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HONG KONG RESEARCH
1st December 2006

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Main Board H-share Listing – Research

China Communications Construction Company Ltd. [Stock Code: 1800] 中國交通建設股份有限公司

Joint global coordinators, joint bookrunners, joint sponsors and joint lead managers : BOC International
Merrill Lynch
UBS

Sector : Transportation
Business : Infrastructure construction, infrastructure design, dredging and port machinery manufacturing

Total share offer: 3,500,000,000 H shares
(24.5% of the enlarged share capital)

Public Offer: *175,000,000* H shares (5%)

Placing: *3,325,000,000* H shares (95%)

Greenshoe: *525,000,000 H shares*

Price: HK$3.40 – HK$4.60 per H share

Market Cap: HK$48.62 – HK$65.78 billion

Pro-forma FY06 PER: 17.5X – 23.7X

Adjusted NTA per share: HK$1.44 – HK$1.72

Staffing: 67,000

HK Public Offer period:
1st December 06 – 6th December 06 noon

Receiving bank: Bank of China (HK)
Bank of Communications
The Bank of East Asia
Hang Seng Bank
ICBC (Asia)
Standard Chartered Bank (HK)

Share registrar: Computershare Hong Kong Investor Services Limited

Listing date: 15th December 2006

Business of China Communications Construction Company (CCCC)

CCCC is a transportation conglomerate in China that is principally engaged in infrastructure construction, infrastructure design, dredging and port machinery manufacturing. CCCC was formed after a series of re-organization involving two SOEs: China Harbour Engineering Company Group (CHEC) and China Road and Bridge Corporation Group (CRBC). The two companies were the leading transportation-related infrastructure design and construction groups in China with more than 50 years of history. CHEC Group was primarily engaged in port design, construction, dredging and port machinery manufacturing. CRBC Group was primarily engaged in road and bridge design and construction.

CCCC operates its infrastructure construction business through 16 directly-owned subsidiaries. It is the largest port builder in China. Its construction projects include roads, bridges, tunnels and railways. CCCC also provides a wide range of design services for port, road and bridge projects, and dredging and reclamation-related services. Through its two subsidiaries, Shanghai Zhenhua Port Machinery (ZPMC) and Shanghai Port Machinery Plant (SPMP), CCCC manufactures container cranes, bulk material handling machinery, heavy marine crane machinery and large steel structures.

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

China Communications Construction Group (Limited) – a state-owned company	73.1%

Use of Proceeds

Net proceeds from the offer are estimated to be HK$13,260 million. *(Being the mid-point of the offer price range [HK$4.00 per H share] and assuming the over-allotment option is not exercised)*

	HK$ million
For the purchase and upgrade of equipment and vessels for dredging business	4,376
For the purchase and upgrade of equipment and vessels for infrastructure construction business	2,652
For investment in BOT projects including a BOT project relating to a section of Guangming Expressway in Guangdong	1,458
For the construction of production bases in Shanghai for port machinery manufacturing business	2,652
For repayment of short-term banks loans that were used for working capital purposes	1,061
For additional working capital and other general corporate purposes	1,061

Financial Highlights

	Year ended 31st December			Six months ended 30th June
	2003	2004	2005	2006
	RMB million	RMB million	RMB million	RMB million
Turnover	48,482	65,912	83,265	47,187
Gross profit	4,865	6,334	8,155	5,114
Operating profit	1,745	2,581	3,809	2,517
Net profit	**627**	**1,397**	**2,971**	**1,460**
Gross margin	10.0%	9.6%	9.8%	10.8%
Operating margin	3.6%	3.9%	4.6%	5.3%
Net margin	1.3%	2.1%	3.6%	3.1%

Revenue Breakdown (% of Total Revenues)

	Year ended 31st December			Six months ended 30th June
	2003	2004	2005	2006
Infrastructure construction business	67.6%	67.5%	64.9%	60.4%
Infrastructure design business	4.4%	5.1%	5.3%	4.9%
Dredging business	8.4%	7.6%	8.1%	10.5%
Port machinery manufacturing business	12.2%	13.2%	16.5%	19.0%
Other businesses	7.4%	6.6%	5.2%	5.2%
Total	100.0%	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Recognized leadership in core business areas** Chinese contractors must have relevant licenses and qualifications before they can bid for transportation infrastructure projects. As the largest port construction and design company in China, CCCC possesses adequate licenses and qualifications to participate as the main contractor. New entrants have to demonstrate adequate technical know-how, equipment and financial strengths before licenses will be granted. This should help CCCC to lessen competition and better maintain its leadership in the sector.
- ✓ **Strong competitive foothold in railroad construction** Riding on the opportunities from the government's 11th Five-Year Plan to spend RMB 1.25 trillion on 19,800km new railway, CCCC could be a sound contender with its extensive experience in road and bridge construction. CCCC has secured a contract of RMB5.7 billion for constructing a 166-km railway between Taiyuan and Zhongwei.
- ✓ **Market leadership in port machinery** CCCC's subsidiary, ZPMC is the largest global crane manufacturer and has the world's largest manufacturing base. According to industry statistics in June 2006, ZPMC's order book accounted for about 74% of the global quayside container crane manufacturing market.

Weaknesses/Threats

× As construction business is a low-margin business, CCCC is less defensive to any shocks that could eat into its already thin margin. If CCCC is unable to meet the completion schedule of its projects, it is subject to penalty of delayed contracts for as much as 10% of the contract value. Moreover, as contracts are often written in fixed-price basis, not all fluctuations in raw materials can effectively be passed to customers. Some contracts contain escalation formula to accommodate unexpected movements in materials costs.

× The IPO price range indicates a FY06E PER range of 17.5X – 23.7X is a bit stretched. Close peers engaged in global heavy machinery, such as Hyundai Heavy Industries (009540.KS), Samsung Heavy Industries (010140.KS), Doosan Heavy Industries (034020.KS), Sumitomo Heavy Industries (6302.JP) and Shanghai Zhenhua Port Machinery (600320.CH), are currently trading at a FY06E PER range of 16X-22X. In a bigger universe of companies engaged in heavy machinery and construction in North America, Europe and Asia Pacific, the average FY06E PER is in the range of 17X – 25X.

Recommendation: Trading Buy

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