

BBMG Corporation [2009.HK; 601992.CH]

Positive outlook for the cement and property business in 2H18; Maintain BUY

BBMG reported a recurring net profit of RMB2.1bn in 1H18, up 23.6% YoY. As the Company reported a recurring loss of RMB378m in Q1 2018, this implies a strong performance in Q2 2018, thanks to much higher revenue booking from the property development business. We raise our 2018E/2019E EPS by 12.6%/14%, based on updated gross margin guidance from the Company for the property development segment and a higher gross profit per tonne assumption for the cement business. We raise our SOTP-based target price from HK\$3.55 to HK\$3.70 (0.6x 2018E PBR and 8.3x 2018E PER). We maintain our BUY rating, but BBMG's share price performance may not be as strong as that of other pure cement plays due to its conglomerate structure. We also lift our target price for BBMG-A (601992.CH) from RMB4.55 to RMB4.80 accordingly (50% premium to our H-share target price, methodology unchanged).

Investment Highlights

- **Large improvement in gross profit for the cement business.** BBMG's cement segment reported pre-tax profit of RMB1.45bn in 1H18 (36.9% of the total), a marked improvement from RMB245m in 1H17. Gross profit per tonne rose from RMB72 in 1H17 to RMB106 in 1H18 thanks to a rising ASP. Meanwhile, sales volume dropped 4.8% YoY to 43.6m tonnes.
- **Much better performance of the property development business in Q2.** In 1H18, GFA booked for the property development business rose 6% YoY to 0.431m m², much better than the 29% decline YoY in Q1. This segment contributed pre-tax profit of RMB1.98bn in 1H18 (50.5% of the total), up 32.8% YoY. The Company maintained its guidance of booking about RMB21bn in revenue for the full year, implying about 30% growth YoY. In terms of GFA, contracted sales dropped 34% YoY to 0.518m m² in 1H18. Management expects contracted sales to pick up in 2H18 and aims to achieve about 1.2m m² for the full year, implying a decline of 12% YoY, much better than the decline of 34% in 1H18.
- **Cement business to remain upbeat in 2H18.** Management expects cement demand to pick up during the peak season in 2H18 in north China, i.e. September and October. Therefore, there is still room for the cement ASP to increase further. Regarding the Xiongan New Area Development, the Company estimates that incremental cement demand will be about 7m to 10m tonnes per annum in the first few years if more projects start construction. (Note: BBMG's cement and clinker sales volume in 2017: 102.6m tonnes.)
- **Upward earnings revision.** Previously the Company guided the gross margin of the property development business to be about 27.5% in 2018E. Management turned more positive yesterday and expects the full-year gross margin of this segment to reach about 30%. Therefore, we raise our 2018E/2019E EPS by 12.6%/14% based on the updated guidance and a more positive view of the cement business (2018E gross profit per tonne increased from RMB92 to RMB110).

Y/E Dec 31	2015	2016	2017	2018E	2019E
Turnover (RMB m)	38,747	46,168	61,838	72,351	76,504
Recurring net profit (RMB m)	1,873	2,319	2,844	4,117	4,469
Net margin (%)	4.8	5.0	4.6	5.7	5.8
Recurring EPS (RMB)	0.18	0.22	0.27	0.39	0.42
% Change	(14)	24	23	45	9
PER (x)	13.6	11.5	9.2	6.5	6.0
PBR (x)	0.67	0.60	0.53	0.47	0.44

Sources: Company, CGIS Research

China Cement Sector

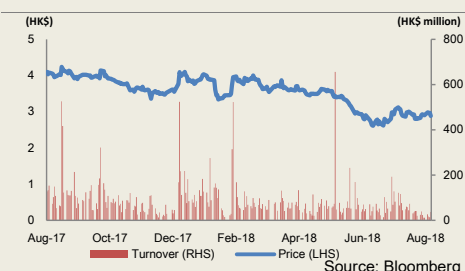
BUY

Close: HK\$2.88 (Aug 30, 2018)

Target Price (H): HK\$3.70 (28.4%)

Target Price (A): RMB4.80 (38.6%)

Price Performance



Market Cap	US\$5,106m
Shares Outstanding	10,677.7m
Auditor	Ernst & Young
Free Float	48.26%
52W range	HK\$2.58-4.37
3M average daily T/O	US\$8.7m
Major Shareholder	BBMG Group (44.93%)

Sources: Company, Bloomberg

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1H18 results highlights of BBMG

Y/E Dec (Rmb '000)	1H17	1H18	YoY change
Operating revenue	29,465,846	35,365,393	20.0%
Less: Operating costs	21,479,871	25,534,771	18.9%
Business tax and surcharges	973,940	1,053,708	8.2%
Selling expenses	1,162,126	1,163,665	0.1%
Administrative expenses	2,671,044	3,093,590	15.8%
Research and development expenses	22,652	63,250	179.2%
Finance costs	1,332,763	1,363,946	2.3%
Including: Interest income	102,242	119,554	16.9%
Interest expense	1,302,028	1,293,674	-0.6%
Asset impairment losses	146,941	14,133	-90.4%
Credit impairment losses	-	(43,476)	n.a.
Add: Other gains	255,474	297,746	16.5%
Investment gains	271,046	232,457	-14.2%
Including: Share of gains of associates and joint ventures	52,810	139,008	163.2%
Gains from changes of fair value	126,425	273,123	116.0%
Gains/(losses) on disposal of assets	(11,132)	18,831	n.a.
Operating profit	2,318,320	3,943,963	70.1%
Add: Non-operating revenue	123,912	88,381	-28.7%
Less: Non-operating expenses	14,547	108,945	648.9%
Total profit	2,427,685	3,923,400	61.6%
Less: Income tax expenses	645,662	995,656	54.2%
Less: Minority interests	(64,348)	517,537	n.a.
Net profit	1,846,371	2,410,206	30.5%

Sources: Company, CGIS Research

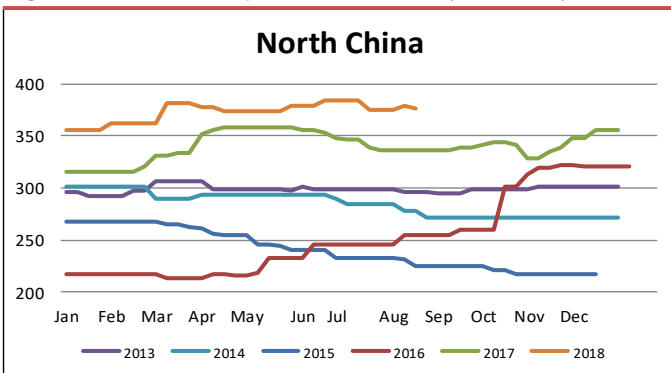
Key financials

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	72,351,383	76,503,959
COGS	(30,526,041)	(36,542,047)	(47,635,012)	(53,344,641)	(56,735,163)
Gross profit	8,220,858	9,625,881	14,203,131	19,006,742	19,768,796
Operating expenses	(4,519,969)	(5,662,098)	(8,832,913)	(9,912,341)	(10,516,256)
Operating profit	3,700,889	3,963,783	5,370,218	9,094,402	9,252,540
Other income and expenses	668,260	716,618	1,081,502	771,698	852,748
EBIT	4,369,150	4,680,401	6,451,720	9,866,100	10,105,288
Net finance costs	(1,335,546)	(1,603,501)	(2,675,588)	(3,330,745)	(3,684,849)
Profits from JCEs and associates	(17,694)	108,900	188,732	259,008	290,000
Non-recurring items	166,745	490,732	400,307	414,746	-
Income before tax	3,182,654	3,676,532	4,365,171	7,209,109	6,710,439
Income tax expense	(1,231,587)	(986,183)	(1,106,795)	(1,849,941)	(1,744,714)
Minority interests	66,386	(3,693)	(113,684)	(930,879)	(496,572)
Net income	2,017,453	2,686,656	3,144,692	4,428,289	4,469,152
Recurring net income	1,873,061	2,318,607	2,844,462	4,117,229	4,469,152
EPS (RMB)	0.189	0.252	0.295	0.415	0.419
Recurring EPS (RMB)	0.175	0.217	0.266	0.386	0.419
DPS (HK\$)	0.018	0.053	0.057	0.086	0.087
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	10,138,297	13,683,750	14,129,177
Cement and clinker ASP (RMB/tonne)	178	193	245	291	293
Cement and clinker vol. ('000 tonnes)	39,260	55,214	102,603	97,894	98,022
Cement and clinker gross profit (RMB/tonne)	18	43	75	110	110
Booked GFA ('000 sq.m)	1,263	1,156	949	920	966
Revenue Breakdown:#					
Cement	10,828,700	15,365,000	31,073,800	34,523,147	34,054,843
Modern building materials	10,371,700	11,121,400	13,034,700	16,212,120	18,643,938
Property investment	2,692,400	3,260,300	3,316,400	3,852,480	3,953,280
Property development	16,921,400	18,448,500	16,079,800	21,225,336	22,218,000
Growth Rates:					
Revenue	-2%	19%	34%	17%	6%
EBIT	-3%	7%	38%	53%	2%
EBITDA	0%	15%	55%	35%	3%
Core net income	-4%	24%	23%	45%	9%
Recurring EPS	-14%	24%	23%	45%	9%
Margins and Ratios:					
Gross margin	21.2%	20.8%	23.0%	26.3%	25.8%
Net margin	4.7%	5.0%	4.8%	7.0%	6.5%
EBIT margin	9.6%	8.6%	8.7%	12.6%	12.1%
EBITDA margin	14.8%	14.2%	16.4%	18.9%	18.5%
Effective tax rate	39%	27%	25%	26%	26%

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	30,584	1x PBR
Investment properties	18,553	40% valuation discount; 7% cap rate
Property development	55,523	40% valuation discount
JV and associates	2,434	
Net debt	(53,762)	
Minority interests	(18,945)	
Equity value	34,387	
Price Target (HK\$)	3.70	

Source: 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	20,140,253	18,640,046
Total current assets	89,335,633	119,478,723	143,589,262	159,683,374	174,253,167
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	43,868,734	44,891,463
Total non-current assets	41,411,072	88,918,386	88,618,220	92,548,648	92,847,488
Total assets	130,746,704	208,397,109	232,207,482	252,232,022	267,100,655
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	43,000,000
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	129,694,296
Bank and other borrowings	6,888,600	18,087,686	25,671,030	26,000,000	27,000,000
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	53,184,281
Total liabilities	88,564,830	145,487,599	162,289,672	172,178,577	182,878,577
Shareholders' equity	38,082,973	44,200,488	51,162,848	57,074,604	60,746,664
Minority interests	4,098,901	18,709,022	18,754,962	22,978,841	23,475,414

Statement of Cash Flow

Year ended 31 Dec	2015	2016	2017	2018E	2019E
Profit before tax	3,182,654	3,676,532	4,365,171	7,209,109	6,710,439
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)	8,178,477	861,038	(230,088)
Net operating cash flow	(4,745,703)	(4,193,545)	(11,854,253)	1,579,728	(2,195,760)
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	5,000,000
Dividends	(160,167)	(491,177)	(512,533)	(797,092)	(804,447)
Others	3,431,827	(19,361,880)	(2,078,466)	-	-
Net financing cash flow	8,550,872	6,715,073	7,328,032	4,156,678	4,195,553
Increase / Decrease in cash	7,389,709	9,640,330	(10,106,364)	2,236,406	(1,500,207)
Net cash/(debt)	(23,324,716)	(46,384,605)	(63,066,922)	(65,784,286)	(72,284,493)

Finance Ratios

	2015	2016	2017	2018E	2019E
Valuation					
PE(x)	13.6	11.5	9.2	6.5	6.0
EPS growth (%)	-	14	24	45	9
Yield (%)	0.8	2.1	2.3	3.4	3.5
PEG (x)	-1.00	0.48	0.40	0.15	0.70
EV/EBITDA (x)	19.0	16.6	10.7	7.9	7.7
PB(x)	0.67	0.60	0.53	0.47	0.44
Operational					
Revenue growth (%)	-	2	19	34	17
Gross margin (%)	21.2	20.8	23.0	26.3	25.8
Net profit margin (%)	4.7	5.0	4.8	7.0	6.5
Days receivables	62	73	63	56	60
Days payables	111	118	122	124	129
Days inventories	615	590	624	714	756
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	3.2	3.2
Net debt/equity (%)	55	74	90	82	86
EBITDA interest coverage (x)	4.3	4.1	3.8	4.1	3.8
Core ROE (%)	5.4	5.6	6.0	7.6	7.6

Sources: Company data, CGIS Research estimates

Figure 3: PER band of BBMG

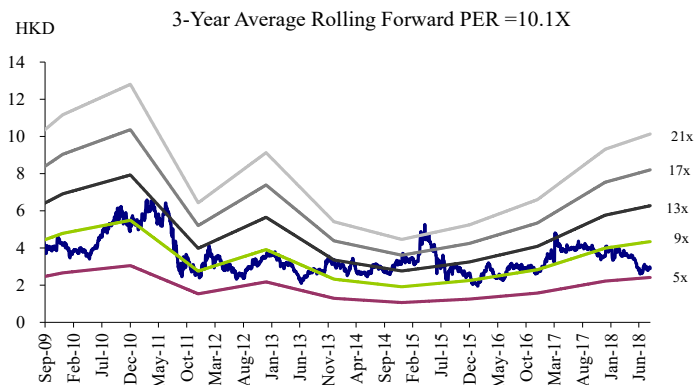
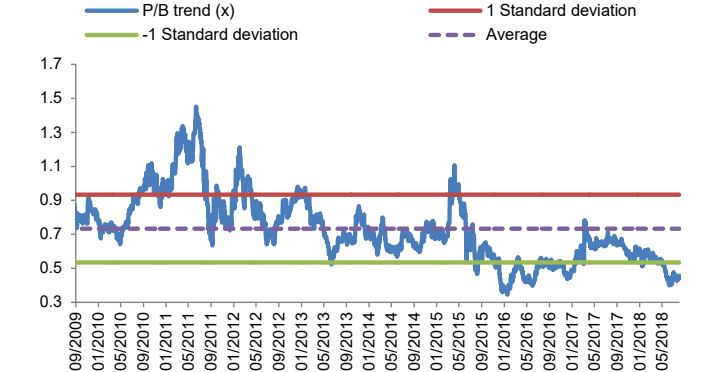


Figure 4: PBR range of BBMG



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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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