

BBMG Corporation [2009.HK; 601992.CH]

Revenue booking for property business to be stronger in Q4; Maintain BUY

BBMG reported a recurring net profit of RMB875m in Q3 2018, up 38% YoY. During a conference call yesterday, management confirmed that revenue booking for the property development business was limited in Q3, but that the Company maintains its guidance of stronger revenue booking in Q4. Therefore, we still feel comfortable with our Q4 2018E recurring net profit of RMB1.17bn. Our earnings forecasts remain largely unchanged, but we lower our SOTP-based target price from HK\$3.70 to HK\$3.08 (0.5x 2018E PBR and 7x 2018E PER) after using a deeper NAV discount for the property development business (from 40% to 50%) to reflect the de-rating of the China property sector. We maintain our BUY rating. We believe the implied PBR of 0.5x based on our target price is not aggressive on the back of 7.5% ROE. We also lower our target price for BBMG-A (601992.CH) from RMB4.80 to RMB4.01 accordingly (50% premium to our H-share target price, methodology unchanged). In the near term, the major share price catalyst will be news flow on any moderate relaxation of policies related to the property sector.

Investment Highlights

- On track to reach the full-year revenue booking target.** In 9M2018, BBMG recorded revenue of RMB12.9bn for the property development business. This may raise the concern about whether the Company can achieve its full-year revenue booking guidance of not less than RMB21.4bn. Management said the Company is still on track to reach this target. Based on the revenue booking pattern in the past few years, we agree that Q3 is usually a low season, and the Company has a track record of booking sizable revenue in Q4 in some years. BBMG maintains its full-year gross margin guidance for this segment of 31% (vs. 35% in 9M2018), which suggests some lower-margin projects will be booked in Q4.
- Cement business remained strong.** In Q3 2018, the Company reported a blended ASP (cement and clinker) of RMB287/tonne, up from RMB242/tonne in Q3 2017. According to the Company, the ASP in October increased moderately to RMB291/tonne. Gross profit per tonne improved significantly from RMB74 in Q3 2017 to RMB103 in Q3 2018. Sales volume of cement and clinker dropped 1.3% YoY in Q3 to 33.5m tonnes. Meanwhile, north China will enter the low season in November, so we don't expect to see an upside surprise for this segment in Q4 2018.
- Challenging to meet the full-year sales target for the property business.** BBMG set a pre-sale target of RMB27bn for 2018, but it achieved less than 50% of this target in 9M2018 due to the unfavourable market environment and stringent government policies. We don't rule out the possibility that the Company will fail to meet its target, but it should not have much impact on our financial model at the moment, as we have not projected high growth for the property development business in 2019E.
- Overly bearish valuation as an SOE.** The Company is trading at 4.8x 2018E PER and 0.34x 2018E PBR. We believe the very low valuation does not reflect the Company's advantage in securing financing thanks to its SOE status. In mid October, BBMG issued a three-year medium-term note of RMB1.5bn at an interest rate of 5.25%. In comparison, according to press reports, China Evergrande (3333.HK) is planning to issue a two-year US dollar bond at an interest rate of 11%.

Y/E Dec 31	2015	2016	2017	2018E	2019E
Turnover (RMB m)	38,747	46,168	61,838	73,011	76,949
Recurring net profit (RMB m)	1,873	2,319	2,844	4,068	4,435
Net margin (%)	4.8	5.0	4.6	5.6	5.8
Recurring EPS (RMB)	0.18	0.22	0.27	0.38	0.42
% Change	(14)	24	23	43	9
PER (x)	9.8	8.4	6.6	4.8	4.4
PBR (x)	0.48	0.44	0.39	0.34	0.32

Sources: Company, CGIS Research

China Cement Sector

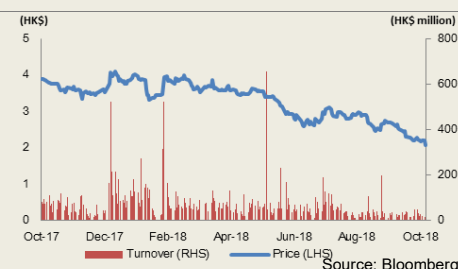
BUY

Close: HK\$2.09 (Oct 30, 2018)

Target Price (H): HK\$3.08 (47.4%)

Target Price (A): RMB4.01 (24.8%)

Price Performance



Market Cap	US\$4,481m
Shares Outstanding	10,677.7m
Auditor	Ernst & Young
Free Float	48.26%
52W range	HK\$2.08-4.14
3M average daily T/O	US\$5.0m
Major Shareholder	BBMG Group (44.93%)

Sources: Company, Bloomberg

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Q3 2018 results highlights of BBMG

Y/E Dec (Rmb '000)	Q3 2017	Q3 2018	Change YOY
Turnover	16,307,806	20,006,798	22.7%
Cost of sales	(12,414,370)	(14,901,909)	20.0%
Gross Profit	3,893,436	5,104,889	31.1%
<i>Margin</i>	23.9%	25.5%	
Operating expenses	(2,207,255)	(2,538,703)	15.0%
Selling and distribution costs	(675,153)	(818,762)	21.3%
Administrative expenses	(1,532,102)	(1,719,941)	12.3%
Operating profit	1,686,181	2,566,187	52.2%
Other expenses	(29,977)	(142,163)	374.2%
Other income and gains	276,585	365,013	32.0%
EBIT	1,932,789	2,789,036	44.3%
Finance costs	(670,169)	(842,782)	25.8%
Share of profits of associates	120,039	196,619	63.8%
Exceptional items	164,470	(242,965)	n.a.
Profit before tax	1,547,129	1,899,909	22.8%
Taxation	(406,059)	(487,727)	20.1%
Minority interest	(383,064)	(719,195)	87.7%
Net Profit	758,006	692,988	-8.6%
Adjusted net profit	634,654	875,211	37.9%
Cement and clinker sales volume ('000 tonnes)	33,290	33,510	0.7%
Blended ASP (RMB)	241	287	19.3%
Gross profit per tonne (RMB)	79.7	103.0	29.2%

Sources: Company, CGIS Research

Key financials

BBMG (02009.HK; 601992.CH)

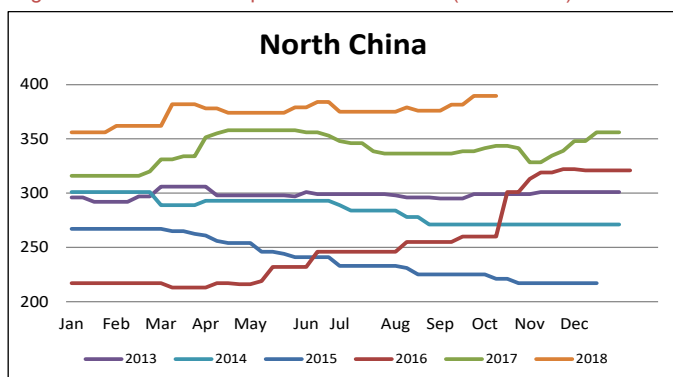
Income Statement

(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	73,011,214	76,949,486
COGS	(30,526,041)	(36,542,047)	(47,635,012)	(53,929,163)	(57,142,566)
Gross profit	8,220,858	9,625,881	14,203,131	19,082,051	19,806,919
Operating expenses	(4,519,969)	(5,662,098)	(8,832,913)	(9,931,937)	(10,461,300)
Operating profit	3,700,889	3,963,783	5,370,218	9,150,114	9,345,620
Other income and expenses	668,260	716,618	1,081,502	896,374	859,208
EBIT	4,369,150	4,680,401	6,451,720	10,046,488	10,204,828
Net finance costs	(1,335,546)	(1,603,501)	(2,675,588)	(3,331,340)	(3,684,523)
Profits from JCEs and associates	(17,694)	108,900	188,732	439,008	430,000
Non-recurrent items	166,745	490,732	400,307	171,781	-
Income before tax	3,182,654	3,676,532	4,365,171	7,325,938	6,950,305
Income tax expense	(1,231,587)	(986,183)	(1,106,795)	(1,846,291)	(1,737,576)
Minority interests	66,386	(3,693)	(113,684)	(1,283,108)	(777,981)
Net income	2,017,453	2,686,656	3,144,692	4,196,539	4,434,748
Recurring net income	1,873,061	2,318,607	2,844,462	4,067,703	4,434,748
EPS (RMB)	0.189	0.252	0.295	0.393	0.415
Recurring EPS (RMB)	0.175	0.217	0.266	0.381	0.415
DPS (HK\$)	0.018	0.053	0.057	0.081	0.086
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	13,864,138	14,228,717
Cement and clinker ASP (RMB/tonne)	178	193	245	289	292
Cement and clinker vol. ('000 tonnes)	39,260	55,214	102,603	100,801	99,960
Cement and clinker gross profit (RMB/tonne)	18	43	75	106	107
Booked GFA ('000 sq.m)	1,263	1,156	949	920	966
Revenue Breakdown:#					
Cement	10,828,700	15,365,000	31,073,800	35,203,385	34,514,149
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%	18%	5%
EBIT	-3%	7%	38%	56%	2%
EBITDA	0%	15%	55%	37%	3%
Core net income	-4%	24%	23%	43%	9%
Recurring EPS	-14%	24%	23%	43%	9%
Margins and Ratios:					
Gross margin	21.2%	20.8%	23.0%	26.1%	25.7%
Net margin	4.7%	5.0%	4.8%	7.3%	6.8%
EBIT margin	9.6%	8.6%	8.7%	12.5%	12.1%
EBITDA margin	14.8%	14.2%	16.4%	19.0%	18.5%
Effective tax rate	39%	27%	25%	25%	25%

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	47,759	50% valuation discount
JV and associates	2,614	
Net debt	(52,000)	
Minority interests	(18,945)	
Equity value	28,565	
Price Target (HK\$)	3.08	

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	20,080,732	18,729,244
Total current assets	89,335,633	119,478,723	143,589,262	159,623,853	174,342,365
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	44,048,734	45,211,463
Total non-current assets	41,411,072	88,918,386	88,618,220	92,728,648	93,167,488
Total assets	130,746,704	208,397,109	232,207,482	252,352,501	267,509,853
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	56,842,854	60,522,225
Minority interests	4,098,901	18,709,022	18,754,962	23,331,070	24,109,051

Statement of Cash Flow

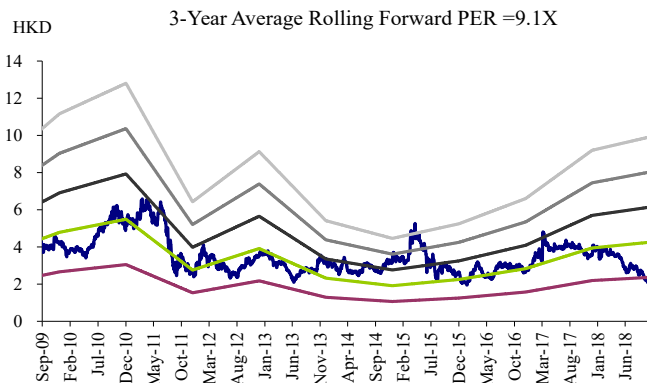
Year ended 31 Dec	2015	2016	2017	2018E	2019E
Profit before tax	3,182,654	3,676,532	4,365,171	7,325,938	6,950,305
Depreciation & Amortization	1,346,751	1,948,016	3,630,396	3,817,650	4,023,889
Change in working capital	(8,477,792)	(7,036,273)	(28,028,297)	(10,308,068)	(12,700,000)
Others / adjustments	(797,317)	(2,781,820)	8,178,477	642,973	(327,427)
Net operating cash flow	(4,745,703)	(4,193,545)	(11,854,253)	1,478,492	(2,053,233)
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)	(755,377)	(798,255)
Others	3,431,827	(19,361,880)	(2,078,466)	-	-
Net financing cash flow	8,550,872	6,715,073	7,328,032	4,198,393	4,201,745
Increase / Decrease in cash	7,389,709	9,640,330	(10,106,364)	2,176,885	(1,351,488)
Net cash/(debt)	(23,324,716)	(46,384,605)	(63,066,922)	(65,843,807)	(72,195,295)

Finance Ratios

	2015	2016	2017	2018E	2019E
Valuation					
PE(x)	9.8	8.4	6.6	4.8	4.4
EPS growth (%)	-	14	24	43	9
Yield (%)	1.1	2.9	3.2	4.5	4.7
PEG (x)	-0.73	0.35	0.29	0.11	0.48
EV/EBITDA (x)	17.7	15.5	10.0	7.3	7.1
PB(x)	0.48	0.44	0.39	0.34	0.32
Operational					
Revenue growth (%)	-	2	19	34	18
Gross margin (%)	21.2	20.8	23.0	26.1	25.7
Net profit margin (%)	4.7	5.0	4.8	7.3	6.8
Days receivables	62	73	63	55	59
Days payables	111	118	122	123	128
Days inventories	615	590	624	706	751
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	3.1	3.2
Net debt/equity (%)	55	74	90	82	85
EBITDA interest coverage (x)	4.3	4.1	3.8	4.2	3.9
Core ROE (%)	5.4	5.6	6.0	7.5	7.6

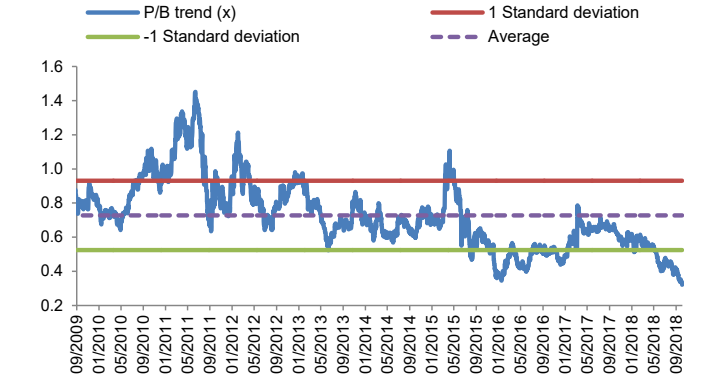
Sources: Company data, CGIS Research estimates

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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