liabilities</b>	<b>357,264</b>	<b>407,332</b>	<b>438,437</b>	<b>477,132</b>	<b>517,092</b>
<b>Minority interests</b>	<b>970</b>	<b>1,365</b>	<b>1,526</b>	<b>1,716</b>	<b>1,936</b>
<b>Shareholders' equities</b>	<b>64,749</b>	<b>71,964</b>	<b>80,355</b>	<b>90,597</b>	<b>102,514</b>
<b>BVPS (RMB)</b>	<b>5.248</b>	<b>5.833</b>	<b>6.513</b>	<b>7.343</b>	<b>8.309</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Profit before tax</b>	<b>10,056</b>	<b>10,896</b>	<b>13,047</b>	<b>15,337</b>	<b>17,867</b>
Changes in depreciation and amortization	10,013	10,020	10,440	10,571	10,930
Changes in working capital	(34,588)	(9,460)	(15,769)	(17,313)	(16,938)
Financial cost	3,422	5,518	4,983	5,296	5,737
Income tax paid	(1,008)	(1,405)	(2,263)	(2,706)	(3,196)
Others	(471)	(10,024)	-	-	-
<b>CF Operating</b>	<b>(12,576)</b>	<b>5,545</b>	<b>10,438</b>	<b>11,185</b>	<b>14,400</b>
Increase in PP&E	(13,051)	(9,540)	(11,000)	(10,856)	(12,121)
Increase in intangible assets	(588)	(1,692)	(1,000)	(700)	(700)
Others	3,036	2,923	-	-	-
<b>CF Investing</b>	<b>(10,603)</b>	<b>(8,309)</b>	<b>(12,000)</b>	<b>(11,556)</b>	<b>(12,821)</b>
Capital injection	116	437	-	-	-
Net debt financing	33,618	19,763	6,155	5,821	6,539
Dividend payout	(617)	(1,234)	(1,385)	(1,531)	(1,800)
Interest paid	(3,422)	(5,518)	(4,983)	(5,296)	(5,737)
Others	11,954	(2,525)	(1,872)	4,264	(3,452)
<b>CF Financing</b>	<b>41,649</b>	<b>10,923</b>	<b>(2,086)</b>	<b>3,259</b>	<b>(4,450)</b>
<b>Net change in cash</b>	<b>18,470</b>	<b>8,159</b>	<b>(3,647)</b>	<b>2,887</b>	<b>(2,871)</b>
Cash at the beginning	65,207	83,058	92,274	88,627	91,514
Adjustment (Time deposit & FX effect)	(619)	1,057	-	-	-
<b>Cash at the end</b>	<b>83,058</b>	<b>92,274</b>	<b>88,627</b>	<b>91,514</b>	<b>88,643</b>

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (2011A-2015E)**

<b>FY ended Dec 31</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Sales mixed (%)</b>					
Construction operation	91.93	86.75	87.39	87.85	88.36
Survey, Design & Consultancy	1.68	1.55	1.36	1.20	1.04
Equipment Manufacturing	2.01	2.12	1.84	1.62	1.37
Property Development	3.05	3.86	4.25	4.52	4.49
Others	7.43	11.22	10.58	10.14	10.04
Inter-segment sales	(6.10)	(5.50)	(5.42)	(5.34)	(5.29)
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	7.67	7.87	7.69	7.74	7.76
Net profit margin	1.77	1.80	1.83	1.87	1.97
Effective tax rate	21.62	21.80	22.00	22.00	22.00
<b>Growth (%)</b>					
Revenue	(2.82)	5.99	16.38	14.54	10.96
Gross profit	23.43	8.80	13.72	15.32	11.19
EBIT	78.26	21.82	13.83	14.00	14.10
EBITDA	51.81	12.65	10.22	9.49	10.59
Net profit	84.97	7.96	17.78	17.56	16.50
<b>Balance sheet ratios</b>					
Current ratio (x)	1.13	1.13	1.13	1.14	1.14
Quick ratio (x)	0.89	0.90	0.89	0.91	0.88
Cash ratio (x)	0.26	0.25	0.22	0.21	0.19
Trade and bill receivables days	54.08	60.26	60.00	60.00	60.00
Trade and bill payables turnover days	135.75	144.54	133.00	123.00	120.00
Inventory turnover days	60.46	67.79	64.86	61.82	65.18
Total debt / equity ratio (%)	109.98	125.52	119.92	112.68	105.84
Net debt / equity ratio (%)	Net Cash	Net Cash	11.68	13.54	20.98
<b>Returns (%)</b>					
ROAE	12.86	12.40	13.11	13.74	14.17
ROAA	2.03	1.88	2.00	2.15	2.30
Payout ratio	15.71	16.00	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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