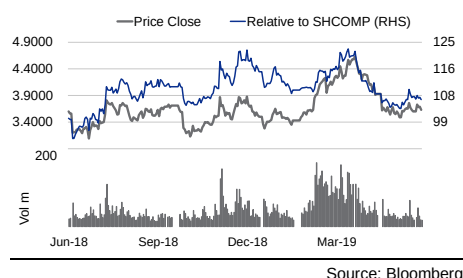


China

BUY

Consensus ratings*: Buy 3 Hold 3 Sell 3

Current price:	Rmb3.63
Target price:	Rmb4.45
Previous target:	Rmb4.45
Up/downside:	+22.5%
CGS-CIMB / Consensus:	N/A
Reuters:	
Bloomberg:	601992 CH
Market cap:	US\$5,093m
	Rmb35,258m
Average daily turnover:	US\$34.2m
	Rmb228.5m
Current shares o/s:	10,678m
Free float:	48.3%
*Source: Bloomberg	



Price performance	1M	3M	12M
Absolute (%)	2.5	-11.5	0.8
Relative (%)	2.6	-7.9	6.1

Major shareholders	% held
BBMG Group	44.9

BBMG-A

Trough valuation after correction; upgrade to BUY as cement prices in north China remain solid

- Cement prices in north China have remained solid YTD, thanks to strong volume growth from a low base last year.
- Stabilizing market sentiment on the China property sector should also be positive for BBMG.
- The PBR is 0.64x, near the low end of the historical range, which may suggest further downside risk is limited.
- Upgrade from HOLD to BUY after the recent correction. Our earnings forecast remains unchanged with a sum-of-the-parts target price of RMB4.45.

Cement prices in north China performed well

As Figure 1 shows, the market prices of cement in north China have kept going up gradually this year, driven by strong volume growth from a low base last year. As production was weak in Q1 2018, cement production volume grew 26.1% in 4M2019 to 40.5m tonnes, according to Digital Cement data. Although the low base effect was much smaller in April 2019, cement production volume still grew 8.9% in the month, much better than the national average of 3.4% growth. According to BBMG management, more new construction projects started in Q2 2019, which should help support full-year demand in north China.

Market sentiment on the China property sector stabilizing

As more than half of BBMG's profit is related to the China property sector, its share price is also affected by market sentiment on this sector, not just cement prices in north China. As Figure 3 shows, after the correction in April and May, the share prices of leading China property players, such as China Vanke (000002.CH), China Merchants Shekou Industrial Zone (001979.CH), Poly Developments (600048.CH) and China Fortune Land (600340.CH), rebounded in the past two weeks. This should help limit the downside risk of BBMG.

PBR back to the low end of the historical range

BBMG is trading at 0.64x 2019E PBR and 10.3x 2019E PER. The current PBR is close to the low end of the historical range (Figure 4). On the back of solid cement prices in north China and the stabilization of market sentiment on the China property sector, we believe the current valuation suggests further share price downside should be small.

Upgrade to BUY; more room to rebound as a laggard

Despite its strong share price performance in Q1 2019, BBMG's share price has dropped 18.2% since April, weaker than that of Conch Cement (+6.8%) and Jidong Cement (-1.2%). We believe the underperformance of BBMG is partly because of its high exposure to China property business, which is a high beta sector. But stabilizing market sentiment on this sector should help BBMG's share price catch up, in our view. We maintain our sum-of-the parts target price of RMB4.45 (50% premium to our H-share target price, methodology unchanged). Upgrade from HOLD to BUY after the recent correction.

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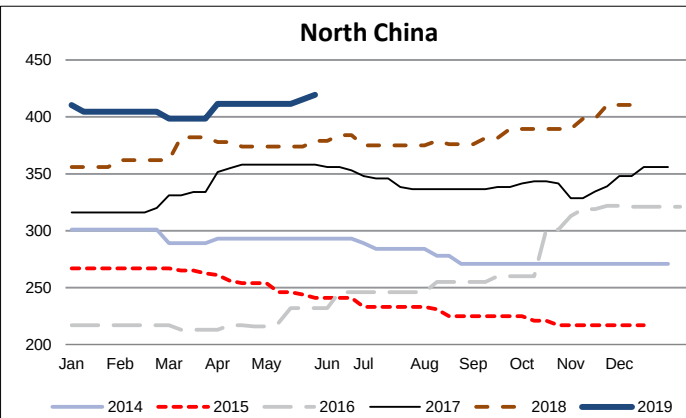
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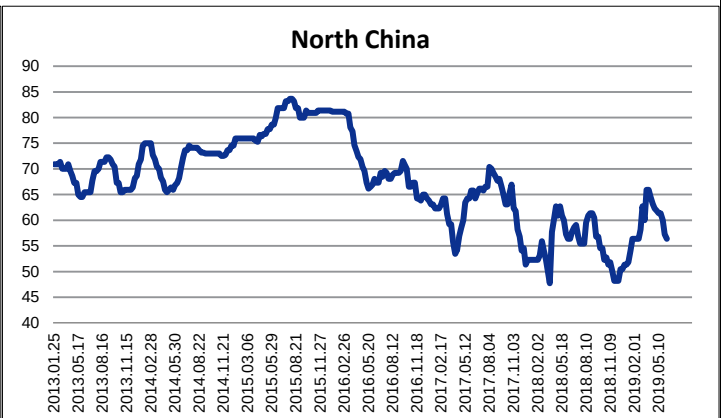
Financial Summary

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	
Revenue (Rmbm)	61,838	79,965	89,556	95,109	
Operating EBITDA (Rmbm)	9,057	12,729	12,434	13,096	
Net Profit (Rmbm)	2,837	3,260	3,764	4,072	
Core EPS (Rmb)	0.24	0.32	0.35	0.38	
Core EPS Growth	9.4%	32.4%	11.7%	8.2%	
FD Core P/E (x)	15.23	11.50	10.30	9.52	
DPS (Rmb)	0.048	0.055	0.063	0.069	
Dividend Yield	1.32%	1.52%	1.75%	1.89%	
EV/EBITDA (x)	13.07	10.65	11.83	12.10	
P/FCFE (x)	2.60	2.48	3.59	3.63	
Net Gearing	90%	99%	108%	115%	
P/BV (x)	0.76	0.67	0.64	0.60	
ROE	5.34%	6.19%	6.35%	6.51%	
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.98	0.99	0.00

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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


SOURCES: CGIS RESEARCH, DIGITAL CEMENT

Figure 2: Cement inventory level in north China (%)


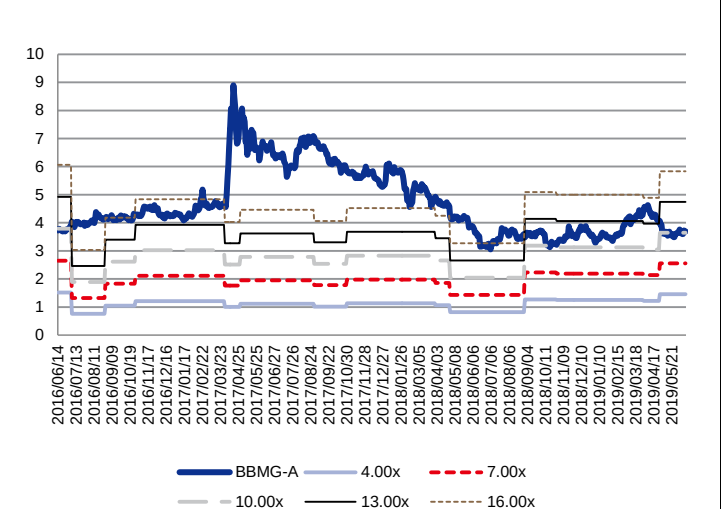
SOURCES: CGIS RESEARCH, DIGITAL CEMENT

Figure 3: Relative performance of major China property stocks


SOURCES: CGIS RESEARCH, COMPANY DATA, CAPITAL IQ

Figure 4: PBR of BBMG (x)


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 5: Rolling forward PER band of BBMG


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

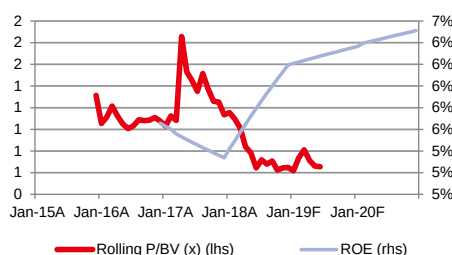
Figure 6: SOTP valuation (BBMG-H)

	RMB m	Note
Cement and other building materials	38,566	1x PBR
Investment properties	20,842	40% valuation discount; 7% cap rate
Property development	55,097	50% valuation discount
JV and associates	3,467	
Net debt	(64,000)	
Minority interests	(22,283)	
Equity value	31,689	
Price Target (HK\$)	3.41	

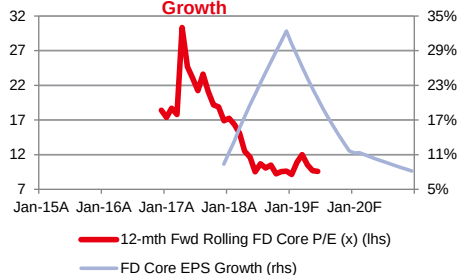
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Net Revenues	61,838	79,965	89,556	95,109
Gross Profit	14,203	19,245	19,932	20,970
Operating EBITDA	9,057	12,729	12,434	13,096
Depreciation And Amortisation	(3,687)	(3,709)	(3,930)	(4,125)
Operating EBIT	5,370	9,019	8,503	8,971
Financial Income/(Expense)	(2,676)	(3,047)	(3,216)	(3,396)
Pretax Income/(Loss) from Assoc.	189	371	430	390
Non-Operating Income/(Expense)	773	267	562	502
Profit Before Tax (pre-EI)	3,657	6,610	6,280	6,467
Exceptional Items	400	(166)	0	0
Pre-tax Profit	4,057	6,445	6,280	6,467
Taxation	(1,107)	(2,163)	(1,782)	(1,681)
Exceptional Income - post-tax				
Profit After Tax	2,950	4,281	4,499	4,786
Minority Interests	(114)	(1,021)	(735)	(714)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	2,837	3,260	3,764	4,072
Recurring Net Profit	2,546	3,371	3,764	4,072
Fully Diluted Recurring Net Profit	2,546	3,371	3,764	4,072

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
EBITDA	9,057	12,729	12,434	13,096
Cash Flow from Inv. & Assoc.				
Change In Working Capital				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(3,350)	(3,317)	(3,457)	(3,620)
Tax Paid				
Cashflow From Operations	5,707	9,411	8,977	9,476
Capex	(1,882)	(3,933)	(3,800)	(3,800)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	1,183	0	0	0
Cash Flow From Investing	(700)	(3,933)	(3,800)	(3,800)
Debt Raised/(repaid)	9,919	10,149	5,614	5,000
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(513)	(587)	(677)	(733)
Preferred Dividends				
Other Financing Cashflow	(2,078)	2,076	0	3,642
Cash Flow From Financing	7,328	11,638	4,936	7,909
Total Cash Generated	12,336	17,117	10,113	13,585
Free Cashflow To Equity	14,927	15,628	10,791	10,676
Free Cashflow To Firm	8,357	8,796	8,634	9,296

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	17,904	18,774	15,670	16,297
Total Debtors	21,758	28,607	30,552	32,525
Inventories	98,650	114,913	130,000	145,000
Total Other Current Assets	5,277	6,754	6,945	7,145
Total Current Assets	143,589	169,048	183,167	200,967
Fixed Assets	48,767	47,622	48,060	47,636
Total Investments	17,615	24,364	25,620	26,630
Intangible Assets	13,597	19,432	19,432	19,432
Total Other Non-Current Assets	8,639	7,700	7,750	7,800
Total Non-current Assets	88,618	99,118	100,862	101,498
Short-term Debt	37,145	46,380	52,000	58,000
Current Portion of Long-Term Debt				
Total Creditors	53,796	53,218	56,350	58,380
Other Current Liabilities	17,725	27,077	27,077	27,077
Total Current Liabilities	108,665	126,675	135,427	143,457
Total Long-term Debt	25,671	30,506	33,000	35,000
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	21,711	23,392	23,392	27,034
Total Non-current Liabilities	47,382	53,898	56,392	62,034
Total Provisions	6,243	8,488	9,084	9,740
Total Liabilities	162,290	189,062	200,903	215,231
Shareholders' Equity	51,163	57,665	60,842	64,236
Minority Interests	18,755	21,549	22,284	22,998
Total Equity	69,918	79,215	83,126	87,234

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	33.9%	29.3%	12.0%	6.2%
Operating EBITDA Growth	55.2%	40.5%	(2.3%)	5.3%
Operating EBITDA Margin	14.6%	15.9%	13.9%	13.8%
Net Cash Per Share (Rmb)	(5.91)	(7.34)	(8.39)	(9.42)
BVPS (Rmb)	4.79	5.40	5.70	6.02
Gross Interest Cover	1.60	2.72	2.46	2.48
Effective Tax Rate	27.3%	33.6%	28.4%	26.0%
Net Dividend Payout Ratio	21.0%	17.1%	18.0%	18.0%
Accounts Receivables Days	62.71	45.58	42.52	44.25
Inventory Days	623.6	641.9	642.0	678.8
Accounts Payables Days	121.9	113.1	111.2	111.1
ROIC (%)	5.11%	7.21%	5.88%	5.63%
ROCE (%)	4.02%	5.43%	4.58%	4.47%
Return On Average Assets	2.37%	3.00%	2.79%	2.79%

Key Assumptions

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Cement and clinker ASP (RMB/tonne)	245	292	301	303
Cement and clinker vol. ('000 tonnes)	102,603	107,051	111,452	113,305
Cement and clinker gross profit (RMB/tonne)	75	105	108	108
Booked GFA ('000 sq.m)	949	1,009	1,060	1,113

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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- | | | |
|------|---|--|
| BUY | : | share price will increase by >20% within 12 months in absolute terms |
| 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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