

**中国建筑国际 [3311.HK]**
**2017年三季报符合预期;但能否获重新估值仍需时观察**

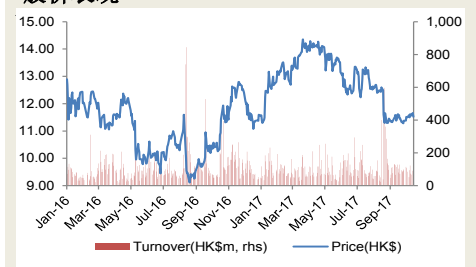
中国建筑国际昨天公布了2017年第三季度业绩，并举行了业绩电话会议。此次三季报符合市场预期。今年首9个月总收入同比增长11.4%，经营利润（包括合营贡献的利润）同比增长34.5%。管理层表示公司有信心2017年盈利将能达到到时市场共识预测的水平。公司另公布，未并表合营公司首9个月收入同比增长140.4%，这也显示中国业务是公司盈利增长的主要动力。这次业绩反映公司成功兑现此前的承诺从16年下半年开始改善中国项目的执行情况。考虑到供股的不明朗因素已消除，加上盈利增长理想，我们认为从目前8.9倍2018年市盈率的估值来看，股价下跌空间有限。但我们认为，投资者希望有更多数据显示公司有能力将手头PPP项目转化为高速的盈利增长，同时现金流不会恶化。因此，我们维持对中国建筑国际的持有评级。我们的目标价为12.7港元，基于10倍目标市盈率，对比历史平均市盈率为12.2倍。

**投资亮点**

- 17年首9个月营运数据符合市场预期：**中国建筑国际公布，17年首9个月的未经审核集团营业额同比增长11.4%至337亿港元，约相当于我们和市场共识对2017年全年收入预测的63%。17年首9个月，经营利润（包括合营贡献的利润）同比增长34.5%至50.25亿港元，相当于我们对公司2017年经营利润预测的68%。管理层仍然认为，公司2017年盈利将能达到到时市场共识预测的水平。
- 中国业务是17年第三季盈利增长的主要动力：**17年首9个月的集团营业额增长低于经营利润增长（包括合营）。17年第三季集团收入同比下降5.9%，对比经营利润（包括合营）同比增长10.9%。公司另公布，17年首9个月应占合营公司收入同比上升140.4%，反映了中国PPP项目执行情况持续改善。管理层表示，香港/澳门业务的盈利增长出现放缓，特别是澳门业务经营利润在第三季同比下降超过60%。这是由于对于一些即将结束的香港/澳门项目，公司以保守的方式入账收入和盈利。但其中国业务的17年第三季经营利润同比增长约50%，反映公司成功改善了中国项目的执行情况。
- 能否获得重新估值，将取决于PPP项目执行情况和现金流能否进一步改善：**公司于10月4日完成了供股。收到了约4.78亿股权益股份的申请，占计划发行股份总数的85.3%。根据不可撤回承诺，母公司履行责任并认购未获认购的供股股份。考虑到供股的不明朗因素已消除，加上盈利增长理想，我们认为从目前8.9倍2018年市盈率的估值来看，股价下跌空间有限。但我们认为，市场仍关注公司是否有能力将手头PPP项目转化为高速的盈利增长的同时，现金流不会恶化。此外，市场正观望十九大会对未来基建发展给予更明确的方向。
- 维持对中国建筑国际的持有评级：**我们维持目标价12.70港元，基于10倍的目标市盈率。公司的历史平均动态市盈率为12.2倍。

HK\$ m	2014	2015	2016	2017E	2018E
收入	34,440	38,002	46,208	53,272	61,145
核心净利润	3,457	4,524	4,154	5,402	6,565
净利润率	10.0	11.9	9.0	10.1	10.7
每股盈利（港元）	0.86	1.12	0.97	1.21	1.30
变动（%）	21.9	30.4	(13.7)	24.5	7.7
市盈率	13.4x	10.3x	11.9x	9.5x	8.9x
收益率	2.3%	2.9%	2.9%	3.2%	3.1%

来源：公司，中国银河国际证券研究部

**中国建筑业**
**持有**
**收盘价：11.52港元（2017年10月17日）**
**目标价：12.70港元（+10.2%）**
**股价表现**


市值	74.50亿美元
已发行股数	50.49亿股
核数师	PWC
自由流通量	35.1%
52周交易区间	10.22-14.47港元
三个月日均成交量	1,500万美国
主要股东	中国海外集团 (62.3%)

来源：公司，彭博

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## China State Construction International (CSCI) [3311.HK]

Q3 2017 results in line, but stock rerating remains wait and see

CSCI announced its Q3 2017 operation highlights and hosted a results teleconference yesterday. The Q3 2017 results were in line with market expectations. Total revenue in 9M17 grew 11.4% YoY, while operating profit, including profit contributions from joint venture (JV) companies, rose 34.5% YoY. CSCI management remains confident that it can deliver the earnings growth in 2017 the current market consensus expects. It separately reported that its unconsolidated JV companies' revenue rose 140.4% YoY in 9M17, highlighting that its China business was the main driver for its earnings growth. This shows its success in keeping its promise to improve project execution in the China market from 2H16 onwards. Considering the removal of the share price overhang from the rights issue and the fact that its earnings growth is on track, there should be limited downside risk to its share price based on the current valuation of 8.9x 2018E PER. But we think investors are still waiting for more evidence showing the Company's capability to turn PPP projects into fast earnings growth without any deterioration in cash flow performance. Hence, we maintain our Hold rating on CSCI. Our target price (TP) of HK\$12.70 is based on a target PER multiple of 10x vs. its historical average trading PER multiple of 12.2x.

### Investment Highlights

- 9M17 operation highlights in line with market expectations:** CSCI reported that its consolidated revenue in 9M17 grew 11.4% YoY to HK\$33.7bn, equivalent to around 63% of our and consensus revenue estimates for the Company in 2017. Operating profit, including its share of the profit of JV companies, rose 34.5% YoY in 9M17 to HK\$5,025m, equivalent to 68% of our operating profit forecast for the Company in 2017. CSCI management is confident that it can deliver the earnings growth in 2017 the current market consensus expects.
- China business the main driver of CSCI's earnings growth in Q3 2017:** CSCI's consolidated revenue growth in 9M17 was below its operating profit growth (including JV companies). Its consolidated revenue in Q3 2017 declined by 5.9% YoY vs. a 10.9% rise in operating profit (including JV companies) in the same period. The Company separately reported that its share of the revenue from JV companies rose 140.4% YoY in 9M17, which underpins the continuous improvement in the PPP project execution of its China business. CSCI management suggested that there was an earnings growth slow-down of its HK/Macau business, especially with the operating profit of its Macau business falling over 60% YoY in Q3 17. This was due to CSCI's conservative revenue and earnings booking for some HK/Macau projects which are coming to an end. But its China business reported operating profit growth of c50% YoY in Q3 2017, which shows the success of its efforts to improve project execution in the China market.
- Share price rerating counting on further PPP project execution and cash flow improvement:** CSCI completed its rights issue on 4 October. It received applications for around 478m rights shares, which represented 85.3% of the total number of rights shares it planned to issue. The parent company performed its underwriting obligation and subscribed for the under-subscribed rights shares. Given the removal of the share price overhang from the rights issue and the fact that its earnings growth is on track, there should be limited downside risk to its share price, based on the current valuation of 8.9x 2018E PER. But we think the market still has concerns about its ability to turn PPP projects into fast earnings growth without any deterioration in cash flow performance. Moreover, the market is waiting for more clarity from the 19th Party Congress regarding the government's attitude to future infrastructure development.
- Maintain a Hold rating on CSCI:** Our TP remain unchanged at HK\$12.70, which is based on a target price multiple of 10x. Historically, CSCI has traded at average forward PER of 12.2x.

HK\$ m	2014	2015	2016	2017E	2018E
Revenue	34,440	38,002	46,208	53,272	61,145
Core net profit	3,457	4,524	4,154	5,402	6,565
Net margin	10.0	11.9	9.0	10.1	10.7
EPS (HK\$)	0.86	1.12	0.97	1.21	1.30
Change (%)	2.19	30.4	(13.7)	24.5	7.7
P/E	13.4x	10.3x	11.9x	9.5x	8.9x
Yield	2.3%	2.9%	2.9%	3.2%	3.1%

Sources: Company, CGIS Research

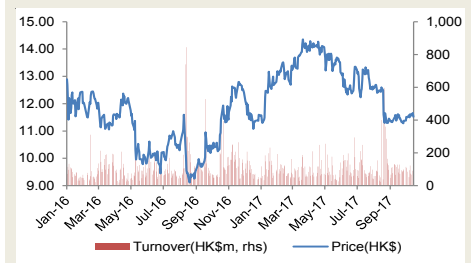
### China construction sector

# Hold

Close: HK\$11.52 (October 17, 2017)

Target Price: HK\$12.70 (+10.2%)

### Price Performance



Market Cap	US\$7,450m
Shares Outstanding	5,049m
Auditor	PWC
Free Float	35.1%
52W range	HK\$10.22-14.47
3M average daily T/O	US\$15m
Major Shareholding	China Overseas Holding (62.3%)

Sources: Company data, Bloomberg

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## Key financials

Profit & loss (HK\$ m)	2014	2015	2016	2017E	2018E
<b>Revenue</b>	<b>34,440</b>	<b>38,002</b>	<b>46,208</b>	<b>53,272</b>	<b>61,145</b>
Cost of sales	-29,696	-32,889	-40,225	-45,629	-52,091
<b>Gross profit</b>	<b>4,743</b>	<b>5,113</b>	<b>5,983</b>	<b>7,643</b>	<b>9,054</b>
Other income	291	775	69	107	112
SG&A	-1,033	-1,007	-1,106	-1,119	-1,284
Other expenses	0	0	0	0	0
<b>EBIT</b>	<b>4,001</b>	<b>4,881</b>	<b>4,946</b>	<b>6,631</b>	<b>7,882</b>
<b>EBITDA</b>	<b>4,496</b>	<b>5,223</b>	<b>5,308</b>	<b>7,034</b>	<b>8,312</b>
Finance costs	-456	-629	-688	-842	-1,047
Investment income	184	385	214	260	301
Share of asso./JCEs	318	496	563	928	1,172
Non-recurring items	0	0	977	0	0
Profit before tax	4,048	5,132	6,012	7,477	8,308
Income tax expenses	-660	-660	-1,005	-1,495	-1,662
Profit after tax	3,388	4,473	5,007	5,982	6,646
Minority interest	70	51	123	-80	-81
<b>Net profit</b>	<b>3,457</b>	<b>4,524</b>	<b>5,130</b>	<b>5,902</b>	<b>6,565</b>
EPS (HK\$)	0.86	1.12	1.20	1.32	1.30
DPS (HK\$)	0.26	0.33	0.33	0.36	0.36
<b>Core net profit</b>			<b>4,154</b>	<b>5,402</b>	<b>6,565</b>
Core EPS (HK\$)			0.97	1.21	1.30

Balance sheet (HK\$ m)	2014	2015	2016	2017E	2018E
Cash & cash equivalent	7,452	8,026	11,485	12,889	13,826
Inventories	160	109	131	250	285
Accounts receivables	12,542	18,174	17,644	20,433	25,966
Other current assets	14,175	6,110	10,884	17,223	21,979
<b>Total current assets</b>	<b>34,330</b>	<b>32,418</b>	<b>40,144</b>	<b>50,795</b>	<b>62,057</b>
Fixed assets	2,827	2,787	2,494	3,059	3,284
Goodwill & intangibles	778	764	753	753	753
Other non-current assets	28,644	37,135	42,784	51,133	58,479
<b>Total non-current assets</b>	<b>32,250</b>	<b>40,686</b>	<b>46,031</b>	<b>54,945</b>	<b>62,516</b>
Short-term debt	587	808	1,456	1,458	1,938
Accounts payables	17,261	21,927	29,000	32,878	37,106
Other current liabilities	13,372	8,971	9,260	11,013	12,751
<b>Total current liabilities</b>	<b>31,221</b>	<b>31,707</b>	<b>39,716</b>	<b>45,349</b>	<b>51,795</b>
Long-term debt	10,362	13,086	15,849	22,846	30,366
Other non-current liabilities	4,999	5,027	4,939	1,132	1,132
<b>Total non-current liabilities</b>	<b>15,360</b>	<b>18,113</b>	<b>20,788</b>	<b>23,979</b>	<b>31,499</b>
Share capital	100	101	112	126	126
Reserve	19,730	23,083	25,336	35,954	40,711
<b>Shareholders' equity</b>	<b>19,830</b>	<b>23,185</b>	<b>25,448</b>	<b>36,080</b>	<b>40,837</b>
Minority interests	168	100	222	332	443
<b>Total equity &amp; liabilities</b>	<b>66,579</b>	<b>73,104</b>	<b>86,174</b>	<b>105,739</b>	<b>124,573</b>
<b>BVPS (HK\$)</b>	<b>4.94</b>	<b>5.76</b>	<b>5.94</b>	<b>8.06</b>	<b>8.09</b>

Cash flow (HK\$ m)	2014	2015	2016	2017E	2018E
Profit before tax	4,048	5,132	6,012	7,477	8,308
Depreciation and amortization	320	332	305	335	375
Tax paid	-314	-660	-1,005	-1,495	-1,662
Change in working capital	812	-1,418	2,716	-4,095	-4,933
Other operating cash flow	-6,621	-3,089	-5,161	-6,664	-4,509
<b>Operating cash flow</b>	<b>-1,755</b>	<b>298</b>	<b>2,867</b>	<b>-4,443</b>	<b>-2,421</b>
Capex	-514	-425	-5,261	-1,019	-1,165
Net (acquisitions)/disposal	-1,573	-960	0	-4,196	-1,346
Other investing cash flow	-4	450	-430	174	725
<b>Investing cash flow</b>	<b>-2,091</b>	<b>-935</b>	<b>-5,691</b>	<b>-5,041</b>	<b>-1,786</b>
Change in debt	5,449	3,823	3,411	7,000	8,000
Net share issues	1	10	4,812	6,356	0
Dividends paid	-895	-1,210	-1,413	-1,626	-1,809
Other financing cash flow	-1,383	-1,313	-312	-842	-1,047
<b>Financing cash flow</b>	<b>3,172</b>	<b>1,309</b>	<b>6,498</b>	<b>10,889</b>	<b>5,144</b>
Forex effect/others	-48	220	0	0	0
<b>Net change in cash</b>	<b>-674</b>	<b>354</b>	<b>3,458</b>	<b>1,405</b>	<b>937</b>

Key ratios	2014	2015	2016	2017E	2018E
Sales growth (%)	26.2	10.3	21.6	15.3	14.8
Gross profit growth (%)	26.6	7.8	17.0	27.7	18.5
Net profit growth (%)	25.7	30.9	-8.2	30.0	21.5
EPS growth (%)	21.9	30.4	-13.7	24.5	7.7
Gross profit margin (%)	13.8	13.5	12.9	14.3	14.8
Net profit margin (%)	10.0	11.9	9.0	10.1	10.7
ROAA (%)	5.8	6.5	6.4	6.2	5.7
ROAE (%)	19.3	21.0	21.1	19.2	17.1
Net-debt-to-equity (%)	36.8	41.9	37.8	31.4	44.8
Inventory turnover (days)	2.0	12	12	2.0	2.0
Receivable turnover (days)	132.9	174.6	139.4	140.0	155.0
Payable turnover (days)	212.2	243.3	263.1	263.0	260.0
Quick ratio (x)	0.7	0.8	0.7	0.6	0.6
Current ratio (x)	1.1	1.0	1.0	1.1	1.2
Interest-coverage ratio (x)	8.8	7.8	7.2	7.9	7.5

Key assumptions	2014	2015	2016	2017E	2018E
New contract (HK\$ m)*	58,280	67,410	80,630	102,913	116,392
Backlog (HK\$ m)	90,520	123,390	149,720	202,015	260,411
Backlog-to-sales ratio (x)	2.7	3.4	3.4	3.9	4.4

\* Contribution from Far East Global is not included.

Source: Company data, CGIS Research

Figure 1: CSCI 9M17 operating highlights

HK\$ m	9M17	9M16	% YoY chg
Revenue	33,688	30,237	11.4%
Shares of JV revenue	4,463	1,856	140.4%
Operating profit (including JV OP)	5,025	3,736	34.5%
	<b>3Q17</b>	<b>3Q16</b>	<b>% YoY chg</b>
Revenue	10,722	11,392	-5.9%
Operating profit (including JV OP)	1,980	1,785	10.9%

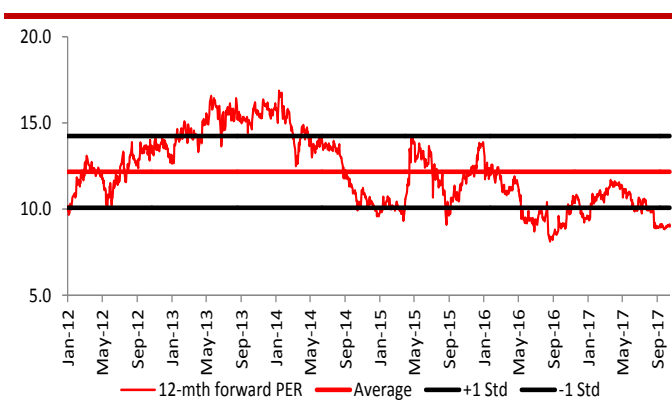
Source: Company data, CGIS Research

Figure 2: CSCI earnings estimates: CGIS vs. consensus

2017E (HK\$ m, HK\$)	Sales	EBIT	EBITDA	Recurring net profit	EPS Adj	EPS GAAP
CGIS	53,272	6,631	7,034	5,402	1.21	1.32
Consensus	53,575	6,297	7,043	5,603	1.20	1.28
Diff%						
CGIS vs. consensus	-0.6%	5.3%	-0.1%	-3.6%	0.5%	3.0%
2018E (HK\$ m, HK\$)	Sales	EBIT	EBITDA	Recurring net profit	EPS Adj	EPS GAAP
CGIS	61,145	7,882	8,312	6,565	1.30	1.30
Consensus	62,307	7,705	8,333	6,856	1.41	1.47
Diff%						
CGIS vs. consensus	-1.9%	2.3%	-0.2%	-4.2%	-8.0%	-11.4%

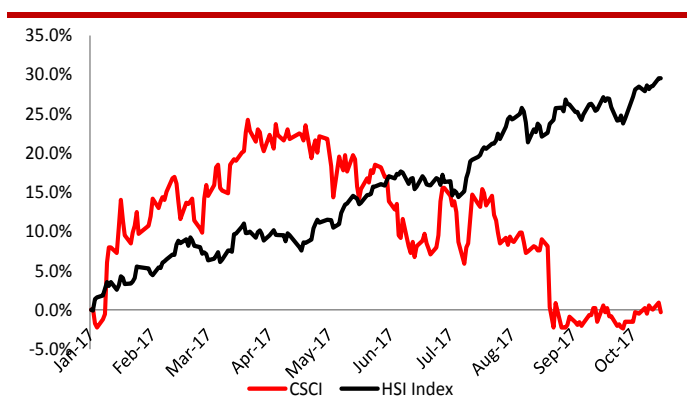
Source: Bloomberg, CGIS Research

Figure 3: CSCI 12-mth forward PER band



Source: Bloomberg, Company data, CGIS Research

Figure 4: CSCI CYTD share price performance



Source: Bloomberg, CGIS Research

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