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

Sector	:	Transportation	Chairman	:	ZHOU Jichang
HKSE Code	:	01800			
Market Price	:	HK$7.01 (11/03/2011)			
HSI	:	23,249.78 (11/03/2011)			
H shares Issued	:	4,428 million			
H-share Mkt. Cap.	:	HK$31,037 million			
52 weeks Hi/ Lo	:	HK$7.98 / HK$5.57			

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2010

Final Results Highlights

	FY2010	FY2009	
	RMB million	RMB million	*Change*
• Revenue	272,734	226,920	*+20.2%*
• Gross profit	23,473	21,705	*+8.1%*
• Operating profit	14,125	12,524	*+12.8%*
• **Attributable profit to shareholders**	**9,863**	**7,200**	***+37.0%***
	RMB	RMB	
• EPS – basic	0.67	0.49	*+37.0%*
• DPS – final	0.160	0.116	*+37.9%*
• DPS – total	0.160	0.116	*+37.9%*

- China Communications Construction Company ("CCCC" or the "Group") reported a solid 37.0% y-o-y in net profit to RMB9.86 billion for the year ended 31st December 2010, despite a loss from the Group's 46.1%-owned heavy machinery arm – Zhenhua Heavy Industry (ZPMC). The bottom line was much stronger than consensus forecast of RMB8.33 billion.
- Revenue surged 20.2% y-o-y to RMB272.7 billion in FY10, supported by its core construction segment.
- Total costs (cost of sales, selling & marketing expenses, and administrative expenses) amounted to RMB259.9 billion in FY10, up 20.7% y-o-y, largely in line with the top-line growth. Subcontracting costs accounted for the top contributor to higher costs in 2010, followed by raw materials.
- Overall, the Group's gross profit rose 8.1% y-o-y to RMB23.5 billion, while gross profit margin slipped by 0.96 percentage point (ppt) to 8.61% in FY10 from 9.57% a year earlier.
- EPS for FY10 was RMB0.67 (FY09: RMB0.49). A final dividend of RMB0.16 (FY09: RMB0.116) per share was proposed, representing a full-year payout ratio of 24% (FY09: 24%).
- As of 31st Dec 2010, the Group had total debts of RMB81.3 billion (31st Dec 2009: RMB70.7 billion). With cash on hand of RMB38.8 billion, the Group's net debt-to-shareholders' equity ratio was little changed at 70.7% as at the end of FY10, versus 67.6% a year earlier.

Business highlights

- Breakdown of revenue by business segments:

	FY2010		FY2009		
	RMB million	%	RMB million	%	*Change*
Infrastructure construction	212,962	78.1%	165,563	73.0%	*+28.6%*
Infrastructure design	11,264	4.1%	8,874	3.9%	*+26.9%*
Dredging	28,113	10.3%	24,506	10.8%	*+14.7%*
Heavy machinery manufacturing	17,221	6.3%	27,070	11.9%	*-36.4%*
Other	7,329	2.7%	5,471	2.4%	*+34.0%*
Inter-segment elimination	(4,155)	(1.5%)	(4,564)	(2.0%)	*-9.0%*
Total	**272,734**	**100.0%**	**226,920**	**100.0%**	***+20.2%***

- Breakdown of gross profit by business segments:

	FY2010		FY2009		
	RMB million	%	RMB million	%	*Change*
Infrastructure construction	14,924	63.6%	12,276	56.6%	*+21.6%*
Infrastructure design	3,164	13.5%	2,376	10.9%	*+33.2%*
Dredging	4,219	18.0%	3,650	16.8%	*+15.6%*
Heavy machinery manufacturing	477	2.0%	2,915	13.4%	*-83.6%*
Other	689	2.9%	488	2.2%	*+41.2%*
Total	**23,473**	**100.0%**	**21,705**	**100.0%**	***+8.1%***

- Revenue of CCCC's core **Infrastructure construction** segment grew 28.6% y-o-y to RMB213.0 billion in FY10, accounting for 78.1% (FY09: 73.0%) of the total. Owing to weak profit margin of railway projects, the segment's gross profit margin slipped to 7.0% in FY10 from 7.4% a year earlier. Gross profit of the segment amounted to RMB14.9 billion, up 21.6% y-o-y and accounting for 63.6% (FY09: 56.6%) of the total.

- The **infrastructure design** segment generated revenue of RMB11.3 billion in FY10, up 26.9% y-o-y. The segment's gross profit rose a robust 33.2% y-o-y to RMB3.2 billion, while gross profit margin strengthened to 28.1% in 2010 from 26.8% a year earlier, as the Group took up more high-end design projects.

- The **dredging** segment reported a solid 14.7% growth in revenue to RMB28.1 billion in 2010. Gross profit of the segment totalled RMB4.2 billion, up 15.6% y-o-y, while gross profit margin increased slightly to 15.0% in FY10 from 14.9% a year earlier, as commencement of the Group's new self-owned dredgers helped contain subcontracting costs.

- The **heavy machinery manufacturing** segment (formerly known as port machinery manufacturing), operating via the 46.1%-owned Shanghai Zhenhua Heavy Industry (formerly known as Zhenhua Port Machinery Company Ltd (ZPMC)), was the weakest link in the Group last year, owing to plunging orders for port machinery after the 2008 global financial tsunami. Revenue of the segment tumbled 36.4% y-o-y to RMB17.22 billion in 2010, while its gross profit fell a sharp 83.6% y-o-y to only RMB477 million. It incurred an operating loss of RMB955 million in 2010, compared with a profit of RMB1.44 billion a year earlier – the first ever loss in Zhenhua's 18 years' operating history.

Outlook & Prospects

New contract value *signed in FY2010 &* ***backlog contract value*** *as of 31/12/2010:*

(RMB million)	New contracts	*y-o-y chg*	Backlog contracts	*y-o-y chg*
Infrastructure construction	334,109	*+16.4%*	432,500	*+20.9%*
Infrastructure design	14,830	*+25.0%*	20,833	*+72.5%*
Dredging	34,422	*+16.0%*	28,985	*+21.3%*
Heavy machinery manufacturing	21,653	*-21.1%*	27,366	*-8.8%*
Others	6,724	*+55.1%*	2,419	*+1.3%*
Total	**411,738**	***+14.3%***	**512,103**	***+20.2%***

The Group's business growth was steady in 2010 with new contracts up by 14.3% y-o-y, lifting its total backlog up by a solid 20.2% from a year earlier. The heavy machinery manufacturing segment, operating via Zhenhua, registered a 21.1% y-o-y drop in new contracts in 2010, owing to weak demand for port machinery products following the global financial tsunami. However, management from Zhenhua revealed earlier that orders had picked up steam since Dec 2010 and expected Zhenhua's new contracts would grow by 30% in 2011 from a year earlier. For CCCC, management expects new contracts could reach at least RMB450 billion in 2011, representing a growth of more than 9%.

- ***Zhenhua to be back in profit in 2011*** Zhenhua, the Group's weakest spot in 2010, expects to return profitable in 2011 after its first full-year loss in history, amid solid recovery in orders since late 2010 and effective cost control implemented over the last couple of years. Management also revealed that those high-cost steel inventory procured in 2008 was largely consumed and profit margin is expected to improve this year. Meanwhile, business integration of F&G, a global leading design of offshore drilling rig which Zhenhua acquired in 2010, is running smooth. Management expects the unit would become one of the growth drivers in medium term.
- ***CCCC looks into property expansion in the 12th 5-Year Plan*** CCCC's parent's takeover of China National Real Development Group (CRED), one of the 16 state-owned enterprises entitled to conduct property development business, is largely completed. Management said the parent company would select 'good' property assets to inject into CCCC in the coming years.
- ***2011 net profit guidance set out its A-share issue prospectus*** CCCC announced its A-share issue plan. It would issue 3.5 billion new A shares (~19.1% of the enlarged share capital) and swap some of the shares with shareholders of its Shanghai-listed subsidiary, Road & Bridge International Co. (CRBC), and privatise the unit. The Group is expected to raise about RMB20 billion from the A-share issue, which would be used for purchase of dredgers, engineering ships and mechanical equipment purchase, investment in BOT/BT/BOO projects, and bank loan repayment. Meanwhile, in the prospectus of A-share issue, the Group has set out an earnings forecast for 2011. It expects net profit to grow by 15% y-o-y to RMB11.342 billion in 2011 on a 19% top-line growth.
- ***Solid business recovery ahead*** CCCC is expected to have walked through the trough, as better business momentum is seen in its hard-hit Zhenhua unit. We are also pleased with CCCC's management's change in strategy by focus on bottom line and profit margin enhancement, rather than pursue of pure business scale expansion. Trading at an undemanding 8.4x FY2010E P/E, we maintain a 'BUY' rating on the counter.

Recommendation: BUY

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