

24 June 2014

买入
维持

伊拉克项目进程放缓影响 2014 年业绩

中国机械工程 (1829:HK)

Market Data: June,23

Closing Price (HK\$)	4.46
Price Target (HK\$)	7.12
HSCIE	10,198
HSCCI	4,264
52-week High/Low (HK\$)	6.35/3.42
Market Cap (HK\$m)	18,402
Market Cap (Rmbm)	14,605
Shares Outstanding (m)	4,126
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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"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	22,509.23	34,123.87	38,276.89
YoY (%)	3.79	0.61	5.05	51.60	12.17
Net income (Rmbm)	1,928.16	1,960.28	2,170.43	3,230.29	3,474.41
YoY (%)	30.96	1.67	10.72	48.83	7.56
EPS (Rmb)	0.48	0.48	0.53	0.78	0.84
Diluted EPS (Rmb)	0.48	0.48	0.53	0.78	0.84
ROE (%)	19.44	16.67	16.52	21.16	19.81
Debt/asset (%)	71.48	63.21	61.94	67.65	67.16
Dividend Yield (%)	5.78	5.37	5.20	7.75	8.33
PE (x)	7.38	7.45	6.73	4.52	4.20
PB (x)	1.43	1.24	1.11	0.96	0.83
EV/Ebitda (x)	6.89	6.13	6.89	6.59	6.15

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:

- **伊拉克电站项目进程受局势影响。**中国机械工程在伊拉克萨拉哈丁有兩台 63 萬千瓦電站工程項目。該項目自 2011 年 12 月 15 日簽約，合同總額為 11.89 億美元。近日，伊拉克政局動蕩，公司啟動緊急撤離機制，項目進程受到影響。
- **該項目已完成的部分不會影響結算。**項目自 2012 年 8 月 14 日正式展開，目前正處於出運和安裝的高峰期。我們預計約 30-40% 的項目已經完成。根據國際項目承包慣例，項目收款進度甚至更高。對於該項目已經完成的部分，中國機械工程將如期計入收入和利潤。
- **項目未完成的部分或將推遲至 2015 年。**該項目尚有 60-70% 尚未完成，其中部分原本計劃於 2014 年下半年完工。中性假設下，伊拉克局勢最終得以平息，這部分工程將於 2015 年完成。
- **估值與目標價。**由於伊拉克電站項目進度受局勢影響延遲完工，我們下調了公司 2014 年淨利潤，並相應上調了 2015 年淨利潤。2014 年調整後的淨利潤將達到人民幣 21.7 億，同比增長 11%，2015 年淨利潤將達到人民幣 32.3 億元，同比上漲 49%。我們相應將公司目標價從 7.2 港幣下調至 7.12 港幣，重申“買入”評級，對應 59.6% 的上升空間。目前公司股價對應 6.7 倍 2014 年 PE，5.2% 的股息率。我們的目標價對應 10.7 倍 2014 年市盈率 and 7.2 倍 2015 年市盈率，59.6% 上升空間。
- **催化劑：**2014 年上半年業績超市場預期；更多的新生效項目宣布。
- **風險：**人民幣升值超預期。

Investment Highlights:

Set to suspend. China Machinery Engineering Corp's (CMEC's) 2x 630MW power plant constructions are located in the Salah Al-din Province in Iraq. The project was contracted from 15 December 2011 at a total consideration of US\$1.189bn. Due to the continuous recent turmoil in Iraq, CMEC announced plans to initiate an emergency evacuation system. The company's project may therefore be suspended.

No potential provision for CMEC. The project officially kicked off on 14 August 2012 and reached a peak in shipment and installation. We forecast a completion ratio of 30-40%. In addition, given the common practice of the global engineering, procurement and construction (EPC) market, CMEC has collected a payment of more than 40% for the completed work. Given the forecasted completion of the project, CMEC is expected to report healthy revenue and profit.

Project delays. We believe that the remainder of the project (scheduled to be completed in 2014) may be delayed. However, in our base case scenario, we believe the turmoil in Iraq will subside and the final project will be completed in 2015.

Projecting the future. Due to the suspension, we revise down our 2014 earnings forecast and increase our 2015 forecast. We forecast CMEC's net profit to grow to Rmb2.17bn (+11%) in 14E and to Rmb3.23bn (+49%) in 15E. However, in order to reflect the current delay, we revise down our target price from HK\$7.2 to HK\$7.12. CMEC is currently trading at c.6.7x 14E PE with a 5.2% dividend yield. Our downgraded target price represents 10.7x 14E PE and 7.2x 15E PE. With 59.6% upside, we reiterate our BUY recommendation.

Catalysts. Earnings growth accelerates in 1H14; more contracts effective are announced.

Risks. Unexpected renminbi appreciation.

Set to suspend

CMEC's 2x 630MW power plant constructions are located in the Salah Al-din Province in Iraq. Due to the continuous recent turmoil in Iraq, CMEC announced plans to initiate an emergency evacuation system. The company's project may therefore be suspended. The owner of the project is the Ministry of Electricity and General Directorate of Electrical Energy Production Projects.

The project was contracted from 15 December 2011 at a total consideration of US\$1.189bn. The project officially kicked off on 14 August 2012 and reached a peak in shipment and installation. We forecast a completion ratio of 30-40%. In addition, given the common practice of the global engineering, procurement and construction (EPC) market, CMEC has collected a payment of more than 40% for the completed work. Given the forecasted completion of the project, CMEC is expected to report healthy revenue and profit.

CMEC announced plans to initiate the emergency evacuation mechanism due to the continuous recent turmoil in Iraq. The project may therefore be suspended.

Limited impact

We believe that the remainder of the project (scheduled to be completed in 2014) may be delayed. However, in our base case scenario, we believe that the turmoil in Iraq will subside and the final project will be completed in 2015. The project will therefore likely cut 2014 net profit and increase this in 2015.

Even under a bear case scenario, Iraq's current government will be overthrown by the anti-government force, the remaining part of the project will never be resumed. The remainder of the project (worth US\$700-800m) account for just 5-6% of CMEC's total backlog (US\$13.48bn) at end-2013.

Under a bull case scenario, the Iraq turmoil will be resolved and CMEC will rapidly resume the project construction. The project will be completed on schedule and CMEC's net profit in 2014 and 2015 will not be impacted.

Fig 1: First engineering contractors in oversea power projects

	Bull case	Base case	Bear case
2014 net profit (US\$m)	2,440	2,170	2,170
2015 net profit (US\$m)	2,954	3,230	2,685
DCF based target price (HK\$)	7.20	7.12	6.98

Source: Company data, SWS Research

Due to the suspension, we revise down our 2014 earnings forecast and increase our 2015 forecast. We forecast CMEC's net profit to grow to Rmb2.17bn (+11%) in 14E and to Rmb3.23bn (+49%) in 15E. However, in order to reflect the current delay, we revise down our target price from HK\$7.2 to HK\$7.12. CMEC is currently trading at c.6.7x 14E PE with a 5.2% dividend yield. Our downgraded target price represents 10.7x 14E PE and 7.2x 15E PE. With 59.6% upside, we reiterate our BUY recommendation.

Appendix

Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
ProfitBeforeTaxation	2,616	2,664	2,945	4,382	4,714
DeprAndAmortisation	99	104	124	132	137
FinanceCost	553	336	711	932	1,010
LossesFromInvestments	0	0	0	0	0
ChangeInWorkingCapital	2,017	1,886	549	4,071	1,643
Others	5,692	(1,327)	4,492	9,310	8,326
CFFromOperatingActivities	6,972	(2,195)	2,251	10,014	5,932
CAPEX	(99)	38	15	31	(569)
OtherCFFromInvestingActivities	(2,501)	777	29	641	1,040
CFFromInvestingActivities	(2,597)	815	44	672	471
EquityFinancing	3,012	0	0	0	0
NetChangeInLiabilities	(98)	100	0	0	0
DividendAndInterstPaid	(365)	(795)	(771)	(1,142)	(1,227)
OtherCFFromFinancingActivities	0	0	0	0	0
CFFromFinancingActivities	2,549	(694)	(771)	(1,142)	(1,227)
NetCashFlow	6,924	(2,074)	1,524	9,544	5,176
FCFF	3,393	3,652	2,147	6,533	3,675
FCFE	2,742	3,416	1,436	5,601	2,665

Consolidated Income Statement

Rmbm	2012	2013	2014E	2015E	2016E
Revenue	21,296	21,426	22,509	34,124	38,277
CostofSales	17,565	17,684	18,816	28,376	32,059
GrossProfit	3,732	3,743	3,693	5,748	6,218
OtherIncome	10	353	353	353	353
SGAExpenses	1,565	1,715	1,576	2,389	2,679
EBITDA	2,162	2,432	2,357	3,583	3,841
EBIT	2,063	2,328	2,233	3,451	3,704
FinanceCosts	553	336	711	932	1,010
ProfitBeforeTax	2,616	2,664	2,945	4,382	4,714
IncomeTaxExpense	688	704	774	1,152	1,239
MinorityInterests	0	1	0	0	0
ProfitfortheYear	1,928	1,960	2,170	3,230	3,474

Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
CurrentAssets	27,936	25,904	27,689	40,001	46,170
BankBalancesAndCash	12,089	14,550	16,074	25,618	30,794
TradeAndOtherReceivables	5,510	4,895	5,142	7,795	8,744
Inventories	226	213	226	341	386
OtherCurrentAssets	10,111	6,246	6,246	6,246	6,246
LongTermInvestment	0	0	0	0	0
PPE	444	485	523	538	569
IntangibleAndOtherAssets	6,389	5,564	6,300	6,644	6,668
TotalAssets	34,770	31,953	34,518	47,158	53,358
CurrentLiabilities	24,271	19,790	20,955	31,519	35,462
Borrowings	134	234	234	234	234
TradeAndOtherPayables	10,943	12,227	13,010	19,620	22,167
OtherCurrentLiabilities	13,193	7,329	7,711	11,665	13,061
LongTermLiabilities	581	407	421	401	401
TotalLiabilities	24,852	20,197	21,377	31,921	35,863
MinorityInterests	(3)	16	(9)	(12)	(12)
ShareholderEquity	9,920	11,740	13,150	15,249	17,507
ShareCapital	4,018	4,126	4,126	4,126	4,126
Reserves	5,902	7,614	9,024	11,124	13,382
EquityAttributable	9,920	11,740	13,150	15,249	17,507
TotalLiabilitiesAndEquity	34,770	31,953	34,518	47,158	53,358

Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (yuan)					
Earnings per share	0.48	0.48	0.53	0.78	0.84
OperatingCFPerShare	1.74	(0.53)	0.55	2.43	1.44
DividendPerShare	0.20	0.19	0.18	0.27	0.29
Key Operating Ratios(%)	2.47	2.85	3.18	3.70	4.25
NetAssetsPerShare					
ROIC	14.90	14.19	12.24	16.35	15.33
ROE	19.44	16.67	16.52	21.16	19.80
GrossProfitMargin	17.52	17.47	16.41	16.85	16.24
EBITDAMargin	10.15	11.35	10.47	10.50	10.03
EBITMargin	9.69	10.87	9.92	10.11	9.68
GrowthRateOfRevenue	3.79	0.61	5.05	51.60	12.17
GrowthRateOfProfit	30.96	1.67	10.72	48.83	7.56
DebtToAssetRatio	71.48	63.21	61.94	67.65	67.15
TurnoverRateOfNetAssets	2.15	1.82	1.71	2.24	2.19
TurnoverRateOfTotalAssets	0.61	0.67	0.65	0.72	0.72
EffectiveTaxRate	26.29	26.42	26.29	26.29	26.29
DividendYield	5.66	5.26	3.26	4.85	5.22
Valuation Ratios (X)					
PE	7.38	7.45	6.73	4.52	4.20
PB	1.43	1.24	1.11	0.96	0.83
EVSale	0.70	0.70	1.05	0.69	0.62
EVEBITDA	6.89	6.13	6.89	6.59	6.15

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