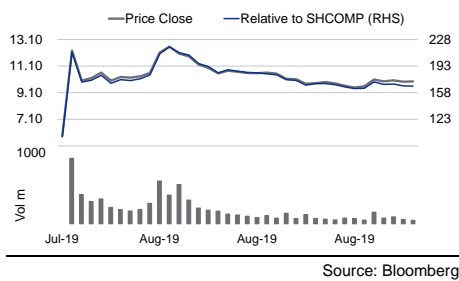


China
HOLD (Initiation)

Consensus ratings*: Buy 2 Hold 0 Sell 1

Current price:	Rmb9.95
Target price:	Rmb9.60
Previous target:	na
Up/downside:	-3.5%
CGI / Consensus:	na
Reuters:	
Bloomberg:	688009 CH
Market cap:	US\$13,291m
	Rmb94,573m
Average daily turnover:	US\$325.4m
	Rmb2,223m
Current shares o/s:	10,590m
Free float:	37.6%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	-9.2	na	na
Relative (%)	-18.2	na	na

Major shareholders	% held
CRSC Corporation	62.4

CRSC-A

Smart rail transportation industry leader, core business growth on track

- We initiate coverage on CRSC-A with a HOLD rating and a target price (TP) of Rmb9.60.
- CRSC-A had its total revenue grew 8.5% yoy and net profit grew 14.3% yoy in 1H19. The earnings growth in 1H19 was helped only by the core railway business. We expect its urban transit business growth to recover as well, which will further drive earnings growth acceleration in 2H19.
- We are positive on CRSC-A's earnings growth outlook in medium-to-long term, considering its leading position in the smart rail transportation market. The Company is the key beneficiary from accelerating rail transportation investment from both central and local governments from 2019 onwards. CRSC-A currently traded on 24.5x 2019F P/E, representing a 123.4% premium to its H-shares. The valuation is demanding compared to its H-shares, but we think its listing in SSE STAR Market will make its share price more resilient.

1H19 delivered solid net profit growth of 14%

Total revenue in 1H19 grew 8.5% yoy, driven only by its core railway business (Fig 1). Its gross profit margin expanded by 1.3ppt yoy to 23.3% in 1H19, because of an improved revenue mix. The Company scaled down its lower-margin cash construction business, while its higher-margin core railway business growth further accelerated in 1H19. Its urban transit business also saw gross profit margin expansion due to the increasing adoption of its own CBTC technology in its projects. SG&A costs rose more than revenue growth in 1H19. Its net profit margin expanded by 0.7ppt yoy in 1H19. Net profit grew 14.3% yoy in 1H19 to Rmb2,268m, equivalent to 56% and 53% of our and consensus full-year earnings estimates, respectively.

2H19 earnings growth expected to further accelerate

We expect its urban transit business growth to recover in 2H19, which will further drive its earnings growth acceleration. CRSC remains confident that it can deliver double-digit revenue and earnings growth in 2019. CRSC expects its railway business revenue growth to continue in 2H19. Railway equipment demand growth will be driven by increases in new rail line additions in the 13th FYP and the deepening of railway operation reforms. CRSC reported that its railway business contract wins in 1H19 grew 30.1% yoy. The central government has been promoting the development of urban transit networks to support economic growth and facilitate the development of a few city clusters; hence, investment in the urban transit network development started to reaccelerate in 2018. We trim our earnings forecast for the Company in 2019–2020 by only 2–4% to reflect weakness of the non-railway business. Overall, we expect its 2019F/2020F net profit to grow 15.0%/23.7%.

A-share listing to enhance R&D and bring new income streams

The Company listed its A-shares on the SSE STAR Market in July. Proceeds from its A-share listing will be used in 1) the R&D of advanced intelligent rail transportation, 2) the development of an advanced rail electrification system manufacturing base in Changsha, 3) the development of IT projects, and 4) the replenishment of working capital. These investments should produce new income streams for CRSC for its long-term business growth. With its strong position in the rail transportation control system market, the Company can leverage its technology and expertise to expand its product offerings along the smart rail transportation industry value chain. With more income coming from late-cycle railway operations, CRSC's earnings growth should become more sustainable.

Initiate with HOLD

We initiate coverage on CRSC-A with a **HOLD** rating and TP of Rmb9.60. Our TP is based on a target PER multiple of 21.5x, which is the average 2020 P/E of domestic peers. Our A-share TP represents a 55.3% premium to our H-share TP. We think its A-share valuation fully reflected its earnings growth potential in 2019-2020, but its listing in SSE STAR Market will make its share price more resilient.

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Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	34,434	39,844	44,933	54,264	61,110
Operating EBITDA (Rmbm)	4,666	4,977	5,948	7,080	8,090
Net Profit (Rmbm)	3,310	3,429	3,944	4,877	5,578
Normalised EPS (Rmb)	0.38	0.39	0.41	0.46	0.53
Normalised EPS Growth	8.5%	3.6%	4.3%	13.1%	14.4%
FD Normalised P/E (x)	26.42	25.50	24.45	21.61	18.89
DPS (Rmb)	0.15	0.20	0.17	0.18	0.21
Dividend Yield	1.51%	2.01%	1.66%	1.85%	2.12%
EV/EBITDA (x)	16.51	15.84	13.13	12.42	10.83
P/FCFE (x)	NA	64.21	58.38	64.81	33.61
Net Gearing	(43.6%)	(30.6%)	(44.2%)	(39.8%)	(38.1%)
P/BV (x)	3.64	3.03	2.52	2.34	2.17
ROE	14.5%	13.0%	11.2%	11.2%	11.9%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)					

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG.

Figure 1: CRSC 1H19 results overview

Rmb m	1H19	1H18	% YoY
Revenue	20,512	18,907	8.5%
COGS	-15,732	-14,749	6.7%
GP	4,780	4,158	15.0%
<i>GPM</i>	23.3%	22.0%	1.3%
SG&A	-2,176	-1,806	20.5%
Other gains and losses	241	108	124.5%
OP	2,845	2,459	15.7%
<i>OPM</i>	13.9%	13.0%	0.9%
Financing cost	2	56	-97.1%
Profit contribution from associates	26	23	16.4%
PBT	2,873	2,537	13.2%
Tax	-436	-422	3.4%
Effective tax rate	-15.2%	-16.6%	1.4%
PAT	2,437	2,116	15.2%
<i>NPM</i>	11.9%	11.2%	0.7%
Minority interest	-170	-132	28.7%
Profit to common shareholder	2,268	1,984	14.3%
EPS (Rmb)	0.25	0.23	8.7%
Rmb m	1H19	1H18	% YoY
Revenue			
Railway	11,384	8,603	32.3%
Urban transit	3,803	4,367	-12.9%
Construction contracting	5,163	5,655	-8.7%
Other business	24	19	25.7%
Overseas business	138	264	-47.9%
Total	20,512	18,907	8.5%
Gross profit			
Railway	3,181	2,501	
Urban transit	923	854	
Construction contracting	633	741	
Other business	13	12	
Overseas business	30	50	
Total	4,780	4,158	
GPM			
Railway	27.9%	29.1%	
Urban transit	24.3%	19.6%	
Construction contracting	12.3%	13.1%	
Other business	55.9%	62.2%	
Overseas business	21.7%	19.0%	
Total	23.3%	22.0%	

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: CRSC earnings estimates: CGIS vs. consensus

2019E (Rmb m, Rmb)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS	44,933	5,356	5,948	3,944	0.41	0.41
Consensus	45,734	5,128	5,895	4,196	0.43	0.44
Diff%						
CGIS vs. consensus	-1.8%	4.4%	0.9%	-6.0%	-4.5%	-5.0%
2020E (Rmb m, Rmb)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS	54,264	6,432	7,080	4,877	0.46	0.46
Consensus	52,328	6,026	6,848	4,924	0.50	0.49
Diff%						
CGIS vs. consensus	3.7%	6.7%	3.4%	-1.0%	-7.2%	-6.0%
2021E (Rmb m, Rmb)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS	61,110	7,375	8,090	5,578	0.53	0.53
Consensus	58,324	6,702	7,605	5,452	0.55	0.55
Diff%						
CGIS vs. consensus	4.8%	10.0%	6.4%	2.3%	-4.6%	-3.7%

SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 3: Key revenue segment forecast

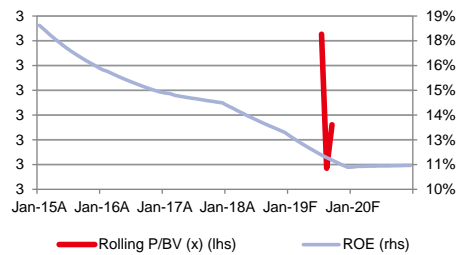
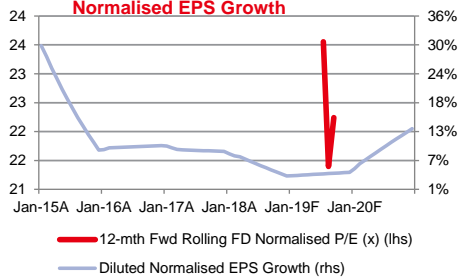
Rmb m	2017	2018	2019F	2020F	2021F
Railway	16,606	18,373	22,047	28,662	32,961
Urban transit	7,208	9,360	10,296	12,355	14,208
Construction contracting	9,635	11,517	12,093	12,697	13,332
Other business	201	60	69	79	91
Overseas business	783	534	428	470	517
Total	34,434	39,844	44,933	54,264	61,110
% of total					
Railway	48%	46%	49%	53%	54%
Urban transit	21%	23%	23%	23%	23%
Construction contracting	28%	29%	27%	23%	22%
Other business	1%	0%	0%	0%	0%
Overseas business	2%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
% YoY chg					
Railway	-0.9%	10.6%	20.0%	30.0%	15.0%
Urban transit	21.7%	29.9%	10.0%	20.0%	15.0%
Construction contracting	67.0%	19.5%	5.0%	5.0%	5.0%
Other business	-13.7%	-70.3%	15.0%	15.0%	15.0%
Overseas business	9.4%	-31.8%	-20.0%	10.0%	10.0%
Total	17.1%	15.7%	12.8%	20.8%	12.6%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: Peer comparison table

	Mkt cap US\$ m	Price (lc)	PER			EPS Growth			PEG		P/Bk		Yield		ROE			
			2018	2019F	2020F	2018	2019F	2020F	2019F	2018	2019F	2020F	2019F	2020F	2018	2019F	2020F	
H-share railway equipment companies																		
CRSC	3969 HK	13,266	4.90	11.4	10.8	9.7	4.3%	13.1%	14.4%	0.8	1.4	0.9	0.9	3.7%	4.1%	11.2%	11.2%	11.9%
CRRC	1766 HK	29,012	5.57	12.9	10.7	9.0	4.6%	20.6%	19.1%	0.5	1.1	1.1	1.0	3.6%	4.3%	8.8%	9.9%	10.9%
CRRC Times Electric	3898 HK	4,947	33.00	13.5	12.5	10.8	3.5%	8.1%	15.2%	1.5	1.8	1.6	1.4	1.6%	1.9%	13.2%	12.8%	13.2%
A-share railway equipment companies																		
CRSC-A	688009 CH	13,266	9.95	25.5	24.5	21.6	4.3%	13.1%	14.4%	1.9	3.0	2.5	2.3	1.7%	1.9%	11.2%	11.2%	11.9%
CRRC-A	601766 CH	29,014	7.59	19.3	16.0	13.4	4.6%	20.6%	19.1%	0.8	1.7	1.6	1.5	2.4%	2.8%	8.8%	9.9%	10.9%
Traffic Control Tech	688015 CH	1,029	45.84	na	78.6	56.8	na	na	38.4%	na	13.8	6.4	5.8	0.3%	0.4%	na	8.1%	10.1%
China High-speed	000008 CH	1,428	3.66	31.6	22.9	18.8	-62.7%	37.9%	21.9%	0.6	1.4	1.4	1.3	0.4%	0.4%	4.5%	5.9%	6.8%
Beijing Dinghan	300011 CH	503	6.42	-6.2	35.7	25.7	na	-117%	38.9%	-0.3	1.9	1.8	1.7	0.5%	0.5%	-30.4%	5.0%	6.6%
Nanjing Kangni	603111 CH	753	5.40	-1.7	11.4	9.3	na	-115%	23.3%	-0.1	3.2	2.6	2.3	1.1%	1.3%	-188%	23.0%	24.6%
Zhejiang Yonggui	300351 CH	534	9.92	-8.3	19.6	16.3	na	-142%	20.8%	-0.1	1.6	1.5	1.4	0.8%	0.8%	-19.7%	7.6%	8.6%
Thinker Automatic Equipment	603508 CH	1,743	63.79	54.5	33.0	25.1	42.7%	65.4%	31.3%	0.5	3.8	4.1	3.6	1.0%	1.2%	7.0%	12.4%	14.5%
Chengdu Yunda Technology	300440 CH	474	7.54	32.8	na	na	-11.5%	na	na	na	2.8	na	na	na	na	8.6%	na	na
Beijing Century Real Tech	300150 CH	351	4.28	28.5	na	na	66.7%	na	na	na	1.3	na	na	na	na	4.4%	na	na
Shanghai Huaming Intelligent	300462 CH	589	30.46	80.2	na	na	15.2%	na	na	na	6.7	na	na	na	na	8.3%	na	na
PCI-Suntek Technology	600728 CH	2,392	10.41	63.5	38.7	28.9	23.3%	64.0%	33.8%	0.6	4.6	4.3	3.7	0.6%	0.4%	7.3%	11.2%	12.8%
Overseas railway equipment companies																		
Siemens	SIE GR	87,210	92.96	12.8	13.7	12.4	0.5%	-6.6%	10.5%	-2.1	1.7	1.6	1.5	4.1%	4.3%	13.0%	11.8%	12.4%
Bombardier	BBD/A CN	3,299	1.80	13.4	-14.2	15.9	240%	-194%	-190%	0.1	-0.7	-0.7	-0.9	na	na	-5.0%	4.9%	-5.6%
Alstom	ALO FP	9,675	39.07	16.2	18.6	16.4	6.5%	-12.9%	13.4%	-1.4	2.1	2.6	2.4	1.5%	1.8%	12.7%	14.1%	14.4%
GE	GE US	76,013	8.71	12.5	14.5	12.6	-33.4%	-14.2%	14.8%	-1.0	3.4	2.5	2.5	0.5%	0.5%	27.3%	17.0%	19.4%
Hollysys	HOLI US	914	15.14	7.2	6.7	6.0	14.4%	8.7%	11.0%	0.8	0.9	0.9	0.8	1.4%	1.6%	13.1%	12.9%	12.8%

SOURCES: CGIS RESEARCH, BLOOMBERG
 NOTE: Companies covered by CGIS are highlighted. Based on closing prices on 9 September 2019.

BY THE NUMBERS
P/BV vs ROE

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

Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	34,434	39,844	44,933	54,264	61,110
Gross Profit	8,390	8,912	10,338	12,780	14,537
Operating EBITDA	4,666	4,977	5,948	7,080	8,090
Depreciation And Amortisation	(513)	(519)	(592)	(648)	(715)
Operating EBIT	4,153	4,458	5,356	6,432	7,375
Financial Income/(Expense)	99	83	19	158	130
Pretax Income/(Loss) from Assoc.	34	57	59	61	64
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	4,286	4,599	5,433	6,652	7,568
Exceptional Items					
Pre-tax Profit	4,286	4,599	5,433	6,652	7,568
Taxation	(773)	(803)	(924)	(1,131)	(1,287)
Exceptional Income - post-tax					
Profit After Tax	3,513	3,796	4,510	5,521	6,282
Minority Interests	(203)	(294)	(350)	(428)	(487)
Preferred Dividends		(72)	(216)	(216)	(216)
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	3,310	3,429	3,944	4,877	5,578
Normalised Net Profit	3,513	3,796	4,510	5,521	6,282
Fully Diluted Normalised Profit	3,310	3,429	3,944	4,877	5,578

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	4,666	4,977	5,948	7,080	8,090
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(5,065)	(5,652)	(2,654)	(3,345)	(2,661)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	149	2,912	0	0	0
Net Interest (Paid)/Received	99	83	19	158	130
Tax Paid	(735)	(734)	(924)	(1,131)	(1,287)
Cashflow From Operations	(886)	1,586	2,388	2,763	4,272
Capex	(1,252)	(759)	(1,137)	(1,537)	(1,537)
Disposals Of FAs/subsidiaries	62	0	0	0	0
Acq. Of Subsidiaries/investments	(490)	0	0	0	0
Other Investing Cashflow	(49)	117	0	0	0
Cash Flow From Investing	(1,729)	(642)	(1,137)	(1,537)	(1,537)
Debt Raised/(repaid)	821	418	400	400	400
Proceeds From Issue Of Shares	0	0	10,500	0	0
Shares Repurchased					
Dividends Paid	(879)	(1,318)	(1,758)	(1,751)	(1,951)
Preferred Dividends					
Other Financing Cashflow	(82)	2,522	0	0	0
Cash Flow From Financing	(140)	1,622	9,142	(1,351)	(1,551)
Total Cash Generated	(2,755)	2,566	10,394	(125)	1,184
Free Cashflow To Equity	(1,794)	1,362	1,652	1,626	3,135
Free Cashflow To Firm	(2,563)	1,083	1,418	1,419	2,955

SOURCES: CGIS RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	12,879	11,552	21,946	21,820	23,005
Total Debtors	14,980	18,565	20,638	24,627	27,734
Inventories	3,330	4,087	4,570	5,114	5,742
Total Other Current Assets	17,938	31,171	34,826	41,467	46,669
Total Current Assets	49,127	65,374	81,980	93,029	103,149
Fixed Assets	4,335	4,616	5,226	6,175	7,051
Total Investments	1,003	1,006	1,065	1,127	1,191
Intangible Assets	635	682	666	656	649
Total Other Non-Current Assets	6,145	8,001	8,439	9,393	10,082
Total Non-current Assets	12,118	14,304	15,396	17,351	18,973
Short-term Debt	1,329	1,438	1,538	1,638	1,738
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	29,432	38,581	41,719	49,098	55,177
Other Current Liabilities	3,713	7,613	8,511	10,158	11,367
Total Current Liabilities	34,474	47,632	51,768	60,894	68,282
Total Long-term Debt	547	856	1,156	1,456	1,756
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	547	856	1,156	1,456	1,756
Total Provisions	999	919	922	928	933
Total Liabilities	36,020	49,406	53,846	63,278	70,970
Shareholders' Equity	24,019	28,908	41,817	44,959	48,523
Minority Interests	1,206	1,364	1,714	2,142	2,629
Total Equity	25,225	30,272	43,531	47,101	51,152

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	17.1%	15.7%	12.8%	20.8%	12.6%
Operating EBITDA Growth	12.9%	6.7%	19.5%	19.0%	14.3%
Operating EBITDA Margin	13.6%	12.5%	13.2%	13.0%	13.2%
Net Cash Per Share (Rmb)	1.25	1.05	1.82	1.77	1.84
BVPS (Rmb)	2.73	3.29	3.95	4.25	4.58
Gross Interest Cover	80.13	32.07	32.21	33.34	33.58
Effective Tax Rate	18.0%	17.5%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	39.8%	51.3%	44.4%	40.0%	40.0%
Accounts Receivables Days	124.3	128.1	133.1	127.3	130.3
Inventory Days	46.06	43.76	45.67	42.72	42.54
Accounts Payables Days	279.4	355.5	395.0	372.0	378.1
ROIC (%)	35.9%	23.5%	19.2%	20.0%	19.6%
ROCE (%)	16.4%	15.3%	13.8%	13.9%	14.5%
Return On Average Assets	6.17%	5.30%	5.08%	5.20%	5.32%

SOURCES: CGIS RESEARCH, COMPANY DATA.

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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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