

China

Consensus ratings*: Buy 22 Hold 2 Sell 3

Current price:	Rmb7.35
Target price:	Rmb11.00
Previous target:	Rmb12.20
Up/downside:	49.7%
CGS-CIMB / Consensus:	32.8%
Reuters:	601766.SS
Bloomberg:	601766 CH
Market cap:	US\$28,001m
	Rmb200,017m
Average daily turnover:	US\$38.69m
	Rmb268.3m
Current shares o/s:	28,699m
Free float:	46.0%
*Source: Bloomberg	

Key changes in this note

- FY19F Revenue no changes.
- FY19F EPS no changes.
- FY19F ROE no changes.



Price performance	1M	3M	12M
Absolute (%)	-7.4	-8	-10.6
Relative (%)	-5.7	-7.2	-15

Major shareholders	% held
CRCCG	54.0

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CRRC-A

Positive earnings growth delivered in 1H19

- CRRC released its 1H19 results and hosted a results conference call after market close on 29 August 2019.
- The 1H19 results were largely in line with our and consensus earnings estimates. Total revenue in 1H19 rose 11.4% YoY, while net profit grew 16.2% YoY. The growth was driven mainly by its core railway and urban transit vehicle segments.
- We remain positive on its core business growth outlook in 2H19. We maintain our earnings forecast for the Company in 2019–2020. We cut our target price (TP) only from Rmb12.20 to Rmb11.00. Our TP is based on our CRRC-H share valuation and the historical A/H premium (discount). We think the current CRRC-A valuation is unjustified by its double-digit earnings growth potential. We reiterate our **ADD** rating on the stock.

Solid 1H19 results

Total revenue rose 11.4% YoY in 1H19, with growth seen mainly in its core railway and urban transit vehicle segments (Fig 1). Its core railway business (56% of total revenue in 1H19) had revenue growth of 20.3% YoY vs. 11.5% YoY growth in 2018. This was led mainly by the locomotive, passenger carriage and MU segments. Its urban transit vehicle business growth also accelerated 37.7% YoY in 1H19 vs. 3.6% YoY growth in 2018. The new business segment reported revenue that was largely flat YoY in 1H19, with growth in its new energy equipment segment offsetting a revenue decline in its new materials and auto parts business. CRRC further scaled down its lower-margin modern service business in 1H19. The gross profit margin contracted by 0.8ppt YoY to 22.5% in 1H19 due to changes in the revenue mix. But SG&A costs as a percentage of sales fell from 15.5% in 1H18 to 14.7% in 1H19 due to effective cost control. With the decrease in financing costs, its net profit margin expanded by 0.1ppt YoY and its net profit grew 16.2% YoY in 1H19.

Core business growth outlook intact

We remain positive on the railway equipment demand growth outlook in 2H19. Railway FAI will remain a key measure to help the central government ensure steady economic growth. At the results meeting, management suggested that railway FAI in 2019F will reach more than Rmb800bn, with railway equipment investment reaching no less than Rmb100bn, implying >10% YoY growth. China Railway Corporation (CRC) gave priority to its corporate restructuring and business reforms in 1H19; hence, it has barely made any tenders on MUs CYTD. But management expects CRC to win new tenders on MUs, freight wagons, etc. in 2H19. We expect its revenue growth in 2H19 to be driven by its MU, passenger carriage, freight wagon and urban transit vehicle segments. We expect its revenue to grow 12.8% and 14.0% YoY in 2019F and 2020F, respectively.

Margin expansion to continue in 2H19

The gross profit margin contraction in 1H19 was mainly due to changes in the revenue mix. We expect its gross profit margin to remain stable in 2019–2020, given an improving revenue mix. We expect its SG&A costs as a percentage of sales to further fall in 2019–2020, led by cost control from its continuous business streamlining. Considering its margin expansion potential, we expect net profit to grow about 20% p.a. in 2019–2020F.

High earnings growth visibility to drive valuation recovery

We reiterate our **ADD** rating for CRRC-A. We slightly cut our TP from Rmb12.20 to Rmb11.00. Our TP is based on our CRRC-H share valuation and the historical A/H premium (discount). We think the market was previously too bearish on CRRC's earnings growth outlook. The current valuation is unjustified by its double-digit earnings growth potential in 2019. We expect its share price to react positively to the solid 1H19 results.

Financial Summary

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue (Rmbm)	224,138	207,044	214,522	241,960	275,823
Operating EBITDA (Rmbm)	23,958	22,333	22,406	25,410	29,043
Net Profit (Rmbm)	11,290	10,791	11,305	13,637	16,235
Normalised EPS (Rmb)	0.41	0.38	0.39	0.48	0.57
Normalised EPS Growth	(28.1%)	(9.1%)	4.8%	20.6%	19.1%
FD Normalised P/E (x)	17.77	19.24	18.99	15.74	13.22
DPS (Rmb)	0.21	0.15	0.15	0.18	0.22
Dividend Yield	2.86%	2.04%	2.04%	2.46%	2.93%
EV/EBITDA (x)	8.90	9.55	9.29	7.98	6.72
P/FCFE (x)	54.25	12.66	NA	16.08	12.67
Net Gearing	0.8%	(5.7%)	(8.3%)	(12.4%)	(17.1%)
P/BV (x)	1.91	1.73	1.64	1.53	1.42
ROE	11.2%	9.5%	9.0%	10.2%	11.3%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)				1.01	1.06

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: CRRC 1H19 results overview

Rmb m	1H19	1H18	% YoY
Locomotives	10,264	9,203	11.5%
Passenger carriages	5,833	2,032	187.1%
Freight wagons	7,483	8,623	-13.2%
Multiple units	30,302	24,949	21.5%
Railway equipment	53,882	44,807	20.3%
Rapid transit vehicles and urban infrastructure	17,820	12,944	37.7%
New business	20,885	20,998	-0.5%
Modern service	3,560	7,541	-52.8%
Revenue	96,147	86,291	11.4%
COGS	-74,544	-66,221	12.6%
GP	21,603	20,070	7.6%
GPM	22.5%	23.3%	-0.8%
SG&A	-14,126	-13,375	5.6%
Other gains and losses	-494	72	na
OP	6,983	6,767	3.2%
OPM	7.3%	7.8%	-0.6%
Financing cost	-313	-769	-59.2%
Profit contribution from associates	149	176	-15.1%
PBT	6,818	6,175	10.4%
Tax	-1,254	-1,240	1.1%
Effective tax rate	-18.4%	-20.1%	1.7%
PAT	5,565	4,935	12.8%
NPM	5.8%	5.7%	0.1%
Minority interest	-784	-820	-4.4%
Profit to common shareholder	4,781	4,115	16.2%

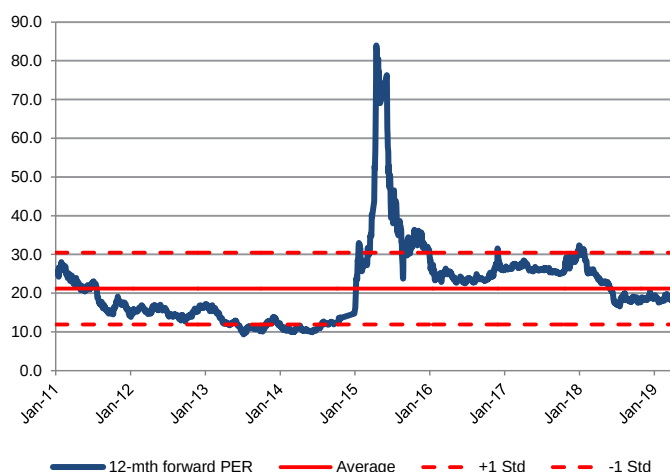
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: CRRC-A share price performance CYTD

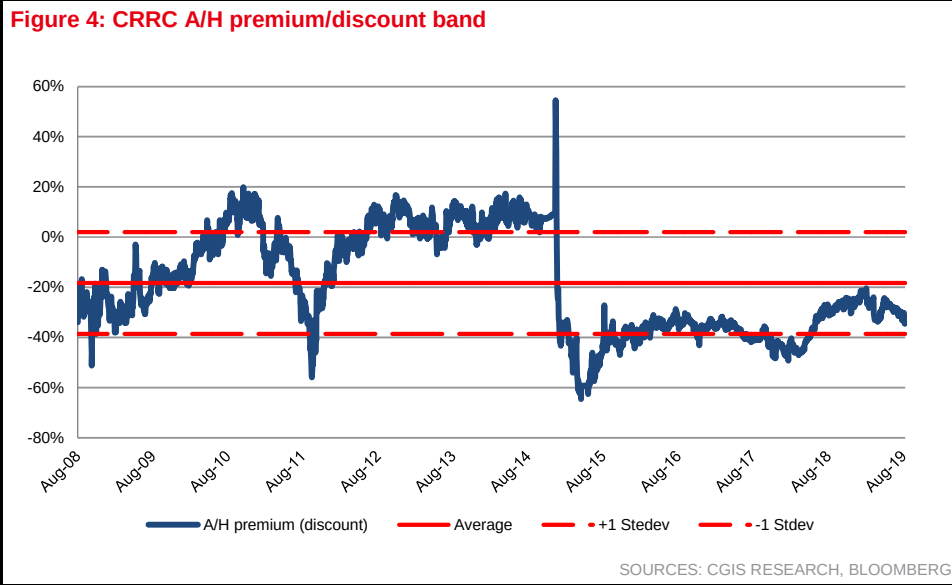


SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 3: CRRC-A 12-mth forward PER band

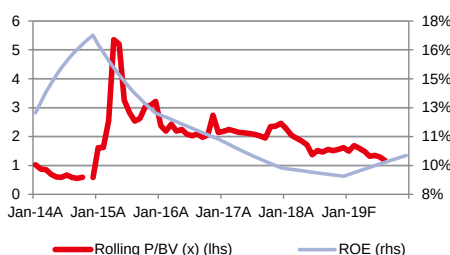


SOURCES: CGIS RESEARCH, BLOOMBERG

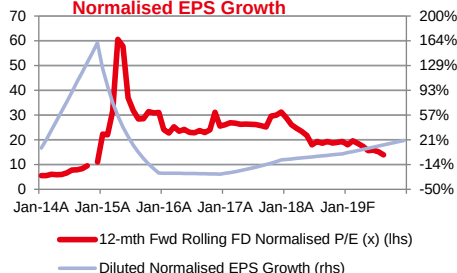


BY THE NUMBERS

P/BV vs ROE



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



Profit & Loss

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Net Revenues	224,138	207,044	214,522	241,960	275,823
Gross Profit	45,028	45,664	46,062	52,658	60,997
Operating EBITDA	23,958	22,333	22,406	25,410	29,043
Depreciation And Amortisation	(6,508)	(6,496)	(6,611)	(6,952)	(7,173)
Operating EBIT	17,450	15,837	15,795	18,458	21,870
Financial Income/(Expense)	(984)	(978)	(1,011)	(565)	(513)
Pretax Income/(Loss) from Assoc.	453	526	558	614	676
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	16,919	15,385	15,342	18,507	22,033
Exceptional Items					
Pre-tax Profit	16,919	15,385	15,342	18,507	22,033
Taxation	(3,025)	(2,388)	(2,344)	(2,827)	(3,366)
Exceptional Income - post-tax					
Profit After Tax	13,894	12,997	12,999	15,680	18,667
Minority Interests	(2,604)	(2,206)	(1,693)	(2,043)	(2,432)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	11,290	10,791	11,305	13,637	16,235
Normalised Net Profit	13,894	12,997	12,999	15,680	18,667
Fully Diluted Normalised Profit	11,290	10,791	11,305	13,637	16,235

Cash Flow

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
EBITDA	23,958	22,333	22,406	25,410	29,043
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(589)	(3,285)	(563)	(719)	(566)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2,519	1,935	591	498	635
Net Interest (Paid)/Received	(1,264)	(1,401)	(1,602)	(1,063)	(1,148)
Tax Paid	(3,644)	(3,267)	(3,029)	(2,827)	(3,366)
Cashflow From Operations	20,979	16,315	17,802	21,298	24,598
Capex	(10,373)	(8,861)	(10,312)	(9,520)	(9,520)
Disposals Of FAs/subsidiaries	11,425	21,729	41,586	0	0
Acq. Of Subsidiaries/investments	(18,642)	(20,662)	(41,599)	0	0
Other Investing Cashflow	(7,119)	4,819	5,991	0	0
Cash Flow From Investing	(24,709)	(2,975)	(4,333)	(9,520)	(9,520)
Debt Raised/(repaid)	7,427	3,061	(25,167)	1,571	1,861
Proceeds From Issue Of Shares	0	11,938	(6)	0	0
Shares Repurchased					
Dividends Paid	(4,064)	(6,027)	(4,305)	(4,305)	(5,193)
Preferred Dividends					
Other Financing Cashflow	(2,057)	(2,353)	(2,487)	0	0
Cash Flow From Financing	1,306	6,619	(31,964)	(2,734)	(3,332)
Total Cash Generated	(2,423)	19,959	(18,495)	9,045	11,746
Free Cashflow To Equity	3,697	16,401	(11,698)	13,349	16,939
Free Cashflow To Firm	(2,465)	14,740	15,071	12,842	16,226

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	41,036	56,280	33,143	42,188	53,934
Total Debtors	119,658	135,925	105,814	119,239	135,777
Inventories	54,404	55,105	55,122	59,643	64,742
Total Other Current Assets	5,864	8,600	33,789	35,669	37,988
Total Current Assets	220,961	255,910	227,868	256,739	292,441
Fixed Assets	66,366	65,919	65,489	67,755	69,828
Total Investments	8,472	11,214	13,766	14,380	15,055
Intangible Assets	4,109	4,187	3,936	4,075	4,190
Total Other Non-Current Assets	38,415	37,976	46,464	47,764	49,327
Total Non-current Assets	117,361	119,296	129,655	133,973	138,400
Short-term Debt	27,184	34,043	16,293	12,841	10,120
Current Portion of Long-Term Debt					
Total Creditors	149,965	161,722	139,167	156,386	177,471
Other Current Liabilities	7,079	7,711	32,892	35,917	39,624
Total Current Liabilities	184,228	203,476	188,351	205,143	227,215
Total Long-term Debt	10,713	9,955	4,380	9,403	13,985
Hybrid Debt - Debt Component	4,125	4,143	0	0	0
Total Other Non-Current Liabilities	7,153	7,249	6,752	6,752	6,752
Total Non-current Liabilities	21,991	21,346	11,132	16,155	20,737
Total Provisions	8,288	8,465	8,355	8,355	8,355
Total Liabilities	214,507	233,287	207,838	229,653	256,307
Shareholders' Equity	104,860	121,584	128,458	137,790	148,832
Minority Interests	18,955	20,336	21,227	23,270	25,702
Total Equity	123,816	141,920	149,685	161,059	174,534

Key Ratios

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	(5.7%)	(7.6%)	3.6%	12.8%	14.0%
Operating EBITDA Growth	1.1%	(6.8%)	0.3%	13.4%	14.3%
Operating EBITDA Margin	10.7%	10.8%	10.4%	10.5%	10.5%
Net Cash Per Share (Rmb)	(0.04)	0.28	0.43	0.69	1.04
BVPS (Rmb)	3.84	4.24	4.48	4.80	5.19
Gross Interest Cover	13.80	11.31	9.86	17.36	19.05
Effective Tax Rate	17.9%	15.5%	15.3%	15.3%	15.3%
Net Dividend Payout Ratio	50.8%	39.9%	38.1%	38.1%	38.1%
Accounts Receivables Days	140.3	170.9	156.9	127.9	127.6
Inventory Days	116.6	123.8	119.4	110.6	106.0
Accounts Payables Days	222.4	270.7	269.6	248.1	247.6
ROIC (%)	11.0%	9.0%	8.6%	10.0%	11.6%
ROCE (%)	10.9%	8.7%	8.7%	10.2%	11.3%
Return On Average Assets	4.50%	3.85%	3.75%	4.30%	4.64%

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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