廣發証券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED



# CIMC (000039 CH)

## Company expects 345%-419% earnings growth in 2017 profit alert

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The company has issued a profit alert, expecting 2017 net profit to reach Rmb2.4bn-2.8bn, representing an increase of 345%-419% YoY with a basic EPS of Rmb0.78-0.91. Strong earnings growth was mainly due to a substantial recovery in its container business as well as solid growth in its road transportation vehicle business. Moreover, the compensation for the relocation of its Taizi Bay project and investment gains from the disposal of Shenzhen CIMC E-Commerce also made positive contributions.

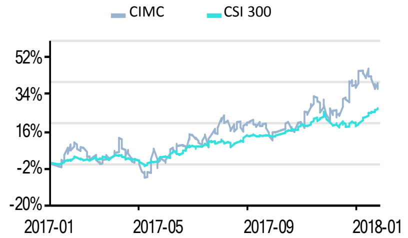
**Container business: Replacement demand providing support, segment recovery to continue** Assuming that containers are replaced every 15 years, the large number of containers produced during the 2003-2007 peak are now moving into a replacement period. Global container output during that period amounted to 2.94m TEU per year, equal to 1.75x the output in 2002. Replacement demand will provide support for the company's container business. In addition, global container ownership currently stands at 35-38m TEU, which should be driven by strengthening container shipping volume. Overall, current container ownership is relatively low with a high utilization rate, and more rational behaviors among downstream players will help prolong the industry upcycle. We expect the container making industry to continue to recover in 2018. The net profit margin of CIMC's container business recovered to 6.8% in 1H17, up by 3.5pp from 2016, representing substantial upside potential compared with net profit margins of 12.2% and 10.5% in 2010 and 2011.

**Road transportation vehicles: Company focuses on product upgrade for higher profit margins** CIMC's vehicle business focuses on logistics semi-trailers. The company has the largest semi-trailer sales volume in the world with a market share of 10.5% in 2015. The company has also built a balanced business structure consisting of the China, US, Europe and emerging markets. Stable demand in North America and strong demand growth in China due to industry and environmental regulations have driven a recovery in CIMC's vehicle business. 9M17 segment revenue came in at Rmb14,655m, representing YoY growth of 40.0%. Meanwhile, the segment gross profit margin has continued to improve, reaching 18.2% in 2016, 5.8pp higher than 2012.

**Earnings forecasts** We estimate 2017/2018/2019E EPS of Rmb0.85/1.18/1.46, based on which the stock is trading at 26x/19x/15x (Jan 29 close Rmb22.26). We maintain our positive view on the company as its core business is bottoming out and its assets are likely to be revaluated.

**Risks** Global economic conditions causing fluctuations in container demand, uncertainties arising during the transformation of the company's land parcel in Qianhai Shenzhen to commercial use, and uncertainties about the ultimate loss incurred in subsidiaries' major M&As.

### Stock performance




*Source: Wind*

### Earnings forecasts

| | 2015A | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenue (Rmb m) | 58,685.80 | 51,111.65 | 71,785.99 | 83,461.00 | 91,929.29 |
| *YoY (%)* | -16.25% | -12.91% | 40.45% | 16.26% | 10.15% |
| EBITDA (Rmb m) | 5,258.79 | 4,952.78 | 6,721.69 | 8,214.94 | 9,274.60 |
| Net profit (Rmb m) | 1,974.01 | 539.65 | 2,528.04 | 3,529.68 | 4,347.15 |
| *YoY (%)* | -20.30% | -72.70% | 368.50% | 39.60% | 23.20% |
| EPS (Rmb) | 0.66 | 0.18 | 0.85 | 1.18 | 1.46 |
| P/E | 31.67 | 80.77 | 26.25 | 18.82 | 15.27 |
| P/B | 2.19 | 1.5 | 2.11 | 1.93 | 1.74 |
| EV/EBITDA | 19.9 | 18.53 | 16.16 | 12.89 | 11.03 |

*Sources: Company data, GF Securities Development & Research Center, GF Securities (Hong Kong)*

**This is a summary of a report originally written in Chinese. Please contact us for more information of the original report. The Chinese version shall prevail in the event of any discrepancy between the two versions.**

## Figure 1: Financial statements

| Balance sheet | | | | | (Rmb m) |
|---|---|---|---|---|---|
| Year ended 31 Dec | 2015A | 2016A | 2017E | 2018E | 2019E |
| **Current assets** | 43530 | 53148 | 53018 | 61239 | 67369 |
| Cash | 4487 | 6326 | 8289 | 9720 | 10702 |
| Receivables & adv payments | 18581 | 24576 | 23704 | 27203 | 29955 |
| Inventories | 16417 | 17410 | 20884 | 24175 | 26571 |
| Other CA | 4045 | 4836 | 141 | 141 | 141 |
| **Non current assets** | 63233 | 71263 | 65096 | 63495 | 62243 |
| LT equity investment | 2036 | 2162 | 2162 | 2162 | 2162 |
| Fixed assets | 21948 | 22167 | 21042 | 19791 | 18492 |
| Projects under construction | 17040 | 22769 | 21769 | 21369 | 21369 |
| Intangible assets | 6934 | 7079 | 4707 | 4757 | 4804 |
| Other LT assets | 15275 | 17086 | 15416 | 15416 | 15416 |
| **Total assets** | 106763 | 124411 | 118114 | 124734 | 129612 |
| **Current liabilities** | 45921 | 46249 | 41374 | 44438 | 44798 |
| ST borrowings | 17909 | 15730 | 15550 | 14164 | 11590 |
| Payables & adv receipts | 21904 | 23871 | 25824 | 30274 | 33208 |
| Other CL | 6108 | 6648 | 0 | 0 | 0 |
| **Non current liabilities** | 25347 | 39231 | 35010 | 35010 | 35010 |
| LT borrowings | 23685 | 27023 | 27023 | 27023 | 27023 |
| Bonds payable | 0 | 7987 | 7987 | 7987 | 7987 |
| Other non CL | 1662 | 4221 | 0 | 0 | 0 |
| **Total liabilities** | 71268 | 85480 | 76383 | 79448 | 79808 |
| Share capital | 2978 | 2979 | 2983 | 2983 | 2983 |
| Capital reserve | 3182 | 3127 | 3127 | 3127 | 3127 |
| Retained earnings | 20867 | 20774 | 23124 | 26057 | 29807 |
| Shareholders' equity | 28541 | 29082 | 31436 | 34369 | 38119 |
| Minority interest | 6954 | 9849 | 10295 | 10918 | 11685 |
| **Liabilities & shareholders' equity** | 106763 | 124411 | 118114 | 124734 | 129612 |

| Income statement | | | | | (Rmb m) |
|---|---|---|---|---|---|
| Year ended 31 Dec | 2015A | 2016A | 2017E | 2018E | 2019E |
| **Revenue** | 58686 | 51112 | 71786 | 83461 | 91929 |
| Operating cost | 48081 | 41482 | 58636 | 67875 | 74602 |
| Business tax & surcharges | 433 | 503 | 574 | 668 | 735 |
| Selling expense | 2575 | 2157 | 2871 | 3130 | 3309 |
| Admin expense | 4147 | 4209 | 5025 | 5675 | 6159 |
| Finance expense | 628 | 719 | 1152 | 1155 | 1066 |
| Asset impairment loss | 551 | 2090 | 629 | 468 | 414 |
| Gains from fair value changes | -103 | 614 | 0 | 0 | 0 |
| Net investment gains | 776 | 234 | 120 | 350 | 350 |
| **Operating profit** | 2944 | 801 | 3018 | 4841 | 5993 |
| Non operating income | 436 | 1213 | 800 | 450 | 500 |
| Non operating expense | 174 | 311 | 100 | 100 | 100 |
| **Profit before tax** | 3206 | 1702 | 3718 | 5191 | 6393 |
| Income tax | 934 | 967 | 744 | 1038 | 1279 |
| **Net profit** | 2272 | 735 | 2974 | 4153 | 5114 |
| Minority interest | 298 | 195 | 446 | 623 | 767 |
| **Shareholders' net profit** | 1974 | 540 | 2528 | 3530 | 4347 |
| EBITDA | 5259 | 4953 | 6722 | 8215 | 9275 |
| EPS (Rmb) | 0.66 | 0.18 | 0.85 | 1.18 | 1.46 |

| Cash flow statement | | | | | (Rmb m) |
|---|---|---|---|---|---|
| Year ended 31 Dec | 2015A | 2016A | 2017E | 2018E | 2019E |
| **Operating cash flows** | -3610 | 2342 | 7179 | 4188 | 5634 |
| Net profit | 2272 | 735 | 2974 | 4153 | 5114 |
| Depreciation & amortization | 1809 | 2192 | 2043 | 2101 | 2152 |
| Change in working capital | -8577 | -3781 | 416 | -3226 | -2627 |
| Others | 886 | 3196 | 1746 | 1160 | 995 |
| **Investing cash flows** | -12585 | -6855 | 3686 | 200 | -150 |
| Capex | -11571 | -6335 | 3566 | -150 | -500 |
| Change in investment | -1056 | -967 | 120 | 350 | 350 |
| Others | 42 | 447 | 0 | 0 | 0 |
| **Financing cash flows** | 16519 | 7593 | -8903 | -2956 | -4503 |
| Banking borrwings | 58970 | 54549 | -180 | -1386 | -2574 |
| Equity financing | 3732 | 1769 | 4 | 0 | 0 |
| Others | -46183 | -48725 | -8727 | -1570 | -1929 |
| **Net increase in cash** | 324 | 3080 | 1963 | 1432 | 982 |
| **Beginning cash** | 3667 | 4487 | 6326 | 8289 | 9720 |
| **Ending cash** | 3991 | 7567 | 8289 | 9720 | 10702 |

| Key financial ratios | | | | | |
|---|---|---|---|---|---|
| Year ended 31 Dec | 2015A | 2016A | 2017E | 2018E | 2019E |
| **Growth (%)** | | | | | |
| Revenue | -16.3 | -12.9 | 40.5 | 16.3 | 10.2 |
| Operating profit | -10.7 | -72.8 | 277 | 60.4 | 23.8 |
| Shareholders' net profit | -20.3 | -72.7 | 368.5 | 39.6 | 23.2 |
| **Profitability (%)** | | | | | |
| GPM | 18.1 | 18.8 | 18.3 | 18.7 | 18.9 |
| NPM | 3.9 | 1.4 | 4.1 | 5 | 5.6 |
| ROE | 6.9 | 1.9 | 8 | 10.3 | 11.4 |
| ROIC | 3.9 | 1.7 | 5.7 | 7.3 | 8.4 |
| **Solvency** | | | | | |
| Debt-to-asset (%) | 66.8 | 68.7 | 64.7 | 63.7 | 61.6 |
| Net gearing (%) | 1.2 | 1.2 | 1 | 0.9 | 0.7 |
| Current ratio | 0.95 | 1.15 | 1.28 | 1.38 | 1.5 |
| Quick ratio | 0.52 | 0.73 | 0.7 | 0.76 | 0.83 |
| **Operations** | | | | | |
| Total asset turnover | 0.6 | 0.44 | 0.59 | 0.69 | 0.72 |
| Receivable turnover | 5.3 | 4.61 | 4.56 | 4.56 | 4.56 |
| Inventory turnover | 2.9 | 2.45 | 2.81 | 2.81 | 2.81 |
| **Per share (Rmb)** | | | | | |
| EPS | 0.66 | 0.18 | 0.85 | 1.18 | 1.46 |
| Operating cash flow | -1.21 | 0.79 | 2.41 | 1.4 | 1.89 |
| BPS | 9.59 | 9.76 | 10.54 | 11.52 | 12.78 |
| **Valuation** | | | | | |
| P/E | 31.8 | 81.2 | 26.2 | 18.9 | 15.2 |
| P/B | 2.2 | 1.5 | 2.1 | 1.9 | 1.7 |
| EV/EBITDA | 19.9 | 18.5 | 16.2 | 12.9 | 11 |

*Sources: Company data, GF Securities Development & Research Center*

## Rating definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

| Company ratings | |
|---|---|
| **Buy** | Stock expected to outperform benchmark by more than 15% |
| **Accumulate** | Stock expected to outperform benchmark by more than 5% but not more than 15% |
| **Hold** | Expected stock relative performance ranges between -5% and 5% |
| **Underperform** | Stock expected to underperform benchmark by more than 5% |
| **Sector ratings** | |
| **Positive** | Sector expected to outperform benchmark by more than 10% |
| **Neutral** | Expected sector relative performance ranges between -10% and 10% |
| **Cautious** | Sector expected to underperform benchmark by more than 10% |

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