

6 November 2018

China

EQUITIES

AShare
Research

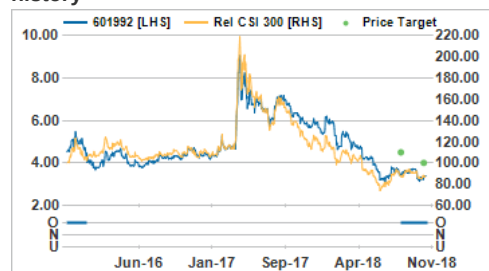
601992 CH Outperform
Price (at 08:50, 06 Nov 2018 GMT) Rmb3.39

Valuation	Rmb	4.00
- Sum of Parts		
12-month target	Rmb	4.00
Upside/Downside	%	+18.0
12-month TSR	%	+20.0
GICS sector	Materials	
Market cap	Rmbm	33,027
Market cap	US\$m	4,769
Free float	%	38
30-day avg turnover	US\$m	13.9
Number shares on issue	m	9,743

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	63,678	77,946	76,788	79,336
EBIT	m	5,722	10,123	9,740	9,962
EBIT growth	%	nmf	76.9	-3.8	2.3
Reported profit	m	2,837	4,015	4,105	4,750
Adjusted profit	m	2,844	4,022	4,112	4,757
EPS rep	Rmb	0.27	0.38	0.38	0.44
EPS rep growth	%	nmf	41.5	2.2	15.7
EPS adj	Rmb	0.27	0.38	0.39	0.45
EPS adj growth	%	nmf	41.4	2.2	15.7
PER rep	x	12.8	9.0	8.8	7.6
PER adj	x	12.7	9.0	8.8	7.6
Total DPS	Rmb	0.05	0.07	0.07	0.08
Total div yield	%	1.4	2.0	2.0	2.4
ROA	%	2.5	4.3	4.0	4.0
ROE	%	5.6	7.6	7.3	7.9
EV/EBITDA	x	8.2	5.6	5.7	5.5
Net debt/equity	%	90.2	60.7	27.9	14.9
P/BV	x	0.7	0.7	0.6	0.6

601992 CH rel CSI 300 performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2018
(all figures in Rmb unless noted, TP in CNY)

Analysts

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BBMG (A-Share) (601992 CH)

Xiongan accelerating; Large improvements in 2019 onwards; Entry point for LT investors

Key points

- ▶ BBMG just hiked prices by Rmb20/t - Xiongan demand has accelerated
- ▶ Property revenue could see further growth in 2019-20E
- ▶ Good entry point for LT investors at 9x PE, 0.6x PB, 2% div yield

Event

- At BBMG's reverse road show today (6 Nov) – Mgmt hiked prices by Rmb20/t in Tangshan and sees Oct cement shipments +45% YoY, thus lowering fixed costs/t. The construction pace of Xiongan has picked up in recent months from [govt stimulus](#). BBMG sees both volume and GP/t to improve in 2019-20E. BBMG guided 2019-20 to be big years for property revenue given the project pipeline, while the [low cost land bank from industrial land conversion](#) should offset net margin pressure – despite near-term sentiment swings from the property market, we believe a great entry point has emerged for LT investors with valuation near an all-time low of an 8.8x 19E PE (LT ave. 15x), 0.6x PB, and 2% dividend yield.

Impact

- **GP/t upside and demand pick-up from Xiongan:** shipments in Oct were +45% YoY, and as there are no major conferences in Beijing this year, 10M18 shipments were +2% YoY. Mgmt expected slight volume growth YoY in 2018-19, while GP margin can maintain at 38-40%. The Xiongan build-out could boost cement demand by 10mnt pa, and BBMG could capture >90% of these major infra projects – there has been a noticeable pickup in Xiongan demand in recent months.
- **Merger with Jidong done by 1Q19:** BBMG will finish injecting its 14 cement subsidiaries into Jidong by 1Q19. While BBMG targets to consolidate the BTH market further through potential acquisitions, it has no plans to acquire [CRC's asset in Shanxi](#) as it is not its core market. Although it plans to sell more of its products to the South in an orderly manner during the weak season.
- **Strong property segment in 2019-2020:** Mgmt maintained contracted sales guidance of Rmb27bn in FY18E and revenue booked guidance of Rmb21.4bn with a 31% GP margin. BBMG sees revenue booked in FY19-20E significantly improving YoY due to the project pipeline.
- **Industrial land conversion acceleration:** BBMG sees convertible industrial land resources reaching 2.5mn sqm in Beijing, 5.7mn sqm in Tianjin and 330k sqm in Tangshan – conversion in Tangshan to be faster than Beijing/ Tianjin and net margin to also be higher.

Earnings and target price revision

- No changes

Price catalyst

- 12-month price target: Rmb4.00 based on a Sum of Parts methodology.
- Catalyst: 1) Cement price hikes in BTH; 2) Xiongan details announcement

Action and recommendation

- Maintain OP on [BBMG](#) given it is a key beneficiary of strong cement price momentum in the BTH region (52% exposure) and has attractive valuation.

Macquarie Quant View

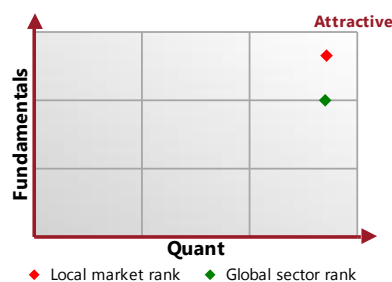
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a strong positive view on BBMG (A-Share). The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

162/1618

Global rank in
Materials

% of BUY recommendations	67% (6/9)
Number of Price Target downgrades	3
Number of Price Target upgrades	0

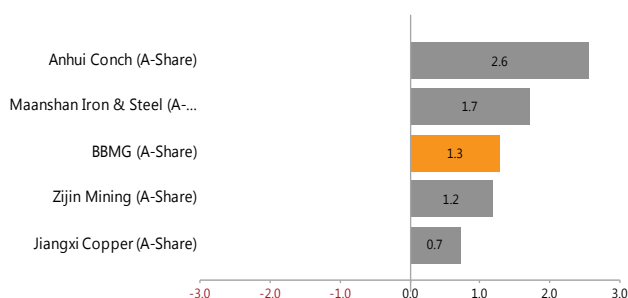


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (China A) and Global sector (Materials)

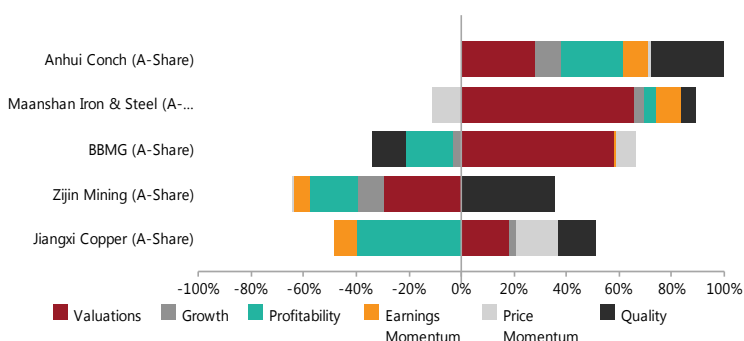
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



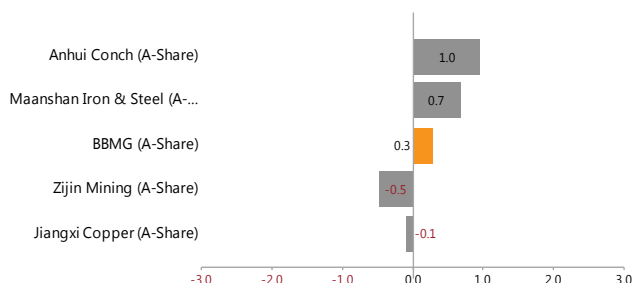
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



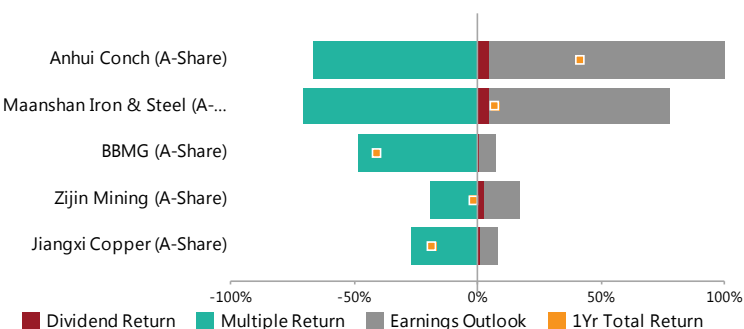
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



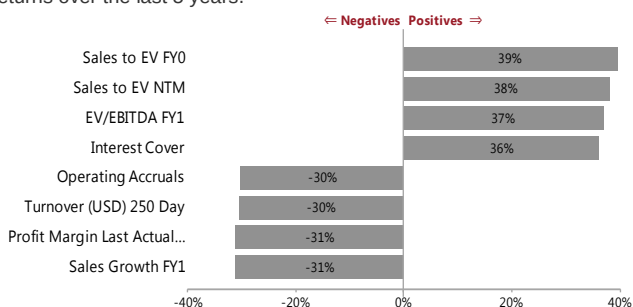
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



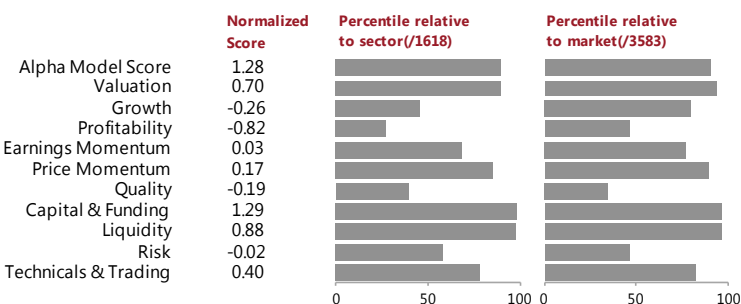
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

BBMG (A-Share) (601992 CH, Outperform, Target Price: Rmb4.00)

Interim Results						Profit & Loss					
		1H/18A	2H/18E	1H/19E	2H/19E			2017A	2018E	2019E	2020E
Revenue	m	38,973	38,973	38,394	38,394	Revenue	m	63,678	77,946	76,788	79,336
Gross Profit	m	9,033	9,033	8,908	8,908	Gross Profit	m	14,203	18,067	17,816	18,297
Cost of Goods Sold	m	29,940	29,940	29,486	29,486	Cost of Goods Sold	m	49,475	59,879	58,972	61,039
EBITDA	m	7,330	7,330	7,240	7,240	EBITDA	m	10,014	14,660	14,480	14,886
Depreciation	m	2,265	2,265	2,366	2,366	Depreciation	m	4,285	4,530	4,732	4,916
Amortisation of Goodwill	m	4	4	4	4	Amortisation of Goodwill	m	7	7	8	8
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	5,061	5,061	4,870	4,870	EBIT	m	5,722	10,123	9,740	9,962
Net Interest Income	m	-1,132	-1,132	-877	-877	Net Interest Income	m	-2,001	-2,263	-1,754	-1,071
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	168	168	168	168	Other Pre-Tax Income	m	337	337	337	337
Pre-Tax Profit	m	4,098	4,098	4,161	4,161	Pre-Tax Profit	m	4,057	8,197	8,323	9,228
Tax Expense	m	-1,118	-1,118	-1,135	-1,135	Tax Expense	m	-1,107	-2,236	-2,270	-2,517
Net Profit	m	2,980	2,980	3,026	3,026	Net Profit	m	2,950	5,961	6,052	6,710
Minority Interests	m	-973	-973	-974	-974	Minority Interests	m	-114	-1,946	-1,948	-1,961
Reported Earnings	m	2,007	2,007	2,052	2,052	Reported Earnings	m	2,837	4,015	4,105	4,750
Adjusted Earnings	m	2,011	2,011	2,056	2,056	Adjusted Earnings	m	2,844	4,022	4,112	4,757
EPS (rep)		0.19	0.19	0.19	0.19	EPS (rep)		0.27	0.38	0.38	0.44
EPS (adj)		0.19	0.19	0.19	0.19	EPS (adj)		0.27	0.38	0.39	0.45
EPS Growth yoy (adj)	%	41.4	41.4	2.2	2.2	EPS Growth (adj)	%	nmf	41.4	2.2	15.7
						PE (rep)	x	12.8	9.0	8.8	7.6
						PE (adj)	x	12.7	9.0	8.8	7.6
EBITDA Margin	%	18.8	18.8	18.9	18.9	Total DPS		0.05	0.07	0.07	0.08
EBIT Margin	%	13.0	13.0	12.7	12.7	Total Div Yield	%	1.4	2.0	2.0	2.4
Earnings Split	%	50.0	50.0	50.0	50.0	Basic Shares Outstanding	m	10,678	10,678	10,678	10,678
Revenue Growth	%	22.4	22.4	-1.5	-1.5	Diluted Shares Outstanding	m	10,678	10,678	10,678	10,678
EBIT Growth	%	76.9	76.9	-3.8	-3.8						
Profit and Loss Ratios						Cashflow Analysis					
		2017A	2018E	2019E	2020E			2017A	2018E	2019E	2020E
Revenue Growth	%	nmf	22.4	-1.5	3.3	EBITDA	m	10,014	14,660	14,480	14,886
EBITDA Growth	%	nmf	46.4	-1.2	2.8	Tax Paid	m	-1,107	-2,236	-2,270	-2,517
EBIT Growth	%	nmf	76.9	-3.8	2.3	Chgs in Working Cap	m	-20,864	28,567	16,128	1,658
Gross Profit Margin	%	22.3	23.2	23.2	23.1	Net Interest Paid	m	-664	-869	-360	323
EBITDA Margin	%	15.7	18.8	18.9	18.8	Other	m	766	-705	-738	-772
EBIT Margin	%	9.0	13.0	12.7	12.6	Operating Cashflow	m	-11,855	39,417	27,240	13,578
Net Profit Margin	%	4.5	5.2	5.4	6.0	Acquisitions	m	-111	-111	-111	-111
Payout Ratio	%	18.0	18.0	18.0	18.0	Capex	m	0	0	0	0
EV/EBITDA	x	8.2	5.6	5.7	5.5	Asset Sales	m	-3,634	-3,000	-2,500	-2,500
EV/EBIT	x	14.3	8.1	8.4	8.2	Other	m	3,046	337	337	337
Balance Sheet Ratios						Investing Cashflow	m	-700	-2,774	-2,274	-2,274
ROE	%	5.6	7.6	7.3	7.9	Dividend (Ordinary)	m	-491	-513	-725	-742
ROA	%	2.5	4.3	4.0	4.0	Equity Raised	m	0	0	0	0
ROIC	%	nmf	5.5	5.8	7.0	Debt Movements	m	5,238	-1,394	-1,394	-1,394
Net Debt/Equity	%	90.2	60.7	27.9	14.9	Other	m	2,581	0	0	0
Interest Cover	x	2.9	4.5	5.6	9.3	Financing Cashflow	m	7,328	-1,907	-2,120	-2,136
Price/Book	x	0.7	0.7	0.6	0.6	Net Chg in Cash/Debt	m	-5,226	34,735	22,845	9,167
Book Value per Share		4.8	5.1	5.4	5.8	Free Cashflow	m	-11,855	39,417	27,240	13,578
						Balance Sheet					
		2017A	2018E	2019E	2020E			2017A	2018E	2019E	2020E
						Cash	m	17,904	35,238	58,497	68,079
						Receivables	m	13,565	18,930	18,649	19,267
						Inventories	m	98,650	85,542	69,379	67,821
						Investments	m	18,338	19,587	20,342	21,131
						Fixed Assets	m	45,895	44,018	41,355	38,508
						Intangibles	m	2,740	2,740	2,740	2,740
						Other Assets	m	35,115	35,219	35,322	35,426
						Total Assets	m	232,207	241,274	246,285	252,972
						Payables	m	17,205	20,823	20,508	21,226
						Short Term Debt	m	37,145	37,145	37,145	37,145
						Long Term Debt	m	43,826	43,826	43,826	43,826
						Provisions	m	0	0	0	0
						Other Liabilities	m	64,114	64,114	64,114	64,114
						Total Liabilities	m	162,290	165,908	165,592	166,311
						Shareholders' Funds	m	51,163	54,665	58,044	62,052
						Minority Interests	m	18,755	20,701	22,648	24,609
						Other	m	0	0	0	0
						Total S/H Equity	m	69,918	75,366	80,693	86,661
						Total Liab & S/H Funds	m	232,207	241,274	246,285	252,972

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, November 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.56%	59.51%	45.05%	46.88%	67.86%	46.70%	(for global coverage by Macquarie, 3.70% of stocks followed are investment banking clients)
Neutral	33.20%	28.92%	37.36%	47.70%	25.00%	42.73%	(for global coverage by Macquarie, 2.04% of stocks followed are investment banking clients)
Underperform	15.23%	11.57%	17.58%	5.42%	7.14%	10.57%	(for global coverage by Macquarie, 0.47% of stocks followed are investment banking clients)

601992 CH vs HSI, & rec history



(all figures in CNY currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2018

12-month target price methodology

601992 CH: Rmb4.00 based on a Sum of Parts methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BGB code)	Recommendation	Target Price
31-Oct-2018	601992 CH	Outperform	Rmb4.00
22-Aug-2018	601992 CH	Outperform	Rmb4.50

Target price risk disclosures:

601992 CH: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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