

Analyst: Kelvin Li
Main Board H-share Listing – Research

北京城建設計發展集團股份有限公司

Beijing Urban Construction Design & Development Group Co., Limited (01599)

Joint Sponsors	:	UBS	CITIC Securities
Joint Global Coordinators		UBS	CLSA
Joint Bookrunners & Joint Lead Managers	:	UBS	CLSA China Securities (International) Corporate Finance

Sector : Capital goods

Business : Provision of design services and construction contracting in the PRC URT market

Total share offer: 337,337,000 H shares
(27.5% of the enlarged share capital)
(including 306,670,000 new shares and 30,667,000 sale shares;
the sale shares are sold on behalf of the National Council for
Social Security Fund (NSSF))

Public Offer: 33,734,000 H shares (10%)

Placing: 303,603,000 H shares (90%)

Greenshoe: 50,600,000 H shares

Price: HK\$2.75 – HK\$3.30 per H share

Total Market Capitalisation:

HK\$3,373.3 million – HK\$4,048.0 million

Pro-forma fully diluted FY2013 P/E: 11.5x-13.7x

Adjusted NTA per share: HK\$2.21 – HK\$2.34

Staffing: 2,610 (as of 31st December 2013)

HK Public Offer period:

25th June 2014 – 30th June 2014 noon

Receiving bank:

Bank of China (Hong Kong)

Share registrar:

Computershare Hong Kong Investor Services

Listing date: 8th July 2014

Business of Beijing Urban Construction Design & Development ('The Group')

The Group is a design, survey and consultancy company in the PRC urban rail transit (URT) industry. As at the end of 2013, the Group was the top provider of urban rail transit lines general design services in China in terms of the total length in operation. It also ranked the first in terms of new contract value in the design, survey and consultancy sector in the PRC urban rail transit industry for 2013. In addition, the Group is also engaged in construction contracting business to provide comprehensive business solutions covering all major stages in the value chain of urban rail transit engineering.

The Group primarily provides design and consultancy services through five professional design departments, namely, the rail transit department, the industrial and civil construction department, the municipal engineering department, the urban design department and the overseas department. For construction contracting business, the Group mainly focused on construction projects in the urban rail transit industry. As of 31st Dec 2013, the Group had participated in the construction contracting projects for 29 urban rail transit lines in China, which included 61 stations and 69 tunnels.

**Shareholders after Listing (assuming the Over-allotment Option is not exercised)**

• Beijing Urban Construction Group Co., Ltd. (BUCG) – wholly owned by Beijing Municipal Government	46.84%
• Strategic investors* (pre-IPO investors)	25.66%
• Public H shareholders	27.50%
	<u>100.00%</u>

Remark: (*) All pre-IPO investors are independent third parties, which included Beijing Infrastructure Investment Co., Ltd. (BII) (7.21%) (state-owned), Beijing Jingguofa Equity Investment Fund (3.75%) (state-owned), Rail Transit Company (3.60%) (state-owned), Gonglian Company (3.60%) (state-owned), Tianjin Jun Rui Qi Equity Investment Partnership (3.75%) (hedge fund), Zhongtai Investment (1.89%) (investments holding company), and Beijing You Neng Shang Zhuo Venture Capital Fund (1.86%) (hedge fund). These pre-IPO investors would be subject to lock-up restriction of one year upon Listing.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$849.86 million (based on an offer price of HK\$3.03).

	HK\$ million
To supplement the Group's capital needs for design, survey and consultancy projects and construction contracting projects	424.93
To enhance, through self-development, cooperation or acquisition, the Group's design and technology research capabilities	212.47
To improve the Group's construction capabilities	84.99
To build the Group's information systems	42.49
For general working capital	84.99

Financial Highlights

	Year ended 31 st Dec		
	2011	2012	2013
	RMB million	RMB million	RMB million
Turnover	3,409.7	2,693.5	2,923.5
Gross profit	446.2	477.8	586.7
Operating profit	204.3	234.3	310.5
Net Profit	157.6	194.4	235.6
Gross profit margin	13.1%	17.7%	20.1%
Operating profit margin	6.0%	8.7%	10.6%
Net profit margin	4.6%	7.2%	8.1%
Net debt to shareholders' equity ratio			
	31/12/2011	31/12/2012	31/12/2013
	Net cash	Net cash	Net cash

Breakdown of revenue in terms of business segment

(RMB million)	FY2011		FY2012		FY2013	
Design, survey & consultancy	1,164.9	34%	1,269.9	47%	1,526.2	52%
Construction contracting	2,255.3	66%	1,435.3	53%	1,401.4	48%
		100%		100%		100%
Inter-segment elimination	(10.6)		(11.6)		(4.1)	
Total	3,409.7		2,693.5		2,923.5	

Breakdown of gross profit in terms of business segment

(RMB million)	FY2011		FY2012		FY2013	
Design, survey & consultancy	373.4	84%	408.9	86%	505.4	86%
Construction contracting	72.9	16%	69.1	14%	82.7	14%
		100%		100%		100%
Inter-segment elimination	(0.1)		(0.2)		(1.4)	
Total	446.2		477.8		586.7	


Breakdown of new contracts in terms of business segment

(RMB million)	FY2011		FY2012		FY2013	
Design, survey & consultancy	1,318.1	75%	1,756.6	60%	2,311.5	55%
- Urban Rail Transit	1,026.2	58%	963.9	33%	1,797.4	42%
- Industrial & civil construction and municipal engineering	291.9	17%	792.7	27%	514.1	12%
Construction contracting	444.3	25%	1,181.1	40%	1,926.5	45%
Total	1,762.4	100%	2,937.6	100%	4,237.9	100%

Breakdown of backlog contracts in terms of business segment

(RMB million)	31 st Dec 2011		31 st Dec 2012		31 st Dec 2013	
Design, survey & consultancy	4,315.4	62%	4,537.9	65%	5,314.6	65%
- Urban Rail Transit	3,607.5	51%	3,485.3	50%	4,133.0	50%
- Industrial & civil construction and municipal engineering	707.9	10%	1,052.6	15%	1,181.6	14%
Construction contracting	2,690.8	38%	2,403.6	35%	2,904.4	35%
Total	7,006.2	100%	6,941.5	100%	8,219.1	100%

Peer valuation comparison

	Beijing Urban Construction Design & Development (01599)		China Railway Construction (01186)		China Railway Group (00390)	
	FY2013	FY2014E	FY2013	FY2014E	FY2013	FY2014E
Gross profit margin	20.1%	N/A	10.1%	8.9%	7.5%	8.3%
P/E ratio	11.5x-13.7x	N/A	6.6x	6.0x	6.8x	6.3x
Market capitalisation	HK\$3,373-4,048 million		HK\$14,264 million (H share only)		HK\$15,651 million (H share only)	

Sources: Reuters

Strengths/Opportunities

- ✓ The Group is a leading design, survey and consultancy company in the PRC URT industry. It first commenced operations in 1958 and was found specifically for the design and survey of the country's first subway line – Beijing Subway Line 1. Since then, the Group had provided design and/or survey services for URT lines in 29 Mainland cities, out of the total of 36 PRC cities which had URT lines in operation or under construction.
- ✓ Investment in the PRC URT is expected to grow at a strong CAGR of 13.0% during 2014-2018, which would boost the demand for the Group's design services.
- ✓ The Group reported strong contract growth in 2013, which was mainly driven by solid growth of URT projects on the Mainland. In addition, it was also boosted by rising construction contracting projects, as the Group continued to expand the business segment.

Strengths/Opportunities (Continued)

- ✓ The Group has entered into cornerstone placement agreement with five investors. The cornerstone investors are subject to a six-month lockup period. The cornerstone subscription would represent 4.18% of the enlarged share capital (assuming the over-allotment option is not exercised and an issue price of HK\$3.03). Details are as follows:-

Cornerstone investor	Subscription (US\$ million)	% of Global Offering**	% of total enlarged share capital upon completion of Global Offering**
CSR (Hong Kong) – wholly owned by CSR Corp (01766)	20	15.19%	4.18%
Capital Queen – wholly owned by Beijing Capital Land (02868)	20	15.19%	4.18%
Beijing Capital (Hong Kong) – wholly owned by Beijing Capital (SSE: 600008)	10	7.60%	2.09%
China Construction Investment – wholly owned by the state-owned China Architecture Design & Research Group	10	7.60%	2.09%
Beijing Enterprise Group (state-owned)	10	7.60%	2.09%
Total	70	53.17%	14.62%

Remark: (**) Assuming the IPO price is set at HK\$3.03.

Weaknesses/Threats

- × The railway and URT construction market in the PRC has been dominated by China Railway Group (00390) and China Railway Construction (01186). For instance, in terms of new URT contracts in Beijing in 2013, the two big rivals shared a combined market share of about 35%, overwhelming the Group's share of only 5.8%. Nationwide, the Group had a tepid market share of 1.3% of new contracts in the PRC URT market in 2013.
- × The Group's design and construction contracting businesses mainly focused on the PRC URT market. There is no guarantee that the Chinese government would maintain high investment in the PRC URT industry in the long run, and any slowdown in the PRC URT construction would hit the Group's operations and financial results.
- × Subcontracting and labour costs accounted for a combined of about 70% of the Group's cost of sales during the Track Record Period. Keen competition in the PRC URT industry would push up these costs and depress the Group's profit margins.

Recommendation: Subscribe

Important Disclosure / Analyst Certification / Disclaimer

This report is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited ("BEA").

Each research analyst primarily responsible for the content of this report (whether in part or in whole) certifies that (i) the views on the companies and securities mentioned in this report accurately reflect his/her personal views; and (ii) no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. This report is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. The analysis or opinions expressed in this report only reflect the views of the relevant analyst as at the date of the release of this report which are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific recipient. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Investments involve risks and investors should exercise prudence in making their investment decisions and obtain separate legal or financial advice, if necessary. East Asia Securities Company Limited and / or The Bank of East Asia Group accepts no liability whatsoever for any direct or consequential loss arising from any use of or reliance on this report or further communication given in relation to this report.

At the time of preparing this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while BEA along with its affiliates/associates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its affiliates/associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates/associates may beneficially own a total of 1% or more of any class of common equity securities of the company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the company or companies mentioned in the report.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.