

Analyst: Kelvin Li

Main Board H-share Listing – Research

中國鐵建股份有限公司

China Railway Construction Corporation Limited [Stock Code: 1186]

Joint Global Coordinators, Joint Bookrunners, : Citigroup CITIC Securities Macquarie
Joint Lead Managers and Joint Sponsors International Capital

Sector : Capital goods

Business : Infrastructure construction and related services, manufacture of large railway track maintenance machinery, property development and logistics services

Total share offer: 1,706,000,000 H shares
(14.0% of the enlarged share capital)

Remark: 170.6 million non-tradable Domestic Shares will be converted into H shares and held by National Council for Social Security Fund (NSSF) of the PRC. As a result, the total issued and converted H shares will account for 15.4% of the enlarged share capital upon completion of the Global Offering, assuming the Over-allotment Option was not exercised.

Public Offer: 170,600,000 H shares (10%)

Placing: 1,535,400,000 H shares (90%)

Greenshoe: 255,900,000 H shares

Price: HK\$9.93 – HK\$10.70 per H share

H-share Market Cap: HK\$120.7bln-HK\$130.1bln

Pro forma fully diluted FY07E EPS: RMB0.186
(based on an estimated profit attributable to equity-holders of RMB2.262 billion in 2007 and assuming the A-share offering is completed and 2.450 billion A shares are newly issued)

Pro forma fully diluted FY07E PER: 48.9x –52.7x

Adjusted NTA per H share: RMB3.11-RMB3.41
(assuming the A-share offering is completed and 2.450 billion A shares are newly issued at RMB8.00-RMB9.08)

Staffing: 180,986 (as of 30th November 2007)

HK Public Offer period:

29th February 2008 - 5th March 2008 noon

Receiving bank: Bank of China (Hong Kong)
ICBC (Asia)
Standard Chartered Bank
HSBC

Share registrar: Computershare Hong Kong
Investor Services Limited

Listing date: 13th March 2008

Business of China Railway Construction

China Railway Construction ("CRCC"), ranked 384th in terms of total revenue amongst the *Fortune Global 500* companies, is one of the largest integrated construction groups in the world.

Business of CRCC can be categorized into 4 major segments, including (1) construction operations, (2) survey, design & consultancy operations, (3) manufacturing operations and (4) other businesses. CRCC focuses on infrastructure projects, covering nearly all types of construction work like railway, highway, hydropower facility, airport, port, industrial and civil construction, and municipal projects. It also provides construction-related survey, design and consulting services to its clients. Besides, CRCC is the world's 2nd largest manufacturer of large track maintenance machinery in terms of output volume. It is also the top large track maintenance machinery producer in China with more than 80% market share. For other businesses, CRCC is engages in real estate, logistics and capital investment (BT, BOT & BOO projects), but the segments only currently accounted for an insignificant contribution to the Group.

CRCC has participated in notable construction projects in the Mainland. It undertook all survey and design work for Phase I and II of the Qinghai-Tibet Railway Line (青藏鐵路) and was responsible for more than 70% of the construction work. The Group has also taken part in various high-speed railway projects, including the Shanghai Maglev Demonstration Line (上海浮磁列車示範線) and Qinhuangdao-Shenyang Passenger Railway Line (秦瀋鐵路).

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Shareholders after Listing (Assuming the over-allotment option is not exercised)

China Railway Construction Corporation ("CRCCG"), a state-owned enterprise controlled by the State-Owned Assets Supervision and Administration Commission (SASAC)	64.4%
A share public investors	20.2%
H share public investors*	14.0%
H shares held by NSSF	1.4%
	100.0%

Remark: (*) A group of 9 corporate investors has agreed to subscribe for an aggregate US\$450 million or about 19.9% of the H-share offering. Subscriptions of the corporate investors include US\$50 million each for:-

1. Bank of China Group Investment Limited (through Fulland Enterprises Corp.)
2. China Life Insurance
3. Cheung Kong Holdings (through Karasell International Limited)
4. CITIC Pacific Limited (through Silver Crescent Investment Holdings Ltd.)
5. Dr. the Hon. Lee Shau Kee (through Shau Kee Financial Enterprises)
6. Dato' Dr. Cheng Yu-Tung (through Chow Tai Fook Nominee Limited)
7. Temasek Holdings (through Baytree Investments (Mauritius) Pte Ltd)
8. The Government of Singapore Investment Corporation Pte Ltd.
9. Yale University (through Gaoling Yali Feeder Ltd.)

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$16.855 billion (assuming an offer price of HK\$10.32, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ billion
For purchase of equipment	13.48 (80%)
For the construction of a cement plant in Nigeria	1.69 (10%)
For working capital	1.69 (10%)

Remark: CRCC also launched a Shanghai A-share IPO, raising as much as RMB22.2 billion. The proceeds raised from the A-share issue would be used for equipment purchase, expansion of manufacturing plants, real estate development, the Shijiazhuang-Wuhan Passenger Railway Line (石家莊 - 武漢鐵路客運專線項目) and working capital.

Financial Highlights

	Year ended 31 st Dec			11 months ended	
	2004	2005	2006	30 th Nov 2006	30 th Nov 2007
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	86,187	110,795	153,609	138,284	146,667
Gross profit	6,385	7,925	9,596	8,602	9,732
Operating profit	457	1,275	2,438	2,044	3,942
Profit attributable to shareholders	103	349	1,213	1,008	2,009
Gross profit margin	7.41%	7.15%	6.25%	6.22%	6.64%
Operating profit margin	0.53%	1.15%	1.59%	1.48%	2.69%
Net profit margin	0.12%	0.32%	0.79%	0.73%	1.37%
	31/12/2004	31/12/2005	31/12/2006	30/11/2006	30/11/2007
Net debt/(cash) to Equity	(309.08%)	(242.07%)	(171.71%)	N/A	(20.01%)

Revenue breakdown in terms of business segments

(RMB billion)	2004	%	2005	%	2006	%	11M06	%	11M07	%
Construction	80.6	93%	104.1	94%	146.4	95%	131.7	95%	139.2	95%
Survey, design & consultancy	2.3	3%	2.9	3%	3.3	2%	3.0	2%	2.7	2%
Manufacturing	1.4	2%	1.4	1%	1.4	1%	1.2	1%	1.6	1%
Other businesses	2.2	3%	2.9	3%	3.6	2%	3.2	2%	4.6	3%
Inter-segment eliminations	(0.3)	0%	(0.5)	0%	(1.0)	(1%)	(0.8)	(1%)	(1.5)	(1%)
Total	86.2	100%	110.8	100%	153.6	100%	138.3	100%	146.7	100%

Operating profit breakdown in terms of business segments

(RMB million)	2004	%	2005	%	2006	%	11M06	%	11M07	%
Construction	2	0%	823	65%	2,093	86%	1,732	85%	3,421	87%
Survey, design & consultancy	103	22%	93	7%	81	3%	73	4%	195	5%
Manufacturing	76	17%	146	11%	17	1%	13	1%	82	2%
Other businesses	278	61%	212	17%	248	10%	226	11%	243	6%
Total	458	100%	1,275	100%	2,438	100%	2,044	100%	3,942	100%

Profit margins in terms of business segments

	Gross profit margin					Operating profit margin				
	2004	2005	2006	11M06	11M07	2004	2005	2006	11M06	11M07
Construction	6.4%	6.2%	5.6%	5.6%	6.0%	0.0%	0.8%	1.4%	1.3%	2.5%
Survey, design & consultancy	28.3%	26.2%	19.0%	19.1%	23.7%	4.3%	3.2%	2.4%	2.4%	7.1%
Manufacturing	17.3%	19.8%	16.6%	16.7%	15.4%	5.6%	10.5%	1.2%	1.0%	5.0%
Other businesses	13.5%	15.1%	14.7%	14.9%	11.7%	12.5%	7.4%	7.0%	7.2%	5.3%
Total	7.4%	7.2%	6.2%	6.2%	6.6%	0.5%	1.2%	1.6%	1.5%	2.7%

Strengths/Opportunities

- ✓ CRCC is one of the largest construction and building contractors in the Mainland. Therefore, it is considered as a close proxy to the booming infrastructure investments in China.
- ✓ The Chinese government has called for, in its 11th Five-Year Plan, a total investment of about RMB1.25 trillion to develop railway network in 2006-2010, up nearly 3 times from the corresponding amount in the 10th Five-Year Plan (2001-2005). The substantially higher budget in railway network construction spending should provide the Group with enormous business opportunities ahead.
- ✓ The Chinese government is planning to upgrade the country's railway network by building more high-speed railway systems. In January, Beijing awarded construction contracts of the 6 sections of the Beijing-Shanghai high-speed railway to 4 Chinese building companies. CRCC has won the two largest contracts with value of RMB33.7 billion, or about 40% of the total, overwhelming its major rival China Railway (HKEx: 0390), which has only won contracts worth a total of RMB22 billion. Leveraging on its strong expertise and track record of participation in various complicated and sophisticated railway projects in the Mainland, CRCC is well positioned to win more new high-speed railway contracts in the future.
- ✓ To enhance the Mainland's road network, especially expressways, the State Council announced the "7-9-18 Expressway Network Plan" in 2004 and has estimated a budget of RMB2.0 trillion through 2020, with about RMB140 billion to be spent per year until 2010 and RMB100 billion a year thereafter.
- ✓ The Group's overseas segment grew strongly over the last couple of years. For the first 11 months of 2007, new construction contract value from the overseas market amounted to RMB89.1 billion, more than doubled the total new construction contract value of RMB43.6 billion in the full year of 2006.
- ✓ Management of CRCC targets a dividend payout of no less than 25% in FY08 and FY09, while its rival China Railway (HKEx: 0390) also aims at a 25% payout in the next couple of years.
- ✓ Given the mega size and dual-listing status, CRCC is expected to join major stock indexes soon after its listing.

Weaknesses/Threats

- × Competition may rise in the Mainland railway construction industry, as other infrastructure groups are planning to take a footstep in the fast-growing sector.
- × Rising cost of sales like raw material, salary, and sub-contract costs, delays or defaults in accounts receivable, mis-pricing in bids leading to thinner profit margins, etc., were among the major operating risks that CRCC may encounter.

Recommendation: Subscribe

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