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Main Board Listing – Research

華潤水泥控股有限公司

China Resources Cement Holdings Limited [Stock Code: 01313]
Joint Global Coordinators, Joint Bookrunners, : Credit Suisse (Hong Kong) Limited
Joint Sponsors and Joint Lead Manager : Morgan Stanley Asia Limited

Sector : Materials

Business : Manufacturing & sales of cement products

Total share offer: *1,638,000,000 shares (25.54% of the enlarged share capital) Public Offer: 163,800,000 shares (10%) Placing: 1,474,200,000 shares (90%) Greenshoe: 245,700,000 shares <i>*All 1,638,000,000 shares are New Shares</i>	<u>Business of China Resources Cement (CR Cement)</u> CR Cement is the largest cement and clinker producer in terms of New Suspension Preheating (NSP) technology capacity in Southern China and is the second largest concrete producer by sales volume in the country. The company's principal products are cement, clinker and concrete, which are primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports and roads. CR Cement's production lines are located in Guangdong, Guangxi and Fujian, with an annual production capacity of 15.7m tons of clinker, 22.5m tons of cement and 12.3m m ³ of concrete. CR Cement is also one of the 60 cement companies supported by the Chinese government, which can enjoys favourable government policies with regards to project approval, land use rights and bank financing.
Price: HK\$3.2– HK\$3.9 per share Market Cap: HK\$20,543 million – HK\$25,037 million Pro forma fully diluted FY09E PER: 20.5x – 25.0x Adjusted NTA per share: HK\$1.497 – HK\$1.670 Staffing: 8,928 (as of 30 th June 2009)	
HK Public Offer period: 21 st September 2009 – 24 th September 2009 Receiving bank: Bank of China (Hong Kong) Limited Bank of Communications Co., Ltd. Share registrar: Tricor Investor Services Limited Listing date: 6 th October 2009	

Shareholding Structure after Listing

Smooth Concept (BVI) – 99.99% owned by China Resources Holdings (HK)	74.49%
Public Investors	25.54%
	100.0%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$5,577.1million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.55 each, being the midpoint of the indicative price range).

	HK\$ million
For the construction of the production lines in Fengkai in 2009 and 2010	2,374.0
For the construction of the production lines in Fuchuan in 2009 and 2010	344.8
For the construction of the production lines in Shangsi in 2009 and 2010	251.3
For the construction of the production lines in Tianyang in 2009 and 2010	700.5
For the construction of the production lines in Wuxuan in 2009 and 2010	692.9
For the construction of the production lines in Shantou in 2009 and 2010	43.6
For the repayment on bank loans in 2010	617.8
For funding the working capital and other corporate usage	552.2

Financial Highlights

	Year ended 31 st December			Six months ended 30 th June	
(RMB million)	2006	2007	2008	2008	2009
Revenue	2,112	3,743	5,781	2,604	2,739
Gross profit	487	1,081	1,319	714	734
Attributable profit	83	359	784	537	370
Gross margin	23.1%	28.9%	22.8%	27.4%	26.8%
Net margin	3.9%	9.6%	13.6%	20.6%	13.5%

Revenue Breakdown by geographical location (% of Total Revenues)

	Year ended 31 st December						Six months ended 30 th June	
(RMB million)	2006	%	2007	%	2008	%	2009	%
Guangdong	1,238	58.6%	2,204	58.9%	3,148	54.5%	1,267	46.3%
Guangxi	608	28.8%	1,172	31.3%	2,191	37.9%	1,221	44.6%
Hong Kong & Fujian	265	12.6%	367	9.8%	443	7.7%	251	9.2%
Total	2,112	100.0%	3,743	100.0%	5,781	100.0%	2,739	100.0%

Peer valuation comparison

	CR Cement* (01313)		Anhui Conch (00914)		Shanshui Cement (00691)		Asia Cement (00743)		CNBM (03323)	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
P/E ratio	25.0	N/A	24.9	19.0	13.9	10.7	9.76	9.12	19.0	14.4

Remark: (*) at top of the indicative price range; Sources: Reuters

Strengths/Opportunities

- ✓ **Guangxi – a big bright spot** CR Cement was the largest NSP producer in Guangxi in terms of capacity (around 37% of the provincial total). Given that Guangxi province is still at its early stage of economic development, with GDP per capita of only US\$2,154 and urbanization rate of just 38% in 2008, the rapid revenue growth in Guangxi can be maintained at least for some years. This is evident by the spectacular FAI and GDP growth in 1H09, which amounted to 57.7% and 13.0% respectively, well above the figures for overall China (33.5% and 7.1% respectively).



- ✓ **Hainan – a small market with great potential** CR Cement acquired about 29% equity interest of SDIC Hainan Cement from China Construction Bank in Dec 2008 and is waiting for the approval of the transfer another 34% from SDIC Assets Management (國投資產管理有限公司). Again, there should be strong potential in demand growth in Hainan Province given its low urbanization rate (48%) and booming tourism development. In 1H09, Hainan maintained its FAI growth at 40% y-o-y, above national growth rate of 33.5%.
- ✓ **Stable raw material supply** Limestone is a primary raw material in clinker production. CR Cement has 4 limestone quarries in Guangxi province with a total reserve of 390 million tons, which allows the Company to source most of its limestone from its own quarries. Such competitive advantage benefits CR Cement from convenient access to limestone quarries, reliable supply as well as stable cost of raw materials.
- ✓ **Parental support** CR Cement's parent, China Resources Holdings, is a Chinese conglomerate with affiliates operating in properties, logistics, power generation, etc. We believe CR Cement can benefit from the diversified business operations of China Resources Holdings, especially in form of business referrals.

Weaknesses/Threats

- × **Rich valuation** Based on the high-end offering price of HK\$3.9, the FY09E PE ratio of CR Cement is 25.0x. The valuation is quite demanding, compared with other HK-listed cement companies, such as Shanshui Cement (FY09E PE 13.9), Asia Cement (9.76x) and CNBM (19.0x). CR Cement's valuation can only be justified if we benchmark it against the market leader Anhui Conch (24.9x), whose premium valuation was built on its pricing power given its large scale, as well as the cost advantages, reflected by the highest gross margin and net margin among peers as a result of the economies of scale. Nevertheless, CR Cement does not have similar advantages in those aspects.

Recommendation: Trading buy



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