

Analyst: Kelvin Li

CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED (中國交通建設)

Sector	: Transportation	Chairman	: ZHOU Jichang
HKSE Code	: 1800		
Market Price	: HK\$17.66 (07/09/2007)		
HSI	: 23,982.61 (07/09/2007)		
Total shares Issued	: 14,825 million		
H-share Mkt. Cap.	: HK\$261,809.5 million		
52 weeks Hi/ Lo	: HK\$18.28 / HK\$5.93		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2007
Interim Results Highlights

	1H2007	1H2006	y-o-y
	RMB million	RMB million	change
• Turnover	58,674	47,187	+24.3%
• Gross profit	6,474	5,114	+26.6%
• Operating profit	4,793	2,517	+90.4%
• Attributable profit to shareholders	2,744	1,084	+153.1%
	RMB	RMB	
• EPS – basic	0.19	0.10	+90.0%
• Interim DPS	-	-	N/A

- China Communications Construction (“CCCC”) reported a robust 153.1% y-o-y rise in net profit to RMB2.74 billion for the six months ended 30th June 2007. Growth momentum is strong in all business segments, while the Group’s bottom line was also lifted by a compensation revenue of RMB636 million for relocation of production facilities of one of the subsidiaries in connection with *World Expo 2010* in Shanghai.
- Turnover increased 24.3% to RMB58.7 billion in 1H07, mainly driven by a solid growth in CCCC’s core infrastructure construction segment. Total cost was up 22.3% from a year earlier, as the Group held contained the rise in raw material and staff costs. As a result, CCCC’s gross profit margin improved slightly to 11.03% in 1H07 (1H06: 10.84%), while its operating margin widened to 8.17%, up 2.83 percentage points from a year earlier.
- EPS for 1H07 was RMB0.19, up a sharp 90.0% y-o-y. No interim dividend was proposed.
- As of 30/06/2007, CCCC had total debts of RMB29.0 billion (31/12/2006: RMB30.7 billion). With cash on hand of RMB23.7 billion, the net debt-to-shareholders’ equity ratio was 14.2% at the end of June 2007, compared with net cash of RMB104 million at the end of 2006.
- Breakdown of turnover in geographical terms:

	1H2007		1H2006		y-o-y
	RMB million	%	RMB million	%	Change
Mainland China	48,095	82.0%	38,951	82.5%	+23.5%
Hong Kong and Macau	1,348	2.3%	1,177	2.5%	+14.5%
Other countries	9,231	15.7%	7,059	15.0%	+30.8%
Total	58,674	100.0%	47,187	100.0%	+24.3%

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**Business highlights**

- Breakdown of gross revenue by business segments:

	1H2007		1H2006		y-o-y Change
	RMB million	%	RMB million	%	
Infrastructure construction	39,263	66.9%	28,845	61.1%	+36.1%
Infrastructure design	2,835	4.8%	2,360	5.0%	+20.1%
Dredging	6,142	10.5%	5,017	10.6%	+22.4%
Port machinery manufacturing	10,206	17.4%	9,041	19.2%	+12.9%
Other	664	1.1%	2,494	5.3%	-73.4%
Inter-segment elimination	(436)	(0.7%)	(570)	(1.2%)	-23.5%
Total	58,674	100.0%	47,187	100.0%	+24.3%

- CCCC's core **Infrastructure construction** segment reported a 36.1% y-o-y rise in revenue to RMB39.3 billion, as all lines of business proceeded well during the first half. Cost of sales increased by a less extent of 34.6% y-o-y. As a result, the segment's gross profit jumped 57.0% y-o-y to RMB1.13 billion, accounting for 47.9% (1H06: 38.6%) of the Group's total, while its gross profit margin strengthened to 7.9% from 6.8% a year earlier.
- The Group's **infrastructure design** segment generated revenue of RMB2.8 billion in 1H07, up 20.1% y-o-y, mainly driven by transportation infrastructure design projects. Gross profit of the segment amounted to RMB793 million, up 9.8% y-o-y, which accounted for 12.2% (1H06: 14.1%) of the Group's total. Subcontracting cost rose during the first half, as the Group has been engaged in more comprehensive projects. As a result, the segment's gross margin slipped 2.6 ppts y-o-y to 28.0%.
- CCCC's **dredging** segment maintained its leading position in the industry, completing a volume of 250 million cubic metres during 1H07 and grasping an 80% share in the Mainland's dredging market. Revenue from the segment rose 22.4% y-o-y to RMB6.1 billion, while its gross profit increased a robust 35.3% y-o-y to RMB1.1 billion, comprising 16.3% (1H06: 15.2%) of the total. As such, the segment's gross profit margin advanced to 17.1% from 15.5% a year earlier.
- The Group's **port machinery manufacturing** segment, operating via the 43.26%-owned Shanghai Zhenhua Port Machinery Company Ltd. (ZPMC) and the 100%-owned Shanghai Port Machinery Plant Co., Ltd. (SPMP), reported a 12.9% y-o-y rise in revenue to RMB10.2 billion in 1H07. ZPMC stayed as the world's top quayside container crane manufacturer and exported most of its products all round the world, with a global market share of 70%. Gross profit of the segment grew 13.3% y-o-y to RMB1.5 billion, accounting for 23.0% (1H06: 25.7%) of the total. Gross margin was stable at 14.6% in 1H07, compared with 14.5% a year earlier.
- Capex amounted to RMB5.3 billion in 1H07, up 49.5% from 1H06. The rise was mainly due to increased investment in port machinery production equipment.

Outlook & Prospects

- Good progress in new business areas** CCCC's expansion in new business areas has been proceeding well. In 1H07, it was awarded with three railway-related projects. In overseas, it secured new projects in UAE, Sri Lanka and Kuwait. In July, CCCC also signed a contract to build a 24 km-long bridge in Malaysia, one of the largest infrastructure projects in Southeast Asian country.
- All-round strength – especially profit margins** In fact, CCCC's first-half result was much better than expected, as the market had forecast a growth of less than 100%. Besides the robust bottom-line growth, a contained rise in cost and improved profit margins also surprised the market. Profit margin is expected to keep improving in the next couple of years, as CCCC continues to expand overseas.
- A strong proxy on China's rising power** The counter is trading at rich valuation of 52x FY07E P/E and 36x FY08E P/E. Nonetheless, it is not demanding given CCCC's unparalleled growth momentum, encouraging profit margin enhancement and strong outlook in overseas expansion. Accordingly, we maintain a "Hold" recommendation on the counter.

Recommendation: HOLD

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