

China Railway (390.HK)

Benefit from re-acceleration of urban rail building!

Bloomberg | Reuters | POEMS
390.HK | 390.HK | 390.HK
Industry: Infrastructure

Phillip Securities Research Pte Ltd

4 December 2012

3Q12 Result Review

Rating: Accumulate | CP: HKD4.48 | TP: HKD5.2

Company Profile

CREG is one of global leading transportation infrastructure group, ranking 95th in world top 500, whose main business profile includes infrastructure, design consultation, manufacturing of equipment and parts as well as real estate. In 2011 CREG accounted for 50.6%, 53.4% and 12.6% in railway, urban rail expressway markets.


Summary

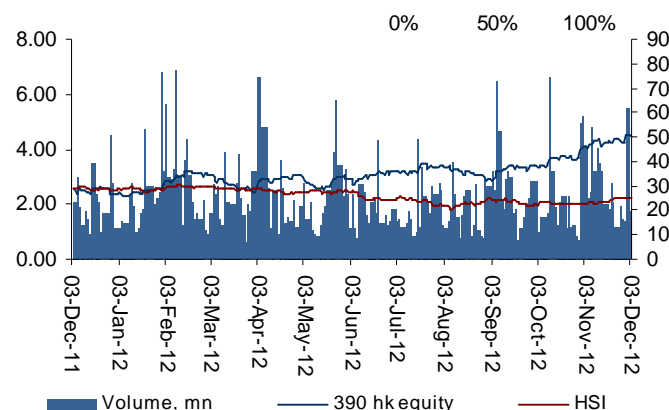
The Company is one of the leaders of China transportation infrastructure group. The approval of railway as well as urban rail projects by the government has its positive influence on the domestic capital construction sector and the Company performance is undergoing recovery. For the first nine months of 2012, the Company realized operating income of RMB319.6 billion, which decreased by 4.8% year-on-year, slightly better than the YOY 11% decline of H1. It realized RMB4.27 billion net profits attributable to the listed company, up by 17.8% YOY, much better than the YOY 2.2% decline of H1, and EPS was RMB0.20. Even after deducting profit and loss impact of non-recurring items, the Company profits still increased by about 8% YOY, better than its peers.

For the first three quarters, the Company gross margin rose by 0.8 percentage from the 6.7% of the same period of last year to 7.5%, and Q3 gross margin basically leveled off with Q2 considering the single quarter performance of Q3. Future gross margin is expected to stay stable with recovery of the Company railway orders. Meanwhile, as the Ministry of Railway started to speed up payment of arrears after September, the Company financial status somewhat improved, and amount receivable slightly declined by 2.7% to RMB93.77 billion from the beginning of the year. net outflows of operating activities drastically declined by 49% to RMB12.47 billion year-on-year.

For the first three quarters, the Company secured new orders of RMB450.6 billion, up by 26% YOY, taking a quarter-by-quarter rise trend. Non transport orders including municipal and housing sprang up, while traditional railway and highway orders dropped substantially. As of the end of Q3, the Company uncompleted orders had reached RMB1.17 trillion, 2.54 times of the same period of 2011, so ample orders suffice to support development of the Company in next two years.

China Railway

Rating	2.00	Accumulate
- Previous Rating	NA	Not Rated
Target Price (HKD)	5.2	
- Previous Target Price (HKD)	NA	
Closing Price (HKD)	4.48	
Expected Capital Gains (%)	16.1%	
Expected Dividend Yield (%)	1.9%	
Expected Total Return (%)	18.0%	
Raw Beta (Past 2yrs weekly data)	1.97	
Market Cap. (HKD bn)	79,518	
Enterprise Value (HKD mn)	185,690	
52 week range (HKD)	2.27 - 4.55	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (RMB mn)	456,162	442,216	463,618	500,823
Net Profit, adj. (RMB mn)	7,398	6,690	7,993	9,885
EPS, adj. (RMB)	0.35	0.31	0.38	0.46
P/E (X),adj.	10.5	11.6	9.6	7.8
BVPS (RMB)	3.14	3.37	3.81	4.47
P/B (X)	1.2	1.1	0.9	0.8
DPS (RMB)	0.06	0.05	0.05	0.07
Div. Yield (%)	1.5%	1.3%	1.4%	1.9%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

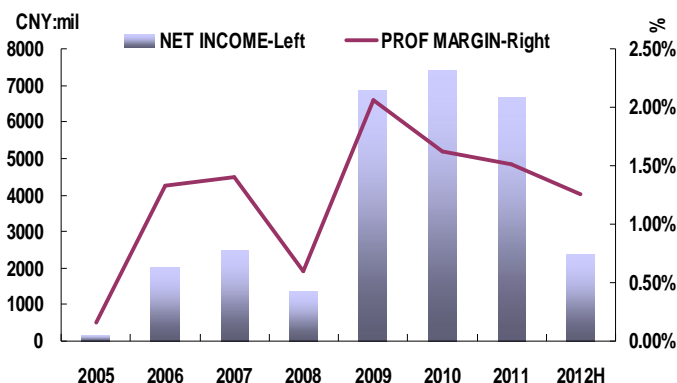
PE

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Counter-cyclical fluctuation is one of the features for urban rail and railway capital construction, and slack economy makes construction of such infrastructure construction more urgent, policies having been released in a concentrated fashion recently. With urbanization development as well as government further move to overhaul traffic jam and environmental pollution, we keep relatively optimistic about future development of the urban rail market. Against the background, tendering of a number of projects is expected to restart, which will drive growth of the Company new orders.

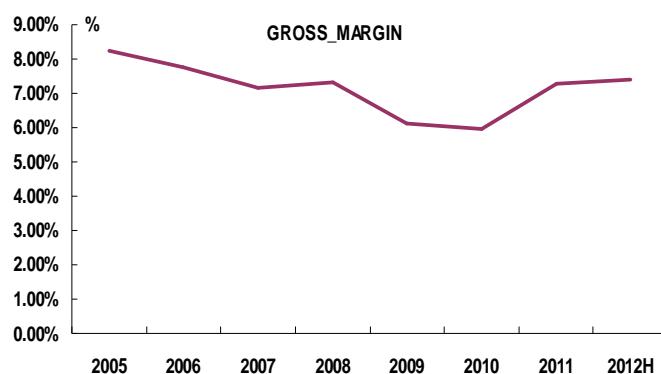
For valuation, we predict the diluted EPS of Company for 2012-2013 will reach RMB0.375 and RMB0.464, equivalent to HK\$0.47 and HK\$0.58. Comprehensively considering the Company advantageous position in the industry as well as promotion space of urban rail and housing business for the Company profitability, we grant 12-month target price of HK\$5.2, equivalent to an expected 9-time PE for the end of 2013, hence accumulate rating.

Fig 1. CREG's net income and profit margin



Source: Company reports, Phillip Securities

Fig 2. Gross Margin



Source: Company reports, Phillip Securities

Fig 3. Peer Comparison

USD

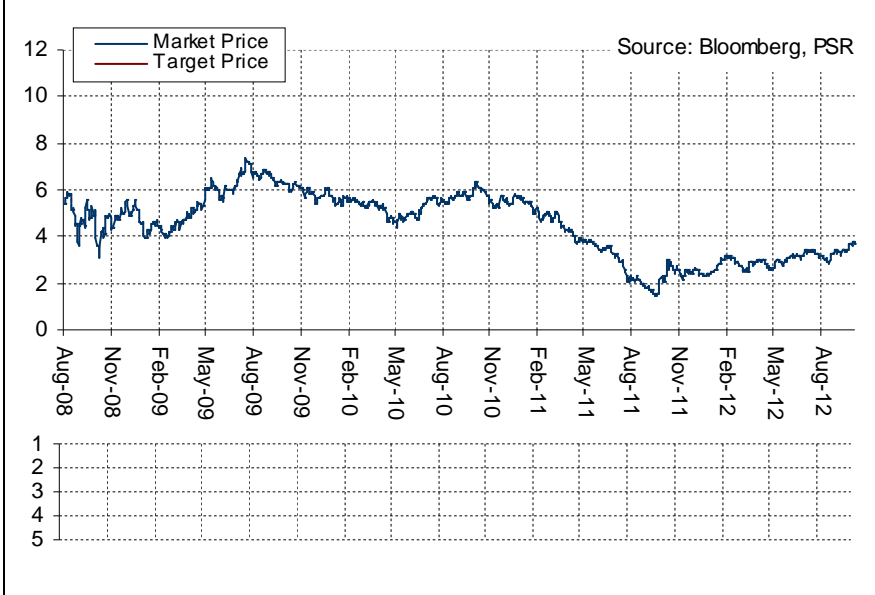
Ticker	Name	Mark Cap (USD)	Best P/E	Best P/E (y+1)	BEst EV/BEst	ROA P/B	ROE LF(%) (%)	
CNY (7 securities)								
601299	CH Equity CHINA CNR CORP LTD-A	7059	14.1	12.0	10.0	1.3	2.8 12.3	
601989	CH Equity CHINA SHIPBUILDING INDUSTR	9488	11.9	11.3	11.5	1.4	2.4 12.4	
600170	CH Equity SHANGHAI CONSTRUCTION CC	2593				1.4	2.3 13.8	
600150	CH Equity CHINA CSSC HOLDINGS LTD-A	4311	18.1	20.7	12.5	1.5	2.0 13.3	
601766	CH Equity CSR CORP LTD -A	10777	16.0	13.6	11.9	2.1	3.8 18.5	
600031	CH Equity SANY HEAVY INDUSTRY CO LTI	10020	8.0	6.9	7.3	2.7	11.3 55.8	
601669	CH Equity SINOHYDRO GROUP LTD-A	4909	6.7	5.3		1.1	2.5 19.0	
		7022	12	12	11	2	4 21	
HKD (12 securities)								
390	HK Equity CHINA RAILWAY GROUP LTD-H	10076	11.1	9.7	9.2	1.0	1.4 9.6	
3311	HK Equity CHINA STATE CONSTRUCTION	4911	17.1	13.8	17.3	3.5	6.4 21.4	
1157	HK Equity ZOOMLION HEAVY INDUSTRY - I	9935	6.8	6.4	5.4	1.5	11.1 25.7	
3898	HK Equity ZHUZHOU CSR TIMES ELECTRI	3302	19.7	14.7	14.4	3.9	15.1 24.4	
871	HK Equity XIANGYU DREDGING HOLDING	230	4.8	3.9	2.7	1.2		36.4
1766	HK Equity CSR CORP LTD - H	10777	17.2	14.8		2.1	3.8 18.5	
2727	HK Equity SHANGHAI ELECTRIC GRP COI	6982	9.0	8.6	7.4	1.0	3.3 11.6	
2338	HK Equity WEICHAI POWER CO LTD-H	7229	12.6	10.2	7.7	1.8	6.7 27.0	
3339	HK Equity LONKING HOLDINGS LTD	989	9.5	7.1	6.4	1.0	5.4 29.7	
1186	HK Equity CHINA RAILWAY CONSTRUCTIC	10847	10.5	9.3	3.4	1.2	1.8 12.9	
1072	HK Equity DONGFANG ELECTRIC CORP L	3647	7.9	8.1	5.4	1.4	3.3 24.6	
1800	HK Equity CCCC	12140	7.9	7.1	6.0	1.1	2.9 17.6	
		6755	11	9	8	2	6 22	
Average		6862	12	10	9	2	5 21	

Source: Bloomberg, Phillip Securities

FYE DEC	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	11.3	10.5	11.6	9.6	7.8
P/B (X)	1.3	1.2	1.1	0.9	0.8
Dividend Yield (%)	1.7%	1.5%	1.3%	1.4%	1.9%
Per share data (RMB)					
EPS, reported	0.323	0.347	0.314	0.375	0.464
EPS, adj.	0.323	0.347	0.314	0.375	0.464
DPS	0.063	0.055	0.048	0.05	0.07
BVPS	2.87	3.14	3.37	3.81	4.47
Growth & Margins (%)					
Growth					
Revenue	48.40%	36.56%	-3.06%	4.84%	8.02%
EBIT	221.90%	18.32%	18.18%	-0.88%	23.41%
Net Income, adj.	409.30%	7.61%	-9.57%	19.48%	23.67%
Margins					
Gross margin	6.1%	6.0%	7.3%	7.3%	7.4%
EBIT margin	3.0%	2.6%	2.9%	3.1%	3.5%
Net Profit Margin	2.1%	1.6%	1.5%	1.7%	2.0%
Income Statement (RMB mn)					
Revenue	334045	456162	442216	463618	500823
Gross profit	20442	27143	32253	34030	36911
EBIT	9951	11774	12684	14580	17556
Profit before tax	8682	10548	9998	11826	14756
Tax	1286	2337	2758	3288	4058
Profit for the period	7396	8211	7240	8538	10698
Minority interests	521	813	550	545	813
Total capital share	21300	21300	21300	21300	21300
Net profit	6875	7398	6690	7993	9885

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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