

China/Hong Kong

China Cement Weekly

China Cement Sector

Cement

Moderate decline in cement prices last week; CNBM likely to release a positive profit alert for 1H19

- The average cement price (nationwide) dropped 0.7% to RMB412/tonne last week.
- Coal prices were stable last week.
- CNBM is more likely to release a positive profit alert for 1H19 than other large players thanks to high operating leverage.
- Cement stocks under our coverage increased by 3.24% on average last week.

Overview of last week

The average cement price (nationwide) decreased slightly by 0.7% to RMB412/tonne compared with the price in the previous week. There was a decrease in cement prices of RMB10–30/tonne in Liaoning, Fujian, Henan, Jiangxi, Yunnan and Guizhou. On the other hand, there was an increase in cement prices of RMB10–20/tonne in Taiyuan, Shanxi. Cement demand remained weak due to rainy weather in early July. Shipment levels stayed at 60% to 80% of normal levels, and cement prices are expected to remain on a moderate downward trend. The average inventory level (nationwide) increased from 59.69% to 61.38% last week.

Coal prices remained stable last week

The comprehensive average price index for Bohai-Rim Steam Coal (Q5500K) remained at RMB578/tonne last week. The index increased 1.40% on a year-on-year basis.

CNBM should have higher potential to issue a positive profit alert

The share price of CNBM [3323.HK; ADD] rose 8.61% last week. We believe some investors are expecting the company to release a positive profit alert for its 1H19 results. Although there are some issues to consider when projecting the 1H19 results, as the company restated its Q1 2019 figures to reflect the merger with the SINOMA Group, we believe it should be not be difficult for the company to report strong profit growth in 1H19, thanks to operating leverage due to high finance costs. It reported 176% net profit growth YoY in Q1 2019 (before deducting interest expenses for perpetual bonds). We have a target price of HK\$9.25, based on 0.8x 2019E PBR. Other large players are unlikely to release positive profit alerts for 1H2019. For instance, CR Cement [1313.HK; ADD] was affected by the weak RMB exchange rate in 1H19 and the rainy weather in south China. Conch Cement [0914.HK; ADD] is also less likely to release a positive profit alert for 1H19 given the high base effect last year, and it has limited operating leverage because of low finance costs.

Cement stocks under coverage increased by 3.24% on average last week

The share price of best-performer CNBM rose 8.61% last week. BBMG [2009.HK; ADD], the weakest among our coverage stocks, was up 1.20% week on week.

Figure 1: Valuation table

Company	Ticker	Rating	Price (HK\$)	Market cap (US\$m)	PER (x)			PBR (x)			EV/EBITDA (x)			Net debt/equity (%)
					2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Conch Cement	914 HK Equity	ADD	49.65	33,420	7.3	7.1	7.6	1.94	1.67	1.47	4.6	4.3	4.6	Net cash
CNBM	3323 HK Equity	ADD	7.44	8,045	4.7	4.5	4.7	0.73	0.66	0.60	5.8	5.6	5.8	108
BBMG	2009 HK Equity	ADD	2.54	5,290	6.8	6.3	5.8	0.40	0.39	0.37	9.4	9.4	9.0	108
CR Cement	1313 HK Equity	HOLD	7.70	6,893	6.8	6.6	7.4	1.43	1.28	1.19	3.9	3.9	4.3	Net cash
Simple average					6.4	6.1	6.4	1.13	1.00	0.91	5.9	5.8	5.9	108
Weighted average					6.8	6.6	7.0	1.54	1.34	1.19	5.2	5.0	5.2	27

SOURCES: COMPANY, BLOOMBERG, CGIS RESEARCH ESTIMATES

Figure 2: Valuation table

Company	Ticker	EPS Growth (%)			PEG(x)		ROE (%)			Dividend yield (%)		
		2019E	2020E	CAGR (%)	2019E	2018	2019E	2020E	2018	2019E	2020E	
Conch Cement	914 HK Equity	6.2	(6.9)	(0.5)	(13.0)	29.64	25.61	20.45	4.1	4.9	4.6	
CNBM	3323 HK Equity	8.6	(5.0)	1.6	2.8	16.45	15.87	13.36	2.9	4.5	4.2	
CR Cement	1313 HK Equity	3.3	(11.4)	(4.3)	(1.4)	23.36	20.60	16.67	7.1	7.6	6.8	
BBMG	2009 HK Equity	11.2	8.2	9.7	0.7	6.22	6.35	6.51	3.0	3.3	3.6	
Simple average		7.3	(3.8)	1.6	(2.7)	18.92	17.11	14.25	4.3	5.1	4.8	
Weighted average		6.7	(5.7)	0.3	(7.8)	24.55	21.61	17.53	4.2	5.1	4.7	

SOURCES: COMPANY, BLOOMBERG, CGIS RESEARCH ESTIMATES

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Figure 3: Peer comparison

Company	Ticker	Rating	Price (LC)	Market cap (US\$m)	PER (x)			PBR (x)			EV/EBITDA(x)		
					2018	2019E	2020E	2018	2019E	2019E	2018	2019E	2019E
Conch Cement	914 HK Equity	ADD	49.65	33,420	7.3	7.1	7.6	1.94	1.67	1.47	4.6	4.3	4.6
CNBM	3323 HK Equity	ADD	7.44	8,045	4.7	4.5	4.7	0.73	0.66	0.60	5.8	5.6	5.8
BBMG	2009 HK Equity	ADD	2.54	5,290	6.8	6.3	5.8	0.40	0.39	0.37	9.4	9.4	9.0
CR Cement	1313 HK Equity	HOLD	7.70	6,893	6.8	6.6	7.4	1.43	1.28	1.19	3.9	3.9	4.3
Asia Cement	743 HK Equity	NR	13.2	2,652	6.8	6.4	6.3	1.44	1.28	1.12	4.4	3.9	3.9
West China Cement	2233 HK Equity	NR	1.39	969	5.8	5.7	6.1	0.89	0.71	0.63	2.8	2.6	2.7
Tianrui Cement	1252 HK Equity	NR	6.95	2,618	14.8	n.a.	n.a.	1.64	n.a.	n.a.	7.5	n.a.	n.a.
Simple average					7.6	6.1	6.3	1.21	1.00	0.90	5.5	5.0	5.1
Weighted average					7.1	6.3	6.6	1.53	1.27	1.13	5.2	4.7	4.9

SOURCES: BLOOMBERG, CGIS RESEARCH

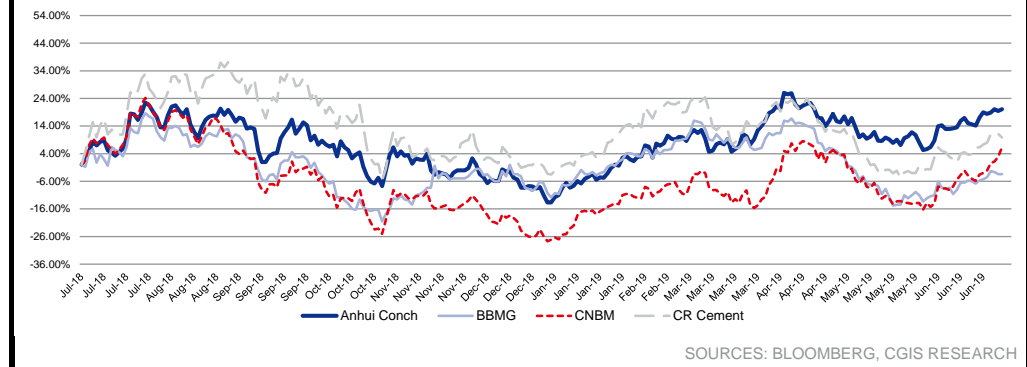
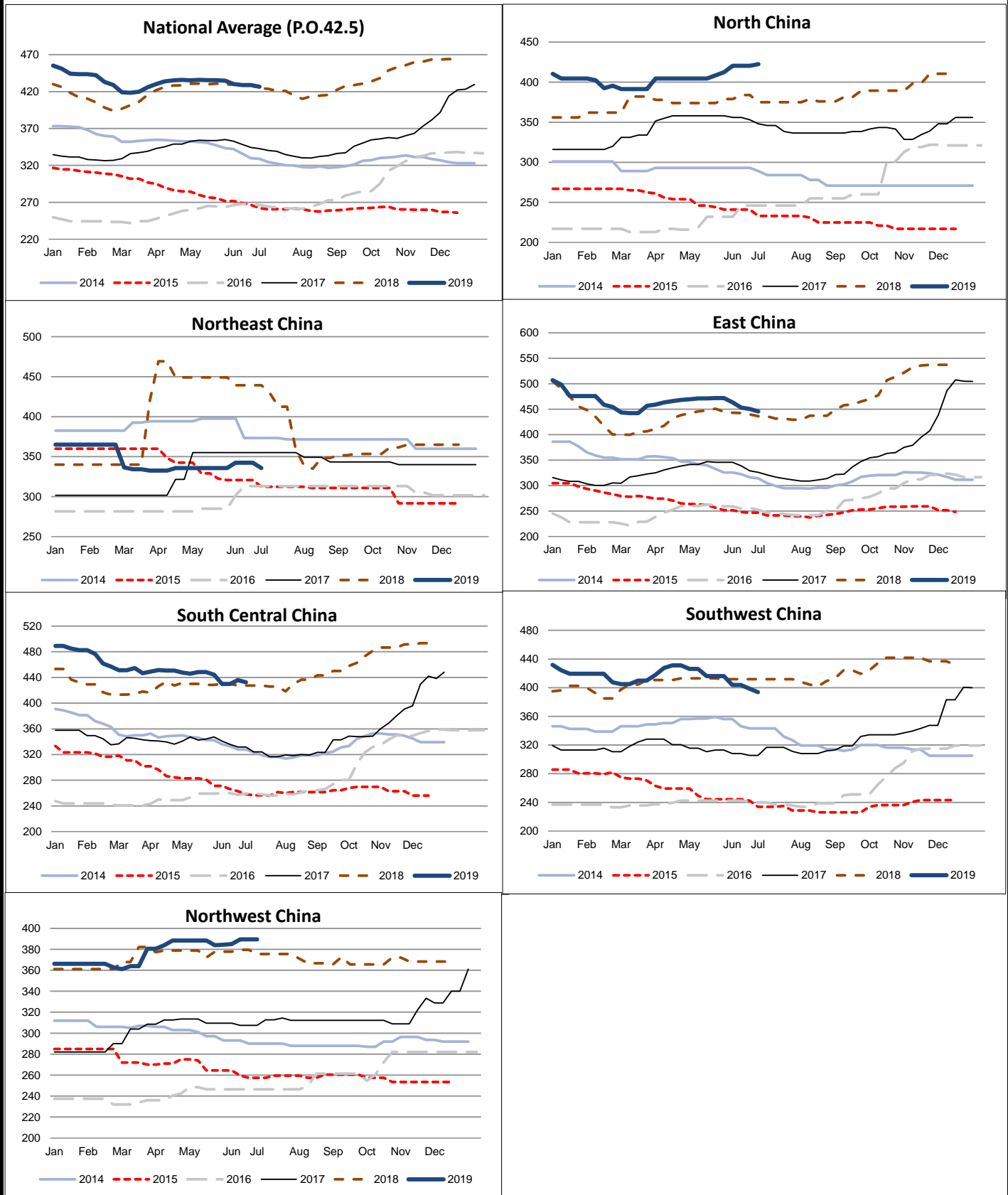
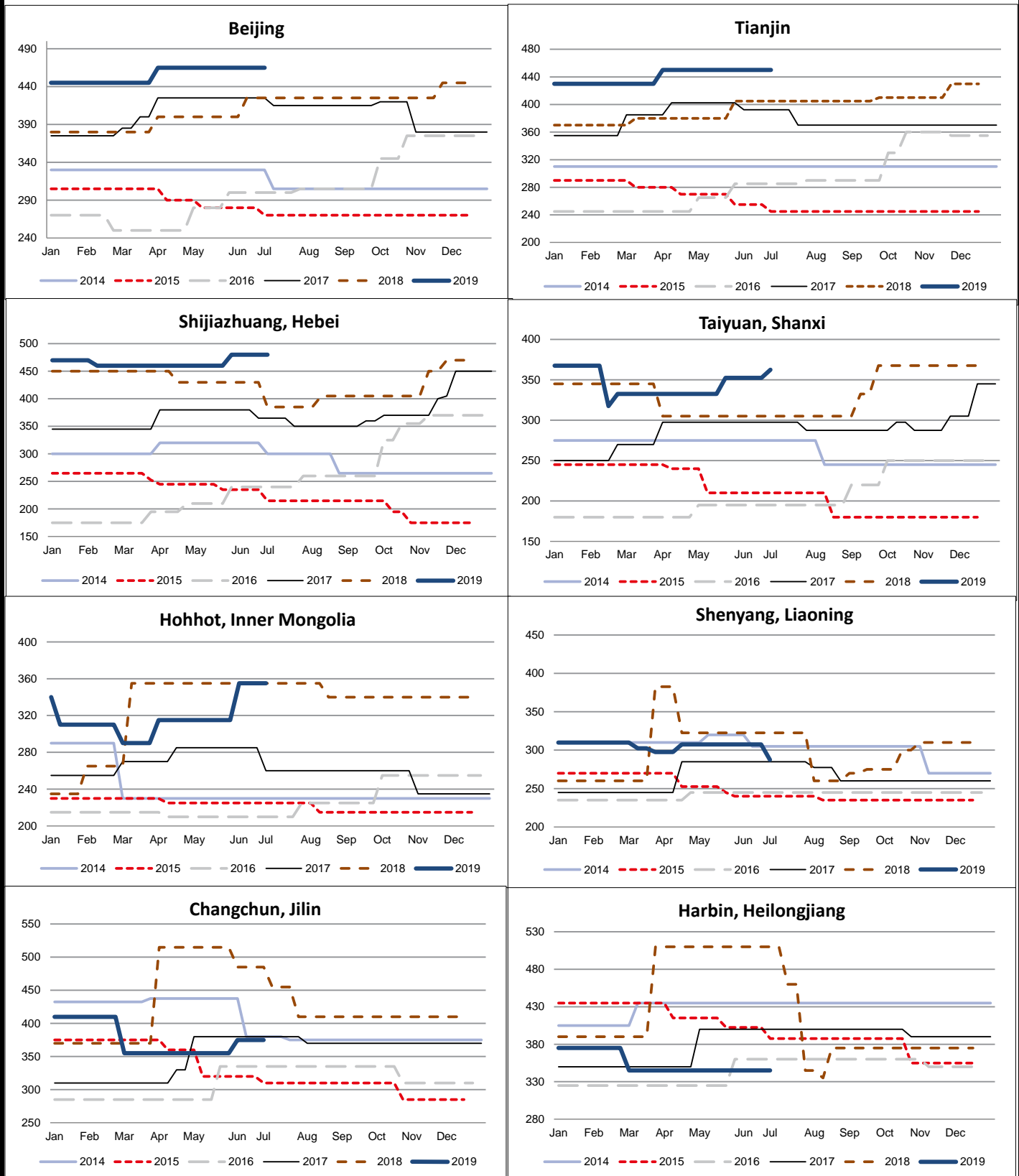
Figure 4: One-year relative performance

Figure 5: Comprehensive average price index: Bohai-rim steam coal (Q5500K)


Figure 6: Regional cement prices (RMB/tonne)



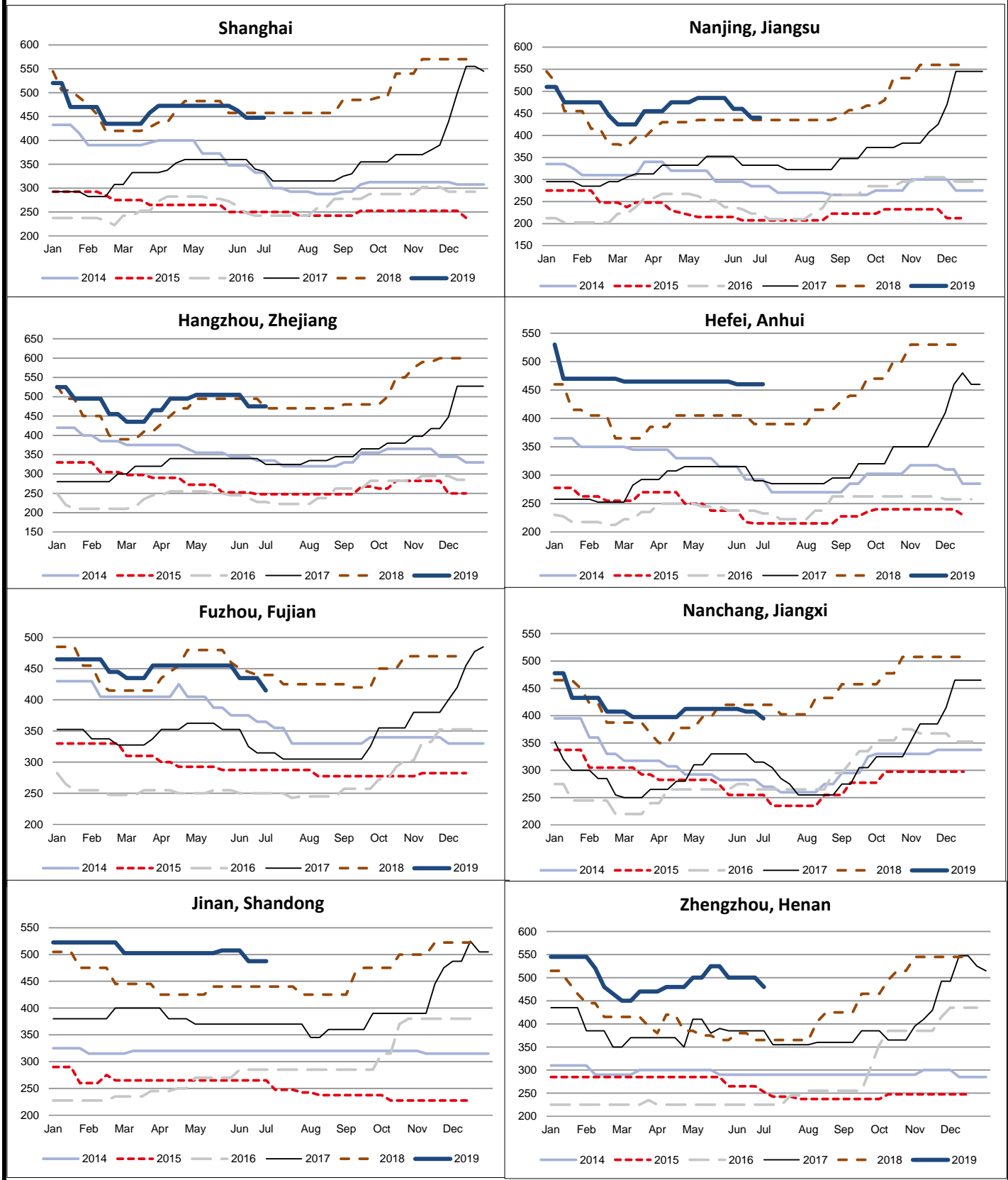
SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 7: Cement prices in major cities (1) (RMB/tonne)



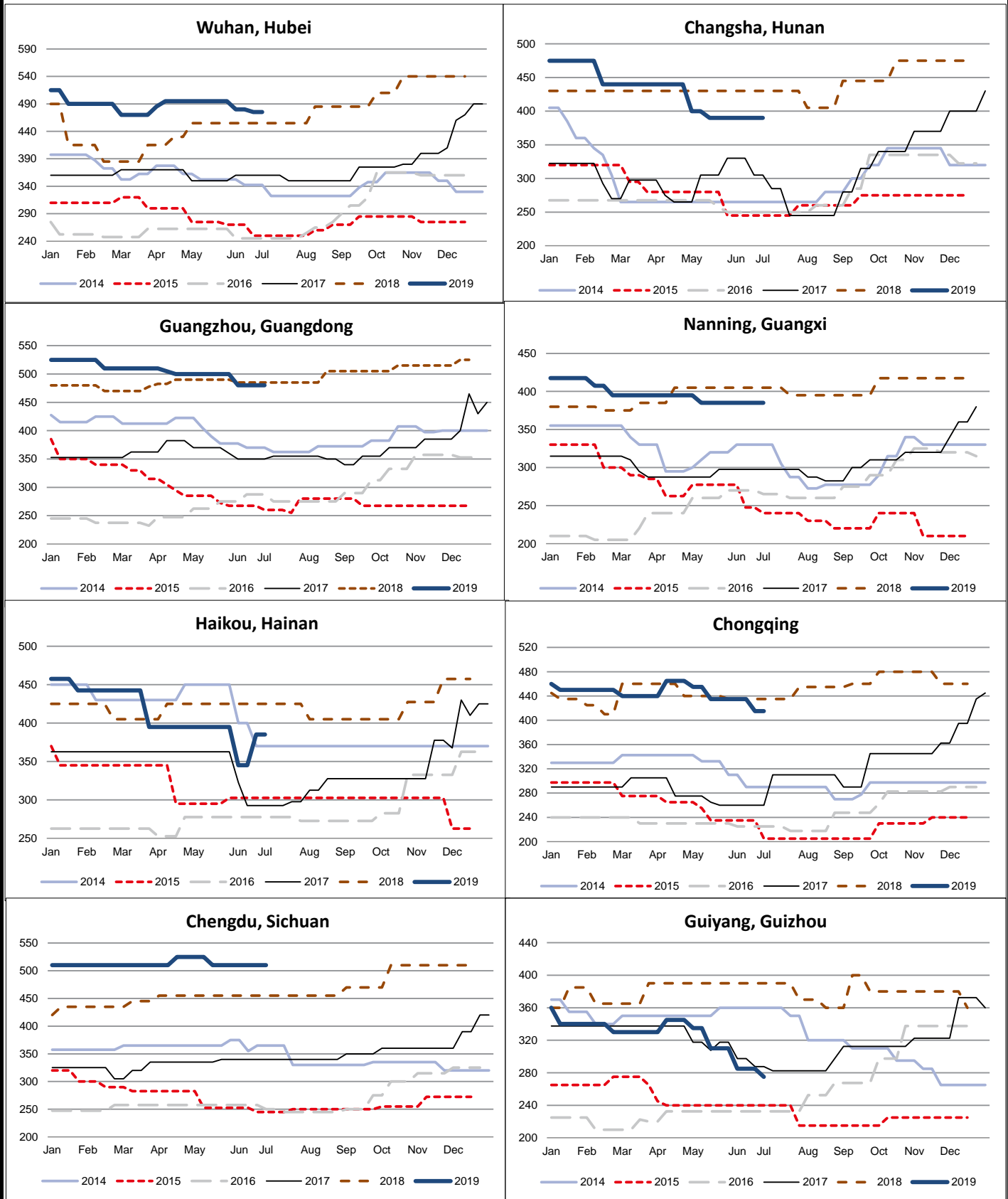
SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 8: Cement prices in major cities (2) (RMB/tonne)



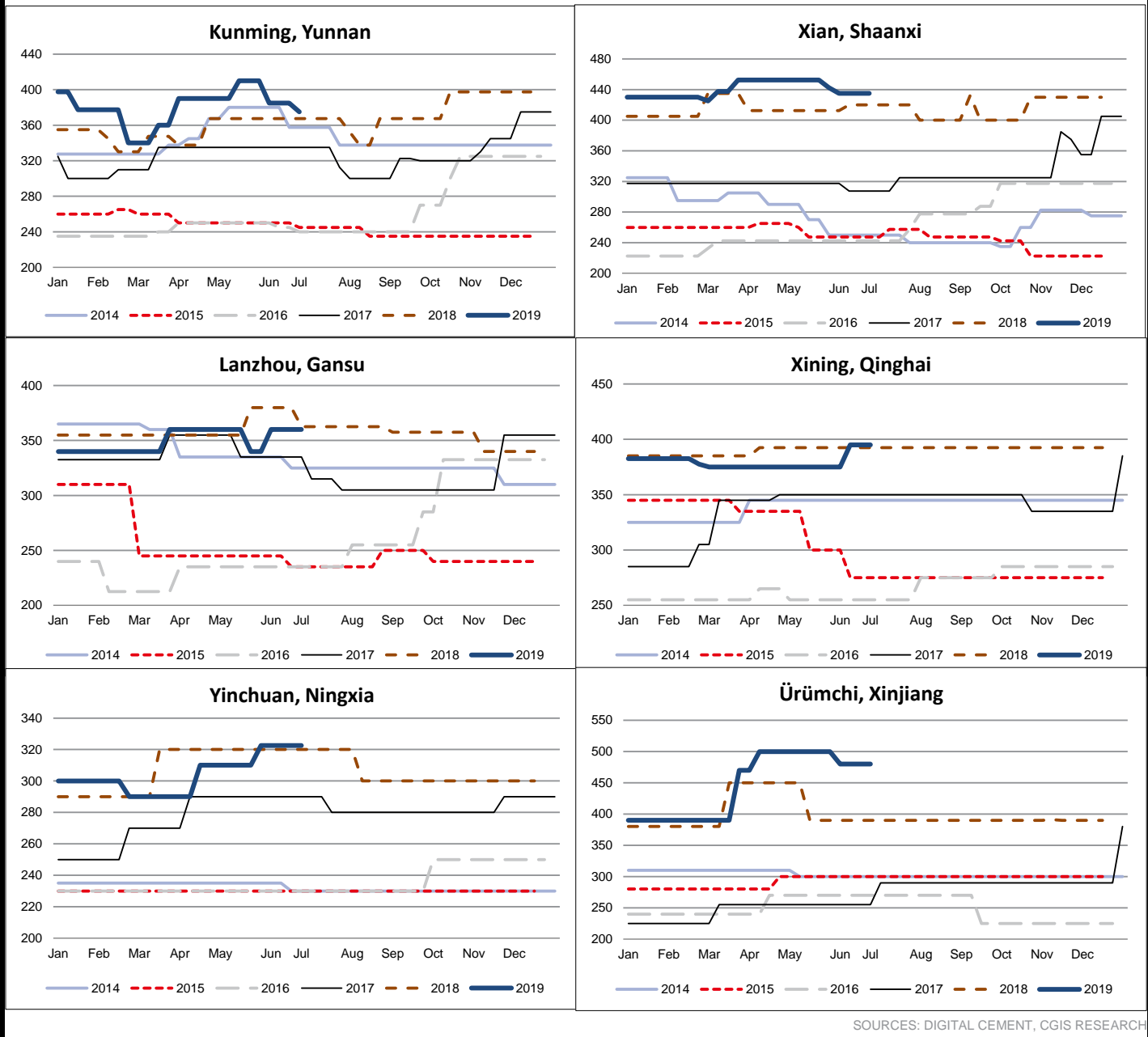
SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 9: Cement prices in major cities (3) (RMB/tonne)



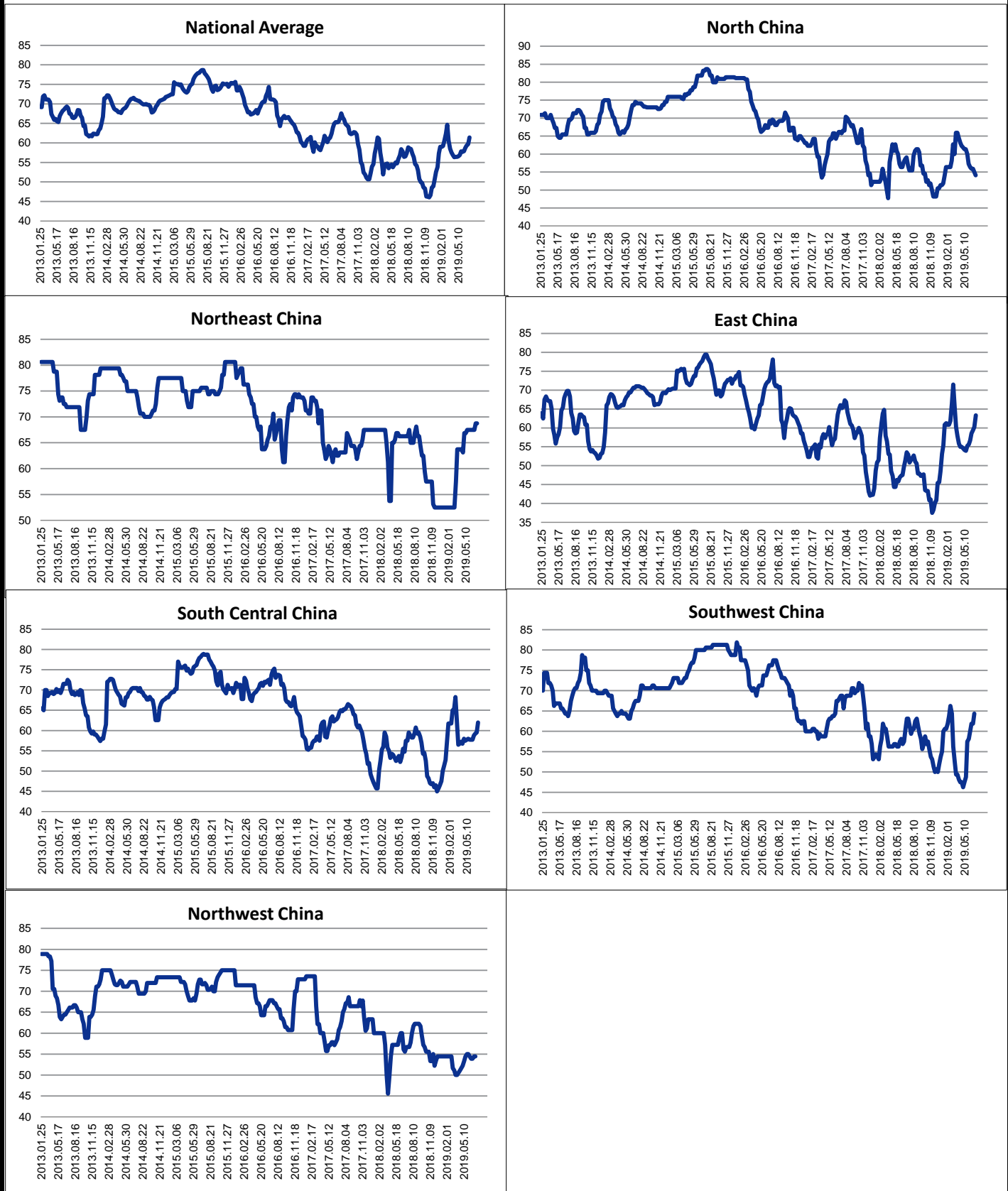
SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 10: Cement prices in major cities (4) (RMB/tonne)



SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 12: Cement inventory level (%)



SOURCES: DIGITAL CEMENT, CGIS RESEARCH

Figure 13: Clinker capacity breakdown by region (2018)

	Conch Cement 0914.HK	CNBM 3323.HK	CR Cement 1313.HK	Shanshui 0691.HK	BBMG 2009.HK	Asia Cement 0743.HK	WCC 2233.HK	Huaxin-Lafarge
East China								
Anhui	38.3%	5.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fujian	0.0%	0.4%	10.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Jiangsu	1.8%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jiangxi	4.2%	4.8%	0.0%	0.0%	0.0%	42.0%	0.0%	0.0%
Shandong	0.8%	9.7%	0.0%	48.7%	2.3%	0.0%	0.0%	0.0%
Zhejiang	1.5%	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shanghai	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	46.6%	35.4%	10.5%	48.7%	2.3%	42.0%	0.0%	0.0%
South Central China								
Guangdong	7.2%	2.2%	27.2%	0.0%	0.0%	0.0%	0.0%	2.8%
Guangxi	7.9%	1.6%	39.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Hainan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hunan	10.3%	7.0%	0.0%	0.0%	1.4%	0.0%	0.0%	13.2%
Hubei	0.0%	0.0%	0.0%	0.0%	0.0%	25.1%	0.0%	44.4%
Henan	0.0%	4.4%	0.0%	2.7%	1.6%	0.0%	0.0%	2.8%
Total	25.4%	15.2%	67.2%	2.7%	3.0%	25.1%	0.0%	63.2%
North China								
Beijing	0.0%	0.0%	0.0%	0.0%	2.9%	0.0%	0.0%	0.0%
Tianjin	0.0%	0.0%	0.0%	0.0%	1.6%	0.0%	0.0%	0.0%
Hebei	0.0%	0.6%	0.0%	0.0%	48.2%	0.0%	0.0%	0.0%
Shanxi	0.0%	0.6%	12.8%	16.3%	11.0%	0.0%	0.0%	0.0%
Inner Mongolia	0.0%	4.0%	0.0%	10.1%	7.3%	0.0%	0.0%	0.0%
Total	0.0%	5.2%	12.8%	26.5%	70.8%	0.0%	0.0%	0.0%
Northeast China								
Heilongjiang	0.0%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jilin	0.0%	1.9%	0.0%	2.4%	4.7%	0.0%	0.0%	0.0%
Liaoning	0.0%	0.7%	0.0%	16.6%	2.0%	0.0%	0.0%	0.0%
Total	0.0%	6.2%	0.0%	19.1%	6.7%	0.0%	0.0%	0.0%
Southwest China								
Chongqing	2.9%	2.6%	0.0%	0.0%	5.1%	0.0%	0.0%	9.0%
Sichuan	4.1%	9.3%	0.0%	0.0%	0.0%	32.9%	0.0%	3.4%
Guizhou	9.2%	6.0%	9.5%	0.0%	0.0%	0.0%	5.3%	0.7%
Yunnan	3.7%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	18.9%
Tibet	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.8%
Total	20.0%	22.4%	9.5%	0.0%	5.1%	32.9%	5.3%	36.8%
Northwest China								
Gansu	2.7%	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shaanxi	4.9%	0.4%	0.0%	0.0%	12.1%	0.0%	79.5%	0.0%
Qinghai	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ningxia	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Xinjiang	0.4%	7.3%	0.0%	3.0%	0.0%	0.0%	15.2%	0.0%
Total	8.0%	15.6%	0.0%	3.0%	12.1%	0.0%	94.7%	0.0%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Market leader in each province is highlighted in darker red blanks. Market leader in each region is highlighted as red texts.
SOURCES: DIGITAL CEMENT, CHINA CEMENT ASSOCIATION, CGIS RESEARCH

Figure 14: Market share in terms of clinker capacity (2018)

	Conch Cement 0914.HK	CNBM 3323.HK	CR Cement 1313.HK	Shanshui 0691.HK	BBMG 2009.HK	Asia Cement 0743.HK	WCC 2233.HK	Luaxin-Lafarg -
East China								
Anhui	57.4%	14.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fujian	0.0%	2.9%	13.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Jiangsu	5.8%	36.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jiangxi	12.4%	26.4%	0.0%	0.0%	0.0%	13.0%	0.0%	0.0%
Shandong	1.4%	32.9%	0.0%	22.6%	2.0%	0.0%	0.0%	0.0%
Zhejiang	5.0%	53.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shanghai	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	19.2%	26.8%	1.4%	5.1%	0.5%	1.8%	0.0%	0.0%
South Central China								
Guangdong	14.6%	8.1%	18.0%	0.0%	0.0%	0.0%	0.0%	1.5%
Guangxi	19.9%	7.5%	33.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hainan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hunan	26.3%	32.9%	0.0%	0.0%	1.8%	0.0%	0.0%	9.1%
Hubei	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	0.0%	36.6%
Henan	0.0%	16.2%	0.0%	1.4%	1.5%	0.0%	0.0%	1.5%
Total	11.6%	12.8%	10.1%	0.3%	0.7%	1.2%	0.0%	7.8%
North China								
Beijing	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Tianjin	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Hebei	0.0%	2.2%	0.0%	0.0%	46.9%	0.0%	0.0%	0.0%
Shanxi	0.0%	3.5%	13.6%	13.3%	17.3%	0.0%	0.0%	0.0%
Inner Mongolia	0.0%	22.2%	0.0%	7.6%	10.6%	0.0%	0.0%	0.0%
Total	0.0%	8.2%	3.6%	5.7%	29.6%	0.0%	0.0%	0.0%
Northeast China								
Heilongjiang	0.0%	67.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jilin	0.0%	28.3%	0.0%	5.0%	18.9%	0.0%	0.0%	0.0%
Liaoning	0.0%	4.8%	0.0%	16.5%	3.9%	0.0%	0.0%	0.0%
Total	0.0%	24.0%	0.0%	10.1%	6.9%	0.0%	0.0%	0.0%
Southwest China								
Chongqing	11.3%	18.6%	0.0%	0.0%	9.6%	0.0%	0.0%	9.3%
Sichuan	7.9%	32.7%	0.0%	0.0%	0.0%	6.6%	0.0%	1.7%
Guizhou	21.6%	26.2%	7.4%	0.0%	0.0%	0.0%	1.1%	0.4%
Yunnan	8.7%	19.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.9%
Tibet	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	45.9%
Total	12.0%	24.7%	1.9%	0.0%	1.5%	2.1%	0.3%	6.0%
Northwest China								
Gansu	13.7%	46.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shaanxi	16.9%	2.6%	0.0%	0.0%	20.4%	0.0%	25.5%	0.0%
Qinghai	0.0%	15.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ningxia	0.0%	41.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Xinjiang	0.9%	32.5%	0.0%	1.8%	0.0%	0.0%	3.4%	0.0%
Total	7.5%	26.8%	0.0%	0.7%	5.5%	0.0%	8.2%	0.0%
Grand Total	11.1%	20.5%	3.6%	2.8%	5.4%	1.2%	1.0%	3.0%

Note: Market leader in each province is highlighted in darker red blanks. Market leader in each region is highlighted as red texts.
SOURCES: DIGITAL CEMENT, CHINA CEMENT ASSOCIATION, CGIS RESEARCH

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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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