

22 May 2014

买入
维持

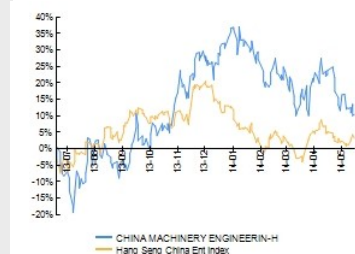
业绩重塑增长，重申买入

中国机械工程 (1829:HK)

Market Data: May,21

Closing Price (HK\$)	4.87
Price Target (HK\$)	7.2
HSCEI	9,995
HSCCI	4,206
52-week High/Low (HK\$)	6.35/3.42
Market Cap (US\$m)	2,687
Market Cap (HK\$m)	20,835
Shares Outstanding (m)	4,126
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CHINA MACHINERY ENGINEERING-H (1829 HK) –Set to rise, Buy" Mar 27,2014

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Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	21,296.06	21,426.30	25,009.23	31,623.87	38,276.89
YoY (%)	7.86	0.61	16.72	26.45	21.04
Net income (Rmbm)	1,928.16	1,960.28	2,439.56	2,954.10	3,474.30
YoY (%)	30.96	1.67	24.45	21.09	17.61
EPS (Rmb)	0.48	0.48	0.59	0.72	0.84
Diluted EPS (Rmb)	0.48	0.48	0.59	0.72	0.84
ROE (%)	19.44	16.67	18.30	19.37	19.81
Debt/asset (%)	71.48	63.21	63.89	66.07	67.16
Dividend Yield (%)	5.29	4.92	5.36	6.49	7.63
P/E (x)	8.06	8.13	6.54	5.40	4.59
P/B (x)	1.57	1.36	1.20	1.05	0.91
EV/Ebitda (x)	7.51	6.69	5.98	5.03	4.23

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点:

股价反应过度。中国机械工程的股价自 2014 年年初下跌了 19%，较 HSCEI 的同期跌幅高 10%。市场担心新兴市场货币贬值影响公司的业绩和新生效合同的增长。年初以来，公司仅公告了一单超出 1 亿美金的订单。

年初以来订单较少主要是季节性因素所致。通常来说下半年是新生效订单的高峰期，往往贡献了全年目标的 70%。上半年，特别是一季度是新生效订单的低谷。以 2013 年为例，上半年公司新生效订单仅达全年的 36%，公告的第一笔新生效订单是在 2013 年 4 月。

受益于人民币贬值。公司的收入绝大部分以美元计，2013 年上半年人民币兑美元升值 1.6%，给公司带来约 10% 的税前利润的下降。2014 年人民币兑美元贬值，公司将从中获益。

2014 年公司业绩重塑成长。中国机械工程 2013 年，特别是上半年业绩增速放缓，主要的原因包括：公司 2011 年新生效的合同金额较低（22 亿美元）；贸易板块主动缩减规模；人民币快速升值带来的汇兑损失等。受项目承接波动的影响，导致公司 2013 年业绩仅与 2012 年持平（项目生效后第三年是利润确认的高峰期）。2012 年公司新生效的合同金额高达 44 亿美元，同比增长近 100%，保证了公司自 2014 年开始业绩重塑成长。

催化剂：2014 年开始公司业绩重塑增长。

关键假设：中国与发展中国家关系不出现显著恶化。

估值与目标价。我们重申中国机械工程“买入”评级，目标价 7.2 港币，对应 47.8% 的上升空间。公司净利润 2013-15 年将分别增长 5%，18% 和 20%。目前公司股价对应 6.5 倍 2014 年 PE。

风险：人民币升值超预期。

投资要点：

- **Stock price correction overdone.** China Machinery Engineering's (CMEC's) share price has declined 19% from the beginning of the year, underperforming the HSCEI by 10%. Market concerns surround the company's earnings growth and new effective contracts. The company has announced just one new contract YTD.
- **Seasonality causes a lack in new contracts.** The peak season typically begins during the second half of the year and contributes c.70% of annual revenue. CMEC reported 64% worth of its annual contract value during the second half of the year and announced its first new effective contract in April 2013. Investors should therefore be patient towards the development.
- **Benefitting from renminbi depreciation.** In 1H13, the renminbi appreciated against the US dollar by 1.6%, generating a net loss of c.10% to CMEC's profit before tax. We believe renminbi depreciation will bring exchange gains for CMEC in 1H14.
- **Earnings set to rise in 2014.** CMEC's earnings growth decelerated in 2013, particularly during 1H13. This was primarily due to low effective contracts in 2011 and renminbi appreciation in 1H13. The spike in effective contracts (from US\$2.2bn in 2011 to US\$4.4bn in 2012) and rich backlog ensure the resumption of high growth in 2014.
- **Maintain BUY.** We maintain our earnings forecast in 2014-16E, with 24% growth in 14E, 21% in 15E and 18% in 16E. The company is currently trading at c.6.5x 14E PE, with a dividend yield of 5.1%. Our target price of HK\$7.2 represents 9.7x 14E PE. With 47.8% upside, we maintain our BUY recommendation.
- **Catalysts.** Earnings growth accelerates in 1H14.
- **Risks.** Unexpected renminbi appreciation.

Stock price correction overdone

China Machinery Engineering's (CMEC's) share price has declined 19% from the beginning of the year, outperforming the HSCEI by 10%. Market concerns surround the company's earnings growth and new effective contracts. The company has announced just one new contract YTD. (The company will announce new contracts worth more than US\$100m).

Fig 2: CMEC's newly signed projects in 2014

Date	Project City	Project Details	Project Value	Project Period
Mar-18	Lome of Pointe-Noire, Congo-Brazzaville	Construction of a new water plant	US\$246m	36mths
Total			US\$246m	

Source: Company data,, SWS Research

The peak season typically begins during the second half of the year and contributes c.70% of annual revenue. In April 2013, CMEC reported 64% worth of its annual contract value and announced its first new effective contract. Investors should therefore be patient towards the development.

Fig 1: CMEC's newly signed projects in 1H13

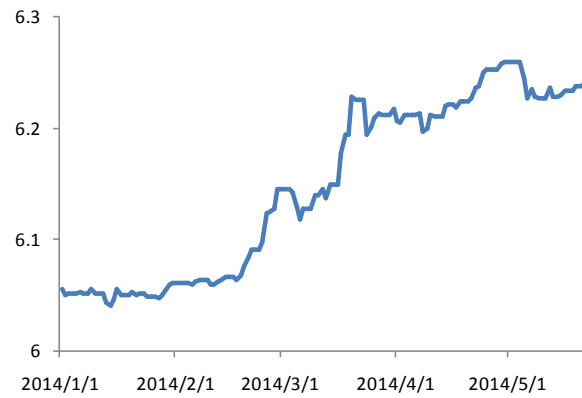
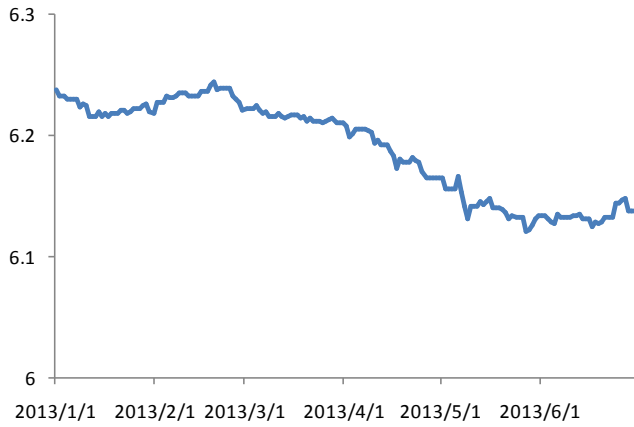
Date	Project City	Project Details	Project Value	Project Period
Apr-12	Mongolia	Construction of heat only boiler plant and its ancillary facilities	US\$76m	18 mths
Apr-24	The Republic of South Sudan	Construction of 33 primary health care centers(PHCCS)	US\$215m	24mths
May-16	Sri Lanka	Construction of integrated water supply scheme	US\$230m	36mths
May-31	Bangladesh	Construction of Bangladesh national broadband infrastructure network Phase II project	RMB860m	14mths
Jun-28	Zimbabwe	Development and rehabilitation of municipal water and sewage treatment works	US\$144m	36mths
			
1H13			US\$1.2bn	
2H13			US\$2.1bn	
Total			US\$3.3bn	

Source: Company data,, SWS Research

In 1H13, the renminbi appreciated against the US dollar by 1.6%, generating a net loss of c.10% to CMEC's profit before tax . We believe renminbi depreciation will bring exchange gains for CMEC in 1H14.

Figure 3: Renminbi appreciated against the US dollar by 1.6% in 1H13

Figure 4: Renminbi depreciated against the US dollar by 3.0% in 1H14



Source: Company data, SWS Research

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We maintain our earnings forecast in 2014-16E, with 24% growth in 14E, 21% in 15E and 18% in 16E. The company is currently trading at c.6.5x 14E PE, with a dividend yield of 5.1%. Our target price of HK\$7.2 represents 9.7x 14E PE. With 47.8% upside, we maintain our BUY recommendation.

Appendix

Consolidated Cash Flow Statement

million yuan	2012	2013	2014E	2015E	2016E
ProfitBeforeTaxation	2615.88	2664.15	3309.67	4007.74	4713.48
DeprAndAmortisation	98.80	103.53	123.68	132.46	136.68
FinanceCost	552.72	336.15	713.94	907.43	1009.63
LossesFromInvestments	0.00	0.00	0.00	0.00	0.00
ChangeInWorkingCapital	2016.97	1886.23	1358.49	2443.81	2460.89
Others	5692.34	(1326.93)	5699.17	7295.53	9145.72
CFFFromOperatingActivities	6972.06	(2194.81)	4158.93	6483.18	7569.97
CAPEX	(98.53)	37.99	15.00	31.00	(569.00)
OtherCFFFromInvestingActivities	(2500.89)	776.90	31.32	616.70	1039.90
CFFFromInvestingActivities	(2597.43)	814.89	46.32	647.70	470.90
EquityFinancing	3012.30	0.00	0.00	0.00	0.00
NetChangeInLiabilities	(98.01)	100.39	0.00	0.00	0.00
DividendAndInterstPaid	(365.12)	(794.73)	(865.04)	(1045.21)	(1227.35)
OtherCFFFromFinancingActivities	0.26	0.00	0.00	0.00	0.00
CFFFromFinancingActivities	2549.44	(694.35)	(865.04)	(1045.21)	(1227.35)
NetCashFlow	6924.07	(2074.26)	3340.20	6085.67	6813.52
FCFF	3392.77	3652.08	3222.98	4654.15	4493.44
FCFE	2742.04	3416.31	2509.04	3746.72	3483.81

Consolidated Income Statement

million yuan	2012	2013	2014E	2015E	2016E
Revenue	21296.06	21426.30	25009.23	31623.87	38276.89
CostofSales	17564.55	17683.80	20778.48	26400.51	32059.29
GrossProfit	3731.51	3742.50	4230.75	5223.36	6217.61
OtherIncome	10.13	353.48	353.48	353.48	353.48
SGAExpenses	1564.87	1714.66	1750.65	2213.67	2679.38
EBITDA	2162.04	2431.72	2719.61	3232.98	3840.73
EBIT	2063.24	2328.19	2595.93	3100.51	3704.05
FinanceCosts	552.72	336.15	713.94	907.43	1009.63
ProfitBeforeTax	2615.88	2664.15	3309.67	4007.74	4713.48
IncomeTaxExpense	687.72	703.86	870.11	1053.64	1239.18
MinorityInterests	0.47	0.98	0.00	0.00	0.00
ProfitfortheYear	1928.16	1960.28	2439.56	2954.10	3474.30

Consolidated Balance Sheet

million yuan	2012	2013	2014E	2015E	2016E
CurrentAssets	27936.05	25903.90	30099.82	37764.18	46165.60
BankBalancesAndCash	12089.40	14550.17	17890.37	23976.04	30789.56
TradeAndOtherReceivables	5510.06	4894.65	5713.14	7224.20	8744.03
Inventories	225.73	212.74	249.96	317.60	385.67
OtherCurrentAssets	10110.87	6246.35	6246.35	6246.35	6246.35
LongTermInvestment	0.41	0.22	0.22	0.22	0.22
PPE	444.21	485.01	523.00	538.00	569.00
IntangibleAndOtherAssets	6389.16	5564.04	6299.81	6644.27	6667.73
TotalAssets	34769.83	31953.16	36906.39	44930.03	53353.52
CurrentLiabilities	24270.52	19789.94	23169.05	29295.95	35461.63
Borrowings	133.92	234.31	234.31	234.31	234.31
TradeAndOtherPayables	10943.27	12227.09	14366.83	18254.07	22166.71
OtherCurrentLiabilities	13193.33	7328.55	8567.91	10807.58	13060.61
LongTermLiabilities	581.11	407.16	421.34	401.34	401.34
TotalLiabilities	24852.41	20197.10	23590.39	29697.30	35862.97
MinorityInterests	(2.92)	16.44	(9.00)	(12.00)	(12.00)
ShareholderEquity	9920.34	11739.63	13324.99	15244.74	17502.54
ShareCapital	4018.00	4125.70	4125.70	4125.70	4125.70
Reserves	5902.34	7613.93	9199.29	11119.04	13376.84
EquityAttributable	9920.34	11739.63	13324.99	15244.74	17502.54
TotalLiabilitiesAndEquity	34769.83	31953.16	36906.39	44930.03	53353.52

Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (yuan)					
Earnings per share	0.4798	0.4751	0.5913	0.7160	0.8421
OperatingCFPerShare	1.7352	(0.5320)	1.0081	1.5714	1.8348
DividendPerShare	0.2045	0.1900	0.2070	0.2507	0.2949
Key Operating Ratios(%)					
NetAssetsPerShare	2.4682	2.8495	3.2316	3.6962	4.2513
ROIC	14.9012	14.1929	14.0387	14.7001	15.3346
ROE	19.4422	16.6747	18.2979	19.3720	19.8084
GrossProfitMargin	17.5221	17.4669	16.9168	16.5171	16.2438
EBITDAMargin	10.1523	11.3492	10.8744	10.2232	10.0341
EBITMargin	9.6884	10.8661	10.3799	9.8043	9.6770
GrowthRateOfRevenue	3.7933	0.6116	16.7221	26.4488	21.0380
GrowthRateOfProfit	30.9588	1.6659	24.4492	21.0918	17.6095
DebtToAssetRatio	71.4769	63.2085	63.8911	66.0723	67.1559
TurnoverRateOfNetAssets	2.1473	1.8226	1.8781	2.0760	2.1884
TurnoverRateOfTotalAssets	0.6125	0.6706	0.6773	0.7036	0.7168
EffectiveTaxRate	26.2901	26.4199	26.2901	26.2901	26.2901
DividendYield	5.2919	4.9158	5.3567	6.4865	7.6288
Valuation Ratios (X)					
PE	8.0562	8.1346	6.5365	5.3980	4.5897
PB	1.5659	1.3564	1.1960	1.0457	0.9092
EVSale	0.7623	0.7589	0.6502	0.5142	0.4248
EVEBITDA	7.5090	6.6867	5.9788	5.0295	4.2336

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