

05 November 2014

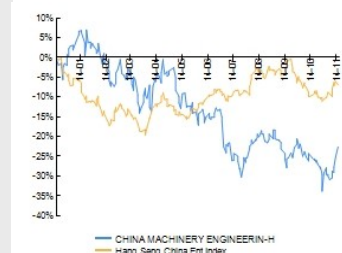
BUY
 Unchanged

一路一带的受益者, 买入

中国机械工程 (1829:HK)

Market Data: Nov,4

Closing Price (HK\$)	5.09
Price Target (HK\$)	7.12
HSCEI	10,728
HSCCI	4,523
52-week High/Low (HK\$)	6.35/3.87
Market Cap (USD Mn)	2,340
Market Cap (HK\$ Mn)	18,153
Shares Outstanding (Mn)	4,126
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:


Source: Bloomberg

Analyst
Leo Fan
A0230511040074
ARG408
 fanlei@swsresearch.com

Related Reports
"CHINA MACHINERY ENGINEERING CORP (1829:HK) – Mechanical miss" Aug 29,2014

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

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 (%)	7.86	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	19.80
Debt/asset (%)	71.48	63.21	61.94	67.65	67.15
Dividend yield (%)	5.02	4.67	4.52	6.73	7.24
PE (x)	8.49	8.57	7.74	5.20	4.84
PB (x)	1.65	1.43	1.28	1.10	0.96
EV/Ebitda (x)	7.90	7.04	7.26	4.78	4.46

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:

一路一带战略不断推进。“丝绸之路经济带”（简称一带）和 21 世纪“海上丝绸之路”（简称一路）由习主席一年之前提出，已经得到越来越多的国家尤其是发展中国家的支持。在金砖国家开发银行、亚投行成立之后，一带一路规划更值得期待，存在随时出台的可能。中国政府也将出台配套政策，鼓励国内基建公司走出去，承建“一路一带”国家的基础设施。

中国机械工程（1829.HK）海外业务占比较高，将受益于“一带一路”战略的推进。海外市场蕴含着巨大的风险，对基建公司业务拓展和风险管理的要求颇高。中国记协工程作为中国第一家从事国际工程总包的公司，自 1978 年成立以来一直在海外拓展业务，在这方面有丰富的经验。2014 年上半年，中国机械工程 88% 的营业收入来自海外市场，在同业中处于较高水平。中国机械工程（1829.HK）将受益于“一带一路”战略的推进。

现金充裕的业务模式给公司带来巨额的在手现金。作为总承包商，中国机械工程对分包商享有较强的话语权，公司通过调节收款和付款不同帐期积累了巨额的在手现金。扣除带息负债后，公司净现金高达每股 5.40 港币。

或将受益于可能的资产注入。公司控股股东有意于 2015 年年底前将从事国际工程承包的中电工，中成套和中自控注入中国机械工程。三家公司的总收入约为上市公司的 40%。考虑到公司巨额的在手现金和可能的协同效应，中国机械工程或将受益。

估值与目标价。2014 年净利润将达到人民币 21.7 亿，同比增长 11%，2015 年净利润将达到人民币 32.3 亿元，同比上涨 49%。目前公司股价对应 7.7 倍 2014 年 PE，4.5% 的股息率。我们的目标价对应 10.7 倍 2014 年市盈率和 7.2 倍 2015 年市盈率，40% 上升空间。重申“买入”评级。

Investment Highlights:

"New Silk Road" strategy. Since last year, President Xi Jinping has repeatedly discussed the establishment of an economic cooperation zone spanning from China across Central Asia: the "New Silk Road". Although detailed policies have yet to be announced, we expect the government to unveil some policy guidelines during the upcoming Asia Pacific Economic Cooperation (APEC) meetings of member country leaders in Beijing (5-11 November), among which we expect to see initiatives encouraging domestic engineering, procurement and construction (EPC) companies to build infrastructure projects in countries along the proposed belt.

CMEC overseas experience to benefit. We believe CMEC's extensive experience with overseas projects, as China's first EPC firm to go global, will serve it in good stead to win a significant amount of orders related to Silk Road infrastructure build-out. The company derived 88% of its revenue from overseas projects in 1H14, making it one of the most global of its domestic peers.

Positive outlook. We maintain our view that the company's business model allows it to maintain a strong cash position. CMEC has substantial bargaining power in its dealings with subcontractors, ensuring that its net operating cash is significantly higher than net profit due to prolonged payables turnover. The company's net cash position currently amounts to HK\$5.40/share. In addition, in the company's prospectus ahead of its listing in 2013, CEMC's parent company stated that it plans to inject three EPC units into CEMC before end-2015. We remain confident that the company will benefit from the injection through synergies with the additional assets.

Maintain BUY. For now, we do not envisage any direct impact on CEMC revenue from the government's Silk Road initiatives for at least two-to-three years. Nevertheless, we remain positive on the company's prospects, given its strong ability to win contracts. We maintain our EPS forecasts of Rmb0.53 in 14E (+10.7% YoY), Rmb0.78 in 15E (+48.8% YoY) and Rmb0.84 in 16E (7.6% YoY). The company is currently trading at c.7.7x 14E PE, with a 4.5% dividend yield. Our target price of HK\$7.12 represents 10.7x 14E PE and 7.2x 15E PE. With 40% upside, maintain BUY.

Appendix

Consolidated Income Statement

Rmbm	2012	2013	2014E	2015E	2016E
Revenue	21296	21426	22509	34124	38277
Cost of Sales	17565	17684	18816	28376	32059
Gross Profit	3732	3743	3693	5748	6218
Other Income	10	353	353	353	353
SGA Expenses	1565	1715	1576	2389	2679
EBITDA	2162	2432	2357	3583	3841
EBIT	2063	2328	2233	3451	3704
Finance Costs	553	336	711	932	1010
Profit Before Tax	2616	2664	2945	4382	4714
Income Tax Expense	688	704	774	1152	1239
Minority Interests	0	1	0	0	0
Profit for the Year	1928	1960	2170	3230	3474

Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	27936	25904	27689	40001	46170
Bank balances and cash	12089	14550	16074	25618	30794
Trade and other receivables	5510	4895	5142	7795	8744
Inventories	226	213	226	341	386
Other current assets	10111	6246	6246	6246	6246
Long-term investment	0	0	0	0	0
PP&E	444	485	523	538	569
Intangible and other assets	6389	5564	6300	6644	6668
Total Assets	34770	31953	34518	47158	53358
Current Liabilities	24271	19790	20955	31519	35462
Borrowings	134	234	234	234	234
Trade and other payables	10943	12227	13010	19620	22167
Other current liabilities	13193	7329	7711	11665	13061
Long-term liabilities	581	407	421	401	401
Total Liabilities	24852	20197	21377	31921	35863
Minority Interests	(3)	16	(9)	(12)	(12)
Shareholder Equity	9920	11740	13150	15249	17507
Share Capital	4018	4126	4126	4126	4126
Reserves	5902	7614	9024	11124	13382
Equity attributable	9920	11740	13150	15249	17507
Total Liabilities and equity	34770	31953	34518	47158	53358

Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
Profit before taxation	2616	2664	2945	4382	4714
Plus: Depr. and amortisation	99	104	124	132	137
Finance cost	553	336	711	932	1010
Losses from investments	0	0	0	0	0
Change in working capital	2017	1886	549	4071	1643
Others	5692	(1327)	4492	9310	8326
CF from operating activities	6972	(2195)	2251	10014	5932
CAPEX	(99)	38	15	31	(569)
Other CF from investing activities	(2501)	777	29	641	1040
CF from investing activities	(2597)	815	44	672	471
Equity financing	3012	0	0	0	0
Net change in liabilities	(98)	100	0	0	0
Dividend and interest paid	(365)	(795)	(771)	(1142)	(1227)
Other CF from financing activities	0	0	0	0	0
CF from financing activities	2549	(694)	(771)	(1142)	(1227)
Net cash flow	6924	(2074)	1524	9544	5176
FCFF	3393	3652	2147	6533	3675
FCFE	2742	3416	1436	5601	2665

Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (Rmb)					
Earnings per share	0.5	0.5	0.5	0.8	0.8
Operating CF per share	2	(1)	1	2	1
Dividend per share	0.2	0.2	0.2	0.3	0.3
Net assets per share	2	3	3	4	4
Key Operating Ratios(%)					
ROIC	15	14	12	16	15
ROE	19.4	16.7	16.5	21.2	19.8
Gross profit margin	18	17	16	17	16
EBITDA Margin	10.2	11.3	10.5	10.5	10.0
EBIT Margin	10	11	10	10	10
Growth rate of Revenue(YoY)	3.8	0.6	5.1	51.6	12.2
Growth rate of Profit(YoY)	31	2	11	49	8
Debt-to-asset ratio	71.5	63.2	61.9	67.7	67.2
Turnover rate of net assets	2	2	2	2	2
Turnover rate of total assets	0.6	0.7	0.7	0.7	0.7
Effective tax rate (%)	26	26	26	26	26
Dividend yield (%)	5.02	4.67	4.52	6.73	7.24
Valuation Ratios (X)					
P/E	8.49	8.57	7.74	5.20	4.84
P/B	1.65	1.43	1.28	1.10	0.96
EV/Sale	0.80	0.80	0.76	0.50	0.45
EV/EBITDA	7.90	7.04	7.26	4.78	4.46

Information Disclosure :

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065. Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Disclaimer

This report was prepared, approved, published and distributed by the SWS Research Co., Ltd located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of SWS Research Co., Ltd only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital LLC (19 West 44th Street, suite 1700, New York, NY 10036).

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

The information has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. SWS Research Co., Ltd has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, SWS Research Co., Ltd accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. SWS Research Co., Ltd provides the information for the purpose of the intended recipient's analysis and review. Accordingly you are advised to verify the factual accuracy, assumptions, calculations or completeness of the information.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Important US Regulatory Disclosures on Subject Companies

This material was produced by SWS Research Co., Ltd solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC and elsewhere in the world by SWS Research Co., Ltd or an authorized affiliate of SWS Research Co., Ltd This document does not constitute an offer of, or an invitation by or on behalf of SWS Research Co., Ltd or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which SWS Research Co., Ltd or its Affiliates consider to be reliable. None of SWS Research Co., Ltd Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. SWS Research Co., Ltd or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. SWS Research Co., Ltd or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. SWS Research Co., Ltd Limited or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of SWS Research Co., Ltd or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. As of the publication of this report Enclave Capital LLC, does not make a market in the subject securities.
6. SWS Research Co., Ltd or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenyin Wanguo Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.