

# China / Hong Kong Industry Focus

## China Infrastructure Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 May 2015

### Ready to take off

- Investment into railway sector to accelerate in coming quarters; domestic funding reform ready to support faster new project implementations
- Infrastructure companies are becoming more optimistic on the 'one belt one road' strategy
- Upgrade CCCC (1800), CRCC (1186) and CRG (390) to BUY but downgrade CSCI (3311) to HOLD
- Maintain BUY on train equipment manufacturers

**Expect new railway project implementation to speed up.** The government is opening up the funding market to finance domestic infrastructure projects, which means the new project flow will intensify in coming months. As such, we see values emerging across the infrastructure space and it is time to revisit the construction names. We upgrade CCCC, CRCC and CRG to BUY but downgrade CSCI to HOLD given limited upside potential as the latter's valuation has already factored in the positives.

**Infrastructure companies growing optimism.** We spoke to CRCC (1186), CCCC (1800) and Zhuzhou CSR Times Electric (3898) recently and in summary, these companies are optimistic on the 'one belt one road' strategy. They believe new contract flows will be more apparent probably next year. In fact, the construction companies are also aware of their high gearing levels and are taking action to address the issue. The latest interest rate cut of 25bps should help to reduce the interest expense pressure and could enhance our FY16 earnings estimates by about 3% on average for the construction companies.

**Despite the anticipated volatility, we still prefer the train equipment sector.** CSR/CNR merger will complete soon. Despite anticipated volatile share performance of the new CSR/CNR entity, we suggest investors to accumulate on dips. After the listing, the CSR/CNR combined entity can start on improving efficiency to derive more synergies from the merger and may explore overseas investment opportunity such as taking up strategic stakes in overseas rolling stock companies. Hence, train equipment is our preferred segment in the mid- to long-term horizon.

HSI: 27,993

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#### Recommendation & valuation

Company	Price HK\$	Target Price HK\$	Recom	Mkt Cap US\$m	FY15F PE x
<b>Infrastructure construction</b>					
China Comms.Con.-H (1800 HK)	13.94	15.80	Buy	29,082	11.6
China Railway Con.-H (1186 HK)	14.80	17.00	Buy	23,551	12.2
China Railway Group-H (390 HK)	10.34	11.45	Buy	28,406	14.7
China State.Constr. (3311 HK)	14.38	14.70	Hold	7,443	13.3
China Comm.Con.-A (601800 CH)@	21.38	25.30	Hold	55,800	22.3
China Railway Group -A (601390 CH)@	21.59	22.90	Hold	74,203	38.4
China Railway Con.-A (601186 CH)@	24.83	26.90	Hold	49,431	25.6
<b>Railway equipment</b>					
CSR-H (1766 HK)~	15.00	18.40	Buy	26,704	24.7
CSR-A @ (601766 CH)~	29.45	33.50	Hold	65,592	60.7
China CNR (6199 HK)*~	15.86	n.a.	NR	4,366	21.1
Zhuzhou CSR Times (3898 HK)	65.00	74.6**	NR	9,855	23.5

\* Consensus

\*\* Fair Value

@ RMB

~ Shares trading suspended

Source: Thomson Reuters, DBS Vickers

Based on closing prices as at 22 May 2015

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#### Recommendation change

**Expect railway investment to accelerate in 2H.** The railway investment momentum is expected to accelerate in the coming quarters despite a slow start in 4M15, especially with the Chinese government opening up the bond market to support the infrastructure projects roll-out. For 4M15, China has spent around 15% of this year's railway total budget. Therefore the new project intensity is expected to accelerate in the coming quarters to fulfil 2015 investment plan. So far, over Rmb100bn worth of infrastructure projects have been approved by the National Development and Reform Commission (NDRC).

**Subway sector gaining momentum.** Recently, the NDRC has approved four large subway projects in Nanjing, Hohhot, Nanchang and Nanning worth about Rmb270bn, to be completed by 2020. The domestic subway industry is the next up-and-coming segment within the infrastructure sector to attract more investments going forward. This is also in-line with the government's urbanisation development plans. Besides, with the implementation of the private-public-partnership model, subway development in China may gain pace.

**Upgrade construction stocks.** We believe it is time to revisit some of the construction names. We upgrade CCCC, CRCC and CRG to BUY but downgrade CSCI to HOLD, as the latter's share price has already factored in the positives and hence upside is limited. We have applied a 12-month rolling valuation method to arrive at our new TPs, since the positive momentum is expected to spill over to FY16.

**Interest rate environment is becoming more favourable.** The PBOC's recent action to lower the benchmark lending rate and expectations of more rate cuts are helpful to the highly geared construction companies. We estimate that a 25-bps rate cut could lift our FY16 earnings by approximately 3% for the construction companies, on average.

**Rolling stock sector remains our favourite.** We anticipate there will be volatility in share price following the listing of CRRG, the new entity of the merged CSR/CNR, which also means a good accumulation opportunity.

The overseas rolling stock market presents business opportunities for new contracts and investments. North America, Asia Pacific and Europe are the three large rolling stock markets in the world, with strong growth coming from services and signalling equipment. Besides, the CSR/CNR combined entity can also start looking at overseas investment opportunity such as taking up strategic stakes in overseas rolling stock companies, given its business scale and financial muscle after the merger.

All considered, train equipment is our preferred segment in the mid- to long-term horizon.

#### Rating revisions

Company	Valuation methodology	Old TP	New TP	Old rating	New rating
CRG-H	SOTP	HK\$10.6	HK\$11.45	HOLD	BUY
CRG-A		RMB18.4	RMB22.9	HOLD	HOLD
CRCC-H	SOTP	HK\$14.8	HK\$17.0	HOLD	BUY
CRCC-A		RMB22.2	RMB26.9	HOLD	HOLD
CCC-H	PE (12-mth rolling)	HK\$14.4	HK\$15.8	HOLD	BUY
CCC-A		RMB20.7	RMB25.3	HOLD	HOLD
CSR-H	PE (30x FY15F)	HK\$18.4	HK\$18.4	BUY	BUY
CSR-A		RMB33.5	RMB33.5	HOLD	HOLD
Zhuzhou CSR Times	PE (27x FY15F)	HK\$74.6*	HK\$74.6*	NR	NR
CSCI	PE (12-mth rolling)	HK\$13.0	HK\$14.7	BUY	HOLD

\* Fair Value

Source: DBS Vickers

**Post-company meeting/conference call updates**

**CRCC (1186) – Aggressive in overseas markets**

- **Robust domestic railway market outlook under the next five-year plan.** The company believes investments into the railway sector will stay high under the next five-year plan and thus, there are no concerns of a slowdown. The planned addition of some 20,000km of new railway tracks means investments into the sector will remain high.
- **Overseas outlook.** The company believes the 'one belt one road' strategy is a crucial driver of its overseas market expansion. With over 200 projects now under planning stage under the one belt one road initiative and the establishment of the Asian Infrastructure Investment Bank (AIIB), the company believes there are strong opportunities to win some new projects in these markets. Recently, the inking of a Memorandum of Understanding on Corporation for a railway and port projects in Russia (which falls under the 'one belt one road' plan) signals that the new initiatives are starting to take shape. Just last month, the company also entered into an agreement for an intercity rail mass transit network in Nigeria worth about Rmb21.46bn. CRCC hopes to raise its overseas contribution to over 10% of total revenue in the mid-term.
- **Controlling debt level.** Total debt has been on a rising trend as business expansion is underway. Its net gearing had shot up to >70% by end-Mar15. The company plans to tighten its cash collection and be prudent in BOT investment, in an attempt to control financial risk. Low-interest cost debt instruments and A-share placement are options which the company is exploring.
- **Real estate business is faring well.** The company is seeing rising customer traffic flow to its property launches since the government relaxed the housing mortgage policy, cut interest rates and allowed the use of housing provident fund to buy properties. CRCC has over 100 projects under development and sales contribution is expected to be higher than FY14, as sentiment is picking up. In FY14, real estate revenue was flat, as the company slowed down the pace of launches under a tough market and kept property prices steady to maintain profit margins. This year, real estate revenue is expected to grow at ~10% with a stable GP margin of around 30%, the same as last year.

**CCCC (1800) – Overseas acquisition helps**

- **Overseas project implementation expected to accelerate.** CCCC believes the impending launch of new projects under the 'one belt one road' strategy will accelerate, especially with more funding sources in place. Currently, about 36% of its new contracts are derived from Africa, 19% from S.E. Asia and another 18% from the Middle East.
- **New contract outlook.** The company believes the overseas market will be an important driver of its new contract size. CCCC is hoping to achieve growth of around 10% p.a. in new contract value within the foreseeable period.
- **Overseas acquisition helps business expansion.** After the acquisition of US-based Friede Goldman United Ltd (F&G) in 2010 by its port machinery unit, CCCC has made its second acquisition this year. It has completed the purchase of John Holland, Australia this month. The company believe overseas acquisitions are crucial to penetrate new markets.
- **To strengthen balance sheet.** To reduce its huge funding pressure (interest expense surged 59% and net gearing was at 1.2x in FY14), CCCC is replacing some of its more expensive debts with low-cost instruments such as guaranteed perpetual securities (US\$1.1bn at 3.5%) and preference shares (14.5m shares and worth approximately Rmb14.5bn).

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#### Zhuzhou CSR Times Electric (3898) – Building up its business scale

- **Leveraging on parent for overseas penetration.** The company believes the 'one belt one road' initiative will have a greater impact on its overseas business, especially following the merger exercise of CSR and CNR. Chinese companies acting as general contractors for overseas projects (EPC and equipment manufacturers) will help to drive foreign contracts, especially when the railway construction and equipment companies bid for the projects together.

Regarding the possible asset injection, CSR Times Electric believes it can only proceed after the CSR/CNR merger exercise is completed. Share trading of the new CSR/CNR entity is expected to commence soon.

- **Revenue and new contract outlook.** Other than the locomotive business which is likely to be flat, electric multiple units and metro trains are the two fast-growing segments (at least 10-30% expansion), given the huge order backlog at the parent level.

Also, post-merger, China Railway Corporation will set a unified standard for future high-speed railway trains, hence CSR Times Electric stands a chance to provide the interface of the two different modules currently applied to the train sets manufactured by CSR and CNR prior to the merger.

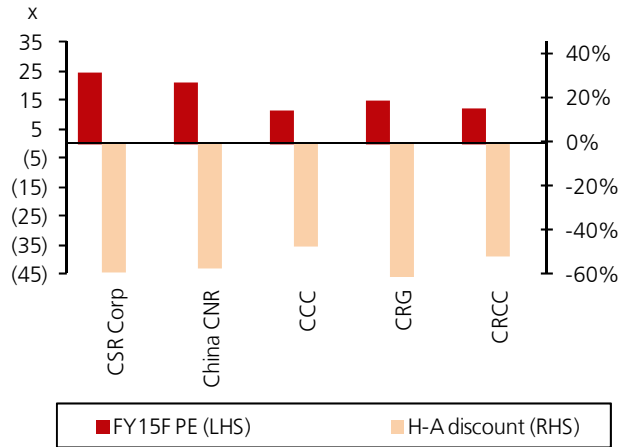
The company believes 2016 should see more collaboration with the new parent group and new contracts flowing from the 'one belt one road' regions.

- **Moving in the technology forefront.** Newly acquired Specialist Marine Development Ltd (SMD), a deepsea robotic company, is set to diversify the company business operations in the longer term. CSR Times Electric will focus on railway and industrial product developments, with offshore marine being a new driver. SMD is strong in deepsea products and is still in the early stage of scaling up its operations. China accounts for approximately 10% of its business and SMD's total revenue is expected to hit Rmb700-800m this year. The growth potential is strong as Chinese oil companies are currently relying on foreign suppliers. CSR Times Electric believes the synergy lies in its electrical control system technology, which can further enhance SMD product penetration into the Chinese market.

Besides, CSR Times Electric is producing small batches of insulate-gate bipolar transistor (IGBT) products for quality testing. Once approved, these IGBT products will be applied to the railway segment. The 1700V products are currently under final stages of certification and will probably start small batch production in 2H15. The company is moving into the high-end 6500V module product testing, to be used in the subway segment.

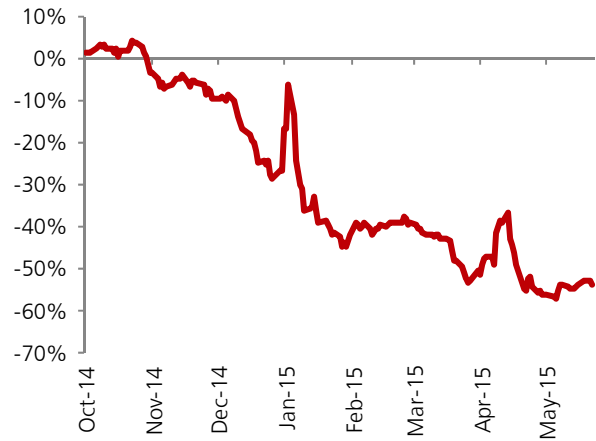
CSR Times Electric is one of the few manufacturers who has ventured into high-end product manufacturing and should see positive impact on its profit margin in the mid-term.

Discount valuation to A-share



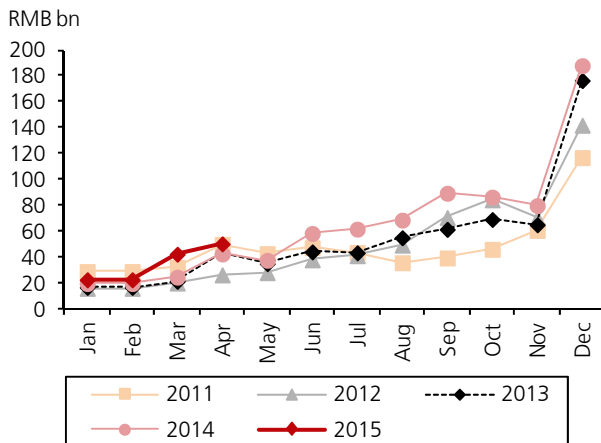
Source: Thomson Reuters, DBS Vickers

Historical H-share sector average valuation discount to A-share



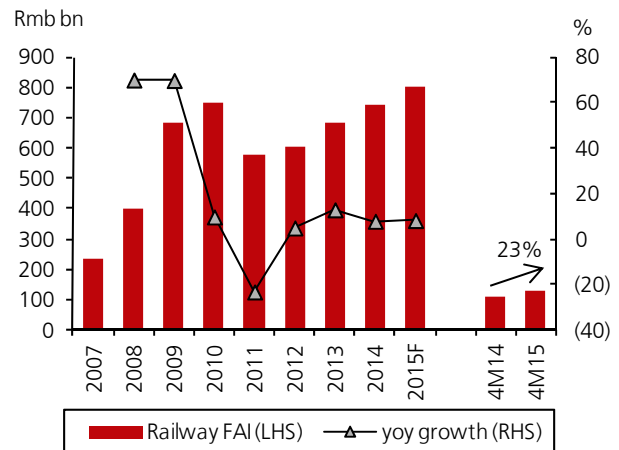
Source: Thomson Reuters

Railway total monthly FAI



Source: CEIC

Total yearly railway investment

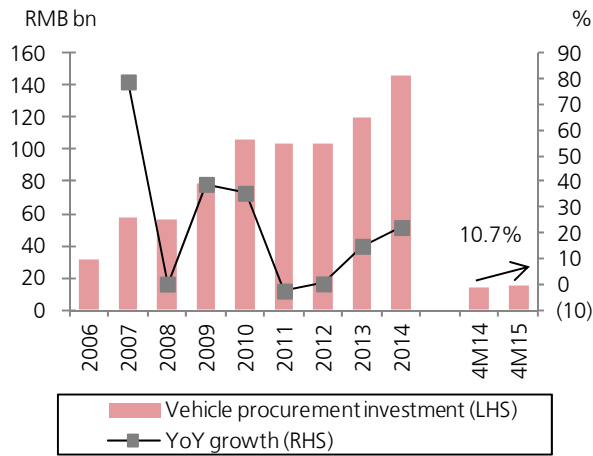


Source: CEIC, China Railway Corp

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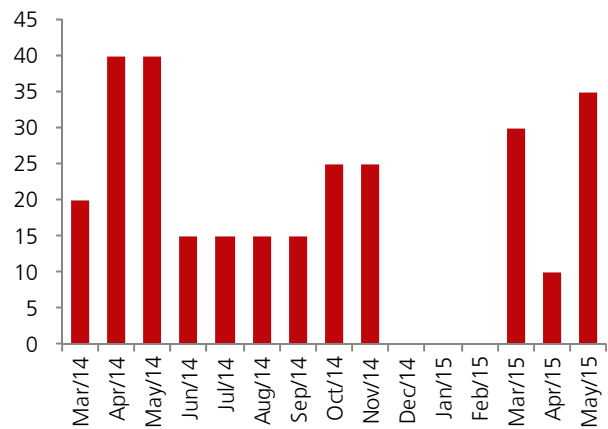
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#### Vehicle investment



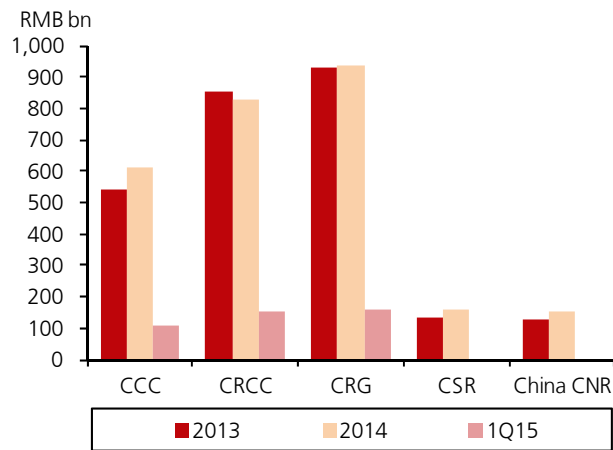
Source: CEIC, China Railway Corp

#### CRC bonds issuance



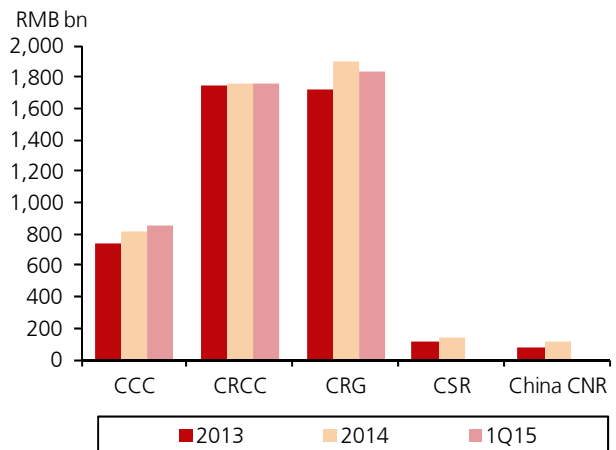
Source: Bloomberg Finance L.P.

#### Total new contracts



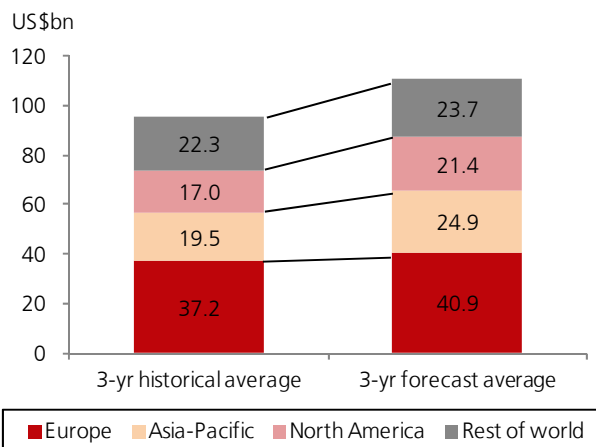
Source: Companies

#### Total order backlog



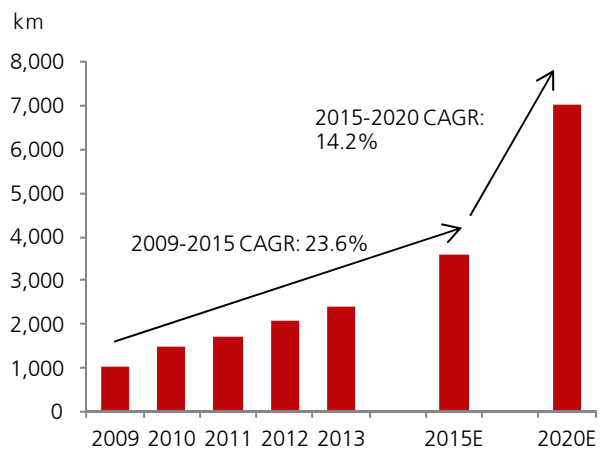
Source: Companies

#### Annual accessible market by region



Historical average: 2012-2014; Forecast average: 2017-2019  
Source: UNIFE World Rail Market Study "Forecast 2014 to 2019" and extrapolated figures

#### Urban rail transit construction



Source: Ministry of Transport

China Communications Construction - H (1800 HK EQUITY, HK\$13.94, BUY, Target Price HK\$ 15.80)  
 - A (601800 CH EQUITY, RMB 21.38, HOLD, Target Price RMB 25.3)

## Forecast &amp; Valuation (H-share)

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	331,798	366,042	411,420	455,667
EBITDA	27,839	32,121	36,929	40,465
Pre-tax Profit	15,852	17,604	19,477	21,559
Net Profit	12,568	13,985	15,495	17,151
Net Pft (Pre Ex.)	12,568	13,985	15,495	17,151
EPS (RMB)	0.78	0.86	0.96	1.06
EPS (HK\$)	0.97	1.08	1.20	1.33
EPS Gth (%)	0.9	11.3	10.8	10.7
Diluted EPS (HK\$)	0.97	1.08	1.20	1.33
DPS (HK\$)	0.23	0.21	0.28	0.30
BV Per Share (HK\$)	7.33	9.00	9.99	11.04
PE (X)	14.3	12.9	11.6	10.5
P/Cash Flow (X)	25.9	40.9	11.7	5.7
P/Free CF (X)	211.8	nm	nm	12.1
EV/EBITDA (X)	10.5	10.8	9.7	8.9
Net Div Yield (%)	1.7	1.5	2.0	2.2
P/Book Value (X)	1.9	1.5	1.4	1.3
Net Debt/Equity (X)	1.0	1.1	1.1	1.0
ROAE (%)	13.8	13.2	12.6	12.6
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB)			0.95	1.06
Other Broker Recs:		B: 14	S: 1	H: 7

## Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	331,798	366,042	411,420	455,667
Cost of Goods Sold	(297,860)	(326,770)	(366,967)	(406,447)
<b>Gross Profit</b>	<b>33,938</b>	<b>39,272</b>	<b>44,454</b>	<b>49,220</b>
Other Opg (Exp)/Inc	(14,363)	(15,487)	(16,996)	(19,305)
<b>Operating Profit</b>	<b>19,575</b>	<b>23,785</b>	<b>27,458</b>	<b>29,915</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	222	339	356	374
Net Interest (Exp)/Inc	(3,945)	(6,520)	(8,336)	(8,730)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>15,852</b>	<b>17,604</b>	<b>19,477</b>	<b>21,559</b>
Tax	(3,580)	(3,721)	(4,090)	(4,527)
Minority Interest	296	102	108	119
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>12,568</b>	<b>13,985</b>	<b>15,495</b>	<b>17,151</b>
Net profit before Except.	12,568	13,985	15,495	17,151
EBITDA	27,839	32,121	36,929	40,465
Sales Gth (%)	12.4	10.3	12.4	10.8
EBITDA Gth (%)	5.8	15.4	15.0	9.6
Opg Profit Gth (%)	1.8	21.5	15.4	8.9
Effective Tax Rate (%)	22.6	21.1	21.0	21.0

## Cash Flow Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	15,852	17,604	19,477	21,559
Dep. & Amort.	8,042	7,997	9,116	10,177
Tax Paid	(3,677)	(3,995)	(3,721)	(4,090)
Assoc. & JV Inc/(loss)	(222)	(339)	(356)	(374)
(Pft)/ Loss on disposal of FAs	(747)	(2,200)	0	0
Chg in Wkg.Cap.	(16,275)	(20,650)	(17,437)	(4,141)
Other Operating CF	3,999	5,991	8,336	8,730
<b>Net Operating CF</b>	<b>6,972</b>	<b>4,408</b>	<b>15,415</b>	<b>31,860</b>
Capital Exp.(net)	(6,121)	(9,383)	(16,206)	(17,016)
Other Invt.(net)	(3,231)	(234)	0	0
Invt in Assoc. & JV	(2,702)	(1,785)	0	0
Div from Assoc & JV	676	729	0	0
Other Investing CF	(16,708)	(34,832)	1,407	928
<b>Net Investing CF</b>	<b>(28,086)</b>	<b>(45,505)</b>	<b>(14,799)</b>	<b>(16,088)</b>
Div Paid	(3,079)	(3,116)	(2,778)	(3,564)
Chg in Gross Debt	42,787	38,246	10,000	(10,000)
Capital Issues	0	0	0	0
Other Financing CF	(4)	0	0	0
<b>Net Financing CF</b>	<b>39,704</b>	<b>35,130</b>	<b>7,222</b>	<b>(13,564)</b>
Currency Adjustments	(213)	(119)	0	0
Chg in Cash	18,377	(6,086)	7,838	2,208

## General Data (H-share)

Issued Capital - H shares (m shs)	4,427
- Non H shrs (m shs)	11,747
H shs as a % of Total	27
Total Mkt. Cap (HK\$m/US\$m)	225,476 / 29,082
Major Shareholders	
CCCC (%)	63.8
Major H Shareholders (%)	
Blackrock, Inc. (%)	11.0
JPMorgan Chase & Co. (%)	5.0
H Shares-Free Float (%)	84.0
Avg. Daily Vol.('000)	64,703

## Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	56,371	64,110	72,348	80,364
Invt in Assocs & JVs	7,799	9,730	10,086	10,460
Other LT Assets	134,422	201,411	205,774	210,382
Cash & ST Invt	85,799	78,237	74,617	65,367
Inventory	32,850	46,149	48,358	51,862
Debtors	129,870	150,734	153,604	158,496
Other Current Assets	70,334	79,809	83,470	87,314
<b>Total Assets</b>	<b>517,445</b>	<b>630,180</b>	<b>648,256</b>	<b>664,245</b>
ST Debt	87,818	91,034	91,034	91,034
Other Current Liab	216,917	248,262	243,729	256,251
LT Debt	99,157	137,801	147,801	137,801
Other LT Liabilities	8,712	21,471	21,471	21,471
Shareholder's Equity	94,861	116,531	129,248	142,834
Minority Interests	9,980	15,081	14,973	14,854
<b>Total Cap. &amp; Liab.</b>	<b>517,445</b>	<b>630,180</b>	<b>648,256</b>	<b>664,245</b>
Non-Cash Wkg. Cap	16,137	28,430	41,703	41,422
Net Cash/(Debt)	(101,176)	(150,598)	(164,218)	(163,468)

## Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
Construction	257,529	286,193	321,576	354,545
Design	18,019	21,086	23,195	25,514
Dredging	31,646	27,838	32,014	36,816
Port Machinery	20,889	26,733	29,941	33,534
Others	3,534	4,192	4,695	5,258
<b>Total</b>	<b>331,617</b>	<b>366,042</b>	<b>411,420</b>	<b>455,667</b>
<b>Gross Profit (RMB m)</b>				
Construction	22,931	27,117	30,159	33,174
Design	4,627	4,586	5,103	5,613
Dredging	4,516	3,782	4,578	5,265
Port Machinery	1,604	3,514	4,192	4,695
Others	260	273	423	473
<b>Total</b>	<b>33,938</b>	<b>39,272</b>	<b>44,454</b>	<b>49,220</b>
<b>Gross Profit Margins (%)</b>				
Construction	8.7	9.1	9.0	9.0
Design	23.9	21.7	22.0	22.0
Dredging	13.8	13.6	14.3	14.3
Port Machinery	6.6	13.1	14.0	14.0
Others	5.6	7.1	9.0	9.0
<b>Total</b>	<b>10.2</b>	<b>10.7</b>	<b>10.8</b>	<b>10.8</b>
<b>Key Assumptions</b>				
Backlog (RMB bn)	738.1	818.3	1,087.9	1,305.4
New contracts (RMB bn)	543.3	608.4	648.6	687.3

Source: Company, DBS Vickers



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#### China Railway Construction – H (1186 HK EQUITY, HK\$14.80, BUY, Target Price HK\$ 17.00) - A (601186 CH EQUITY, RMB 24.83, HOLD, Target Price RMB 26.9)

##### Forecast & Valuation (H-share)

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	586,790	591,968	638,152	694,671
EBITDA	26,695	29,849	27,497	30,432
Pre-tax Profit	13,040	14,952	15,925	17,976
Net Profit	10,345	11,343	12,613	14,237
Net Pft (Pre Ex.)	10,345	11,343	12,613	14,237
EPS (RMB)	0.84	0.92	0.97	1.04
EPS (HK\$)	1.05	1.15	1.21	1.30
EPS Gth (%)	19.9	9.7	5.3	7.2
Diluted EPS (HK\$)	1.05	1.15	1.21	1.30
DPS (HK\$)	0.16	0.19	0.18	0.19
BV Per Share (HK\$)	8.20	9.21	11.12	11.86
PE (X)	14.1	12.9	12.2	11.4
P/Cash Flow (X)	nm	22.2	nm	nm
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	7.0	7.1	8.4	8.4
Net Div Yield (%)	1.1	1.3	1.2	1.3
P/Book Value (X)	1.8	1.6	1.3	1.2
Net Debt/Equity (X)	0.5	0.5	0.5	0.6
ROAE (%)	13.5	13.2	12.2	11.6
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB):			1.01	1.14
Other Broker Recs:		B: 12	S: 2	H: 10

##### Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	586,790	591,968	638,152	694,671
Cost of Goods Sold	(527,248)	(527,730)	(570,019)	(620,222)
<b>Gross Profit</b>	<b>59,542</b>	<b>64,239</b>	<b>68,132</b>	<b>74,449</b>
Other Opg (Exp)/Inc	(42,504)	(44,984)	(47,579)	(51,761)
<b>Operating Profit</b>	<b>17,038</b>	<b>19,254</b>	<b>20,553</b>	<b>22,688</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(249)	(12)	(13)	(13)
Net Interest (Exp)/Inc	(3,749)	(4,290)	(4,615)	(4,698)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>13,040</b>	<b>14,952</b>	<b>15,925</b>	<b>17,976</b>
Tax	(2,600)	(3,381)	(3,185)	(3,595)
Minority Interest	(95)	(228)	(127)	(144)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>10,345</b>	<b>11,343</b>	<b>12,613</b>	<b>14,237</b>
Net profit before Except.	10,345	11,343	12,613	14,237
EBITDA	26,695	29,849	27,497	30,432
Sales Gth (%)	21.2	0.9	7.8	8.9
EBITDA Gth (%)	10.1	11.8	(7.9)	10.7
Opg Profit Gth (%)	17.2	13.0	6.7	10.4
Effective Tax Rate (%)	19.9	22.6	20.0	20.0

##### Cash Flow Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	13,040	14,952	15,925	17,976
Dep. & Amort.	9,906	10,607	6,957	7,758
Tax Paid	(2,393)	(2,600)	(3,381)	(3,185)
Assoc. & JV Inc/(loss)	249	12	13	13
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(34,264)	(18,966)	(31,894)	(32,019)
Other Operating CF	4,149	2,577	7,402	7,130
<b>Net Operating CF</b>	<b>(9,314)</b>	<b>6,583</b>	<b>(4,979)</b>	<b>(2,327)</b>
Capital Exp.(net)	(17,645)	(21,287)	(10,000)	(9,000)
Other Invts.(net)	(728)	(1,346)	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(1,623)	6,128	(11)	0
<b>Net Investing CF</b>	<b>(19,996)</b>	<b>(16,505)</b>	<b>(10,011)</b>	<b>(9,000)</b>
Div Paid	(7,811)	(11,396)	0	0
Chg in Gross Debt	35,906	16,900	(5,000)	0
Capital Issues	1,506	9,114	12,420	0
Other Financing CF	3,722	3	(7,402)	(7,130)
<b>Net Financing CF</b>	<b>33,323</b>	<b>14,622</b>	<b>18</b>	<b>(7,130)</b>
Currency Adjustments	(288)	(34)	0	0
Chg in Cash	3,724	4,665	(14,972)	(18,457)

Source: Company, DBS Vickers

##### General Data (H-share)

Issued Capital - H shares (m shs)	2,076
- Non H shrs (m shs)	10,261
H shs as a % of Total	17
Total Mkt. Cap (HK\$m/US\$m)	182,596 / 23,551
Major Shareholders	
CRCC Group (%)	61.3
Major H Shareholders (%)	
Society of Security Fund (%)	9.1
BlackRock, Inc. (%)	8.2
Plowden Charles (%)	5.1
H Shares-Free Float (%)	77.6
Avg. Daily Vol.('000)	36,866

##### Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	40,515	41,551	44,768	46,190
Invts in Assocs & JVs	0	0	0	0
Other LT Assets	41,341	57,272	62,086	66,892
Cash & ST Invts	93,557	98,198	83,237	64,780
Inventory	201,637	225,958	250,814	275,895
Debtors	91,264	118,312	132,509	147,085
Other Current Assets	84,603	75,610	83,171	91,488
<b>Total Assets</b>	<b>553,019</b>	<b>617,004</b>	<b>656,688</b>	<b>692,434</b>
ST Debt	59,686	73,332	73,332	73,332
Other Current Liab	331,220	354,829	374,269	395,534
LT Debt	71,685	78,791	73,791	73,791
Other LT Liabilities	6,603	7,160	7,244	7,344
Shareholder's Equity	80,987	90,936	115,969	130,206
Minority Interests	2,838	11,956	12,083	12,227
<b>Total Cap. &amp; Liab.</b>	<b>553,019</b>	<b>617,004</b>	<b>656,688</b>	<b>692,434</b>
Non-Cash Wkg. Cap	46,284	65,051	92,225	118,934
Net Cash/(Debt)	(37,814)	(53,926)	(63,887)	(82,344)

##### Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
Construction operations	468,015	512,123	553,093	602,872
Survey, design & consultancy	7,761	9,009	9,910	10,901
Manufacturing operations	11,756	11,902	12,497	13,747
Other businesses	114,040	79,034	84,761	91,473
Elimination	(14,782)	(20,101)	(22,111)	(24,322)
<b>Total</b>	<b>586,790</b>	<b>591,968</b>	<b>638,152</b>	<b>694,671</b>

##### Key Assumptions

Backlog (RMB m)	1,743,77	1,762,97	1,642,76	1,622,56
Gross margin (%)				
Construction operations	9.7	9.2	9.2	9.3
Survey & design	28.7	30.9	28.0	28.0
Manufacturing operations	17.4	21.5	20.0	20.0



China Railway Group - H (390 HK EQUITY, HK\$10.34, BUY, Target Price HK\$ 11.45)  
 - A (601390 CH EQUITY, RMB 21.59, HOLD, Target Price RMB 22.9)

## Forecast &amp; Valuation (H-share)

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	540,394	590,166	660,818	726,828
EBITDA	25,300	27,479	29,549	31,705
Pre-tax Profit	14,819	16,233	19,532	21,582
Net Profit	9,374	10,262	11,974	13,242
Net Pft (Pre Ex.)	9,374	10,262	11,974	13,242
EPS (RMB)	0.44	0.48	0.56	0.62
EPS (HK\$)	0.55	0.60	0.70	0.78
EPS Gth (%)	26.8	9.5	16.7	10.6
Diluted EPS (HK\$)	0.55	0.60	0.70	0.78
DPS (HK\$)	0.08	0.10	0.11	0.12
BV Per Share (HK\$)	5.07	5.60	6.22	6.90
PE (X)	18.8	17.2	14.7	13.3
P/Cash Flow (X)	22.0	9.1	11.2	17.2
P/Free CF (X)	1060.7	14.4	16.4	28.4
EV/EBITDA (X)	11.5	10.7	9.9	9.3
Net Div Yield (%)	0.8	0.9	1.0	1.1
P/Book Value (X)	2.0	1.8	1.7	1.5
Net Debt/Equity (X)	1.1	1.0	0.9	0.8
ROAE (%)	11.4	11.3	11.9	11.8

Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB):			0.55	0.62
Other Broker Recs:	B: 11		S: 3	H: 9

## Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	540,394	590,166	660,818	726,828
Cost of Goods Sold	(500,054)	(541,651)	(606,181)	(666,793)
<b>Gross Profit</b>	<b>40,340</b>	<b>48,515</b>	<b>54,636</b>	<b>60,035</b>
Other Opg (Exp)/Inc	(21,862)	(28,266)	(30,692)	(34,168)
<b>Operating Profit</b>	<b>18,478</b>	<b>20,249</b>	<b>23,944</b>	<b>25,867</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	101	259	295	337
Net Interest (Exp)/Inc	(3,760)	(4,275)	(4,707)	(4,622)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>14,819</b>	<b>16,233</b>	<b>19,532</b>	<b>21,582</b>
Tax	(4,744)	(5,557)	(6,445)	(7,122)
Minority Interest	(701)	(414)	(1,112)	(1,218)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>9,374</b>	<b>10,262</b>	<b>11,974</b>	<b>13,242</b>
Net profit before Except.	9,374	10,262	11,974	13,242
EBITDA	25,300	27,479	29,549	31,705
Sales Gth (%)	16.1	9.2	12.0	10.0
EBITDA Gth (%)	20.7	8.6	7.5	7.3
Opg Profit Gth (%)	25.7	9.6	18.2	8.0
Effective Tax Rate (%)	32.0	34.2	33.0	33.0

## Cash Flow Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	14,819	16,233	19,532	21,582
Dep. & Amort.	6,721	6,971	5,309	5,501
Tax Paid	(4,025)	(4,884)	(5,557)	(6,445)
Assoc. & JV Inc/(loss)	(101)	(259)	(295)	(337)
(Pft)/ Loss on disposal of FAS	0	0	0	0
Chg in Wkg.Cap.	(12,844)	(5,447)	(7,988)	(14,715)
Other Operating CF	3,425	6,833	4,707	4,622
<b>Net Operating CF</b>	<b>7,995</b>	<b>19,447</b>	<b>15,708</b>	<b>10,208</b>
Capital Exp.(net)	(7,829)	(7,186)	(5,000)	(4,000)
Other Invt.(net)	(2,667)	(4,235)	0	0
Invt in Assoc. & JV	(521)	(842)	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(1,145)	(69)	560	646
<b>Net Investing CF</b>	<b>(12,162)</b>	<b>(12,332)</b>	<b>(4,440)</b>	<b>(3,354)</b>
Div Paid	(1,507)	(1,849)	(1,661)	(1,796)
Chg in Gross Debt	24,240	(2,196)	0	0
Capital Issues	0	0	0	0
Other Financing CF	(10,466)	(9,995)	(6,768)	(6,768)
<b>Net Financing CF</b>	<b>12,267</b>	<b>(14,040)</b>	<b>(8,429)</b>	<b>(8,564)</b>
Currency Adjustments	(103)	(27)	0	0
Chg in Cash	7,997	(6,952)	2,840	(1,710)

Source: Company, DBS Vickers

## General Data (H-share)

Issued Capital - H shares (m shs)	4,207
- Non H shrs (m shs)	17,092
H shs as a % of Total	20
Total Mkt. Cap (HK\$m/US\$m)	220,241 / 28,406
Major Shareholders	
CRECG (%)	56.1
Major H Shareholders (%)	
Blackrock, Inc. (%)	9.2
Social Security Fund (%)	9.1
Deutsche Bank Aktiengesellschaft (%)	5.5
H Shares-Free Float (%)	76.3
Avg. Daily Vol.('000)	75,006

## Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	44,183	48,166	49,020	48,742
Invt in Assocs & JVs	5,718	6,390	6,685	7,022
Other LT Assets	75,039	82,797	84,863	84,164
Cash & ST Invt	81,423	77,354	80,194	78,484
Inventory	46,581	44,955	51,370	54,586
Debtors	191,516	219,758	232,335	231,832
Other Current Assets	183,570	203,458	212,397	220,460
<b>Total Assets</b>	<b>628,030</b>	<b>682,878</b>	<b>716,863</b>	<b>725,290</b>
ST Debt	82,348	89,259	111,507	125,788
Other Current Liab	337,894	381,881	404,402	400,124
LT Debt	104,084	93,655	71,407	57,126
Other LT Liabilities	7,074	9,189	9,228	9,269
Shareholder's Equity	86,463	98,550	109,059	120,711
Minority Interests	10,167	10,344	11,260	12,272
<b>Total Cap. &amp; Liab.</b>	<b>628,030</b>	<b>682,878</b>	<b>716,863</b>	<b>725,290</b>
Non-Cash Wkg. Cap	83,773	86,290	91,700	106,755
Net Cash/(Debt)	(105,009)	(105,560)	(102,720)	(104,430)

## Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
Infrastructure construction	456,272	518,022	580,185	638,203
Survey, design and consulting services	9,180	10,265	11,292	12,421
Engineering equip & comp mfg	13,711	14,519	16,261	17,562
Property & others	96,524	84,218	91,541	100,945
Inter-segment eliminations	(35,293)	(36,858)	(38,460)	(42,302)
<b>Total</b>	<b>540,394</b>	<b>590,166</b>	<b>660,818</b>	<b>726,828</b>

## Key Assumptions

Backlog (RMB bn)	1,715.3	1,902.3	2,078.3	2,236.5
Gross margin (%)				
Infrastructure construction	6.4	6.4	6.5	6.5
Survey, design and consulting services	33.3	32.4	32.0	31.0
Engineering equip & comp mfg	20.3	23.4	22.0	21.0

## Industry Focus

### China Infrastructure Sector

#### China State Construction (3311 HK EQUITY, HK\$14.38, HOLD ,Target Price HK\$ 14.70)

##### Forecast & Valuation

FY Dec (HK\$ m)	2013A	2014A	2015F	2016F
Turnover	27,286	34,440	43,372	51,670
EBITDA	3,507	4,291	5,699	6,795
Pre-tax Profit	3,174	4,048	5,248	6,139
Net Profit	2,750	3,457	4,400	5,146
Net Pft (Pre Ex.)	2,750	3,457	4,400	5,146
EPS (HK\$)	0.71	0.89	1.08	1.27
EPS Gth (%)	23.4	25.5	22.0	17.0
Diluted EPS (HK\$)	0.70	0.88	1.08	1.27
DPS (HK\$)	0.21	0.26	0.32	0.38
BV Per Share (HK\$)	4.04	5.03	5.96	6.85
PE (X)	20.3	16.2	13.3	11.4
P/Cash Flow (X)	nm	40.8	nm	29.3
P/Free CF (X)	nm	68.9	nm	38.6
EV/EBITDA (X)	17.3	14.8	12.3	10.5
Net Div Yield (%)	1.5	1.8	2.3	2.6
P/Book Value (X)	3.6	2.9	2.4	2.1
Net Debt/Equity (X)	0.3	0.4	0.5	0.4
ROAE (%)	18.7	19.3	20.0	19.8
Earnings Rev (%)			Nil	Nil
Consensus EPS (HK\$):			1.09	1.33
Other Broker Recs:		B: 16	S: 1	H: 2

##### Income Statement (HK\$ m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	27,286	34,440	43,372	51,670
Cost of Goods Sold	(23,540)	(29,696)	(37,021)	(44,186)
<b>Gross Profit</b>	<b>3,746</b>	<b>4,743</b>	<b>6,351</b>	<b>7,485</b>
Other Opg (Exp)/Inc	(1,042)	(1,033)	(1,418)	(1,691)
<b>Operating Profit</b>	<b>2,703</b>	<b>3,710</b>	<b>4,932</b>	<b>5,793</b>
Other Non Opg (Exp)/Inc	58	69	164	319
Associates & JV Inc	452	318	369	424
Net Interest (Exp)/Inc	(40)	(50)	(216)	(397)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>3,174</b>	<b>4,048</b>	<b>5,248</b>	<b>6,139</b>
Tax	(503)	(660)	(840)	(982)
Minority Interest	79	70	(9)	(10)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>2,750</b>	<b>3,457</b>	<b>4,400</b>	<b>5,146</b>
Net profit before Except.	2,750	3,457	4,400	5,146
EBITDA	3,507	4,291	5,699	6,795
Sales Gth (%)	24.5	26.2	25.9	19.1
EBITDA Gth (%)	29.8	22.4	32.8	19.2
Opg Profit Gth (%)	36.7	37.2	32.9	17.5
Effective Tax Rate (%)	15.9	16.3	16.0	16.0

##### Cash Flow Statement (HK\$ m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	3,174	4,048	5,248	6,139
Dep. & Amort.	293	194	233	258
Tax Paid	(120)	(609)	(931)	(840)
Assoc. & JV Inc/(loss)	(452)	(318)	(369)	(424)
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(6,297)	(2,451)	(6,309)	(3,728)
Other Operating CF	356	510	552	588
<b>Net Operating CF</b>	<b>(3,047)</b>	<b>1,373</b>	<b>(1,576)</b>	<b>1,992</b>
Capital Exp.(net)	(378)	(560)	(480)	(480)
Other Invts.(net)	86	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	9	0	0	0
Other Investing CF	383	(2,031)	(300)	(300)
<b>Net Investing CF</b>	<b>100</b>	<b>(2,591)</b>	<b>(780)</b>	<b>(780)</b>
Div Paid	(703)	(1,026)	(1,320)	(1,544)
Chg in Gross Debt	1,883	2,000	1,000	1,000
Capital Issues	0	0	0	0
Other Financing CF	3,113	(456)	(554)	(588)
<b>Net Financing CF</b>	<b>4,294</b>	<b>518</b>	<b>(874)</b>	<b>(1,132)</b>
Currency Adjustments	(91)	29	0	0
Chg in Cash	1,256	(670)	(3,230)	81

##### General Data

##### At A Glance

Issued Capital (m shrs)	4,012
Mkt. Cap (HK\$m/US\$m)	57,699 / 7,443
Major Shareholders	
China State Constr Engineering (%)	58.2
Free Float (%)	41.8
Avg. Daily Vol.('000)	13,640

##### Balance Sheet (HK\$ m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	2,672	2,827	4,384	4,606
Invts in Assocs & JVs	2,199	5,554	5,923	6,347
Other LT Assets	18,526	23,868	27,402	31,516
Cash & ST Invts	8,127	7,452	4,226	4,307
Inventory	163	160	176	194
Debtors	10,024	12,542	14,173	15,590
Other Current Assets	10,739	14,175	14,351	14,504
<b>Total Assets</b>	<b>52,451</b>	<b>66,579</b>	<b>70,634</b>	<b>77,063</b>
ST Debt	262	587	587	587
Other Current Liab	22,500	30,634	29,290	31,106
LT Debt	12,465	14,235	15,235	16,235
Other LT Liabilities	1,037	1,125	1,125	1,125
Shareholder's Equity	15,934	19,830	24,220	27,822
Minority Interests	253	168	176	187
<b>Total Cap. &amp; Liab.</b>	<b>52,450</b>	<b>66,579</b>	<b>70,634</b>	<b>77,063</b>
Non-Cash Wkg. Cap	(1,573)	(3,757)	(590)	(819)
Net Cash/(Debt)	(4,600)	(7,370)	(11,597)	(12,516)

##### Segmental Breakdown (HK\$ m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (HK\$ m)</b>				
HK	11,134	15,285	18,342	22,010
Macau	836	2,256	3,384	4,061
International	16	0	0	0
China	13,958	15,517	19,850	23,444
FE Global	1,341	1,382	1,797	2,156
<b>Total</b>	<b>27,286</b>	<b>34,440</b>	<b>43,372</b>	<b>51,670</b>

##### Gross Profit (HK\$ m)

HK	809	1,011	1,339	1,651
Macau	124	96	271	345
International	11	(28)	0	0
China	2,792	3,575	4,418	5,101
FE Global	10	88	323	388
<b>Total</b>	<b>3,746</b>	<b>4,743</b>	<b>6,351</b>	<b>7,485</b>

##### Gross Profit Margins (%)

HK	7.3	6.6	7.3	7.5
Macau	14.8	4.3	8.0	8.5
International	69.2	N/A	N/A	N/A
China	20.0	23.0	22.3	21.8
FE Global	0.7	6.4	18.0	18.0
<b>Total</b>	<b>13.7</b>	<b>13.8</b>	<b>14.6</b>	<b>14.5</b>

##### Key Assumptions

Backlog (HK\$bn)	76.4	93.1	119.6	143.0
New contracts (HK\$bn)	45.5	60.2	68.1	73.2

Source: Company, DBS Vickers

CSR Corporation – H (1766 HK EQUITY, HK\$15.00, BUY, Target Price HK\$ 18.40)  
- A (601766 CH EQUITY, RMB 29.45, HOLD, Target Price RMB33.5)

## Forecast &amp; Valuation

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	97,655	117,920	137,939	159,696
EBITDA	8,392	11,181	12,328	14,425
Pre-tax Profit	5,965	7,851	9,494	11,502
Net Profit	4,165	5,315	6,698	8,114
Net Pft (Pre Ex.)	4,165	5,315	6,698	8,114
EPS (RMB)	0.30	0.39	0.49	0.59
EPS (HK\$)	0.38	0.48	0.61	0.73
EPS Gth (%)	0.9	27.6	26.0	21.2
Diluted EPS (HK\$)	0.38	0.48	0.61	0.73
DPS (HK\$)	0.11	0.00	0.18	0.22
BV Per Share (HK\$)	3.36	3.67	4.27	4.83
PE (X)	39.7	31.1	24.7	20.4
P/Cash Flow (X)	30.2	12.1	31.3	11.4
P/Free CF (X)	131.9	17.9	128.9	15.7
EV/EBITDA (X)	20.2	14.7	13.4	11.0
Net Div Yield (%)	0.8	0.0	1.2	1.5
P/Book Value (X)	4.5	4.1	3.5	3.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.8	13.7	15.3	16.1
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB):			0.48	0.55
Other Broker Recs:		B: 14	S: 5	H: 6

## Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	97,655	117,920	137,939	159,696
Cost of Goods Sold	(80,847)	(93,880)	(111,731)	(129,354)
<b>Gross Profit</b>	<b>16,808</b>	<b>24,040</b>	<b>26,208</b>	<b>30,342</b>
Other Opg (Exp)/Inc	(10,792)	(15,996)	(16,631)	(18,737)
<b>Operating Profit</b>	<b>6,016</b>	<b>8,043</b>	<b>9,578</b>	<b>11,605</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	364	349	368	388
Net Interest (Exp)/Inc	(415)	(541)	(452)	(492)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>5,965</b>	<b>7,851</b>	<b>9,494</b>	<b>11,502</b>
Tax	(864)	(1,220)	(1,424)	(1,725)
Minority Interest	(936)	(1,317)	(1,372)	(1,662)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>4,165</b>	<b>5,315</b>	<b>6,698</b>	<b>8,114</b>
Net profit before Except.	4,165	5,315	6,698	8,114
EBITDA	8,392	11,181	12,328	14,425
Sales Gth (%)	7.9	20.8	17.0	15.8
EBITDA Gth (%)	5.6	33.2	10.3	17.0
Opg Profit Gth (%)	7.0	33.7	19.1	21.2
Effective Tax Rate (%)	14.5	15.5	15.0	15.0

## Cash Flow Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	5,965	7,851	9,494	11,502
Dep. & Amort.	2,012	2,788	2,382	2,431
Tax Paid	(949)	(1,617)	(1,220)	(1,424)
Assoc. & JV Inc/(loss)	(364)	(349)	(368)	(388)
(Pft)/ Loss on disposal of FAs	156	95	0	0
Chg in Wkg.Cap.	(2,006)	3,535	(5,685)	1,757
Other Operating CF	671	1,423	682	682
<b>Net Operating CF</b>	<b>5,485</b>	<b>13,727</b>	<b>5,284</b>	<b>14,559</b>
Capital Exp.(net)	(4,230)	(4,463)	(4,000)	(4,000)
Other Invt.(net)	(347)	(6,993)	0	0
Invt in Assoc. & JV	(296)	(217)	0	0
Div from Assoc & JV	504	417	0	0
Other Investing CF	(2,156)	966	(100)	(100)
<b>Net Investing CF</b>	<b>(6,525)</b>	<b>(10,291)</b>	<b>(4,100)</b>	<b>(4,100)</b>
Div Paid	(1,242)	(1,242)	0	(2,009)
Chg in Gross Debt	838	(693)	0	0
Capital Issues	2,707	379	0	0
Other Financing CF	(824)	(1,251)	(682)	(682)
<b>Net Financing CF</b>	<b>1,479</b>	<b>(2,807)</b>	<b>(682)</b>	<b>(2,691)</b>
Currency Adjustments	0	0	0	0
Chg in Cash	439	629	503	7,768

Source: Company, DBS Vickers

## General Data

Issued Capital - H shares (m shs)	2,024
- Non H shrs (m shs)	11,779
H shs as a % of Total	15
Total Mkt. Cap (HK\$m/US\$m)	207,045 / 26,704
Major Shareholders	
CSRG (%)	56.5
Major H Shareholders (%)	
JPMorgan Chase & Co. (%)	9.0
BlackRock, Inc. (%)	6.7
Plowden Charles (%)	5.0
H Shares-Free Float (%)	79.3
Avg. Daily Vol.(^000)	85,886

## Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	25,701	28,828	30,807	32,761
Invt in Assocs & JVs	2,954	2,615	2,983	3,371
Other LT Assets	10,067	15,462	15,201	14,916
Cash & ST Invt	17,181	22,712	23,215	30,983
Inventory	17,970	30,663	15,254	37,906
Debtors	34,403	33,542	42,041	45,464
Other Current Assets	14,140	16,743	17,912	19,172
<b>Total Assets</b>	<b>122,416</b>	<b>150,565</b>	<b>147,412</b>	<b>184,572</b>
ST Debt	7,646	3,176	3,176	3,176
Other Current Liab	59,921	82,277	71,055	100,448
LT Debt	3,569	7,282	7,282	7,282
Other LT Liabilities	4,497	6,308	6,308	6,308
Shareholder's Equity	37,131	40,511	47,208	53,313
Minority Interests	9,652	11,011	12,383	14,045
<b>Total Cap. &amp; Liab.</b>	<b>122,416</b>	<b>150,565</b>	<b>147,412</b>	<b>184,572</b>
Non-Cash Wkg. Cap	6,592	(1,329)	4,152	2,093
Net Cash/(Debt)	5,966	12,254	12,757	20,525

## Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
Locomotives	19,846	22,563	25,947	29,061
Passenger Carriages	6,590	7,725	8,652	9,518
Freight wagons	9,932	7,414	8,303	9,051
Multiple Units and Rapid	27,440	49,849	61,498	74,215
Transit Vehicles				
Others	33,847	30,370	33,539	37,853
<b>Total</b>	<b>97,655</b>	<b>117,920</b>	<b>137,939</b>	<b>159,696</b>

## Key Assumptions

Backlog (Rmb m)	111,000	138,500.0	175,460.8	216,899.4
GP Margins (%)	17.2	20.4	19.0	19.0

## Industry Focus

### China Infrastructure Sector

#### Zhuzhou CSR Times Electric (3898 HK EQUITY, HK\$65.00, NOT RATED, Fair Value HK\$ 74.60)

##### Forecast & Valuation

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	8,856	12,676	14,999	17,610
EBITDA	1,816	2,929	3,312	3,977
Pre-tax Profit	1,704	2,755	3,016	3,538
Net Profit	1,467	2,395	2,597	3,046
Net Pft (Pre Ex.)	1,467	2,395	2,597	3,046
EPS (RMB)	1.33	2.04	2.21	2.59
EPS (HK\$)	1.67	2.55	2.76	3.24
EPS Gth (%)	18.1	52.9	8.4	17.3
Diluted EPS (HK\$)	1.67	2.55	2.76	3.24
DPS (HK\$)	0.47	0.50	0.55	0.65
BV Per Share (HK\$)	7.02	9.58	10.07	11.68
PE (X)	39.0	25.5	23.5	20.1
P/Cash Flow (X)	78.8	29.7	26.7	22.0
P/Free CF (X)	133.7	35.5	212.6	51.6
EV/EBITDA (X)	30.7	19.9	17.7	14.7
Net Div Yield (%)	0.7	0.8	0.9	1.0
P/Book Value (X)	9.3	6.8	6.4	5.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.7	31.5	28.1	29.8
Consensus EPS (RMB):			2.25	2.55
Other Broker Recs:	B: 15	S: 0	H: 6	

##### General Data

Issued Capital - H shares (m shs)	547
- Non H shrs (m shs)	628
H shs as a % of Total	47
Total Mkt. Cap (HK\$m/US\$m)	76,406 / 9,855
Major Shareholders	
CSR (%)	56.2
Major H Shareholders (%)	
Blackrock, Inc. (%)	6.0
JPMorgan Chase & Co. (%)	6.0
Schroders Plc (%)	6.0
Fortis Investment Management SA (%)	5.2
0 (%)	0.0
H Shares-Free Float (%)	76.9
Avg. Daily Vol.('000)	5,215

##### Income Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Turnover	8,856	12,676	14,999	17,610
Cost of Goods Sold	(5,695)	(7,876)	(9,524)	(11,183)
<b>Gross Profit</b>	<b>3,161</b>	<b>4,800</b>	<b>5,474</b>	<b>6,428</b>
Other Opg (Exp)/Inc	(1,519)	(2,190)	(2,542)	(2,981)
<b>Operating Profit</b>	<b>1,643</b>	<b>2,609</b>	<b>2,933</b>	<b>3,447</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	13	52	57	63
Net Interest (Exp)/Inc	48	94	26	28
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,704</b>	<b>2,755</b>	<b>3,016</b>	<b>3,538</b>
Tax	(237)	(363)	(422)	(495)
Minority Interest	1	3	3	4
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>1,467</b>	<b>2,395</b>	<b>2,597</b>	<b>3,046</b>
Net profit before Except.	1,467	2,395	2,597	3,046
EBITDA	1,816	2,929	3,312	3,977
Sales Gth (%)	22.2	43.1	18.3	17.4
EBITDA Gth (%)	18.7	61.3	13.1	20.1
Opg Profit Gth (%)	25.9	58.8	12.4	17.5
Effective Tax Rate (%)	13.9	13.2	14.0	14.0

##### Cash Flow Statement (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Profit	1,704	2,755	3,016	3,538
Dep. & Amort.	160	268	323	467
Tax Paid	0	0	(3)	(3)
Assoc. & JV Inc/(loss)	(13)	(52)	(57)	(63)
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(900)	(636)	(597)	(701)
Other Operating CF	(225)	(279)	(395)	(457)
<b>Net Operating CF</b>	<b>726</b>	<b>2,057</b>	<b>2,287</b>	<b>2,783</b>
Capital Exp.(net)	(298)	(338)	(2,000)	(1,600)
Other Invts.(net)	(1,101)	(1,900)	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	71	110	0	0
<b>Net Investing CF</b>	<b>(1,327)</b>	<b>(2,128)</b>	<b>(2,000)</b>	<b>(1,600)</b>
Div Paid	(382)	(412)	(470)	(519)
Chg in Gross Debt	29	(38)	0	0
Capital Issues	1,776	52	0	0
Other Financing CF	0	1	0	0
<b>Net Financing CF</b>	<b>1,422</b>	<b>(397)</b>	<b>(470)</b>	<b>(519)</b>
Currency Adjustments	0	(1)	0	0
Chg in Cash	821	(470)	(183)	663

##### Balance Sheet (RMB m)

FY Dec	2013A	2014A	2015F	2016F
Net Fixed Assets	1,419	1,595	1,655	1,770
Invts in Assocs & JVs	0	0	0	0
Other LT Assets	1,023	991	983	988
Cash & ST Invts	1,583	3,136	2,729	2,680
Inventory	1,581	1,428	2,731	2,207
Debtors	3,386	2,694	4,067	2,814
Other Current Assets	1,085	3,555	3,260	6,465
<b>Total Assets</b>	<b>10,077</b>	<b>13,398</b>	<b>15,425</b>	<b>16,925</b>
ST Debt	16	31	26	4
Other Current Liab	3,434	3,789	5,210	4,982
LT Debt	50	52	34	37
Other LT Liabilities	271	376	500	730
Shareholder's Equity	6,183	9,016	9,472	10,991
Minority Interests	124	134	184	180
<b>Total Cap. &amp; Liab.</b>	<b>10,077</b>	<b>13,398</b>	<b>15,425</b>	<b>16,925</b>
Non-Cash Wkg. Cap	2,618	3,887	4,848	6,504
Net Cash/(Debt)	1,518	3,053	2,669	2,638

##### Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
Train-borne electrical systems	7,851	11,394	13,333	15,311
Electrical components	1,005	1,282	1,666	2,300
<b>Total</b>	<b>8,856</b>	<b>12,676</b>	<b>14,999</b>	<b>17,610</b>

Source: Company, DBS Vickers

## Peers valuation - Infrastructure construction

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE		Yield	P/Bk	EV/EBITDA		ROE	FY14-16 Earnings CAGR	
					15F x	16F x	15F %	15F x	15F x	16F x	15F %	%	
<b>Asia Pacific ex Japan</b>													
China Comms.Con.'H'*	1800 HK	HKD	13.94	29,082	Dec	11.6	10.5	2.0	1.4	9.7	8.9	12.6	10.7
China Railway Group 'H'*	390 HK	HKD	10.34	28,406	Dec	14.7	13.3	1.0	1.7	9.9	9.3	11.9	13.6
China Railway Con.'H'*	1186 HK	HKD	14.8	23,551	Dec	12.2	11.4	1.2	1.3	8.4	8.4	12.2	12.0
China State.Constr.*	3311 HK	HKD	14.38	7,443	Dec	13.3	11.4	2.3	2.4	12.3	10.5	20.0	22.0
Baoye Group 'H'	2355 HK	HKD	6.96	562	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Urban Construction	1599 HK	HKD	6.51	1,069	Dec	14.3	11.9	2.0	2.2	4.6	3.8	16.8	25.7
Chun Wo Dev#	711 HK	HKD	1.95	356	Mar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Comm.Con.'A'*	601800 CH	CNY	21.38	55,800	Dec	22.3	20.2	1.0	2.7	13.0	11.5	12.6	10.7
China Railway Group 'A'*	601390 CH	CNY	21.59	74,203	Dec	38.4	34.7	0.4	4.3	13.4	12.0	11.9	13.6
China Railway Con.'A'*	601186 CH	CNY	24.83	49,431	Dec	25.6	23.9	0.6	2.8	9.0	7.9	12.2	12.0
China State Con.Engr.'A'	601668 CH	CNY	10.79	52,232	Dec	12.1	10.3	1.9	2.0	5.8	4.7	17.1	17.3
Hyundai Engr.& Con.	000720 KS	KRW	48,000	4,878	Dec	9.8	8.2	1.2	0.9	4.9	4.4	9.6	24.4
Daewoo Engr.& Con.	047040 KS	KRW	7,350	2,786	Dec	13.4	10.1	0.0	1.1	9.8	8.3	8.5	71.7
Cimic Group	CIM US	AUD	23.12	6,124	Dec	15.5	15.2	4.2	2.0	4.9	4.8	12.7	(13.1)
Ugl	UGL AU	AUD	2.31	301	Jun	19.9	8.7	1.7	0.5	4.9	5.0	5.2	(13.1)
Gamuda	GAM MK	MYR	5	3,317	Jul	15.4	15.3	2.6	1.9	17.4	17.1	13.2	2.8
Ijm#	IJM MK	MYR	6.97	3,466	Mar	14.2	12.8	2.3	1.4	8.9	8.3	9.8	(4.1)
Italian-Thai Dev. (Otc)	ITD TB	THB	7.5	1,183	Dec	48.4	35.2	0.4	2.7	n.a.	n.a.	5.8	35.4
Continental Holdings	3703 TT	TWD	10.7	310	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Average (H-share)</b>						<b>13.2</b>	<b>11.7</b>	<b>1.7</b>	<b>1.8</b>	<b>9.0</b>	<b>8.2</b>	<b>14.7</b>	<b>16.8</b>
<b>Average (A-share)</b>						<b>24.6</b>	<b>22.3</b>	<b>1.0</b>	<b>3.0</b>	<b>10.3</b>	<b>9.1</b>	<b>13.4</b>	<b>13.4</b>

# FY15: FY16; FY16: FY17

Source: Thomson Reuters, \*DBS Vickers

## Industry Focus

### China Infrastructure Sector

#### Peers valuation - Railway equipment

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 15F	PE 16F	PEG 15F	PEG 16F	P/Bk 15F	P/Bk 16F	EV/EBITDA 15F	EV/EBITDA 16F	Latest reported		
													Gross margin %	Net margin %	
<b>Asian peers</b>															
Xiangtan Elec.Mnfg. 'A'	600416 CH	CNY	22.64	2,716	Dec	86.7	58.1	0.4	1.2	n.a.	n.a.	n.a.	n.a.	17.4	0.7
Guodian Nanjing 'A'	600268 CH	CNY	12.95	1,327	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20.4	(7.0)
Zhuzhou Times 'A'	600458 CH	CNY	30.53	3,258	Dec	151.9	98.2	n.a.	1.8	5.6	5.0	34.5	19.7	17.2	2.9
Gem-Year Industrial 'A'	601002 CH	CNY	22.37	2,861	Dec	57.4	n.a.	n.a.	n.a.	6.6	n.a.	n.a.	n.a.	17.2	3.1
Jinxi Axle 'A'	600495 CH	CNY	26.95	2,919	Dec	112.3	n.a.	7.6	n.a.	3.7	n.a.	n.a.	n.a.	10.8	4.0
Tianma 'A'	002122 CH	CNY	12.55	2,406	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.7	1.5
Baotou Beifang 'A'	600967 CH	CNY	17.14	2,276	Dec	19.7	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	17.6	8.1
Fujian Longxi 'A'	600592 CH	CNY	20.15	1,299	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.2	6.7
Taiyuan Hvy.Ind.'A'	600169 CH	CNY	12.14	4,748	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.1	0.3
China CNR 'A'	601299 CH	CNY	29.98	48,985	Dec	53.6	45.3	3.2	2.5	6.7	5.9	11.2	9.5	18.5	5.3
CSR 'A'*	601766 CH	CNY	29.45	65,592	Dec	60.7	50.1	2.3	2.4	8.6	7.6	32.9	27.7	21.1	4.5
CSR 'H'*	1766 HK	HKD	15	26,704	Dec	24.7	20.4	1.0	1.0	3.5	3.1	13.4	11.0	21.1	4.5
China CNR 'H'	6199 HK	HKD	15.86	4,366	Dec	21.1	19.8	0.8	3.0	2.8	2.5	15.6	14.8	18.5	5.3
Zhuzhou CSR Times 'H'*	3898 HK	HKD	65	9,855	Dec	23.5	20.1	2.8	1.2	6.4	5.6	17.7	14.7	37.4	18.9
China Automation	569 HK	HKD	1.67	221	Dec	14.2	13.5	0.1	2.6	n.a.	n.a.	n.a.	n.a.	34.6	1.6
Midas Hdg.*	MIDAS SP	SGD	0.375	342	Dec	26.3	10.4	0.6	0.1	0.7	0.7	10.5	7.8	26.6	4.3
Kinki Sharyo#	7122 JP	JPY	370	210	Mar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(11.5)	(44.7)
Kawasaki Heavy#	7012 JP	JPY	623	8,564	Mar	15.2	14.0	0.2	1.7	2.2	2.0	8.7	8.0	17.7	2.8
<b>Average (A-share)</b>						<b>55.6~</b>	<b>62.9</b>	<b>2.7</b>	<b>1.9</b>	<b>6.2</b>	<b>6.2</b>	<b>26.2</b>	<b>19.0</b>	<b>18.2</b>	<b>2.7</b>
<b>Average (H-share)</b>						<b>20.9</b>	<b>18.4</b>	<b>1.2</b>	<b>1.9</b>	<b>4.2</b>	<b>3.7</b>	<b>15.6</b>	<b>13.5</b>	<b>27.9</b>	<b>7.6</b>
<b>US/Europe</b>															
Siemens	SIE GR	EUR	98.1	95,193	Sep	15.7	14.0	(9.2)	1.1	2.5	2.3	8.9	8.4	28.9	7.5
Bombardier 'B'	BBD/B CN	CAD	2.48	4,580	Dec	8.7	12.0	n.a.	(0.4)	5.6	4.0	6.4	6.1	12.0	(6.4)
Alstom#	ALO FP	EUR	28.35	9,674	Mar	24.3	21.0	(0.7)	1.3	1.6	1.2	8.4	8.1	19.0	2.7
Trinity Industries	TRN US	USD	31.42	4,868	Dec	7.1	7.7	1.3	(1.0)	1.3	1.2	5.3	5.3	25.1	10.6
Const Y Auxiliar De Ferr	CAF SM	EUR	299.3	1,130	Dec	13.5	10.0	0.5	0.3	1.4	1.2	8.2	6.9	2.4	4.1
American Railcar Inds.	ARII US	USD	54.9	1,172	Dec	9.6	10.5	0.4	(1.3)	2.0	1.8	4.5	4.7	27.2	13.6
Freightcar America	RAIL US	USD	22.97	283	Dec	13.5	9.1	0.1	0.2	1.3	1.2	2.8	2.5	7.1	1.0
Greenbrier Cos.	GBX US	USD	61.91	1,634	Aug	10.5	9.6	0.2	1.1	3.1	2.5	n.a.	n.a.	14.6	5.3
Vossloh	VOS GR	EUR	59.6	875	Dec	42.3	21.3	n.a.	0.2	2.4	2.1	10.8	8.8	9.1	(16.2)
Wabtec	WAB US	USD	101.5	9,809	Dec	24.6	21.7	1.9	1.6	4.6	3.8	n.a.	n.a.	30.0	11.5
LEM 'R'#	LEHN SW	CHF	825	998	Mar	23.8	23.8	(2.1)	n.a.	10.8	10.8	14.9	14.9	47.0	18.6
ABB 'R'	ABBN VX	CHF	20.45	50,219	Dec	18.3	15.9	2.5	1.0	3.1	3.0	10.1	9.2	28.9	6.4
Hollysys Atmtn.Techs.	HOLI US	USD	25.68	1,495	Jun	14.9	13.7	0.3	1.5	2.5	2.1	9.2	8.3	33.7	13.4
<b>Average</b>						<b>17.4</b>	<b>14.6</b>	<b>(0.4)</b>	<b>0.5</b>	<b>3.2</b>	<b>2.9</b>	<b>8.1</b>	<b>7.6</b>	<b>21.9</b>	<b>5.6</b>
<b>Grand average</b>						<b>26.2~</b>	<b>23.5</b>	<b>0.6</b>	<b>1.0</b>	<b>3.9</b>	<b>3.3</b>	<b>12.3</b>	<b>10.3</b>	<b>20.3</b>	<b>3.1</b>

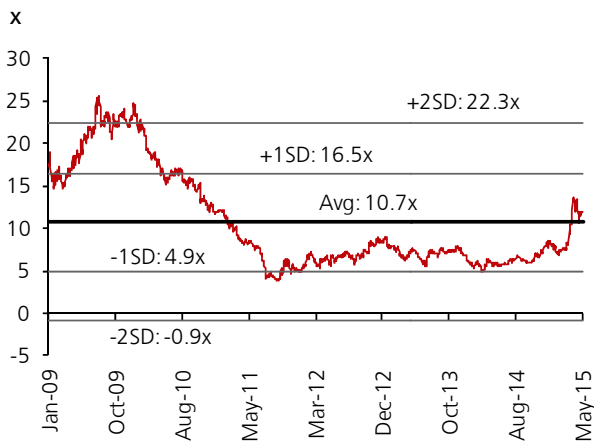
~ Exclude Zhuzhou Times 'A' & Jinxi Axle 'A'

# FY15: FY16; FY16: FY17

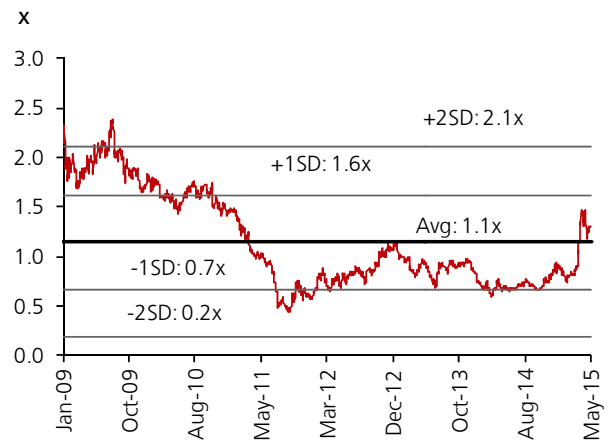
Source: Thomson Reuters, \*DBS Vickers



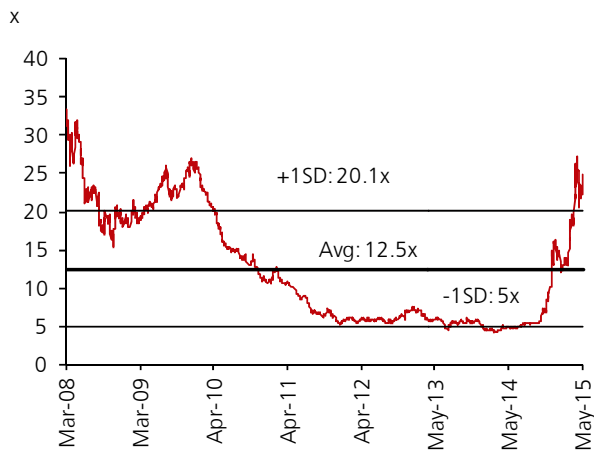
China Railway Construction (1186 HK) PE chart



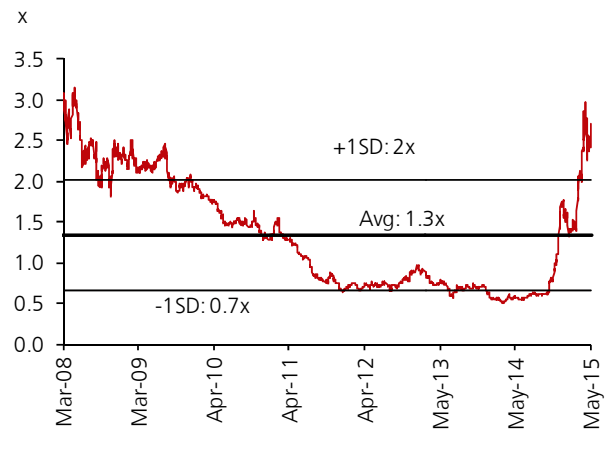
China Railway Construction (1186 HK) PB chart



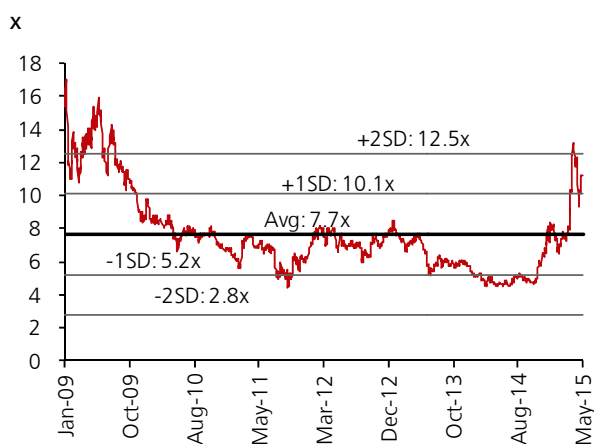
China Railway Construction-A (601186 HK) PE chart



China Railway Construction-A (601186 HK) PB chart



China Comm Construction (1800 HK) PE chart



China Comm Construction (1800 HK) PB chart



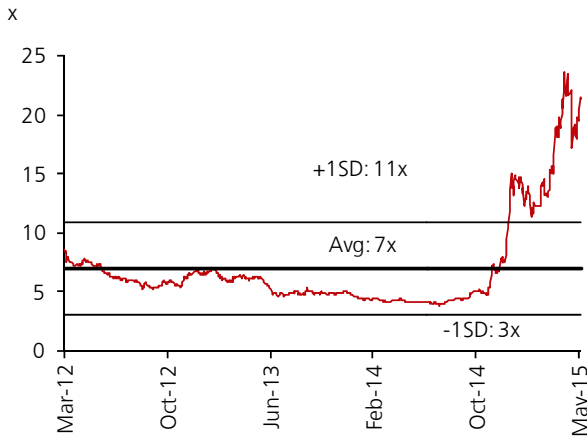
Source: Thomson Reuters, DBS Vickers



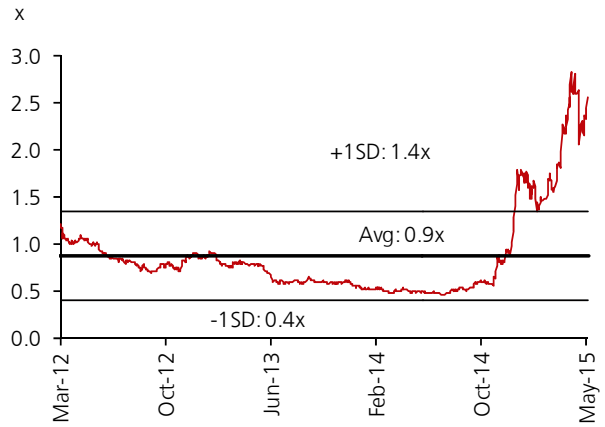
# Industry Focus

## China Infrastructure Sector

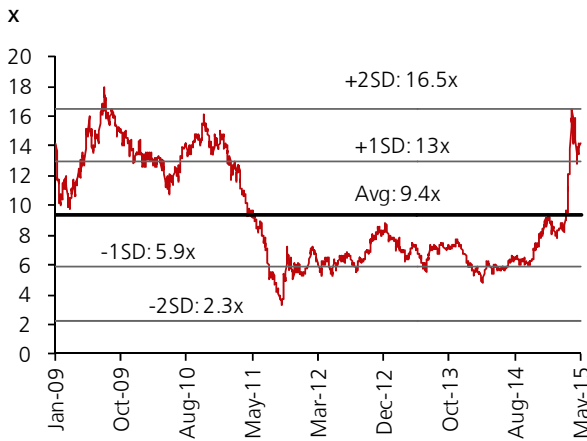
China Comm Construction-A (601800 CH) PE chart



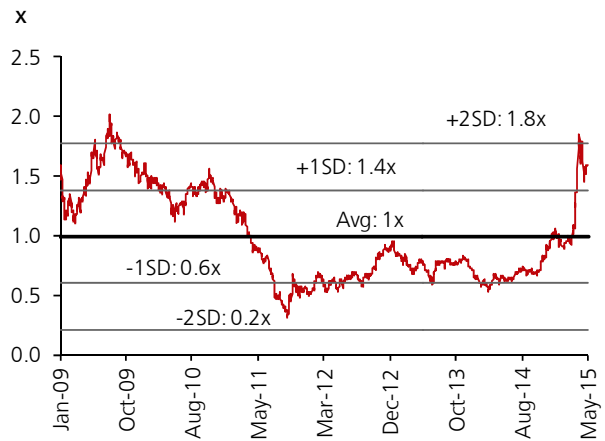
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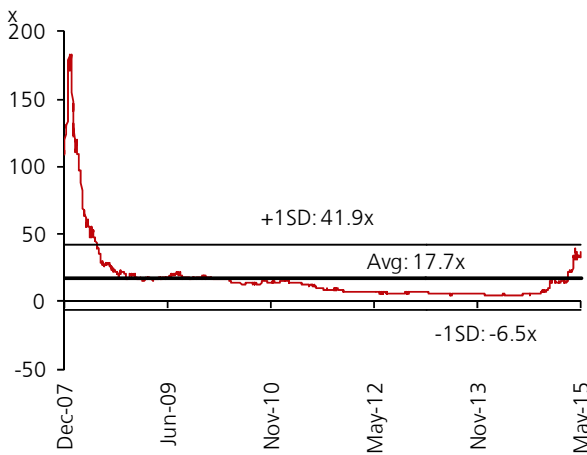
China Railway Group (390 HK) PE chart



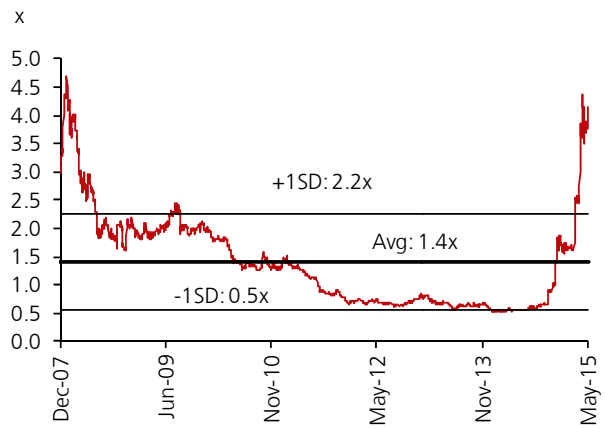
China Railway Group (390 HK) PB chart



China Railway Group-A (601390 CH) PE chart

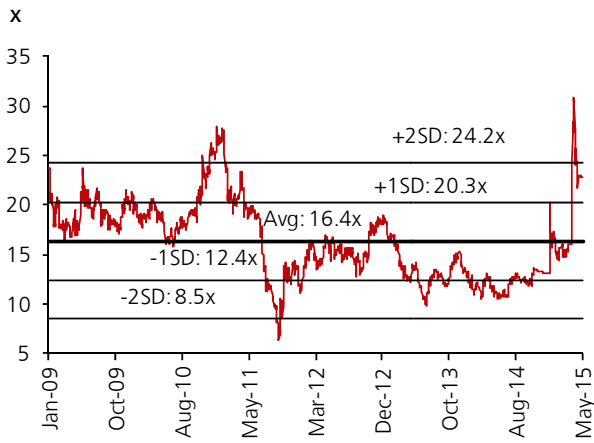


China Railway Group-A (601390 CH) PB chart

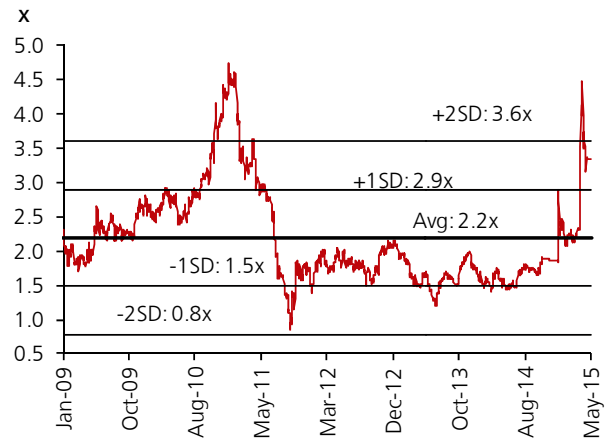


Source: Thomson Reuters, DBS Vickers

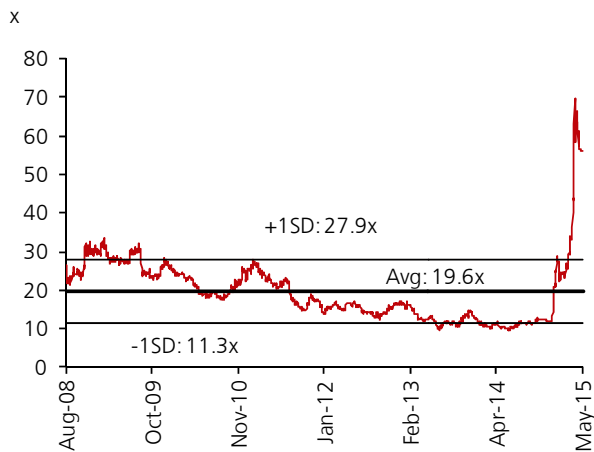
CSR (1766 HK) PE chart



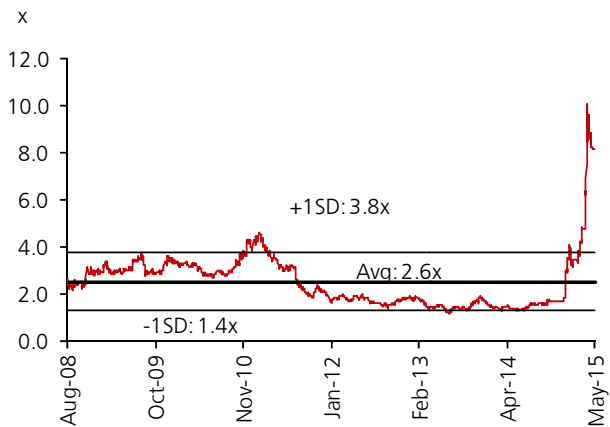
CSR (1766 HK) PB chart



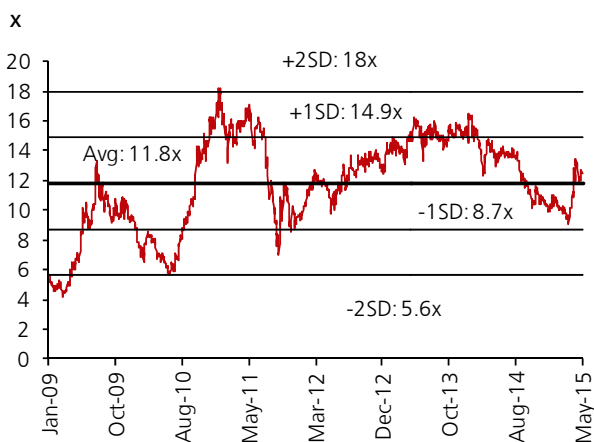
CSR-A (601766 CH) PE chart



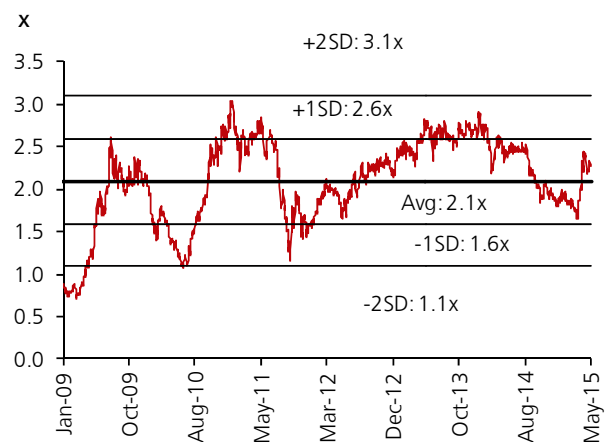
CSR-A (601766 CH) PB chart



China State Construction (3311 HK) PE chart



China State Construction (3311 HK) PB chart

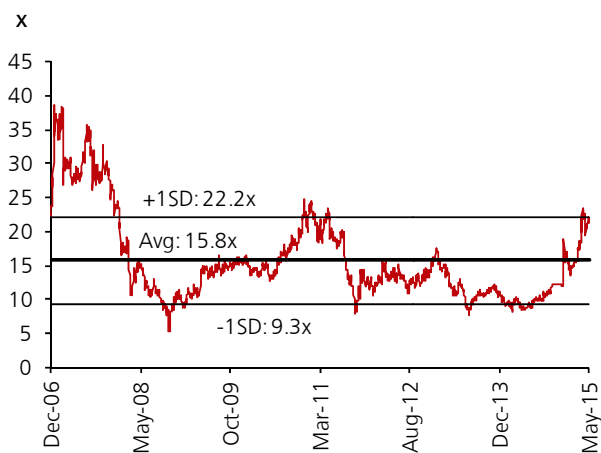


Source: Thomson Reuters, DBS Vickers

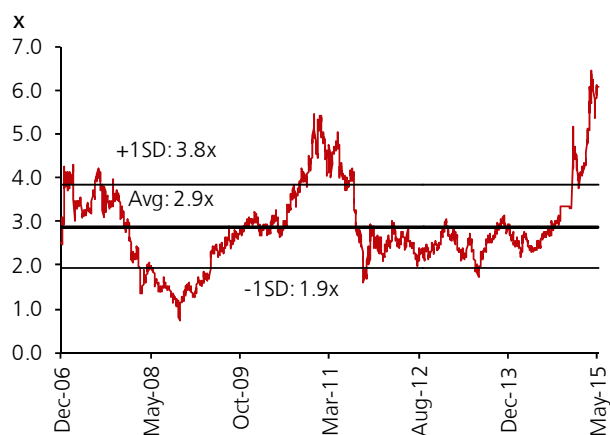
## Industry Focus

### China Infrastructure Sector

Zhuzhou CSR Times (3898 HK) PE chart



Zhuzhou CSR Times (3898 HK) PB chart



Source: Thomson Reuters, DBS Vickers

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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*Share price appreciation + dividends*

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