

BBMG Corp. (2009.HK)

Earnings Review: 1H18 results above expectation on better property and cement prices

2009.HK	12m Price Target: HK\$4.60	Price: HK\$2.88	Upside: 59.7%
601992.SS	12m Price Target: Rmb5.50	Price: Rmb3.48	Upside: 58.0%

BBMG 1H18A NP was Rmb2.41bn, or EPS of Rmb0.226, both up 31% YoY. Excluding one-off items including asset write-downs, recurring profit comes to Rmb2.37bn, up 21% YoY, 22% ahead of our estimates mainly due to higher than expected ASP in property sales, better cement margin partly offset by lower concrete volume.

Cement segment (50% of total gross profit in 1H18A) reported gross profit was Rmb4.91bn, up 31% YoY, slightly lower than expectation as stronger cement margin was offset by lower concrete volume. Sales volume of cement/clinker was 43.6mnt, down 5% YoY, slightly behind our expectation. Unit GP was Rmb106/t, up Rmb34/t YoY - we estimate implied 2Q18A unit GP was Rmb117/t. Unit SG&A was Rmb71/t, up 5% YoY, driven mostly by lower sales volume.

Property development segment (32% of total gross profit in 1H18A) gross profit was Rmb3.18bn, up 35% YoY, much ahead of expectation driven by higher ASP. The booked area was 431k square meters, up 6% YoY. ASP was Rmb23158/m², up 28% YoY. On the property development segment, BBMG guided for higher booked and presale revenue in 2018E YoY (Rmb21.4bn and Rmb27.0bn respectively), as better pricing more than offset lower GFA sold. Specifically, management guided for 920k square meters GFA booked in 2018E, with revenue of Rmb21.4bn (up 34% YoY), implies full-year ASP of Rmb23093/m².

Property investment and management segment (11% of total gross profit in 1H18A) gross profit was Rmb1.1bn. Gross GFA of inv property was 1085k square meters, up 52% YoY.

Net debt was Rmb81.1bn, up 11% YoY, with net gearing reaching 149%, versus 135% at the end of 2017, higher than expected. AP

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Key Data

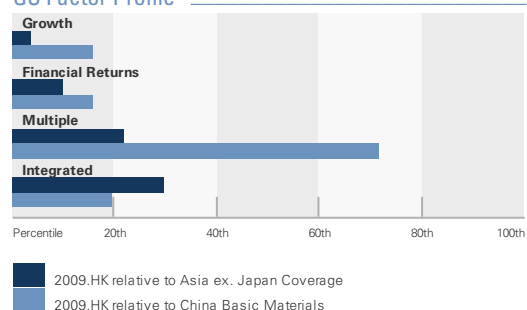
Market cap: HK\$30.8bn / \$3.9bn
Enterprise value: HK\$136.7bn / \$17.4bn
3m ADTV: HK\$67.8mn / \$8.6mn
China
China Basic Materials
M&A Rank: 3

GS Forecast

	12/17	12/18E	12/19E	12/20E
Revenue (Rmb mn) New	61,838.1	71,744.2	74,201.9	73,153.0
Revenue (Rmb mn) Old	61,838.1	75,886.4	75,042.9	74,491.4
EBITDA (Rmb mn)	10,934.4	15,130.3	12,863.2	12,135.8
EPS (Rmb) New	0.27	0.44	0.32	0.29
EPS (Rmb) Old	0.27	0.33	0.32	0.31
P/E (X)	12.3	5.7	7.7	8.5
P/B (X)	0.7	0.5	0.5	0.4
Dividend yield (%)	1.5	3.2	2.3	2.1
CROCI (%)	27.6	9.1	7.8	7.4

	12/17	6/18	12/18E	--
EPS (Rmb)	0.09	0.23	0.21	--

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Buy

BBMG Corp. (2009.HK)

Rating since Nov 20, 2017

Ratios & Valuation

	12/17	12/18E	12/19E	12/20E
P/E (X)	12.3	5.7	7.7	8.5
P/B (X)	0.7	0.5	0.5	0.4
FCF yield (%)	19.3	12.3	19.0	15.7
EV/EBITDA (X)	NM	NM	NM	NM
CROCI (%)	27.6	9.1	7.8	7.4
ROE (%)	5.9	8.8	6.1	5.3
Net debt/equity (%)	98.8	96.3	82.5	71.5
Interest cover (X)	2.5	3.7	3.0	3.0
Days inventory outst, sales	480.3	501.9	485.3	492.2
Receivable days	139.8	133.4	144.6	148.1
Days payable outstanding	316.6	327.4	331.1	335.8
DuPont ROE (%)	4.1	6.3	4.4	3.8
Turnover (X)	0.3	0.3	0.3	0.3
Leverage (X)	3.3	3.3	3.1	3.0

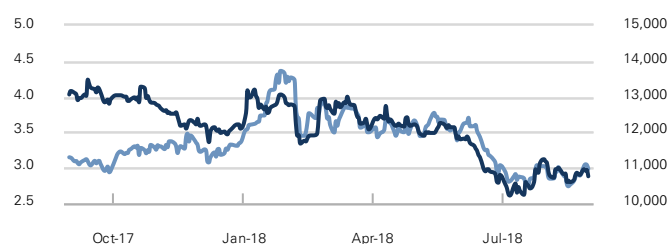
Growth & Margins (%)

	12/17	12/18E	12/19E	12/20E
Total revenue growth	33.9	16.0	3.4	(1.4)
EBITDA growth	55.1	38.4	(15.0)	(5.7)
EPS growth	5.6	65.9	(26.3)	(9.8)
DPS growth	4.3	65.9	(26.3)	(9.8)
EBIT margin	10.8	14.6	11.2	10.3
EBITDA margin	17.7	21.1	17.3	16.6
Net income margin	4.6	6.6	4.7	4.3

Price Performance

2009.HK (HK\$)

Hang Seng China Ent.



	3m	6m	12m
Absolute	(15.5)%	(25.0)%	(29.8)%
Rel. to the Hang Seng China Ent.	(9.4)%	(15.3)%	(27.2)%

Source: FactSet. Price as of 30 Aug 2018 close.

Income Statement (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Total revenue	61,838.1	71,744.2	74,201.9	73,153.0
Cost of goods sold	(47,635.0)	(53,640.9)	(57,944.7)	(57,686.8)
SG&A	(8,832.9)	(8,775.6)	(8,689.0)	(8,676.1)
R&D	—	—	—	—
Other operating inc./exp.)	1,090.1	1,012.4	772.5	773.7
EBITDA	10,745.6	14,991.3	12,863.2	12,136.8
Depreciation & amortization	(4,285.3)	(4,651.2)	(4,522.6)	(4,572.1)
EBIT	6,649.1	10,479.1	8,340.6	7,563.7
Net interest inc./exp.)	(2,675.6)	(2,838.4)	(2,772.7)	(2,548.5)
Income/(loss) from associates	188.7	139.0	—	—
Pre-tax profit	4,057.1	7,620.1	5,567.9	5,015.2
Provision for taxes	(1,106.8)	(1,905.0)	(1,392.0)	(1,253.8)
Minority interest	(113.7)	(1,010.3)	(709.7)	(635.1)
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	2,836.7	4,704.8	3,466.2	3,126.3
Post-tax exceptionals	—	—	—	—
Net inc. (post-exceptionals)	2,836.7	4,704.8	3,466.2	3,126.3
EPS (basic, pre-exception) (Rmb)	0.27	0.44	0.32	0.29
EPS (diluted, pre-exception) (Rmb)	0.27	0.44	0.32	0.29
EPS (basic, post-exception) (Rmb)	0.27	0.44	0.32	0.29
EPS (diluted, post-exception) (Rmb)	0.27	0.44	0.32	0.29
DPS (Rmb)	0.05	0.08	0.06	0.05
Div. payout ratio (%)	18.1	18.1	18.1	18.1

Balance Sheet (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Cash & cash equivalents	17,903.8	17,936.0	18,550.5	18,288.2
Accounts receivable	23,539.3	28,894.2	29,884.0	29,461.6
Inventory	98,649.7	98,649.7	98,649.7	98,649.7
Other current assets	3,496.4	3,496.4	3,496.4	3,496.4
Total current assets	143,589.3	148,976.4	150,580.6	149,896.0
Net PP&E	45,895.3	47,544.1	43,521.5	39,448.4
Net intangibles	13,597.4	13,597.4	13,597.4	13,597.4
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	29,125.5	37,683.3	38,160.5	38,647.3
Total assets	232,207.5	247,801.3	245,860.1	241,589.0
Accounts payable	44,545.6	51,681.5	53,451.9	52,696.3
Short-term debt	43,187.3	44,803.0	41,310.1	38,009.2
Other current liabilities	22,701.5	22,701.5	22,701.5	22,701.5
Total current liabilities	110,434.4	119,186.0	117,463.5	113,407.0
Long-term debt	43,825.9	45,465.5	41,920.9	38,571.2
Other long-term liabilities	8,029.4	8,029.4	8,029.4	8,029.4
Total long-term liabilities	51,855.3	53,494.9	49,950.4	46,600.7
Total liabilities	162,289.7	172,680.9	167,413.9	160,007.7
Preferred shares	—	—	—	—
Total common equity	51,162.8	55,355.2	57,971.3	60,471.3
Minority interest	18,755.0	19,765.2	20,474.9	21,110.0
Total liabilities & equity	232,207.5	247,801.3	245,860.1	241,589.0
Gross cash invested (ex cash)	134,258.0	138,777.0	138,496.4	139,329.6
Net debt, adjusted	69,109.3	72,332.4	64,680.6	58,292.2
Average capital employed	127,609.3	143,239.9	145,289.8	141,500.1
BVPS (Rmb)	4.79	5.18	5.43	5.66

Cash Flow (Rmb mn)

	12/17	12/18E	12/19E	12/20E
Net income	2,836.7	4,704.8	3,466.2	3,126.3
D&A add-back	4,285.3	4,651.2	4,522.6	4,573.1
Minority interest add-back	113.7	1,010.3	709.7	635.1
Net (inc)/dec working capital	(20,008.8)	1,780.9	780.6	(333.1)
Other operating cash flow	24,627.7	(139.0)	0.0	—
Cash flow from operations	11,854.5	12,008.2	9,479.1	8,001.4
Capital expenditures	(1,500.0)	(6,300.0)	(500.0)	(500.0)
Acquisitions	—	—	—	—
Divestitures	—	—	—	—
Others	800.4	(8,418.8)	(477.2)	(486.7)
Cash flow from investing	(699.6)	(14,718.8)	(977.2)	(986.7)
Dividends paid (common & pref)	(491.2)	(512.5)	(850.1)	(626.3)
Inc/(dec) in debt	5,720.9	3,255.3	(7,037.4)	(6,650.6)
Other financing cash flows	(26,491.0)	0.0	0.0	0.0
Cash flow from financing	(21,261.3)	2,742.8	(7,887.5)	(7,276.9)
Total cash flow	(10,106.4)	32.2	614.4	(262.2)
Free cash flow	10,354.5	5,708.2	8,979.1	7,501.4

Source: Company data, Goldman Sachs Research estimates.

days declined to 94 days (256 days in 1H17A), down 63% YoY. AR days and inventory days are mostly stable YoY. Operating cash flow was Rmb-3.6bn, still negative but much improved than last year.

We maintain our cautious view on the construction demand outlook in 2019E, in the context of a slowdown/contraction in local government infrastructure projects, led by the PPP projects cleanups in 1H18A, and persistent tighter control in financing structure for new projects. We expect the negative impact of demand on margin will emerge in 2H18E in central, western and northern regions where intrinsic oversupply is more prevailing, and then likely to affect the coastal region thereafter. On a parity basis, we expect the unit gross profit of BBMG to fall to Rmb70/t in 2019E, higher than historical level, yet nearly 29% lower YoY versus an average Rmb99/t for 2018E.

Estimates and target price revised upward

We revise up net profit by 34% for 2018E, flat for 2019E and down by 6% for 2020E on the back of changes in our unit gross profit assumption (higher for 2018E and mild changes for 2019E). We also incorporate a stronger margin outlook for non-cement businesses. Valuation remains undemanding, we upgrade our rating for A-share to Buy from Neutral and maintain our Buy rating on H-share, with a revised 12-month target price of HK\$4.6 for H (from HK\$4.2), and Rmb5.5 for A (maintain Rmb5.5). Our target price methodology remains unchanged, based on historical P/B vs. ROE correlation - or 2019E P/B of 0.97x/1.01x at an ROE of 6.1%. Since we initiated on BBMG-A with a Neutral rating on November 20, 2017, the stock is down 38% vs. CSI300 -19.1%.

Key risks: 1) better-/worse-than-expected cement prices driven by industry supply-demand balance that could swing on demand uncertainty, government supply policies; 2) greater-/weaker-than-expected cost pressure from coal, power and other raw materials; and 3) slower-/faster-than-expected execution on PC32.5 elimination.

Exhibit 1: 1H18 Results Summary - BBMG (Financials)

BBMG - Financials		1H18A	1H17A	YoY	1H18E	AvE
Revenue	Rmb mn	35,365	29,466	20%	35,399	0%
Business tax	Rmb mn	(1,054)	(974)	8%	(1,023)	3%
Net revenue	Rmb mn	34,312	28,492	20%	34,377	0%
COGS	Rmb mn	(25,535)	(21,480)	19%	(26,401)	-3%
Gross Profit	Rmb mn	8,777	7,012	25%	7,976	10%
Gain on inv prop	Rmb mn	273	126	116%	309	-12%
Other revenues/gains	Rmb mn	439	316	39%	(120)	-466%
Sales & dist	Rmb mn	(1,164)	(1,162)	0%	(1,314)	-11%
Admin	Rmb mn	(3,157)	(2,694)	17%	(3,138)	1%
Share of associate	Rmb mn	139	53	163%	n.a.	n.a.
Operating Profit	Rmb mn	5,308	3,651	45%	3,713	43%
Finance costs	Rmb mn	(1,364)	(1,333)	2%	(1,342)	2%
Other non operating income	Rmb mn	(21)	109	-119%	339	-106%
Income taxes	Rmb mn	(996)	(646)	54%	(678)	47%
Minorities	Rmb mn	(518)	64	-904%	(84)	517%
Net profit	Rmb mn	2,410	1,846	31%	1,949	24%
One-off items	Rmb mn	48	(158)	n.a.	n.a.	n.a.
NP-recurring	Rmb mn	2,374	1,962	21%	1,949	22%
EPS	Rmb/sh	0.226	0.173	31%	0.182	24%
EPS-recurring	Rmb/sh	0.222	0.184	21%	0.182	22%
AR days	days	147	141	5%	n.a.	n.a.
AP days	days	94	256	-63%	n.a.	n.a.
Inv days	days	73	727	2%	n.a.	n.a.
Net gearing	%	149%	161%	-12%	n.a.	n.a.
OCF	Rmb mn	(3,639)	(11,343)	-68%	n.a.	n.a.
FCF	Rmb mn	(10,377)	(13,656)	-24%	n.a.	n.a.
Net debt	Rmb mn	81,094	73,189	11%	n.a.	n.a.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: 1H18 Results Summary - BBMG (Operations)

BBMG - Operations		1H18A	1H17A	YoY	1H18E	AvE
Gross profit						
Cement	Rmb mn	4,911	3,762	31%	5,180	-5%
Building materials	Rmb mn	577	539	7%	552	4%
Property invst and mgt	Rmb mn	1,104	1,075	3%	1,012	9%
Property development	Rmb mn	3,184	2,357	35%	2,254	41%
Intersegment	Rmb mn	55	253	-78%	192	-71%
Cement and Clinker						
Sales	mn tonnes	43.6	45.8	-5%	45.6	-4%
ASP	Rmb/t	288	243	19%	249	16%
Unit COGS	Rmb/t	182	172	6%	170	7%
Unit GP	Rmb/t	106	71	48%	79	35%
Unit SG&A	Rmb/t	71	67	5%	65	10%
Unit EBIT	Rmb/t	42	15	184%	49	-15%
Unit EBITDA	Rmb/t	81	49	65%	82	-1%
Property Dev						
Booked area	000 sq m	431	407	6%	497	-13%
ASP	Rmb/sq m	23,158	18,038	28%	16,710	39%
GP margin	%	32%	32%	0%	27%	5%
Pre-sales area	000 sq m	518	785	-34%	n.a.	n.a.

Exhibit 3: Key assumptions and financials - BBMG

Key assumptions and financials - BBMG		2015A	2016A	2017A	2018E	2019E	2020E
BBMG							
Eq cement capacity	mnt	51	170	170	170	170	170
Sales volume	mnt	39	57	103	92	84	84
ASP	Rmb/t	178	190	245	280	250	242
Unit COGS	Rmb/t	160	147	171	181	180	177
Unit GP	Rmb/t	18	43	74	99	70	65
Unit SG&A	Rmb/t	42	43	65	69	71	71
Unit EBIT	Rmb/t	(5)	13	18	40	10	5
Unit EBITDA	Rmb/t	10	38	51	79	50	45
GFA booked-prop dev	mn sq m	1.26	1.16	0.95	0.93	1.26	1.30
GFA contract-prop dev	mn sq m	0.99	1.18	1.38	1.21	1.09	0.98
ASP-booked	Rmb/sqm	13,398	15,955	16,951	23,093	21,006	19,264
Gross margin	%	37%	27%	26%	30%	30%	30%
GFA-prop inv & mgmt	mn sq m	0.73	0.72	0.72	1.09	1.09	1.09
Gross profit	Rmb mn	8,221	9,626	14,203	18,103	16,257	15,466
Cement	Rmb mn	1,444	3,159	8,476	10,012	6,790	6,380
Building materials	Rmb mn	1,008	866	1,096	1,534	1,611	1,692
Property invst and mgt	Rmb mn	1,620	1,690	1,976	2,196	2,196	2,196
Property development	Rmb mn	6,205	5,069	4,112	6,474	7,902	7,409
EBIT	Rmb mn	3,838	4,872	6,649	10,479	8,341	7,564
EBITDA	Rmb mn	5,342	7,049	10,934	15,130	12,863	12,137
Net Profit	Rmb mn	2,017	2,687	2,837	4,705	3,466	3,126
Net Profit - recurring	Rmb mn	1,600	2,925	3,178	4,669	3,466	3,126
% in cement	%	-4%	12%	22%	35%	9%	5%
% in property dev	%	70%	59%	38%	54%	77%	79%
EPS	Rmb/sh	0.198	0.252	0.266	0.441	0.325	0.293
EPS-core	Rmb/sh	0.148	0.169	0.186	0.371	0.270	0.238
BV	Rmb/sh	3.7	4.1	4.8	5.2	5.4	5.7
Net debt	Rmb mn	27,232	53,282	69,109	72,332	64,681	58,292
Operating cash flow	Rmb mn	(653)	3,504	11,855	12,008	9,479	8,001
Investing cash flow	Rmb mn	(1,407)	(4,025)	(700)	(14,719)	(977)	(987)
Free cash flow	Rmb mn	(2,060)	(521)	11,155	(2,711)	8,502	7,015
ROE	%	5.8%	6.5%	5.9%	8.8%	6.1%	5.3%
ROE-recurring	%	4.6%	7.1%	6.7%	8.8%	6.1%	5.3%
ROIC	%	2.7%	2.5%	3.1%	4.8%	3.9%	3.6%
Net debt/equity	%	72%	121%	135%	131%	112%	96%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Earnings and valuation sensitivity

Unit GP	Net Profit	EPS	ROE	Implied	Implied PE
2019E	Recurring-core	recurring		Valuation	@current price
Rmb/t	Rmb mn	Rmb/sh	%	HK\$/sh	x
60	2,964	0.278	5.3%	4.1	9.0
80	3,967	0.372	7.0%	5.0	6.8
100	4,968	0.465	8.7%	5.8	5.4
120	5,968	0.559	10.3%	6.5	4.5
140	6,966	0.652	11.9%	7.7	3.8

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Trina Chen, Joy Zhang and Yijian Zhang, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Disclosures

Coverage group(s) of stocks by primary analyst(s)

Trina Chen: A-share Basic Materials, China Basic Materials. Joy Zhang: A-share Basic Materials, China Basic Materials.

A-share Basic Materials: Aluminum Corp. of China (A), Angang Steel (A), Anhui Conch Cement (A), Baoshan Iron & Steel, BBMG Corp. (A), China Coal Energy (A), China Molybdenum Co. (A), Jiangxi Copper (A), Maanshan Iron & Steel (A), Yanzhou Coal Mining (A), Zijin Mining (A).

China Basic Materials: Aluminum Corp. of China (H), Angang Steel (H), Anhui Conch Cement (H), BBMG Corp. (H), China Coal Energy (H), China Hongqiao Group, China Molybdenum Co. (H), China National Building Material, China Resources Cement Holdings, Jiangxi Copper (H), Lee & Man Paper Manufacturing Ltd., Maanshan Iron & Steel (H), MMG Ltd, Nine Dragons Paper Holdings, West China Cement, Yanzhou Coal Mining (H), Zhaojin Mining Industry, Zijin Mining (H).

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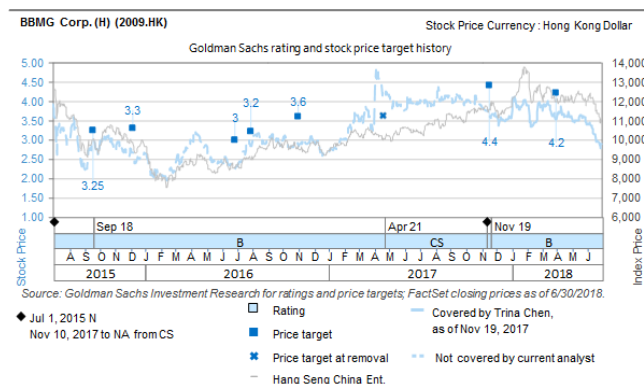
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Goldman Sachs Investment Research global Equity coverage universe

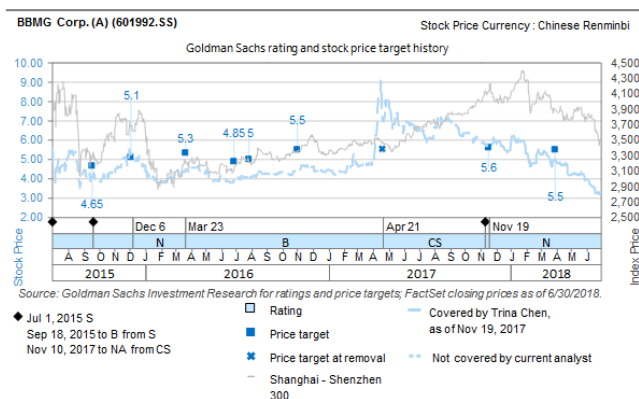
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	Buy	Hold	Sell	Buy	Hold	Sell
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