

China
ADD (no change)

Consensus ratings*: Buy 4 Hold 2 Sell 5

Current price:	Rmb3.36
Target price:	Rmb3.97
Previous target:	Rmb4.45
Up/downside:	18.2%
CGI / Consensus:	8.4%
Reuters:	601992.SS
Bloomberg:	601992 CH
Market cap:	US\$4,584m
	Rmb32,826m
Average daily turnover:	US\$12.43m
	Rmb86.16m
Current shares o/s:	10,678m
Free float:	48.3%
*Source: Bloomberg	

Key changes in this note

- FY19F/20F Revenue increased by 8.8%/14.5%.
- FY19F/20F EPS increased by 17.1%/18.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.1	-6.7	-5.9
Relative (%)	-3.4	-6.1	-10.1

Major shareholders	% held
BBMG Group	44.9

BBMG-A
Strong 1H19 results boosted by upbeat cement prices in north China

- Headline net profit grew 26% YoY in 1H19, near the high end of the Company's guidance.
- Gross profit of the cement segment rose 28%, thanks to the favourable cement price trend in north China.
- Management does not expect the National holiday to affect cement demand in 2H19 in north China.
- 2019F/2020F EPS is revised up by 17.1%/18.5% to reflect the better outlook of the cement business.
- Maintain ADD, with a new target price of RMB3.97 (~9.7x 2019F PER).

Impressive performance of the cement business

BBMG's recurring net profit grew 33% YoY to RMB2.79bn in 1H19. The cement segment was one of the key drivers, with gross profit increasing 28% to RMB6.3bn in 1H19 (50% of the total before adjusting for minority interests). Blended gross profit per tonne (cement and clinker) rose 13%, from RMB106/tonne in 1H18 to RMB120/tonne in 1H19. Cement prices performed well in north China in 1H19, thanks to the healthy recovery of fixed asset investment in the region. In 1H19, fixed asset investment in Beijing, Tianjin and Hebei grew 14.7%, 17.4% and 5.6% YoY, respectively. The Company's sales volume of cement and clinker increased 14.5% YoY to 50m tonnes.

Stable growth of the property development business

Revenue of the property development business increased 12% YoY to RMB11.1bn in 1H19. Booked GFA increased 5.6% YoY to 455,100m² in 1H19. The gross margin of the segment was 37.4% in 1H19, much higher than the full-year guidance of about 27%. Management maintained this guidance as some projects to be booked in 2H19 have lower margins. Contracted sales in 1H19 were RMB9.38bn, only 27% of the full-year target. Based on the tone of management, we don't rule out the possibility that the Company will revise down the full-year target. But it should not have much impact on our profit forecasts, as we are not using aggressive projections for this segment.

National holiday to have limited impact on cement demand

BBMG expects sales volume of cement and clinker to maintain double-digit growth in 2H19. Some investors have concerns about a production suspension in north China during the National holiday. According to management, the Company has not received any production suspension notices from the government yet. If there are any suspensions, the Company believes the overall impact should be manageable, as demand will catch up after the National holiday, provided there is flexibility to start the winter production suspension later.

Maintain ADD

We raise our 2019F/2020F EPS by 17.1%/18.5% to reflect (i) an upward revision of cement and clinker sales volume by 8.6%/14.9% for 2019F/2020F, and (ii) higher gross profit per tonne projections for 2019F/2020F by 13.8%/5.6%. However, we lower our sum-of-the-parts target price for BBMG-H from HK\$3.41 to HK\$2.91 to reflect the weaker RMB exchange rate and the application of a larger NAV discount (from 50% to 55%), as the high gearing of the Company (net debt/equity > 100%) may cap share price performance under current market conditions (Figure 5). Therefore we adjust our target price of BBMG-A from RMB4.45 to RMB3.97 (50% premium to our H-share target price, methodology unchanged).

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Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue (Rmbm)	61,838	79,965	97,477	108,931
Operating EBITDA (Rmbm)	9,057	12,729	13,893	14,017
Net Profit (Rmbm)	2,837	3,260	4,655	4,825
Core EPS (Rmb)	0.24	0.32	0.41	0.45
Core EPS Growth	9.4%	32.4%	30.7%	9.5%
FD Core P/E (x)	14.09	10.64	8.14	7.44
DPS (Rmb)	0.048	0.055	0.078	0.081
Dividend Yield	1.43%	1.64%	2.33%	2.42%
EV/EBITDA (x)	13.86	11.60	11.43	12.10
P/FCFE (x)	NA	NA	NA	NA
Net Gearing	90%	99%	105%	111%
P/BV (x)	0.87	0.84	0.77	0.71
ROE	6.33%	8.04%	9.85%	9.89%
% Change In Core EPS Estimates			17.1%	18.5%
CGI/consensus EPS (x)			1.21	1.14
				0.00

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: 1H19 results highlights

(RMB'000)	1H18	1H19	YoY change
Revenue	34,311,685	42,734,318	25%
COGS	(25,534,771)	(32,233,081)	26%
Gross profit	8,776,914	10,501,237	20%
Operating expenses	(4,320,505)	(4,704,594)	9%
Operating profit	4,456,409	5,796,643	30%
Other income and expenses	277,182	339,504	22%
EBIT	4,733,591	6,136,147	30%
Net finance costs	(1,363,946)	(1,414,421)	4%
Profits from JCEs and associates	139,008	201,772	45%
Non-recurrent items	414,746	341,142	-18%
Income before tax	3,923,399	5,264,640	34%
Income tax expense	(995,656)	(1,299,665)	31%
Minority interests	(517,537)	(919,398)	78%
Net income	2,410,206	3,045,577	26%
Recurring net income	2,099,147	2,789,721	33%
EPS (RMB)	0.226	0.285	26%
Recurring EPS (RMB)	0.197	0.261	33%
Cement and clinker ASP (RMB/tonne)	288	318	10%
Cement and clinker vol. ('000 tonnes)	43,630	49,970	15%
Cement and clinker gross profit (RMB/tonne)	106	120	13%
Booked GFA ('000 sq.m)	431	455	6%
Revenue Breakdown:			
Cement	15,692,300	19,740,800	26%
Modern building materials	9,068,400	12,792,000	41%
Property investment	1,887,800	2,225,500	18%
Property development	9,948,400	11,149,000	12%

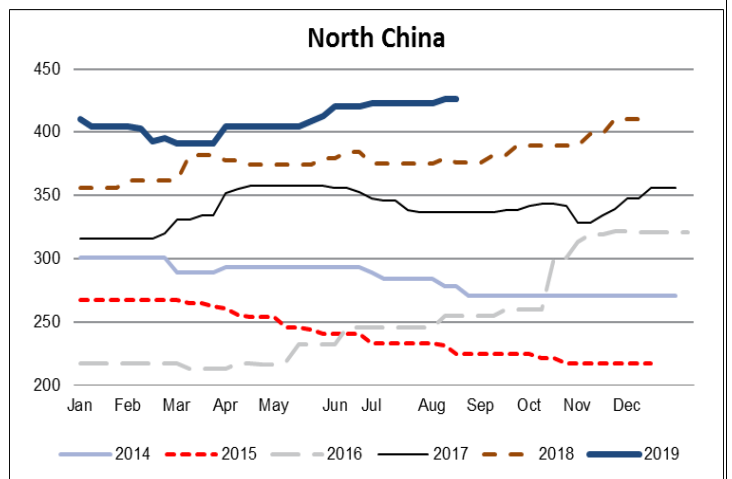
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: PBR band of BBMG-A



SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: Cement prices in north China (RMB/tonne)



SOURCES: CGIS RESEARCH, COMPANY DATA, DIGITAL CEMENT

Figure 4: Key assumptions

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Cement and clinker ASP (RMB/tonne)	245	292	321	315
Cement and clinker vol. ('000 tonnes)	102,603	107,051	121,030	130,237
Cement and clinker gross profit (RMB/tonne)	75	105	123	114
Booked GFA ('000 sq.m)	949	1,009	1,060	1,113
Revenue Breakdown:				
Cement	31,073,800	39,119,900	47,632,155	50,144,024
Modern building materials	13,034,700	19,813,000	26,759,980	33,449,975
Property investment	3,316,400	4,233,400	4,694,557	4,839,163
Property development	16,079,800	22,146,400	23,844,713	25,036,948

SOURCES: CGIS RESEARCH, COMPANY DATA

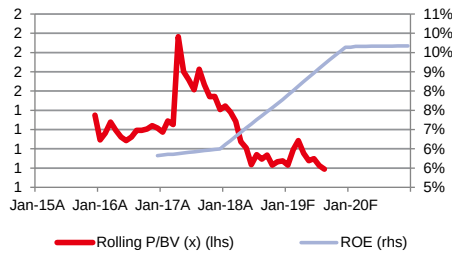
Figure 5: SOTP valuation for BBMG-H

	RMB m	Note
Cement and other building materials	30,442	0.8x PBR
Investment properties	40,397	7% cap rate
Property development	114,870	
JV and associates	3,489	
Net debt	(88,604)	
Minority interests	(37,832)	
Equity value	62,761	
Price Target (HK\$)	2.91	55% NAV discount

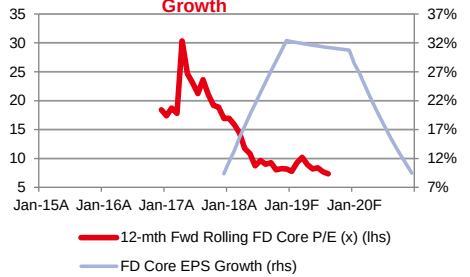
SOURCES: CGIS RESEARCH, COMPANY DATA

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	97,477	108,931
Gross Profit	14,203	19,245	21,674	22,646
Operating EBITDA	9,057	12,729	13,893	14,017
Depreciation And Amortisation	(3,687)	(3,709)	(3,930)	(4,125)
Operating EBIT	5,370	9,019	9,963	9,892
Financial Income/(Expense)	(2,676)	(3,047)	(3,201)	(3,323)
Pretax Income/(Loss) from Assoc.	189	371	452	410
Non-Operating Income/(Expense)	773	267	668	683
Profit Before Tax (pre-EI)	3,657	6,610	7,881	7,663
Exceptional Items	400	(166)	341	0
Pre-tax Profit	4,057	6,445	8,222	7,663
Taxation	(1,107)	(2,163)	(2,246)	(1,992)
Exceptional Income - post-tax				
Profit After Tax	2,950	4,281	5,976	5,670
Minority Interests	(114)	(1,021)	(1,322)	(845)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	2,837	3,260	4,655	4,825
Recurring Net Profit	2,546	3,371	4,407	4,825
Fully Diluted Recurring Net Profit	2,546	3,371	4,407	4,825

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
EBITDA	9,057	12,729	13,893	14,017
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(28,028)	12,807	(14,253)	(15,242)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	10,900	(27,160)	2,682	3,849
Net Interest (Paid)/Received	(2,676)	(3,047)	(3,201)	(3,323)
Tax Paid	(1,107)	(2,163)	(2,246)	(1,992)
Cashflow From Operations	(11,854)	(6,835)	(3,125)	(2,692)
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)	(836)	(868)
Preferred Dividends				
Other Financing Cashflow	(2,078)	2,076	0	3,642
Cash Flow From Financing	7,328	11,638	4,777	7,773
Total Cash Generated	(5,226)	871	(2,147)	1,281
Free Cashflow To Equity	(2,635)	(618)	(1,311)	(1,492)
Free Cashflow To Firm	(9,204)	(7,451)	(3,281)	(2,772)

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	16,627	17,908
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	184,124	202,579
Fixed Assets	48,767	47,622	48,060	47,636
Total Investments	17,615	24,364	26,140	27,222
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	101,382	102,090
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	41,191	42,703	46,771	50,760
Minority Interests	28,727	36,511	37,833	38,678
Total Equity	69,918	79,215	84,604	89,438

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	33.9%	29.3%	21.9%	11.8%
Operating EBITDA Growth	55.2%	40.5%	9.1%	0.9%
Operating EBITDA Margin	14.6%	15.9%	14.3%	12.9%
Net Cash Per Share (Rmb)	(5.91)	(7.34)	(8.30)	(9.27)
BVPS (Rmb)	3.86	4.00	4.38	4.75
Gross Interest Cover	1.60	2.72	2.73	2.66
Effective Tax Rate	27.3%	33.6%	27.3%	26.0%
Net Dividend Payout Ratio	21.0%	17.1%	19.4%	18.0%
Accounts Receivables Days	62.71	45.58	39.06	38.64
Inventory Days	623.6	641.9	589.6	583.2
Accounts Payables Days	121.9	113.1	102.2	95.4
ROIC (%)	5.11%	7.21%	6.88%	6.21%
ROCE (%)	4.02%	5.43%	5.42%	4.96%
Return On Average Assets	2.37%	3.00%	3.19%	3.05%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

- 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

Explanation on Equity Ratings (New mechanism)

- ADD : The stock's total return is expected to exceed 10% over the next 12 months.
- REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.
- HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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