# Outperform

(maintained)

Construction material

# Guangdong Tapai Group (002233.SZ)

## Stable Price, Increasing Output, High Dividends

21-Mar-20

**Key Data**

Mar. 16, 2020

| | |
|---|---|
| Closing Price | 11.49 |
| Total Shares (Mn) | 1192.28 |
| Shares Outstanding (Mn) | 1162.05 |
| Market Cap(CNY/Mn) | 13699.24 |
| Market Float(CNY/Mn) | 13351.95 |
| Net Assets (CNY/Mn) | 9782.62 |
| Total Assets (CNY/Mn) | 11752.02 |
| BVPS | 8.21 |

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**Key Financial Indicators**

| FY | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| Revenue (Mn/CNY) | 6891 | 7900 | 8525 | 9121 |
| YoY (%) | 3.9% | 14.6% | 7.9% | 7.0% |
| Net Profit (Mn/CNY) | 1733 | 2132 | 2392 | 2529 |
| YoY (%) | 0.6% | 23.0% | 12.2% | 5.7% |
| Gross Margin (%) | 37.7% | 39.9% | 40.5% | 39.2% |
| Net Profit Margin (%) | 25.2% | 27.0% | 28.1% | 27.7% |
| ROE (%) | 17.7% | 17.8% | 17.1% | 15.6% |
| EPS (CNY) | 1.45 | 1.79 | 2.01 | 2.12 |
| OCFPS (CNY) | 1.74 | 1.28 | 2.32 | 2.44 |

### Company Profile

GUANGDONG TAPAI GROUP CO., LTD. is a China-based company, principally engaged in the manufacture and distribution of Portland cement and ready-mixed concretes. The Company distributes its products mainly under four brands, including TA PAI, YUE TA, HENG TA and JIAYING. Its Portland cement is applied in the infrastructure construction of highways, hydropower dams, railways, airports and others. The Company is also engaged in electric power generation, as well as sales of mineral ores, clinkers, concretes and tubular piles. It distributes its products principally in South China and Eastern China. (*Source: Reuters*)

### Investment Highlights

**Event:** Guangdong Tapai Group (the company) disclosed its annual financial reports of 2019: its operating revenue was CNY 6.89 bn with a 3.90% YoY growth; its net profit attributable to shareholders was CNY 1.73 bn with a 0.6% YoY growth; its net profit attributable to shareholders after non-recurring items was CNY 1.49 bn with a 7.99% YoY decline, implying an EPS of CNY 1.45. The company intended to pay cash dividend of CNY 5.5 (pre-tax) every ten shares to all shareholders.

**Price stabilized, output increased and per-ton profit fell.**

In 2019, the company registered a cement output of 19.28 mn tons with a 6.74% YoY growth and sold 19.39 mn tons with a 8.01% YoY growth. The average price of cement clinker was CNY 340 per ton, registering a YoY growth of CNY 3 per ton; its gross profit was CNY 130 per ton, posing a YoY decline of CNY 14. During the reporting period, Expenses per ton were CNY 26, rising by CNY 3 on YoY basis and net profit per ton (excluding investment income) reached CNY 77 with a CNY13 YoY drop.

**The regional inventory was slightly higher than the same period of last year and so did the price.**

Since 2020, affected by delayed work resumption, the cement demand in the region where the company is located had a poor performance. As of last weekend, reservoir capacity of cement in middle and southern area was around 79%, 4 pct higher than that of last year. Reservoir capacity of cement clinker reached around 77%, 16 pct higher than that of last year. Compared with national average level, the company's production resumption is in good condition.

Although enterprises have started cutting prices to stimulate downstream procurement since March, the cement price in middle and southern areas stands at about CNY 490 per ton, still beating that of last year by CNY 30 per ton.

We believe that if demand basically recovers in April, the possibility of cement price continuing to drop will be small. Considering the impact of rainy weather on middle and southern area in 2019, we find that the price has been in a low range in the first three quarters, and we expect that the pressure on the price year-on-year level in 2020 will not be great.

Earnings forecast and investment recommendation

The company has excellent management with its cash flow and liability both in the front row of the industry. The markets where the company's capacity is based has a high prosperity, which is expected to continue and expand new capacity successfully. Phase-II of Wenfu project is expected to be put into operation in 2020, which will keep bringing sales elasticity for the company.

We estimate net profit attributable to shareholders to be CNY 2.13/2.39/2.53 bn for year 20/21/22, implying a P/E ratio of 6.4x/5.7x/5.4x (based on the closing price of March 16th 2020) and maintaining "Outperform" rating.

**Potential risks:** higher-than-expected decline of demand; failure in regional collaboration

*This English translation of the original Chinese version <价稳量升，分红持续高位> issued by Industrial Securities on March 17, 2020 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.*

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Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight：** Industry performs better than that of the whole market；
- **Neutral：** Industry performs about the same as that of the whole market；
- **Underweight：** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy：** With a markup more than 15% better than that of the market；
- **Outperform：** With a markup 5% to 15% better than that of the market；
- **Neutral：** With a markup less than 5% better or worse than that of the market；
- **Underperform：** With a markup more than 5% worse than that of the market.

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