

China State Construction International (3311 HK)

 Target price: **HKD15.00** (from HKD15.00)

 Share price (20 Jun): **HKD9.93** | Up/downside: **+51.0%**

 5 4 3 2 **1**
Buy
 (unchanged)

Worth a revisit

- New-contract growth on track; revision of target likely
- Improvement in cash flow and asset injection could serve as catalysts
- Reiterating our Buy (1) rating and TP of HKD15

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What's new: China State Construction International (CSCI) attended our Auto and Industrial Leader Conference today (20 June). Overall we remain confident on CSCI's long-term business growth prospects and see its current valuation as undemanding. We expect more good news.

What's the impact: New-contract growth remains strong – According to management, CSCI was awarded new contracts worth HKD37bn in 5M16, 47% of management's 2016 full-year guidance. Like previous years, management sees a target revision as a possibility during its interim results announcement in August. Overall, CSCI expects its PRC segment to continue to lead its new-contract growth, while management sees upside for the margins of its HK construction segment, which was dragged down by the provision made for the lead water incident in 2015.

Gearing concerns should be relieved – CSCI's end-2015 net gearing ratio rose to 46%, slightly above the 40% management target, due mainly to CNY depreciation. After the injection of China Overseas Building (COB) from its parent company in mid-May and strong cash collection, CSCI's net gearing has fallen back to about 30%. Management is confident in maintaining the ratio below 40% for the next three years.

Next M&A target will likely be overseas assets – Though no concrete timetable was given, management said the next asset injection target would likely be an overseas construction subsidiary from its parent in the mature Asian market. We expect share issuance on the asset acquisition, but believe sentiment would be better if it were acquired at the current low valuation of the stock.

We cut our 2016-18E EPS by 6-11% to incorporate the share-dilution effect resulting from the recent asset injection as well as the share placement. However, our 12-month target price remains unchanged at HKD15 as we roll over our valuation base to the average of our 2016-17E EPS (previously 2016E). Our target PER remains unchanged at 12x.

What we recommend: We reiterate our Buy (1) rating. We think the market has overreacted on the purchase of COB and expect the stock to recover on a new-contract revision, strong net-profit growth and asset injection. The stock is trading close to its railway construction peers, which we see as undemanding due to its strong earnings track record. The key risk to our call would be lower-than-expected new-contract growth.

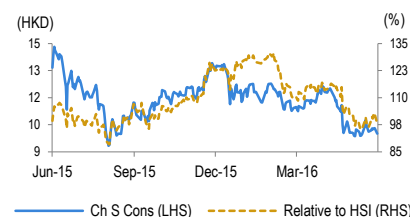
How we differ: Our 2016-18E EPS are 4-9% below the consensus as we have factored in the dilution effect of the recent share placement.

Forecast revisions (%)

| Year to 31 Dec | 16E | 17E | 18E |
|----------------------|-------|--------|--------|
| Revenue change | 0.2 | 0.2 | 0.2 |
| Net profit change | (0.9) | (1.5) | (1.2) |
| Core EPS (FD) change | (5.8) | (10.8) | (10.6) |

Source: Daiwa forecasts

Share price performance



| | |
|------------------------------|---------------------------------|
| 12-month range | 9.31-14.34 |
| Market cap (USDbn) | 5.74 |
| 3m avg daily turnover (USDm) | 12.44 |
| Shares outstanding (m) | 4,488 |
| Major shareholder | China Overseas Holdings (58.3%) |

Financial summary (HKD)

| Year to 31 Dec | 16E | 17E | 18E |
|--------------------------|--------|--------|--------|
| Revenue (m) | 42,939 | 47,913 | 54,105 |
| Operating profit (m) | 5,767 | 6,690 | 7,765 |
| Net profit (m) | 5,033 | 6,020 | 7,320 |
| Core EPS (fully-diluted) | 1.178 | 1.341 | 1.631 |
| EPS change (%) | 15.2 | 13.9 | 21.6 |
| Daiwa vs Cons. EPS (%) | (5.1) | (9.1) | (3.8) |
| PER (x) | 8.4 | 7.4 | 6.1 |
| Dividend yield (%) | 3.4 | 4.1 | 5.0 |
| DPS | 0.340 | 0.409 | 0.497 |
| PBR (x) | 1.4 | 1.3 | 1.1 |
| EV/EBITDA (x) | 8.0 | 7.1 | 6.4 |
| ROE (%) | 19.3 | 18.1 | 19.0 |

Source: FactSet, Daiwa forecasts

Global construction peers: valuation comparison

| Name | Bloomberg Code | Trading Currency | Share price 20-Jun-16 | Rating | PER (x) | | PBR (x) | | EV/EBITDA(x) | | Div yield (%) | | ROE (%) | | |
|--|----------------|------------------|--------------------------|----------|--------------|-------|---------|-------|--------------|-------|---------------|-------|---------|-------|------|
| | | | | | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E | |
| China Construction companies - H Shares | | | | | | | | | | | | | | | |
| CSCI | * | 3311 HK | HKD | 9.93 | Buy | 8.4 | 7.4 | 1.4 | 1.3 | 8.0 | 7.1 | 3.4 | 4.1 | 19.3 | 18.1 |
| BUCD | * | 1599 HK | HKD | 4.03 | Buy | 10.0 | 8.8 | 1.3 | 1.2 | n.a. | n.a. | 2.7 | 3.0 | 14.1 | 14.4 |
| CRG | * | 390 HK | HKD | 5.75 | Buy | 8.4 | 7.5 | 0.8 | 0.7 | 7.8 | 6.8 | 1.9 | 2.1 | 9.7 | 10.0 |
| CRCC | * | 1186 HK | HKD | 9.44 | Buy | 7.9 | 7.2 | 0.9 | 0.8 | 6.2 | 5.9 | 2.0 | 2.2 | 11.8 | 11.6 |
| CCC | * | 1800 HK | HKD | 8.52 | Hold | 7.2 | 6.5 | 0.7 | 0.7 | 9.3 | 9.3 | 2.7 | 3.0 | 10.6 | 10.7 |
| MCC | | 1618 HK | HKD | 2.11 | NR | 6.2 | 5.5 | 0.6 | 0.5 | 10.5 | 9.6 | 3.4 | 3.6 | 9.3 | 9.8 |
| Sinopec Engineering | | 2386 HK | HKD | 6.99 | NR | 8.6 | 8.3 | 1.0 | 0.9 | 3.2 | 3.1 | 4.7 | 4.8 | 12.1 | 11.7 |
| CMEC | | 1829 HK | HKD | 4.68 | NR | 7.5 | 6.8 | 1.0 | 0.9 | n.a. | n.a. | 5.1 | 5.6 | 14.9 | 15.0 |
| China Construction companies - A Shares | | | | | | | | | | | | | | | |
| CRG | | 601390 CH | CNY | 6.74 | NR | 11.6 | 10.7 | 1.1 | 1.0 | 8.5 | 7.9 | 1.4 | 1.5 | 10.2 | 10.1 |
| CRCC | | 601186 CH | CNY | 9.48 | NR | 9.1 | 8.3 | 1.0 | 0.9 | 6.6 | 6.1 | 1.8 | 2.0 | 12.0 | 12.0 |
| CCC | | 601800 CH | CNY | 10.54 | NR | 9.7 | 8.6 | 1.1 | 1.0 | 9.4 | 8.4 | 2.1 | 2.3 | 12.2 | 12.3 |
| MCC | | 601618 CH | CNY | 7.79 | NR | 27.6 | 24.3 | 2.5 | 2.3 | 10.5 | 9.7 | 0.8 | 0.8 | 9.4 | 9.6 |
| China Construction Engineering | | 601668 CH | CNY | 5.19 | NR | 5.4 | 4.8 | 0.8 | 0.7 | 5.1 | 4.6 | 4.3 | 4.8 | 17.0 | 16.5 |
| China Railway ErJu | | 600528 CH | CNY | 11.96 | NR | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Long Yuan Cons | | 600491 CH | CNY | 8.47 | NR | 31.0 | 23.9 | 2.1 | 1.9 | n.a. | n.a. | 1.4 | 1.4 | 8.3 | 9.3 |
| Shanghai Tunnel Engineering | | 600820 CH | CNY | 8.36 | NR | 15.6 | 13.5 | 1.5 | 1.4 | 9.4 | 8.3 | 2.1 | 2.3 | 9.8 | 10.2 |
| Shanghai Construction | | 600170 CH | CNY | 3.79 | NR | 13.2 | 12.2 | 1.2 | 1.1 | 6.7 | 5.7 | 4.4 | 4.6 | 9.8 | 9.6 |
| China CAMC Engineering | | 002051 CH | CNY | 18.96 | NR | 14.3 | 12.0 | 2.4 | 2.1 | 7.7 | 6.6 | 1.3 | 1.4 | 16.9 | 17.0 |
| Hongrun Construction | | 002062 CH | CNY | 6.00 | NR | 24.0 | 18.8 | n.a. | n.a. | n.a. | n.a. | 0.8 | 0.8 | 10.7 | 12.5 |
| China Design Companies | | | | | | | | | | | | | | | |
| Jiangsu Transport | | 300284 CH | CNY | 19.49 | NR | 27.1 | 21.2 | 3.4 | 3.0 | 17.6 | 13.8 | 0.7 | 0.8 | 13.3 | 14.5 |
| China Haisum | | 002116 CH | CNY | 19.36 | NR | 30.4 | 25.0 | 6.0 | 5.0 | 14.3 | 12.1 | 1.0 | 1.0 | 18.0 | 18.0 |
| East China Engineering | | 002140 CH | CNY | 15.25 | NR | 42.4 | 61.0 | 3.3 | 3.1 | 36.6 | 37.9 | 0.2 | 0.2 | 5.9 | 5.2 |
| Asian Construction Companies | | | | | | | | | | | | | | | |
| Daewoo E&C | * | 047040 KS | KRW | 5940.00 | Hold | 13.4 | 9.1 | 0.8 | 0.8 | 8.2 | 6.9 | n.a. | n.a. | 6.5 | 8.9 |
| GS E&C | * | 006360 KS | KRW | 28400.00 | Underperform | 12.8 | 9.7 | 0.6 | 0.5 | 13.2 | 9.0 | n.a. | n.a. | 4.6 | 5.8 |
| Hyundai E&C | * | 000720 KS | KRW | 33300.00 | Outperform | 7.0 | 6.5 | 0.6 | 0.5 | 4.0 | 3.7 | 1.5 | 1.5 | 8.4 | 8.5 |
| Daelim Ind | * | 000210 KS | KRW | 80900.00 | Hold | 10.8 | 8.4 | 0.7 | 0.7 | 6.7 | 4.4 | 0.4 | 0.4 | 6.8 | 8.5 |
| ST Engineering | | STE SP | SGD | 3.15 | NR | 19.1 | 18.1 | 4.4 | 4.2 | 13.5 | 13.0 | 4.5 | 4.7 | 23.3 | 23.5 |
| Shimizu | ** | 1803 JP | JPY | 912.00 | Outperform | 12.4 | 10.5 | 1.4 | 1.3 | 8.4 | 7.5 | 1.4 | 1.9 | 11.1 | 12.8 |
| Nishimatsu Construction | ** | 1820 JP | JPY | 445.00 | NR | 8.4 | 9.1 | 0.8 | 0.7 | n.a. | n.a. | 3.4 | 3.5 | 9.4 | 7.6 |
| Toda Corp. | ** | 1860 JP | JPY | 418.00 | NR | 6.2 | 6.8 | 0.6 | 0.6 | 7.0 | 7.4 | 2.2 | 2.3 | 10.7 | 9.8 |
| Ganuda | **** | GAM MK | MYR | 4.75 | NR | 18.8 | 16.2 | 1.7 | 1.6 | 23.7 | 20.1 | 2.5 | 2.6 | 9.6 | 10.5 |
| Kolon E & C | | 003070 KS | KRW | 14950.00 | NR | 11.5 | 12.5 | 1.0 | 2.0 | 14.2 | 15.2 | n.a. | n.a. | 5.4 | 6.4 |
| Kajima | ** | 1812 JP | JPY | 685.00 | Outperform | 10.1 | 10.6 | 1.5 | 1.4 | 8.0 | 7.0 | 1.1 | 1.9 | 12.4 | 13.5 |
| WCT Engineering | | WCTHG MK | MYR | 1.53 | NR | 14.0 | 11.9 | 0.7 | 0.7 | 17.0 | 14.5 | 2.4 | 2.9 | 5.5 | 6.1 |
| IJM | ** | IJM MK | MYR | 3.45 | NR | 19.6 | 18.0 | 1.4 | 1.3 | 12.0 | 11.9 | 2.8 | 2.6 | 7.5 | 7.6 |
| US & Europe Construction Companies | | | | | | | | | | | | | | | |
| Vinci | | DG FP | EUR | 62.90 | NR | 15.3 | 14.1 | 2.2 | 2.0 | 8.8 | 8.4 | 3.3 | 3.5 | 14.8 | 14.9 |
| ACS | | ACS SM | EUR | 26.67 | NR | 11.4 | 10.7 | 2.2 | 2.0 | 5.9 | 5.7 | 4.3 | 4.4 | 20.7 | 18.6 |
| FCC | | FCC SM | EUR | 7.57 | NR | 26.7 | 20.3 | 2.5 | 2.3 | 9.3 | 8.8 | n.a. | n.a. | 13.2 | 10.8 |
| Boskalis Westminster | | BOKA NA | EUR | 30.98 | NR | 14.0 | 16.2 | 1.0 | 1.0 | 7.2 | 8.1 | 4.9 | 4.9 | 7.3 | 6.2 |
| Hochtief | | HOT GR | EUR | 109.50 | NR | 22.0 | 19.4 | 2.9 | 2.8 | 7.8 | 7.4 | 2.2 | 2.5 | 15.0 | 15.6 |
| Skanska | | SKAB SS | SEK | 170.60 | NR | 13.4 | 13.5 | 2.7 | 2.5 | 8.0 | 8.0 | 4.5 | 4.7 | 20.7 | 19.0 |
| Atlas Copco AB | | ATCOA SS | SEK | 209.30 | NR | 19.4 | 18.2 | 4.9 | 4.5 | 11.9 | 11.5 | 3.1 | 3.4 | 26.5 | 25.4 |
| Sandvik AB | | SAND SS | SEK | 79.85 | NR | 16.9 | 15.4 | 2.7 | 2.5 | 9.9 | 9.4 | 3.3 | 3.6 | 16.4 | 17.1 |
| Chicago Bridge & Iron Co NV | | CBI US | USD | 36.26 | NR | 7.3 | 7.3 | 1.5 | 1.2 | 5.7 | 5.9 | 0.8 | 0.8 | 22.5 | 19.8 |
| McDermott International Inc | | MDR US | USD | 4.70 | NR | 106.8 | 69.1 | 0.8 | 0.8 | 5.8 | 5.4 | n.a. | n.a. | 0.2 | 0.2 |
| Fluor | | FLR US | USD | 50.90 | NR | 14.9 | 14.4 | 2.0 | 1.8 | 6.7 | 6.8 | 1.7 | 1.7 | 15.5 | 14.3 |
| Indian Construction | | | | | | | | | | | | | | | |
| IVRCL | ** | IVRC IN | INR | 4.75 | NR | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Nagarjuna | ** | NJCC IN | INR | 76.10 | NR | 21.3 | 16.8 | 1.2 | 1.2 | 6.8 | 6.1 | 0.5 | 0.6 | 5.8 | 6.9 |
| Gammon | ** | GISP IN | INR | 5.45 | NR | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Jaiprakash | ** | JPA IN | INR | 7.65 | NR | n.a. | n.a. | 0.2 | 0.2 | 10.6 | 12.1 | n.a. | n.a. | n.a. | n.a. |
| ABB (India) | | ABB IN | INR | 1221.50 | NR | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 0.4 | 0.5 | n.a. | n.a. |
| Larsen & Toubro | ** | LT IN | INR | 1507.05 | NR | 32.7 | 25.2 | 3.1 | 2.9 | 20.1 | 16.4 | 1.0 | 1.3 | 10.2 | 11.8 |
| | | Weighted average | | | | 13.9 | 12.4 | 1.8 | 1.7 | 9.0 | 8.3 | 2.5 | 2.7 | 13.7 | 13.7 |
| | | High | | | | 106.8 | 69.1 | 6.0 | 5.0 | 36.6 | 37.9 | 5.1 | 5.6 | 26.5 | 25.4 |
| | | Low | | | | 5.4 | 4.8 | 0.2 | 0.2 | 3.2 | 3.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| | | Median | | | | 13.4 | 12.0 | 1.2 | 1.2 | 8.4 | 8.1 | 2.1 | 2.3 | 10.7 | 11.6 |

Source: Bloomberg, *Daiwa forecasts

Note: **Year ended 31 Mar, ***Year ended 30 Jun, ****Year ended 31 Jul; share prices are of 20 June 2016, except for the US and European stocks

Financial summary

Key assumptions

| Year to 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|--------------------------------|------|------|------|------|-------|-------|-------|-------|
| New order growth (YoY %) | 21.5 | 21.5 | 23.7 | 32.3 | 16.4 | 14.8 | 16.2 | 14.4 |
| Order book growth (YoY %) | 37.9 | 17.9 | 32.6 | 21.7 | 36.5 | 29.1 | 27.3 | 24.7 |
| Gross margin – HK (%) | 7.3 | 7.1 | 7.3 | 6.6 | 5.9 | 6.8 | 6.8 | 6.8 |
| Gross margin – China (%) | 16.0 | 20.1 | 20.0 | 23.0 | 24.8 | 21.5 | 20.5 | 19.5 |
| New contracts (HKDbn) | 30.3 | 36.8 | 45.5 | 60.2 | 70.1 | 80.5 | 93.6 | 107.0 |
| Year-end order backlog (HKDbn) | 48.9 | 57.7 | 76.5 | 93.1 | 127.1 | 164.0 | 208.7 | 260.1 |

Profit and loss (HKDm)

| Year to 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Hong Kong | 8,708 | 11,089 | 11,134 | 15,285 | 16,184 | 17,151 | 19,624 | 22,506 |
| PRC overall | 7,547 | 8,810 | 13,958 | 15,517 | 14,631 | 19,471 | 23,010 | 27,020 |
| Other Revenue | 124 | 2,012 | 2,193 | 3,638 | 7,099 | 6,317 | 5,279 | 4,579 |
| Total Revenue | 16,379 | 21,911 | 27,286 | 34,440 | 37,913 | 42,939 | 47,913 | 54,105 |
| Other income | 422 | 371 | 437 | 475 | 833 | 1,044 | 1,311 | 1,649 |
| COGS | (14,581) | (19,192) | (23,540) | (29,696) | (32,883) | (37,276) | (41,648) | (47,113) |
| SG&A | (554) | (740) | (1,042) | (1,033) | (996) | (940) | (886) | (877) |
| Other op.expenses | (23) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating profit | 1,643 | 2,349 | 3,140 | 4,185 | 4,867 | 5,767 | 6,690 | 7,765 |
| Net-interest inc./(exp.) | (193) | (239) | (418) | (456) | (607) | (713) | (827) | (892) |
| Assoc/forex/extraord./others | 394 | 432 | 452 | 318 | 496 | 723 | 1,058 | 1,555 |
| Pre-tax profit | 1,844 | 2,541 | 3,174 | 4,048 | 4,756 | 5,776 | 6,921 | 8,429 |
| Tax | (334) | (405) | (503) | (660) | (655) | (795) | (952) | (1,160) |
| Min. int./pref. div./others | (3) | (5) | 79 | 70 | 51 | 51 | 51 | 51 |
| Net profit (reported) | 1,507 | 2,131 | 2,750 | 3,457 | 4,153 | 5,033 | 6,020 | 7,320 |
| Net profit (adjusted) | 1,507 | 2,131 | 2,750 | 3,457 | 4,153 | 5,033 | 6,020 | 7,320 |
| EPS (reported)(HKD) | 0.442 | 0.573 | 0.707 | 0.887 | 1.032 | 1.178 | 1.341 | 1.631 |
| EPS (adjusted)(HKD) | 0.442 | 0.573 | 0.707 | 0.887 | 1.032 | 1.178 | 1.341 | 1.631 |
| EPS (adjusted fully-diluted)(HKD) | 0.435 | 0.573 | 0.697 | 0.875 | 1.023 | 1.178 | 1.341 | 1.631 |
| DPS (HKD) | 0.130 | 0.167 | 0.210 | 0.264 | 0.332 | 0.340 | 0.409 | 0.497 |
| EBIT | 1,463 | 2,237 | 3,010 | 4,039 | 4,727 | 5,629 | 6,539 | 7,602 |
| EBITDA | 1,643 | 2,349 | 3,140 | 4,185 | 4,867 | 5,767 | 6,690 | 7,765 |

Cash flow (HKDm)

| Year to 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|----------------------------------|--------------|----------------|----------------|----------------|--------------|--------------|--------------|--------------|
| Profit before tax | 1,844 | 2,541 | 3,174 | 4,048 | 4,756 | 5,776 | 6,921 | 8,429 |
| Depreciation and amortisation | 180 | 274 | 305 | 320 | 341 | 339 | 352 | 364 |
| Tax paid | (61) | (131) | (124) | (337) | (223) | (795) | (952) | (1,160) |
| Change in working capital | (2,418) | (5,426) | (6,101) | (5,461) | (3,958) | (6,070) | (6,015) | (5,270) |
| Other operational CF items | 0 | (504) | (339) | (259) | (616) | 1,029 | 115 | (1,728) |
| Cash flow from operations | (455) | (3,246) | (3,085) | (1,689) | 300 | 279 | 420 | 634 |
| Capex | (522) | (402) | 0 | 0 | 0 | (800) | (600) | (600) |
| Net (acquisitions)/disposals | (135) | (28) | (560) | (1,618) | (1,239) | 0 | 0 | 0 |
| Other investing CF items | 493 | (73) | 690 | (473) | 304 | 0 | 0 | 0 |
| Cash flow from investing | (164) | (504) | 130 | (2,091) | (935) | (800) | (600) | (600) |
| Change in debt | 731 | 3,681 | 5,650 | 4,740 | 3,114 | 2,999 | 2,698 | 2,698 |
| Net share issues/(repurchases) | 3,584 | 2,271 | 0 | 0 | 0 | 4,811 | 0 | 0 |
| Dividends paid | (430) | (523) | (894) | (901) | (1,216) | (1,460) | (1,588) | (2,087) |
| Other financing CF items | (991) | (407) | (710) | (667) | (588) | (713) | (827) | (892) |
| Cash flow from financing | 2,894 | 5,022 | 4,046 | 3,172 | 1,309 | 5,636 | 283 | (280) |
| Forex effect/others | 0 | (5) | 35 | 53 | (0) | 0 | 0 | 0 |
| Change in cash | 2,275 | 1,267 | 1,126 | (555) | 674 | 5,115 | 103 | (246) |
| Free cash flow | (977) | (3,648) | (3,085) | (1,689) | 300 | (521) | (180) | 34 |

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (HKDm)

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Cash & short-term investment | 5,481 | 6,884 | 8,137 | 7,470 | 8,051 | 13,166 | 13,269 | 13,024 |
| Inventory | 150 | 185 | 163 | 160 | 109 | 201 | 225 | 254 |
| Accounts receivable | 4,736 | 7,109 | 10,024 | 12,542 | 18,170 | 20,579 | 22,963 | 25,930 |
| Other current assets | 4,035 | 6,986 | 10,729 | 14,158 | 6,077 | 6,077 | 6,077 | 6,077 |
| Total current assets | 14,402 | 21,164 | 29,053 | 34,330 | 32,407 | 40,024 | 42,534 | 45,286 |
| Fixed assets | 1,870 | 2,191 | 2,672 | 2,827 | 2,772 | 3,033 | 3,282 | 3,518 |
| Goodwill & intangibles | 4,936 | 6,332 | 7,158 | 7,309 | 6,808 | 6,808 | 6,808 | 6,808 |
| Other non-current assets | 5,525 | 8,147 | 13,567 | 22,113 | 28,077 | 40,605 | 48,221 | 55,254 |
| Total assets | 26,733 | 37,835 | 52,450 | 66,579 | 70,065 | 90,470 | 100,845 | 110,865 |
| Short-term debt | 1,298 | 50 | 263 | 588 | 809 | 301 | 301 | 301 |
| Accounts payable | 5,176 | 7,152 | 13,020 | 17,261 | 21,926 | 24,855 | 27,771 | 31,414 |
| Other current liabilities | 5,103 | 5,895 | 9,479 | 13,371 | 8,009 | 10,455 | 10,667 | 8,802 |
| Total current liabilities | 11,577 | 13,097 | 22,761 | 31,221 | 30,744 | 35,611 | 38,738 | 40,517 |
| Long-term debt | 4,961 | 10,001 | 12,465 | 14,235 | 16,968 | 22,667 | 25,366 | 28,065 |
| Other non-current liabilities | 698 | 883 | 1,037 | 1,125 | 1,106 | 1,106 | 1,106 | 1,106 |
| Total liabilities | 17,236 | 23,982 | 36,263 | 46,581 | 48,818 | 59,384 | 65,210 | 69,688 |
| Share capital | 90 | 97 | 97 | 100 | 101 | 533 | 533 | 533 |
| Reserves/R.E./others | 9,401 | 13,413 | 15,836 | 19,730 | 21,045 | 30,505 | 35,105 | 40,698 |
| Shareholders' equity | 9,490 | 13,510 | 15,934 | 19,830 | 21,147 | 31,038 | 35,638 | 41,231 |
| Minority interests | 7 | 343 | 253 | 168 | 100 | 49 | (3) | (54) |
| Total equity & liabilities | 26,733 | 37,835 | 52,450 | 66,579 | 70,065 | 90,470 | 100,845 | 110,865 |
| EV | 42,733 | 45,411 | 47,213 | 46,535 | 47,020 | 45,918 | 47,462 | 49,355 |
| Net debt/(cash) | 778 | 3,168 | 4,591 | 7,354 | 9,726 | 9,801 | 12,397 | 15,342 |
| BVPS (HKD) | 2.784 | 3.476 | 4.099 | 4.942 | 5.213 | 6.916 | 7.940 | 9.187 |

Key ratios (%)

| Year to 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|--------------------------------|------|------|-------|-------|-------|-------|-------|-------|
| Sales (YoY) | 36.7 | 33.8 | 24.5 | 26.2 | 10.1 | 13.3 | 11.6 | 12.9 |
| EBITDA (YoY) | 63.2 | 43.0 | 33.7 | 33.3 | 16.3 | 18.5 | 16.0 | 16.1 |
| Operating profit (YoY) | 58.1 | 52.9 | 34.5 | 34.2 | 17.0 | 19.1 | 16.2 | 16.3 |
| Net profit (YoY) | 45.5 | 41.4 | 29.0 | 25.7 | 20.1 | 21.2 | 19.6 | 21.6 |
| Core EPS (fully-diluted) (YoY) | 32.7 | 31.9 | 21.5 | 25.6 | 16.8 | 15.2 | 13.9 | 21.6 |
| Gross-profit margin | 11.0 | 12.4 | 13.7 | 13.8 | 13.3 | 13.2 | 13.1 | 12.9 |
| EBITDA margin | 10.0 | 10.7 | 11.5 | 12.2 | 12.8 | 13.4 | 14.0 | 14.4 |
| Operating-profit margin | 8.9 | 10.2 | 11.0 | 11.7 | 12.5 | 13.1 | 13.6 | 14.1 |
| Net profit margin | 9.2 | 9.7 | 10.1 | 10.0 | 11.0 | 11.7 | 12.6 | 13.5 |
| ROAE | 21.4 | 18.5 | 18.7 | 19.3 | 20.3 | 19.3 | 18.1 | 19.0 |
| ROAA | 6.6 | 6.6 | 6.1 | 5.8 | 6.1 | 6.3 | 6.3 | 6.9 |
| ROCE | 11.4 | 11.3 | 11.4 | 12.7 | 12.8 | 12.1 | 11.3 | 11.6 |
| ROIC | 16.3 | 14.5 | 14.0 | 14.6 | 14.4 | 13.8 | 13.0 | 12.8 |
| Net debt to equity | 8.2 | 23.4 | 28.8 | 37.1 | 46.0 | 31.6 | 34.8 | 37.2 |
| Effective tax rate | 18.1 | 15.9 | 15.9 | 16.3 | 13.8 | 13.8 | 13.8 | 13.8 |
| Accounts receivable (days) | 99.2 | 98.7 | 114.6 | 119.6 | 147.8 | 164.7 | 165.8 | 164.9 |
| Current ratio (x) | 1.2 | 1.6 | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Net interest cover (x) | 7.6 | 9.3 | 7.2 | 8.9 | 7.8 | 7.9 | 7.9 | 8.5 |
| Net dividend payout | 29.4 | 29.2 | 29.7 | 29.8 | 32.2 | 28.8 | 30.5 | 30.5 |
| Free cash flow yield | n.a. | n.a. | n.a. | n.a. | 0.7 | n.a. | n.a. | 0.1 |

Source: FactSet, Daiwa forecasts

Company profile

China State Construction International Holdings Limited (CSCI) is an integrated construction company, engaged in construction, civil-engineering operations, and other peripheral operations. It is the largest construction contractor in Hong Kong. The company has extensive international contracting experience, and is actively engaged in the infrastructure market in Mainland China.

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