

**China**
**ADD**

Consensus ratings\*: Buy 32 Hold 4 Sell 0

Current price:	Rmb41.92
Target price:	Rmb45.40
Previous target:	Rmb45.40
Up/downside:	8.3%
CGI / Consensus:	-1.8%
Reuters:	600585.SS
Bloomberg:	600585.CH
Market cap:	US\$31,379m
	Rmb222,140m
Average daily turnover:	US\$95.37m
	Rmb673.8m
Current shares o/s:	5,299m
Free float:	55.0%
*Source: Bloomberg	

**Key changes in this note**

- FY19F/20F Revenue increased by 6.4%/9.8%.
- FY19F/20F EPS increased by 3%/4%.
- FY19F/20F ROE increased by 0.6%pt/0.6%pt.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	3.4	18.8
Relative (%)	2.2	1.6	8.1

Major shareholders	% held
Conch Holdings	36.8

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# Conch Cement-A

## Strong volume growth offset mild weakness in gross profit per tonne

- 3Q2019 recurring net profit grew 8% yoy, slightly better than expectations.
- Sales volume (ex-trading) rose about 10% yoy in 3Q, offsetting a moderate yoy decline in gross profit per tonne.
- We raise our FY19F/20F EPS by 3%/4% to reflect the stronger volume growth.
- We maintain our ADD rating and target price of Rmb45.40 (1.76x 2019F P/Bv).
- A cement price hike during the peak season in 4Q should be a major catalyst in the near term.

### 3Q2019 results slightly exceeded market expectations

3Q2019 recurring net profit was Rmb8,349m, up 8% yoy. Reported net profit for 9M2019 was Rmb23.8bn (up 15% yoy), equivalent to 76% of the full-year market consensus forecast. As 4Q is usually the peak season of the year, the Street may revise up its projections moderately after the results announcement.

### Overall performance remained solid

Revenue grew 22.3% yoy in 3Q2019 to Rmb38.8bn, while gross profit rose 6.1% yoy to Rmb12.3bn. Revenue growth was much faster than gross profit growth because of the rapid growth in the trading business, which had an insignificant profit contribution. Gross profit per tonne for cement and clinker was about Rmb148 in 3Q2019, down Rmb7 yoy. The mild weakness was largely offset by sales volume growth of about 10% yoy for cement and clinker. This suggests the Company gained market share, as growth in the whole country was in the mid to high single digits.

### Cement price hike in 4Q expected to support share price

Figures 2 and 3 show that cement prices in east China and south central China have picked up recently thanks to more construction activity during the peak season in 4Q. We are likely to see another round of price hikes in the next few weeks. The low cement inventory level (Figure 4 and 5) should also offer support to cement prices in east China and south central China.

### Reiterate ADD

We lift our FY19F/20F EPS by 3%/4% after making a minor upward adjustment in our sales volume projection and a slight increase in the gross profit per tonne forecast (Figure 8). We maintain our ADD rating, and our target price is unchanged at Rmb45.40 (1.76x 2019F P/Bv). We set the target price based on a 6% discount to our H-share target price (the average discount in the past few years).

**Financial Summary**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	75,311	128,403	162,657	165,191	163,416
Operating EBITDA (Rmbm)	23,312	42,942	44,918	43,343	41,437
Net Profit (Rmbm)	15,899	29,858	32,846	30,797	29,553
Core EPS (Rmb)	2.76	5.68	6.21	5.86	5.62
Core EPS Growth	70%	106%	9%	(6%)	(4%)
FD Core P/E (x)	15.20	7.38	6.75	7.16	7.46
DPS (Rmb)	1.20	1.69	2.17	2.03	1.95
Dividend Yield	2.86%	4.03%	5.18%	4.85%	4.66%
EV/EBITDA (x)	9.12	4.59	4.15	4.03	3.78
P/FCFE (x)	23.47	33.44	12.09	10.58	7.88
Net Gearing	(11.4%)	(23.3%)	(27.2%)	(31.5%)	(38.5%)
P/BV (x)	2.49	1.98	1.63	1.43	1.27
ROE	17.7%	29.9%	26.4%	21.2%	18.0%
% Change In Core EPS Estimates					
CGI/consensus EPS (x)			1.03	0.98	0.94

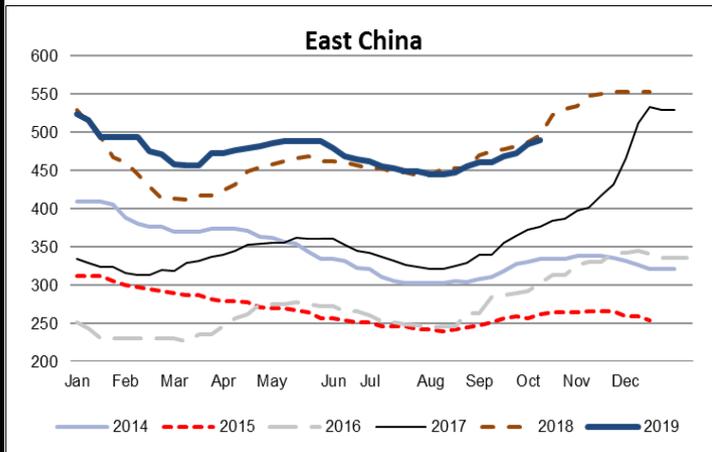
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 1: Quarterly results highlights**

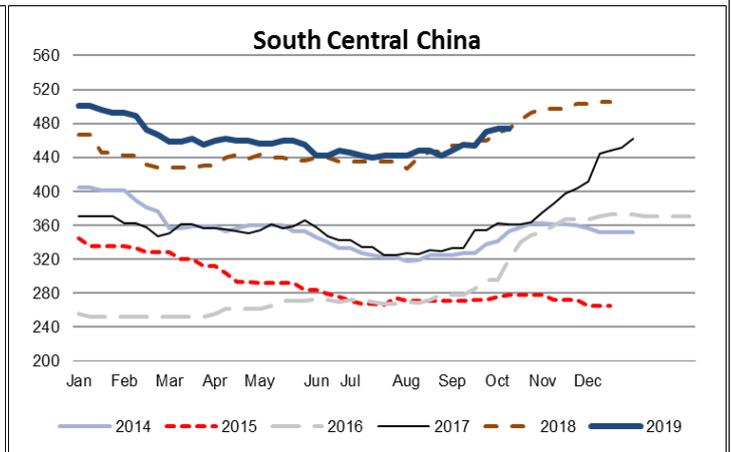
(RMB'000)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Turnover	13,402,628	18,505,288	17,927,022	25,475,882	18,455,318	27,286,929	31,712,589	50,947,789	30,185,861	41,457,965	38,788,152
Gross Profit	3,724,132	6,165,853	5,699,451	9,932,789	7,430,427	12,134,563	11,628,239	14,567,821	9,089,221	13,509,605	12,336,895
Margin	27.8%	33.3%	31.8%	39.0%	40.3%	44.5%	36.7%	28.6%	30.1%	32.6%	31.8%
Operating profit	2,252,545	4,679,381	3,942,938	7,605,080	5,938,363	10,335,631	9,517,026	12,199,073	7,186,572	11,230,938	9,991,231
Net Profit	2,153,218	4,562,698	3,091,930	6,251,912	4,778,070	8,327,165	7,774,037	9,120,167	6,081,260	9,340,537	8,555,945
Adjusted net profit	1,643,014	3,694,272	3,110,643	6,198,352	4,761,067	8,224,253	7,737,335	9,159,926	5,977,958	9,278,615	8,348,536
YoY Change	48%	71%	33%	121%	190%	123%	149%	48%	26%	13%	8%
Sales volume ('000 tonne)	59,260	74,336	76,620	84,721	57,170	79,830	76,900	81,400	62,000	83,600	84,590
YoY Change	2.8%	6.1%	6.9%	9.0%	-3.5%	7.4%	0.4%	-3.9%	8.4%	4.7%	10.0%
Gross profit per ton	69	81	73	123	129	154	155	176	149	168	148

SOURCES: CGIS RESEARCH, COMPANY DATA

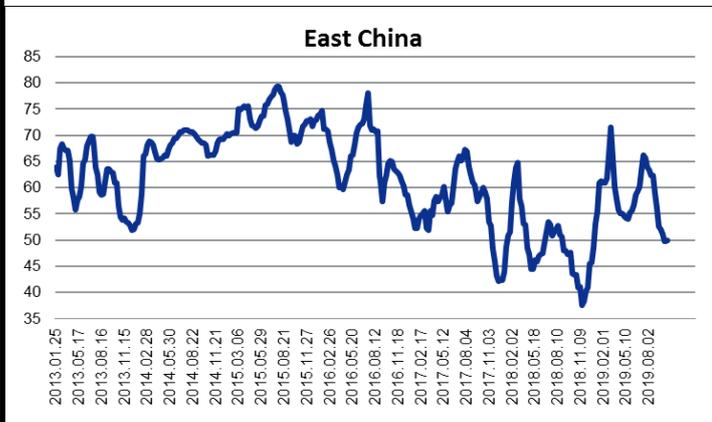
Note: For 2018 and 2019 sales volume and gross profit per tonne, the figures do not include the trading business.

**Figure 2: Cement prices in east China (RMB/tonne)**


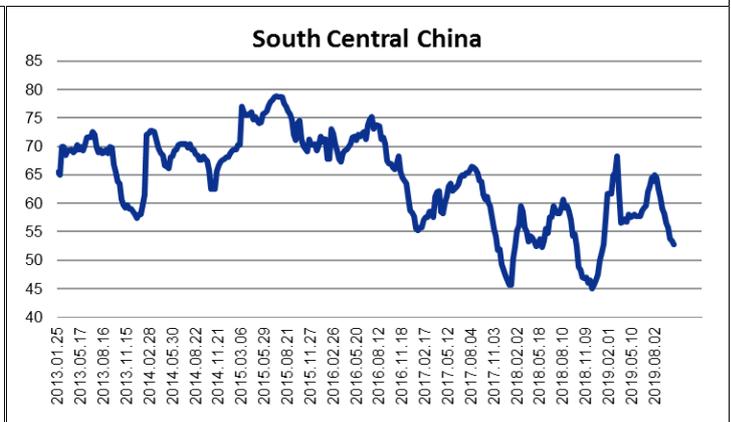
SOURCES: CGIS RESEARCH, DIGITAL CEMENT

**Figure 3: Cement prices in south central China (RMB/tonne)**


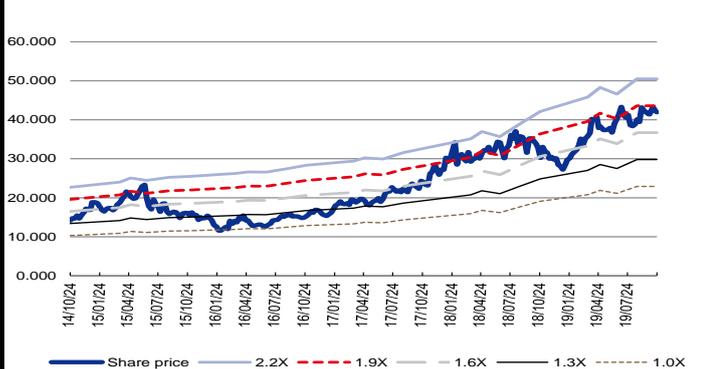
SOURCES: CGIS RESEARCH, DIGITAL CEMENT

**Figure 4: Cement inventory level in east China (%)**


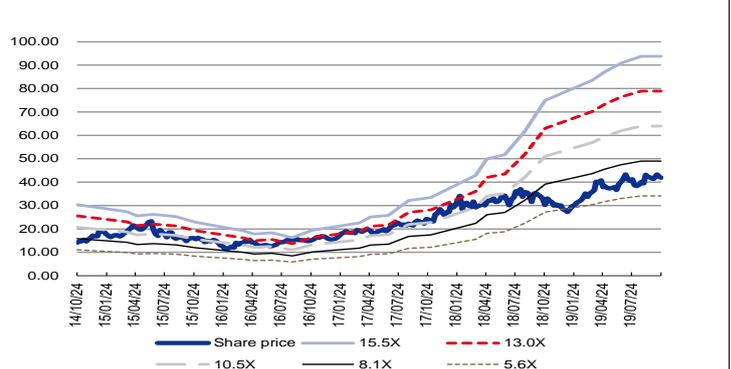
SOURCES: CGIS RESEARCH, DIGITAL CEMENT

**Figure 5: Cement inventory level in south central China (%)**


SOURCES: CGIS RESEARCH, DIGITAL CEMENT

**Figure 6: P/Bv band**


SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

**Figure 7: P/E band**


SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

**Figure 8: Earnings revision**

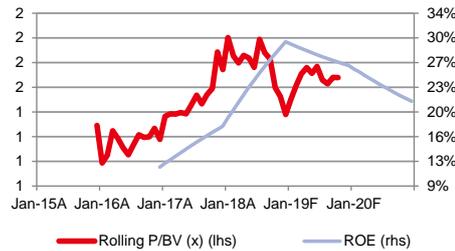
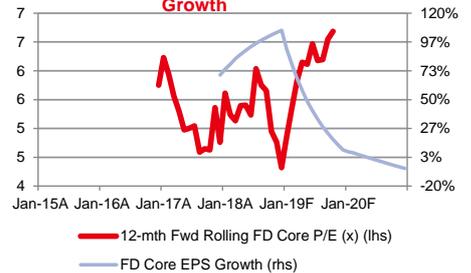
Rmb m	FY19F old	FY19F new	Change	FY20F old	FY20F new	Change
Revenue	152,879	162,657	6.4%	150,486	165,191	9.8%
Gross profit	48,007	49,139	2.4%	45,882	48,059	4.7%
Operating profit	38,815	39,705	2.3%	36,131	37,718	4.4%
Net profit	31,692	32,846	3.6%	29,590	30,797	4.1%
EPS (Rmb)	6.02	6.21	3.2%	5.63	5.86	4.1%
Cement and clinker sales volume (ex-trading) (m tonnes)	309	315	1.8%	313	324	3.8%
Gross profit per tonne (Rmb)	157	159	1.0%	149	151	1.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 9: Key parameters**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Cement and clinker ASP (Rmb/tonne)	247	328	336	331	328
Cement and clinker vol. ('000 tonnes)	294,937	298,000	314,981	324,430	321,186
Gross profit per tonne (Rmb)	87.3	155.1	158.8	150.9	145.9
<b>Margins and Ratios:</b>					
Gross margin	34%	36%	30%	29%	28%
Net margin	20%	24%	21%	19%	19%
EBIT margin	26%	30%	26%	24%	23%
EBITDA margin	32%	34%	29%	28%	27%
Effective tax rate	25%	23%	23%	23%	23%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>75,311</b>	<b>128,403</b>	<b>162,657</b>	<b>165,191</b>	<b>163,416</b>
<b>Gross Profit</b>	<b>25,522</b>	<b>45,761</b>	<b>49,139</b>	<b>48,059</b>	<b>46,225</b>
<b>Operating EBITDA</b>	<b>23,312</b>	<b>42,942</b>	<b>44,918</b>	<b>43,343</b>	<b>41,437</b>
Depreciation And Amortisation	(4,832)	(4,952)	(5,213)	(5,625)	(5,877)
<b>Operating EBIT</b>	<b>18,480</b>	<b>37,990</b>	<b>39,705</b>	<b>37,718</b>	<b>35,560</b>
Financial Income/(Expense)	(40)	593	1,069	1,346	1,844
Pretax Income/(Loss) from Assoc.	120	460	804	610	530
Non-Operating Income/(Expense)	812	663	1,832	1,560	1,634
<b>Profit Before Tax (pre-EI)</b>	<b>19,614</b>	<b>40,013</b>	<b>43,711</b>	<b>41,533</b>	<b>39,868</b>
Exceptional Items	1,903	(31)	241	0	0
<b>Pre-tax Profit</b>	<b>21,275</b>	<b>39,675</b>	<b>43,652</b>	<b>41,233</b>	<b>39,568</b>
Taxation	(4,800)	(8,993)	(9,958)	(9,484)	(9,101)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>16,475</b>	<b>30,682</b>	<b>33,693</b>	<b>31,750</b>	<b>30,468</b>
Minority Interests	(576)	(824)	(847)	(952)	(914)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>15,899</b>	<b>29,858</b>	<b>32,846</b>	<b>30,797</b>	<b>29,553</b>
Recurring Net Profit	14,613	30,119	32,892	31,028	29,784
<b>Fully Diluted Recurring Net Profit</b>	<b>14,613</b>	<b>30,119</b>	<b>32,892</b>	<b>31,028</b>	<b>29,784</b>

**Cash Flow**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>23,312</b>	<b>42,942</b>	<b>44,918</b>	<b>43,343</b>	<b>41,437</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(5,663)	(12,275)	(5,420)	(5,400)	1,150
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3,860	13,792	(507)	1,191	853
Net Interest (Paid)/Received	(40)	593	1,069	1,346	1,844
Tax Paid	(4,800)	(8,993)	(9,958)	(9,484)	(9,101)
<b>Cashflow From Operations</b>	<b>16,668</b>	<b>36,059</b>	<b>30,101</b>	<b>30,997</b>	<b>36,183</b>
Capex	(3,599)	(4,749)	(10,000)	(7,000)	(7,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,604)	(20,921)	0	0	0
<b>Cash Flow From Investing</b>	<b>(5,203)</b>	<b>(25,670)</b>	<b>(10,000)</b>	<b>(7,000)</b>	<b>(7,000)</b>
Debt Raised/(repaid)	(2,002)	(3,746)	(1,734)	(3,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,650)	(6,359)	(8,956)	(11,496)	(10,344)
Preferred Dividends					
Other Financing Cashflow	(2,153)	(875)	0	0	0
<b>Cash Flow From Financing</b>	<b>(6,804)</b>	<b>(10,980)</b>	<b>(10,689)</b>	<b>(14,496)</b>	<b>(11,344)</b>
Total Cash Generated	4,661	(591)	9,412	9,500	17,839
<b>Free Cashflow To Equity</b>	<b>9,463</b>	<b>6,644</b>	<b>18,368</b>	<b>20,997</b>	<b>28,183</b>
<b>Free Cashflow To Firm</b>	<b>12,149</b>	<b>10,873</b>	<b>20,429</b>	<b>24,256</b>	<b>29,368</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**

**Balance Sheet**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	24,429	37,361	46,773	56,274	74,113
Total Debtors	16,510	28,423	33,583	38,183	36,633
Inventories	4,705	6,023	6,500	6,800	6,700
Total Other Current Assets	380	385	385	385	385
<b>Total Current Assets</b>	<b>46,024</b>	<b>72,192</b>	<b>87,242</b>	<b>101,643</b>	<b>117,832</b>
Fixed Assets	63,294	63,647	69,348	70,972	72,346
Total Investments	2,827	3,247	4,051	4,661	5,191
Intangible Assets	3,690	3,965	3,965	3,965	3,965
Total Other Non-Current Assets	6,308	6,237	6,237	6,237	6,237
<b>Total Non-current Assets</b>	<b>76,118</b>	<b>77,096</b>	<b>83,602</b>	<b>85,836</b>	<b>87,740</b>
Short-term Debt	5,620	4,128	2,500	1,500	1,500
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	13,588	14,556	14,773	14,273	13,773
Other Current Liabilities		3,312	3,312	3,312	3,312
<b>Total Current Liabilities</b>	<b>19,208</b>	<b>21,996</b>	<b>20,585</b>	<b>19,085</b>	<b>18,585</b>
Total Long-term Debt	8,359	6,105	6,000	4,000	3,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	614	635	635	635	635
<b>Total Non-current Liabilities</b>	<b>8,973</b>	<b>6,740</b>	<b>6,635</b>	<b>4,635</b>	<b>3,635</b>
Total Provisions	2,273	4,622	2,956	2,837	2,741
<b>Total Liabilities</b>	<b>30,453</b>	<b>33,358</b>	<b>30,176</b>	<b>26,557</b>	<b>24,961</b>
Shareholders' Equity	89,150	112,477	136,367	155,668	174,443
Minority Interests	2,539	3,713	4,560	5,512	6,426
<b>Total Equity</b>	<b>91,689</b>	<b>116,189</b>	<b>140,927</b>	<b>161,180</b>	<b>180,869</b>

**Key Ratios**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	34.6%	70.5%	26.7%	1.6%	(1.1%)
Operating EBITDA Growth	47.0%	84.2%	4.6%	(3.5%)	(4.4%)
Operating EBITDA Margin	31.0%	33.4%	27.6%	26.2%	25.4%
Net Cash Per Share (Rmb)	1.97	5.12	7.22	9.58	13.14
BVPS (Rmb)	16.82	21.22	25.73	29.38	32.92
Gross Interest Cover	27.4	79.2	122.0	146.8	193.8
Effective Tax Rate	22.6%	22.7%	22.8%	23.0%	23.0%
Net Dividend Payout Ratio	44.7%	29.7%	34.9%	34.7%	34.6%
Accounts Receivables Days	46.83	37.72	33.28	34.56	34.90
Inventory Days	33.92	23.69	20.13	20.78	21.02
Accounts Payables Days	34.20	24.97	20.64	19.53	18.69
ROIC (%)	23.7%	47.1%	44.1%	37.3%	32.9%
ROCE (%)	18.9%	32.9%	29.2%	24.6%	21.2%
Return On Average Assets	12.8%	22.4%	20.4%	17.1%	14.7%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from “BUY, SELL, HOLD” to “ADD, REDUCE, HOLD”. Please refer to the definitions below.

**Explanation on Equity Ratings**

**ADD** : The stock’s total return is expected to exceed 10% over the next 12 months.

**REDUCE** : The stock’s total return is expected to fall below 0% or more over the next 12 months.

**HOLD** : The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.

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