

Key Data

Share price (HK\$)	5.61
Target price (HK\$)	N/A
Upside potential (%)	N/A
52Wk H/L(HK\$)	7.58 / 4.00
Issued shares (mn)	2,816
Market cap (HK\$m)	15,798
30-day avg vol (HK\$m)	50.8
Major shareholder (%):	
China Shanshui Investment Company Limited	30.1

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Shandong	69.2
Northeastern	26.7
Shanxi	4.0
Xinjiang	0.1

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	11.8	7.0
3-mth	11.1	2.1
6-mth	6.9	-8.3

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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

Shanshui Cement (691 HK) – Unrated Construction Materials Industry

Leading cement maker benefiting from market consolidation

Shanshui Cement, the leading market leader in Shandong's cement industry, sets to benefit from the local government to shut down small players. We anticipate that its market shares will increase and price fixing power will be enhanced. Its leading market position allows the group to reap high gross profit margin. The earnings growth in FY13 will be backed by 17.0% increase in production capacity in Shandong, Shanxi and Northeastern China. The stock is trading at 7.0x FY13E PE vs. sector average of 12.0x.

Benefiting from market consolidation. 10mn tons of obsolete production capacity, or 6.7% of total cement output capacity in Shandong Province will be shut down. Large players such as Shanshui Cement are able to expand their local market shares. Shanshui Cement has 25.8% market share in Shandong in terms of sales volume. We expect its local market share to increase by 1-2ppt in 2013 due to market consolidation.

Growth drivers in 2013. The Group plans to increase its market shares in Shanxi Province and Northeastern China by installing new production lines in FY13. Its market shares in these areas increased from 10.9% and 0.9% in 2011 to 12.6% and 6.2% in 1H12 respectively. The planned capex for 2013 of the Group is Rmb3,700mn, up 12.1% YoY. Eleven new production lines (2 in Shandong, 5 in Shanxi and 4 in Northeastern China) with additional 15mn tons in total are expected to be in operation in 2013. The total output capacity will increase by 17.0% from 88mn tons at end-2012 to 103mn tons at end-2013.

High gross profit margin. The Group was the fourth largest cement maker in China, which accounted for 2.7% of total sales volume in 2011. During the harsh time of the cement industry, the Group managed to post a better-than-peer sales and earnings performance. The gross profit margin ("GPM") of the Group was 24.9%, which was higher than that of CR Cement at 20.8% and CNBM at 21.8%.

Risk factors: Prolonged slowdown of construction industry; Weakening of cement price recovery pace.

Financial Summary

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rmb mn)	4,145	7,501	8,728	11,854	16,862
Chg (%YoY)	-	81.0	16.4	35.8	42.2
Net Income (Rmb mn)	212	539	702	979	2,225
Chg (%YoY)	-	154.5	30.1	39.6	127.3
EPS (Rmb)	0.11	0.23	0.250	0.350	0.790
Chg (%YoY)	-	109.1	8.7	40.0	125.7
PE (x)	-	-	-	-	5.7
PB (x)	-	-	-	-	1.7
Yield (%)	-	-	-	-	4.3
ROAA (%)	2.9	4.7	5.1	5.8	10.1
ROAE (%)	14.0	15.2	14.4	18.1	33.2
Net debt/total equity (%)	135.2	77.5	93.5	102.0	104.6

Source: Company, Bloomberg

Earnings and profitability comparison on leading cement makers

	FY06	FY07	FY08	FY09	FY10	FY11	CAGR (06-11) (%)	1HFY11	2HFY11	1HFY12	Changes (% YoY) (% HoH)	
CNMB (3323 HK)												
Revenue (Rmb mn)	6,452	10,514	26,365	33,297	51,988	80,058	65.5	34,559	45,499	37,938	9.8	-16.6
Gross profit (Rmb mn)	1,297	1,995	4,513	6,499	11,209	21,317	75.0	10,028	11,289	8,254	-17.7	-26.9
GPM (%)	20.1	19.0	17.1	19.5	21.6	26.6		29.0	24.8	21.8		
Net income (Rmb mn)	298	912	1,512	2,352	3,369	8,015	93.2	3,606	4,409	1,901	-47.3	-56.9
Net margin (%)	4.6	8.7	5.7	7.1	6.5	10.0		10.4	9.7	5.0		
Anhui Conch (914 HK)												
Revenue (Rmb mn)	16,096	18,776	24,228	24,998	34,508	48,654	24.8	22,327	26,327	20,559	-7.9	-21.9
Gross profit (Rmb mn)	4,486	5,729	5,908	7,027	10,942	19,177	33.7	9,377	9,800	5,456	-41.8	-44.3
GPM (%)	27.9	30.5	24.4	28.1	31.7	39.4		42.0	37.2	26.5		
Net income (Rmb mn)	1,544	2,480	2,607	3,506	6,160	11,586	49.6	5,980	5,606	2,933	-51.0	-47.7
Net margin (%)	9.6	13.2	10.8	14.0	17.8	23.8		26.8	21.3	14.3		
Shanshui (691 HK)												
Revenue (Rmb mn)	3,501	4,145	7,501	8,728	11,854	16,862	36.9	7,932	8,930	7,378	-7.0	-17.4
Gross profit (Rmb mn)	625	772	1,586	1,780	2,550	5,079	52.0	2,470	2,609	1,836	-25.7	-29.6
GPM (%)	17.9	18.6	21.2	20.4	21.5	30.1		31.1	29.2	24.9		
Net income (Rmb mn)	202	212	539	702	979	2,225	61.6	1,237	988	728	-41.1	-26.3
Net margin (%)	5.8	5.1	7.2	8.0	8.3	13.2		15.6	11.1	9.9		
CR Cement (1313 HK)												
Revenue (Rmb mn)*	2,119	3,502	5,090	6,081	11,989	18,852	54.8	8,154	10,698	8,863	8.7	-17.2
Gross profit (Rmb mn)*	489	1,011	1,161	1,798	3,784	5,860	64.3	2,701	3,159	1,847	-31.6	-41.5
GPM (%)	23.1	28.9	22.8	29.6	31.6	31.1		33.1	29.5	20.8		
Net income (Rmb mn)*	82	337	670	889	1,730	3,390	110.4	1,659	1,731	510	-69.3	-70.5
Net margin (%)	3.9	9.6	13.2	14.6	14.4	18.0		20.3	16.2	5.8		

*The earnings of CR Cement were translated from HKD into RMB

Source: Companies, Bloomberg, ABCI Securities

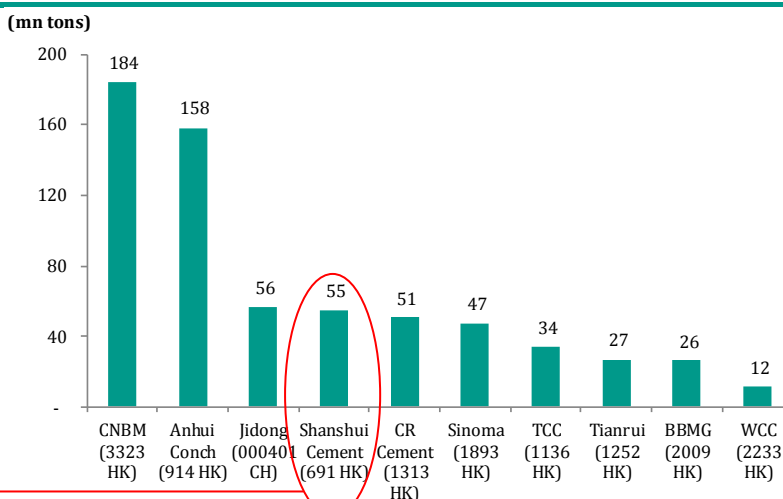
The Group has a better performance comparing with that of CNMB (3323 HK) and CR Cement (1313 HK)

The GPM and net margin of the Group was higher than that of CNMB and CR Cement in 1HFY12

The Group was the fourth largest cement maker in China based on the sales volume in 2011. It had a market share of 2.67% and 25.8% in China and Shandong, respectively.

The largest cement maker was CNBM, accounted for 8.93% of market share in 2011. The second and third largest cement makers were Anhui Conch and Jidong (000401 CH), which accounted for 7.68% and 2.74% in 2011, respectively.

Sales volume of leading cement makers in 2011



Source: Companies, National Bureau of Statistics of China, ABCI Securities



Market share comparison on market leading cement maker in 2011

Sales volume (mn tons)			Sales volume (mn tons)		
CNBM (3323 HK)	Market share (%)	8.93	Anhui Conch (914 HK)	Market share (%)	7.68
	Total	183.7		Total	158.0
	Eastern	61.2		Eastern	57.2
	Southern	101.8		Central	46.8
	Northern	15.5		Southern	31.0
	Others	5.2		Western	19.3
				Others	3.8
Shanshui (691 HK)	Market share (%)	2.67	CR Cement (1313 HK)	Market share (%)	2.46
	Total	54.9		Total	50.6
	Eastern	40.8		Southern	39.0
	Northeastern	13.1		Others	11.6
	Others	1.0			

Source: Companies, National Bureau of Statistics of China, ABCI Securities

Peer group valuation and earnings forecasts summary of cement sector

Company	Ticker	MKT CAP* (HKD mn)	Share Price	PE (x)		EPS Change (%)		ROE (%)		
				Current Year	Next Year	Current Year	Next Year	Current Year	Next Year	
Cement Maker										
ANHUI CONCH-H	914 HK	128,057	HKD	28.30	18.84	14.18	(44.84)	32.86	13.51	15.53
CHINA NATL BDG-H	3323 HK	61,117	HKD	11.32	9.25	7.13	(33.51)	29.78	17.62	18.76
CHINA RES CEMENT	1313 HK	33,183	HKD	5.09	17.80	12.79	(55.38)	39.16	9.24	11.48
TANGSHAN JIDON-A	000401 CH	22,540	CNY	13.45	36.55	19.66	(70.20)	85.87	5.98	8.52
CHINA SHANSHUI	691 HK	15,797	HKD	5.61	8.37	6.99	(31.77)	19.67	17.40	18.16
TCC INTL HLDGS	1136 HK	7,283	HKD	2.21	11.63	7.04	(61.30)	65.26	4.62	6.59
WEST CHINA CEMEN	2233 HK	7,094	HKD	1.56	12.30	7.79	(34.19)	57.84	10.47	14.51
CHINA TIANRUI GR	1252 HK	5,714	HKD	2.38	5.80	4.78	(47.62)	21.21	54.60	17.10
Sector Weighted Average					16.84	11.98	(45.14)	37.68	14.04	15.12

* The market capital value of the companies are translated into HKD

Source: Bloomberg, (The data in the table is as at December 28, 2012)

Disclosures

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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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