



Company Report

CRG (390 HK)

May 22, 2013

Rating: Buy

TP: HK\$5.17

Key data

Share price (HK\$)	4.20
Upside potential (%)	23.1
52Wk H/L(HK\$)	4.98/2.71
Issued shares (mn)	21,300
H-share	4,207
A-share	17,093
H-Market cap (HK\$m)	17,669
30-day avg daily vol (HK\$m)	84.3
Auditors	Deloitte
Major shareholder (%)	
CRECG (State-owned)	56.1

Source: Company & Bloomberg

Revenue breakdown by product (%)

Construction operation	85.24
Survey, Design & Consultancy	1.95
Equipment Manufacturing	2.46
Property Development	4.33
Others	12.12
Inter-segment sales	-6.10

*Based on FY2012 results

Source: Company

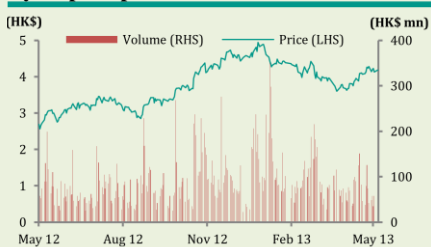
Share performance (%)

	Absolute	Relative ¹
1-mth	10.24	3.85
3-mth	-3.23	-3.47
6-mth	-0.24	-9.37

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Previous report (Initiation)

Date: N/A

Rating: N/A

Target price: N/A

Expected Good Delivery in 2013

We expect FY13 EPS to grow by 18.45% YoY due to sharp increase in completion of urban rail. Our analysis indicates the government tends to speed up FAI growth in the third & fourth years of 5-Year Plan in previous plans. We expect this gov't behavior to repeat in 2013-14. We predict EPS to grow at CAGR of 14.4% from FY12 to FY15, driven by urban rail and municipal facilities construction. Its ROAE will improve to 10.62% in FY13. In view of improving profitability, we set TP at HK\$5.17 or FY13E P/B of 1.03x, 30% discounted on sector average. Initiate "Buy" to CRG.

2013, Year of delivery. The delivery on urban rail development is expected to pace up in 2013 for catching up the schedule targeted. We believe that the Group, as the leading transportation construction contractor, would be benefited from the accelerating Government investment. The new contract value and revenue of the Group was up by 86.5% YoY and 24.1% YoY, respectively in 1QFY13. The total backlog as of 1QFY13 was Rmb1,400bn, which equal to 3.09x of our estimated 2-4QFY13 revenue for the Group.

Paid-in capital momentum increase. The growth of total paid-in capital of FAI increased to 20.93% YoY in 1-4M13 from 19.62% YoY in 1Q13, indicating funds flow to FAI is increasing. The FAI on transportation in China was up 23.7% YoY in 1-4M13, which was accelerating from 22.0% YoY in 1Q13 and 15.7% YoY 1-2M13. The macro data is favorable to market leaders such as the Group. We predict its revenue to grow by 17.71% YoY in FY13, backed by relatively high growth in urban rail and municipal facilities construction business.

Initiate with "Buy". Our target price of HK\$5.17 represents est. FY13 P/B of 1.03x or 30% discounted on sector average, reflecting our concern on its existing stressed financial position but improving profitability in coming years. It is trading at 0.84x FY13E PBR, 42.9% discounted to the weighted average of the peer group. Considering with its growth prospect, the current valuation is not demanding, and we initiate "Buy" to CRG.

Risk factors: Liquidity risk increasing with cash conversion cycle; High net debt ratio to increase the cost for further debt financing; Urban construction pace subject to local government's financing

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	442,216	465,625	548,070	619,011	674,137
Chg (%YoY)	-3.06	5.29	17.71	12.94	8.91
Net Income (Rmb mn)	6,690	7,354	8,711	9,820	11,021
Chg (%YoY)	-9.57	9.93	18.45	12.73	12.23
EPS (Rmb)	0.314	0.345	0.409	0.461	0.517
Chg (%YoY)	-9.57	9.93	18.45	12.73	12.23
PER (x)	-	9.77	8.25	7.32	6.52
PBR (x)	-	0.92	0.84	0.76	0.69
Yield (%)	-	1.54	1.82	2.05	2.30
ROAA (%)	1.56	1.44	1.54	1.60	1.66
ROAE (%)	9.64	9.80	10.62	10.90	11.12
Net gearing (%)	81.93	100.88	111.73	119.39	111.45

Source: Company, ABCI Securities estimates



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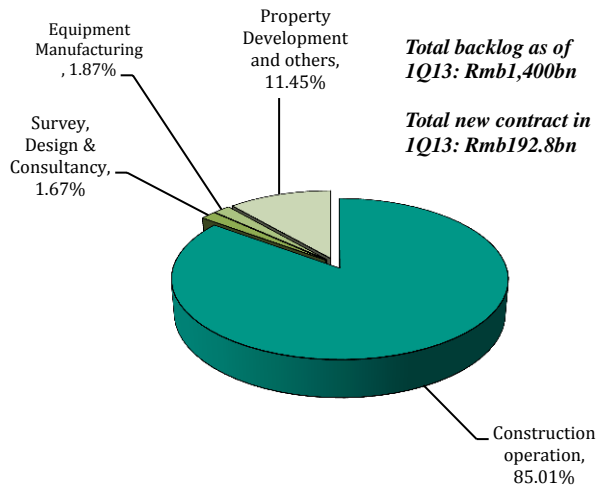


Strong Growth in New Contract

The Group has a significant growth on new contract flow during 1Q13 benefited from the transportation infrastructure construction recovery. The total new contract of the Group was Rmb192.8bn in 1QFY13, up 86.5% YoY. Of which, new contract from railway construction was Rmb73.6bn, up 712.1% YoY, accounted for 38.2% of total new contract received in 1Q13. Besides the railway construction, thanks for the rapid development of urbanization, the municipal construction is another major source of new contract for the Group in 1Q13. The total amount of new contract for municipal construction (including urban rail construction project) was Rmb74.1bn, up 31.8% YoY, representing 38.5% of the total new contract amount in 1Q13.

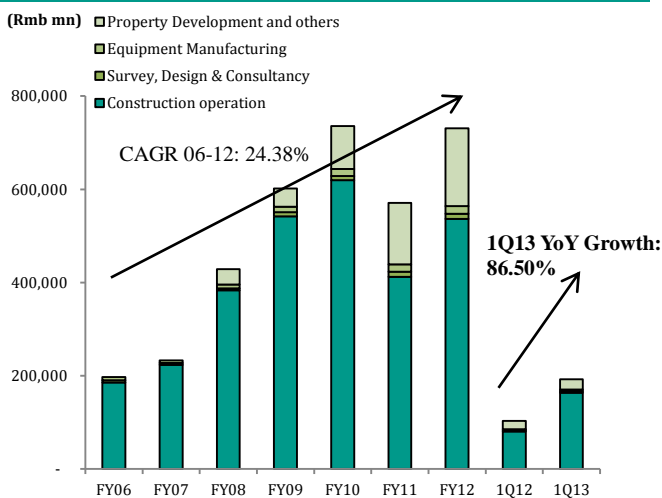
Looking forward, we are positive to the new contract received of CRG given the guideline of 12th 5-Year Plan on railway and roadway transportation development and the urban infrastructure construction supporting the targeted urbanization.

Composition of new contract, 1QFY13



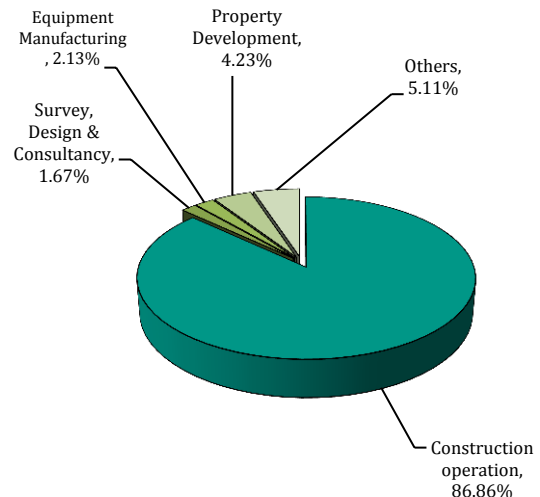
Source: Company

New contract and growth, FY06 – 1QFY13



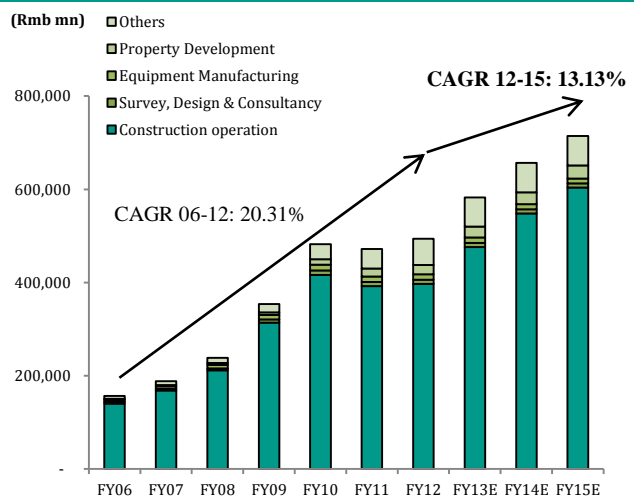
Source: Company

Expected revenue breakdown by segments, FY2013



Source: ABCI Securities estimates

Revenue and growth, FY2006 – FY2015E



Source: Company, ABCI Securities estimates



Strong Backlog for Order Book

The backlog-to-revenue ratio of the Group was 2.79x as of end-2012, which secure the growth in delivery for the following two years. Based on our statistical analysis, the correlation between the growth of backlog-to-revenue ratio for the prior year and growth of revenue (delivery of the contract) for the current year are 71.22% since 2005. As the growth momentum of backlog-to-revenue ratio and new contract flow, we believe the growth of revenue for the following few year will remain strong.

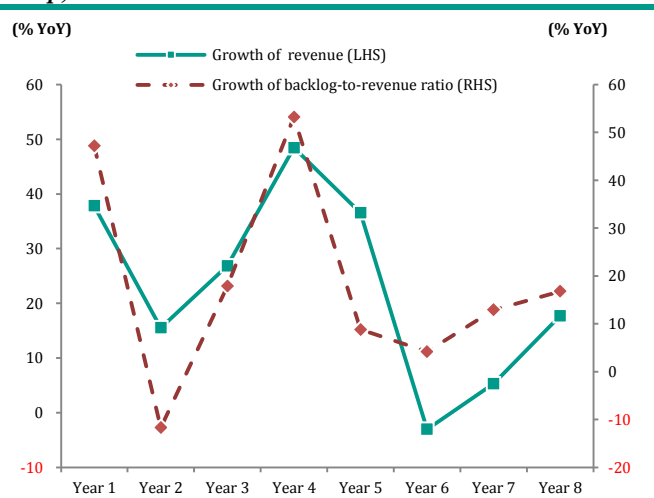
Correlation on the growth of revenue and growth of backlog-to-revenue ratio, FY05 – FY13E

		Revenue (Rmb mn)	Growth (% YoY)	backlog-to-revenue ratio (x)	Growth (% YoY)
Year 1	FY06	153,568	37.82	FY05	1.17 47.19
Year 2	FY07	177,391	15.51	FY06	1.04 -11.72
Year 3	FY08	225,029	26.85	FY07	1.22 17.87
Year 4	FY09	334,075	48.46	FY08	1.87 53.23
Year 5	FY10	456,162	36.54	FY09	2.03 8.78
Year 6	FY11	442,216	-3.06	FY10	2.12 4.19
Year 7	FY12	465,625	5.29	FY11	2.39 12.90
Year 8	FY13E	548,070	17.71	FY12	2.79 16.78
				Correlation ¹	71.22

1: The correlation is calculated from "growth of revenue from FY06 to FY12" and "growth of backlog-to-revenue ratio from FY05 to FY11"

Source: Company, ABCI Securities estimates

Growth of revenue and backlog-to-revenue ratio of the Group, FY05 – FY13E



Source: Company, ABCI Securities estimates

Railway Construction: Delivery Risk Lower

The railway construction is the major source of revenue, which we estimate that it contributes 35.44% of total revenue in FY13.

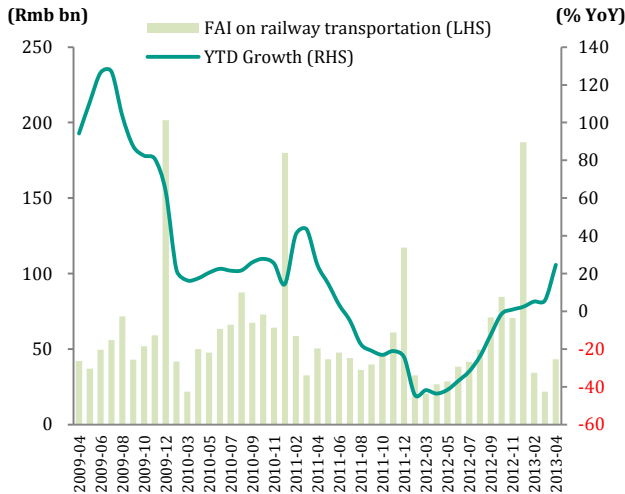
The dissolve of MOR had imposed a negative impact on the recovery of railway infrastructure construction in the 1Q13. However, with China Railway Corporation, a new national railway operator that has taken over the business operations of the MOR, in operation, the pace of railway construction projects is picking up. According to NDRC and China Railway Corporation, the total infrastructure investment on railway is targeted at Rmb520bn in 2013.

The FAI on railway transportation rebounded significantly from 5.8% YoY in 1Q13 to 24.6% YoY in 1-4M13. As one of the largest railway infrastructure contractors with market share expected at 45% in China, the recovery on railway construction will allow the Group to complete projects on schedule, and hence, the project delay risk will be lower this year. After the retreat in segment revenue during FY11 and FY12, we expect the delivery of the Group will rebound in FY13.

However, under the construction schedule and the investment planning for the railway development by China's government, we expect that the revenue of the segment will edge down in FY14 and FY15.

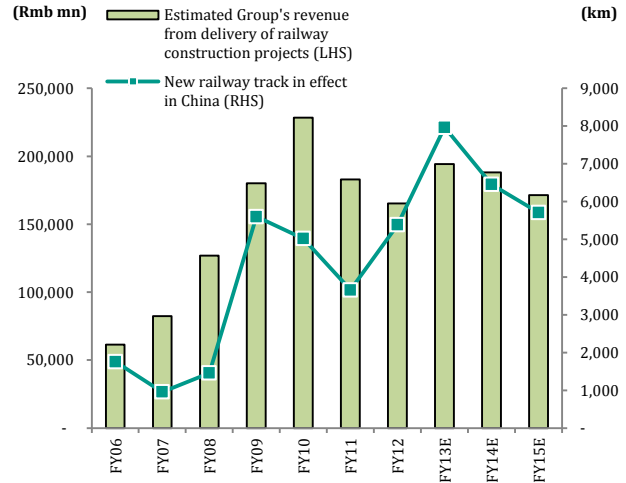


Monthly railway transportation FAI and YTD growth, 4M2009 – 4M2013



Source: NBS

Estimated revenue from railway construction project delivery by the Group vs. new railway track in effect in China, FY06 – FY15E

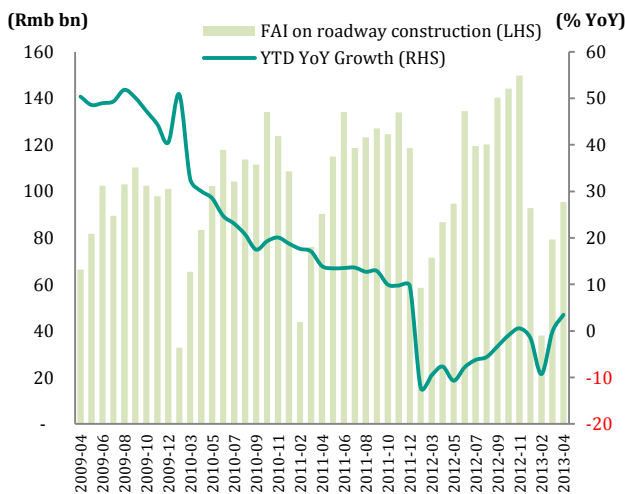


* The revenue from railway construction delivery by the Group from FY06 to FY15 were estimated by ABCI Securities
Source: NBS, ABCI Securities estimates

Roadway Construction: Expected Slowdown

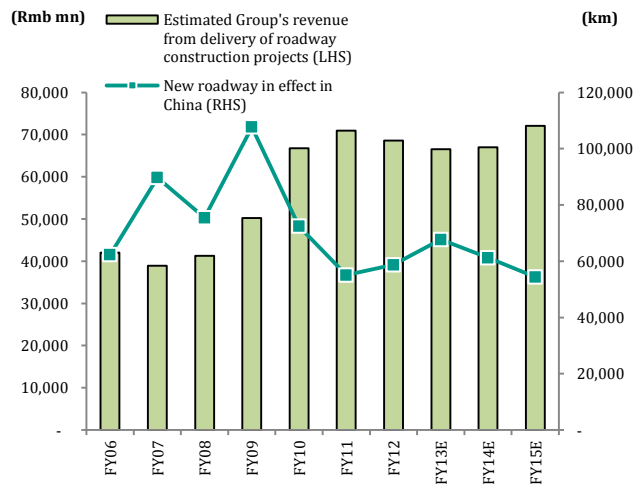
We estimate the roadway construction to contribute 12.15% of total revenue in FY13. The roadway construction segment is expected to stay flat in 2013 to 2014. Following the fast expansion of roadway transportation during the 11th 5-Year Plan (2005-2010), the growth of roadway construction in China is expected to slow down during 12th 5-Year Plan (2011-2015) for digesting the additional capacity. According to Ministry of Transportation (“MOT”) the total roadway construction FAI was up 3.47% YoY in 1-4M2013.

Monthly roadway transportation FAI and YTD growth, 4M2009 – 4M2013



Source: MOT

Estimated revenue from roadway construction project delivery by the Group vs. new roadway in effect in China, FY06 – FY15E



* The revenue from roadway construction delivery by the Group from FY06 to FY15 were estimated by ABCI Securities
Source: NBS, ABCI Securities estimates



Urban Rail Construction: New Growth Driver

The urban rail construction is the new growth driver for the Group. We estimate it to contribute 14.33% of revenue in FY13.

In order to develop the intra-city transportation to relieve the traffic pressure, the investment in urban rail is increasing. NDRC approved 25 new urban rail lines with total amount of investment estimated at Rmb800bn across China during 4Q12. Assuming the average construction period for urban rail to be completed in 5 year, we estimate that the total investment on urban rail is Rmb160bn in 2013.

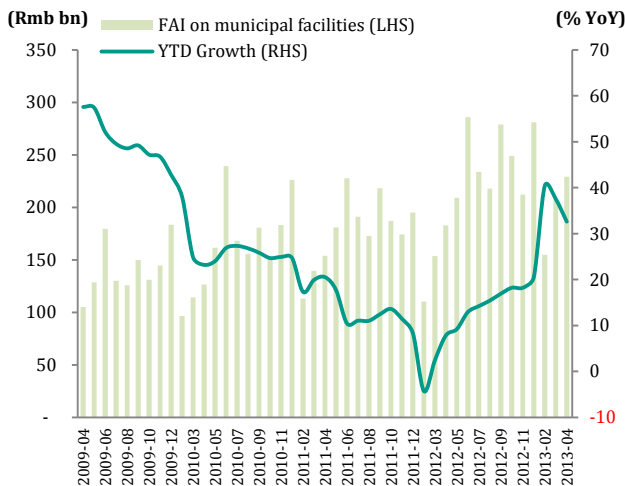
We estimate that the total delivery of the Group in this business segment is Rmb78.5bn in FY13, up 62.3% YoY. Looking forward, as the Group is one of the leading urban rail infrastructure construction main contractors with market share estimated at 50% in 2012, we believe that the urban rail segment will be one of the major growth drivers for the Group in the following few years. The fast growing urban rail industry is expected to offsetting the slowdown of railway and roadway construction.

Municipal Construction: Support by Urbanization

The municipal construction, including ports, docks, airports construction, is expected to contribute 24.94% of revenue in FY13.

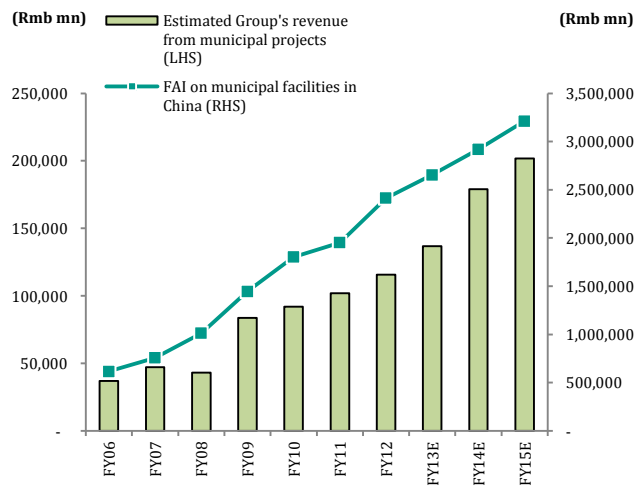
The growth of FAI on municipal facilities stays high at 32.6% YoY in 1-4M13. Under the urbanization, the demand for municipal buildings and facilities support the growth of corresponding construction projects. We expect the growth momentum will carry on for the rest of the years of 12th 5-Year Plan.

Monthly municipal FAI and YTD growth, 4M2009 – 4M2013



Source: NBS

Estimated revenue from municipal construction project delivery by the Group vs. municipal FAI in China, FY06 – FY15E



* The revenue from municipal construction delivery by the Group from FY06 to FY15 were estimated by ABCI Securities
Source: NBS, ABCI Securities estimates

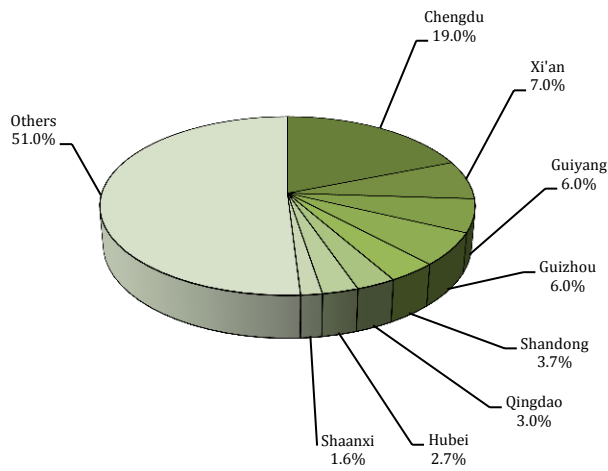


Properties Development: Diversified Source of Income Other than Infrastructure

In order to diversify the source of income, the Group leverages on its construction management capability to develop the residential properties development businesses. We estimate it to contribute 4.23% of revenue in FY13.

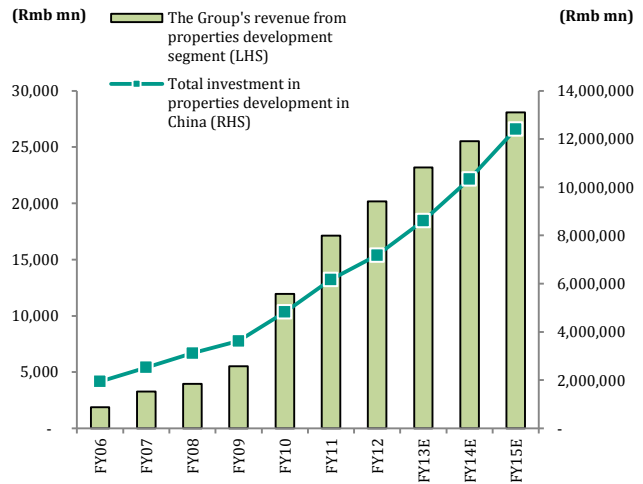
We estimate that, at end-2012, the total sellable GFA and GFA under construction were 12.83mn sqm and 25.77mn sqm, respectively mainly located in 2nd and 3rd tier cities. We estimate the total segment sales to grow at 15% YoY in FY13.

Breakdown of sellable GFA by district at end-2012



Source: ABCI Securities estimates

Revenue from sales of properties vs. China's properties investment, FY06 – FY15E



Source: NBS, Company, ABCI Securities estimates

Expecting GPM to Improve

The GPM increased from 5.95% in FY10 to 7.29% in FY11, and to 7.64% in FY12. The GPM was 8.37% in 1QFY13. The increase in GPM was mainly due to the change of product-mix with increase of BT projects delivery as percentage of total revenue. GPM of BT projects of the Group is relatively higher than the turnkey projects (cash project). Looking forward, we expect that the GPM will stay above 7.5% in FY13 to FY15 with the contribution of urban rail project, most of which are in BT method.

However, the drawback of BT project is the increase in credit risk for the Group, as the Group will finance the project owners for the BT projects. We estimate that the total amount of BT projects as percentage of total backlog was 37.19% as of end-2012, and expect that the portion of BT projects will increase in two folds: 1) the increase in urban rail construction project due to the fast development of intra-city transportation; and 2) the expected change of railway construction contract mode from cash project to BT projects under the huge financial burden of China Railway Corporation.



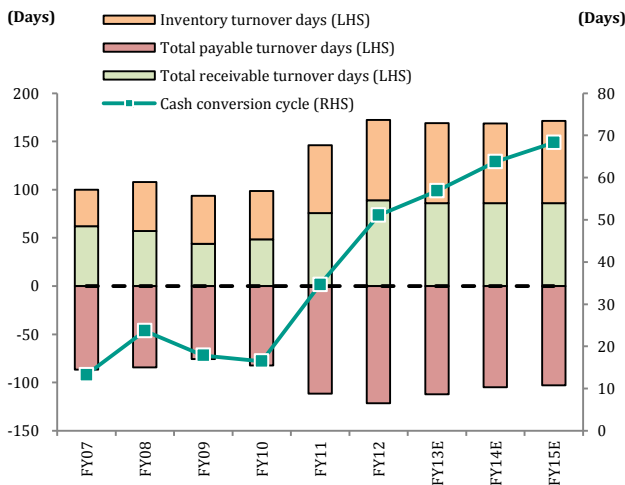
Receivables and Liquidity Risk is Still a Concern

The Group had suffered a net operating cash outflow in FY11 and FY12. The trade and bill receivable turnover days increased from 75.78 days in FY11 to 80.87 days in FY12. The total receivables (trade and bill receivable + net construction contract due from customers – receipts in advance) turnover days increased from 75.85 days in FY11 to 88.97 days in FY12. We believe that the cash flow is still the major concern over the Group (indeed it is the major concern for the entire infrastructure industry), and the risk is the greatest drawback on the valuation for the Group (and so as the industry).

Looking forward, we expect the Group’s receivables turnover days will shorten and operating cash flow will be strengthened in 2013 because of the growing momentum of money supply and paid-in capital.

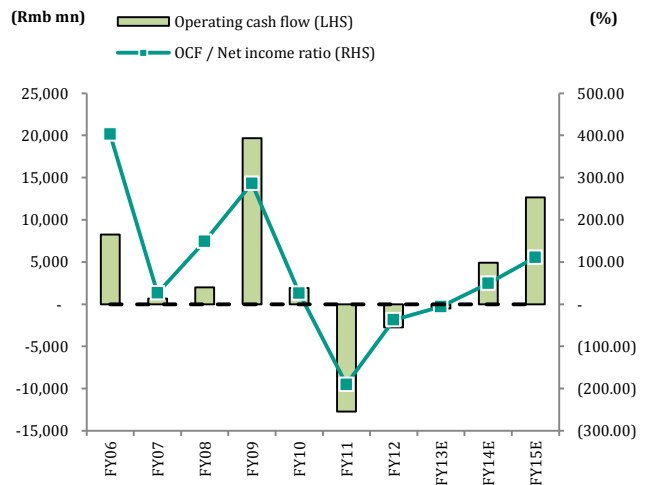
The overall paid-in capital for fixed-assets investment was Rmb12,194bn in 1-4M13 up 20.93% YoY (vs. that at 19.62% YoY for 1Q13 and 16.74% YoY for 1-4M12). The money supply (measured by M2) increased by 16.1% YoY in April 2013, up from 15.2% YoY in March 2013. The increase in money supply and the paid-in capital is expected to mitigate the infrastructure projects liquidity.

Cash conversion cycle and breakdown, FY07 – FY15E



Source: Company, ABCI Securities estimates

Operating cash flow and OCF/Net income ratio, FY06 – FY15E



Source: Company, ABCI Securities estimates

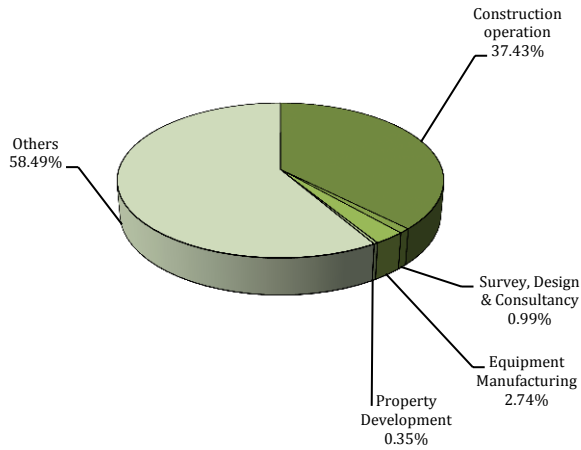
Capex Plan for Expansion

In 2013, we expect the Group to stabilize the investment on capital expenditure and moderately increase the investment in property, mining development and BT investment projects. With the maturity of the business, the capex/revenue ratio was decreasing from 6.94% in FY07 to 2.33% in FY12.

Based on our revenue projection, we expect the capital expenditure on fixed assets and intangible assets to be Rmb12bn, up 10.39% YoY in FY13.

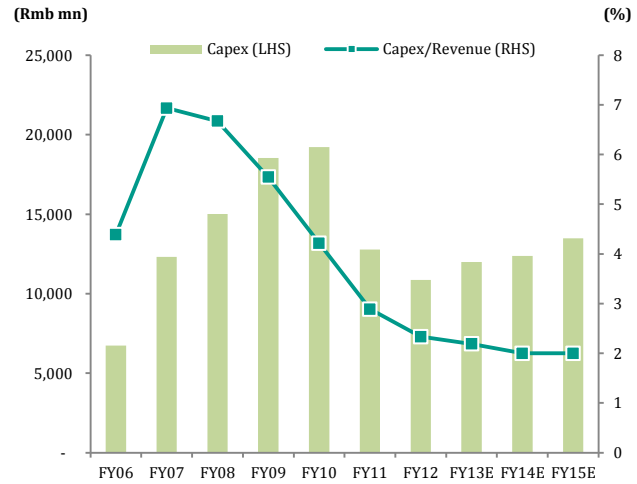


Breakdown of capex by business segment, FY12



Source: Company

Capex of the Group vs. capex/revenue ratio, FY06 – FY15E



Source: Company, ABCI Securities estimates

Financial highlights of the Group

(Rmb mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	1Q13 (%YoY)
Net contract	127,380	111,320	119,000	213,100	103,378	187,032	160,200	280,390	192,800	86.50
Construction operation	88,150	88,920	89,710	145,780	80,378	120,342	114,670	221,310	163,890	103.90
Survey, Design & Consultancy	3,550	2,190	2,490	2,120	2,650	2,760	2,200	3,000	3,220	21.50
Equipment Manufacturing	6,340	3,960	2,690	3,420	2,485	6,955	2,720	4,780	3,610	45.30
Others ¹	29,340	16,250	24,110	61,780	17,866	56,974	40,610	51,300	22,080	23.59
Backlog	981,930	977,992	984,085	1,058,079	1,091,390	1,145,338	1,171,995	1,301,026	1,400,070	28.28
Revenue²	94,216	120,355	109,529	118,116	76,211	114,704	117,606	157,104	94,579	24.10
Construction operation	89,354	103,202	91,979	108,005	54,638	109,597	107,609	125,062	68,513	25.40
Survey, Design & Consultancy	2,520	1,964	2,080	2,362	2,090	2,016	1,905	3,058	2,206	5.54
Equipment Manufacturing	3,680	2,349	3,401	1,717	2,185	2,715	3,631	2,933	2,979	36.37
Others ¹	-1,338	12,840	12,069	6,032	17,299	375	4,461	26,051	20,881	20.71
Gross profit	5,880	7,161	7,169	12,043	5,959	8,144	8,618	12,840	7,918	32.87
GPM (%)	4.62	6.43	6.02	5.65	5.76	4.35	5.38	4.58	4.11	-1.66ppts
Selling and distribution cost	305	489	399	620	317	364	549	801	472	48.90
As percentage of revenue (%)	0.24	0.44	0.34	0.29	0.31	0.19	0.34	0.29	0.24	-0.06ppts
General administrative cost	3,157	3,802	4,397	2,969	3,343	3,845	4,657	3,426	4,226	26.41
As percentage of revenue (%)	2.48	3.42	3.69	1.39	3.23	2.06	2.91	1.22	2.19	-1.04ppts
Net financial cost	418	1,129	894	952	1,000	1,388	1,296	1,135	1,103	10.30
As percentage of revenue (%)	0.33	1.01	0.75	0.45	0.97	0.74	0.81	0.40	0.57	-0.40ppts
Operating profit	2,000	1,741	1,479	7,502	1,299	2,547	2,116	7,478	2,117	62.97
Operating profit margin (%)	1.57	1.56	1.24	3.52	1.26	1.36	1.32	2.67	1.10	-0.16ppts
Pretax profit	2,120	1,438	1,737	4,703	1,313	2,342	2,643	4,787	2,150	63.75
Income tax	412	452	592	1,302	376	739	594	1,343	586	55.85
Net profit	1,708	986	1,145	3,401	937	1,603	2,049	3,444	1,564	66.92
Minority interest	57	193	22	278	22	128	167	362	85	286.36
Net profit to equity owners	1,651	793	1,123	3,123	915	1,475	1,882	3,082	1,479	61.64
Net profit margin (%)	1.30	0.71	0.94	1.47	0.89	0.79	1.17	1.10	0.77	-0.12ppts

1: Others include Properties development, other businesses and intersegment elimination

2: Revenue excluding the surcharges and business tax

Source: Company, ABCI Securities

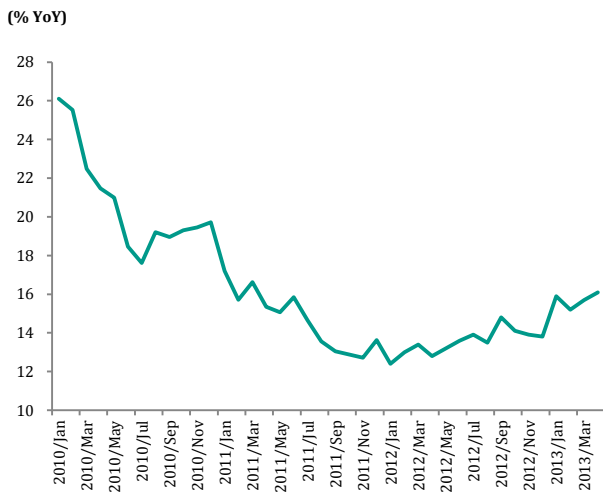


Initiate with “Buy”

Infrastructure construction delivery expected to boost up

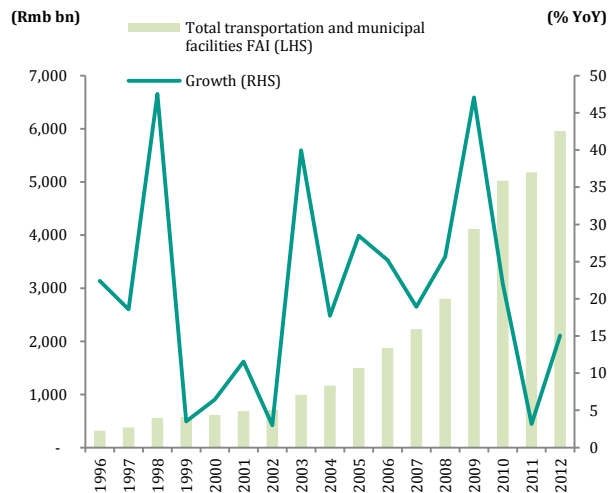
Look back to the past three 5-Year Plan of China (9th, 10th and 11th 5-Year Plan), the growth of capital investment on infrastructure construction (transportation infrastructure and municipal facilities) speeded up during the 3rd and 4th year. 2013 is the 3rd year of the 12th 5-Year Plan, in which we expect China’s government will pace up the investment on fixed asset of infrastructure development in order to meet the targeted construction plan. Therefore we expect that the delivery of the Group, as one of the largest transportation infrastructure construction contractor, will increase in FY13, as well as that in the following years.

M2 growth in China, 1M2010 – 4M2013



Source: Bloomberg

Transportation and municipal FAI, 1996 – 2012



Source: NBS

Urban rail construction, the new growth driver

We estimate that the total amount of delivery for urban rail construction project will be up by 62.25% YoY benefited from the fast development of intra city transportation under urbanization. NDRC approved 25 new urban rail lines with total amount of investment estimated at Rmb800bn across China during 4Q12. It will be the growth driver for the Group, as one of the major urban rail construction contractor with market share estimated at 50%, in mid-run of time.

Initiate “Buy”

With the liquidity problem induced from the expected elongating cash conversion cycle, further debt financing is expected. The financial cost will increase. Therefore we believe the fair valuation for the Group is 1.03x of FY13E BPS, 30% discounted on the weighted average of the peer group.

The counter is trading at 0.84x FY13E PBR, 42.9% discounted to the weighted average of the peer group. Considering with the expected good delivery in FY13 and FY14, and the growth momentum of urban rail in mid-run of time, the current valuation is not demanding, and we initiate “Buy” rating to the Group with target price HK\$5.17.

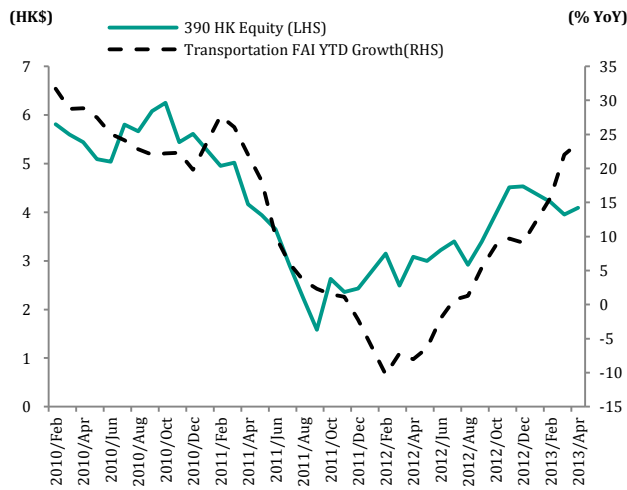


Share price performance vs. transportation FAI

As one the key players of infrastructure construction industry (market share expected at 45% for railway construction and 50% for urban rail construction), the FAI on transportation released regularly on monthly basis by National Bureau of Statistics of China (“NBS”) is considered as an indicator for the delivery of the Group.

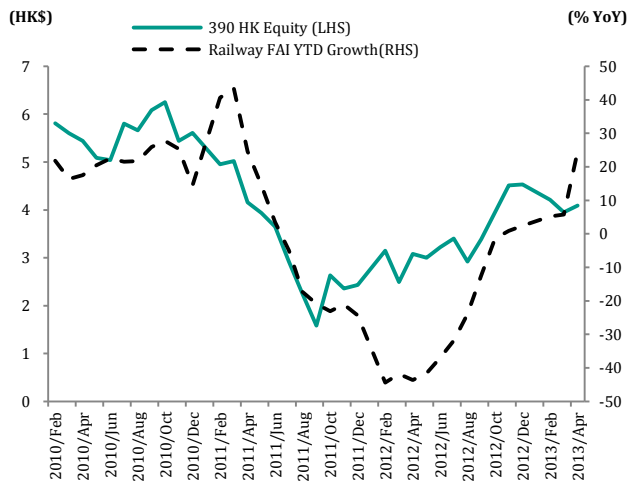
Looking forward, we are positive to the investment of government expenditure, especially for the urban rail construction, therefore we believe the downside risk on the share price is limited.

Share price of the Group vs. growth of transportation FAI



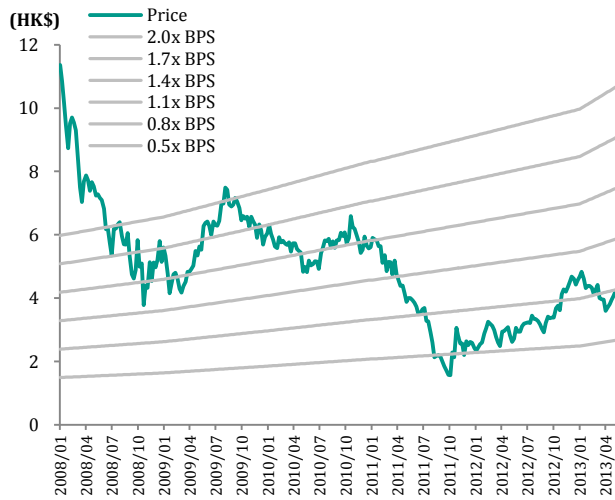
Source: NBS, Bloomberg, ABCI Securities

Share price of the Group vs. growth of railway FAI



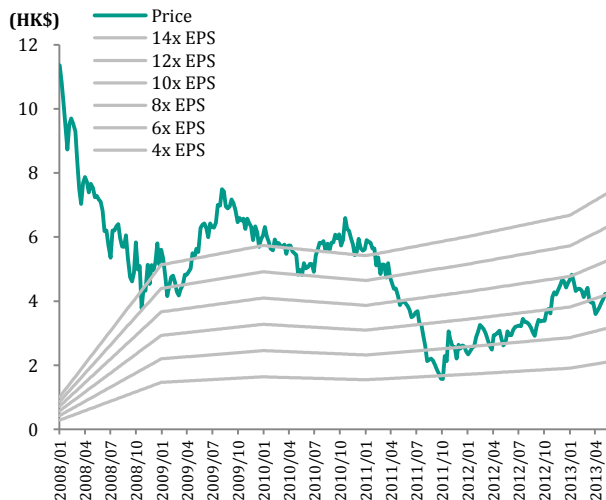
Source: NBS, Bloomberg, ABCI Securities

PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, ABCI Securities estimates



Peer Groups Valuation

Peer group valuation and earnings forecasts summary of construction contractors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Transportation Project Contractor												
VINCI SA	DG FP	221,829	EUR	38.30	10.91	10.51	-1.68	3.82	1.48	1.39	13.97	13.48
CHINA COM CONS-H	1800 HK	34,273	HKD	7.74	7.33	6.58	10.13	11.44	1.05	0.94	14.81	14.56
CHINA COMMUNIC-A	601800 CH	75,189	RMB	5.06	6.11	5.51	7.53	10.87	0.84	0.75	14.68	14.47
CHINA RAIL CN-H	1186 HK	16,733	HKD	8.06	8.51	7.87	10.29	8.15	1.00	0.92	12.35	12.03
CHINA RAILWAY-A	601186 CH	68,020	RMB	5.24	7.09	6.39	7.10	10.96	0.82	0.72	12.38	11.93
CHINA RAIL GR-H²	390 HK	17,669	HKD	4.20	8.25	7.32	18.45	12.73	0.84	0.76	10.62	10.90
CHINA RAILWAY-A ²	601390 CH	62,489	RMB	2.89	7.07	6.27	18.45	12.73	0.72	0.65	10.62	10.90
BOUYGUES SA	EN FP	65,754	EUR	20.62	8.57	7.85	19.93	9.23	0.73	0.71	8.97	9.43
SKANSKA AB-B	SKAB SS	58,490	SEK	119.40	14.44	13.32	19.52	8.41	2.43	2.32	17.89	19.01
HOCHTIEF AG	HOT GR	42,975	EUR	55.86	16.33	13.70	59.07	19.21	1.39	1.33	9.34	10.68
OBRASCON HUARTE	OHL SM	28,990	EUR	29.09	9.76	8.54	-70.43	14.29	1.23	1.11	13.59	13.76
STRABAG SE-BR	STR AV	20,035	EUR	17.59	16.69	13.68	81.72	22.01	0.62	0.60	3.72	4.43
FCC	FCC SM	9,616	EUR	7.56	14.54	9.70	-105.85	49.81	0.71	0.64	5.91	6.95
Sector Weighted Average					9.99	9.08	8.65	10.00	1.20	1.12	12.71	12.76
Building Project Contractor												
CHINA STATE -A	601668 CH	146,866	RMB	3.87	6.28	5.44	18.46	15.58	1.00	0.88	17.11	17.69
CHINA STATE CONS	3311 HK	48,135	HKD	12.38	17.56	14.04	22.99	25.11	3.09	2.71	18.74	19.94
LEND LEASE GROUP	LLC AU	44,107	AUD	10.08	10.66	10.09	2.05	5.60	1.48	1.40	14.24	14.70
BAM GROEP	BAMNB NA	9,045	EUR	3.75	10.74	9.76	-144.18	10.03	1.02	0.94	12.98	21.66
FAR EAST GLOBAL	830 HK	6,230	HKD	2.89	48.17	28.90	-188.24	66.67	4.82	4.82	11.74	16.73
YUANDA CHINA HLD	2789 HK	5,091	HKD	0.82	6.59	5.49	42.86	20.00	0.84	0.78	13.80	15.18
Sector Weighted Average					10.28	8.54	6.36	16.77	1.56	1.40	16.58	17.66
Power Project Contractor												
ACS	ACS SM	69,497	EUR	22.11	9.03	8.23	-140.01	9.72	2.16	1.89	27.24	26.14
SHANGHAI ELECT-H	2727 HK	57,707	HKD	2.98	9.57	8.83	18.09	8.40	0.92	0.85	8.93	8.27
JACOBS ENGIN GRP	JEC US	55,835	USD	55.00	16.69	14.74	10.94	13.26	1.72	1.52	10.92	11.13
HYUNDAI ENG&CONS	000720 KS	48,909	KRW	63000	10.39	8.37	94.52	24.15	1.37	1.21	13.91	13.29
SINOHYDRO GROU-A	601669 CH	43,718	RMB	3.60	7.16	6.00	17.94	19.28	0.97	0.85	15.26	16.07
WORLEYPARSONS	WOR AU	35,950	AUD	19.45	14.10	12.88	-4.04	9.50	2.30	2.17	16.78	17.32
DONGFANG ELECT-H	1072 HK	32,749	HKD	13.80	9.33	9.01	8.99	3.54	1.24	1.10	13.58	12.27
CHINA MACHINER-H ²	1829 HK	24,507	HKD	5.94	9.59	6.99	-14.24	37.16	1.69	1.43	19.03	22.17
CHINA CAMC -A	002051 CH	24,270	RMB	30.11	22.17	16.89	22.34	31.30	4.68	3.76	18.84	21.70
ABENGOA	ABG SM	10,150	EUR	1.99	9.19	6.00	-6.09	53.24	0.68	0.60	6.27	6.90
HARBIN ELECTRIC	1133 HK	9,128	HKD	6.63	6.19	6.21	-15.84	-0.35	0.57	0.53	9.16	8.45
Sector Weighted Average					11.32	9.78	-6.14	15.98	1.69	1.49	15.72	15.78
Municipal, Civil and Water Engineering Project Contractor												
FERROVIAL SA	FER SM	97,143	EUR	13.26	32.97	31.12	-58.47	5.97	1.74	1.77	4.61	6.03
SNC-LAVALIN GRP	SNC CN	47,919	CAD	41.87	35.45	24.61	-42.39	44.03	3.03	2.86	8.95	10.28
DAEWOO ENG & CON	047040 KS	22,920	KRW	7910	12.00	8.62	69.87	39.27	0.90	0.83	7.79	10.52
CHINA GEZHOUBA-A	600068 CH	22,411	RMB	5.08	10.37	9.58	9.38	8.16	1.26	1.15	12.95	13.08
IMPREGILO	IPG IM	13,201	EUR	3.22	11.85	12.89	-81.74	-8.09	0.78	0.75	3.48	4.56
Sector Weighted Average					27.34	23.50	-34.28	18.01	1.83	1.79	6.84	8.22
Weighted Average					12.59	11.01	-1.01	13.66	1.47	1.34	13.37	13.76
Median					10.37	8.83	9.38	12.73	1.05	0.94	12.95	13.08

* The data in the table is as at May 21, 2013;

1: The market capital value of the companies are translated into HKD;

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates



Financial Statements Projection

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	442,216	465,625	548,070	619,011	674,137
Construction operation	392,540	396,906	476,064	548,068	603,989
Survey, Design & Consultancy	8,926	9,069	9,128	8,929	8,520
Equipment Manufacturing	11,147	11,464	11,654	11,287	10,280
Property Development	17,135	20,175	23,201	25,521	28,074
Others	42,211	56,432	62,213	62,713	63,213
Inter-segment sales	(29,743)	(28,421)	(34,190)	(37,507)	(39,938)
Cost of sales	(409,963)	(430,064)	(506,037)	(572,308)	(623,020)
Gross profit	32,253	35,561	42,033	46,702	51,117
Selling and distribution cost	(1,813)	(2,031)	(2,466)	(2,786)	(3,034)
General administrative cost	(14,325)	(15,271)	(17,946)	(19,926)	(21,661)
Finance income	755	1,541	1,012	871	861
Finance expenses	(4,148)	(6,360)	(6,460)	(6,705)	(6,975)
Profit from operations	12,722	13,440	16,173	18,156	20,310
Other income (loss)	(2,724)	(2,355)	(2,591)	(2,850)	(3,135)
Pre-tax profit	9,998	11,085	13,582	15,307	17,175
Tax expenses	(2,758)	(3,052)	(3,735)	(4,209)	(4,723)
Net profit	7,240	8,033	9,847	11,097	12,452
Attributable to:					
Minority interests	550	679	1,136	1,278	1,432
Net profit to equity owner	6,690	7,354	8,711	9,820	11,021

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Sales mixed (%)					
Construction operation	88.77	85.24	86.86	88.54	89.59
Survey, Design & Consultancy	2.02	1.95	1.67	1.44	1.26
Equipment Manufacturing	2.52	2.46	2.13	1.82	1.52
Property Development	3.87	4.33	4.23	4.12	4.16
Others	9.55	12.12	11.35	10.13	9.38
Inter-segment sales	-6.73	-6.10	-6.24	-6.06	-5.92
Total	100.00	100.00	100.00	100.00	100.00
Profit & loss ratios (%)					
Gross margin	7.29	7.64	7.67	7.54	7.58
Operating profit margin	2.88	2.89	2.95	2.93	3.01
Pre-tax margin	2.26	2.38	2.48	2.47	2.55
Net profit margin	1.51	1.58	1.59	1.59	1.63
Selling & distribution cost/revenue	0.41	0.44	0.45	0.45	0.45
General administrative cost/revenue	3.24	3.28	3.27	3.22	3.21
Effective tax rate	27.59	27.53	27.50	27.50	27.50
Growth (%)					
Revenue	-3.06	5.29	17.71	12.94	8.91
Gross profit	18.83	10.26	18.20	11.11	9.45
Profit from operations	22.82	5.64	20.33	12.26	11.86
Net profit	-9.57	9.93	18.45	12.73	12.23

Source: Company, ABCI Securities estimates



Consolidated balance sheets forecast

As of Dec 31 (Rmb mm)	FY11A	FY12A	FY13E	FY14E	FY15E
Current assets	360,099	434,855	460,009	509,649	545,301
Cash and equivalent	63,583	72,491	62,475	53,653	61,196
Trade and bill receivables	95,758	100,556	110,652	127,894	131,896
Construction contracts	56,747	78,522	80,644	99,124	96,653
Inventories	89,324	107,193	122,537	136,905	154,276
Other current assets	54,687	76,093	83,702	92,073	101,280
Non-current assets	108,461	115,701	123,752	131,332	138,921
Property, plant and equipment	37,668	41,513	44,949	48,550	52,667
Intangible assets	42,756	42,108	42,418	42,428	42,438
Long term investments	15,834	16,156	17,772	19,549	21,504
Long term receivables	3,336	6,678	7,348	8,494	8,759
Other non-current assets	8,867	9,246	11,265	12,311	13,554
Total assets	468,560	550,556	583,761	640,981	684,223
Current liabilities	305,572	366,119	388,611	433,829	463,594
Trade and bill payables	158,458	179,608	193,785	206,612	229,264
Receipts in advance	35,282	49,685	40,409	61,346	49,471
Short term borrowings	56,490	73,762	80,568	88,054	96,290
Other current liabilities	55,342	63,064	73,849	77,816	88,570
Non-current liabilities	81,809	96,044	98,189	100,591	103,304
Long term payables	632	450	486	518	574
Long term borrowings	73,606	87,899	90,245	92,825	95,663
Other non-current liabilities	7,571	7,695	7,459	7,249	7,066
Total liabilities	387,381	462,163	486,800	534,420	566,897
Minority interests	9,330	10,199	11,165	12,251	13,468
Shareholders' equities	71,849	78,194	85,797	94,310	103,858

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Balance sheet ratios					
Current ratio (x)	1.18	1.19	1.18	1.17	1.18
Quick ratio (x)	0.89	0.89	0.87	0.86	0.84
Cash ratio (x)	0.21	0.20	0.16	0.12	0.13
Total receivable turnover days	75.85	88.97	86.00	86.00	86.00
Trade and bill receivable turnover days	75.78	80.87	75.00	75.00	75.00
Total payable turnover days	111.43	121.29	112.00	105.00	103.00
Trade and bill payable turnover days	131.69	143.92	135.00	128.00	128.00
Inventory turnover days	70.23	83.39	82.85	82.73	85.30
Total debt / equity ratio (%)	160.26	182.89	176.16	169.74	163.61
Net debt / equity ratio (%)	81.93	100.88	111.73	119.39	111.45
Returns (%)					
ROAA	1.56	1.44	1.54	1.60	1.66
ROAE	9.64	9.80	10.62	10.90	11.12
Payout ratio	15.28	15.07	15.00	15.00	15.00
Per share data (Rmb)					
EPS	0.314	0.345	0.409	0.461	0.517
BVPS	3.373	3.671	4.028	4.428	4.876
DPS	0.048	0.052	0.061	0.069	0.078

Source: Company, ABCI Securities estimates

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ABCI SECURITIES COMPANY LIMITED

China Railway Group Limited**Consolidated cash flow statements forecast**

FY ended Dec 31 (Rmb mn)	FY11A	FY12E	FY13E	FY14E	FY15E
Profit before tax	9,998	11,085	13,582	15,307	17,175
Change in depreciation and amortization	6,220	6,063	7,254	7,769	8,357
Change in working capital	(30,314)	(20,939)	(23,936)	(20,486)	(14,882)
Income tax paid	(2,712)	(3,705)	(3,858)	(4,344)	(4,872)
Interest received	764	1,444	1,012	871	861
Others	3,325	3,308	5,448	5,834	6,113
CF Operating	(12,719)	(2,744)	(498)	4,950	12,753
Increase in PP&E	(10,877)	(10,288)	(11,000)	(11,680)	(12,783)
Increase in intangible assets	(10,637)	(494)	(1,000)	(700)	(700)
Other	9,040	(2,636)	-	-	-
CF Investing	(12,474)	(13,418)	(12,000)	(12,380)	(13,483)
Capital injection	195	610	-	-	-
Net debt financing	44,961	31,565	9,152	10,067	11,073
Dividend payout	(1,407)	(1,253)	(1,278)	(1,498)	(1,688)
Interest paid	(5,799)	(9,686)	(9,939)	(10,316)	(10,730)
Others	(7,350)	2,437	4,547	356	9,618
CF Financing	30,600	23,673	2,481	(1,392)	8,273
Net change in cash	5,407	7,511	(10,016)	(8,822)	7,543
Cash at the beginning	57,218	63,583	72,491	62,475	53,653
Adjustment (Time deposit & FX effect)	958	1,397	-	-	-
Cash at the end	63,583	72,491	62,475	53,653	61,196

1: The operating cash flow includes interest received

2: The investing cash flow excludes interest paid and received

3: The financing cash flow includes interest paid

Source: Company, ABCI Securities estimates



Appendix I – Company Background

China Railway Group Limited (“CRG”) is one of the largest integrated construction contractors in the PRC with estimated market share of railway construction at 45% and urban rail construction at 50% in 2012. The Group was ranked at 39 in Top 225 International Contractors list by Engineering News-Record (ENR).

The Top 225 International Contractors

Ranking 2012	Ranking 2011	Firm	Ticker
1	1	HOCHTIEF AG, Germany	HOT GR
2	12	Grupo ACS, Spain	ACS SM
3	2	VINCI, France	DG FP
4	8	STRABAG SE, Austria	STR AV
5	3	Bechtel, U.S.A.	Privately Held
10	11	CCCC, China	1800 HK
24	26	China National Machinery Industry Corp, China ¹	Privately Held
30	29	CRCC, China	1186 HK
39	33	CRG, China	390 HK

1: China National Machinery Industry Corp. is the parent company of CMEC (1829 HK) Source: ENR.com

The Group offers a full range of construction-related services, including infrastructure construction, survey, design and consulting services and engineering equipment and component manufacturing, which enables it to provide integrated one-stop solutions to its customers and compete effectively in large-scale and complex projects.

The Group has enjoyed a leading market position in the railway construction industry in the PRC since the 1950s. It also holds leading positions in the design and construction of bridges, tunnels and railways, and the research, development and manufacturing of turnouts and bridge steel structures in the PRC. Its products and services in these businesses have attained advanced international standards. In addition, it is leveraging on the established platform in the infrastructure construction industry to expand into other industries such as property development and mining.

Summary on business segments and the major services and products

Business Segment	Contribution on revenue in 2012	Key Services and Products
Construction operation	85.24	Construction of railways, highways, bridges, tunnels, metropolitan railways (including subways and light railways), buildings, irrigation works, hydroelectricity projects, ports, docks, airports and other municipal works
Survey, Design & Consultancy	1.95	Survey, design, consulting, research and development, feasibility study and compliance certification services with respect to infrastructure construction projects
Equipment Manufacturing	2.46	Design, research and development, manufacture and sale of turnouts and other railway-related equipment and materials, steel structures and engineering machinery
Property Development	4.33	Development, sale and management of residential and commercial properties
Others	12.12	Railway and road investment and operation projects, mining, raw material trading and other ancillary businesses

** The intersegment sales in 2012 was -6.10% as the reported revenue
Source: Company*



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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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