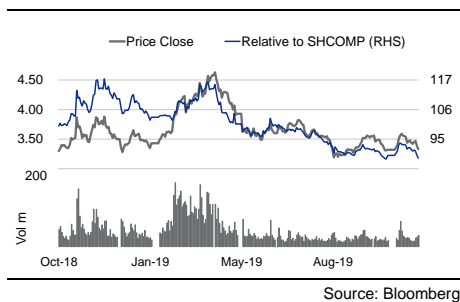


China
ADD (no change)

Consensus ratings*: Buy 7 Hold 2 Sell 3

Current price:	Rmb3.33
Target price:	Rmb3.97
Previous target:	Rmb3.97
Up/downside:	19.2%
CGI / Consensus:	4.1%
Reuters:	601992.SS
Bloomberg:	601992 CH
Market cap:	US\$4,624m
	Rmb32,633m
Average daily turnover:	US\$10.85m
	Rmb76.93m
Current shares o/s:	10,678m
Free float:	48.3%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	0.3	-6.2	3.4
Relative (%)	-0.9	-5.7	-11.1

Major shareholders	% held
BBMG Group	44.9

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BBMG-A

3Q19 results distorted by one-off loss

- 3Q19 net profit dropped 3.2% yoy to Rmb671m. We estimate that recurring net profit should be about Rmb861m after adjusting for a one-off loss.
- Cement and clinker sales volume declined 5.8% in 3Q19 because of a production suspension since mid-September.
- Gross profit per tonne grew 11.7% yoy in 3Q19 thanks to a stronger ASP in north China.
- Cement shipment volume picked up recently after the end of the production suspension, and the Company expects demand to remain solid in 4Q19.
- Maintain ADD with our earnings forecasts and target price unchanged (Rmb3.97).

One-off loss of about Rmb380m in 3Q19

3Q19 net profit looked unexciting at Rmb671m, a decline of 3.2% yoy. BBMG recorded a one-off loss about Rmb380m during the quarter. According to management, the one-off debt restructuring loss was caused by the acquisition of Tianjin Building Materials. The Company mentioned that the loss is non-recurring after clearing the legacy issues of Tianjin Building Materials.

Higher gross profit per tonne offset weaker sales volume

Cement and clinker sales volume was 31.6m tonnes, down 5.8% yoy. This was partly affected by the production suspension since mid-September because of environmental protection measures and the National Day holiday. However, the impact was offset by 11.7% growth in gross profit per tonne to Rmb115, thanks to a 7.3% increase yoy in ASP.

Lackluster property presale performance but should not be a surprise

The Company recorded property contract sales of Rmb13.7bn in 9M2019. Management said the original full-year target of Rmb35bn would be difficult to achieve given the current policy environment. This should not be a surprise, in our view, as the Company already hinted that it would be a challenge to meet the full-year guidance during the 1H19 results conference call in August. Currently, BBMG is aiming to reach Rmb30bn in property contract sales for the full year.

Cement segment performance to remain solid in 4Q19

Since the production suspension in north China was lifted after mid-October, the Company has already seen demand recovery, and it expects overall demand in 4Q to remain solid. In terms of ASP, the latest price is about Rmb20/tonne higher than the price during the same period last year. The Company's cement and clinker sales volume grew 5.7% yoy to 81.5m tonnes. Management believes the outlook for 2020 remains encouraging on the back of solid demand from infrastructure projects.

Maintain ADD

9M19 recurring net profit covered 82.8% of our full-year projection. We believe the forecast is achievable after taking the low season factor into consideration. We maintain our net profit forecasts and ADD rating. Our target price of Rmb3.97 also remains unchanged (50% premium to our H-share target price after taking the historical A-H price difference into account, methodology unchanged).

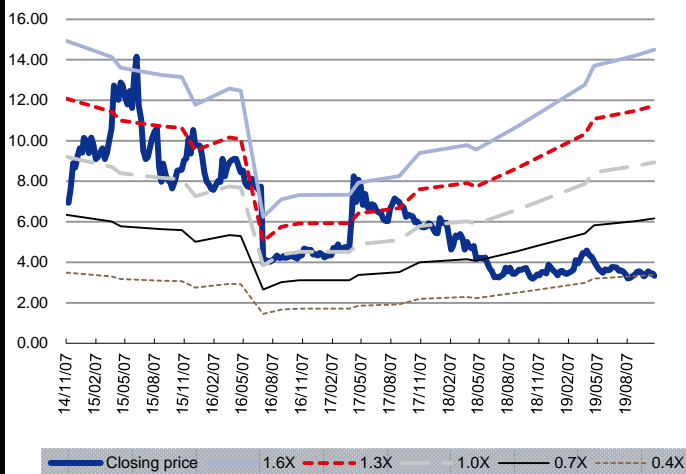
Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	61,838	79,965	93,777	105,024	113,763
Operating EBITDA (Rmbm)	9,057	12,729	13,557	14,315	14,656
Net Profit (Rmbm)	2,837	3,260	4,475	4,819	4,978
Core EPS (Rmb)	0.24	0.32	0.41	0.45	0.47
Core EPS Growth	9.4%	32.4%	30.9%	9.2%	3.3%
FD Core P/E (x)	13.97	10.55	8.06	7.38	7.14
DPS (Rmb)	0.048	0.055	0.075	0.081	0.084
Dividend Yield	1.44%	1.65%	2.26%	2.44%	2.52%
EV/EBITDA (x)	13.82	11.58	11.70	11.84	12.20
P/FCFE (x)	NA	NA	NA	3,916	45
Net Gearing	90%	99%	105%	110%	113%
P/BV (x)	0.86	0.83	0.76	0.70	0.65
ROE	6.33%	8.04%	9.88%	9.92%	9.45%
% Change In Core EPS Estimates					
CGI/consensus EPS (x)			0.94	1.01	1.05

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

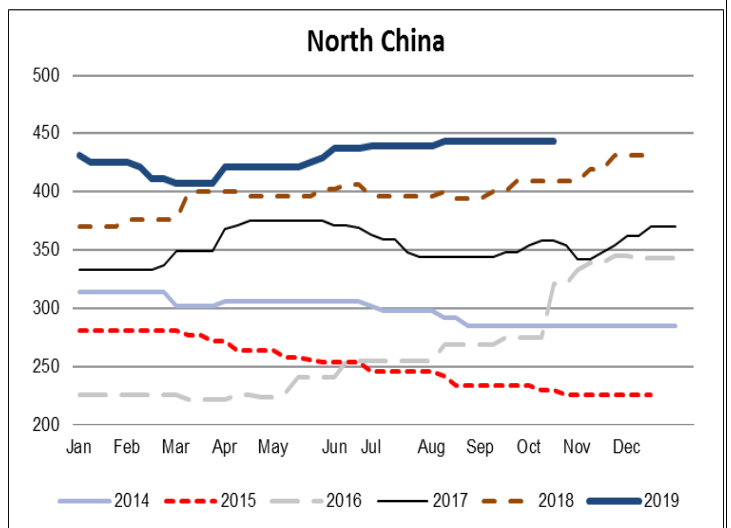
Figure 1: 3Q2019 results highlights

Y/E Dec (Rmb '000)	3Q2018	3Q2019	yoy change
Turnover	20,006,798	22,179,205	10.9%
Cost of sales	(14,901,909)	(16,805,733)	12.8%
Gross Profit	5,104,889	5,373,472	5.3%
<i>Margin</i>	25.5%	24.2%	
Operating expenses	(2,538,703)	(2,644,086)	4.2%
Selling and distribution costs	(818,762)	(860,224)	5.1%
Administrative expenses	(1,719,941)	(1,783,862)	3.7%
Operating profit	2,566,187	2,729,386	6.4%
Other expenses	(142,163)	(74,227)	-47.8%
Other income and gains	365,013	103,969	-71.5%
EBIT	2,789,036	2,759,128	-1.1%
Net finance costs	(842,782)	(715,853)	-15.1%
Share of profits of associates/JCEs	196,619	115,201	-41.4%
Exceptional items	(242,965)	(253,731)	4.4%
Profit before tax	1,899,909	1,904,745	0.3%
Taxation	(487,727)	(555,728)	13.9%
Minority interest	(719,195)	(678,360)	-5.7%
Net Profit	692,988	670,657	-3.2%
Adjusted net profit	875,211	860,955	-1.6%
Cement sales volume ('000 tonnes)	33,510	31,560	-5.8%
ASP (Rmb/tonne)	287	308	7.3%
Gross profit per tonne (overall)	103	115	11.7%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: P/Bv range of BBM-G-A


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: Cement prices in north China (RMB/tonne)


SOURCES: CGIS RESEARCH, DIGITAL CEMENT

Figure 4: Key assumptions

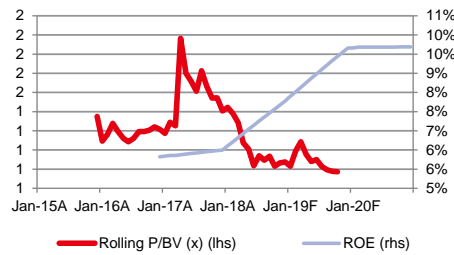
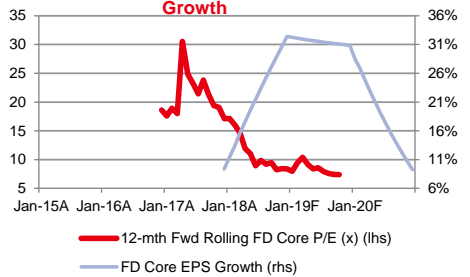
	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Cement and clinker ASP (RMB/tonne)	245	292	317	313	308
Cement and clinker vol. ('000 tonnes)	102,603	107,051	115,420	124,678	131,291
Cement and clinker gross profit (Rmb/tonne)	75	105	119	114	108
Booked GFA ('000 sq.m)	949	1,009	1,060	1,113	1,168
Revenue Breakdown: (Rmb'000)					
Cement	31,073,800	39,119,900	44,637,189	47,247,327	48,965,681
Modern building materials	13,034,700	19,813,000	25,900,412	31,720,094	36,478,109
Property investment	3,316,400	4,233,400	4,694,557	4,839,163	4,988,498
Property development	16,079,800	22,146,400	23,844,713	25,593,325	27,457,186

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 5: SOTP valuation (H-share)

	RMB m	Note
Cement and other building materials	30,442	0.8x PBR
Investment properties	40,397	7% cap rate
Property development	114,870	
JV and associates	3,489	
Net debt	(88,604)	
Minority interests	(37,832)	
Equity value	62,761	
Price Target (HK\$)	2.91	55% NAV discount

SOURCES: CGIS RESEARCH, COMPANY DATA

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
Total Net Revenues	61,838	79,965	93,777	105,024	113,763
Gross Profit	14,203	19,245	20,559	22,103	23,289
Operating EBITDA	9,057	12,729	13,557	14,315	14,656
Depreciation And Amortisation	(3,687)	(3,709)	(3,930)	(4,125)	(4,269)
Operating EBIT	5,370	9,019	9,627	10,190	10,388
Financial Income/(Expense)	(2,676)	(3,047)	(2,853)	(3,025)	(3,167)
Pretax Income/(Loss) from Assoc.	189	371	452	370	330
Non-Operating Income/(Expense)	773	267	646	708	653
Profit Before Tax (pre-EI)	3,657	6,610	7,872	8,243	8,204
Exceptional Items	400	(166)	87	0	0
Pre-tax Profit	4,057	6,445	7,959	8,243	8,204
Taxation	(1,107)	(2,163)	(2,162)	(2,143)	(2,133)
Exceptional Income - post-tax					
Profit After Tax	2,950	4,281	5,797	6,100	6,071
Minority Interests	(114)	(1,021)	(1,323)	(1,281)	(1,093)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,837	3,260	4,475	4,819	4,978
Recurring Net Profit	2,546	3,371	4,411	4,819	4,978
Fully Diluted Recurring Net Profit	2,546	3,371	4,411	4,819	4,978

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	9,057	12,729	13,557	14,315	14,656
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(28,028)	12,807	(14,253)	(15,242)	(14,183)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	10,900	(27,160)	2,374	3,904	2,915
Net Interest (Paid)/Received	(2,676)	(3,047)	(2,853)	(3,025)	(3,167)
Tax Paid	(1,107)	(2,163)	(2,162)	(2,143)	(2,133)
Cashflow From Operations	(11,854)	(6,835)	(3,336)	(2,191)	(1,911)
Capex	(1,882)	(3,933)	(3,800)	(3,800)	(3,800)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,183	0	0	0	0
Cash Flow From Investing	(700)	(3,933)	(3,800)	(3,800)	(3,800)
Debt Raised/(repaid)	9,919	10,149	5,614	6,000	6,500
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(513)	(587)	(804)	(867)	(896)
Preferred Dividends					
Other Financing Cashflow	(2,078)	2,076	0	0	0
Cash Flow From Financing	7,328	11,638	4,810	5,133	5,604
Total Cash Generated	(5,226)	871	(2,326)	(858)	(107)
Free Cashflow To Equity	(2,635)	(618)	(1,522)	9	789
Free Cashflow To Firm	(9,204)	(7,451)	(3,772)	(2,518)	(2,125)

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	17,904	18,774	16,448	15,590	15,483
Total Debtors	21,758	28,607	30,552	32,525	33,566
Inventories	98,650	114,913	130,000	145,000	160,000
Total Other Current Assets	5,277	6,754	6,945	7,145	7,245
Total Current Assets	143,589	169,048	183,946	200,260	216,294
Fixed Assets	48,767	47,622	48,060	47,636	47,067
Total Investments	17,615	24,364	26,140	27,182	28,091
Intangible Assets	13,597	19,432	19,432	19,432	19,432
Total Other Non-Current Assets	8,639	7,700	7,750	7,800	7,850
Total Non-current Assets	88,618	99,118	101,382	102,050	102,440
Short-term Debt	37,145	46,380	52,000	58,000	63,000
Current Portion of Long-Term Debt					
Total Creditors	53,796	53,218	56,350	58,380	60,380
Other Current Liabilities	17,725	27,077	27,077	27,077	27,077
Total Current Liabilities	108,665	126,675	135,427	143,457	150,457
Total Long-term Debt	25,671	30,506	33,000	36,000	39,500
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	21,711	23,392	23,392	23,392	23,392
Total Non-current Liabilities	47,382	53,898	56,392	59,392	62,892
Total Provisions	6,243	8,488	9,084	9,740	10,461
Total Liabilities	162,290	189,062	200,903	212,589	223,810
Shareholders' Equity	41,191	42,703	46,591	50,606	54,717
Minority Interests	28,727	36,511	37,834	39,115	40,207
Total Equity	69,918	79,215	84,425	89,721	94,924

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	33.9%	29.3%	17.3%	12.0%	8.3%
Operating EBITDA Growth	55.2%	40.5%	6.5%	5.6%	2.4%
Operating EBITDA Margin	14.6%	15.9%	14.5%	13.6%	12.9%
Net Cash Per Share (Rmb)	(5.91)	(7.34)	(8.31)	(9.24)	(10.04)
BVPS (Rmb)	3.86	4.00	4.36	4.74	5.12
Gross Interest Cover	1.60	2.72	2.86	2.93	2.90
Effective Tax Rate	27.3%	33.6%	27.2%	26.0%	26.0%
Net Dividend Payout Ratio	21.0%	17.1%	18.3%	18.0%	18.0%
Accounts Receivables Days	62.71	45.58	40.60	40.08	39.30
Inventory Days	623.6	641.9	610.5	606.9	615.2
Accounts Payables Days	121.9	113.1	105.8	99.3	94.8
ROIC (%)	5.11%	7.21%	6.65%	6.40%	5.97%
ROCE (%)	4.02%	5.43%	5.29%	5.16%	4.89%
Return On Average Assets	2.37%	3.00%	3.09%	3.11%	2.97%

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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