

BBMG Corporation [2009.HK; 601992.CH]

1H18 Positive Profit Alert Should Help Turn the Overly Bearish Sentiment

BBMG announced that its 1H18 reported net profit would increase by 30%-41% YoY. The Company's share price has dropped 26% YTD, much weaker than other major cement companies because it reported a net loss in Q1. We believe the positive profit alert should help rebuild investors' confidence and show that the net loss in Q1 was just a short-term issue. The current valuation of 6.4x 2018E PER and 0.43x PBR looks too bearish, in our view. We reiterate our BUY rating and maintain our 2018E/2019E earnings forecasts. We lower our SOTP-based target price from HK\$4.68 to HK\$3.55 (0.58x 2018E PBR and 8.6x 2018E PER), mainly due to the adoption of a larger NAV discount for the property business (from 30% to 40%) after the recent correction of the whole sector. We also lower our target price for BBMG-A (601992.CH) from RMB5.66 to RMB4.55 accordingly (50% premium to our H-share target price, methodology unchanged).

Investment Highlights

- **Concerns about the net loss in Q1 largely removed.** BBMG announced that its reported net profit in 1H18 would be RMB2.4bn-2.6bn, up 30%-41% YoY, driven by higher ASPs in the property development and cement businesses. This should largely remove concerns about the weak Q1 results, which recorded a net loss of RMB213m because of limited revenue booking from the property development business and the low cement sales volume due to seasonality. Unless the non-cash property revaluation gain in 1H18 is exceptionally large, the Company should be on track to reach our full-year recurring profit forecast of RMB3.66bn.
- **Good progress in catching up in Q2.** In Q1 2018, GFA booked for the property development business fell 29% YoY to 0.142m m², and sales volume for the cement business declined 13% YoY to 11.53m tonnes. According to the announcement yesterday, GFA booked in 1H18 was 0.4m m², which was largely flat YoY, while sales volume for the cement business was 39.6m tonnes during the same period, down 6.24%. The figures show the performance in Q2 was much stronger than that of Q1.
- **Refinancing should not be a concern.** Many China property plays faced selling pressure in the past few weeks because of concerns about refinancing amid tightening credit in China. However, as one of the key SOEs under the Beijing municipal government, we believe BBMG should not have any problem getting access to bank loans and the bond market for refinancing.
- **Very low valuation.** BBMG is trading at 0.43x 2018E PBR, lower than the historical average by about 1.5 standard deviations. We believe the share price weakness was caused mainly by the poor Q1 results and selling pressure in the China property sector. The 1H18 positive profit alert should help remove the concern about missing the revenue booking target for the property development business. As the 2018E PER of 6.4x is also near the low end of the trading range, further share price downside risk should be limited, in our view.

Y/E Dec 31	2015	2016	2017	2018E	2019E
Turnover (RMB m)	38,747	46,168	61,838	71,196	77,281
Recurring net profit (RMB m)	1,873	2,319	2,536	3,657	3,915
Net margin (%)	4.8	5.0	4.1	5.1	5.1
Recurring EPS (RMB)	0.18	0.22	0.24	0.34	0.37
% Change	(14)	24	9	44	7
PER (x)	12.3	10.5	9.3	6.4	6.0
PBR (x)	0.61	0.55	0.48	0.43	0.40

Sources: Company, CGIS Research

China Cement Sector

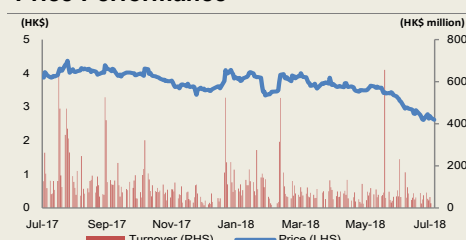
BUY

Close: HK\$2.62 (Jul 16, 2018)

Target Price (H): HK\$3.55 (35.4%)

Target Price (A): RMB4.55 (39.2%)

Price Performance



Source: Bloomberg

Market Cap	US\$4,856m
Shares Outstanding	10,677.7m
Auditor	Ernst & Young
Free Float	48.26%
52W range	HK\$2.58-4.43
3M average daily T/O	US\$9.1m
Major Shareholder	BBMG Group (44.93%)

Sources: Company, Bloomberg

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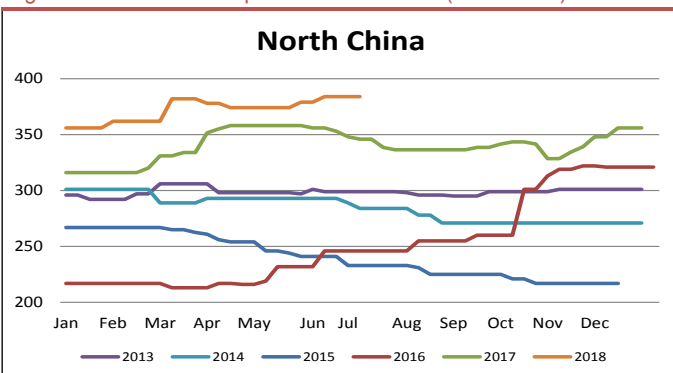
Key financials

BBMG (02009.HK; 601992.CH)
 Income Statement
 (RMB'000, except for per share amount)

Year ended 31 Dec	2015	2016	2017	2018E	2019E
Revenue	38,746,899	46,167,928	61,838,143	71,195,795	77,281,325
COGS	(30,526,041)	(36,542,047)	(47,635,012)	(53,683,748)	(58,269,727)
Gross profit	8,220,858	9,625,881	14,203,131	17,512,046	19,011,598
Operating expenses	(4,519,969)	(5,662,098)	(8,832,913)	(10,057,026)	(10,807,330)
Operating profit	3,700,889	3,963,783	5,370,218	7,455,020	8,204,268
Other income and expenses	668,260	716,618	773,475	783,154	850,095
EBIT	4,369,150	4,680,401	6,143,693	8,238,174	9,054,362
Net finance costs	(1,335,546)	(1,603,501)	(2,675,588)	(3,194,060)	(3,661,021)
Profits from JCEs and associates	(17,694)	108,900	188,732	190,000	215,000
Non-recurrent items	166,745	490,732	400,307	-	-
Income before tax	3,182,654	3,676,532	4,057,144	5,234,114	5,608,342
Income tax expense	(1,231,587)	(986,183)	(1,106,795)	(1,384,945)	(1,487,242)
Minority interests	66,386	(3,693)	(113,684)	(192,458)	(206,055)
Net income	2,017,453	2,686,656	2,836,665	3,656,710	3,915,045
Recurring net income	1,873,061	2,318,607	2,536,435	3,656,710	3,915,045
EPS (RMB)	0.189	0.252	0.266	0.342	0.367
Recurring EPS (RMB)	0.175	0.217	0.238	0.342	0.367
DPS (HK\$)	0.018	0.053	0.057	0.074	0.079
Depreciation and amortization	1,346,751	1,870,612	3,686,577	3,817,650	4,023,889
EBITDA	5,715,901	6,551,013	9,830,270	12,055,824	13,078,251
Cement and clinker ASP (RMB/tonne)	178	193	245	274	278
Cement and clinker vol. ('000 tonnes)	39,260	55,214	102,603	103,403	105,375
Cement and clinker gross profit (RMB/tonne)	18	43	75	92	93
Booked GFA ('000 sq.m)	1,263	1,156	949	1,050	1,103
Revenue Breakdown:#					
Cement	10,828,700	15,365,000	31,073,800	33,926,360	35,289,363
Modern building materials	10,371,700	11,121,400	13,034,700	14,859,558	16,642,705
Property investment	2,692,400	3,260,300	3,316,400	3,386,473	3,484,402
Property development	16,921,400	18,448,500	16,079,800	21,225,336	24,255,000
Growth Rates:					
Revenue	-2%	19%	34%	15%	9%
EBIT	-3%	7%	31%	34%	10%
EBITDA	0%	15%	50%	23%	8%
Core net income	-4%	24%	9%	44%	7%
Recurring EPS	-14%	24%	9%	44%	7%
Margins and Ratios:					
Gross margin	21.2%	20.8%	23.0%	24.6%	24.6%
Net margin	4.7%	5.0%	4.3%	5.4%	5.3%
EBIT margin	9.6%	8.6%	8.7%	10.5%	10.6%
EBITDA margin	14.8%	14.2%	15.9%	16.9%	16.9%
Effective tax rate	39%	27%	27%	26%	27%

Sources: Company data, CGIS Research estimates

Figure 1: Market cement prices in north China (RMB/tonne)



Sources: Digital Cement, CGIS Research

Figure 2: Sum-of-the-parts valuation

	RMB m	Note
Cement and other building materials	33,064	1x PBR
Investment properties	17,272	40% valuation discount; 7% cap rate
Property development	51,554	40% valuation discount
JV and associates	2,365	
Net debt	(53,762)	
Minority interests	(18,945)	
Equity value	31,548	
Price Target (HK\$)	3.55	

Sources: CGIS Research

Key financials

BBMG (02009.HK; 601992.CH)

Balance Sheet

(RMB'000, except for per share amount)

As at 31 Dec	2015	2016	2017	2018E	2019E
Inventories	54,007,187	64,111,235	98,649,717	110,000,000	125,000,000
Trade receivables	7,387,536	11,140,789	10,106,902	12,000,000	13,000,000
Bills receivable	2,197,924	3,857,029	8,181,664	8,181,664	8,181,664
Others	7,373,104	12,359,459	8,747,133	9,361,457	9,431,457
Bank balances and cash	18,369,881	28,010,211	17,903,847	16,571,217	20,579,520
Total current assets	89,335,633	119,478,723	143,589,262	156,114,338	176,192,641
PPE, net	19,390,359	49,736,905	48,766,812	48,679,914	47,956,025
Prepaid lease payments	-	-	-	-	-
Others	22,020,713	39,181,481	39,851,408	40,638,771	41,447,249
Total non-current assets	41,411,072	88,918,386	88,618,220	89,318,685	89,403,274
Total assets	130,746,704	208,397,109	232,207,482	245,433,023	265,595,915
Trade payables	9,062,191	14,624,964	17,205,079	19,000,000	21,000,000
Other payables	3,626,299	7,179,818	9,250,033	10,500,000	12,000,000
Bank and other borrowings	16,805,996	32,027,734	34,375,200	39,000,000	46,000,000
Others	35,692,087	41,131,670	49,604,049	51,494,296	53,694,296
Total current liabilities	65,186,574	94,964,186	110,434,361	119,994,296	132,694,296
Bank and other borrowings	6,888,600	18,087,686	25,671,030	26,000,000	30,000,000
Others	16,489,656	32,435,727	26,184,281	26,184,281	26,184,281
Total non-current liabilities	23,378,256	50,523,413	51,855,311	52,184,281	56,184,281
Total liabilities	88,564,830	145,487,599	162,289,672	172,178,577	188,878,577
Shareholders' equity	38,082,973	44,200,488	51,162,848	54,307,025	57,563,862
Minority interests	4,098,901	18,709,022	18,754,962	18,947,421	19,153,476

Statement of Cash Flow

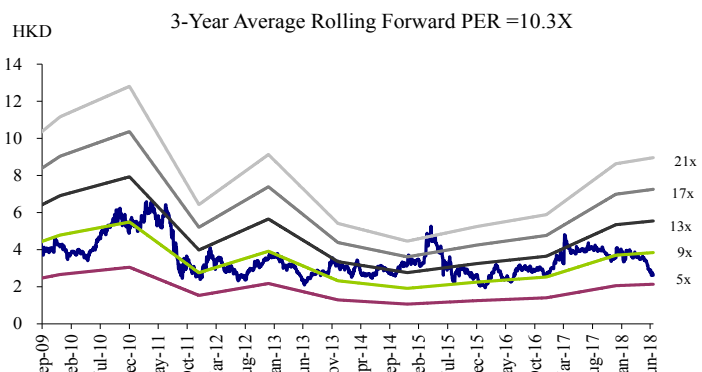
Year ended 31 Dec	2015	2016	2017	2018E	2019E
Profit before tax	3,182,654	3,676,532	4,057,144	5,234,114	5,608,342
Depreciation & Amortization	1,346,751	1,948,016	3,630,396	3,817,650	4,023,889
Change in working capital	(8,477,792)	(7,036,273)	(28,028,297)	(10,308,068)	(12,700,000)
Others / adjustments	(797,317)	(2,781,820)	8,486,504	(871,888)	280,781
Net operating cash flow	(4,745,703)	(4,193,545)	(11,854,253)	(2,128,193)	(2,786,988)
Capex	(680,623)	(2,410,059)	(1,882,247)	(3,500,000)	(3,500,000)
Others	1,169,447	(1,464,688)	1,182,659	-	-
Net investing cash flow	488,824	(3,874,747)	(699,588)	(3,500,000)	(3,500,000)
Change in debt	5,279,212	26,568,130	9,919,031	4,953,770	11,000,000
Dividends	(160,167)	(491,177)	(512,533)	(658,208)	(704,708)
Others	3,431,827	(19,361,880)	(2,078,466)	-	-
Net financing cash flow	8,550,872	6,715,073	7,328,032	4,295,562	10,295,292
Increase / Decrease in cash	7,389,709	9,640,330	(10,106,364)	(1,332,631)	4,008,304
Net cash/(debt)	(23,324,716)	(46,384,605)	(63,066,922)	(69,353,322)	(76,345,019)

Finance Ratios

	2015	2016	2017	2018E	2019E
Valuation					
PE(x)	12.3	10.5	9.3	6.4	6.0
EPS growth (%)	-	14	24	9	44
Yield (%)	0.8	2.3	2.6	3.4	3.6
PEG (x)	-0.91	0.44	0.99	0.14	0.84
EV/EBITDA (x)	18.4	16.0	10.7	8.7	8.0
PB(x)	0.61	0.55	0.48	0.43	0.40
Operational					
Revenue growth (%)	-	2	19	34	15
Gross margin (%)	21.2	20.8	23.0	24.6	24.6
Net profit margin (%)	4.7	5.0	4.3	5.4	5.3
Days receivables	62	73	63	57	59
Days payables	111	118	122	123	125
Days inventories	615	590	624	709	736
Current ratio (x)	1.4	1.3	1.3	1.3	1.3
Quick ratio (x)	0.4	0.5	0.3	0.3	0.3
Asset/Equity (x)	3.1	3.3	3.3	3.4	3.5
Net debt/equity (%)	55	74	90	95	100
EBITDA interest coverage (x)	4.3	4.1	3.7	3.8	3.6
Core ROE (%)	5.4	5.6	5.3	6.9	7.0

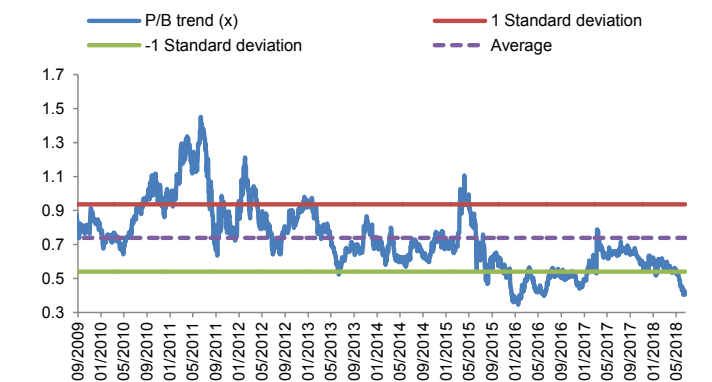
Sources: Company data, CGIS Research estimates

Figure 3: PER band of BBMG



Source: CGIS Research

Figure 4: PBR range of BBMG



Source: CGIS Research

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- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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