Deutsche Bank
Markets Research

F.I.T.T.

Industry
China Cement

Date
19 February 2014

Asia
Hong Kong

Resources
Metals & Mining

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F.I.T.T. for investors

Sweet spot in the super cycle

A new chapter for China Cement

We believe 2014 will be the start of yet another super-cycle for cement. The supply-demand outlook has improved significantly, driven by declining net supply, while moderate demand growth will digest overcapacity and lead to higher utilization rates. We expect higher margins for the cement sector, similar to what we saw in 2006-2008 when demand growth outstripped supply growth. Given the solid earnings outlook of the sector with 2yr CAGR of 24%, undemanding valuations and potential for consensus earnings upgrades, we expect strong performance for the sector in the coming months. We also upgrade ratings and earnings for several stocks.

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Supply growth for cement has reached an inflection point
The supply outlook looks particularly attractive with net supply growth of 1.9% and -4.0% for FY14/15E, as the cement sector faces the toughest measures in its history to rein in overcapacity. The State Council has issued guidelines under Document 41 to ban new supply approvals, control land and credit availability and to remove 32.5 grade (low quality) cement. The Clean Air Action Plan and new cement emission standards provide a catalyst for obsolete capacity removal and consolidation. We also see a more rational supply response being driven by 1) CNBM's diminishing potential in M&A, and 2) economic returns for new plants that look low, notwithstanding our view of the cycle.

Moderate demand growth to absorb excess capacity
Cement demand should moderate to c.5% CAGR in the next five years, declining from a high of 9.6% in 2013. Urbanization should continue to drive cement demand particularly in Western China. While investors are concerned about China's high cement consumption per capita, our study of developed countries shows that urbanization rates correlated strongly with cement consumption per capita until urbanization rates reached c.70-80%. China's urbanization rate will not reach this level for 10-15 years.

Structurally higher margins in the long run
Most would view 2011 as the peak of the cycle with industry margins at unit GP of RMB87/t and bellwether Conch achieving GP of RMB123/t. However, we believe there is room to exceed this in the next few years given the structurally better supply-demand. This is helped by structurally lower coal prices, now 40% below the 2011 peak. With more aggressive consolidation ahead, this should provide support for higher margins.

Only a few winners in the end; quality matters; key risks
Given the limitations on new supply, we view M&A is likely to become a more important driver of growth in the medium term. Hence we like companies with strong balance sheets and proven execution capabilities. We also like companies well positioned geographically to better supply-demand outlooks. Our top picks are Conch, Conch Venture and CR Cement. Our least preferred stock is CNBM. We upgrade CNBM to Hold and both TCC and Shanshui to Buy. In the small caps, we like WCC given the upside risk to margins from a low base and longer term demand outlook of Western China. Our main valuation methodology for most companies remains PE on FY14E. Risks: higher/lower-than-expected new capacity additions, tightness in liquidity.

Top picks

CR Cement (1313.HK),HKD5.67	Buy
Anhui Conch Cement (0914.HK),HKD29.30	Buy
Conch Venture (0586.HK),HKD19.90	Buy

Source: Deutsche Bank

FY14 DBe vs Cons

	DBe	Cons	%diff
Conch	2.44	2.11	15.6%
CRC	0.73	0.59	23.7%
BBMG	0.99	0.83	19.3%
WCC	0.12	0.12	-
Shanshui	0.39	0.40	-2.5%
Sinoma	0.17	0.17	-
CNBM	1.05	1.27	-17.3%
TCC	3.86	3.12	23.7%
ACC	2.57	2.62	-1.9%
Conch Venture	1.47	1.33	10.5%

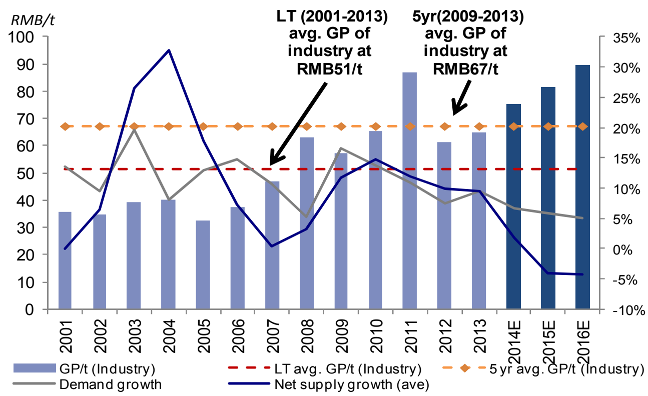
Source: Deutsche Bank

This report changes ratings, target prices and/or estimates for several stocks under our coverage. For details see Figure 86

Table Of Contents

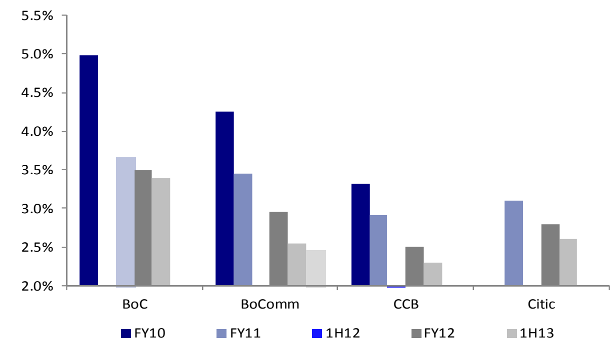
Key charts

Figure 1: Industry GP vs. supply-demand growth



Source: Deutsche Bank, Digital Cement

Figure 2: Percent of loan book to overcapacity industries



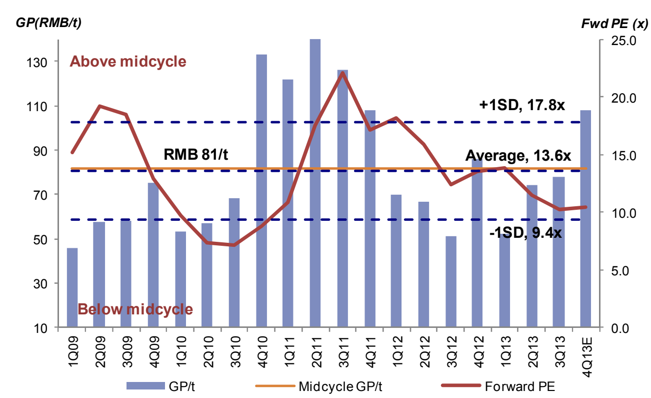
Source: Deutsche Bank, Company data

Figure 3: Peak cement demand is correlated to urbanization

	Year when peak	Urbanization	Peak consumption per capita (tonnes)	R2 (before peak)	R2 (after peak)
Japan	1973	74%	0.72	74%	79%
Korea	1997	79%	1.34	85%	0.3%
US (peak 1)	1973	74%	0.39	75%	21%
US (peak 2)	2005	81%	0.43	52%	98%
Germany	1972	72%	0.68	91%	39%
France	1974	73%	0.59	99%	24%
Norway	1987	72%	0.44	77%	15%
Netherland	1971	62%	0.46	91%	34%
Denmark	1973	81%	0.52	94%	28%
Finland	1974	67%	0.48	89%	25%
China	**2013**	**54%**	**1.78**	**93%**	**na**

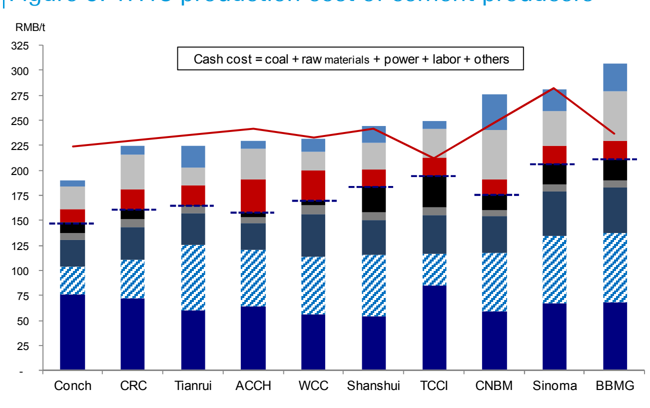
Source: Deutsche Bank, CEIC, United Nations, CEMBUREAU

Figure 4: Mid-cycle margins for Conch vs. PER



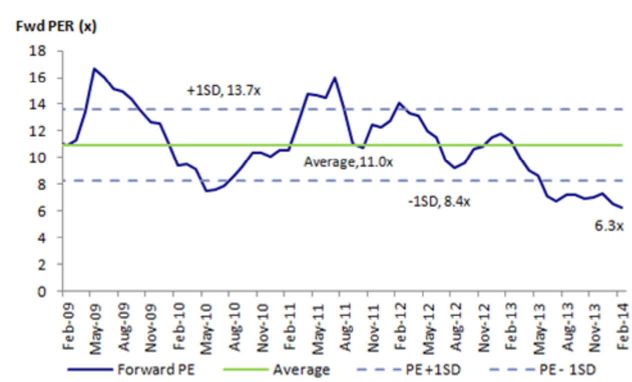
Source: Deutsche Bank, Digital Cement, NBS

Figure 5: 1H13 production cost of cement producers



Source: Company data, Deutsche Bank

Figure 6: Sector valuation chart - PER



Source: Deutsche Bank
*Sector PER is calculated using data from Conch, CNBM, Sinoma, CRC, WCC, Shanshui, BBMG

Sweet spot in the super cycle

We believe 2014 will be the start of yet another super cycle for cement. The supply-demand outlook has improved significantly driven by declining net supply, while moderate demand growth will digest overcapacity leading to 10ppt improvement in utilization rates from FY13-15E. We expect structurally higher margins for the cement sector, similar to what we saw in 2006-2008 when demand growth outstripped supply growth. Over the past five years, successful market consolidation has already raised industry margins from an average of RMB44/t in 2004-2008 to RMB67/t in 2009-2013. Given the solid earnings outlook of the sector with 2yr CAGR of 24%, undemanding valuations and potential for consensus earnings upgrades, we expect strong performance of the sector in the coming months.

It's all about supply. The supply outlook is particularly attractive with net supply growth of 2% and -4% for FY14/15E as the cement sector faces the toughest measures in its history to tackle overcapacity. In particular, the government's anti-pollution measures provide a catalyst to accelerate obsolete capacity removal and consolidation. There will also be fewer new entrants as, 1) CNBM is no longer an aggressive M&A player. We believe many new entrants in the past have been encouraged by the potential for a bid from CNBM. 2) The economic returns from new plants look relatively low despite our positive view on margins for incumbents. This is due to higher investment cost and restricted financing. During the 2011 super cycle, supply has played a more important role than demand as production halts led to record margins. With supply pressures easing and a strong mindset among leading producers to cooperate, we believe a repeat of 2011 is very much in the game. We have modeled in single digit ASP growth over the next few years to be conservative but we believe there is upside to this (see Figure 7).

Demand far from peaking just yet. We expect cement demand to moderate to c.5% CAGR growth in the next five years, declining from a high of 9.6% in 2013. Despite slower growth, cement demand is far from peaking, in our view. Our case study of developed countries shows that the urbanization rate correlated strongly with cement consumption per capita until the urbanization rate reached c.70-80%. In Shanghai and Beijing, cement consumption per capita peaked in 2006 when the urbanization rate reached 89% and 84% respectively. China's urbanization rate reached only 53.7% in 2013 suggesting we are probably still some 10-15 years away from the peak, though YZD with an urbanization rate of c.63% may be the first region to peak in c.6-8 years.

Undemanding valuation; Top Picks. The cement sector has de-rated in the past few years on overcapacity concerns. Sector valuations are now trading on a five-year trough of 6x PER versus the average of 11x. With fundamentals turning around and margins improving, we believe investing in cement names offers attractive risk reward. Our top picks are companies with 1) strong balance sheets to facilitate growth thru M&A or downstream businesses; 2) low cost with strong pricing power; and 3) strong execution capabilities. These are Conch, Conch Venture and CR Cement. Our least preferred stock is CNBM. In the small caps, we like WCC given the upside risk to margins from a low base and longer term demand outlook in Western China. Among the Taiwanese names, we prefer TCC (upgrading to Buy) over ACC. We also upgrade Shanshui to Buy from Hold and CNBM to Hold from Sell.

Figure 7: Summary of companies

	Conch	CNBM	CRC*	BBMG	Shanshui	Sinoma	WCC	TCC	ACC	Average
Ticker	0914.HK	3323.HK	1313.HK	2009.HK	0691.HK	1893.HK	2233.HK	1101.TW	1102.TW	
Reporting currency	CNY	CNY	HKD	CNY	CNY	CNY	CNY	TWD	TWD	
Share price as of 17/2/2014	30.45	7.79	5.62	6.14	2.81	1.55	0.94	46.00	37.30	
Target price (HKD/sh)	39.20	8.07	7.65	8.67	3.49	1.91	1.42	54.00	37.57	
Potential upside/downside (%)	29%	3%	34%	42%	25%	24%	51%	18%	0%	
Rating	Buy	Hold	Buy	Buy	Buy	Hold	Buy	Buy	Hold	
Market cap (USD bn)	20.7	5.5	4.8	3.4	1.0	0.7	0.5	5.6	4.0	
Cement capacity (mt)										
2012	209.0	333.0	73.9	46.0	89.6	122.2	23.7	50.8	31.5	108.3
2013E	239.0	388.0	76.5	44.7	99.6	132.2	23.7	50.8	33.3	120.9
2014E	269.0	406.0	84.5	48.3	105.6	137.2	27.0	52.8	33.3	128.7
2015E	299.0	430.0	90.5	48.3	107.6	137.2	27.0	54.8	36.3	136.2
2014 capacity chg	13%	5%	10%	8%	6%	4%	14%	4%	0%	8%
2013-2015E CAGR (%)	12%	10%	7%	2%	9%	6%	7%	2%	3%	8%
Total sales volume (mt)										
2012	187.1	220.2	64.6	35.4	56.9	71.8	15	40.2	22.7	79.3
2013E	226.5	286.8	75.4	41.0	61.4	82.0	18.5	46.5	26.0	96.0
2014E	252.8	312.0	80.2	44.7	69.8	91.9	20.7	48.1	31.0	105.7
2015E	282.8	329.9	91.5	48.0	76.8	98.2	23.0	49.9	33.8	114.9
2014 Sales volume chg	12%	9%	6%	9%	14%	12%	11%	3%	19%	10%
2013-2015E CAGR (%)	12%	19%	11%	12%	11%	13%	12%	9%	17%	13%
Sales exposure by regions (2014E)										
East-Shandong		10%			62%				16%	
East-excl. Shandong	32%	28%	14%			12%		14%		
Central	24%	12%		1%		3%			61%	
South	18%	1%	74%			12%		51%		
North		10%	6%	98%	8%	3%				
Northeast		8%		1%	27%			5%		
Northwest	26%				3%	70%	100%			
Southwest		31%	6%					30%	23%	
Export	3%									
ASP Assumptions										
2011	304.6	317.9	301.3	292.8	291.4	329.0	265.2	274.2	317.0	299.3
2012	240.9	263.4	256.3	245.9	266.7	264.0	240.1	228.5	248.0	250.4
2013E	238.4	255.0	252.0	241.5	241.0	257.6	234.5	234.5	247.0	244.6
2014E	249.4	259.3	264.3	249.8	239.0	267.3	243.8	245.8	256.0	252.7
2015E	256.4	265.4	272.8	260.3	243.4	274.4	253.5	254.6	260.0	260.1
2014 ASP %	5%	2%	5%	3%	-1%	4%	4%	5%	4%	3%
Profitability - GP (per tonne)										
2012	67.4	64.7	60.2	32.0	73.7	49.4	45.0	34.1	45.0	54.8
2013E	79.9	70.0	73.2	35.9	60.2	59.4	44.4	61.0	56.0	63.7
2014E	93.6	73.0	85.7	44.2	58.6	65.2	50.1	70.7	64.0	71.5
2015E	98.1	75.7	92.7	50.6	60.6	67.9	56.4	77.9	69.0	76.7
2014E EPS sensitivity										
5% chg in ASP	23%	40%	24%	10%	62%	33%	36%	4%	18%	28%
5% chg in sales volume	5%	7%	4%		4%	3%	6%	1%	2%	4%
5% chg in coal price	-7%	-11%	-7%	n/a	-15%	n/a	-7%	n/a	n/a	-9%

Source: Deutsche Bank
**GPs and ASP for TCC and CRC converted to RMB though company reports in HKD*

Figure 8: Summary of companies (cont.)

	Conch	CNBM	CRC*	BBMG	Shanshui	Sinoma	WCC	TCC	ACC	Average*
Ticker	0914.HK	3323.HK	1313.HK	2009.HK	0691.HK	1893.HK	2233.HK	1101.TW	1102.TW	
Reporting currency	CNY	CNY	HKD	CNY	CNY	CNY	CNY	TWD	TWD	
Share price as of 17/2/2014	30.45	7.79	5.62	6.14	2.81	1.55	0.94	46.00	37.30	
Target price (HKD/sh)	39.20	8.07	7.65	8.67	3.49	1.91	1.42	54.00	37.57	
Potential upside/downside (%)	29%	3%	34%	42%	25%	24%	51%	18%	0%	
Rating	Buy	Hold	Buy	Buy	Buy	Hold	Buy	Buy	Hold	
Market cap (USD bn)	20.7	5.5	4.8	3.4	1.0	0.7	0.5	5.6	4.0	
Valuation - P/E										
2013E	13.4	6.2	10.9	6.5	6.5	9.5	8.4	14.9	16.4	8.8
2014E	9.8	5.8	7.7	4.9	5.6	7.2	5.9	11.9	14.5	6.7
2015E	8.1	5.2	5.9	3.6	4.6	5.8	4.5	10.5	12.9	5.4
2014 PE @ TP	12.5	6.0	10.5	6.8	7.0	9.0	9.0	14.0	14.0	8.7
P/B										
2013E	2.25	0.94	1.53	0.82	0.69	0.37	0.66	1.63	1.44	1.0
2014E	1.91	0.83	1.31	0.73	0.64	0.36	0.60	1.56	1.40	0.9
2015E	1.61	0.73	1.11	0.63	0.59	0.34	0.54	1.49	1.35	0.8
2014 PB @ TP	2.45	0.86	1.76	1.03	0.78	0.45	0.91	1.80	1.10	1.2
ROE (%)										
2013E	18.1%	16.2%	14.7%	13.2%	10.7%	4.0%	8.2%	11.2%	8.7%	12.1%
2014E	21.2%	15.2%	18.0%	16.0%	11.6%	5.1%	10.6%	13.3%	9.8%	14.0%
2015E	21.4%	14.9%	20.1%	18.6%	13.0%	6.0%	12.8%	14.6%	10.7%	15.3%
EV/tonne (USD/tonne)										
2013E	97.2	85.2	101.5	80.8	49.7	56.3	44.7	149.2	166.6	73.6
2014E	86.4	81.4	91.8	74.9	43.7	54.2	39.2	144.0	166.6	67.4
2015E	77.7	76.8	85.8	74.9	41.3	54.2	39.2	144.0	152.8	64.3
EV/EBITDA										
2013E	8.2	7.8	8.8	3.5	5.3	5.8	4.8	8.2	16.4	6.3
2014E	6.4	6.9	6.8	2.7	4.8	5.1	4.1	7.5	13.7	5.2
2015E	5.4	6.2	5.5	2.2	4.2	4.5	3.6	6.8	12.4	4.5
2014 EV/EBITDA @ TP	8.0	6.9	8.3	3.7	5.2	5.2	5.2	8.4	13.8	6.1
Neb debt/equity (%)										
2013E	20.0%	307.5%	70.0%	51.1%	151.6%	87.1%	63.3%	40.2%	67.8%	95.4%
2014E	11.2%	275.3%	53.7%	43.3%	146.6%	83.4%	46.5%	29.5%	63.7%	83.7%
2015E	3.0%	250.7%	37.0%	27.6%	140.8%	71.8%	24.3%	19.6%	63.1%	70.9%
EPS										
2012	1.19	1.03	0.36	0.69	0.54	0.13	0.08	2.09	2.16	
2013E	1.78	0.98	0.52	0.74	0.34	0.13	0.09	3.09	2.27	
2014E	2.44	1.05	0.73	0.99	0.39	0.17	0.12	3.86	2.57	
2015E	2.93	1.17	0.96	1.32	0.48	0.21	0.16	4.40	2.89	
EPS growth (%)										
2013E	49.0%	-5.2%	44.5%	6.5%	-37.0%	-3.6%	6.6%	47.5%	5.0%	12.6%
2014E	37.1%	7.1%	41.5%	34.3%	14.7%	31.0%	40.9%	24.9%	13.2%	27.2%
2015E	19.9%	11.4%	31.1%	33.2%	23.1%	24.1%	32.1%	14.0%	12.5%	22.4%
2013E-2015E CAGR (%)	28.2%	9.3%	36.2%	33.7%	18.8%	27.5%	36.4%	19.3%	12.8%	24.7%
Dividend yield (%)										
2013E	1.6%	2.4%	1.8%	1.4%	5.4%	2.4%	3.0%	5.5%	4.8%	3.1%
2014E	2.2%	2.6%	2.5%	1.8%	6.2%	3.1%	4.2%	6.9%	5.5%	3.9%
2015E	2.6%	2.9%	3.3%	2.5%	7.6%	3.9%	5.6%	7.8%	6.1%	4.7%

Source: Deutsche Bank
**The valuation averages calculated on this page excludes TCC and ACC*

Global comp sheet

Figure 9: Global cement comp sheet

		DB	Trading	17-Feb-14	Target	Market Cap	EV/EBITDA			P/E			P/B			Dividend yield (%)		
Name	Ticker	Rating	Ccy	Price	Price	(USD mn)	FY13e	FY14e	FY15e	FY13e	FY14e	FY15e	FY13e	FY14e	FY15e	FY13e	FY14e	FY15e
China - HK Listed																		
Anhui Conch	0914.HK	Buy	HKD	30.45	39.2	20,735	8.2	6.4	5.4	13.3	9.7	8.1	2.2	1.9	1.6	1.6	2.2	2.6
CNBM	3323.HK	Hold	HKD	7.79	8.07	5,457	7.8	6.9	6.2	6.3	5.8	5.2	1.0	0.8	0.7	2.4	2.6	2.9
Sinoma	1893.HK	Hold	HKD	1.55	1.91	709	5.8	5.1	4.5	9.4	7.2	5.8	0.4	0.4	0.3	2.4	3.1	3.9
West China Cement	2233.HK	Buy	HKD	0.94	1.42	517	4.8	4.1	3.6	8.4	5.9	4.5	0.7	0.6	0.5	3.0	4.2	5.6
Shanshui	0691.HK	Buy	HKD	2.81	3.49	1,017	5.3	4.8	4.2	6.4	5.6	4.6	0.7	0.6	0.6	5.9	5.5	5.0
CR Cement	1313.HK	Buy	HKD	5.62	7.65	4,799	8.8	6.8	5.5	11.1	7.8	6.0	1.5	1.3	1.1	1.8	2.5	3.3
BBMG	2009.HK	Buy	HKD	6.14	8.67	3,369	3.5	2.7	2.2	6.5	4.8	3.6	0.8	0.7	0.6	1.4	1.8	2.5
Average							**6.3**	**5.3**	**4.5**	**8.8**	**6.7**	**5.4**	**1.0**	**0.9**	**0.8**	**2.6**	**3.1**	**3.7**
Asia																		
Asia Cement	1102.TW	Hold	TWD	37.30	35.97	4,011	16.4	13.7	12.4	16.4	14.5	12.9	1.4	1.4	1.4	4.8	5.5	6.1
Taiwan Cement	1101.TW	Buy	TWD	46.00	54	5,569	8.2	7.5	6.8	14.9	11.9	10.5	1.6	1.6	1.5	5.5	6.9	7.8
ACC	ACC.BO	Hold	INR	1,012.65	1,120	3,071	11.9	11.4	9.6	21.8	20.1	17.0	2.5	2.4	2.2	2.9	3.0	3.0
Shree Cement	SHCM.BO	Buy	INR	4,274.35	5,850	2,602	8.6	10.1	8.0	14.2	21.5	17.2	4.2	3.2	2.7	0.5	0.5	0.5
Ambuja Cements	ABUJ.BO	Hold	INR	151.30	158	3,355	10.8	10.7	9.0	24.6	22.0	18.6	2.5	2.4	2.2	2.4	2.1	2.1
Ultra Tech Cement	ULTC.BO	Buy	INR	1,665.00	2,200	8,817	10.6	12.5	10.7	18.1	21.4	19.7	3.4	2.7	2.4	0.5	0.5	0.5
Siam Cement	SCC.BK	Buy	THB	420.00	522	15,544	10.3	9.6	8.9	14.1	12.6	11.5	3.1	2.8	2.5	3.9	3.8	4.3
Siam City Cement	SCCC.BK	Hold	THB	362.00	404	2,573	11.1	10.4	9.5	16.3	15.0	13.4	4.3	3.9	3.6	4.4	5.0	5.5
Holcim Indonesia	SMCB.JK	Buy	IDR	2,280.00	2,850	1,465	7.6	6.3	5.7	15.8	11.7	10.4	1.9	1.8	1.6	3.8	3.4	4.1
Indocement	INTP.JK	Buy	IDR	22,425.00	23,000	7,052	10.6	9.2	7.5	17.2	15.6	13.2	3.6	3.1	2.6	1.4	1.4	1.5
Semen Gresik	SMGR.JK	Buy	IDR	15,225.00	17,200	7,592	10.9	9.9	8.4	16.7	14.9	12.9	4.4	3.8	3.2	3.0	3.4	3.9
Average							**10.3**	**9.8**	**8.5**	**17.2**	**18.1**	**14.6**	**2.8**	**2.4**	**2.2**	**3.0**	**3.4**	**3.3**
Global (ex-Asia)																		
Buzzi Unicem	BZU.MI	Buy	EUR	14.6	16.00	3,564	10.5	8.6	6.3	155.7	29.0	15.3	1.2	1.2	1.1	0.2	1.0	2.0
Heidelberg Cement	HEIG.DE	Buy	EUR	57.8	67.00	14,831	8.4	7.2	6.0	12.6	12.3	9.0	0.8	0.8	0.7	1.1	2.1	3.3
Holcim	HOLN.VX	Hold	CHF	69.1	69.80	25,057	9.3	8.2	6.4	18.9	15.1	11.3	1.2	1.2	1.1	1.7	2.6	3.2
Italcementi	ITAI.MI	Hold	EUR	8.0	6.00	2,506	8.2	7.6	6.3	NM	NM	22.8	0.8	0.8	0.8	1.5	1.5	3.1
Lafarge	LAFP.PA	Buy	EUR	54.4	70.60	21,358	9.3	7.4	6.3	26.5	13.0	9.7	1.0	0.9	0.9	2.2	2.8	3.7
Adelaide Brighton	ABC.AX	Hold	AUD	4.1	3.87	2,304	9.6	7.8	7.5	16.7	12.7	12.4	2.4	2.3	2.2	5.7	7.6	7.8
Boral	BLD.AX	Buy	AUD	5.5	6.23	3,252	9.0	8.1	6.5	30.7	23.2	15.5	1.0	1.3	1.2	2.6	2.7	4.4
Fletcher Building	FBU.NZ	Buy	NZD	9.5	10.53	4,382	9.0	8.9	8.0	16.4	15.1	12.6	1.6	1.7	1.6	4.3	3.5	4.7
Titan Cement	TTNr.AT	Hold	EUR	23.8	21.00	2,505	13.9	11.5	9.1	NM	143.7	35.4	1.3	1.3	1.2	0.0	0.0	1.1
Average							**8.9**	**7.7**	**6.9**	**32.5**	**27.8**	**16.0**	**1.3**	**1.3**	**1.2**	**3.6**	**4.2**	**3.7**

Source: Deutsche Bank

Figure 10: Comp sheet for waste treatment, ports and constructions players

		DB	17-Feb-14	Target	Trading	Market Cap	EV/EBITDA			P/E			P/B			Dividend yield		
Name	Ticker	Rating	Price	Price	Currency	(USD mn)	FY12	FY13e	FY14e	FY12	FY13e	FY14e	FY12	FY13e	FY14e	FY12	FY13e	FY14e
Conch Venture	0586.HK	Buy	20.15	23.0	HKD	4,689	na	31.0	14.2	na	12.2	10.1	na	2.5	1.6	na	1.6	2.0
Waste water and solid waste treatment operator																		
Beijing Enterprise Water	0371.HK	Buy	4.76	5.1	HKD	5,178	17.4	24.0	18.4	16.4	32.2	24.6	1.6	3.0	2.8	1.8	0.8	1.2
China Everbright Int'l	0257.HK	Sell	10.66	3.9	HKD	6,163	10.5	24.0	21.2	15.4	36.0	29.1	1.9	4.7	4.1	1.6	0.7	0.8
Tianjin Capital	1065.HK	NR	4.03	na	HKD	1,851	na	15.1	14.2	na	15.9	14.5	na	1.1	1.1	na	0.3	0.4
Dongjiang Env	895.HK	NR	28.80	na	HKD	1,466	na	26.8	20.7	17.7	22.3	17.7	3.7	2.3	2.1	0.0	1.6	1.5
Guodian Tech	1296.HK	NR	2.53	na	HKD	1,978	9.1	11.9	9.6	10.1	17.7	12.2	1.2	1.2	1.1	na	0.1	0.1
Average							**12.3**	**20.4**	**16.8**	**14.9**	**24.8**	**19.6**	**2.1**	**2.5**	**2.2**	**1.2**	**0.7**	**0.8**
Ports																		
Cosco Pacific	1199.HK	Buy	10.52	13.9	HKD	3,951	12.3	10.4	10.4	11.1	5.4	11.5	1.0	0.8	0.8	3.6	7.4	3.5
China Merchants	0144.HK	Buy	26.95	30.7	HKD	8,781	10.4	12.0	11.3	33.9	19.4	17.0	1.4	1.4	1.3	2.8	2.4	2.6
Average							**11.3**	**11.2**	**10.9**	**22.5**	**12.4**	**14.2**	**1.2**	**1.1**	**1.1**	**3.2**	**4.9**	**3.0**
Constructions																		
Lonking	3339.HK	Buy	1.59	2.24	HKD	878	14.8	7.4	6.6	49.4	9.8	8.6	1.1	0.8	0.7	0.0	2.0	2.3
Zoomlion	1157.HK	Hold	5.79	7.31	HKD	6,470	5.7	4.5	3.9	8.7	7.7	7.4	1.8	0.8	0.7	2.4	2.6	2.7
Sinoma International	600970.CH	NR	7.30	n.a	CNY	1,316	3.1	5.7	3.6	8.4	12.0	7.2	1.5	1.6	1.3	1.1	na	na
Average							**7.9**	**5.9**	**4.7**	**22.2**	**9.8**	**7.7**	**1.5**	**1.0**	**0.9**	**1.2**	**2.3**	**2.5**

Source: Deutsche Bank

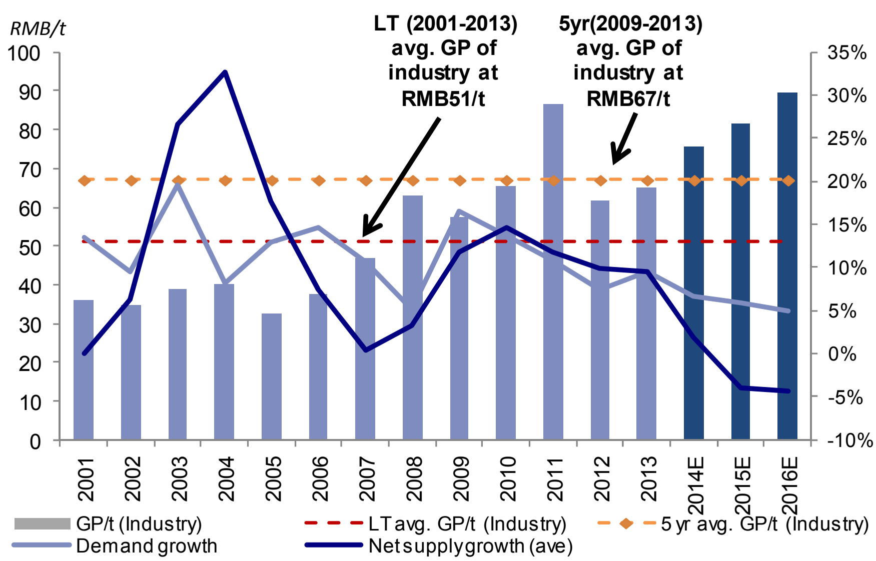
Sweet spot in the super cycle

A new chapter for cement

We expect the next few years to be similar to 2006-2008 with demand growth outstripping supply growth but likely with higher margins

We believe 2014 will be the start of yet, another super cycle for cement. The supply-demand outlook has improved significantly driven by declining net supply, while moderate demand growth will digest overcapacity and lead to higher utilization rates. We expect higher margins for the cement sector, similar to what we saw in 2006-2008 when demand growth outstripped supply growth. As market concentration/pricing power continues to improve for leading players, cement margins will be less volatile and structurally higher. Over the last five years, successful market consolidation has already raised industry margins from an average of RMB44/t in 2004-2008 to RMB67/t in 2009-2013.

Figure 11: Industry GP versus supply-demand growth



Source: Deutsche Bank, Digital Cement

Supply-demand

We believe net supply has reached an inflection point as the cement sector faces the toughest measures in its history to rein in overcapacity. Our line by line count of new capacity reveals 4.4% and 2.2% of gross supply growth in 2014 and 2015, respectively, lowered from 6.8% and 4.7% previously. We expect all the obsolete clinker capacity in China to be removed by 2015. Most local governments will complete their 12th Five Year removal target by 2014 and increase the removal by another 100mt in 2015. Including obsolete capacity removals, we expect net supply growth of 1.9% and -4.0% respectively in 2014 and 2015. There could be further downside risks to our estimates if the speed of the 32.5 grade (lower quality) cement removal comes in quicker than expected, a scenario we have not factored in for now.

We expect cement demand to moderate to 5% CAGR growth over the next five years, declining from a high base of 9.6% in 2013. In the long run, we believe urbanization will continue to drive cement demand particularly in Western

China, where the disparity with Eastern China is still vast. While most investors have become concerned on China's high cement consumption per capita, our case study of developed countries shows that the urbanization rate correlated strongly with cement consumption per capita until the urbanization rate reached c.70-80%. At the end of 2013, China's urbanization rate reached only 53.7% suggesting that there is at least 10-15 years of cement demand growth before the peak.

Utilization rates are expected to improve by 10ppt from 2013 to 2015E

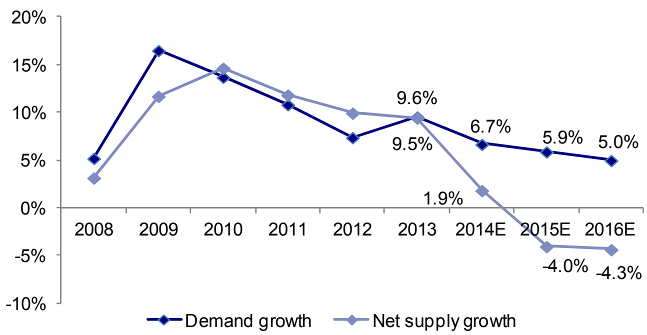
As a result of the supply side improvements and healthy demand growth, we believe supply-demand for the Chinese cement sector will reach a balance by 2015-2016 (utilization rates 80%+). We expect utilization rates to improve by 10ppt from 2013 to 2015E. By 2017, if supply restrictions were not lifted, there could be a shortage in cement, though predicting that far out is risky. The downside risks are if by that point in time, profitability of the sector becomes lucrative, new entrants may re-enter the industry. The unknown then becomes whether the local governments will start approving new lines again. However, our NPV analysis of a cement line shows that even if GP of the sector would return to the 2011 peak levels of RMB88/t, new entrants would still need nine years before they can break even on their investment. This compared to seven years in 2002 with much lower unit profitability then.

Figure 12: China cement supply-demand model

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
SUPPLY											
NSP clinker capacity additions	155.6	195.9	256.5	222.6	176.5	131.2	77.4	39.9	26.1	22.9	14.0
NSP design capacity (310 days)	768	964	1,220	1442.5	1,619.1	1,750.3	1,827.6	1,867.5	1,893.6	1,916.6	1,930.5
Clinker capacity growth	*25.4%*	*25.5%*	*26.6%*	*18.2%*	*12.2%*	*8.1%*	*4.4%*	*2.2%*	*1.4%*	*1.2%*	*0.7%*
NSP ratio	**61%**	**68%**	**77%**	**82%**	**88%**	**93%**	**97%**	**100%**	**100%**	**100%**	**100%**
Eliminated capacity	-74	-74	-77	-64	-81	-69	-79	-79	-40	-28	-13
Total design clinker capacity (EOY)	1,258	1,410	1,593	1,752	1,847	1,909	1,907	1,868	1,854	1,850	1,851
DBe actual clinker capacity (EOY)	**1,384**	**1,551**	**1,753**	**1,927**	**2,032**	**2,100**	**2,098**	**2,054**	**2,040**	**2,035**	**2,036**
Cement/Clinker ratio	1.59	1.59	1.64	1.61	1.71	1.77	1.72	1.67	1.62	1.57	1.52
Implied design cement capacity (EOY)	1,995	2,244	2,617	2,821	3,159	3,386	3,281	3,119	3,004	2,904	2,814
Implied DBe actual cement capacity (EOY)	**2,194**	**2,469**	**2,879**	**3,098**	**3,475**	**3,725**	**3,609**	**3,431**	**3,304**	**3,194**	**3,095**
Capacity growth (EOY)	*10.9%*	*12.5%*	*16.6%*	*7.8%*	*12.0%*	*7.2%*	*-3.1%*	*-4.9%*	*-3.7%*	*-3.3%*	*-3.1%*
Equivalent design cement capacity (ave)	1,897	2,119	2,430	2,719	2,990	3,273	3,333	3,200	3,061	2,954	2,859
Equivalent DBe actual cement capacity (ave)	**2,087**	**2,331**	**2,674**	**2,989**	**3,287**	**3,600**	**3,667**	**3,520**	**3,368**	**3,249**	**3,145**
Capacity growth (ave)	*3.2%*	*11.7%*	*14.7%*	*11.9%*	*10.0%*	*9.5%*	*1.9%*	*-4.0%*	*-4.3%*	*-3.5%*	*-3.2%*
DEMAND											
Cement production (mn tons)	**1,424**	**1,644**	**1,868**	**2,063**	**2,184**	**2,414**	**2,575**	**2,727**	**2,863**	**2,991**	**3,097**
YoY chg	*4.6%*	*15.5%*	*13.6%*	*10.5%*	*7.4%*	*9.6%*	*6.7%*	*5.9%*	*5.0%*	*4.5%*	*3.5%*
Cement utilization rate (design)	75%	78%	77%	76%	73%	74%	77%	85%	94%	101%	108%
Cement utilization rate (actual)	**68%**	**71%**	**70%**	**69%**	**66%**	**67%**	**70%**	**77%**	**85%**	**92%**	**98%**
Net Export	-26	-16	-16	-11	-12	-11	-11	-11	-11	-11	-11
Cement demand (domestic)	**1,398**	**1,628**	**1,852**	**2,053**	**2,172**	**2,404**	**2,565**	**2,716**	**2,852**	**2,981**	**3,086**
YoY chg	*5.2%*	*16.5%*	*13.7%*	*10.8%*	*7.4%*	*9.6%*	*6.7%*	*5.9%*	*5.0%*	*4.5%*	*3.5%*

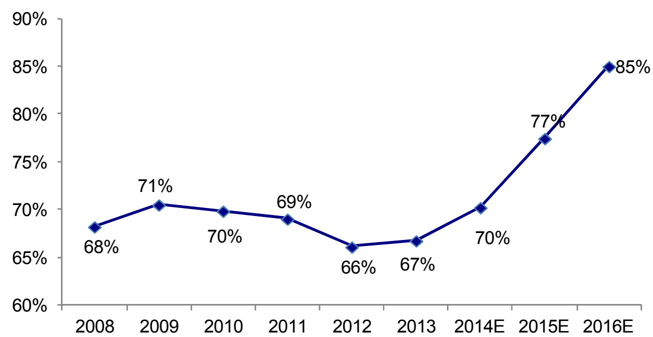
Source: Deutsche Bank, CEIC, National Bureau of Statistics, China Cement Association

Figure 13: Supply versus demand



Source: Deutsche Bank, Digital Cement, NBS

Figure 14: China cement utilization rate



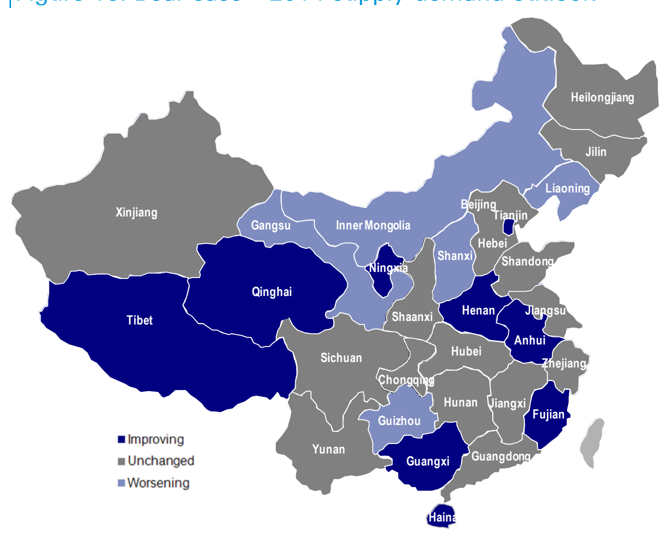
Source: Deutsche Bank, Digital Cement, NBS

Out of the seven major regions, we expect East, Central and Southern China to be the best regions and will likely see the sharpest margin improvement in 2014-2015. Northwest and Southwest China are our least favorite regions in 2014-2015 as capacity growth continues to be strong and the overcapacity will still take time to digest. However, Western China will likely be good long-term investment stories post 2015 as supply-demand becomes more balanced while demand continues to play catch up to developed Eastern China. Our charts in Figure 15 and Figure 16 captures the trend for supply-demand in 2014 with the base case including obsolete capacity removals and bear case excluding obsolete capacity removals.

Figure 15: Base case – 2014 supply-demand outlook

Source: Deutsche Bank, Digital Cement

Figure 16: Bear case – 2014 supply-demand outlook



Source: Deutsche Bank, Digital Cement

Figure 17: Regional supply-demand model

						2014E							2015E						
	2012 (mt)	2013 (mt)	2012 Utilization Rate	2013 Utilization Rate	Top 3 capacity control (2013A)	D (%)	S+ (%)	S- (%)	S/D chg% (Base)	S/D trend (Base)	S/D chg% (Stress)	S/D trend (Stress)	D (%)	S+ (%)	S- (%)	S/D chg% (Base)	S/D trend (Base)	S/D chg% (Stress)	S/D trend (Stress)
North	**250.6**	**259.1**	**64%**	**56%**	**35%**	**1%**	**7%**	**3%**	-3%	=	-6%	-	**1%**	**2%**	**3%**	**2%**	=	**3%**	=
Bohai Rim	144.7	145.3	70%	63%	55%	0%	2%	4%	3%	=	-2%	=	-1%	0%	4%	4%	=	-1%	=
Beijing	8.7	9.0	105%	99%	100%	2%	0%	0%	2%	=	2%	=	0%	0%	0%	0%	=	0%	=
Tianjin	7.8	9.5	157%	191%	99%	5%	0%	0%	5%	=	5%	+	0%	0%	0%	0%	=	0%	=
Hebei	128.1	126.8	66%	58%	53%	0%	3%	5%	2%	=	-3%	=	-1%	0%	5%	4%	=	-1%	=
Shanxi	47.2	49.8	57%	46%	34%	0%	10%	1%	-9%	-	-10%	-	4%	5%	1%	0%	=	8%	+
Inner Mongolia	58.7	64.0	56%	52%	37%	3%	14%	1%	-10%	-	-11%	-	3%	4%	1%	0%	=	7%	+
Northeast	**137.4**	**145.4**	**92%**	**84%**	**48%**	**3%**	**8%**	**5%**	1%	=	-5%	=	**2%**	**5%**	**5%**	**2%**	=	**7%**	+
Liaoning	57.1	60.1	79%	69%	41%	3%	15%	7%	-5%	=	-12%	-	2%	5%	7%	4%	=	6%	+
Jilin	41.6	45.0	127%	120%	91%	3%	5%	4%	2%	=	-2%	=	2%	0%	4%	6%	+	2%	=
Heilongjiang	38.7	40.3	89%	83%	64%	2%	0%	4%	6%	+	2%	=	2%	12%	4%	-6%	-	13%	+
East	**699.8**	**766.5**	**78%**	**80%**	**47%**	**5%**	**1%**	**6%**	11%	+	4%	=	**4%**	**1%**	**6%**	**9%**	+	**5%**	=
YZD area	399.8	433.4	77%	80%	59%	4%	0%	5%	9%	+	4%	=	3%	0%	5%	8%	+	3%	=
Shanghai	7.9	7.5	570%	538%	100%	-2%	0%	0%	-2%	=	-2%	=	-5%	0%	0%	-5%	-	-5%	-
Jiangsu	167.8	179.9	65%	71%	53%	3%	0%	11%	14%	+	3%	=	2%	0%	11%	13%	+	2%	=
Zhejiang	115.4	124.6	78%	80%	68%	1%	0%	0%	1%	=	1%	=	0%	0%	0%	0%	=	0%	=
Anhui	108.7	121.3	96%	92%	72%	10%	1%	1%	10%	+	9%	+	8%	0%	1%	9%	+	7%	+
Fujian	72.0	78.9	90%	92%	41%	10%	0%	0%	10%	+	10%	+	8%	3%	0%	5%	+	10%	+
Jiangxi	74.2	92.0	82%	89%	55%	10%	8%	5%	7%	+	2%	=	8%	3%	4%	9%	+	10%	+
Shandong	153.9	162.2	73%	73%	65%	3%	0%	14%	17%	+	3%	=	3%	0%	13%	16%	+	3%	=
Central	**355.1**	**390.9**	**74%**	**75%**	**38%**	**6%**	**3%**	**7%**	10%	+	2%	=	**5%**	**1%**	**7%**	**10%**	+	**6%**	+
Henan	148.1	167.6	74%	77%	48%	5%	0%	6%	11%	+	5%	+	4%	2%	5%	7%	+	6%	+
Hubei	102.6	110.6	78%	84%	74%	5%	1%	7%	10%	+	4%	=	5%	0%	6%	10%	+	5%	=
Hunan	104.5	112.6	69%	66%	55%	8%	10%	10%	8%	+	-2%	=	7%	2%	9%	13%	+	9%	+
South	**229.2**	**260.9**	**77%**	**83%**	**53%**	**10%**	**5%**	**8%**	14%	+	6%	+	**9%**	**6%**	**7%**	**10%**	+	**14%**	+
Guangdong	113.8	133.9	67%	71%	43%	9%	6%	13%	17%	+	3%	=	8%	9%	11%	10%	+	16%	+
Guangxi	98.6	107.1	91%	99%	71%	11%	4%	3%	10%	+	7%	+	10%	1%	3%	11%	+	10%	+
Hainan	16.7	19.9	100%	100%	100%	15%	0%	1%	16%	+	15%	+	13%	9%	1%	4%	=	20%	+
Southwest	**330.2**	**374.7**	**65%**	**71%**	**43%**	**10%**	**10%**	**6%**	6%	+	-1%	=	**9%**	**4%**	**6%**	**10%**	+	**12%**	+
Chongqing	55.0	61.3	61%	72%	47%	8%	4%	5%	10%	+	4%	=	5%	0%	5%	9%	+	5%	=
Sichuan	133.4	139.0	64%	67%	54%	3%	5%	6%	4%	=	-2%	=	5%	0%	6%	10%	+	5%	=
Guizhou	61.0	81.4	61%	71%	55%	18%	24%	8%	2%	=	-6%	-	15%	7%	7%	13%	+	19%	+
Yunnan	77.9	90.1	74%	77%	42%	15%	12%	4%	6%	+	3%	=	12%	9%	3%	6%	+	19%	+
Tibet	2.9	3.0	61%	59%	100%	10%	0%	35%	45%	++	10%	+	10%	0%	32%	38%	++	9%	+
Northwest	**181.7**	**217.0**	**70%**	**69%**	**41%**	**12%**	**10%**	**4%**	6%	+	3%	=	**11%**	**3%**	**3%**	**10%**	+	**13%**	+
Shaanxi	75.5	85.5	76%	79%	61%	10%	6%	3%	7%	+	4%	=	10%	0%	2%	11%	+	9%	+
Gansu	36.2	44.1	82%	85%	70%	12%	21%	5%	-4%	=	-9%	-	10%	5%	4%	9%	+	13%	+
Qinghai	13.7	17.9	68%	66%	45%	15%	0%	9%	24%	+	15%	+	10%	0%	8%	16%	+	9%	+
Ningxia	16.1	19.1	61%	63%	57%	10%	0%	2%	12%	+	10%	+	5%	11%	1%	-4%	=	15%	+
Xinjiang	40.3	50.4	57%	52%	57%	17%	13%	3%	7%	+	4%	=	15%	6%	2%	10%	+	18%	+
National	**2,184.0**	**2,414.4**	**73%**	**74%**	**27%**	**6.7%**	**5.1%**	**6.0%**	**7.6%**	+	**1.6%**	=	**5.9%**	**2.5%**	**5.5%**	**8%**	+	**7.9%**	+

Source: Deutsche Bank, Digital Cement

Downside risks to supply

Favorable supply picture beginning in 2014

Net supply growth of 1.9% and -4.0% for FY14/15E

The supply outlook is particularly attractive with net supply growth of 1.9% and -4.0% for FY14/15E, respectively, as the cement sector faces the toughest measures in its history to tackle overcapacity.

On Oct 15, 2013, the State Council issued guidelines under Document 41 to 1) ban new capacity approvals, 2) control land supply to overcapacity industries, 3) tighten credit availability and 4) promote the use of higher quality cement products removing the 32.5 grade cement. The Clean Air Action Plan and new cement emission standards also complement Document 41 speeding up obsolete capacity removal and consolidation.

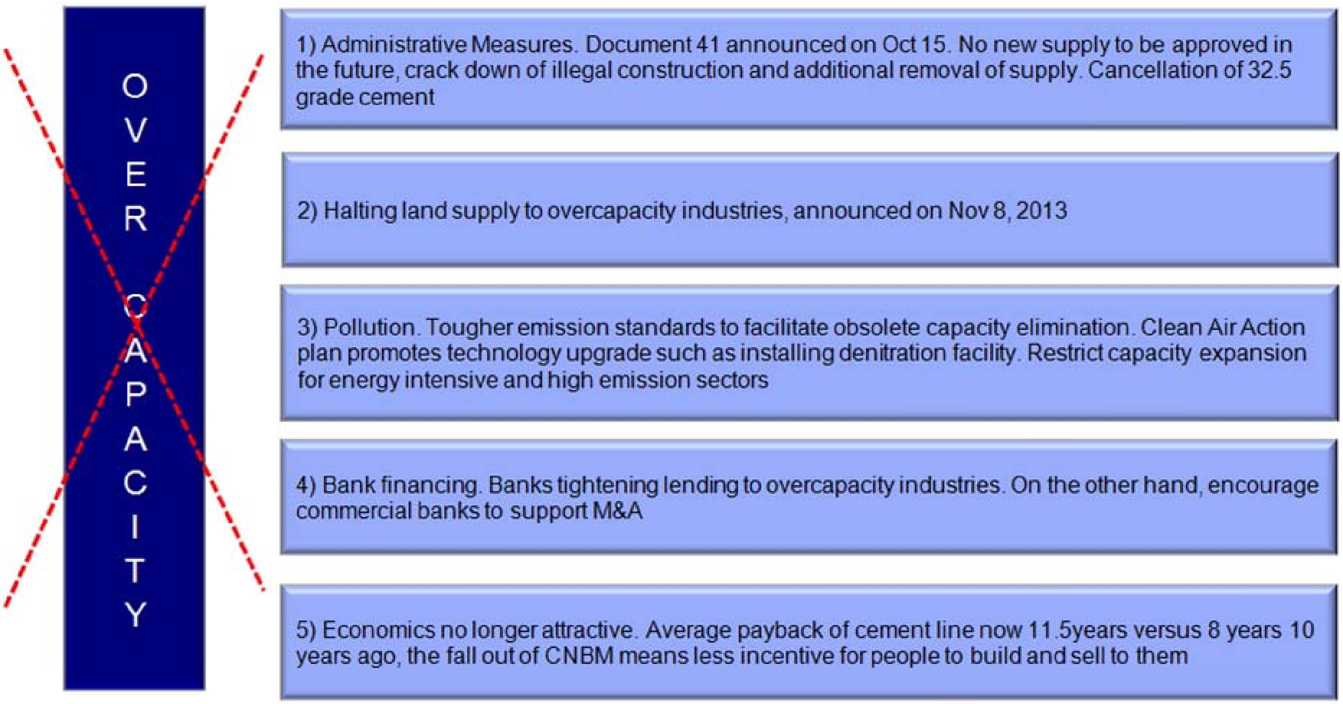
CNBM's removal from the M&A scene implies that those in search of a quick profit by selling their plants to CNBM can no longer benefit.

There will also be fewer new entrants as, 1) CNBM is no longer an aggressive M&A player. We believe many new entrants in the past have been encouraged by the potential for a bid from CNBM. 2) The economic returns from new plants look relatively low despite our positive view on margins for incumbents. This is due to higher investment cost and restricted financing.

In previous cycles, supply has played a more important role than demand

In previous cycles, supply has played a more important role than demand, which has been a less volatile variable. During the 2011 super cycle, power rationing followed by production halts by leading producers caused shortages in supply. That subsequently led to a sharp spike in cement prices delivering record margins and profits. With supply pressures easing and a strong mindset among leading producers to cooperate, we believe a repeat of 2011 is very much in the game.

Figure 18: Why cement supply will finally be declining in China



Source: Deutsche Bank

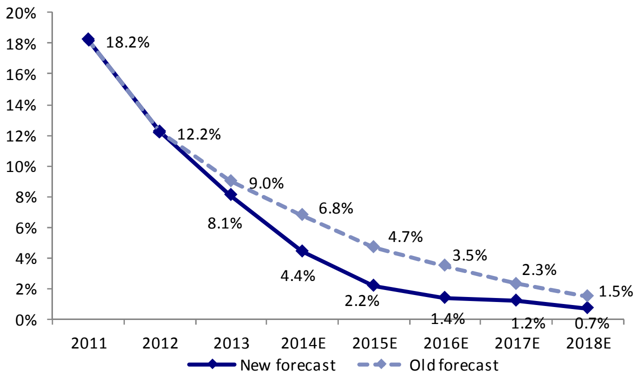
Reducing our supply forecasts - net supply to decline

We believe net supply has reached an inflection point as the cement sector faces the toughest measures in its history to rein in overcapacity. Our line by line count of new capacity reveals 4.4% and 2.2% of gross supply growth in 2014 and 2015, respectively, lowered from 6.8% and 4.7% previously. We have already identified 27.9mt of cement lines that have delayed their capacity roll out in 2014 and we believe there will be further delays as we enter 2014.

We expect all the obsolete clinker capacity in China to be removed by 2015

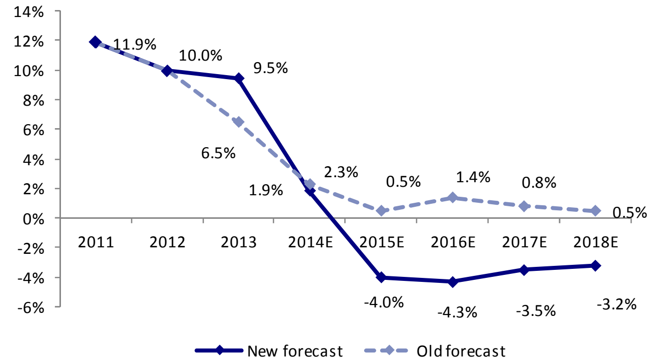
We expect all the obsolete clinker capacity in China to be removed by 2015, with most governments already announcing that they plan to finish the target by end 2014. The central governments also intend to increase capacity removal by another 100mt in 2015, though most of this will likely be cement grinding stations. There could be downside risks to our estimates if the 32.5 grade cement removal was more imminent, a scenario we have not fully factored in.

Figure 19: Gross supply forecast revision(2013A-2018E)



Source: Deutsche Bank, Digital Cement

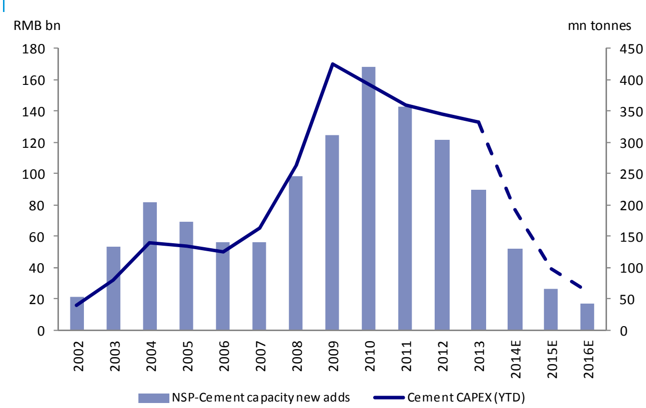
Figure 20: Net supply forecast revision (2013A-2018E)



Source: Deutsche Bank, Digital Cement

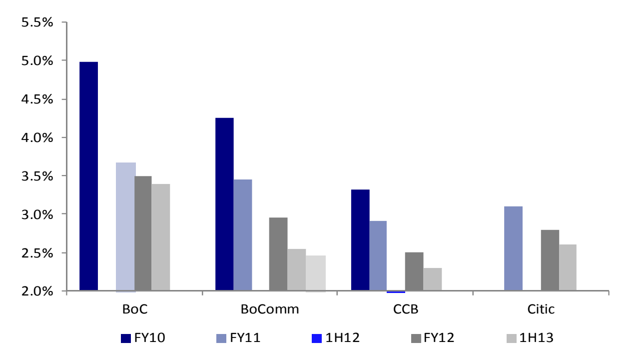
Over the past few years, banks have tightened credit lending to overcapacity industries, with the tightest seen in 2013 based on our interviews with bank managers. For lending to overcapacity industries, banks are adopting differential financial policies. For example, banks ceased loans to companies that fail to secure necessarily legal approvals; however, they do support companies in the overcapacity sectors that undergo M&A activities or technology upgrades.

Figure 21: Declining industry capex



Source: NBS, Digital Cement, Ccment, Deutsche Bank

Figure 22: Percent of loan book to overcapacity industries



Source: Deutsche Bank, Company data

Cancellation of 32.5 grade cement

The removal of P.C.32.5 grade cement has been discussed for years and it has recently been mentioned in Document 41 once again. According to the China Cement Association, full implementation details of the removal will be announced by July 1, 2014, serving as a near-term catalyst for the sector.

The immediate impact of removing 32.5 grade cement may result in lower margins for leading cement players as they may be forced to sell high grade P.O. 42.5 cement at lower prices

The 32.5 grade removal is a long-term structural positive for the sector but the implementation will be very challenging, in our view. 65% of the cement produced in China is 32.5 grade cement and there are many supporters for this grade of cement due to its lower cost. The immediate impact may also result in lower margins for leading cement players as producers may be forced to sell high grade cement at lower prices, since P.C. 32.5 prices are on average RMB30/t lower. The end consumer will likely resist a onetime RMB30/t price hike overnight. However, in the long run the reduction of overall supply will enable cement players to raise prices over time.

The maximum potential is to rid c.880mt or c.24% of the nation's cement capacity by our estimates.

The removal of the P.C.32.5 grade will no doubt raise construction standards in China and serve as a catalyst to squeeze out smaller grinding stations which are the main producers of such cement. If fully implemented, the maximum potential is to rid c.880mt or c.24% of the nation's 3.6bn tonnes in cement capacity by our estimates. However, the cancellation will likely be gradual. In our supply-demand model, we have factored in the removal by assuming a mild decline of the cement-clinker ratio, dropping from 1.77 at the end of 2013.

History of 32.5 grade cement

P.C.32.5 cement uses much less clinker than that of P.O. 42.5

32.5 grade cement was widely used in the 1980's when China experienced a shortage in cement, thus allowing the addition of mixed materials such as coal ash and limestone to increase the cement production volume. The P.C.32.5 grade cement has not been eradicated since because 1) they enjoy government rebates for the use of industrial waste and 2) it is much cheaper to produce as composite materials are a fraction of the cost of clinker.

Figure 23: Constituents of common Portland cement in China

	Clinker	Granulated slag	Fly ash	Limestone	Gypsum	Blast furnace slag	Pozzoualana
P.C. 32.5	50-60%	15%	8%	8%	4%	15%	
P.O. 42.5	78-82%	4-6%		4-6%	4-6%		
P.C. 42.5	70%			5%	5%	20%	
P.O.52.5	84-87%	4-6%			4-6%		4-6%

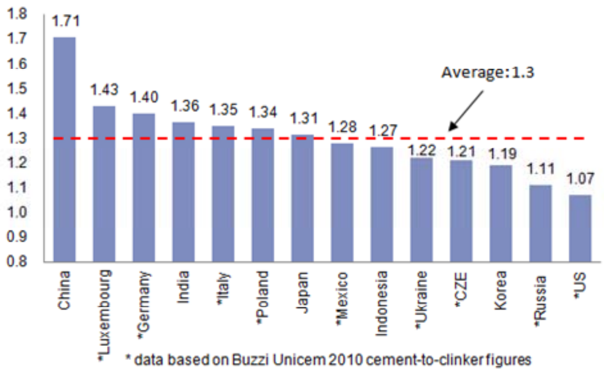
Source: Deutsche Bank, Digital Cement

Cancelling cement grades in the past has worked

On June 1, 2008, the General Administration of Quality Supervision and the Standardization Administration jointly issued the standard for "Common Portland Cement". In the 2008 iteration, the ordinary cement class P.O.32.5 and P.O 32.5R was cancelled. These were the main products produced by obsolete vertical kilns and once accounted for more than half the cement market. However, because the cement quality was unstable, they were cancelled and only P.C.32.5 and P.S.32.5 grades were kept.

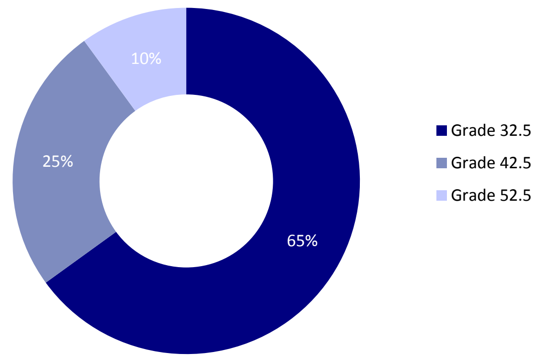
Today, P.C.32.5 cement has its supporters due to its properties such as low early strength, good heat resistance and good acid resistance. P.C.32.5 can be used for masonry and concrete structure, used widely in buildings, underground or underwater projects, as well as in rural areas. The cancellation will have a significant impact to the design and construction of buildings.

Figure 24: Cement to clinker ratio from around the world



Source: Deutsche Bank
**1.71 cement to clinker ratio implies1/1.71 = 0.58 tonnes of clinker is used per tonne of cement*

Figure 25: Cement sales by different grades in 2012



Source: Deutsche Bank, China Cement Association

Why removing P.C.32.5 grade cement is difficult?

Small grinding stations are likely to strongly resist P.C.32.5 grade cement removal

The challenge for removing P.C.32.5 grade cement is mainly driven by the high margins of smaller grinding stations, who are the main producers of such cement. Most of them have old equipment and will not be able to produce P.O.42.5 cement, therefore they will resist the removal. The below analysis shows that they could even be more profitable compared to leading producers in the following ways: 1) less clinker and more limestone/fly ash used hence cheaper cost; 2) not issuing VAT receipts on its products leading to higher prices and lower taxes. For the grinding stations that have no financing troubles, they can be as competitive if not more profitable versus the large cement producers.

Figure 26: P&L for small grinding stations vs. large cement producers per tonne of cement produced

(RMB/t)			**P.C. 32.5 bagged cement produced by small grinding station**		**P.C. 32.5 bagged cement produced from cement factory with clinker line**		**P.O. 42.5 bulk cement produced from cement factory with clinker line**	
Market price of cement sold (incl. VAT) requiring VAT receipts				**320**		**320**		**350**
Sales volume (reported to tax bureau)				0.5		1		1
Market price of cement sold not requiring VAT recepts				**310**		**--**		**--**
Sales volume (not reported to tax bureau)				0.5		--		--
Transportation cost				20		20		20
Ex-factory of cement price (excl. VAT)				**273**		**256**		**282**
COGS (excl. VAT)				**193**		**183**		**191**
Raw material	**Cost for small grinding station**	**Cost for large cement factory**	**% content**	**144**	**% content**	**137**	**% content**	**160**
Clinker	222	180	50%	111	60%	108	78%	140
Gypsum	85	85	6%	5	6%	5	6%	5
Slag/furnace slag	103	103	5%	5	5%	5	5%	5
Fly ash	64	64	19%	12	19%	12	11%	7
Limestone	38	38	20%	8	10%	4	0%	0
Grinding aids	8,547	8,547	0.03%	3	0.03%	3	0.03%	3
Electricity			RMB 0.7/KWhr @ 35 KWhr of electricity	21	RMB 0.5/KWhr @ 35KWhr of electricity	15	RMB 0.5/KWhr @ 40KWhr of electricity	17
Depreciation			old equipment	3		6		6
Labour				3		3		3
Packaging				17		17		0
Others				5		5		5
Gross profit				**80**		**74**		**91**
gpm%				*29%*		*29%*		*32%*
SG&A				12		15		15
VAT rebate			not VAT registered	0		26		n.a
EBIT				68		84		76
Finance cost				20		20		20
Pre-tax profit				48		64		56
Tax		**25%**	half the volume eligible	6		16		14
Net Income				**42**		**48**		**42**

Source: Deutsche Bank

Declining economics

Diminishing economic returns for new entrants

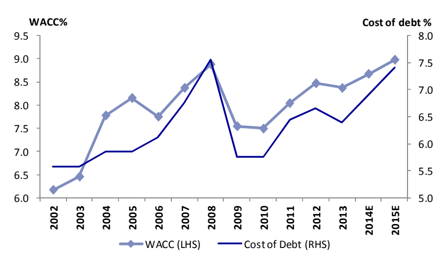
We believe the economics of entering the cement business is becoming less attractive, giving us a compelling reason to believe that new supply will be significantly reduced. To begin with, the replacement cost for a cement plant has doubled over the past 10 years. This is due to higher land prices and additional capex related to energy conservation and environmental protection. As a result, this has prolonged the payback period and reduced the IRR, particularly now with CNBM removed from the M&A scene. Over the past six years, CNBM paid hefty premiums attracting investors in search of a quick profit to enter the industry and sell their plant/license to them.

The payback period is shortened by SOE's such as CNBM whom have overpaid for their acquisitions in the past

Breakeven point now at 11.5 years and returns are falling

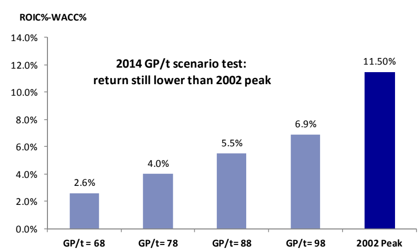
Our NPV analysis shows that if an investor in 2014 made the same industry profitability of GP RMB68/t in 2013, it would take that investor 11.5 years to break even with excess return (IRR-WACC) of only 2.6%. The risk is that if profitability were to rise again, new entrants will re-enter the industry in 2015. Our stress test shows that even if GP were to recover to GP of RMB88/t in 2014, similar to the peak cycle in 2011, it would still take the average investor nine years to break even. This is because replacement costs are now higher and the cost of borrowing has spiked with tighter credit onshore.

Figure 27: Rising WACC (%)



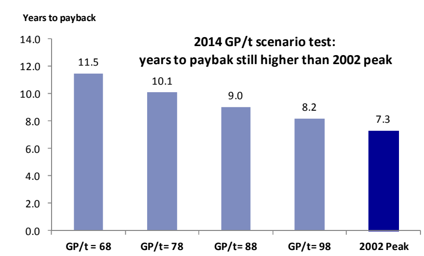
Source: Bloomberg Finance LP, Deutsche Bank

Figure 28: Return sensitivity



Source: Bloomberg Finance LP, NBS, Deutsche Bank

Figure 29: Payback period sensitivity



Source: Bloomberg Finance LP, NBS, Deutsche Bank

Figure 30: NPV analysis for building a cement plant in 2014

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
FY	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
GP/t (RMB/t)		68	68	68	68	68	68	68	68	68	68	68	68	68	68	68
SG&A/t (RMB/t)		(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)
EBIT/t (RMB/t)*	0	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41
Tax/t (RMB/t)	0	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
D&A/t (RMB/t)*	0	24	24	24	24	24	24	24	24	24	24	24	24	24	24	44
FCF (RMB/t)	-400	56	56	56	56	56	56	56	56	56	56	56	56	56	56	76
WACC (2013)*	8.7%															
PV (RMB/t)		51	47	44	40	37	34	32	29	27	25	23	21	19	18	22
Aggregate PV (RMB/t)	**-400**	**-349**	**-301**	**-257**	**-217**	**-180**	**-146**	**-114**	**-85**	**-58**	**-33**	**-10**	**11**	**30**	**48**	**70**
Years to payback	11.5		IRR	11.2%												

Notes:

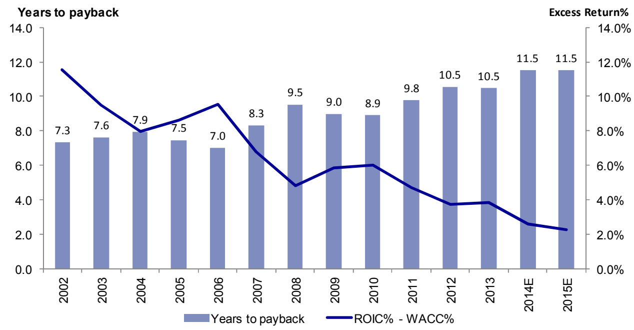
1. GP/t, EBIT/t: assume 0% EBIT YoY growth from 2014E to 2029E

2. D&A: straight line method (15 years period and 5% scrape value)

3. WACC: leverage ratio was given by NBS; use CAPM to calculate cost of equity; use bank lending rate to calculate cost of debt

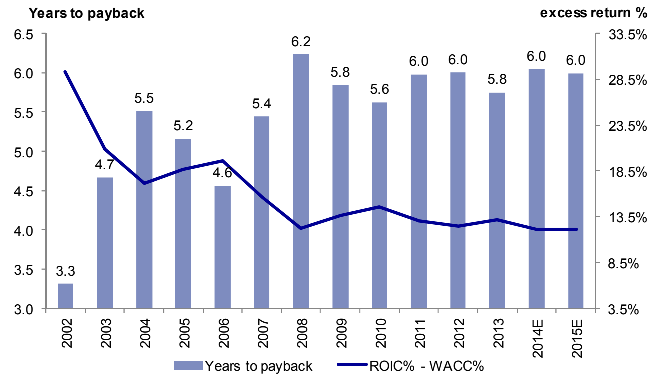
Source: Deutsche Bank, company data, NBS

Figure 31: Years to payback for average player



Source: Deutsche Bank, NBS, company data

Figure 32: Years to payback for Conch



Source: Deutsche Bank, company data, NBS

While the payback period did not seem attractive on paper, new capacity continued to explode over the past five years as the actual payback period was much shorter for some. Over the past five years, CNBM had been the biggest acquirer of cement capacity growing its capacity from 129mt in 2008 to c.400mt by end 2013. Sellers in search of a quick profit would sell to CNBM as they have always paid significant premiums for assets paying an average 2.3x P/B for each asset, causing the overcapacity to worsen significantly. Current debt levels for CNBM no longer permit them to be as active in M&A.

Current debt levels for CNBM no longer permit them to make acquisitions

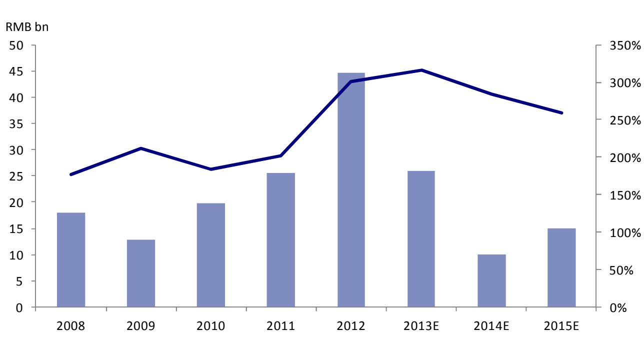
Figure 33: CNBM 2011-2012 acquisitions

2012 Acquisition in RMB mn	Net assets	Consideration	Goodwill	P/B
恒昌混凝土(Hengchang)	19	22	3	1.2
新航建材(Xinhang)	447	512	64	1.1
申金水泥(Shenjin)	125	144	18	1.1
恒耐水泥(Hengnai)	48	60	12	1.3
成实天鹰水泥(Chengshi Tianying)	202	230	28	1.1
川煤水泥(Chuanmei)	269	342	74	1.3
泰基混凝土(Taiji)	8	12	4	1.5
万科混凝土(Wanke)	11	13	2	1.2
Total disclosed	**1,129**	**1,335**	**206**	**1.2**
Overall	**12,823**	**28,881**	**16,101**	**2.3**

2011 Acquisition in RMB mn	Net assets	Consideration	Goodwill	P/B
宾州水泥(Binzhou)	406	1,832	1,426	4.5
桃江南方水泥(Taojiang SC)	129	403	274	3.1
乐昌南方水泥(Lechang SC)	108	211	103	2.0
金鲤水泥(Jinli)	511	527	16	1.0
金刚天马水泥(Jingang Tianma)	89	455	366	5.1
四川利森建材(Lisen)	1,412	2,339	927	1.7
思茅建峰水泥(Simao Jianfeng)	310	714	404	2.3
重庆科华(Kehua)	552	1,809	1,256	3.3
Total disclosed	**3,518**	**8,290**	**4,773**	**2.4**
Overall	**4,457**	**10,469**	**6,072**	**2.3**

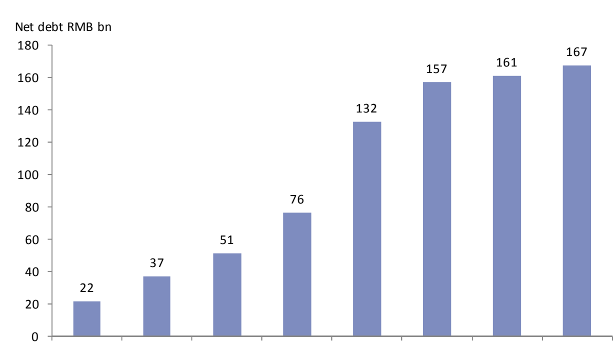
Source: Deutsche Bank, company data

Figure 34: CNBM capex vs. net gearing



Source: Deutsche Bank, company data

Figure 35: CNBM net debt



Source: Deutsche Bank, company data

Cleaning up China

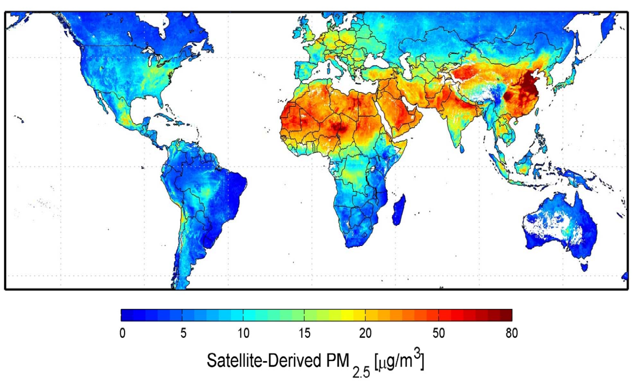
Who would have thought cement is a beneficiary?

There appears to be no end in sight for China's air pollution problems as cities enveloped with hazardous smog have become commonplace, and the situation is worsening. China's central government is finally taking the problem seriously and in September 2013, the State Council announced the "Clean Air Action plan" to bring improvements in air quality by 2017. The document has clear environmental targets for the cement industry, as well as imposing different requirements for producers in different regions.

Leading cement players will become beneficiaries of new environmental measures

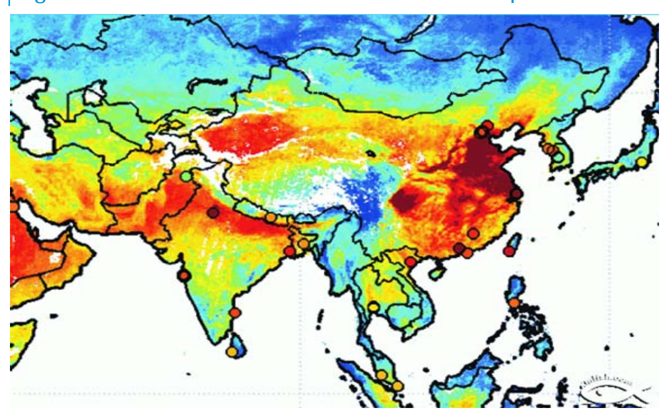
Contrary to popular belief that the new environmental measures will be negative to cement producers, we believe leading cement players will become beneficiaries instead of victims. The new anti-pollution standards are increasing operating cost, raising entry barriers and accelerating consolidation of less efficient and less profitable plants.

Figure 36: Satellite-Derived World PM2.5 map



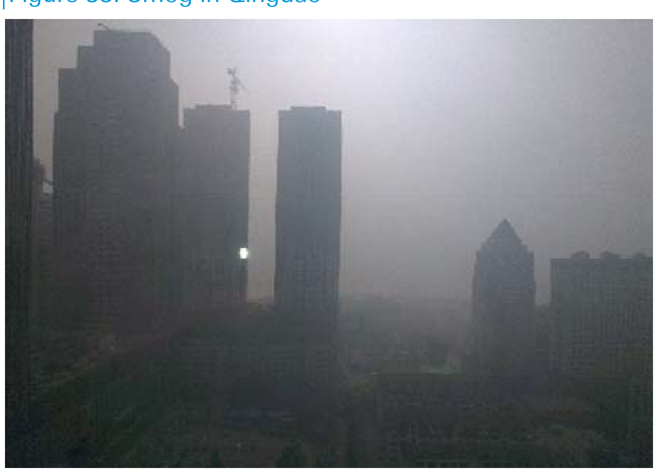
Source: Environmental Health Perspectives, Deutsche Bank

Figure 37: Satellite-Derived China PM2.5 map



Source: Environmental Health Perspectives, Deutsche Bank

Figure 38: Smog in Qingdao



Source: Deutsche Bank

Figure 39: Smog in Shandong

Source: Deutsche Bank

State Council's "Clean Air Action Plan"

On Sep 12 2013, the Clean Air Action Plan was issued by the State Council. The action plan aims to improve average concentration of PM10 by no less than 10% from the 2012 level by 2017. Similarly, the average concentration of PM2.5 should reduce by 25%, 20% and 15% in Bohai Rim, YZD and PRD regions respectively, with the average concentration of PM2.5 kept within 60mg/m3 in Beijing.

We believe the Clean Air Action Plan has the following implications for cement companies:

1) Accelerates the pace of technology upgrade, such as installing desulfurization, denitrition and de-dust facilities

2) Reduces unnecessary sources of pollution. Large coal piles should be stored in an enclosed space or protected by facilities that can block wind and prevent dust from spreading

3) Strictly controls new supply in the high-pollution and high-consumption industries

4) Speeds up obsolete capacity removal and achieve removal target a year ahead of China's 12th Five-Year Plan schedule. Further eliminate another 100mt of cement capacity by 2015

5) Curbs overcapacity by encouraging cross-regional M&A

6) Halts construction projects that violate regulation in overcapacity sectors

7) Develops "circular economy" and promotes co-processing of industrial and municipal waste technology in cement kilns

Clean Air Action Plan provides a wide-array of investment opportunities for cement related industries

We believe the Clean Air Action Plan has provided a wide-array of investment opportunities for cement-related industries both upstream and downstream. Clearly, EPC contractors, equipment providers and desulfurization and denitrition operators will benefit. Companies such as Conch Venture, Sinoma Jiangsu Cohen, Chengdu Tianlan and Xi'an Aerospace Propulsion Institute are some of the nation's largest EPC providers of cement equipment. Cement companies will also have a chance to go downstream and enter in the waste incineration business *(see Appendix A for section on waste incineration).*

What local governments are doing?

Cement producers are forced to remove their small grinding and clinker plants

After the release of the Clean Air Action plan, local governments have begun to take action in 4Q13 and we believe the enforcement will step up in the next few years. In the Bohai Rim, we have seen some of the toughest measures ever with cement producers including Beijing state-owned BBMG and Hebei state-owned Jidong forced to remove their cement grinding plants and small clinker lines. As a result of the removal, we believe supply-demand in Hebei has reached an inflection point with utilization rates likely to improve from 56% in 2013 to 63% by 2015. Closures were also seen in other provinces though to a lesser extent in Shaanxi, Shanxi, Zhejiang and Anhui.

Figure 40: Production halts due to environmental regulation

Province	Production halt
Hebei	**Shijiazhuang:** Cement grinding stations shut down for five months (2013 Oct 15 – 2014 Mar 15); shut down all building materials companies if the air pollution warning system reach level yellow; to reduce coal consumption, all cement producers have to cut capacity by 60% during winter heating period, and by 20% during non heating period;
	Tangshan: Production of building materials need to be cut by 30% if air pollution warning system reached level yellow
Shaanxi	**Xi'an:** Shut down Xi'an grinding stations in Dec 2013
Shanxi	**Taiyuan:** Shut down four cement producers in Dec 2013
Zhejiang	**Huzhou:** Halt production for 15 days in Dec 2013 to reduce pollution
Anhui	**Hefei:** Production cut by 30% in Dec 2013 to reduce pollution

Source: Deutsche Bank

Figure 41: Air pollution warning system in Shijiazhuang

Level	AQI (Air Quality Index)	Measure
Yellow	Three consecutive days 300>AQI>200	Shut down all building materials companies; Conduct 24-hr monitoring for companies who contribute to 60% of total emission in the city
Amber	Three consecutive days 500>AQI>300	Shut down all building materials companies and construction plants; Conduct 24-hr monitoring for companies who contribute to 70% of total emission in the city
Red	AQI>500	Shut down all building materials companies and construction plants; Conduct 24-hr monitoring for companies who contribute to 80% of total emission in the city

Source: MEP, Deutsche Bank

Figure 42: Comparison of emission standards

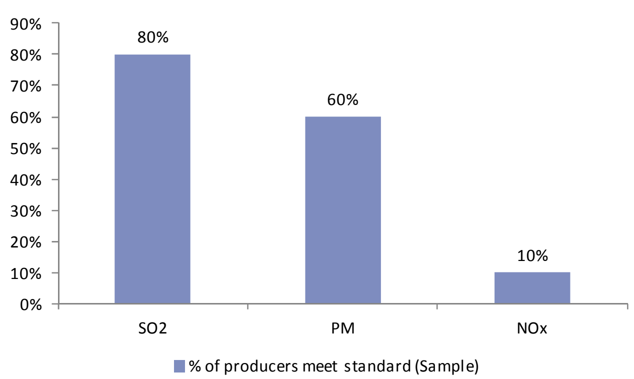
Country	SO_2 (mg/m3)	PM (mg/m3)	NOx (mg/m3)
China (Old)	200	50	800
China (New)	100	30	400
China (New)-key region	50	20	320
Europe	50-400	10-20	500-800
US	80	20	300
Japan	NA	20-100	500-700
Germany	500	20	320-500

Source MEP, Analysis on Denitrification Measures and Applications in Cement Industry, Deutsche Bank

On Dec 27, a new cement industry air pollutant emission standard was issued to complement the Clean Air Action Plan. We believe the deNOx standard was the toughest among the three and would incur an additional RMB3-10/t in operating cost for cement producers. According to the sample survey of 160 cement producers conducted by MEP, only 10% have met the new standard for NOx emission. The new DeNOx standards were even more strict than that of most overseas countries.

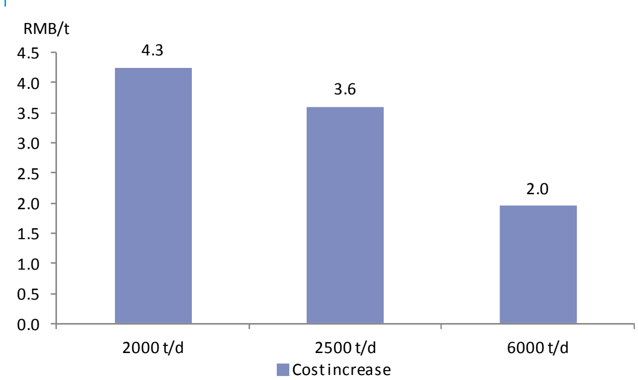
A new cement industry air pollutant emission standard was issued with deNOx standard incurring an additional RMB5-10/t in operating cost.

Figure 43: Percent of producers meet new standard (Sample)



Source: MEP, Deutsche Bank

Figure 44: Case study of ACP increase for cement lines



Source: MEP, Deutsche Bank

How are the leading cement producers coping with the new standards?

We interviewed the leading producers in China to see where they were in terms of coping with the new industry standards. Most of the cement players already meet the standard for SO2 and plants that had larger clinker lines required less operating cost for DeNox. Smaller clinker lines appear to have cost twice that of large clinker lines. Thus far, we have not seen strict enforcement of these standards, but we believe in time this will be monitored more closely by the Environmental Bureau.

Figure 45: Progress of technology upgrade to meet existing new environmental standards

Company	Project	Progress	Remarks
Asia Cement	DeNOx	• All installed	
	Dust collection	• All installed	
BBMG	DeNOx	• 90% of lines have been installed, the rest will be completed in 2 years	• RMB2-3m per one time installation fee per line. Depending on the technology used, some can be as high as RMB10m • Incremental production cost is around RMB3/t (90% of the cost comes from NH3 water)
	Dust collection	• 70-80% of BBMG's facilities have already met required standards	
CNBM	DeNOx	• 1/3 of lines have equipped with or are in the process of installing DeNox facilities	• RMB2-3m per one time installation fee. • Incremental production cost will be up by RMB5/t
	Dust collection	• Almost all lines have met the required standards	•
Conch	DeNOx	• Half of the facilities have equipped with DeNox facilities • The rest of the upgrade will be completed by 1Q14	• The cost of the upgrade was RMB1.5-1.8m per line last year, this figure could be higher now • Incremental production cost will be less than RMB5/t. (For example, Conch Yingde plant's current NOx emission is 600mg/m3, the incremental cost for them to reduce emission level from 600mg/m3 to 400mg/m3 is around RMB1.6/t).
CR Cement	DeNOx	• Out of 41 lines, 11 have been completed in 1H13, 18 will be completed by 1Q14, and the rest by 1Q15	• HKD2-3m per one time installation fee • HKD3/t operating cost to reach the 400mg/cu.m standard
	Dust collection	• 4 lines are equipped with dust collection facilities	• HK12m per one time installation fee for dust collection bag
Shanshui	DeNOx	• 3 lines have been installed and 20+ will be installed in 2014	• RMB2.5-3m per line installation fee • Incremental cost is around RMB3-5/t, smaller lines generally cost more than a larger line
	Dust collection	• Around 10 lines will be installed in 2014	• Cost will increase by RMB0.8-1/t
Sinoma	DeNOx	• Around 10% have been completed	• RMB5-6m per line installation fee • Incremental production cost will be RMB3-5/t
	Dust collection	• Majority has already met the required standard	• RMB8-10m per one time installation fee
TCCI	DeNOx	• All lines in Guangxi and Guangdong have been installed • Lines in Southwest will be installed this year	• Incremental operating cost is around RMB3-5/t, small line costs more than a larger line
	Dust collection	• Most of the lines have already met requirements	
WCC	DeNOx	• All big plants have installed deNOx facilities	
	Dust collection	• 4 lines will be equipped with dust collection bags	• Each cost RMB5-6m

Source: Deutsche Bank

Demand

Still room for demand to grow

We expect cement demand to moderate to c.5% CAGR growth in the next five years, declining from a high base of 9.6% in 2013. We believe urbanization will continue to drive cement demand particularly in Western China, where the disparity with Eastern China is still vast. While most investors have become concerned on China's high cement consumption per capita, our case study of developed countries shows that urbanization rate correlated strongly with cement consumption per capita until urbanization rate reached c.70-80%. At the end of 2013, China's urbanization rate was only 53.7% suggesting that there is at least 10-15 years of cement demand growth before the peak.

Cement consumption per capita should not peak until at least 10-15 years away

An alternative method studying the cumulative consumption per capita of China also yielded similar results to the above. Zhejiang province is China's largest consumer of cement consuming 33 tonnes per capita until 2013, but demand has yet to peak. If the rest of China was to catch up to Zhejiang's current consumption, it would still take 12 years or until 2026 before the peak.

Case study of cement consumption vs. urbanization

Urbanization rate correlated strongly with cement consumption per capita until the urbanization rate reached c.70-80% in developed countries

For most countries around the world, urbanization was the major driver for cement demand. This makes sense as urbanization involves property and infrastructure construction which are the largest segments for cement usage. Our analysis shows that the urbanization rate correlated strongly with cement consumption per capita until the urbanization rate reached c.70-80% in developed countries with R2 of 71%-99%. However, the relationship breaks down when urbanization exceeds 80%.

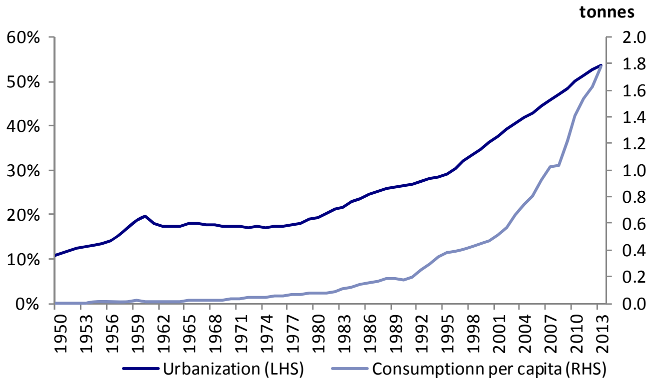
For the US, the first peak did not come until 1973 after President Eisenhower signed the Federal-Aid Highway Act in 1956 to create a 41,000 mile national system of interstate and defense highways to eliminate unsafe roads. The second cycle began in the early 1990's and then ended in 2005 after the housing bubble burst. In the context of China, we found that cement consumption per capita peaked in both Beijing and Shanghai during 2006 leading up to the Olympics and Shanghai expo when the urbanization rate reached 84% and 89%.

Figure 46: Peak demand consumption versus urbanization

	Year when peak (excl. China)	Urbanization	Peak consumption per capita (tonnes)	R2 (before peak)	R2 (after peak)
Japan	1973	74%	0.72	74%	79%
Korea	1997	79%	1.34	85%	0.3%
US (peak 1)	1973	74%	0.39	71%	21%
US (peak 2)	2005	81%	0.43	52%	98%
Germany	1972	72%	0.68	91%	39%
France	1974	73%	0.59	99%	24%
Norway	1987	72%	0.44	77%	15%
Demark	1973	81%	0.52	94%	28%
Finland	1974	67%	0.48	89%	25%
China	**2013**	**54%**	**1.78**	**93%**	**n.a**

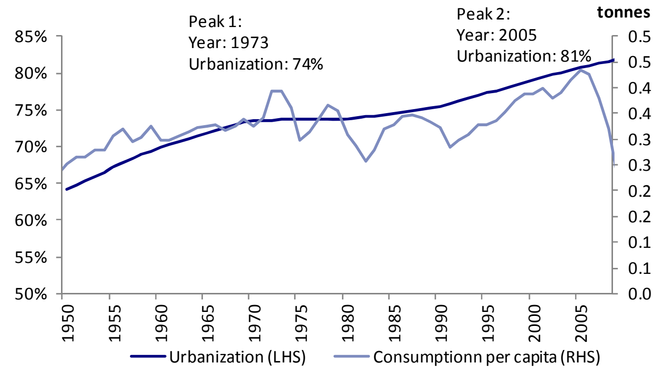
Source: Deutsche Bank, CEIC, United Nations, CEMBUREAU

Figure 47: China cement consumption per capita vs. urbanization rate



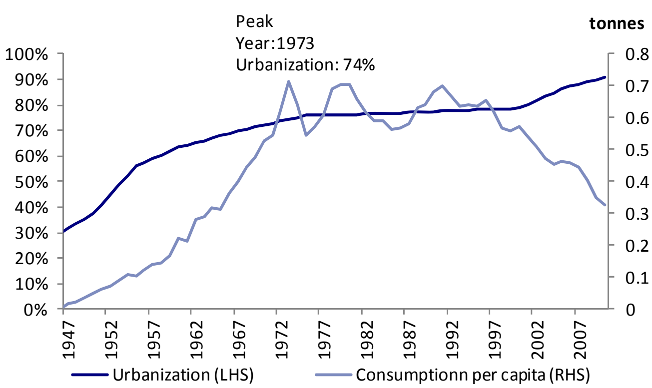
Source: Deutsche Bank, NBS, Digital Cement

Figure 48: US cement consumption per capita vs. urbanization rate



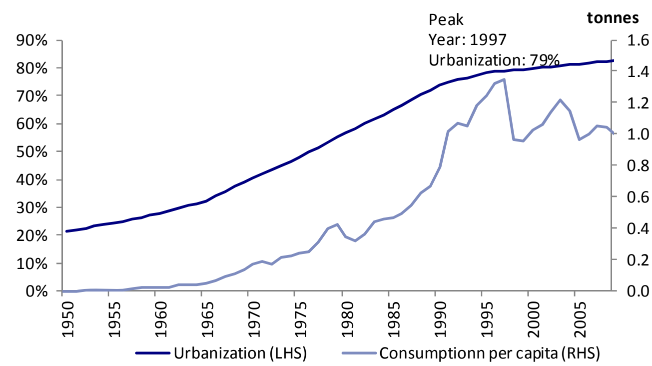
Source: Deutsche Bank, United Nations, CEMBUREA

Figure 49: Japan cement consumption per capita vs. urbanization rate



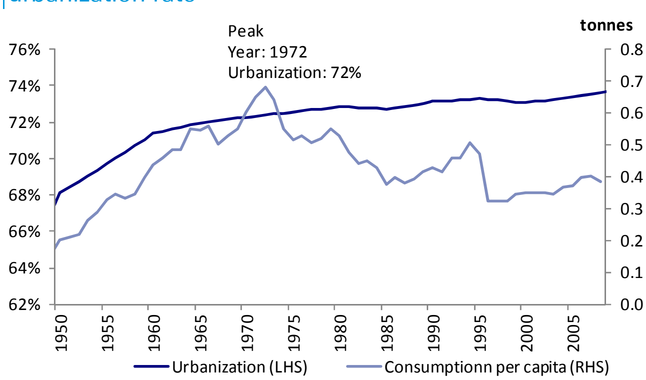
Source: Deutsche Bank, United Nations, CEMBUREA

Figure 50: Korea cement consumption per capita vs. urbanization rate



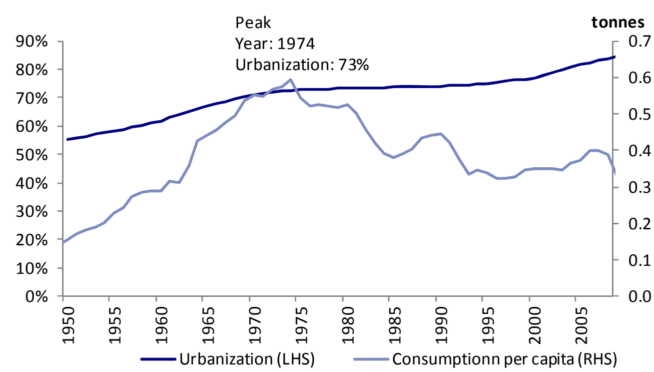
Source: Deutsche Bank, United Nations, CEMBUREA

Figure 51: Germany cement consumption per capita vs. urbanization rate



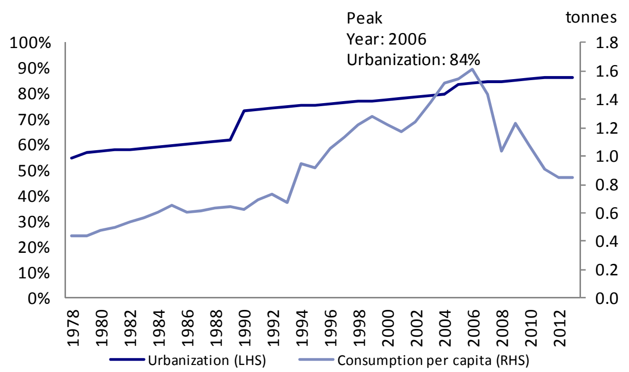
Source: Deutsche Bank, United Nations, CEMBUREA

Figure 52: France cement consumption per capita vs. urbanization rate



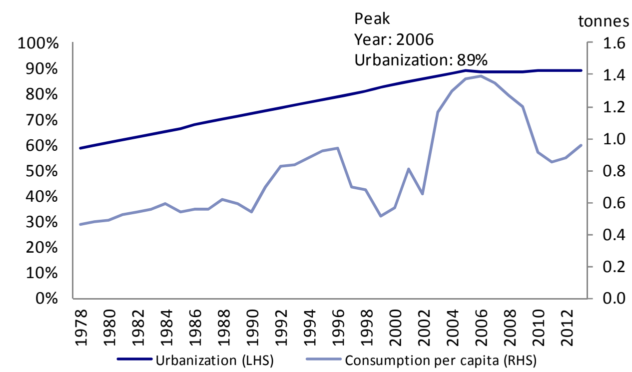
Source: Deutsche Bank, United Nations, CEMBUREA

Figure 53: Beijing – Urbanization vs. cement consumption per capita



Source: Deutsche Bank, NBS, Digital Cement

Figure 54: Shanghai – Urbanization vs. cement consumption per capita



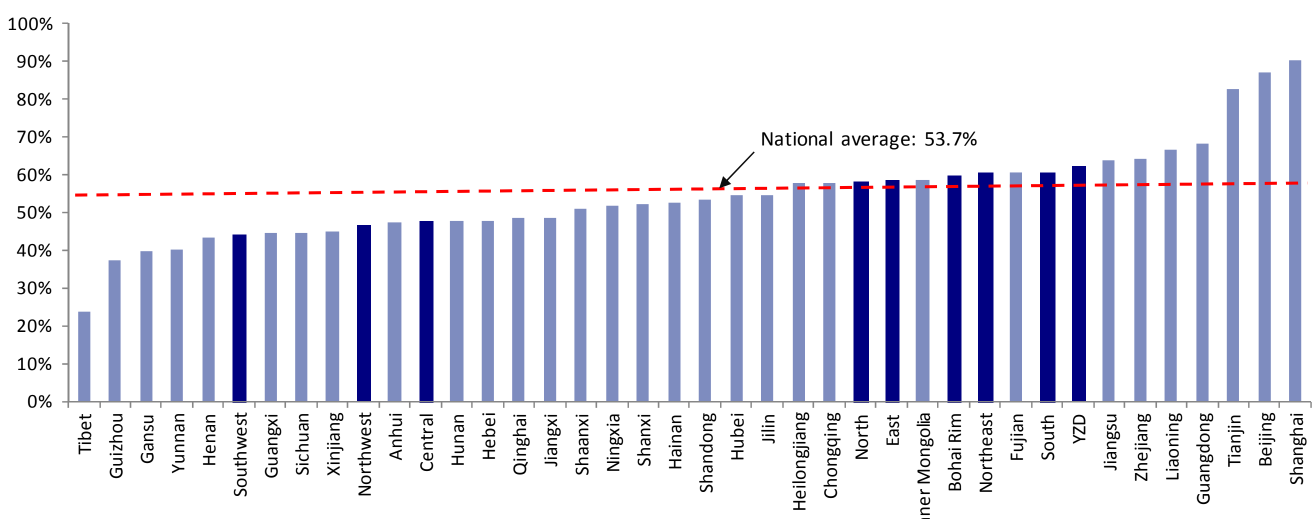
Source: Deutsche Bank, NBS, Digital Cement

Throughout the past 30 years, China's urbanization rate has increased sharply and cement consumption per capita has continued to climb. At the end of 2013, China's urbanization rate reached 53.7% averaging a 1.3% improvement each year over the past 20 years. Assuming the rate remains constant and that China's cement consumption per capita were to peak when urbanization reached 70%, there is still 12.5 years or until 2027 before demand peaks. Should the peak be similar to what we saw in Shanghai and Beijing, i.e. when urbanization reached c.85%, the peak will not arrive until 2038 or in 24 years.

China's urbanization rate reached 53.7% in 2013. If China's cement consumption per capita were to peak when urbanization reached 70%, there is still 12.5 years or till 2027 before demand peaks

The risks to this analysis are that cement is such a localized business so some regions may peak faster than others. Both Jiangsu and Zhejiang have urbanization rates of 63% at the end of 2012. Assuming that they follow the same pattern as that of overseas countries with cement consumption peaking at c.70-75% urbanization rate, the peak for Jiangsu and Zhejiang should be in 5-8 years or between 2019 and 2022.

Figure 55: 2013 urbanization rate in China by province and regions



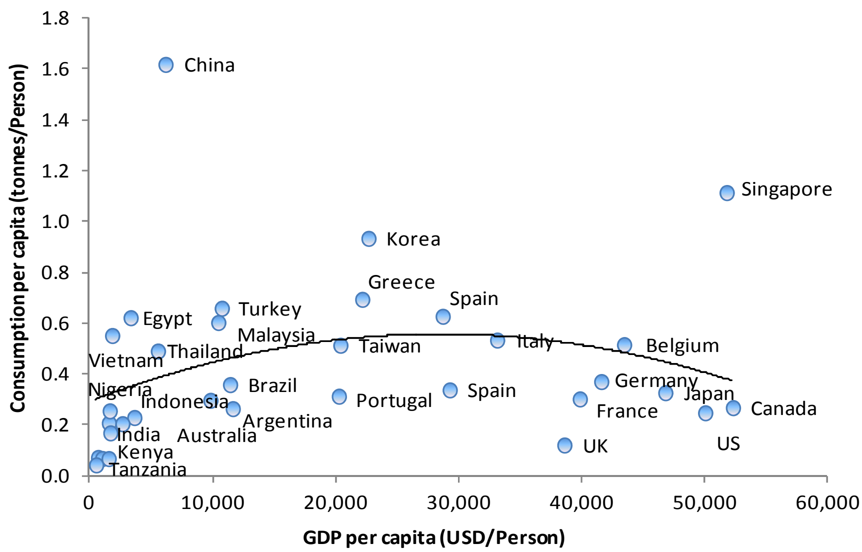
Source: Deutsche Bank, NBS

Case study of cumulative consumption per capita

We believe comparing cumulative cement consumption across countries is meaningless

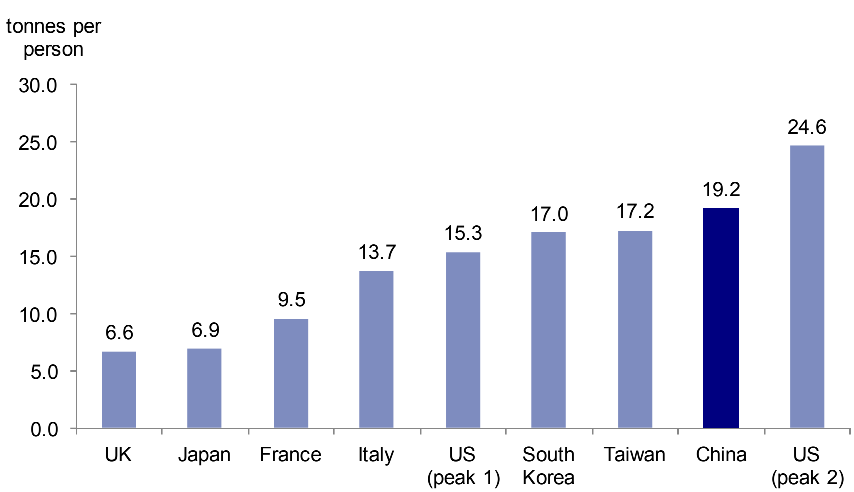
A popular approach is to look at the cumulative consumption per capita comparing that against developed countries in the world. Using this approach, most people will conclude that cement demand in China should have already peaked. We believe this analysis is flawed because it is not an apples to apples comparison. The quality of materials used for buildings or roads varies by country and so comparing China to the US does not make sense. However, we believe a better comparison is to compare cumulative consumption per capita of provinces within China.

Figure 56: Cement consumption per capita vs. 2012 GDP per capita



Source: Worldbank, CEMBURAEU, Deutsche Bank estimates

Figure 57: Cumulative cement consumption per capita at peak vs. 2012 GDP per capita



Source: Deutsche Bank, Digital Cement, CEMBUREA

South Korea and Taiwan probably have the most similarity to that of China. Both countries witnessed cement demand peak when cumulative consumption per capita reached c.17 tonnes. Given that China reached 19 tonnes in 2013, we argue that comparing the above markets makes no sense.

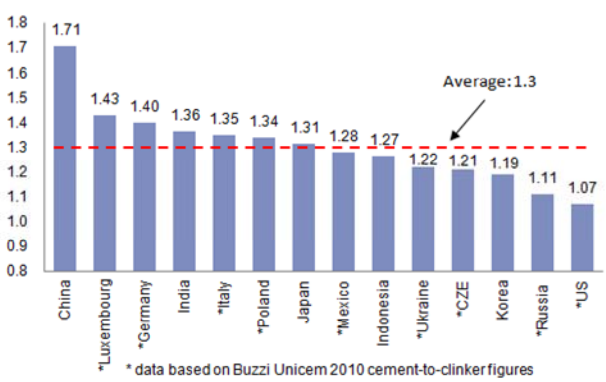
The life span of buildings built in China over the past 30 years lasted only one-fourth the lifetime of buildings in the US

First, the life span of buildings built in China over the past 30 years lasted only one-fourth that of the buildings in the US. This was likely due to the poor quality of cement used and the poor town planning of the Chinese government forcing them to tear down and rebuild with each new government. We believe houses built from 1978-2000 would undergo another phase of reconstruction beginning now. Given that real estate accounts for half the cement consumed in China, China's cumulative consumption may not seem all that high after all.

Second, the surface of roads used is predominately cement/concrete in China versus asphalt in the US. Since asphalt is a by-product of oil, the US with its abundant supply of oil can get access to asphalt at a much cheaper cost than that of China. Roads is the second-largest consumer of cement next to property.

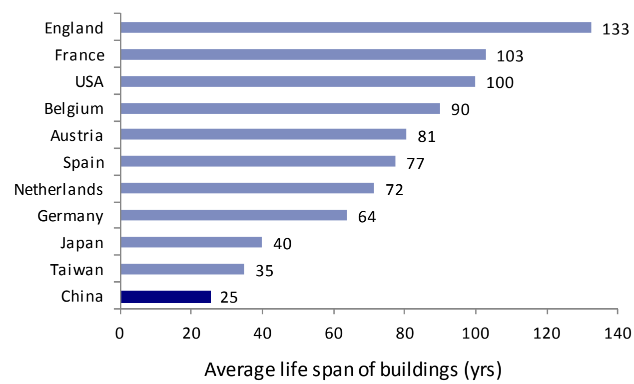
We argue also that China still has a low percentage of roads that are paved and that roads and railway per capita are extremely low compared to most developed countries. That seems to suggest plenty of upside for cement demand.

Figure 58: China's use of low grade cement causes cement consumption to be overstated by 30%



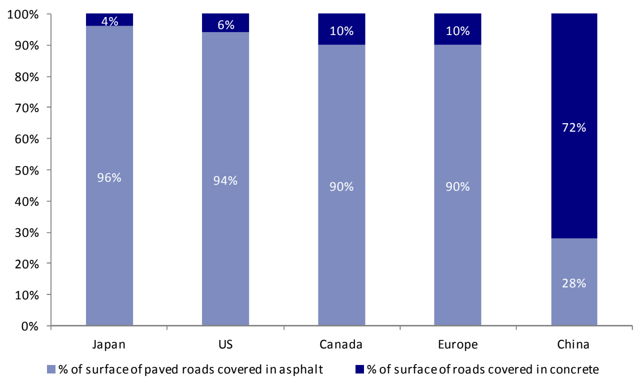
Source: Deutsche Bank, CEIC, Digital Cement, Company data
*Ratio is cement production divided by clinker production

Figure 59: China's life span of homes is so short there could be a wave of reconstruction and upgrades



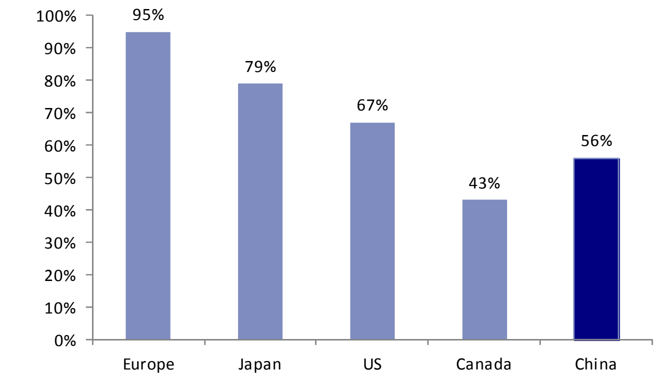
Source: Soufun, MOHURD, English Housing Condition Survey,Deutsche Bank

Figure 60: Roads in the developed counties use much less cement compared to China



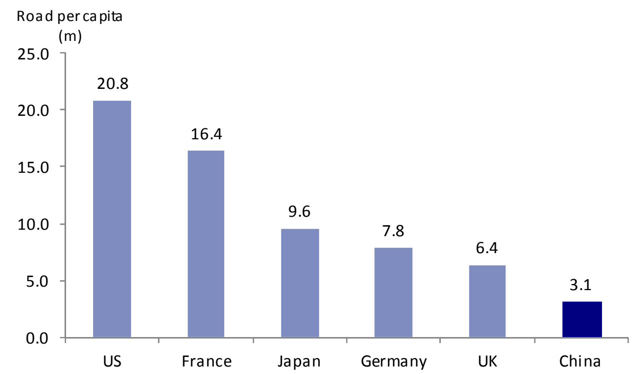
Source: MOC, NAPA, EAPA, World Bank, Deutsche Bank

Figure 61: Percent of roads paved in China vs. developed countries



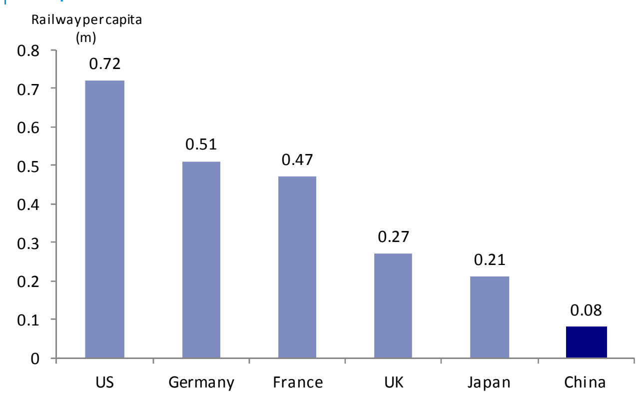
Source: MOC, NAPA, EAPA, World Bank, Deutsche Bank

Figure 62: Roads per capita in China is still very low compared to other countries



Source:OECD, CIA, Deutsche Bank

Figure 63: Railway per capita in China is still very low compared to other countries



Source: OECD, CIA, Deutsche Bank

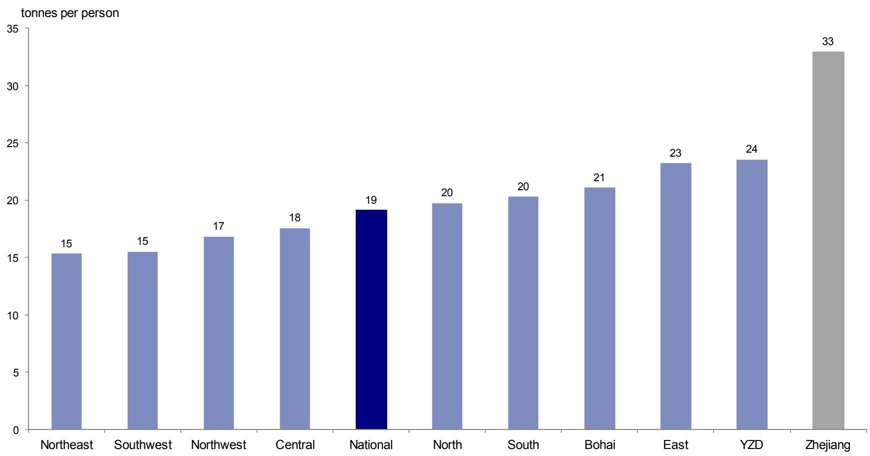
What about just looking at cumulative consumption per capita within China?

To avoid an apples to oranges comparison of China versus other developed countries, we can also use individual provinces in China as a reference. Thus far, there has yet to be a province in China where cement consumption per capita has peaked. Rightly so, Shanghai and Beijing have already reached their peaks but they are just cities and not provinces. Zhejiang is likely the first province to reach the peak since its cement consumption per capita has been hovering within a tight band of 2.0-2.3 tonnes over the past six years. At the end of 2013, Zhejiang's cumulative cement consumption per capita reached 33 tonnes.

If every province was to reach the level of development in Zhejiang today, there would be12 more years before demand peaks

If we assume hypothetically that Zhejiang's cement consumption per capita was to peak at 33 tonnes (which we do not think is the case) and that every province in China was to reach the level of development in Zhejiang today, that would imply there are still 12 more years or until 2026 before demand peaks in China if demand grew at 5% nationwide. This estimate seems to cross-check with our case study of cement consumption vs. urbanization above.

Figure 64: Cumulative cement consumption per capita in China



Source: NBS, Digital Cement, Deutsche Bank

Figure 65: Demand and capacity per capita by regions/provinces

	Cement Demand (mt)		Cumulative demand (tonnes/person)				Annual demand (tonnes/person)				Clinker capacity (tonnes/person)				Cement capacity (tonnes/person)			
	2013A	mkt %	12A	13A	14E	15E	12A	13A	14E	15E	12A	13A	14E	15E	12A	13A	14E	15E
North	**259**	**11%**	**18.2**	**19.7**	**21.3**	**22.8**	**1.5**	**1.5**	**1.5**	**1.5**	**1.3**	**1.4**	**1.5**	**1.5**	**2.5**	**2.8**	**2.6**	**2.5**
Bohai Rim	**145**	**6%**	**19.7**	**21.1**	**22.4**	**23.7**	**1.3**	**1.3**	**1.3**	**1.3**	**1.0**	**1.0**	**1.0**	**1.0**	**2.2**	**2.2**	**2.0**	**1.9**
Beijing	9	0%	15.9	16.3	16.7	17.1	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Tianjin	10	0%	9.5	10.2	10.8	11.5	0.6	0.7	0.7	0.7	0.1	0.1	0.1	0.1	0.5	0.7	0.6	0.5
Hebei	127	5%	22.5	24.3	26.0	27.7	1.8	1.7	1.7	1.7	1.4	1.4	1.3	1.3	3.0	3.0	2.7	2.6
Shanxi	50	2%	14.8	16.2	17.5	18.9	1.3	1.4	1.4	1.3	1.5	1.8	1.9	1.9	2.4	3.0	2.9	2.9
Inner Mongolia	64	3%	17.3	19.9	22.4	24.9	2.4	2.6	2.5	2.5	2.6	2.7	2.9	2.9	4.3	5.1	4.8	4.8
Northeast	**145**	**6%**	**14.0**	**15.3**	**16.6**	**17.9**	**1.3**	**1.3**	**1.3**	**1.3**	**0.8**	**0.9**	**0.9**	**0.9**	**1.4**	**1.8**	**1.7**	**1.6**
Liaoning	60	2%	17.6	19.0	20.3	21.7	1.3	1.4	1.3	1.3	1.1	1.1	1.2	1.2	1.6	2.4	2.4	2.1
Jilin	45	2%	14.2	15.9	17.5	19.1	1.5	1.6	1.6	1.6	1.0	1.0	1.0	0.9	1.3	1.4	1.4	1.2
Heilongjiang	40	2%	9.8	10.8	11.8	12.9	1.0	1.0	1.0	1.0	0.5	0.6	0.5	0.6	1.1	1.4	1.3	1.2
East	**766**	**32%**	**21.3**	**23.2**	**25.1**	**27.0**	**1.8**	**1.9**	**1.9**	**1.9**	**1.3**	**1.3**	**1.3**	**1.2**	**2.3**	**2.5**	**2.3**	**2.0**
YZD	**433**	**18%**	**21.6**	**23.5**	**25.5**	**27.5**	**1.8**	**2.0**	**2.0**	**1.9**	**1.3**	**1.4**	**1.3**	**1.3**	**2.5**	**2.7**	**2.5**	**2.2**
Shanghai	8	0%	9.1	9.4	9.7	10.0	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.3
Jiangsu	180	7%	24.3	26.5	28.8	31.0	2.1	2.3	2.2	2.2	1.0	1.1	1.0	0.9	3.3	3.7	3.3	2.9
Zhejiang	125	5%	30.7	33.0	35.2	37.4	2.1	2.3	2.2	2.2	1.3	1.3	1.3	1.3	2.7	2.8	2.7	2.4
Anhui	121	5%	15.0	17.0	19.0	21.0	1.8	2.0	2.0	2.0	2.1	2.3	2.3	2.2	2.1	2.1	2.1	2.0
Fujian	79	3%	18.5	20.5	22.6	24.7	1.9	2.1	2.1	2.1	1.5	1.4	1.4	1.4	2.3	2.2	1.9	1.9
Jiangxi	92	4%	15.9	17.9	19.9	21.9	1.6	2.0	2.0	2.0	1.3	1.4	1.4	1.4	2.1	2.3	2.2	2.1
Shandong	162	7%	24.2	25.8	27.5	29.1	1.6	1.7	1.7	1.6	1.1	1.3	1.1	1.0	2.0	2.3	2.0	1.7
Central	**391**	**16%**	**15.8**	**17.5**	**19.3**	**21.1**	**1.6**	**1.8**	**1.8**	**1.8**	**1.2**	**1.2**	**1.1**	**1.1**	**2.3**	**2.4**	**2.1**	**1.9**
Henan	168	7%	15.5	17.2	19.0	20.7	1.6	1.8	1.8	1.7	1.0	1.1	1.0	1.0	2.1	2.4	2.1	2.0
Hubei	111	5%	17.0	18.9	20.8	22.7	1.8	1.9	1.9	1.9	1.2	1.2	1.1	1.1	2.2	2.2	2.0	1.8
Hunan	113	5%	15.1	16.8	18.5	20.1	1.6	1.7	1.7	1.7	1.3	1.3	1.3	1.2	2.6	2.4	2.2	1.9
South	**261**	**11%**	**18.7**	**20.3**	**21.9**	**23.5**	**1.4**	**1.6**	**1.6**	**1.6**	**1.2**	**1.2**	**1.1**	**1.1**	**1.8**	**1.7**	**1.6**	**1.6**
Guangdong	134	6%	20.3	21.5	22.8	24.0	1.1	1.3	1.2	1.2	0.9	1.0	0.9	0.8	1.5	1.5	1.3	1.3
Guangxi	107	4%	17.4	19.7	22.0	24.2	2.1	2.3	2.3	2.2	1.7	1.5	1.6	1.5	2.4	2.2	2.2	2.1
Hainan	20	1%	13.3	15.5	17.7	19.9	1.9	2.2	2.2	2.2	1.6	1.6	1.6	1.7	2.1	2.1	2.1	2.3
Southwest	**375**	**16%**	**13.6**	**15.5**	**17.4**	**19.3**	**1.7**	**1.9**	**1.9**	**1.9**	**1.7**	**1.8**	**1.8**	**1.8**	**2.7**	**2.7**	**2.8**	**2.7**
Chongqing	61	3%	14.6	16.6	18.7	20.7	1.9	2.1	2.1	2.0	2.0	1.9	1.9	1.8	3.1	2.6	2.6	2.5
Sichuan	139	6%	14.2	15.9	17.6	19.3	1.7	1.7	1.7	1.7	1.5	1.5	1.5	1.4	2.6	2.5	2.4	2.3
Guizhou	81	3%	10.9	13.2	15.5	17.8	1.8	2.3	2.3	2.3	2.2	2.5	2.7	2.6	3.2	3.6	3.8	3.8
Yunnan	90	4%	13.9	15.8	17.7	19.6	1.7	1.9	1.9	1.9	1.6	1.8	1.9	1.9	2.4	2.5	2.6	2.7
Tibet	3	0%	7.7	8.7	9.6	10.6	0.9	1.0	0.9	0.9	1.2	1.2	0.9	0.7	1.7	1.6	1.2	0.9
Northwest	**217**	**9%**	**14.6**	**16.8**	**19.0**	**21.1**	**1.9**	**2.2**	**2.2**	**2.1**	**2.0**	**2.1**	**2.3**	**2.2**	**2.9**	**3.4**	**3.5**	**3.3**
Shaanxi	85	4%	15.1	17.4	19.6	21.9	2.0	2.3	2.2	2.2	1.5	1.6	1.6	1.6	2.8	2.6	2.7	2.6
Gansu	44	2%	12.1	13.8	15.5	17.1	1.4	1.7	1.7	1.6	1.2	1.5	1.7	1.6	1.8	2.3	2.6	2.4
Qinghai	18	1%	14.7	17.7	20.8	23.9	2.4	3.1	3.1	3.1	2.3	2.7	2.5	2.4	3.7	4.7	4.4	4.1
Ningxia	19	1%	21.4	24.3	27.2	30.1	2.5	2.9	2.9	2.8	3.3	3.1	3.1	3.0	4.5	4.5	4.4	4.3
Xinjiang	50	2%	14.9	17.2	19.4	21.5	1.8	2.2	2.2	2.1	3.1	3.4	3.6	3.6	3.7	5.1	5.4	5.0
National	**2,414**	**100%**	**17.3**	**19.1**	**20.9**	**22.6**	**1.6**	**1.8**	**1.8**	**1.8**	**1.3**	**1.4**	**1.4**	**1.3**	**2.3**	**2.5**	**2.3**	**2.2**

Source: Deutsche Bank, CEIC, Digital Cement

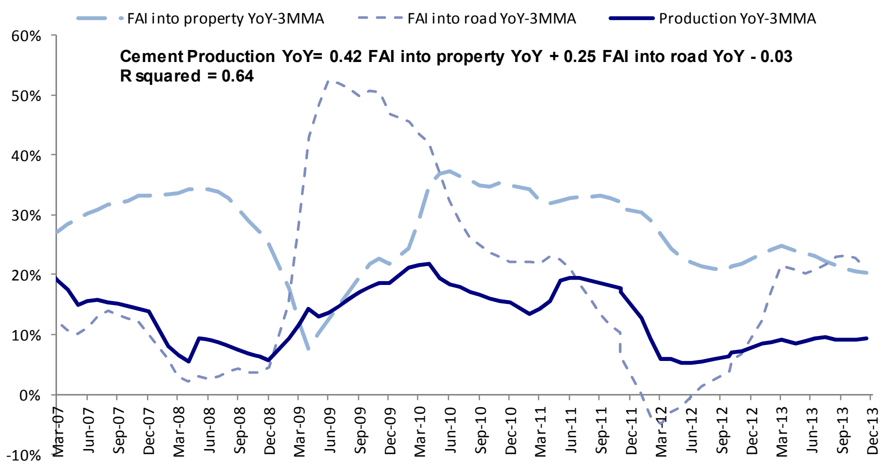
Top down versus Bottom up demand analysis

Top-down analysis

China's cement demand is difficult to estimate but property and roads are the largest consumers of cement. We regressed FAI into property and roads vs. cement production and it seems to exhibit a good relationship with R2 of 0.64.

FAI into property and roads vs. cement production seem to exhibit a good relationship with R2 of 0.64.

Figure 66: FAI into property and roads vs. Cement production

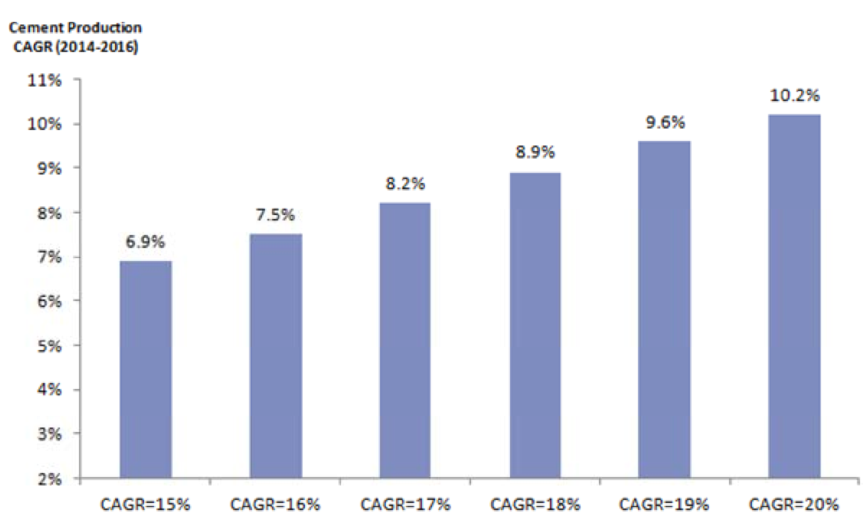


Source: NBS, Deutsche Bank

At the end of 2013, FAI into property was 20% and FAI into roads was 21%. If we assumed that FAI into both segments were to maintain a CAGR of 15-20% over the next three years, cement demand will grow at a CAGR of 6.9%-10.2% between 2014 and 2016.

If FAI into property and roads were to grow at 15-20% over the next three years, cement demand will grow at a CAGR of 6.9%-10.2% between 2014 and 2016.

Figure 67: Cement production CAGR 2014-2016 vs. FAI into roads and property



Source: Deutsche Bank, NBS, Digital Cement

Bottom-up analysis

Our bottom-up demand analysis measures the consumption of cement per sqm of property constructed, per km of roads being built and per km of railways built. We base our forecasts using guidance from the central government with respect to their 12th Five-Year Plan completion targets.

Figure 68: Bottom-up cement demand model for China

Cement consumption (million tonnes)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Urban buildings	**225**	**268**	**325**	**385**	**398**	**393**	**425**	**441**	**461**	**489**	**511**
Non-Residential	37	39	46	55	61	65	68	71	75	79	84
Residential	188	229	279	330	337	328	357	370	386	409	427
Rural buildings	253	317	282	309	329	332	342	359	381	403	428
Others (incl. public facilities, factories)	303	321	306	293	276	296	313	327	344	364	383
Property	**781**	**906**	**913**	**987**	**1,003**	**1,021**	**1,080**	**1,127**	**1,185**	**1,256**	**1,321**
YoY %	*9.2%*	*16.1%*	*0.7%*	*8.1%*	*1.6%*	*1.8%*	*5.8%*	*4.3%*	*5.2%*	*6.0%*	*5.2%*
Railways	70	64	65	34	70	76	110	142	125	125	125
Roads	218	239	237	253	253	260	278	299	347	362	362
Subway	4	8	26	12	12	30	33	36	39	42	43
Waterways	25	25	27	25	30	35	45	54	59	62	63
Air transport	12	9	12	11	13	16	20	25	28	32	34
Transport Infrastructure	**330**	**345**	**366**	**335**	**379**	**417**	**486**	**556**	**599**	**623**	**627**
YoY %	*3.3%*	*4.6%*	*6.1%*	*-8.6%*	*13.2%*	*10.0%*	*16.5%*	*14.4%*	*7.8%*	*4.0%*	*0.7%*
Water Conservation Projects	**12**	**14**	**23**	**35**	**36**	**41**	**48**	**55**	**60**	**63**	**66**
YoY %	*54.6%*	*22.2%*	*63.1%*	*48.3%*	*4.3%*	*15.0%*	*15.0%*	*15.0%*	*10.0%*	*5.0%*	*5.0%*
Others (Non-investment related, i.e. personal consumption of cement for renovation)	**301**	**378**	**565**	**707**	**766**	**902**	**963**	**992**	**1,022**	**1,052**	**1,084**
YoY %	*-5.6%*	*25.7%*	*49.5%*	*25.0%*	*8.4%*	*17.7%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Total	**1,424**	**1,644**	**1,868**	**2,063**	**2,184**	**2,381**	**2,576**	**2,729**	**2,865**	**2,994**	**3,099**
YoY %	*4.6%*	*15.5%*	*13.6%*	*10.5%*	*5.9%*	*9.0%*	*6.7%*	*5.9%*	*5.0%*	*4.5%*	*3.5%*

Source: Deutsche Bank, NBS

Property assumptions

Based on Deutsche Bank's property research team, they estimate that an annual demand of 1,015msm (580msm first time and 430msm upgrade) of new commodity residential apartments for end users will be created between now and 2030. If the urbanization rate for China were to reach 70% by 2030, the urban population coverage of commodity residential housing will reach 61% from 31% today. That implies China would need another 10,440msm or 116m units of new apartments for first-time homebuyers from now until 2030. That is equivalent to 580msm on average per year. This implies that supply of properties still has room to grow by about 60% from the 2012 level.

China would need another 10,440msm or 116m units of new apartments for first-time homebuyers from now until 2030.

Our team also expects continued development of social housing in China with about 6m of new social homes from 2016-2030 to close the gap between private (or commodity) housing and social (or public housing). According to the 12th Five-Year Plan, 36m units of social housing are to be built and including the stock built before 2011, social housing only covers 18% of the urban population. If social housing is to cover about 40% of the urban population by 2030, a total of about 93m units of social housing or 6.2m units per year.

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Infrastructure assumptions

Based on Deutsche Bank's infrastructure research team, over 5,000km ordinary railways and over 11,000km high speed railways will be constructed in 2014 and 2015. According to China's 12th Five-Year Plan, nearly 5,800 km expressway and 300,000 km ordinary road should be completed before 2015.

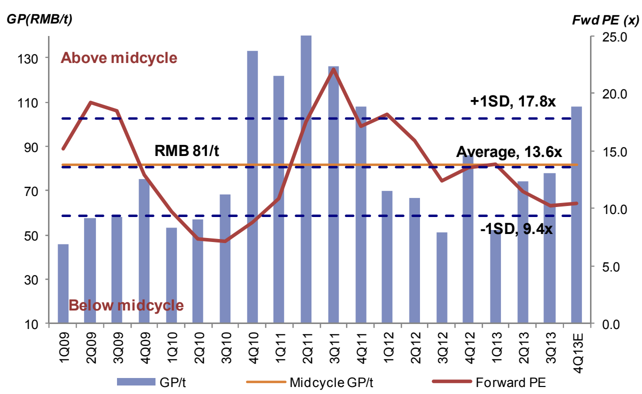
Structurally higher margins

A much healthier cycle compared to 2011

We expect margins for the sector to be on a steady uptrend given the structurally positive supply-demand outlook and further consolidated nature of the industry. While most would view 2011 as the peak of the cycle with industry margins at unit GP of RMB87/t and bellwether Conch achieving GP of RMB123/t, we believe there is room to exceed this in the next few years. In 2013, industry GP was c.RMB65/t but cement price was c.RMB60/t or 15% lower than the 2011 peak. Similarly for Conch, they achieved GP of RMB80/t in 2013 but cement price was RMB66/t or 23% lower than the 2011 peak. This is also helped by structurally lower coal prices, now c.40% below the 2011 peak and the low coal prices are here to stay due to China's anti-pollution measures, in our view.

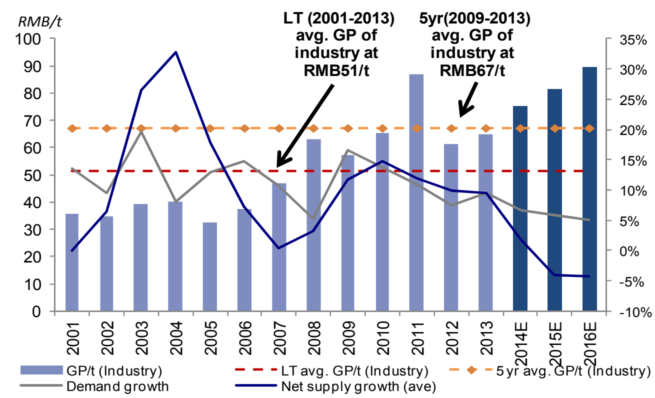
If cement prices were to rebound to 2011 levels, industry GP could top RMB125/t and Conch could top RMB146/t.

Figure 69: Quarterly PE for Conch vs. profitability



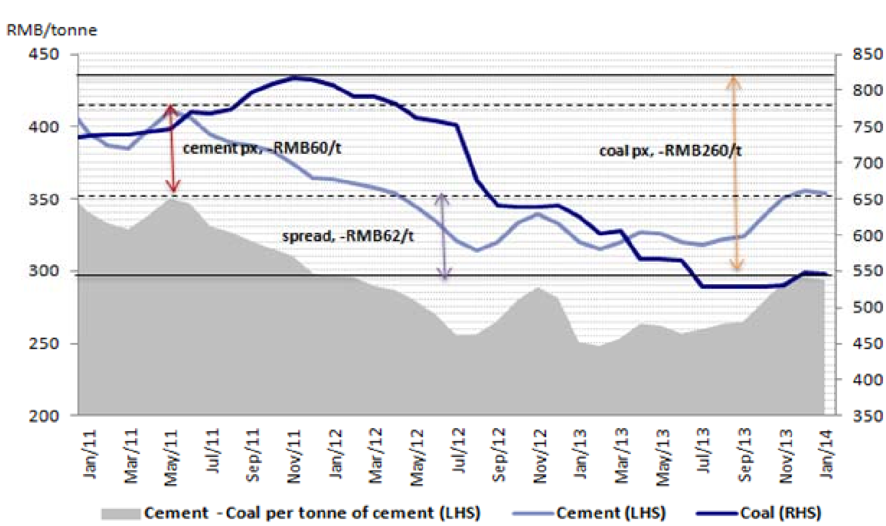
Source: Deutsche Bank, Company data

Figure 70: Industry GP versus supply-demand growth



Source: Deutsche Bank, NBS, Digital Cement

Figure 71: Cement price vs. coal price spread



Source: Deutsche Bank, NBS, Digital Cement

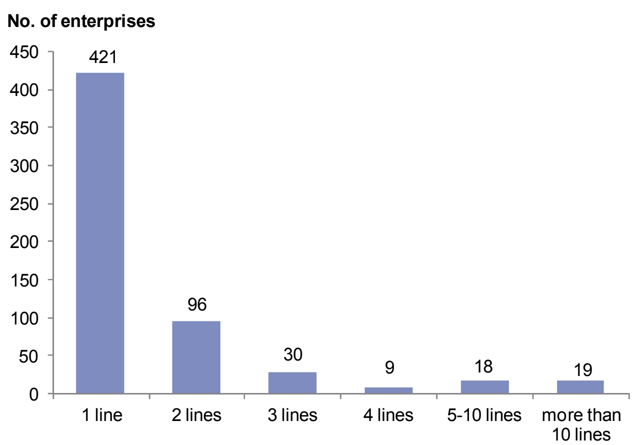
Consolidation to accelerate

The top 10 players in China control 49% of the nation's cement capacity at the end of 2013, still low relative to the US at 70%+

The consolidation for cement is far from over with the top 10 players including their subsidiaries controlling c.49% of China's cement capacity at the end of 2013, versus only 8% ten years ago. Compared to mature markets such as the US where the top 10 have 70% market share, China still has a long way to go. According to the China Cement Association, the top 10 players in China should command c.60% market share by 2030. This target seems easily achievable as China's potential for M&A is vast with plenty of low hanging fruits.

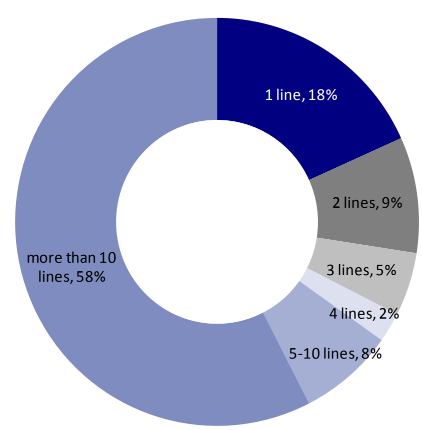
Out of the 593 cement companies in China including their subsidiaries, there are 421 companies that have only one clinker line with an average daily capacity of 2,400 t/d or c.1mt of annual cement capacity. There are 96 companies that have only two clinker lines with an average daily capacity of 5,400t/d or 2.2mt of annual cement capacity. There is a further 30 companies that have only three clinker lines or an average daily capacity of 9,400 t/d or 3.8 mt of annual cement capacity. We consider these as the low hanging fruits as they are likely less competitive in cost and have no pricing power. Combined, they have a 32% market share in clinker capacity but account for 92% of all clinker producers. After these lines are consolidated or squeezed out in 3-4 years, we believe there is another phase of consolidation which involves cross region M&A of larger corporations, in our view.

Figure 72:Demographics of China clinker producers



Source: Deutsche Bank, Digital Cement

Figure 73: Market share of China clinker producers



Source: Deutsche Bank, Digital Cement

Not only is the long-term trend for M&A positive, we believe M&A/consolidation activity will accelerate due to:

1) More difficult greenfield project approval with the introduction of Document 41 and related government measures

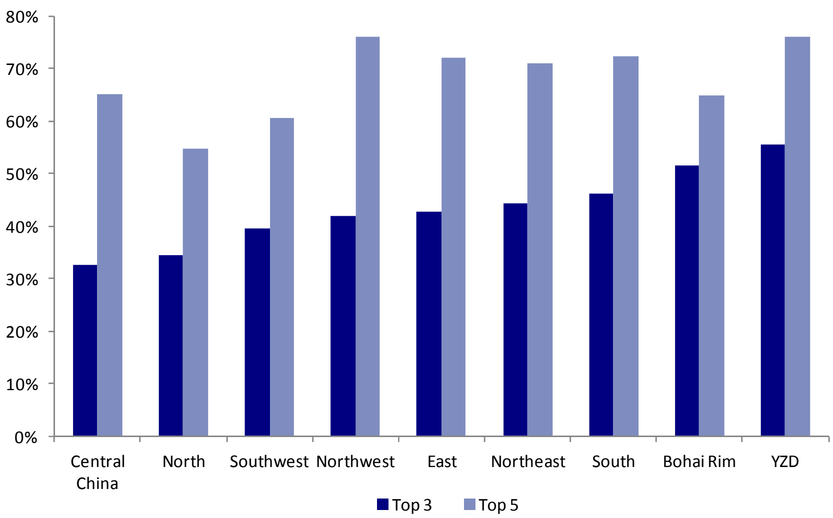
2) Banks to grant more favorable loan terms to enterprises doing M&A

3) Improving cashflow of leading producers (most producers turn FCF positive in 2014). However, the improvement for smaller less efficient players are likely going to be less significant

4) Anti-pollution measures speeding up the closures of obsolete or inefficient capacities

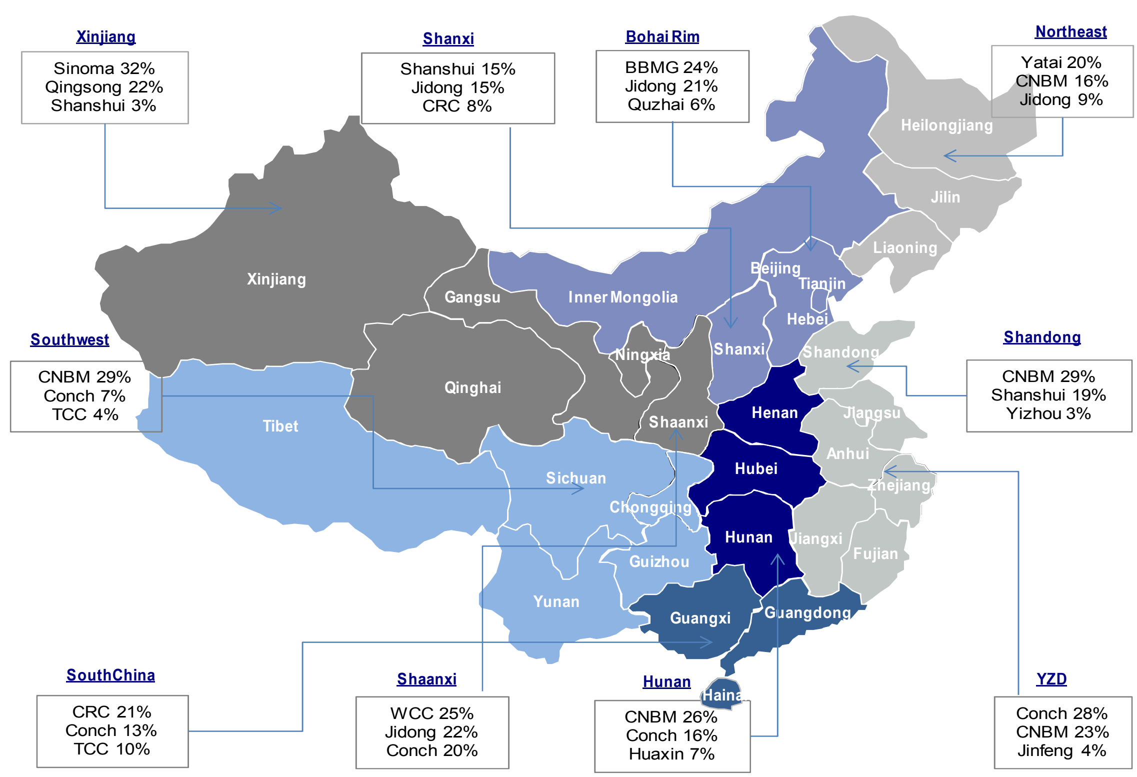
5) Acquisition prices should normalize to c.RMB400/t with CNBM largely removed from the M&A scene due to its stretched balance sheet. The likelihood of valuation dilution after M&A is significantly reduced

Figure 74: Regional Top 3 and Top 5 clinker capacity control in 2013



Source: Deutsche Bank, Digital Cement

Figure 75: 2013 clinker capacity Top 3 control map



Source: Deutsche Bank, Digital Cement

Figure 76: Acquisitions in the past 2 years

	Date	Total equity RMB mn	Total consideration RMB mn	Debt RMB mn	Stake %	PB x	Clinker capacity t/d	Cement capacity mt	Implied EV RMB/t
CNBM									
Bingzhou	Jul-11	406	1832	611	100%	4.5	2 x 5,000	5.0	488
Hunan Taojiang	Jan-11	129	403	629	100%	3.1	na	3.5	295
Lechang	Nov-11	108	211	216	100%	2.0	1*2500	1.0	427
Jinli	Jan-11	511	262	29	46%	1.1	2*5000	4.0	150
Tianma Jingang	Oct-11	89	455	302	100%	5.1	1*4000	2.4	316
Lisen	Nov-11	1412	2339	3140	100%	1.7	6.85mt	10.1	542
Simao Jianfeng	Oct-11	310	714	111	100%	2.3	1 x 1,000, 1 x 1,200, 1 x 3,000	2.1	397
Kehua Holding Group	Nov-11	552	1809	1447	100%	3.3	2 x 5,000, 4 x 2,500, 1 x 2,000	8.1	402
Shanghai Shenjin	Oct-12	125	144	98	100%	1.1	na	1.0	241
Changzhou Hengnai	Aug-12	48	60	3	100%	1.3	na	0.4	159
Sichuan Chengshi Tianying	Jan-12	202	230	304	100%	1.1	na	1.5	356
Sichuan Chuanmei	Jan-12	269	342	2468	99%	1.3	2 x 2,500, 2 x 4,000	6.6	426
Beijiang Zhalandun	Mar-12	na	1600	na	80%	na	na	5.0	na
Xilin Iron and Steel Group	Feb-12	na	1000	na	80%	na	1 x 2,000 and 1 x 5,000	2.8	na
Guoda	May-13	na	N/A	na	100%	na	1 x 4,000	2.5	na
Shenfeng	May-13	na	300	na	100%	na	4 x 5,000	6.0	na
Taichang	Apr-13	na	71	na	70%	na	1 x 2,500, 1 x 4,600	2.2	na
Longyuan Cconstruction Anhui Cement	Feb-13	na	67	na	80%	na	1 x 2,500, 1 x 4,500	2.8	na
Conch									
Qianxi Nanzhou Development. Resources	Dec-11	10	5	3	51%	1.0	1*2500 (approval)	na	na
Guizhou Liukuang Shui On Cement	Oct-11	244	245	na	51%	2.0	1*2500, 1*4500(approval)	1.0	na
Fenghuangshan/Jinlinghe/Qianxian Zhongxi	Oct-11	730	849	1142	100%	1.2	3*4500	5.4	366
Guangxi Sihe	Sep-11	103	165	392	80%	2.0	1*4000	1.6	371
Yunnan Zhuangxiang	Jun-11	31	56	102	99%	1.8	1*2000	0.8	196
Maoming Dadi	Jul-07	67	58	72	67%	1.3	na	2.0	80
Zhenjiang Beigu	May-12	61	151	na	80%	3.1	na	1.2	na
Guangxi Lingyun	Apr-12	26	81	343	80%	3.8	1*3000	1.2	371
Hami Hongsi	Apr-12	83	81	304	80%	1.2	1*3000	1.2	338
Longshan	Feb-12	53	75	na	70%	2.0	na	1.1	na
Sichuan Nanwei	Sep-12	171	213	266	100%	1.2	1*2000	0.8	594
Gansu linxia Taizishan	Sep-13	na	na	na	100%	na	1*2500	na	na
Yunan Yingjiang Yunhan	Oct-13	na	na	na	100%	na	1*2000	na	na
CRC									
Fujian Zhangping Zhenhong	Oct-11	na	292	na	100%	na	1*2500	1.0	na
Guangzhou Yuexiu	Jan-11	na	406	na	50%	na	1*7000	2.8	na
Fujian Longyan	Jan-11	na	277	na	100%	na	1*4500	2.0	na
Shanxi Lvliang	May-11	na	280	na	100%	na	1*1200, 2*5000(under construction)	0.7	na
Inner Mongolia Mengxi	Jun-11	744	1563	na	41%	2.1	29900(8 lines in total), 1*5000(under construction)	12.5	na
Dali Sande	Sep-11	732	1287	na	94%	1.8	3*2500, 1*2500(under construction)	4.0	na
Hainan Wuzhishan Dajiangnan	Jan-13	na	53	na	100%	na	na	0.6	na
Shanshui									
Shandong Dongxin	Dec-11	41	390	342	80%	11.8	1*2500	3.0	277
Bohai	Dec-11	310	277	1127	70%	1.3	1*4000	3.2	476
Xinghao	Aug-13	na	500	200	100%	na	1*4000	2.0	350
WCC									
Ankang Yaobai Jianghua	Jan-11	320	320	294	80%	1.0	1*5000	2.0	345
Shaanxi Yangshanzhuang	Jun-11	120	530	-120	80%	4.4	1*5000	2.0	269
Xinjiang Hetian Luxing	May-11	111	160	122	100%	1.4	1*1600	0.6	438
Shifeng	Mar-12	77	106	559	65%	2.1	1*5000	2.0	359
Fuping	Jun-12	339	347	281	100%	1.0	1*5000	2.0	311
Guizhou Linshan	Sep-12	na	220	-96	80%	na	1*2500	1.0	179
TCCI									
Gangan	Mar-11	60	78	107	65%	1.3	3000	1.2	187
Guizhou Kaili Rui An	Jul-11	na	262	na	100%	na	na	1.0	na
Saide	Aug-11	na	1950	na	98%	na	2* 2500, 2*4000 under construction	6.1	na
Sichuan Changtai	Dec-11	na	488	na	100%	na	1*2500,1*4600	2.2	na

Source: Deutsche Bank, company data, Digital Cement

The winners of tomorrow

Only a few in the end; quality matters

Given the limitations on new supply (refer to Figure 18), M&A is likely to become a more important driver of growth in the medium term. Hence we like companies with strong balance sheets and proven execution capabilities. We also like companies well positioned geographically to better supply-demand outlooks. Our top picks are Conch, Conch Venture and CR Cement. Our least preferred stock is CNBM even though they are the most leveraged because we expect a series of upcoming equity placements to significantly dilute investors. In the small caps, we like WCC given the upside risk to margins from a low base and longer term demand outlook for Western China.

Our top picks are Conch, Conch Venture and CR Cement for the next few years

CR Cement, Conch and Conch Venture, our top picks all have strong earnings growth in the next few years and are well positioned for growth through M&A. The earnings growth are also likely understated as we have not fully factored in the full potential of M&A to be conservative. These three stocks are also among the most liquid in our sector.

Ratings changes as summarized in Figure 86: We upgrade CNBM from Sell to Hold, Shanshui from Hold to Buy and TCC from Hold to Buy

Figure 77: Investment summary

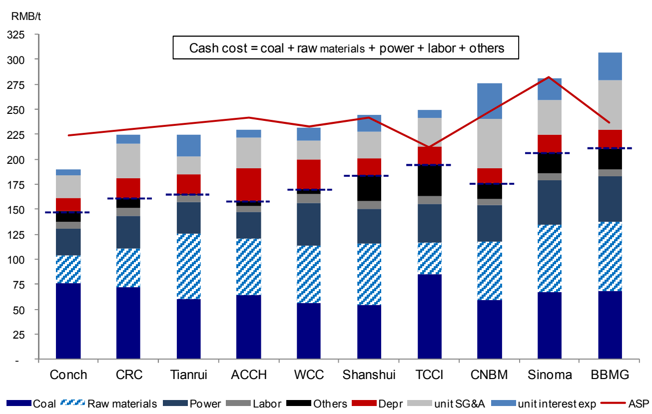
	Rating	Mkt cap (USD m)	Net gearing (%)	Daily vol. (USD m)	5-year PE range (x)	FY14E PER	FY14E EPS (%)	2-year CAGR (%)	Summary
Big caps									
Conch Cement	Buy	20,804	20	52.0	8.1-20.1 Mid-12.5	9.8	16%	18%	Bellwether with strong balance sheet. Stepping up M&A to ensure long-term growth
TCC	Buy	5,584	40	17.1	10.1-20.7 Mid-13.9	11.9	25%	19%	Dividend play (7% yield) exposed to most favorable supply-demand of South China
CNBM	Hold	5,458	308	37.2	4.9-12.9 Mid-7.7	5.8	7%	9%	Deleveraging story but balance sheet continues to be worrying. Share placement risk.
Mid caps									
CRC	Buy	4,810	70	9.8	6.1-16.2 Mid-10.2	7.7	40%	24%	Best regional play exposed to South China. Also strong balance sheet to step up M&A.
Conch Venture	Buy	4,422	Net cash	17.3	NA	10.7	20%	22%	The up and coming environmental company in China. Cash rich with top notch management.
ACC	Hold	4,102	68	4.6	8.8-18.3 Mid-13.8	14.5	13%	13%	Dividend play. Long term strategy for cement in question. Investment income dragging earnings.
BBMG	Buy	3,974	51	6.8	4.1-13.4 Mid-8.4	4.9	34%	20%	Beneficiary of subsidized housing in BJ and environmental protection in Bohai Rim
Small caps									
Shanshui	Buy	1,017	152	9.6	4.9-14.0 Mid-9.0	5.6	15%	19%	Highly geared with cheap valuations. Fundamentals improving slowly.
Sinoma	Hold	709	87	1.0	6.6-24.5 Mid-15.3	7.2	56%	45%	NW China play. Cement businesses but dragged by EPC and high-tech businesses
WCC	Buy	551	63	1.7	5.4-21.8 Mid-13.1	5.9	33%	45%	The only pure western china play with an exceptionally low base. Attractive valuation.

Source: Deutsche Bank

In evaluating our top picks, we also look at additional metrics. Low cost remains an important metric as it gives the producer pricing power to maximize profitability during the peak season and the ability to destock faster than its peers during the weak season. As of 1H13, Conch's and CRC's production cost was 16% and 9% lower than its peer group, while its total cost including SG&A and financial expenses were 22% and 9% lower than its peer group.

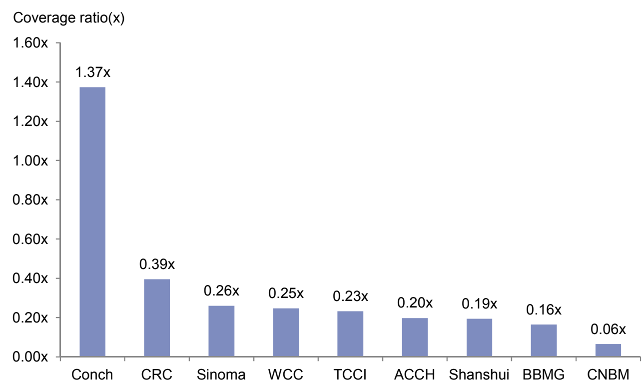
We believe the company's financial position is an equally important metric, particularly as the long-term growth of the company would depend on its ability to make accretive investments now. We use an alternation of the coverage ratio measuring its operating cash flow divided by net debt and then comparing to its existing capacity. A high coverage ratio is good while a low coverage ratio would imply that the company has limited growth prospects as they will be focused on paying down debt.

Figure 78: 1H13 unit cost for cement companies



Source: Deutsche Bank, Company data

Figure 79: Coverage ratio

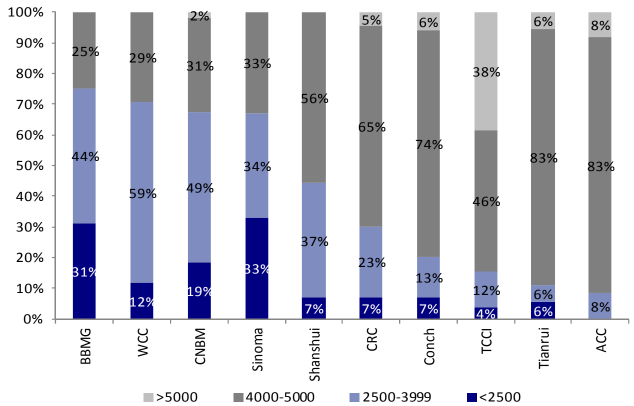


Source: Deutsche Bank

We believe the long-term sustainability of the company is also an important consideration. The smaller the clinker line, the higher the operating cost and additional cost related to environmental protection. Smaller clinker lines are also at risk being removed down the road as the next phase of obsolete capacity removals is to focus on NSP clinker lines less than 2,000 t/d. So the potential for impairment losses should also be considered. The analysis in Figure 78 shows that BBMG, WCC, CNBM and Sinoma have the worst mix.

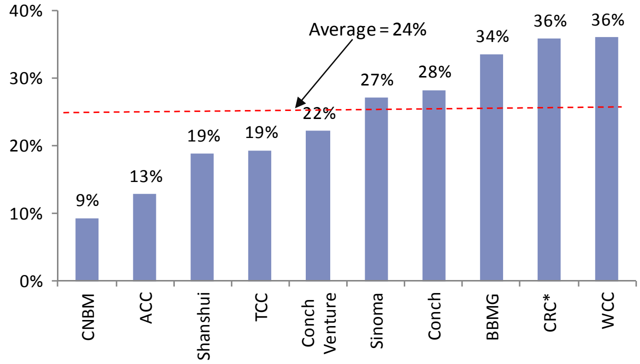
In terms of the earnings growth profile over the next few years, we believe Sinoma and WCC offer the highest growth coming from a low base. However, both stocks are small caps with light liquidity and, in an uncertain macro environment, risks are high.

Figure 80: Mix of clinker lines



Source: Deutsche Bank, China cement association

Figure 81: FY13-15 earnings CAGR

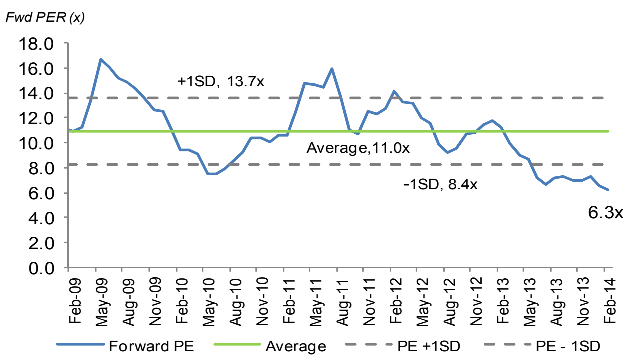


Source: Deutsche Bank

Valuation

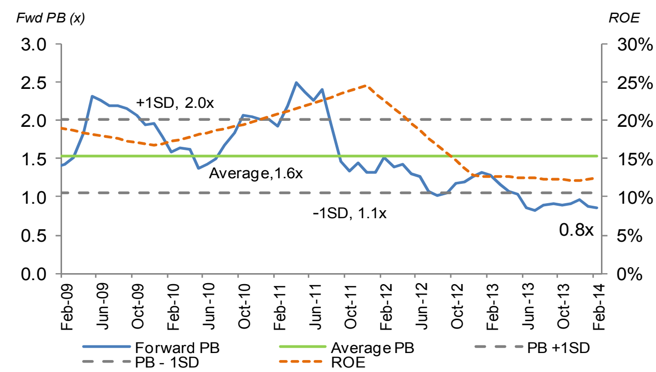
The cement sector has de-rated in the last few years on overcapacity concerns. Sector valuations are now trading on a 5yr trough of 6.5x PE vs. the average of 11x. With fundamentals turning around and margins improving, we believe investing in cement names offers attractive risk reward.

Figure 82: Sector five-year forward PE



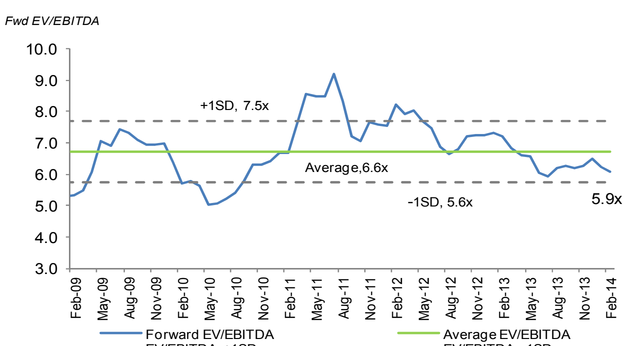
Source: Deutsche Bank, Bloomberg Finance LP
*Sector PER is calculated using data from Conch, CNBM, Sinoma, CRC, WCC, Shanshui, BBMG

Figure 83: Sector five-year forward PB



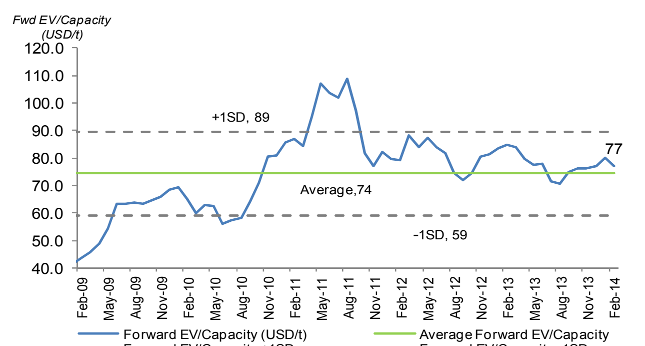
Source: Deutsche Bank
*Sector PB is calculated using data from Conch, CNBM, Sinoma, CRC, WCC, Shanshui, BBMG

Figure 84: Sector five-year EV/EBITDA



Source: Deutsche Bank
*Sector EV/EBITDA is calculated using data from Conch, CNBM, Sinoma, CRC, WCC, Shanshui, BBMG

Figure 85: Sector EV/Capacity



Source: Deutsche Bank
*Sector EV/tonne is calculated using data from Conch, CNBM, CRC, WCC, Shanshui

We have valued the companies under coverage using FY14E PE multiples in the range of 6.0 to 12.5. The average target multiple in our sector is 8.8, excluding the Taiwanese names. A lower target multiple would reflect smaller market capitalizations, slower earnings growth prospects, risk of earnings dilution and a less diversified market exposure. A higher multiple would generally reflect higher earnings growth profiles, more diversified exposure in China, stronger balance sheets and larger market capitalizations.

Figure 86: Earnings summary

Company	CNBM	Shanshui	ACC	TCC	Conch	CR Cement	WCC	Sinoma	BBMG	Conch Venture
Ticker	3323.HK	691.HK	1102.TW*	1101.TW*	914.HK	1313.HK	2233.HK	1893.HK	2009.HK	586.HK
Price (17/02/2014)	7.84	2.8	37.7	45.8	30.45	5.62	0.94	1.56	6.13	19.3
Potential upside/downside (%)	3%	25%	-4%	18%	29%	36%	51%	22%	25%	19%
New Rating	**Hold**	**Buy**	**Hold**	**Buy**	**Buy**	**Buy**	**Buy**	**Hold**	**Buy**	**Buy**
Previous Rating	Sell	Hold	--	Hold	--	--	--	--	--	--
New TP	**8.07**	**3.49**	**35.97**	**54**	**39.2**	**7.65**	**1.42**	**1.91**	**7.65**	**23.0**
Previous TP	6.81	2.77	37.57	35.2	--	--	--	--	--	--
% chg to TP	19%	26%	-4%	53%	--	--	--	--	--	--
Previous target PE multiple	6.0	6.5	na	na	--	--	--	--	--	--
New target PE multiple	**6.0**	**7.0**	**14.0**	**14.0**	**12.5**	**10.5**	**9.0**	**9.0**	**6.8**	**12.2**
Implied EV/EBITDA multiple at TP	**6.9**	**5.2**	**13.8**	**8.4**	**8.0**	**8.3**	**5.2**	**5.2**	**3.7**	**2.5**
New EPS										
2013E	0.98	0.34	2.27	3.09	1.78	0.52	0.09	0.13	0.74	1.218
2014E	1.05	0.39	2.57	3.86	2.44	0.73	0.12	0.17	0.99	1.468
2015E	1.17	0.48	2.89	4.40	2.93	0.96	0.16	0.21	1.32	1.822
Old EPS										
2013E	0.91	0.31	2.33	2.25	--	--	--	--	--	--
2014E	0.9	0.34	2.68	2.45	--	--	--	--	--	--
2015E	0.97	0.39	2.99	2.7	--	--	--	--	--	--
% earning revision										
2013E	8%	10%	-3%	37%	--	--	--	--	--	--
2014E	17%	15%	-4%	58%	--	--	--	--	--	--
2015E	21%	23%	-3%	63%	--	--	--	--	--	--
Consensus EPS										
2013E	1.08	0.35	2.18	2.75	1.73	0.50	0.09	0.13	0.69	1.10
2014E	1.27	0.40	2.62	3.12	2.11	0.59	0.12	0.17	0.83	1.33
2015E	1.46	0.46	2.84	3.31	2.35	0.67	0.15	0.19	0.93	1.53
% diff to cons										
2013E	-9%	-3%	4%	12%	3%	5%	-4%	-1%	7%	11%
2014E	-17%	-3%	-2%	24%	16%	24%	4%	3%	20%	11%
2015E	-20%	4%	2%	33%	25%	44%	10%	13%	42%	19%

Source: Deutsche Bank, Bloomberg Finance LP

Companies section

List of companies under coverage

- Anhui Conch Cement (0914.HK)
- Conch Venture (586.HK)
- China Resources Cement (1313.HK)
- BBMG (2009.HK)
- West China Cement (2233.HK)
- Shanshui Cement (691.HK)
- Sinoma (1893.HK)
- CNBM (3323.HK)
- TCC (1101.TW)
- ACC (1102.TW)

Rating
Buy

Asia
China

Resources
Construction Materials

Company
Anhui Conch Cement

Reuters: 0914.HK
Bloomberg: 914 HK

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Profitability comes first in 2014

Strong start to 2014, more earnings surprises to come

2014 looks set to be a record year for Conch with earnings likely to exceed their last peak in 2011. Following a strong 4Q13, Conch has entered 2014 with low inventories; thus, the willingness to halt production is much stronger than in previous years. For Jan-14, national cement prices are on average RMB32/t or 10% higher YoY. Conch will likely report positive profit alerts in the next few quarters given the low base in 2013. As supply additions slow in China, Conch will prioritize pricing over volume in regions where supply-demand is balanced, i.e., East and South China. However, Conch also plans to be active in M&A, particularly in Western China, to ensure long-term earnings growth. Buy.

Nationwide prices for the month of Jan-14 at RMB354/t or 10% higher YoY

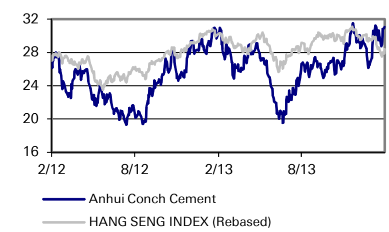
We have updated the spread between cement and coal prices up to the end of Jan-14 and the data show that nationwide GP is some RMB41/t higher than it was last year. For regions such as East and South China, the improvement is more dramatic, with GP showing 39% or RMB 84/t and 38% or RMB88/t higher YoY, respectively. Even though we expect prices to continue softening in February due to CNY, the cushion is large enough and we are confident that 1Q14 GP will be much higher, leading to further consensus upgrades.

Growth through acquisitions to be the new norm for Conch

We believe Conch will deploy its balance sheet more aggressively in the next few years after the withdrawal of CNBM in M&A. As acquisition prices normalize, Conch should be able to maintain its strict cost discipline and buy accretive assets. Management recently indicated that it was willing to pay RMB450/t for good assets, up from RMB400/t previously. Conch is also becoming more active in the secondary market, recently buying a further 5% stake in Qingsong Building Materials. We believe smaller listed companies are also on Conch's radar screen. In a worst-case scenario in which Conch does not complete any acquisitions, Conch plans to increase its dividend payout ratio to 25-30%. *(valuation and risks overleaf)*

Price at 17 Feb 2014 (HKD)	30.45
Price target - 12mth (HKD)	39.20
52-week range (HKD)	31.50 - 19.52
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	14.6	14.2	3.2
HANG SENG INDEX	-2.5	-2.7	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	161,364
Market cap (USDm)	20,804
Shares outstanding (m)	5,299.3
Major shareholders	Conch Holdings (47.3%)
Free float (%)	52
Avg daily value traded (USDm)	52.3

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	21.2
Net debt/equity (%)	11.2
Book value/share (CNY)	12.5
Price/book (x)	1.91
Net interest cover (x)	20.9
Operating profit margin (%)	28.8

Source: Deutsche Bank

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	48,653.8	45,766.2	54,741.2	63,864.9	73,409.6
Reported NPAT (CNYm)	11,586.4	6,331.1	9,435.3	12,940.3	15,516.7
Reported EPS FD(CNY)	2.19	1.19	1.78	2.44	2.93
DB EPS growth (%)	88.0	-45.4	49.0	37.1	19.9
PER (x)	12.8	16.4	13.2	9.6	8.0
Yield (net) (%)	1.3	1.3	1.6	2.2	2.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:25 January 2014

Running the numbers

Asia

China

Construction Materials

Anhui Conch Cement

Reuters: 0914.HK Bloomberg: 914 HK

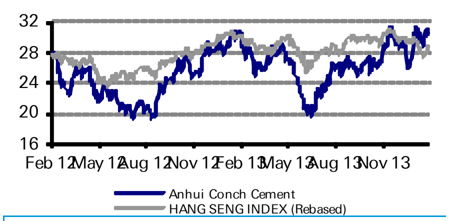
Buy

Price (17 Feb 14)	HKD 30.45
Target Price	HKD 39.20
52 Week range	HKD 19.52 - 31.50
Market Cap (m)	HKDm 161,364
	USDm 20,804

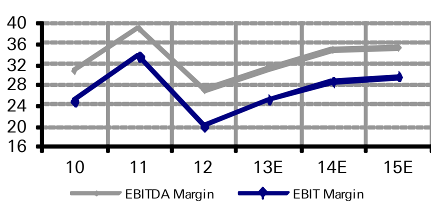
Company Profile

Anhui Conch Cement Company Limited is China's largest cement producer with annual output of 100mn tonnes. The major products of the Company are 32.5 and 42.5 grade Portland cement and clinker. It sells its products both domestically and internationally.

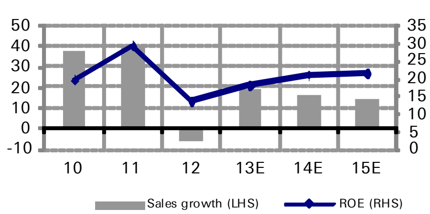
Price Performance



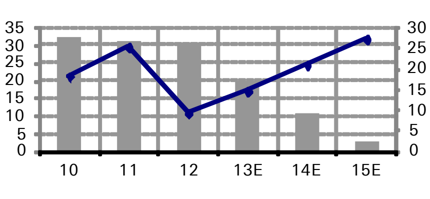
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	1.16	2.19	1.19	1.78	2.44	2.93
Reported EPS (CNY)	1.16	2.19	1.19	1.78	2.44	2.93
DPS (CNY)	0.20	0.35	0.25	0.37	0.51	0.61
BVPS (CNY)	6.5	8.4	9.2	10.6	12.5	14.8
Weighted average shares (m)	5,299	5,299	5,299	5,299	5,299	5,299
Average market cap (CNYm)	127,780	147,772	103,680	126,172	126,172	126,172
Enterprise value (CNYm)	135,029	160,341	115,943	134,855	131,105	126,131
Valuation Metrics						
P/E (DB) (x)	20.7	12.8	16.4	13.4	9.8	8.1
P/E (Reported) (x)	20.7	12.8	16.4	13.4	9.8	8.1
P/BV (x)	4.86	2.28	2.50	2.25	1.91	1.61
FCF Yield (%)	nm	1.7	3.6	4.4	5.1	6.5
Dividend Yield (%)	0.8	1.3	1.3	1.6	2.1	2.6
EV/Sales (x)	3.9	3.3	2.5	2.5	2.1	1.7
EV/EBITDA (x)	12.8	8.5	9.3	7.9	5.9	4.9
EV/EBIT (x)	15.8	9.8	12.7	9.8	7.1	5.8
Income Statement (CNYm)						
Sales revenue	34,508	48,654	45,766	54,741	63,865	73,410
Gross profit	10,942	19,177	12,502	17,958	23,539	27,738
EBITDA	10,573	18,890	12,423	17,141	22,160	25,961
Depreciation	2,015	2,571	3,276	3,396	3,783	4,175
Amortisation	0	0	0	0	0	0
EBIT	8,557	16,319	9,147	13,744	18,377	21,786
Net interest income(expense)	-469	-646	-999	-942	-881	-797
Associates/affiliates	27	27	-23	2	64	68
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	8,115	15,699	8,126	12,804	17,561	21,057
Income tax expense	1,770	3,880	1,639	3,137	4,302	5,159
Minorities	182	233	156	232	318	381
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,163	11,586	6,331	9,435	12,940	15,517
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	6,163	11,586	6,331	9,435	12,940	15,517
Cash Flow (CNYm)						
Cash flow from operations	5,380	10,492	11,509	16,257	17,613	19,837
Net Capex	-8,571	-7,966	-7,794	-10,696	-11,196	-11,696
Free cash flow	-3,192	2,526	3,714	5,561	6,417	8,141
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-637	-1,066	-1,325	-1,974	-2,708	-3,247
Net inc/(dec) in borrowings	9,425	12,836	1,302	-103	-302	11
Other investing/financing cash flows	-6,317	-9,238	-2,757	202	272	371
Net cash flow	-720	5,058	934	3,686	3,679	5,275
Change in working capital	*-3,330*	*-4,581*	*1,972*	*922*	*-235*	*-631*
Balance Sheet (CNYm)						
Cash and other liquid assets	2,736	7,806	8,220	11,927	15,628	20,926
Tangible fixed assets	39,119	48,804	52,607	59,208	65,939	72,793
Goodwill/intangible assets	2,899	4,661	5,566	6,264	6,947	7,614
Associates/investments	4,778	4,053	5,521	5,523	5,587	5,655
Other assets	10,876	18,679	15,610	19,930	22,846	26,281
Total assets	60,407	84,003	87,524	102,853	116,947	133,269
Interest bearing debt	14,143	22,436	23,738	23,635	23,333	23,344
Other liabilities	11,015	15,119	12,982	20,722	24,568	28,228
Total liabilities	25,158	37,555	36,720	44,357	47,901	51,572
Shareholders' equity	34,629	44,457	48,538	55,998	66,231	78,501
Minorities	620	1,992	2,266	2,497	2,815	3,196
Total shareholders' equity	35,249	46,449	50,803	58,496	69,046	81,697
Net debt	*11,407*	*14,630*	*15,518*	*11,708*	*7,705*	*2,418*
Key Company Metrics						
Sales growth (%)	38.0	41.0	-5.9	19.6	16.7	14.9
DB EPS growth (%)	76.3	88.0	-45.4	49.0	37.1	19.9
EBITDA Margin (%)	30.6	38.8	27.1	31.3	34.7	35.4
EBIT Margin (%)	24.8	33.5	20.0	25.1	28.8	29.7
Payout ratio (%)	17.2	16.0	20.9	20.9	20.9	20.9
ROE (%)	19.6	29.3	13.6	18.1	21.2	21.4
Capex/sales (%)	24.9	16.5	17.0	19.5	17.5	15.9
Capex/depreciation (x)	4.3	3.1	2.4	3.1	3.0	2.8
Net debt/equity (%)	32.4	31.5	30.5	20.0	11.2	3.0
Net interest cover (x)	18.2	25.2	9.2	14.6	20.9	27.3

Source: Company data, Deutsche Bank estimates

Valuation

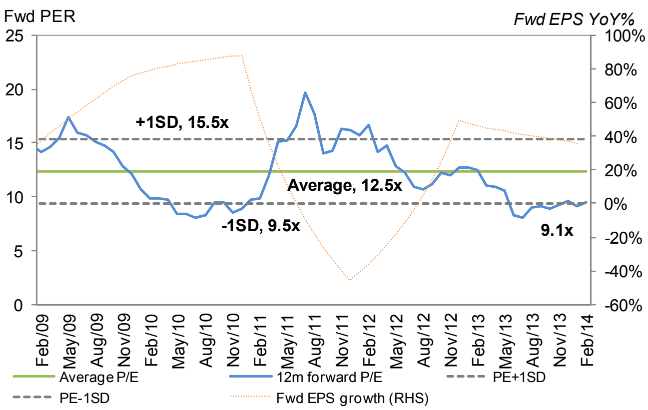
Buy with target price of HKD39.2

We value Conch based on the historical five-year mid-cycle average of 12.5x on FY14E. We believe this is justified given that our estimated FY13-15E earnings CAGR of 28% is in line with the earnings growth during the mid-cycle in previous years.

Key risks are greater-than-expected tightening of credit and a higher-than-expected rebound in coal prices

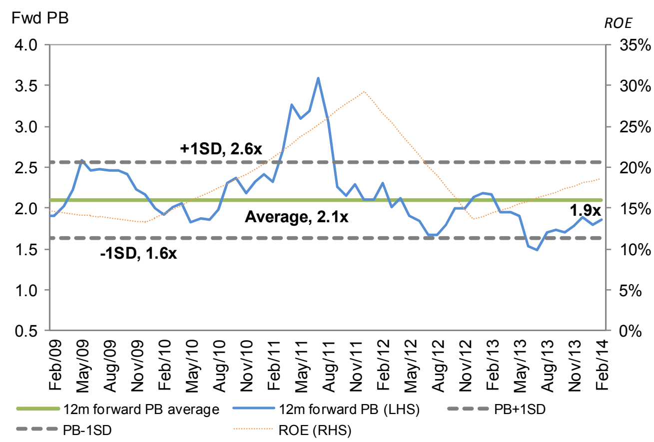
Valuation band charts

Figure 87: Conch's five-year historical forward PE



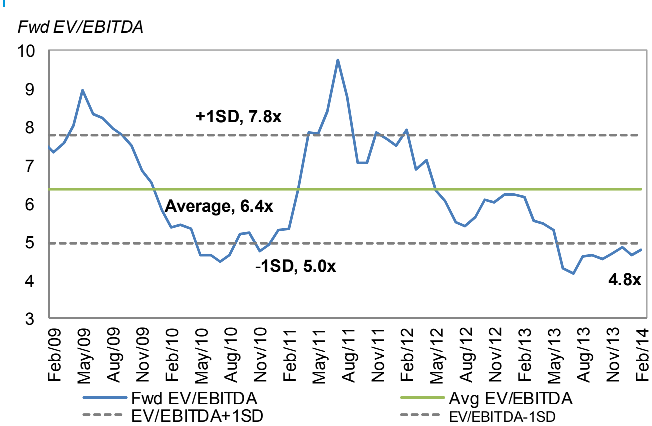
Source: Deutsche Bank

Figure 88: Conch's five-year historical forward PB



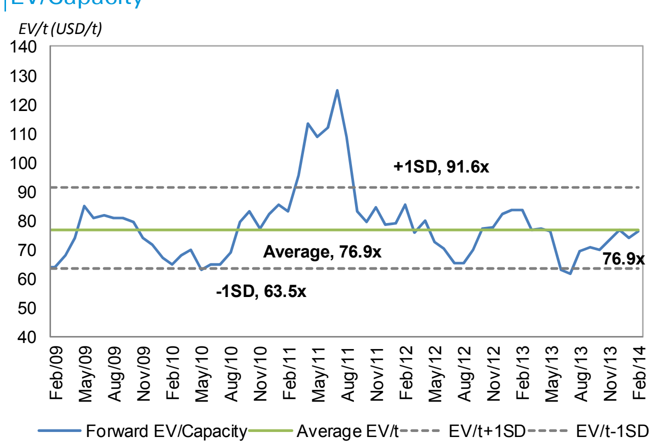
Source: Deutsche Bank

Figure 89: Conch's five-year historical forward EV/EBITDA



Source: Deutsche Bank

Figure 90: Conch's five-year historical forward EV/Capacity



Source: Deutsche Bank

Rating
Buy

Asia
China

Resources
Construction Materials

Company
Conch Venture

Reuters	Bloomberg
0586.HK	586 HK

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Price at 17 Feb 2014 (HKD)	20.15
Price target - 12mth (HKD)	23.00
52-week range (HKD)	21.90 - 16.80
HANG SENG INDEX	22,536

China's next green juggernaut

Long-term environmental growth story

Conch Venture (CV) is a holding company for Conch Cement and a provider of green solutions. CV indirectly owns 18% of Conch Cement, which currently accounts for c.80% of CV's NP. We believe CV has the potential to become the largest environmental company in China given its experienced management team, strong balance sheet and nationwide government network. CV is aggressively expanding into municipal solid waste treatment and green building materials, and CV also has its sights on waste water treatment. CV's environmental business is attractively valued, trading at an implied 6x PE but with CAGR of 38% in FY14-16, eclipsing that of its cement business.

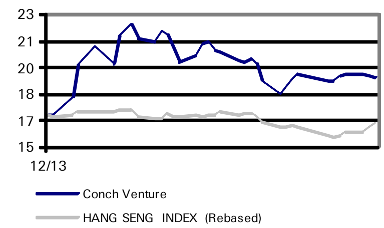
Unique structure; experienced management team with strong track record

The main shareholders of CV represent the interests of c.7,000 members from the staff association of the Conch group. Therefore, the interests of the key employees are aligned with the success of CV. CV's top management team, Mr. Guo Jingbin and Mr. Ji Qinying, spearheaded the development of Conch Cement, building it into the most profitable cement company in the world. Under their leadership and vision, Conch Cement has posted a revenue CAGR of 40% since 1997, with market cap exceeding USD20bn.

A force to be reckoned with in the underpenetrated environmental sector

After the IPO, CV has c.RMB3.0bn of cash reserves and is net cash putting them in the driver seat position on more desirable environmental policies. Currently, CV is well positioned to capture the growth potential in municipal waste incineration and green building materials (GBM). At the end of 2012, there were only 20 cement kiln waste incineration projects in China and CV has already signed contracts with seven and another three grate furnace projects are soon to be finalized. WWCB and CCA boards will replace traditional wall panels and can leverage off of Conch Cement's distribution network. *(valuation and risks overleaf)*

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.2	5,488.2	5,488.2
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	30,225
Market cap (USDm)	3,897
Shares outstanding (m)	1,509.2
Major shareholders	–
Free float (%)	52
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	44.9
Net debt/equity (%)	n.a
Book value/share (CNY)	9.07
Price/book (x)	1.74
Net interest cover (x)	n.a
Operating profit margin (%)	24.6

Source: Deutsche Bank

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	1,582.0	1,250.4	1,480.0	2,145.2	3,120.7
Reported NPAT (CNYm)	2,228.2	1,299.1	1,838.6	2,649.8	3,288.6
Reported EPS FD(CNY)	1.49	0.87	1.22	1.47	1.82
DB EPS growth (%)	67.4	-41.7	40.7	20.5	24.1
PER (x)	–	–	12.2	10.1	8.2
Yield (net) (%)	–	–	1.6	2.0	2.5

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:28 January 2014

Running the numbers

Asia

China

Construction Materials

Conch Venture

Reuters: 0586.HK Bloomberg: 586 HK

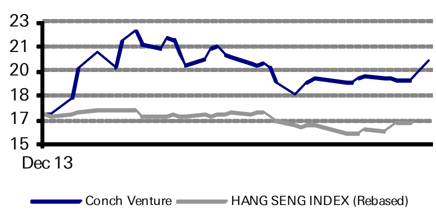
Buy

Price (17 Feb 14)	HKD 20.15
Target Price	HKD 23.00
52 Week range	HKD 16.80 - 21.90
Market Cap (m)	HKDm 30,225
	USDm 3,897

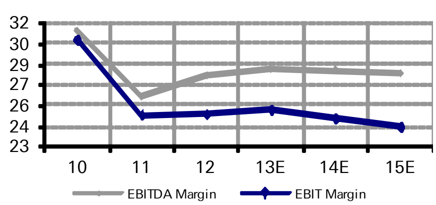
Company Profile

Conch Venture is a leading provider of energy preseveration and environmental protection solutions. It is a major shareholder of Conch Holdings, the parent of Conch Cement and Conch Profiles.

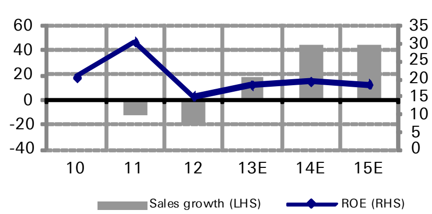
Price Performance



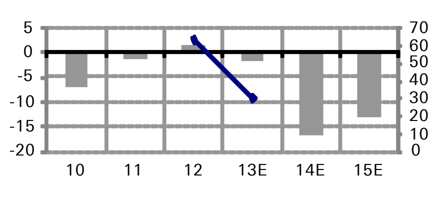
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	0.89	1.49	0.87	1.22	1.47	1.82
Reported EPS (CNY)	0.89	1.49	0.87	1.22	1.47	1.82
DPS (CNY)	0.00	0.00	0.00	0.24	0.29	0.36
BVPS (CNY)	4.3	5.4	6.0	6.0	9.1	10.6
Weighted average shares (m)	1,500	1,500	1,500	1,509	1,805	1,805
Average market cap (CNYm)	na	na	na	23,633	23,633	23,633
Enterprise value (CNYm)	na	na	na	14,270	9,917	8,033
Valuation Metrics						
P/E (DB) (x)	na	na	na	12.9	10.7	8.6
P/E (Reported) (x)	na	na	na	12.9	10.7	8.6
P/BV (x)	0.00	0.00	0.00	2.61	1.74	1.49
FCF Yield (%)	na	na	na	0.1	nm	nm
Dividend Yield (%)	na	na	na	1.5	1.9	2.3
EV/Sales (x)	nm	nm	nm	9.6	4.6	2.6
EV/EBITDA (x)	nm	nm	nm	34.2	16.4	9.2
EV/EBIT (x)	nm	nm	nm	38.2	18.8	10.7
Income Statement (CNYm)						
Sales revenue	1,812	1,582	1,250	1,480	2,145	3,121
Gross profit	651	521	402	475	655	911
EBITDA	562	413	346	417	603	869
Depreciation	13	20	34	44	75	120
Amortisation	0	0	0	0	0	0
EBIT	549	393	311	374	528	749
Net interest income(expense)	8	7	-5	-12	35	32
Associates/affiliates	1,113	2,063	1,176	1,716	2,368	2,837
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,669	2,463	1,483	2,077	2,932	3,618
Income tax expense	112	77	66	72	113	156
Minorities	226	157	117	166	169	173
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,331	2,228	1,299	1,839	2,650	3,289
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,331	2,228	1,299	1,839	2,650	3,289
Cash Flow (CNYm)						
Cash flow from operations	224	162	154	327	502	718
Net Capex	-197	-196	-173	-307	-1,200	-1,000
Free cash flow	27	-34	-19	20	-698	-282
Equity raised/(bought back)	0	0	0	0	3,185	0
Dividends paid	0	0	0	0	-368	-530
Net inc/(dec) in borrowings	100	200	420	810	-750	0
Other investing/financing cash flows	-311	-428	-442	331	509	599
Net cash flow	-183	-262	-41	1,161	1,878	-212
Change in working capital	*-245*	*-200*	*-95*	*-82*	*-29*	*-38*
Balance Sheet (CNYm)						
Cash and other liquid assets	579	317	276	1,437	3,315	3,103
Tangible fixed assets	446	632	776	1,041	2,169	3,052
Goodwill/intangible assets	141	156	151	149	146	144
Associates/investments	5,846	7,460	8,367	9,740	11,634	13,903
Other assets	1,068	1,230	1,234	1,300	1,754	2,424
Total assets	8,080	9,795	10,805	13,667	19,019	22,625
Interest bearing debt	100	200	420	1,230	480	480
Other liabilities	1,068	1,018	906	954	1,419	2,094
Total liabilities	1,168	1,218	1,326	2,184	1,899	2,574
Shareholders' equity	6,496	8,151	9,061	10,900	16,367	19,125
Minorities	417	425	418	584	753	926
Total shareholders' equity	6,913	8,577	9,479	11,483	17,120	20,052
Net debt	*-479*	*-117*	*144*	*-207*	*-2,835*	*-2,623*
Key Company Metrics						
Sales growth (%)	nm	-12.7	-21.0	18.4	44.9	45.5
DB EPS growth (%)	na	67.4	-41.7	40.7	20.5	24.1
EBITDA Margin (%)	31.0	26.1	27.7	28.2	28.1	27.8
EBIT Margin (%)	30.3	24.8	24.9	25.3	24.6	24.0
Payout ratio (%)	0.0	0.0	0.0	20.0	20.0	20.0
ROE (%)	20.5	30.4	15.1	18.4	19.4	18.5
Capex/sales (%)	10.9	12.5	13.8	20.7	55.9	32.0
Capex/depreciation (x)	14.9	9.7	5.0	7.0	16.0	8.3
Net debt/equity (%)	-6.9	-1.4	1.5	-1.8	-16.6	-13.1
Net interest cover (x)	nm	nm	63.4	30.5	nm	nm

Source: Company data, Deutsche Bank estimates

Valuation

Buy with target price of HKD23.0

We use SOTP analysis, valuing the subsidiaries using EV/EBITDA and its GBM business using EV/invested capital. For its associates, we value Conch Cement using our target price-implied equity value. We apply a holdco discount of 10% to arrive at our HKD23 target price. This implies that CV is currently trading on 12.0x FY14E PER.

Key risks: CV's NP is heavily dependent on Conch Cement; inability to secure waste incineration and green building material projects

Figure 91: CV's valuation SOTP

Business segments	Valuation methodology	Base	Multiple (x)	Enterprise Value (RMB mn)
Residual heat power generation	EV/EBITDA	2014E EBITDA	6	2,234
Vertical mills	EV/EBITDA	2014E EBITDA	6	391
Waste incineration	EV/EBITDA	2014E EBITDA	12	1,227
Green building materials	EV/Invested capital	end 2014 invested capital	1	645
Port logistics services	EV/EBITDA	2014E EBITDA	10	631
Gross Asset Value (GAV)				**5,129**
Net cash (debt)		End 2014	1	2,835
Minorities	P/B		2	(1,506)
Net Asset Value (NAV) for consolidated assets				**6,458**
Associate: Conch Cement	DB TP of HKD 39.2 for Conch Cement		RMB163,900mn	29,502
Associate: Conch Profiles + others	Market cap for Conch Profiles as of Jan 28		RMB2,470mn	388
NAV before conglomerate discount (RMB mn)				**36,348**
NAV before conglomerate discount (HKD mn)				**46,069**
Conglomerate discount				10%
NAV (RMB mn)				**32,713**
NAV (HKD mn)				**41,462**
Implied TP (HKD)				**23.0**

Source: Deutsche Bank

Rating
Buy

Asia
Hong Kong

Resources
Construction Materials

Company
CR Cement

Reuters	Bloomberg
1313.HK	1313 HK

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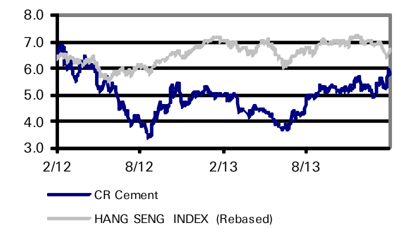
Price at 17 Feb 2014 (HKD)	5.62
Price target - 12mth (HKD)	7.65
52-week range (HKD)	5.93 - 3.69
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	13.9	11.5	14.6
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	36,638
Market cap (USDm)	4,724
Shares outstanding (m)	6,519.3
Major shareholders	China Resources National Corporation (73.34%)
Free float (%)	27
Avg daily value traded (USDm)	8.9

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	18.0
Net debt/equity (%)	53.7
Book value/share (HKD)	4.35
Price/book (x)	1.29
Net interest cover (x)	9.2
Operating profit margin (%)	20.6

Source: Deutsche Bank

Structural supply-demand improvement to drive further outperformance

GD trip takeaways. Reiterate Buy with TP of HKD7.65

We hosted a cement trip to GD following DB's Access China conference. Our visit confirms the strong start to 2014 highlighted by cement companies at our conference. Due to good weather conditions in January, inventory levels are low and prices have been maintained for most producers compared to Dec-13. In South and East China, where we better supply-demand, there is a strong willingness among producers to keep prices steady, as they plan to maximize profits in those areas. The seasonal decline in ASPs was less during CNY, allowing producers to enter the 2Q peak with a high base.

1Q14 production halts for Guangdong support higher pricing for 2014

Leading producers headed into CNY with low inventory levels; therefore, the pressure to destock during the weak season is minimized. Conch and CRC had inventories of only 40% and 30% of storage capacity, respectively, some c.20ppts lower than last year. We believe pricing in 2014 will be similar to what we saw in 2009-2011, with prices only seeing a mild decline in 1Q14. We see significant upside risks to consensus earnings.

Southern China, one of our preferred regions for 2014

In 2014, we believe South and East China are the two regions where we will see a structural improvement in supply-demand, leading to a medium term uptrend in profitability. For South China, we expect c.4% gross supply growth in 2014 excluding removals, while demand will likely grow c.10% (c.14% in 2013), as demand from infrastructure projects continues to be strong. We believe a shortage of cement may appear if supply is not relaxed by 2015.

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (HKDm)	23,240.0	25,345.3	29,320.6	33,482.7	39,793.2
Reported NPAT (HKDm)	4,179.0	2,324.4	3,358.0	4,750.9	6,230.0
Reported EPS FD(HKD)	0.64	0.36	0.52	0.73	0.96
DB EPS growth (%)	104.8	-44.4	44.5	41.5	31.1
PER (x)	10.3	14.3	11.1	7.9	6.0
Yield (net) (%)	0.9	1.4	1.8	2.5	3.3

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:20 January 2014

Running the numbers

Asia

Hong Kong

Construction Materials

CR Cement

Reuters: 1313.HK Bloomberg: 1313 HK

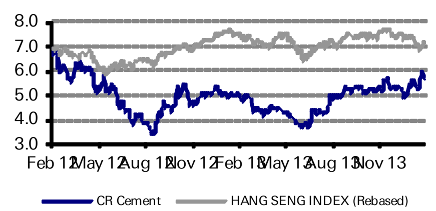
Buy

Price (17 Feb 14)	HKD 5.62
Target Price	HKD 7.65
52 Week range	HKD 3.69 - 5.93
Market Cap (m)	HKDm 36,638
	USDm 4,724

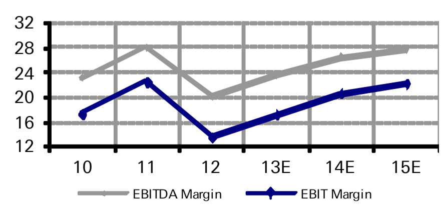
Company Profile

China Resources Cement Holdings Limited, through its subsidiaries, produces, distributes and sells cement, clinker and concrete.

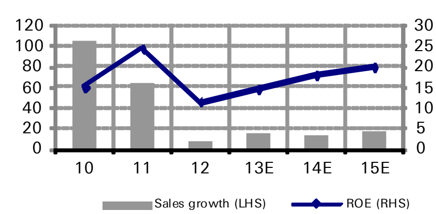
Price Performance



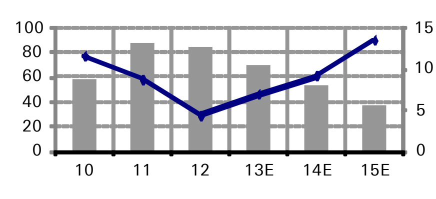
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (HKD)	0.31	0.64	0.36	0.52	0.73	0.96
Reported EPS (HKD)	0.31	0.64	0.36	0.52	0.73	0.96
DPS (HKD)	0.05	0.06	0.07	0.10	0.14	0.19
BVPS (HKD)	2.3	3.0	3.3	3.7	4.4	5.2
Weighted average shares (m)	6,519	6,519	6,519	6,519	6,519	6,519
Average market cap (HKDm)	27,058	42,963	33,353	36,638	36,638	36,638
Enterprise value (HKDm)	35,460	57,441	48,843	50,863	48,930	45,937
Valuation Metrics						
P/E (DB) (x)	13.3	10.3	14.3	10.9	7.7	5.9
P/E (Reported) (x)	13.3	10.3	14.3	10.9	7.7	5.9
P/BV (x)	2.60	1.96	1.55	1.51	1.29	1.09
FCF Yield (%)	nm	nm	5.4	6.6	8.8	12.2
Dividend Yield (%)	1.1	0.9	1.4	1.8	2.5	3.3
EV/Sales (x)	2.5	2.5	1.9	1.7	1.5	1.2
EV/EBITDA (x)	10.9	8.8	9.6	7.4	5.5	4.2
EV/EBIT (x)	14.5	11.0	14.2	10.1	7.1	5.2
Income Statement (HKDm)						
Sales revenue	14,142	23,240	25,345	29,321	33,483	39,793
Gross profit	4,463	7,224	6,100	8,141	10,154	12,588
EBITDA	3,261	6,516	5,114	6,878	8,880	10,994
Depreciation	819	1,302	1,684	1,827	1,971	2,124
Amortisation	0	0	0	0	0	0
EBIT	2,442	5,214	3,431	5,050	6,909	8,870
Net interest income(expense)	-211	-597	-776	-725	-753	-656
Associates/affiliates	0	289	218	75	152	167
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,231	4,906	2,873	4,400	6,307	8,381
Income tax expense	98	562	528	1,012	1,514	2,095
Minorities	93	166	21	30	43	56
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,041	4,179	2,324	3,358	4,751	6,230
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,041	4,179	2,324	3,358	4,751	6,230
Cash Flow (HKDm)						
Cash flow from operations	3,539	5,933	5,205	6,889	8,008	9,627
Net Capex	-6,907	-7,058	-3,389	-4,487	-4,772	-5,156
Free cash flow	-3,368	-1,125	1,817	2,402	3,236	4,471
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	-619	-391	-456	-659	-933
Net inc/(dec) in borrowings	2,802	7,966	-2,264	-906	-2,183	-2,133
Other investing/financing cash flows	-1,042	-6,599	662	-726	-754	-657
Net cash flow	-1,608	-378	-176	313	-361	749
Change in working capital	*172*	*68*	*472*	*195*	*140*	*146*
Balance Sheet (HKDm)						
Cash and other liquid assets	4,125	3,750	3,567	3,881	3,521	4,271
Tangible fixed assets	21,863	30,014	31,553	34,058	36,709	39,594
Goodwill/intangible assets	3,806	5,454	5,533	5,687	5,838	5,984
Associates/investments	967	3,750	3,734	3,810	3,962	4,129
Other assets	4,568	7,491	7,772	8,331	9,044	10,437
Total assets	35,328	50,458	52,159	55,767	59,074	64,415
Interest bearing debt	13,024	21,375	22,209	21,303	19,120	16,987
Other liabilities	7,058	9,181	7,992	9,575	10,930	13,051
Total liabilities	20,083	30,557	30,201	30,877	30,050	30,038
Shareholders' equity	14,776	19,299	21,376	24,277	28,369	33,666
Minorities	469	603	583	613	655	711
Total shareholders' equity	15,245	19,901	21,958	24,890	29,024	34,377
Net debt	*8,900*	*17,626*	*18,642*	*17,422*	*15,598*	*12,716*
Key Company Metrics						
Sales growth (%)	104.7	64.3	9.1	15.7	14.2	18.8
DB EPS growth (%)	-21.8	104.8	-44.4	44.5	41.5	31.1
EBITDA Margin (%)	23.1	28.0	20.2	23.5	26.5	27.6
EBIT Margin (%)	17.3	22.4	13.5	17.2	20.6	22.3
Payout ratio (%)	14.4	9.4	19.6	19.6	19.6	19.6
ROE (%)	15.1	24.5	11.4	14.7	18.0	20.1
Capex/sales (%)	49.0	30.4	13.5	15.3	14.3	13.0
Capex/depreciation (x)	8.5	5.4	2.0	2.5	2.4	2.4
Net debt/equity (%)	58.4	88.6	84.9	70.0	53.7	37.0
Net interest cover (x)	11.6	8.7	4.4	7.0	9.2	13.5

Source: Company data, Deutsche Bank estimates

Valuation

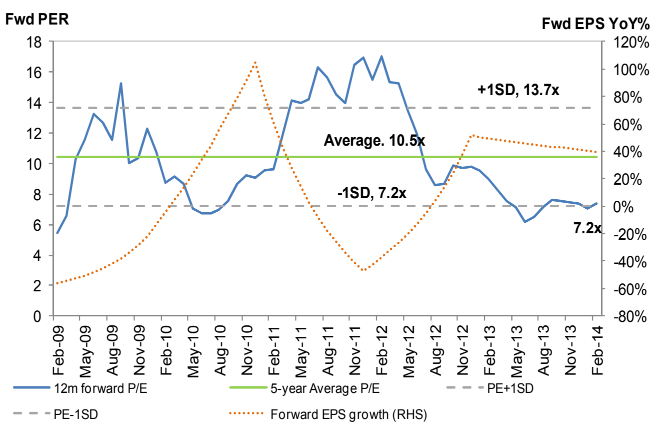
Buy with target price of HKD7.65

We value CRC based on 10.5x FY14E PER, equivalent to its five-year mid-cycle average. We believe this is justified, given the solid earnings growth profile of the company, where we see an earnings CAGR of 27.0% for FY14-16.

Risks include lower-than-expected demand due to tight credit, higher-than expected coal prices.

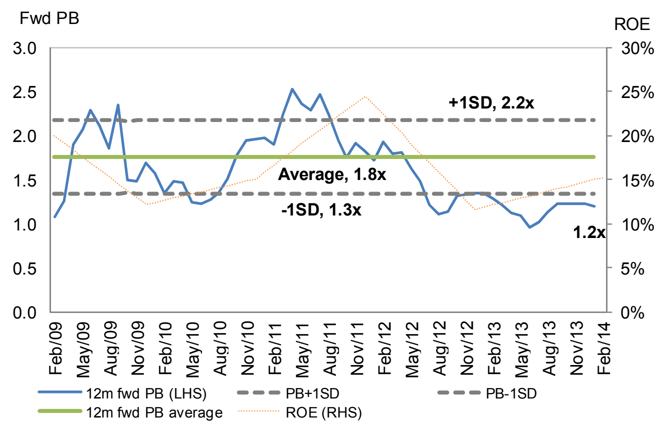
Valuation band charts

Figure 92: CRC's five-year historical forward PE



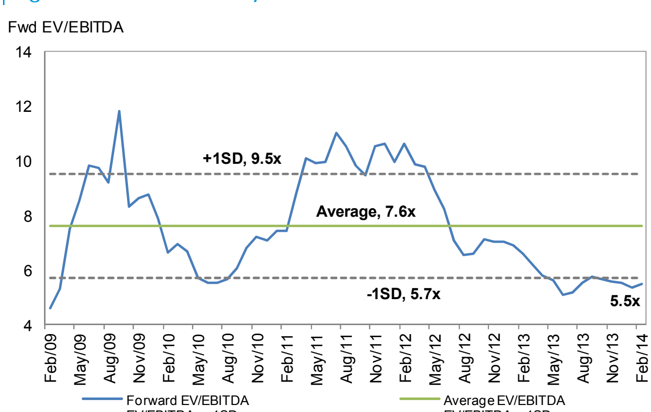
Source: Deutsche Bank

Figure 93: CRC's five-year historical forward PB



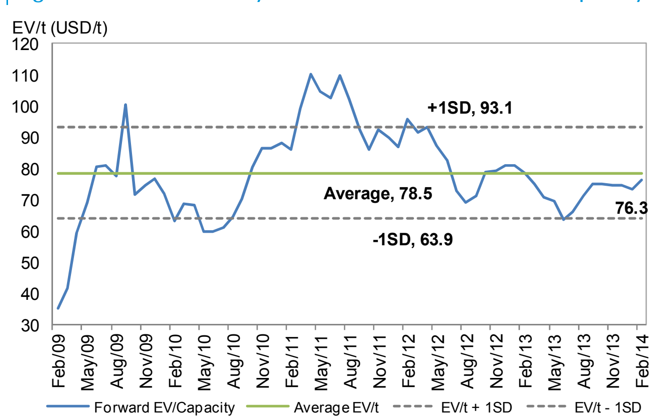
Source: Deutsche Bank

Figure 94: CRC's five-year historical forward EV/EBITDA



Source: Deutsche Bank

Figure 95: CRC's five-year historical forward EV/Capacity



Source: Deutsche Bank

Rating
Buy

Asia
China

Resources
Construction Materials

Company
BBMG

Reuters	Bloomberg
2009.HK	2009 HK

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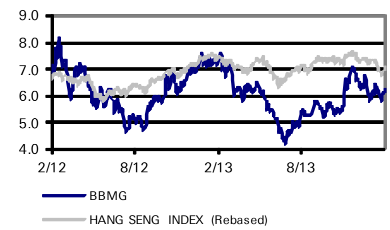
Price at 17 Feb 2014 (HKD)	6.14
Price target - 12mth (HKD)	8.67
52-week range (HKD)	7.59 - 4.18
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.2	8.2	-15.2
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	26,302
Market cap (USDm)	3,391
Shares outstanding (m)	4,283.7
Major shareholders	–
Free float (%)	27
Avg daily value traded (USDm)	6.8

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	16.0
Net debt/equity (%)	43.3
Book value/share (CNY)	6.55
Price/book (x)	0.73
Net interest cover (x)	3.7
Operating profit margin (%)	12.3

Source: Deutsche Bank

Beneficiary of environmental protection and subsidized housing

Twin drivers of growth reignited; reiterating Buy with target price of HKD8.67

We see BBMG as a major beneficiary of China's environmental protection efforts. With accelerated inefficient plant closures, supply-demand in the Bohai Rim should reach an inflection point in 2014 as overcapacity eases. Thus, margins for BBMG's cement business should recover starting 2014. BBMG's property business should also experience strong contracted sales growth in the next few years, with higher margins. The rollout of 20k units of self-occupied homes in BJ last year has allowed BBMG to convert an additional GFA 500k sqm of industrial land, enhancing its NAV. There are another 50k units of self-occupied homes in 2014 and BBMG is a frontrunner.

Cement: inflection point for supply-demand beginning in 2014

We believe profitability for BBMG's cement business bottomed in 2013 and will see a gradual recovery in the next few years. We see evidence of environmental protection efforts (see Figure 13) causing large-scale removals and shutdowns of cement capacity. This should allow the market concentration of BBMG and Jidong to increase from 35% in 2012 to 54% by 2015. On the demand front, we are more positive on real estate and infrastructure spending in the next few years. Our supply-demand model for Bohai Rim indicates that utilization rates will pick up from 59% in 2013 to 69% by 2015.

Property: unlocking value through accelerated industrial land bank conversion

BBMG's property business will likely be more profitable than traditional developers in the next few years due to the high profitability of its industrial land bank conversion (GPM 50%). In Nov-13, BBMG converted three industrial land plots to build c.6.5k out of the 20k self-occupied homes launched in BJ. Another 50k self-occupied homes will be launched in 2014 (c.40% of BJ's residential homes sold each year). We believe BBMG will continue to have an edge over its peers due to its rich industrial land bank of 7msm in BJ. *Valuation and risks overleaf.*

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	28,744.8	34,054.1	43,227.4	54,174.4	65,276.5
Reported NPAT (CNYm)	3,428.6	2,965.1	3,156.9	4,239.6	5,645.2
Reported EPS FD(CNY)	0.81	0.69	0.74	0.99	1.32
DB EPS growth (%)	–	-14.7	6.5	34.3	33.2
PER (x)	9.7	7.2	6.4	4.8	3.6
Yield (net) (%)	0.9	1.2	1.4	1.8	2.5

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:22 January 2014

Running the numbers

Asia

China

Construction Materials

BBMG

Reuters: 2009.HK | Bloomberg: 2009 HK

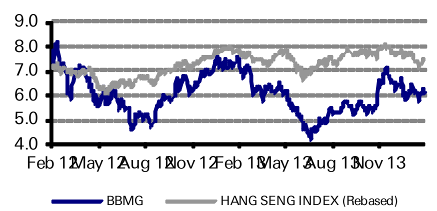
Buy

Price (17 Feb 14)	HKD 6.14
Target Price	HKD 8.67
52 Week range	HKD 4.18 - 7.48
Market Cap (m)	HKDm 26,302
	USDm 3,391

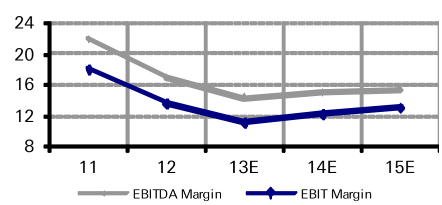
Company Profile

BBMG has operations in manufacturing and sales of cement and modern building materials. The company also operates in property development, property investment and provision of property management services in China.

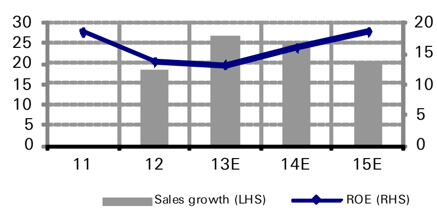
Price Performance



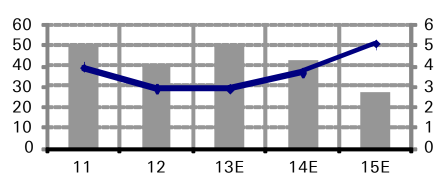
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013E	2014E	2015E
Financial Summary					
DB EPS (CNY)	0.81	0.69	0.74	0.99	1.32
Reported EPS (CNY)	0.81	0.69	0.74	0.99	1.32
DPS (CNY)	0.07	0.06	0.07	0.09	0.12
BVPS (CNY)	4.7	5.3	5.8	6.6	7.6
Weighted average shares (m)	4,224	4,284	4,284	4,284	4,284
Average market cap (CNYm)	33,178	21,282	20,566	20,566	20,566
Enterprise value (CNYm)	33,672	20,192	22,640	21,703	18,253
Valuation Metrics					
P/E (DB) (x)	9.7	7.2	6.5	4.9	3.6
P/E (Reported) (x)	9.7	7.2	6.5	4.9	3.6
P/BV (x)	0.91	1.07	0.82	0.73	0.63
FCF Yield (%)	nm	4.2	nm	13.3	26.9
Dividend Yield (%)	0.9	1.2	1.4	1.8	2.4
EV/Sales (x)	1.2	0.6	0.5	0.4	0.3
EV/EBITDA (x)	5.4	3.5	3.7	2.7	1.8
EV/EBIT (x)	6.5	4.3	4.7	3.3	2.1
Income Statement (CNYm)					
Sales revenue	28,745	34,054	43,227	54,174	65,276
Gross profit	7,953	8,329	8,960	12,907	16,382
EBITDA	6,293	5,754	6,203	8,150	10,109
Depreciation	1,095	1,107	1,372	1,499	1,579
Amortisation	0	0	0	0	0
EBIT	5,198	4,647	4,831	6,651	8,530
Net interest income(expense)	-1,319	-1,596	-1,640	-1,794	-1,674
Associates/affiliates	14	-33	-42	-52	-63
Exceptionals/extraordinaries	777	936	843	843	843
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	3,893	3,018	3,149	4,805	6,793
Income tax expense	1,077	804	756	1,153	1,630
Minorities	164	185	79	254	360
Other post-tax income/(expense)	0	0	0	0	0
Net profit	3,429	2,965	3,157	4,240	5,645
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	3,429	2,965	3,157	4,240	5,645
Cash Flow (CNYm)					
Cash flow from operations	-1,136	4,311	2,280	6,626	8,140
Net Capex	-1,994	-3,426	-4,020	-3,887	-2,606
Free cash flow	-3,130	885	-1,740	2,739	5,534
Equity raised/(bought back)	0	3,000	0	0	0
Dividends paid	-388	-285	-263	-280	-376
Net inc/(dec) in borrowings	5,415	-3,942	3,612	-270	-1,930
Other investing/financing cash flows	-1,801	-1,226	-1,640	-1,794	-1,674
Net cash flow	96	-1,569	-31	395	1,553
Change in working capital	*-6,127*	*-592*	*-2,613*	*-769*	*-816*
Balance Sheet (CNYm)					
Cash and other liquid assets	7,918	5,906	5,875	6,270	7,823
Tangible fixed assets	15,579	17,492	19,432	21,142	21,752
Goodwill/intangible assets	4,400	5,119	5,227	5,326	5,353
Associates/investments	12,209	13,449	14,008	14,535	14,861
Other assets	36,808	41,196	48,944	55,664	62,965
Total assets	76,915	83,162	93,486	102,936	112,754
Interest bearing debt	19,059	16,145	19,757	19,488	17,558
Other liabilities	36,140	41,992	46,574	52,922	59,884
Total liabilities	55,199	58,137	66,331	72,410	77,442
Shareholders' equity	20,154	22,904	24,955	28,072	32,499
Minorities	1,562	2,121	2,200	2,454	2,814
Total shareholders' equity	21,716	25,025	27,155	30,526	35,313
Net debt	*11,141*	*10,239*	*13,882*	*13,218*	*9,734*
Key Company Metrics					
Sales growth (%)	nm	18.5	26.9	25.3	20.5
DB EPS growth (%)	na	-14.7	6.5	34.3	33.2
EBITDA Margin (%)	21.9	16.9	14.3	15.0	15.5
EBIT Margin (%)	18.1	13.6	11.2	12.3	13.1
Payout ratio (%)	8.9	8.9	8.9	8.9	8.9
ROE (%)	18.4	13.8	13.2	16.0	18.6
Capex/sales (%)	9.1	10.4	9.3	7.2	4.0
Capex/depreciation (x)	2.4	3.2	2.9	2.6	1.7
Net debt/equity (%)	51.3	40.9	51.1	43.3	27.6
Net interest cover (x)	3.9	2.9	2.9	3.7	5.1

Source: Company data, Deutsche Bank estimates

Valuation

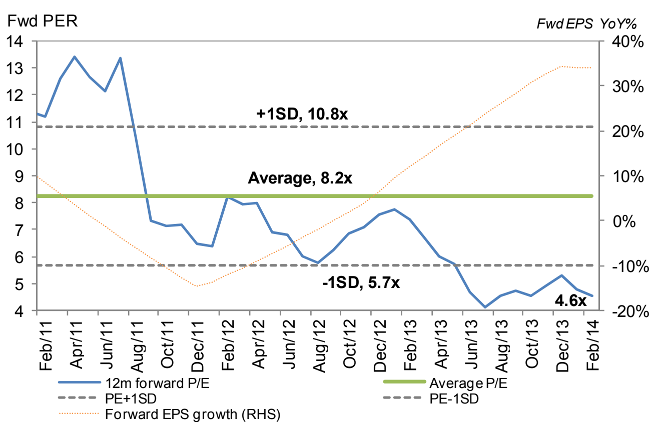
Buy with target price of HKD8.67

Our target price of HKD8.67 is based on a SOTP valuation: 6x EV/EBITDA for cement, equivalent to the target sector average, a 45% discount to NAV for property, and a discretionary 5x EV/EBITDA for modern building materials.

Risks include further property tightening and poor execution of cement capacity removals.

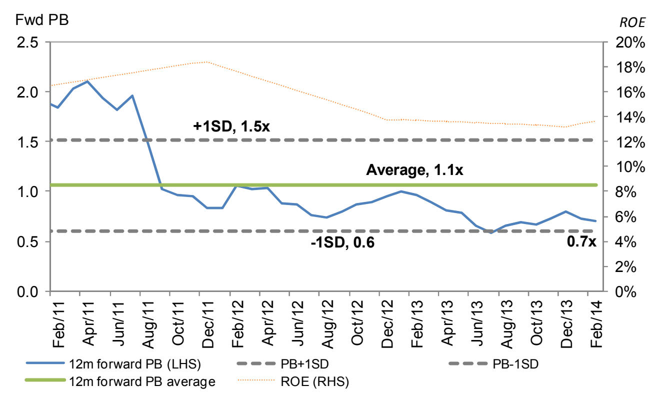
Valuation band charts

Figure 96: BBMG's three-year forward PE



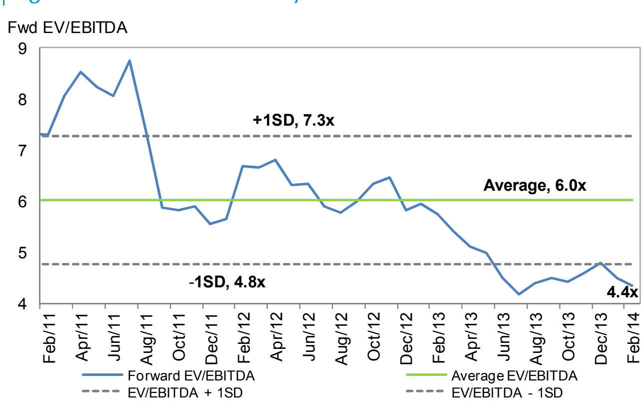
Source: Deutsche Bank

Figure 97: BBMG's three-year forward PB



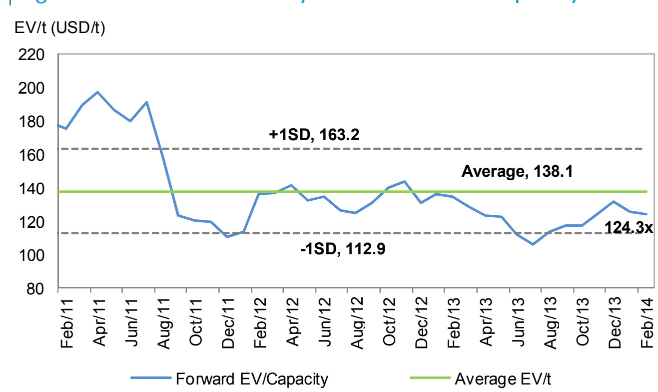
Source: Deutsche Bank

Figure 98: BBMG's three-year forward EV/EBITDA



Source: Deutsche Bank

Figure 99: BBMG's three-year forward EV/Capacity



Source: Deutsche Bank

Rating
Buy

Asia
China

Resources
Construction Materials

Company
West China Cement

Reuters 2233.HK
Bloomberg 2233 HK

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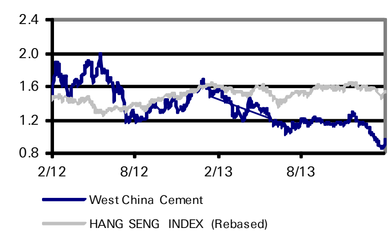
Price at 17 Feb 2014 (HKD)	0.94
Price target - 12mth (HKD)	1.42
52-week range (HKD)	1.58 - 0.86
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-10.6	-17.7	-40.4
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	4,007
Market cap (USDm)	517
Shares outstanding (m)	4,547.2
Major shareholders	Jimin Zhang (40.9%)
Free float (%)	52
Avg daily value traded (USDm)	1.7

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	10.6
Net debt/equity (%)	46.5
Book value/share (CNY)	1.22
Price/book (x)	0.60
Net interest cover (x)	4.7
Operating profit margin (%)	18.2

Source: Deutsche Bank

Positive long-term growth in Shaanxi but overcapacity remains

Supply-demand in Shaanxi to be in balance by end-2015

Central Shaanxi will remain oversupplied in 2014 with Shengtai Cement's 5mt of capacity coming on though risks are lowered in the absence of new capacity from Conch. Given that this would be the last of any new supply in Shaanxi, supply-demand should be in balance by the end of 2015. Leading producers are working well together; they plan to squeeze out small grinding stations in 2014, which could hurt low-grade cement margins. We therefore expect the earnings recovery to be gradual but the worst is over for WCC.

WCC to benefit from the long-term growth prospects of Western China

We believe WCC is well positioned to capture the long-term growth prospects of Western China. We see a broad-based demand recovery in Shannxi, driven by increased infrastructure spend and rapid urbanization in 4Q, and this trend should continue into 2014.

Improving financial position and repaying bond the top priorities

WCC's financial position is in the best shape it has been in the last two years, as the company expects to continue to generate FCF of 28% in 2014 and pay a 4.3% in dividend yield. One of WCC's top priorities is to repay its USD400m (RMB2.4bn) bonds by 2016, and we believe there is a possibility that the company may even repay part of its bond before 2016, to save interest costs. Hence, management has said that it will scale back its original expansion plan from 30mt to 27mt by 2015. WCC's capex should diminish from RMB500m in 2013 to c.RMB200m by 2015.

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	3,190.5	3,524.1	4,338.1	5,046.9	5,829.5
Reported NPAT (CNYm)	662.1	364.9	400.2	563.8	744.7
Reported EPS FD(CNY)	0.16	0.08	0.09	0.12	0.16
DB EPS growth (%)	-38.7	-46.9	6.6	40.9	32.1
PER (x)	12.7	14.7	8.3	5.9	4.4
Yield (net) (%)	1.7	1.7	3.0	4.3	5.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:23 November 2013

Running the numbers

Asia

China

Construction Materials

West China Cement

Reuters: 2233.HK | Bloomberg: 2233 HK

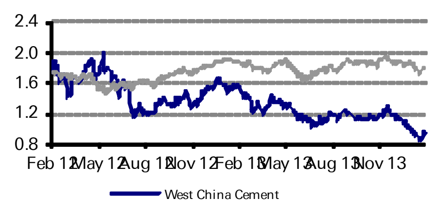
Buy

Price (17 Feb 14)	HKD 0.94
Target Price	HKD 1.42
52 Week range	HKD 0.86 - 1.56
Market Cap (m)	HKDm 4,007
	USDm 517

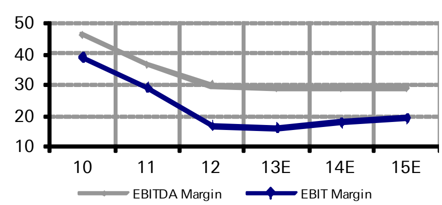
Company Profile

West China Cement Limited is a leading producer of cement and clinker in North Western China, currently operating in Shaanxi and Xinjiang provinces. The company employs NSP technology in all of its production lines.

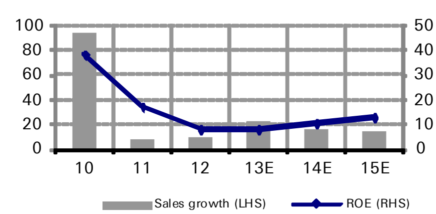
Price Performance



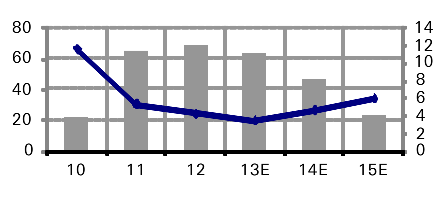
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	0.25	0.16	0.08	0.09	0.12	0.16
Reported EPS (CNY)	0.25	0.16	0.08	0.09	0.12	0.16
DPS (CNY)	0.02	0.03	0.02	0.02	0.03	0.04
BVPS (CNY)	0.8	1.0	1.0	1.1	1.2	1.3
Weighted average shares (m)	3,623	4,259	4,418	4,547	4,547	4,547
Average market cap (CNYm)	8,683	8,416	5,350	3,133	3,133	3,133
Enterprise value (CNYm)	9,537	11,271	8,791	6,490	5,837	4,736
Valuation Metrics						
P/E (DB) (x)	9.4	12.7	14.7	8.4	5.9	4.5
P/E (Reported) (x)	9.4	12.7	14.7	8.4	5.9	4.5
P/BV (x)	2.98	1.13	1.20	0.66	0.60	0.54
FCF Yield (%)	nm	nm	11.1	11.2	28.4	42.8
Dividend Yield (%)	0.6	1.7	1.7	3.0	4.2	5.6
EV/Sales (x)	3.2	3.5	2.5	1.5	1.2	0.8
EV/EBITDA (x)	7.0	9.7	8.3	5.2	4.0	2.8
EV/EBIT (x)	8.2	12.0	14.7	9.2	6.4	4.1
Income Statement (CNYm)						
Sales revenue	2,961	3,190	3,524	4,338	5,047	5,829
Gross profit	1,192	884	675	799	1,038	1,297
EBITDA	1,371	1,161	1,060	1,259	1,465	1,680
Depreciation	214	223	464	553	547	536
Amortisation	0	0	0	0	0	0
EBIT	1,157	938	597	706	918	1,144
Net interest income(expense)	-99	-174	-138	-200	-195	-190
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,058	763	459	507	723	955
Income tax expense	124	103	86	106	159	210
Minorities	8	-2	8	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	925	662	365	400	564	745
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	925	662	365	400	564	745
Cash Flow (CNYm)						
Cash flow from operations	992	722	1,440	853	1,435	1,718
Net Capex	-1,493	-1,957	-843	-477	-487	-286
Free cash flow	-501	-1,235	596	376	948	1,432
Equity raised/(bought back)	1,345	0	0	0	0	0
Dividends paid	0	-150	-60	-91	-100	-141
Net inc/(dec) in borrowings	-302	2,087	259	-157	100	-161
Other investing/financing cash flows	-513	-612	-973	-234	-225	-223
Net cash flow	28	90	-179	-107	723	907
Change in working capital	*-282*	*-278*	*458*	*-382*	*76*	*196*
Balance Sheet (CNYm)						
Cash and other liquid assets	391	566	519	446	1,199	2,139
Tangible fixed assets	3,820	6,352	7,830	7,738	7,662	7,396
Goodwill/intangible assets	321	559	798	814	830	846
Associates/investments	0	0	0	0	0	0
Other assets	1,014	943	1,153	1,484	1,623	1,665
Total assets	5,546	8,421	10,299	10,482	11,314	12,047
Interest bearing debt	1,211	3,312	3,869	3,712	3,812	3,651
Other liabilities	760	930	1,583	1,614	1,882	2,172
Total liabilities	1,972	4,242	5,452	5,326	5,694	5,823
Shareholders' equity	3,541	4,069	4,756	5,065	5,529	6,133
Minorities	33	109	91	91	91	91
Total shareholders' equity	3,574	4,179	4,847	5,156	5,620	6,224
Net debt	*821*	*2,746*	*3,350*	*3,266*	*2,613*	*1,511*
Key Company Metrics						
Sales growth (%)	95.2	7.8	10.5	23.1	16.3	15.5
DB EPS growth (%)	150.2	-38.7	-46.9	6.6	40.9	32.1
EBITDA Margin (%)	46.3	36.4	30.1	29.0	29.0	28.8
EBIT Margin (%)	39.1	29.4	16.9	16.3	18.2	19.6
Payout ratio (%)	6.0	22.0	24.2	24.9	24.9	24.9
ROE (%)	38.5	17.4	8.3	8.2	10.6	12.8
Capex/sales (%)	50.5	61.4	24.1	11.0	9.7	4.9
Capex/depreciation (x)	7.0	8.8	1.8	0.9	0.9	0.5
Net debt/equity (%)	23.0	65.7	69.1	63.3	46.5	24.3
Net interest cover (x)	11.6	5.4	4.3	3.5	4.7	6.0

Source: Company data, Deutsche Bank estimates

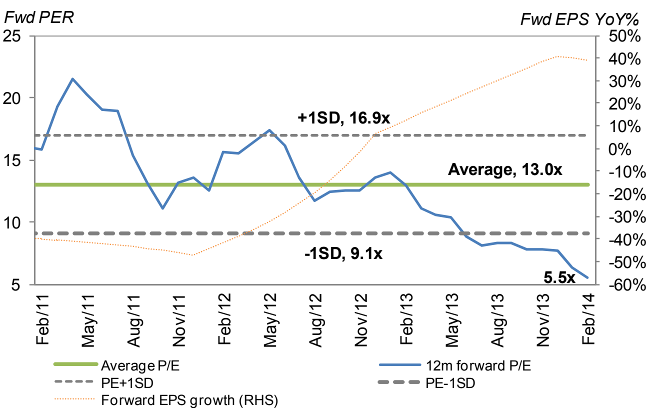
Valuation

Buy with target price of HKD1.42

We believe WCC remains on track to deliver strong earnings growth in the coming years, with supply-demand improving in Shaanxi. We estimate an earnings CAGR of 36% for FY13-15. We value WCC using a PE-based valuation of 9x FY14E, a discount to its three-year mid-cycle average of 13x. We believe the lower multiple is justified given its poorer liquidity versus its history and its slower growth. This is still higher than the industry average of 8x FY14E PE, with an earnings CAGR of 23% for FY13-15E. This also implies RMB286 EV/t and 0.8x PB, with 10.4% ROE, which we consider attractive. Risks: Slower than expected recovery in infrastructure projects in Shaanxi, slower than expected removal of obsolete capacity

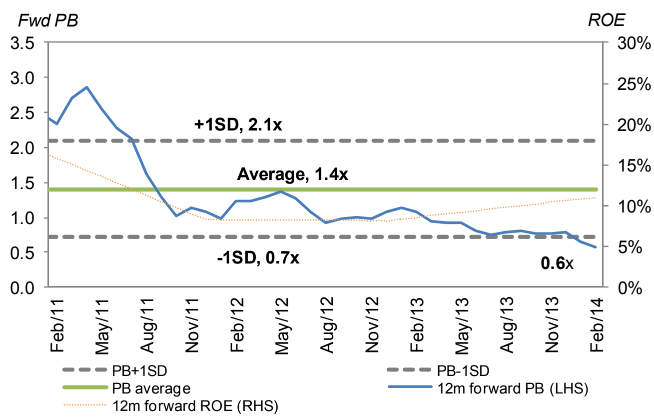
Valuation band charts

Figure 100: WCC's three-year forward PE



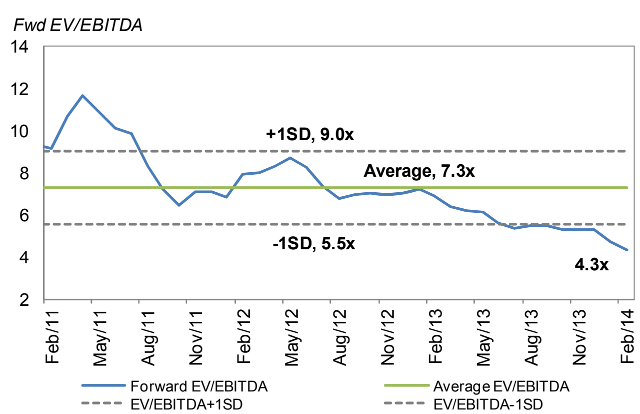
Source: Deutsche Bank

Figure 101: WCC's three-year forward PB



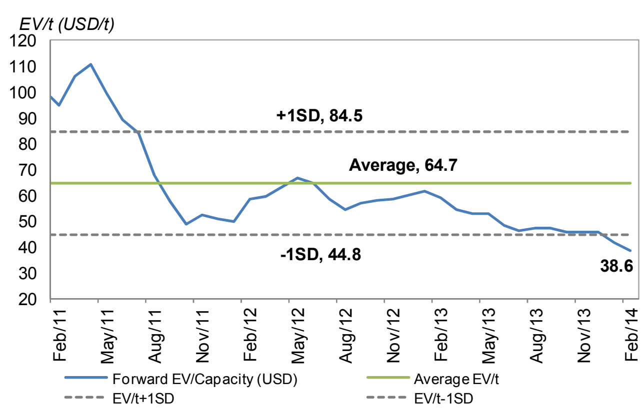
Source: Deutsche Bank

Figure 102: WCC's three-year forward EV/EBITDA



Source: Deutsche Bank

Figure 103: WCC's three-year forward EV/Capacity



Source: Deutsche Bank

Rating
Buy

Asia
Hong Kong

Resources
Construction Materials

Company
China Shanshui Cement

Reuters	Bloomberg
0691.HK	691 HK

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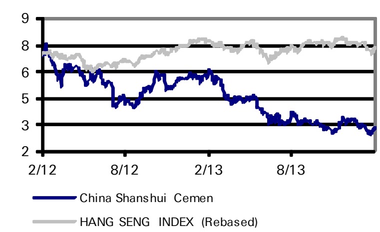
Price at 17 Feb 2014 (HKD)	2.81
Price target - 12mth (HKD)	3.49
52-week range (HKD)	6.06 - 2.47
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.8	8.1	-52.5
HANG SENG INDEX	-2.2	-1.5	-4.8

Source: Deutsche Bank

Stock data

Market cap (HKDm)	7,913
Market cap (USDm)	1,020
Shares outstanding (m)	2,816.0
Major shareholders	China Shanshui Investment (30.11%)
Free float (%)	70
Avg daily value traded (USDm)	9.7

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	11.6
Net debt/equity (%)	146.6
Book value/share (CNY)	3.49
Price/book (x)	0.63
Net interest cover (x)	2.4
Operating profit margin (%)	14.3

Source: Deutsche Bank

Downside risks limited, upgrading to Buy on cheap valuations

Attractively valued, debt concerns easing; upgrading to Buy, TP HKD3.49

We believe most of the bad news for Shanshui is now in the price. With supply pressures easing and renewed price discipline with CNBM since 2H13, we are cautiously optimistic on the 2014 outlook. Shanshui is off to a solid start this year with prices holding up in the slow season; therefore, prices should have already bottomed. The company is committed to capex cuts and should turn FCF positive in 2014, helping it to reduce debt. The ongoing concern will be Shanshui's ability to refinance its RMB5.2bn in debt maturing this year. Once this overhang is cleared, we believe Shanshui will re-rate as it is currently trading on trough valuations.

Mixed supply-demand outlook but downside risks limited

We believe supply-demand in Shandong, the company’s most important region, should improve in 2014. Supply pressures are easing with only two lines being added this year; large-scale capacity shutdowns due to environmental protection in nearby Hebei province will reduce inflows into Shandong. We remain cautious on Shanshui’s other regions, Liaoning and Shanxi, as overcapacity will probably take time to digest. Therefore, overall GP for Shanshui should be flat at best but greater volume growth and push into concrete will drive earnings growth in 2014. We revised up FY14/15E earnings by 15%/23% respectively.

Attractively priced, trading on 6x FY14 PER and RMB267/t in replacement cost

We value Shanshui using a target multiple of 7 (up from 6.5x) on its FY14E PER, in line with 1 standard deviation below its three-year mid-cycle. The lower multiple of 7 also represents a 20% discount to the average target sector multiple of 8.8. We believe this is justified given the company’s relatively slower earnings growth and high net gearing. Our current target price also implies an EV/t of RMB285/t, which is at the trough of its three-year mid-cycle and is well below the sector replacement cost of RMB400/t. Risks: slower-than-expected demand recovery in Shandong

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	16,862.0	16,161.0	16,137.6	18,397.7	20,642.4
Reported NPAT (CNYm)	2,225.3	1,518.5	950.5	1,097.8	1,344.2
Reported EPS FD(CNY)	0.79	0.54	0.34	0.39	0.48
DB EPS growth (%)	126.3	-31.8	-37.4	15.5	22.4
PER (x)	7.3	8.2	6.5	5.6	4.6
Yield (net) (%)	3.4	4.2	5.4	6.2	7.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:12 February 2014

Running the numbers

Asia

Hong Kong

Construction Materials

China Shanshui Cement

Reuters: 0691.HK Bloomberg: 691 HK

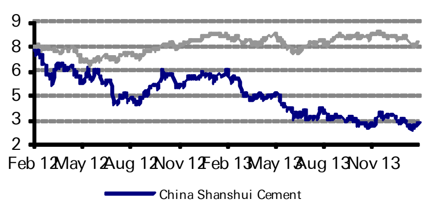
Buy

Price (17 Feb 14)	HKD 2.81
Target Price	HKD 3.49
52 Week range	HKD 2.47 - 6.06
Market Cap (m)	HKDm 7,913
	USDm 1,020

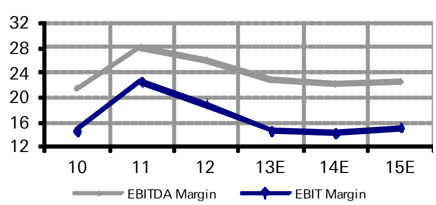
Company Profile

Shanshui Cement produces cement and clinker. The company also quarries limestone

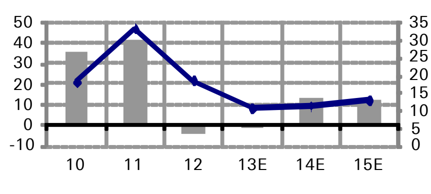
Price Performance



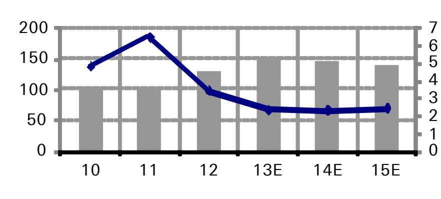
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	0.35	0.79	0.54	0.34	0.39	0.48
Reported EPS (CNY)	0.35	0.79	0.54	0.34	0.39	0.48
DPS (CNY)	0.08	0.20	0.19	0.12	0.14	0.17
BVPS (CNY)	2.0	2.7	3.1	3.2	3.5	3.8
Weighted average shares (m)	2,804	2,816	2,816	2,816	2,816	2,816
Average market cap (CNYm)	11,479	16,185	12,527	6,187	6,187	6,187
Enterprise value (CNYm)	18,073	24,958	25,511	21,811	22,553	23,431
Valuation Metrics						
P/E (DB) (x)	11.7	7.3	8.2	6.5	5.6	4.6
P/E (Reported) (x)	11.7	7.3	8.2	6.5	5.6	4.6
P/BV (x)	2.39	1.57	1.50	0.68	0.63	0.57
FCF Yield (%)	nm	nm	nm	nm	11.9	13.1
Dividend Yield (%)	2.1	3.4	4.2	5.4	6.2	7.6
EV/Sales (x)	1.5	1.5	1.6	1.4	1.2	1.1
EV/EBITDA (x)	7.2	5.3	6.1	5.9	5.5	5.0
EV/EBIT (x)	10.5	6.5	8.3	9.3	8.6	7.5
Income Statement (CNYm)						
Sales revenue	11,854	16,862	16,161	16,138	18,398	20,642
Gross profit	2,550	5,079	4,111	3,761	4,237	4,895
EBITDA	2,527	4,750	4,190	3,696	4,092	4,655
Depreciation	807	928	1,134	1,345	1,464	1,535
Amortisation	0	0	0	0	0	0
EBIT	1,720	3,823	3,055	2,351	2,628	3,120
Net interest income(expense)	-356	-586	-882	-987	-1,118	-1,267
Associates/affiliates	0	17	31	31	35	40
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,363	3,254	2,205	1,394	1,546	1,893
Income tax expense	358	942	601	390	386	473
Minorities	26	86	85	53	62	75
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	979	2,225	1,519	950	1,098	1,344
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	979	2,225	1,519	950	1,098	1,344
Cash Flow (CNYm)						
Cash flow from operations	2,146	2,039	2,787	2,917	3,286	3,660
Net Capex	-2,860	-3,390	-4,374	-4,015	-2,551	-2,851
Free cash flow	-714	-1,351	-1,587	-1,099	735	809
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-238	-340	-573	-531	-333	-384
Net inc/(dec) in borrowings	1,612	3,987	1,045	1,943	2,375	883
Other investing/financing cash flows	-401	-433	-809	-987	-1,123	-1,273
Net cash flow	259	1,863	-1,925	-675	1,654	35
Change in working capital	*-194*	*-2,008*	*-577*	*-389*	*-419*	*-522*
Balance Sheet (CNYm)						
Cash and other liquid assets	1,210	3,079	1,124	449	2,109	2,150
Tangible fixed assets	11,280	12,787	16,011	18,166	18,763	19,610
Goodwill/intangible assets	3,311	3,844	4,946	5,462	5,952	6,421
Associates/investments	55	71	103	134	170	209
Other assets	3,093	5,301	5,848	6,743	7,854	8,991
Total assets	18,950	25,082	28,033	30,954	34,848	37,382
Interest bearing debt	7,399	11,465	13,466	15,409	17,784	18,666
Other liabilities	5,403	5,450	5,171	5,676	6,369	6,984
Total liabilities	12,801	16,915	18,637	21,085	24,152	25,651
Shareholders' equity	5,688	7,709	8,651	9,070	9,835	10,795
Minorities	461	458	746	799	861	936
Total shareholders' equity	6,149	8,167	9,397	9,869	10,696	11,731
Net debt	*6,189*	*8,387*	*12,342*	*14,960*	*15,675*	*16,517*
Key Company Metrics						
Sales growth (%)	35.8	42.2	-4.2	-0.1	14.0	12.2
DB EPS growth (%)	38.4	126.3	-31.8	-37.4	15.5	22.4
EBITDA Margin (%)	21.3	28.2	25.9	22.9	22.2	22.6
EBIT Margin (%)	14.5	22.7	18.9	14.6	14.3	15.1
Payout ratio (%)	24.3	24.8	35.0	35.0	35.0	35.0
ROE (%)	18.1	33.2	18.6	10.7	11.6	13.0
Capex/sales (%)	24.5	20.2	27.1	24.9	13.9	13.8
Capex/depreciation (x)	3.6	3.7	3.9	3.0	1.7	1.9
Net debt/equity (%)	100.6	102.7	131.3	151.6	146.6	140.8
Net interest cover (x)	4.8	6.5	3.5	2.4	2.4	2.5

Source: Company data, Deutsche Bank estimates

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Revisions

Assumption revisions

Figure 104: Assumption revisions for Shanshui

	Unit	New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	% chg 2013E	% chg 2014E	% chg 2015E
Cement Capacity	**mt**	**99.6**	**105.6**	**107.6**	**101.6**	**105.6**	**107.6**	**-2%**	**0%**	**0%**
Shandong	mt	57.4	57.4	57.4	57.4	57.4	57.4	0%	0%	0%
Liaoning & Inner Mongolia	mt	28.7	30.7	30.7	28.7	30.7	30.7	0%	0%	0%
Shanxi	mt	11.5	15.5	15.5	13.5	15.5	15.5	-15%	0%	0%
Xinjiang	mt	2.0	2.0	4.0	2.0	2.0	4.0	0%	0%	0%
Blended sales volume	**mt**	**61.4**	**69.8**	**76.8**	**59.6**	**70.5**	**76.8**	**3%**	**-1%**	**0%**
Shandong	mt	35.2	35.0	38.0	32.6	35.0	38.0	8%	0%	0%
Liaoning & Inner Mongolia	mt	13.0	15.0	16.0	12.4	15.0	16.0	5%	0%	0%
Shanxi	mt	3.0	5.0	7.0	3.2	5.0	7.0	-6%	0%	0%
Xinjiang	mt	1.2	1.5	2.0	1.3	1.5	2.0	-8%	0%	0%
Cement & Clinker ASP	**RMB/t**	**241**	**239**	**243**	**238**	**238**	**241**	**1%**	**0%**	**1%**
Shandong	RMB/t	243	248	253	245	245	247	-1%	1%	2%
Liaoning & Inner Mongolia	RMB/t	271	247	252	272	266	269	0%	-7%	-6%
Shanxi	RMB/t	219	212	219	214	210	214	2%	1%	2%
Xinjiang	RMB/t	227	225	225	232	241	253	-2%	-7%	-11%
Unit COGS	RMB/t	180	178	180	178	184	186	1%	-3%	-3%
Unit Gross Profit	**RMB/t**	**61**	**61**	**64**	**60**	**53**	**55**	**2%**	**15%**	**16%**
Unit EBITDA	RMB/t	60	59	61	60	54	54	0%	9%	12%
Unit EBIT	RMB/t	38	38	41	37	33	35	3%	14%	16%
Unit Net Profit	**RMB/t**	**15.5**	**15.7**	**17.5**	**14.7**	**13.4**	**14.3**	**5%**	**17%**	**22%**

Source: Deutsche Bank

Figure 105: Earning revisions for Shanshui

Units: RMB mn For year ended Dec 31	New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	% chg 2013E	% chg 2014E	% chg 2015E
Revenue	**16,138**	**18,398**	**20,642**	**15,348**	**17,972**	**19,785**	**5%**	**2%**	**4%**
Cost of sales	(12,376)	(14,160)	(15,747)	(11,948)	(14,200)	(15,590)	4%	0%	1%
Gross Profit	**3,761**	**4,237**	**4,895**	**3,400**	**3,772**	**4,195**	**11%**	**12%**	**17%**
SG&A	(1,627)	(1,850)	(2,036)	(1,400)	(1,657)	(1,806)	16%	12%	13%
Other Income	216	241	262	211	243	262	2%	-1%	0%
EBITDA	3,696	4,092	4,655	3,557	3,813	4,138	4%	7%	13%
Depreciation and Amortization	(1,345)	(1,464)	(1,535)	(1,346)	(1,455)	(1,487)	0%	1%	3%
Operating Profit (EBIT)	2,351	2,628	3,120	2,211	2,358	2,651	6%	11%	18%
Net interest	(987)	(1,118)	(1,267)	(987)	(1,058)	(1,145)	0%	6%	11%
Pre-tax profit	1,394	1,546	1,893	1,253	1,334	1,544	11%	16%	23%
Income tax	(390)	(386)	(473)	(326)	(334)	(386)	20%	16%	23%
Minority interests	(53)	(62)	(75)	(49)	(53)	(62)	9%	16%	22%
Net Profit	**950**	**1,098**	**1,344**	**878**	**947**	**1,097**	**8%**	**16%**	**23%**
EPS	**0.34**	**0.39**	**0.48**	**0.31**	**0.34**	**0.39**	**9%**	**15%**	**22%**

Source: Deutsche Bank

Valuation

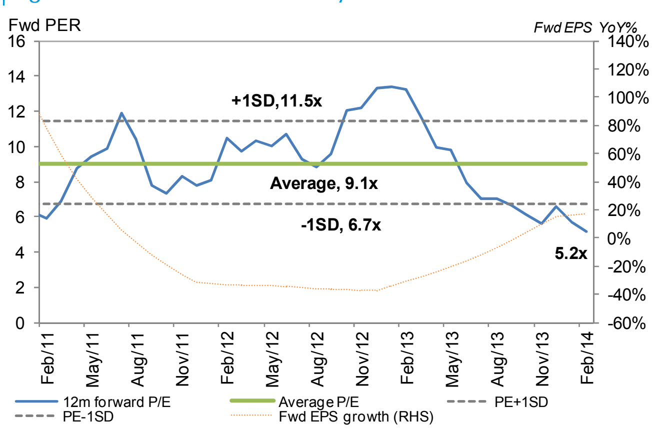
Buy with target price of HKD3.49

We upgrade Shanshui from Hold to Buy with a target price of HKD3.49. Our target price is based on 7.0x FY14E PE, which is close to 1 standard deviation below its three-year mid-cycle average. We believe this is justified given Shanshui's slow earning growth.

Risks: 1) breakdown of price cooperation in Shandong; 2) greater-than expected capacity additions in Shandong and Liaoning; 3) cement inflows from Anhui driving down prices.

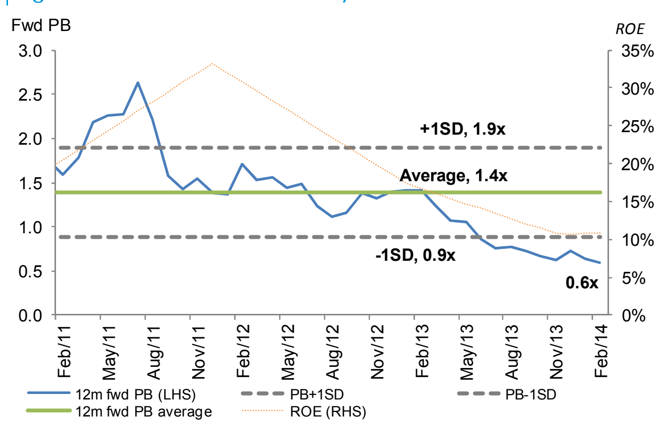
Valuation band charts

Figure 106: Shanshui's three-year historical forward PE



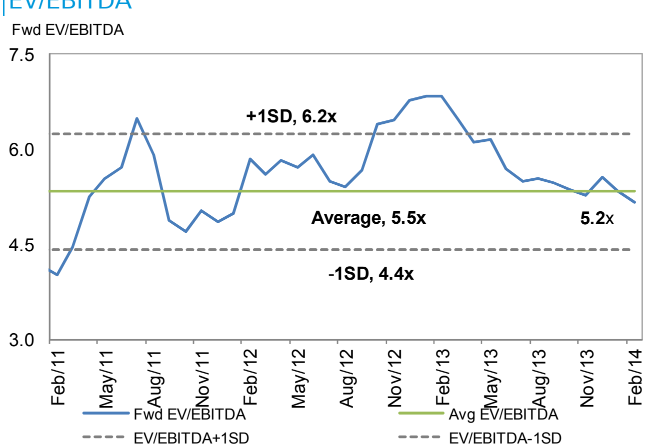
Source: Deutsche Bank

Figure 107: Shanshui's three-year historical forward PB



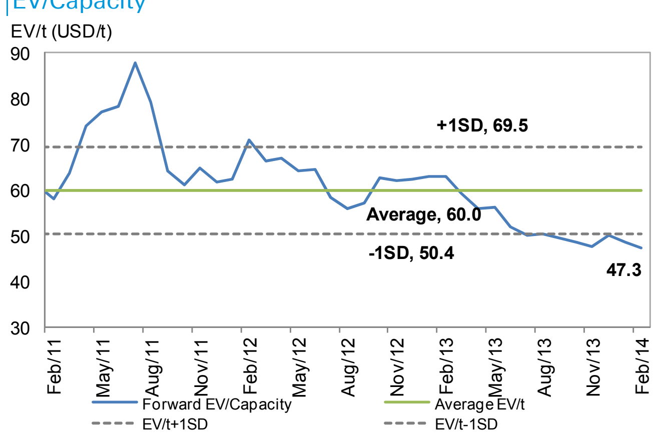
Source: Deutsche Bank

Figure 108: Shanshui's three-year historical forward EV/EBITDA



Source: Deutsche Bank

Figure 109: Shanshui's three-year historical forward EV/Capacity



Source: Deutsche Bank

Rating
Hold

Asia
China

Resources
Construction Materials

Company
Sinoma

Reuters	Bloomberg
1893.HK	1893 HK

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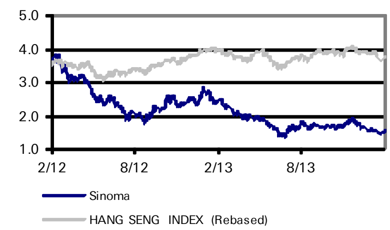
Price at 17 Feb 2014 (HKD)	1.55
Price target - 12mth (HKD)	1.91
52-week range (HKD)	2.48 - 1.36
HANG SENG INDEX	22,536

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	-5.5	-35.5
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	5,536
Market cap (USDm)	714
Shares outstanding (m)	3,571.5
Major shareholders	CNMGC (42.8%)
Free float (%)	33
Avg daily value traded (USDm)	1.0

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	5.1
Net debt/equity (%)	83.4
Book value/share (CNY)	3.38
Price/book (x)	0.36
Net interest cover (x)	3.1
Operating profit margin (%)	9.0

Source: Deutsche Bank

Improving cement and EPC business, Maintaining Hold

Cement business to recover but pressure for high-tech business remains

We expect margins for Sinoma to recover, driving an earnings CAGR of 28% for FY13-15. While Northwestern China remains oversupplied, its exposure in South and Eastern China should continue to lift margins in 2014. Its EPC business will continue to face headwinds in China, as new capacity will continue to dwindle. However, growth in its overseas EPC segment has been strong in 2013, and should continue to improve in 2014 on the back of an improving global macro outlook. Its high-tech business continues to be a drag, with overcapacity in solar crucible cells and in the glass fiber business.

Cement: to improve gradually on the back of decelerating supply growth

While capacity growth is set to slow in the Northwest, previously added capacity will still take time to be digested. Sinoma's core regions of Xinjiang and Gansu are still expected to see 8.5% and 17% capacity growth in 2014. We expect margins for the cement business to improve gradually.

EPC business: growth momentum to continue in 2014 for overseas orders

The strong growth of overseas new orders in 2013 should continue in 2014. The company continues to tap into new markets, such as Russia and Brazil, where demand for cement factories remains strong. The only uncertainty is surrounding the rapid slowdown of its domestic EPC business.

High-tech business: pressure to remain in 2014

For the high-tech materials segment, apart from CNG and the wind-rotor blade business, where we expect modest sales growth, we expect margins for the whole segment to remain low due to losses sustained in solar crucible cells and in the glass fiber business. However, the overall impact should be limited, as these businesses account for only 15% of Sinoma's top line. *(See overleaf for valuation.)*

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	50,718.6	46,272.6	55,542.2	58,573.0	65,943.1
Reported NPAT (CNYm)	1,462.6	473.8	456.8	598.6	742.8
Reported EPS FD(CNY)	0.41	0.13	0.13	0.17	0.21
DB EPS growth (%)	33.0	-67.6	-3.6	31.0	24.1
PER (x)	11.1	16.0	9.5	7.3	5.9
Yield (net) (%)	1.3	1.4	2.4	3.1	3.9

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:25 November 2013

Running the numbers

Asia

China

Construction Materials

Sinoma

Reuters: 1893.HK Bloomberg: 1893 HK

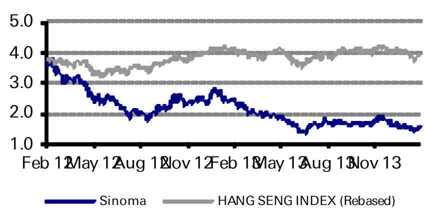
Hold

Price (17 Feb 14)	HKD 1.55
Target Price	HKD 1.91
52 Week range	HKD 1.36 - 2.48
Market Cap (m)	HKDm 5,536
	USDm 714

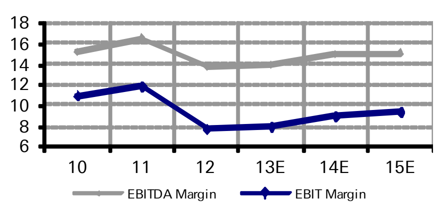
Company Profile

Sinoma is mainly engaged in cement equipment and engineering services, cement, glass fiber and high-tech materials business. It is the largest provider of cement equipment and engineering services in the world and a leading producer of non-metal materials in the PRC.

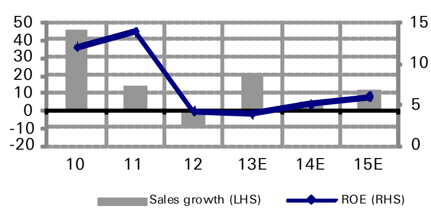
Price Performance



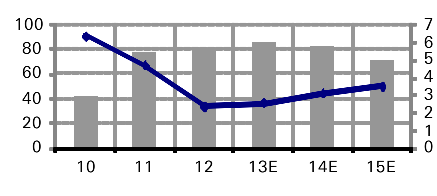
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	0.31	0.41	0.13	0.13	0.17	0.21
Reported EPS (CNY)	0.31	0.41	0.13	0.13	0.17	0.21
DPS (CNY)	0.04	0.06	0.03	0.03	0.04	0.05
BVPS (CNY)	2.8	3.1	3.2	3.3	3.4	3.5
Weighted average shares (m)	3,571	3,571	3,571	3,571	3,571	3,571
Average market cap (CNYm)	17,814	16,267	7,604	4,328	4,328	4,328
Enterprise value (CNYm)	33,719	44,114	41,880	43,378	46,580	47,850
Valuation Metrics						
P/E (DB) (x)	16.2	11.1	16.0	9.5	7.2	5.8
P/E (Reported) (x)	16.2	11.1	16.0	9.5	7.2	5.8
P/BV (x)	1.96	0.75	0.61	0.37	0.36	0.34
FCF Yield (%)	nm	nm	nm	nm	16.9	76.2
Dividend Yield (%)	0.8	1.3	1.4	2.4	3.1	3.9
EV/Sales (x)	0.8	0.9	0.9	0.8	0.8	0.7
EV/EBITDA (x)	5.0	5.3	6.5	5.6	5.3	4.8
EV/EBIT (x)	6.9	7.3	11.7	9.7	8.9	7.7
Income Statement (CNYm)						
Sales revenue	44,497	50,719	46,273	55,542	58,573	65,943
Gross profit	8,892	10,807	8,351	10,336	11,834	13,575
EBITDA	6,761	8,394	6,399	7,731	8,827	9,956
Depreciation	1,871	2,364	2,806	3,279	3,573	3,748
Amortisation	0	0	0	0	0	0
EBIT	4,890	6,030	3,593	4,452	5,254	6,208
Net interest income(expense)	-769	-1,276	-1,523	-1,729	-1,684	-1,776
Associates/affiliates	70	130	7	9	9	10
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	4,191	4,884	2,077	2,732	3,580	4,443
Income tax expense	781	920	511	656	859	1,066
Minorities	2,310	2,502	1,092	1,620	2,122	2,634
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,100	1,463	474	457	599	743
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,100	1,463	474	457	599	743
Cash Flow (CNYm)						
Cash flow from operations	4,367	-1,137	1,704	7,186	7,681	8,876
Net Capex	-7,572	-7,056	-5,295	-8,517	-6,952	-5,579
Free cash flow	-3,206	-8,193	-3,591	-1,331	730	3,297
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-437	-717	-893	-103	-135	-168
Net inc/(dec) in borrowings	6,087	7,954	2,744	5,170	3,553	-3,894
Other investing/financing cash flows	1,069	-1,737	1,120	-2,122	-1,811	-2,088
Net cash flow	3,514	-2,693	-619	1,615	2,337	-2,853
Change in working capital	*3,157*	*-874*	*-4,080*	*-113*	*-490*	*-221*
Balance Sheet (CNYm)						
Cash and other liquid assets	14,551	12,119	11,156	13,165	15,631	13,091
Tangible fixed assets	28,023	34,224	41,293	46,303	49,439	51,049
Goodwill/intangible assets	4,686	5,034	5,550	5,778	6,021	6,242
Associates/investments	3,717	3,730	3,677	3,684	3,691	3,700
Other assets	16,410	24,639	26,169	35,646	37,299	41,791
Total assets	67,386	79,747	87,844	104,576	112,080	115,874
Interest bearing debt	23,307	30,892	33,293	38,463	42,016	38,122
Other liabilities	23,275	25,072	27,476	37,064	38,430	42,909
Total liabilities	46,582	55,964	60,769	75,527	80,447	81,032
Shareholders' equity	9,939	10,978	11,260	11,613	12,077	12,651
Minorities	10,865	12,805	15,815	17,435	19,557	22,191
Total shareholders' equity	20,804	23,783	27,075	29,048	31,634	34,842
Net debt	*8,757*	*18,773*	*22,137*	*25,298*	*26,385*	*25,031*
Key Company Metrics						
Sales growth (%)	46.5	14.0	-8.8	20.0	5.5	12.6
DB EPS growth (%)	51.4	33.0	-67.6	-3.6	31.0	24.1
EBITDA Margin (%)	15.2	16.6	13.8	13.9	15.1	15.1
EBIT Margin (%)	11.0	11.9	7.8	8.0	9.0	9.4
Payout ratio (%)	13.0	14.7	22.6	22.6	22.6	22.6
ROE (%)	12.0	14.0	4.3	4.0	5.1	6.0
Capex/sales (%)	17.6	15.0	11.7	15.3	11.9	8.5
Capex/depreciation (x)	4.2	3.2	1.9	2.6	1.9	1.5
Net debt/equity (%)	42.1	78.9	81.8	87.1	83.4	71.8
Net interest cover (x)	6.4	4.7	2.4	2.6	3.1	3.5

Source: Company data, Deutsche Bank estimates

Valuation

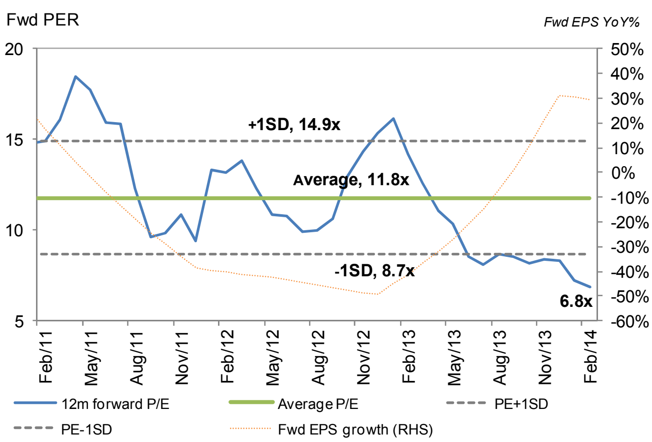
Hold with target price of HKD1.91

We value Sinoma using a PE-based valuation of 9x FY14E, this is one standard deviation lower than its three-year historical trading range, but we believe this is justified given the slowdown in its domestic EPC and in its high-tech materials business. Despite its stronger earnings growth profile, with an earnings CAGR of 28% over FY13-15E, versus 24% for the cement sector, our target multiple is only at 9x PE, inline with sector average due to its poor liquidity.

Upside/downside risks: sharper-/duller-than-expected recovery in global EPC businesses, greater/less investment in Northwestern China by central government.

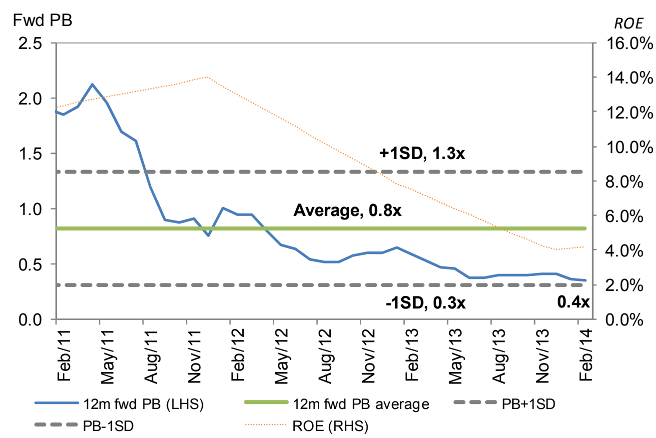
Valuation band charts

Figure 110: Sinoma's three-year forward PE



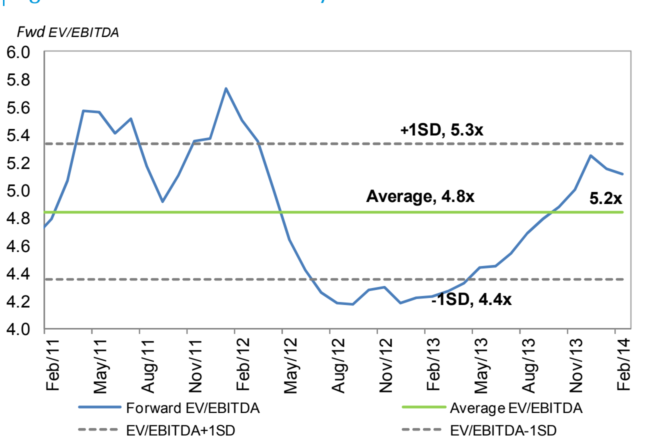
Source: Deutsche Bank

Figure 111: Sinoma's three-year forward PB



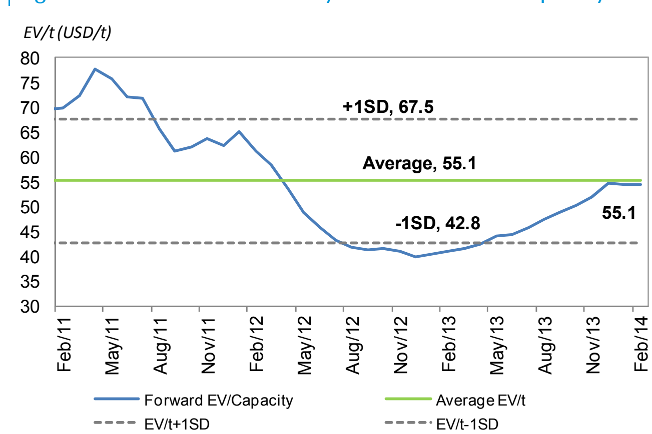
Source: Deutsche Bank

Figure 112: Sinoma's three-year forward EV/EBITDA



Source: Deutsche Bank

Figure 113: Sinoma's three-year forward EV/Capacity



Source: Deutsche Bank

Rating
Hold

Asia
China

Resources
Construction Materials

Company
CNBM

Reuters	Bloomberg
3323.HK	3323 HK

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A range bound 2014

Leveraged to a cement recovery but risks remain; upgrading to Hold

We believe earnings for CNBM will gradually recover over the next two years due to the structural supply-demand improvement in the Chinese cement sector. We therefore raise FY14/15E earnings by 17%/21 respectively. However, company specific risks will continue to hinder the long-term growth prospects of CNBM and hence investor appetite. We believe 1) tightness in onshore liquidity, 2) declining government subsidies and 3) overhang from its equity share placement will continue to cap share price performance and leave the counter range bound. We upgrade CNBM from Sell to Hold with a target price of HKD 8.07.

A long deleveraging process for CNBM

CNBM is committed to cutting capex and improving its balance sheet in 2014. Based on CNBM's guidance of c.RMB10bn capex in 2014, it should turn FCF positive, generating c.RMB8bn of FCF in 2014. However, that remains insignificant versus its c.RMB170bn of debt, so the most effective way for CNBM to reduce debt is through a series of share placements, which could become hugely dilutive to investors. Meanwhile, the steepening of the onshore yield curve will continue to pressure its mounting interest expenses, estimated to be RMB12b in 2014, thus negating the full benefit of sector improvement.

Risk/reward still unattractive; de-rating continues

CNBM has de-rated sharply in the last 12 months, underperforming Conch by 36%, but we believe the de-rating is only partly in place. Over the next few years, CNBM will be cutting capex aggressively and that will limit its growth and potentially trigger a sharp reduction in government grants. The phasing out of low-grade cement will also bring risks to its VAT rebates. As of 1H13, government subsidies accounted for 67% of its NP. *(See overleaf for valuation)*

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (CNYm)	80,058.5	87,217.6	116,844	133,120	148,597
EBITDA (CNYm)	20,240.4	20,127.8	25,862.3	29,276.1	32,181.8
Reported NPAT (CNYm)	8,015.1	5,579.6	5,290.2	5,676.6	6,331.7
DB EPS growth (%)	124.0	-30.4	-5.2	7.3	11.5
PER (x)	6.6	7.3	6.3	5.8	5.2
EV/EBITDA (x)	6.5	8.8	7.7	7.0	6.6
Yield (net) (%)	2.2	2.1	2.4	2.6	2.9

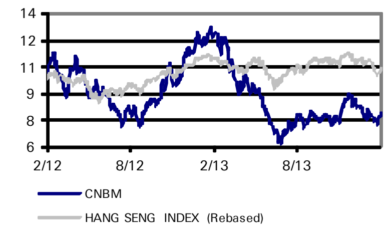
Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Price at 17 Feb 2014 (HKD)	7.84
Price target - 12mth (HKD)	8.07
52-week range (HKD)	12.46 - 6.19
HANG SENG INDEX	22,286

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.0	6.0	-36.0
HANG SENG INDEX	-2.6	-0.8	-4.0

Source: Deutsche Bank

Stock data

Market cap (HKDm)	42,328
Market cap (USDm)	5,457
Shares outstanding (m)	5,399.0
Major shareholders	CNBM Group (60%)
Free float (%)	33
Avg daily value traded (USDm)	37.5

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	15.2
Net debt/equity (%)	275.3
Book value/share (CNY)	7.38
Price/book (x)	0.83
Net interest cover (x)	1.9
Operating profit margin (%)	16.4

Source: Deutsche Bank

Model updated:11 February 2014

Running the numbers

Asia

China

Construction Materials

CNBM

Reuters: 3323.HK Bloomberg: 3323 HK

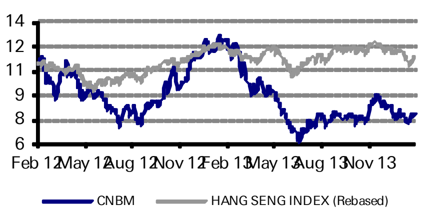
Hold

Price (17 Feb 14)	HKD 7.79
Target Price	HKD 8.07
52 Week range	HKD 6.19 - 12.36
Market Cap (m)	HKDm 42,058
	USDm 5,423

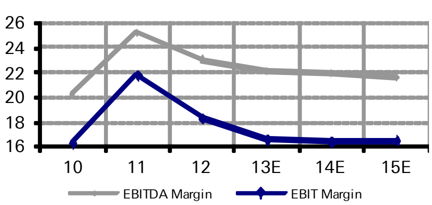
Company Profile

China National Building Material is a leading PRC building materials company with significant operations in the cement, lightweight building materials, glass fiber and FRP products and engineering services business segment.

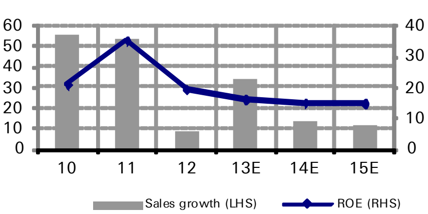
Price Performance



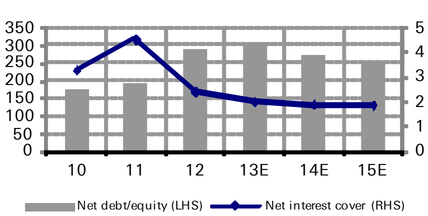
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (CNY)	0.66	1.48	1.03	0.98	1.05	1.17
Reported EPS (CNY)	0.66	1.48	1.03	0.98	1.05	1.17
DPS (CNY)	0.04	0.22	0.16	0.15	0.16	0.18
BVPS (CNY)	3.5	4.9	5.6	6.5	7.4	8.4
Weighted average shares (m)	5,083	5,399	5,399	5,399	5,399	5,399
Average market cap (CNYm)	33,401	53,067	40,747	32,886	32,886	32,886
Enterprise value (CNYm)	88,268	131,620	176,154	198,156	204,419	213,322
Valuation Metrics						
P/E (DB) (x)	9.9	6.6	7.3	6.2	5.8	5.2
P/E (Reported) (x)	9.9	6.6	7.3	6.2	5.8	5.2
P/BV (x)	2.19	1.50	1.63	0.94	0.83	0.73
FCF Yield (%)	nm	nm	nm	nm	31.0	29.5
Dividend Yield (%)	0.6	2.2	2.1	2.4	2.6	2.9
EV/Sales (x)	1.7	1.6	2.0	1.7	1.5	1.4
EV/EBITDA (x)	8.4	6.5	8.8	7.7	7.0	6.6
EV/EBIT (x)	10.4	7.5	11.0	10.2	9.3	8.7
Income Statement (CNYm)						
Sales revenue	51,988	80,058	87,218	116,844	133,120	148,597
Gross profit	11,209	21,317	20,128	29,120	33,688	37,798
EBITDA	10,511	20,240	20,128	25,862	29,276	32,182
Depreciation	2,026	2,753	4,155	6,418	7,398	7,590
Amortisation	0	0	0	0	0	0
EBIT	8,485	17,487	15,972	19,445	21,878	24,592
Net interest income(expense)	-2,579	-3,859	-6,507	-9,674	-11,456	-12,935
Associates/affiliates	198	686	459	459	482	506
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	6,104	14,315	9,924	10,229	10,904	12,162
Income tax expense	1,361	3,569	2,187	2,506	2,617	2,919
Minorities	1,374	2,731	2,157	2,433	2,610	2,912
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,369	8,015	5,580	5,290	5,677	6,332
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	3,369	8,015	5,580	5,290	5,677	6,332
Cash Flow (CNYm)						
Cash flow from operations	5,906	11,829	9,558	10,404	20,222	24,758
Net Capex	-11,514	-18,174	-26,726	-26,075	-10,036	-15,056
Free cash flow	-5,608	-6,345	-17,167	-15,671	10,186	9,702
Equity raised/(bought back)	2,925	0	0	0	0	0
Dividends paid	-342	-1,545	-2,862	-793	-851	-950
Net inc/(dec) in borrowings	14,408	22,873	50,440	25,248	9,635	6,845
Other investing/financing cash flows	-6,129	-13,217	-29,927	-12,481	-14,007	-15,758
Net cash flow	5,253	1,767	484	-3,698	4,962	-160
Change in working capital	*-36*	*-1,766*	*-6,921*	*-14,414*	*-6,548*	*-4,807*
Balance Sheet (CNYm)						
Cash and other liquid assets	9,240	13,003	13,605	11,057	16,650	17,091
Tangible fixed assets	51,722	71,161	105,414	124,647	126,942	134,079
Goodwill/intangible assets	20,558	33,050	56,583	57,874	60,231	62,873
Associates/investments	3,748	5,590	7,173	7,539	7,928	8,342
Other assets	26,250	35,590	63,658	77,784	83,030	96,692
Total assets	111,516	158,395	246,434	278,902	294,781	319,076
Interest bearing debt	59,118	85,866	142,617	167,865	177,500	184,345
Other liabilities	24,499	34,918	59,752	60,043	58,852	68,008
Total liabilities	83,618	120,784	202,369	227,908	236,351	252,353
Shareholders' equity	19,162	26,332	30,496	34,993	39,818	45,200
Minorities	8,736	11,279	13,569	16,001	18,612	21,524
Total shareholders' equity	27,898	37,611	44,065	50,994	58,430	66,724
Net debt	*49,879*	*72,863*	*129,011*	*156,808*	*160,849*	*167,254*
Key Company Metrics						
Sales growth (%)	56.1	54.0	8.9	34.0	13.9	11.6
DB EPS growth (%)	38.0	124.0	-30.4	-5.2	7.3	11.5
EBITDA Margin (%)	20.2	25.3	23.1	22.1	22.0	21.7
EBIT Margin (%)	16.3	21.8	18.3	16.6	16.4	16.5
Payout ratio (%)	6.0	14.5	15.0	15.0	15.0	15.0
ROE (%)	21.0	35.2	19.6	16.2	15.2	14.9
Capex/sales (%)	22.3	22.8	30.8	22.9	8.0	10.6
Capex/depreciation (x)	5.7	6.6	6.5	4.2	1.4	2.1
Net debt/equity (%)	178.8	193.7	292.8	307.5	275.3	250.7
Net interest cover (x)	3.3	4.5	2.5	2.0	1.9	1.9

Source: Company data, Deutsche Bank estimates

Revisions

Assumption revisions

Figure 114: Assumption revisions for CNBM

Units: RMB mn		New			Old			% Chg	
For year ended Dec 31	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Revenue	**116,844**	**133,120**	**148,597**	**112,689**	**129,710**	**145,585**	**4%**	**3%**	**2%**
Cost of sales	(87,724)	(99,433)	(110,799)	(85,794)	(98,677)	(110,583)	2%	1%	0%
Gross Profit	**29,120**	**33,688**	**37,798**	**26,895**	**31,033**	**35,002**	**8%**	**9%**	**8%**
SG&A	(13,765)	(15,682)	(16,540)	(13,106)	(14,891)	(16,204)	5%	5%	2%
Other Income	4,090	3,873	3,333	4,260	3,817	3,309	-4%	1%	1%
EBITDA	25,862	29,276	32,182	24,466	27,357	29,697	6%	7%	8%
Depreciation and Amortization	(6,418)	(7,398)	(7,590)	(6,418)	(7,398)	(7,590)	0%	0%	0%
Operating Profit (EBIT)	19,445	21,878	24,592	18,048	19,959	22,106	8%	10%	11%
Net interest	(9,674)	(11,456)	(12,935)	(9,634)	(11,538)	(13,018)	0%	-1%	-1%
Pre-tax profit	10,229	10,904	12,162	8,690	8,710	9,392	18%	25%	29%
Income tax	(2,506)	(2,617)	(2,919)	(1,912)	(2,003)	(2,160)	31%	31%	35%
Minority interests	(2,433)	(2,610)	(2,912)	(1,890)	(1,870)	(2,016)	29%	40%	44%
Net Profit	**5,290**	**5,677**	**6,332**	**4,888**	**4,836**	**5,215**	**8%**	**17%**	**21%**
EPS	**0.98**	**1.05**	**1.17**	**0.91**	**0.90**	**0.97**	**8%**	**17%**	**21%**

Source: Deutsche Bank

Figure 115: Earning revisions for CNBM

		New			Old forecast			% Chg	
For year ended Dec 31	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Cement Capacity (mt)	**388.0**	**406.0**	**430.0**	**388.0**	**410.0**	**438.0**	**0%**	**-1%**	**-2%**
China United	92.0	94.0	98.0	92.0	94.0	98.0	0%	0%	0%
South Cement	144.0	148.0	156.0	144.0	148.0	156.0	0%	0%	0%
North Cement	32.0	34.0	36.0	32.0	38.0	44.0	0%	-11%	-18%
Southwest Cement	120.0	130.0	140.0	120.0	130.0	140.0	0%	0%	0%
Blended sales volume (mt)	**286.8**	**312.0**	**329.9**	**279.9**	**308.8**	**329.9**	**2%**	**1%**	**0%**
China United	64.4	69.5	72.7	66.6	72.0	75.7	-3%	-3%	-4%
South Cement	111.4	115.3	120.1	85.7	89.1	92.7	30%	29%	30%
North Cement	19.3	18.2	19.3	16.0	14.0	16.4	21%	30%	17%
Southwest Cement	70.3	85.4	92.2	74.2	90.0	97.2	-5%	-5%	-5%
Blended ASP (RMB/t)	**255.0**	**259.3**	**265.4**	**252.2**	**255.6**	**261.7**	**1%**	**1%**	**1%**
China United	242.3	248.8	254.5	247.4	253.9	260.5	-2%	-2%	-2%
South Cement	249.3	262.0	271.0	244.2	251.4	256.4	2%	4%	6%
North Cement	322.7	316.2	316.2	326.5	314.7	314.7	-1%	0%	0%
Southwest Cement	253.9	248.0	252.5	246.5	246.7	254.0	3%	1%	-1%
Unit Cement COGS	185.0	186.3	189.8	185.8	187.6	191.3	0%	-1%	-1%
Unit Gross Profit (RMB/t)	**70.0**	**73.0**	**75.7**	**66.4**	**67.9**	**70.4**	**5%**	**7%**	**7%**
Unit EBITDA (RMB/t)	88.1	92.7	95.4	83.7	86.1	88.1	5%	8%	8%
Unit EBIT (RMB/t)	**55.7**	**58.2**	**60.4**	**52.4**	**53.4**	**55.6**	**6%**	**9%**	**9%**

Source: Deutsche Bank

Valuation

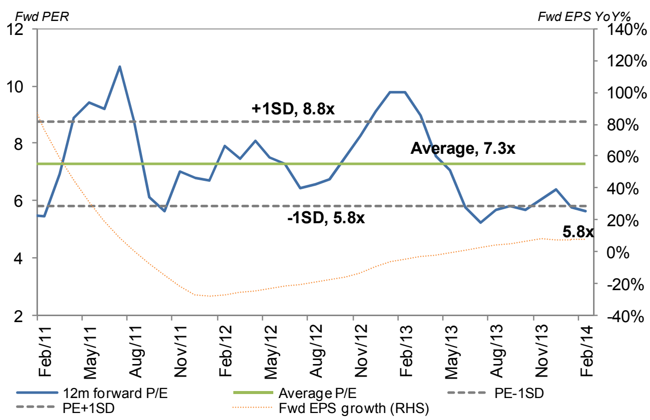
Hold with target price of HKD8.07

We derive our target price for CNBM based on 6x FY14E PER, unchanged from before and in line with 1-standard deviation below its three-year mid-cycle average. We believe a lower target P/E is warranted due to the deteriorating earnings quality, rising debt levels and risk of a significant H-share offering.

Risks: higher-/lower-than-expected SG&A and interest expenses.

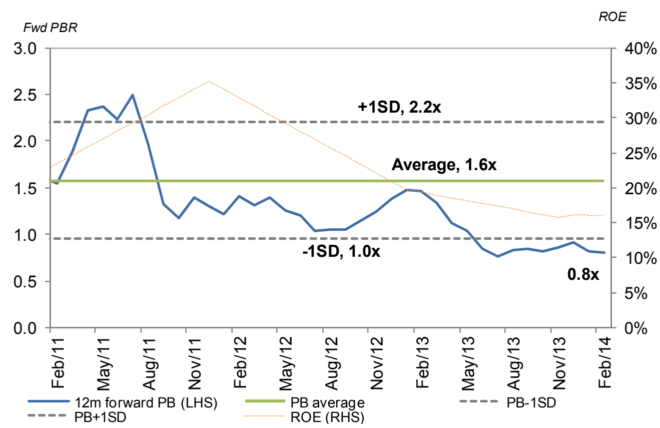
Valuation band charts

Figure 116: CNBM's three-year forward PE



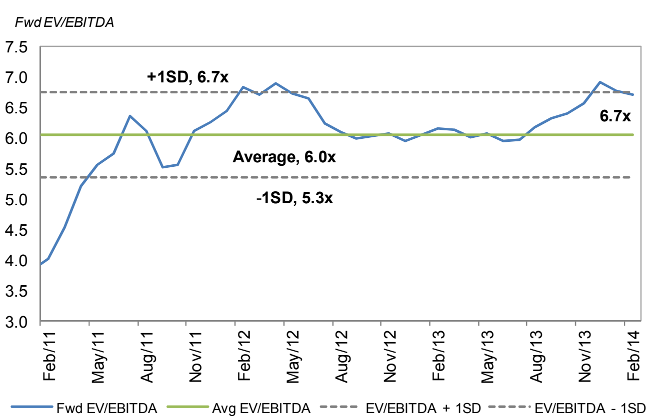
Source: Deutsche Bank

Figure 117: CNBM's three-year forward PB



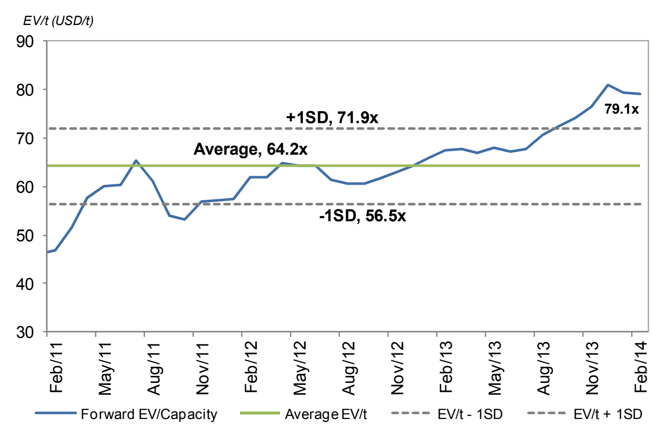
Source: Deutsche Bank

Figure 118: CNBM's three-year forward EV/EBITDA



Source: Deutsche Bank

Figure 119: CNBM's three-year forward EV/Capacity



Source: Deutsche Bank

Rating
Buy

Asia
Taiwan

Resources
Construction Materials

Company
Taiwan Cement

Reuters	Bloomberg
1101.TW	1101 TT

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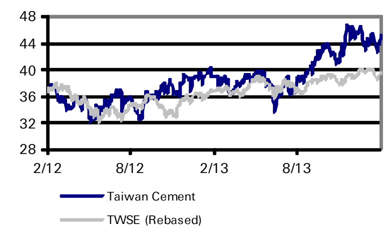
Price at 17 Feb 2014 (TWD)	46.00
Price target - 12mth (TWD)	54.00
52-week range (TWD)	46.85 - 33.75
TWSE	8,511

Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.8	10.9	16.1
TWSE	-0.6	5.0	7.6

Source: Deutsche Bank

Stock data

Market cap (TWDm)	169,840
Market cap (USDm)	5,605
Shares outstanding (m)	3,692.2
Major shareholders	Koo family (10%)
Free float (%)	85
Avg daily value traded (USDm)	16.8

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	13.3
Net debt/equity (%)	29.5
Book value/share (TWD)	29.57
Price/book (x)	1.56
Net interest cover (x)	15.3
Operating profit margin (%)	20.9

Source: Deutsche Bank

Leveraged to a strong recovery in East and South China

Promising outlook for 2014; upgrading to Buy with target price of TWD54

We prefer TCC over ACC because: 1) TCC has 31.4mt or 62% of its total cement capacity positioned in the best cement regions of South and East China; 2) TCC will privatize TCCI at a bargain of HKD3.9/sh, which translates into a replacement cost of RMB340/t, well below the sector replacement cost of RMB400-450/t; 3) TCC will be accelerating M&A in next two years as management intends to reach its 100mt capacity target by 2015 from 55mt currently, 4) its electricity segment will continue to benefit from a weak coal price; 5) it offers an attractive dividend yield of 7%. Upgrading to Buy.

Cement: solid operations, cash rich parent

Two thirds of TCC's cement capacity are exposed to South and East China, where we expect a structural improvement in margins in the next few years. Supply has reached an inflection point in both regions with net supply declining, meaning any positive demand growth will lead to higher utilization rates. The privatization of TCCI is also the first signal of more aggressive M&A to come in China as TCC vows to achieve 100mt of cement capacity by 2015. We raise FY14/15E earnings by 58%/68% respectively to capture the improvement in cement and earnings accretion due to the privatization of TCCI. Given parent TCC's strong balance sheet and low funding cost, TCCI is a force to be reckoned with in the M&A space over the next few years

Electricity: weak coal price cushions lower electricity tariff

After the sharp margin expansion seen in 2013 following lower coal prices, 2014 margins for the electricity segment should ease from a high base. We expect the electricity tariff to decline as prices will reset based on Taipower's lower COGS in 2013. However, we expect a further 10% decline in QHD prices for 2014, which should also affect regional coal prices. This should help to protect the downside and lead to flattish electricity segment earnings growth for 2014. *(See overleaf for valuation and risks.)*

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (TWDm)	118,496.6	119,454.9	117243.7	123589.8	129183.6
Reported NPAT (TWDm)	8,619.8	7,734.8	11410.4	14241.2	16242.0
Reported EPS FD(TWD)	2.33	2.09	3.09	3.86	4.40
DB EPS growth (%)	-3.9	-10.3	47.5	24.8	14.0
PER (x)	15.8	17.1	14.9	11.9	10.5
EV/EBITDA (x)	7.9	8.5	7.5	6.6	5.8
Yield (net) (%)	5.2	5.3	5.5	6.8	7.8

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:14 February 2014

Running the numbers

Asia

Taiwan

Construction Materials

Taiwan Cement

Reuters: 1101.TW Bloomberg: 1101 TT

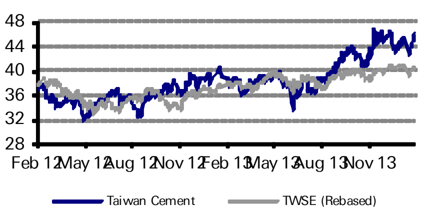
Buy

Price (17 Feb 14)	TWD 46.00
Target Price	TWD 54.00
52 Week range	TWD 33.75 - 46.85
Market Cap (m)	TWDm 169,840
	USDm 5,605

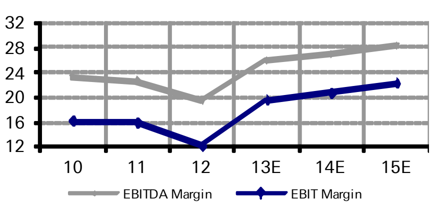
Company Profile

Taiwan Cement is the largest cement manufacturer in Taiwan. The company entered the China market in late 1990s and owns 59mmtpa of cement and slagpowder capacity in China as well as several projects that are under construction. Its major focus is in the greater Guangdong market. Through its subsidiaries, the company also operates in transportation, construction and information products businesses.

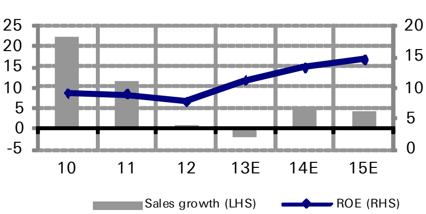
Price Performance



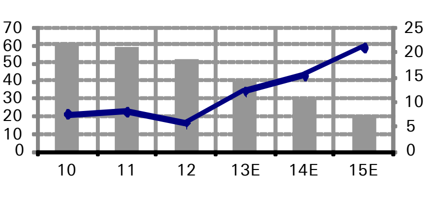
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (TWD)	2.43	2.33	2.09	3.09	3.86	4.40
Reported EPS (TWD)	2.43	2.33	2.09	3.09	3.86	4.40
DPS (TWD)	2.23	1.90	1.90	2.52	3.14	3.58
BVPS (TWD)	25.7	26.2	27.0	28.2	29.6	30.8
Weighted average shares (m)	3,304	3,692	3,692	3,692	3,692	3,692
Average market cap (TWDm)	100,563	135,887	132,106	169,840	169,840	169,840
Enterprise value (TWDm)	174,243	212,015	198,658	227,770	219,713	211,449
Valuation Metrics						
P/E (DB) (x)	12.5	15.8	17.1	14.9	11.9	10.5
P/E (Reported) (x)	12.5	15.8	17.1	14.9	11.9	10.5
P/BV (x)	1.28	1.34	1.44	1.63	1.56	1.49
FCF Yield (%)	2.2	3.7	14.3	11.5	12.5	14.5
Dividend Yield (%)	7.3	5.2	5.3	5.5	6.8	7.8
EV/Sales (x)	1.6	1.8	1.7	1.9	1.8	1.6
EV/EBITDA (x)	7.0	7.9	8.5	7.5	6.6	5.8
EV/EBIT (x)	10.1	11.2	13.6	9.9	8.5	7.3
Income Statement (TWDm)						
Sales revenue	106,207	118,497	119,455	117,244	123,590	129,184
Gross profit	19,496	20,575	17,709	24,710	27,892	31,355
EBITDA	24,878	26,957	23,281	30,480	33,459	36,662
Depreciation	7,656	8,079	8,701	7,530	7,653	7,779
Amortisation	0	0	0	0	0	0
EBIT	17,222	18,878	14,580	22,951	25,806	28,883
Net interest income(expense)	-2,271	-2,352	-2,510	-1,867	-1,684	-1,373
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	14,951	16,526	12,070	21,083	24,121	27,510
Income tax expense	1,555	2,798	2,112	3,795	4,342	4,952
Minorities	5,364	5,108	2,223	5,878	5,538	6,316
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	8,031	8,620	7,735	11,410	14,241	16,242
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	8,031	8,620	7,735	11,410	14,241	16,242
Cash Flow (TWDm)						
Cash flow from operations	13,815	15,867	22,851	23,801	25,259	28,548
Net Capex	-11,583	-10,861	-3,990	-4,284	-3,984	-3,984
Free cash flow	2,231	5,006	18,861	19,517	21,276	24,565
Equity raised/(bought back)	10,800	0	0	0	0	0
Dividends paid	-9,532	-11,029	-9,327	-7,015	-9,286	-11,590
Net inc/(dec) in borrowings	25,301	-11,245	-98	-6,945	-7,693	-26,910
Other investing/financing cash flows	-12,890	6,572	-5,679	31	31	31
Net cash flow	15,910	-10,697	3,757	5,588	4,327	-13,905
Change in working capital	*-6,668*	*-6,157*	*5,616*	*951*	*-599*	*-215*
Balance Sheet (TWDm)						
Cash and other liquid assets	32,707	22,140	25,933	31,521	35,848	21,944
Tangible fixed assets	125,370	136,581	133,535	130,154	126,339	122,396
Goodwill/intangible assets	14,276	15,486	15,748	15,924	16,109	16,296
Associates/investments	32,273	33,054	34,954	36,922	38,497	40,071
Other assets	57,334	54,633	51,260	50,554	54,589	53,591
Total assets	261,961	261,895	261,431	265,075	271,382	254,298
Interest bearing debt	109,068	98,785	95,506	88,561	80,868	53,957
Other liabilities	28,379	33,789	34,181	34,498	38,004	36,862
Total liabilities	137,447	132,575	129,687	123,058	118,872	90,820
Shareholders' equity	94,921	96,784	99,810	104,205	109,160	113,812
Minorities	29,593	32,537	31,934	37,812	43,350	49,667
Total shareholders' equity	124,514	129,320	131,744	142,017	152,510	163,478
Net debt	*76,361*	*76,645*	*69,572*	*57,040*	*45,019*	*32,013*
Key Company Metrics						
Sales growth (%)	22.4	11.6	0.8	-1.9	5.4	4.5
DB EPS growth (%)	7.8	-3.9	-10.3	47.5	24.8	14.0
EBITDA Margin (%)	23.4	22.7	19.5	26.0	27.1	28.4
EBIT Margin (%)	16.2	15.9	12.2	19.6	20.9	22.4
Payout ratio (%)	91.9	81.4	90.7	81.4	81.4	81.4
ROE (%)	9.2	9.0	7.9	11.2	13.3	14.6
Capex/sales (%)	11.1	9.2	4.3	3.7	3.2	3.1
Capex/depreciation (x)	1.5	1.3	0.6	0.6	0.5	0.5
Net debt/equity (%)	61.3	59.3	52.8	40.2	29.5	19.6
Net interest cover (x)	7.6	8.0	5.8	12.3	15.3	21.0

Source: Company data, Deutsche Bank estimates

Revisions

Assumption revisions

Figure 120: Assumption revisions for TCC

For year ended Dec 31		New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	%chg 2013E	%chg 2014E	%chg 2015E
TCCI (1136.HK)										
Cement capacity	mt	50.8	52.8	54.8	50.8	52.8	54.8	0%	0%	0%
Blended sales volume	**mt**	**46.5**	**48.1**	**49.9**	**47.9**	**49.4**	**51.0**	**-3%**	**-3%**	**-2%**
Others (Hongkong Import & Distribution)	mt	1.8	1.8	1.8	1.8	1.8	1.8	0%	0%	0%
Cement,clinker and slag powder	mt	44.7	46.3	48.1	46.1	47.6	49.2	-3%	-3%	-2%
Southern China	mt	22.0	21.7	21.7	24.0	24.0	24.0	-8%	-9%	-9%
Eastern China	mt	6.1	6.1	6.1	6.1	6.1	6.1	-1%	-1%	-1%
Southwestern China	mt	14.9	16.6	18.3	14.1	15.6	17.1	5%	6%	7%
Northeastern China	mt	1.8	1.9	2.0	1.9	1.9	2.0	-5%	0%	0%
Blended ASP	**HKD/t**	**292**	**306**	**317**	**291**	**299**	**308**	**0%**	**2%**	**3%**
Southern China	HKD/t	298	328	348	290	296	305	3%	11%	14%
Eastern China	HKD/t	325	338	348	325	332	338	0%	2%	3%
Southwestern China	HKD/t	268	268	273	278	292	307	-4%	-8%	-11%
Northeastern China	HKD/t	298	283	291	298	289	280	0%	-2%	4%
Unit Cement COGS	**HKD/t**	**216**	**218**	**220**	**225**	**223**	**221**	**-4%**	**-2%**	**0%**
Unit Gross Profit	**HKD/t**	**76**	**88**	**97**	**66**	**76**	**88**	**15%**	**16%**	**11%**
Unit SG&A	HKD/t	33	33	33	34	34	34	-4%	-4%	-4%
Unit EBITDA	HKD/t	73	86	95	60	70	83	22%	22%	15%
Unit EBIT	HKD/t	41	53	62	30	40	52	37%	34%	20%
Unit net profit	**HKD/t**	**29**	**36**	**44**	**19**	**24**	**33**	**52%**	**50%**	**32%**

Source: Deutsche Bank

Figure 121: Earning revisions for TCC

For year ended Dec 31 (TWD mn)	New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	%chg 2013E	%chg 2014E	%chg 2015E
Revenue	**117,244**	**123,590**	**129,184**	**133,746**	**137,746**	**141,986**	**-12%**	**-10%**	**-9%**
Cost of sales	(92,533)	(95,698)	(97,828)	(111,592)	(112,469)	(113,032)	-17%	-15%	-13%
Gross profit	**24,710**	**27,892**	**31,355**	**22,154**	**25,277**	**28,954**	**12%**	**10%**	**8%**
SG&A	(4,739)	(4,714)	(4,990)	(5,479)	(7,425)	(9,987)	-14%	-37%	-50%
Other income	2,979	2,628	2,518	1,808	2,170	2,604	65%	21%	-3%
EBITDA	26,688	29,754	33,082	26,209	28,273	30,353	2%	5%	9%
Depreciation and Amortization	(7,530)	(7,653)	(7,779)	(7,727)	(8,251)	(8,782)	-3%	-7%	-11%
Operating Profit (EBIT)	**19,972**	**23,178**	**26,365**	**18,482**	**20,022**	**21,571**	**8%**	**16%**	**22%**
Net interest	(1,867)	(1,684)	(1,373)	(2,582)	(2,702)	(2,442)	-28%	-38%	-44%
Pre-tax profit	21,083	24,121	27,510	15,900	17,320	19,128	33%	39%	44%
Income tax	(3,795)	(4,342)	(4,952)	(2,692)	(2,932)	(3,238)	41%	48%	53%
Minority interests	(5,878)	(5,538)	(6,316)	(4,915)	(5,354)	(5,913)	20%	3%	7%
Net profit	**11,410**	**14,241**	**16,242**	**8,293**	**9,034**	**9,977**	**38%**	**58%**	**63%**
EPS	**3.09**	**3.86**	**4.40**	**2.25**	**2.45**	**2.70**	**38%**	**58%**	**63%**

Source: Deutsche Bank

Valuation

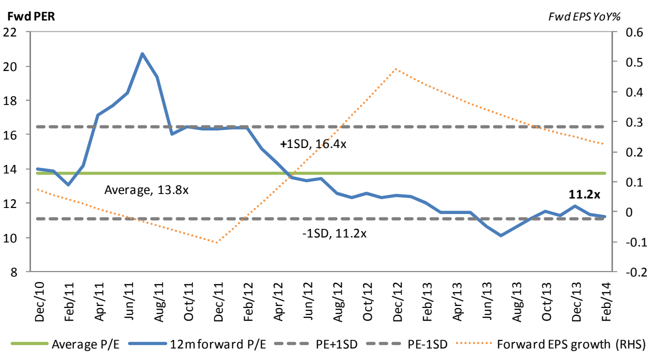
Buy with target price of TWD54

We derive our target price of TWD54 using 14xFY14E, equivalent to its three-year mid-cycle average. We believe this is justified as future earnings growth are in line with our target PE multiple. This is a change from the SOTP valuation methodology we have used previously due to the new reporting standards in Taiwan.

Risks: lower-than-expected cement price hike, higher-than-expected coal price

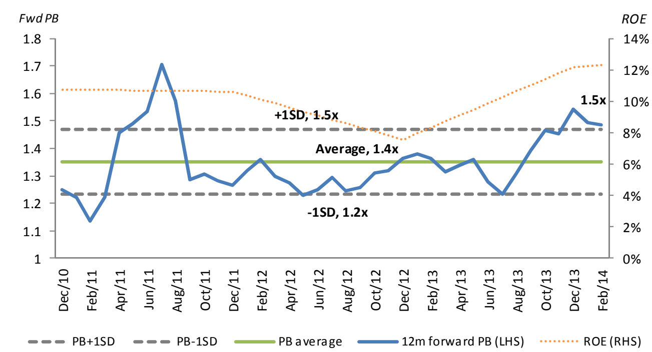
Valuation band charts

Figure 122: TCC's three-year historical forward PE



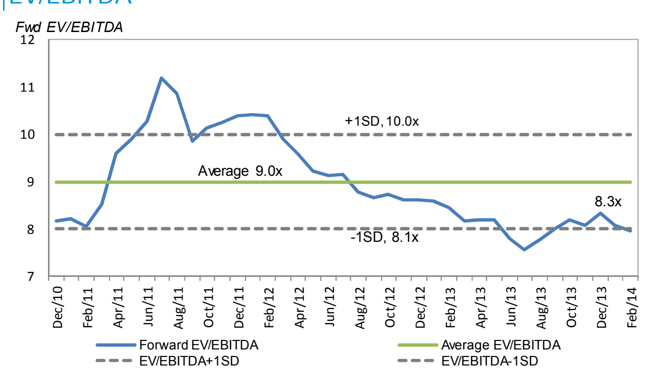
Source: Deutsche Bank

Figure 123: TCC's three-year historical forward PB



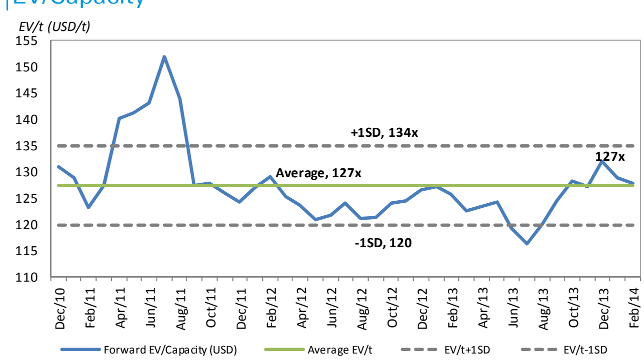
Source: Deutsche Bank

Figure 124: TCC's three-year historical forward EV/EBITDA



Source: Deutsche Bank

Figure 125: TCC's three-year historical forward EV/Capacity



Source: Deutsche Bank

Rating
Hold

Asia
Taiwan

Resources
Construction Materials

Company
Asia Cement

Reuters	Bloomberg
1102.TW	1102 TT

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Investment income dragging improvement in cement

Positive on cement segment; negative on investment income; maintain Hold

We are positive on ACC's cement operation. Cement ASPs in Hubei and Jiangxi have bottomed since last October and only saw mild declines entering CNY. ACC also has two lines in Jiangxi, totaling 4.8mt of cement capacity, which commenced in Oct-13 and Jan-14, allowing it to benefit from the strong S&D improvement in Central China. However, we remain cautious on ACC's investment income from FENC and U-Ming, which contribute 33% of ACC's bottom line. Sales growth and margin recovery for both companies have disappointed in 2013 and we expect only a mild recovery in 2014. Maintaining Hold, lowering target price to TWD 35.97 after our earnings reduction of -4%/-3% for FY14/15E.

Strong cement outlook in 2014 but limited growth after 2014

For Jan-14, cement ASPs in Hubei and Jiangxi are on average RMB44/t, or 12% higher YoY. Even entering CNY, prices in these two regions only saw an average price decline of only RMB17/t, or 4%, exceeding expectations. In 2014, ACC will enjoy 19% sales growth through its new capacity in Jiangxi. However, ACC is not actively seeking M&A at the moment in China, which could impact growth after 2014.

FENC and U-Ming turning around slowly

FENC and U-Ming, ACC's main equity holdings, disappointed in 2013 due to overcapacity and depressed demand in textile, petrochemicals and shipping. 9M13 sales and margins were flat for FENC and down 11-18% for U-Ming. In 2014, we expect a gradual improvement from a low base in PTA and shipping but the medium-term outlook remains challenging. ACC's investment income will remain depressed in 2014 relative to its high base in 2010, even after factoring in a 10% and 27% YoY growth for FENC and U-Ming, respectively. *(See overleaf for valuation and risks.)*

Forecasts and ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
Sales (TWDm)	68,826.6	64,243.5	67788.4	74719.0	78465.9
Reported NPAT (TWDm)	9,060.8	6,985.3	7329.0	8301.5	9348.0
Reported EPS FD(TWD)	2.89	2.16	2.27	2.57	2.89
DB EPS growth (%)	11.8	-25.2	4.9	13.3	12.6
PER (x)	12.4	16.8	16.1	13.9	12.5
EV/EBITDA (x)	9.0	14.3	13.7	11.2	10.2
Yield (net) (%)	5.8	7.0	4.9	5.5	6.2

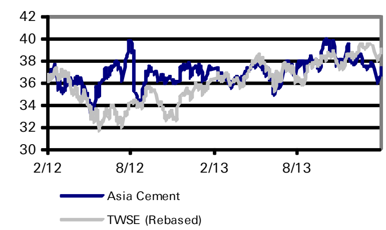
Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Price at 17 Feb 2014 (TWD)	37.30
Price target - 12mth (TWD)	35.97
52-week range (TWD)	40.00 - 34.95
TWSE	8,511

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.3	-0.4	0.5
TWSE	-0.6	5.0	7.6

Source: Deutsche Bank

Stock data

Market cap (TWDm)	120,513
Market cap (USDm)	3,977
Shares outstanding (m)	3,230.9
Major shareholders	Far Eastern New Century (22.3%)
Free float (%)	54
Avg daily value traded (USDm)	4.5

Source: Deutsche Bank

Key indicators (FY14E)

ROE (%)	9.8
Net debt/equity (%)	63.7
Book value/share (TWD)	26.70
Price/book (x)	1.40
Net interest cover (x)	8.4
Operating profit margin (%)	10.2

Source: Deutsche Bank

Model updated:14 February 2014

Running the numbers

Asia

Taiwan

Construction Materials

Asia Cement

Reuters: 1102.TW | Bloomberg: 1102 TT

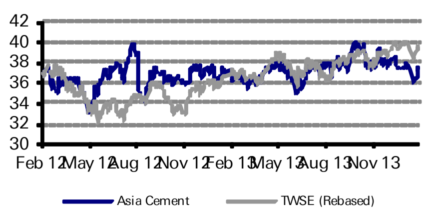
Hold

Price (17 Feb 14)	TWD 37.30
Target Price	TWD 35.97
52 Week range	TWD 34.95 - 40.00
Market Cap (m)	TWDm 120,513
	USDm 3,977

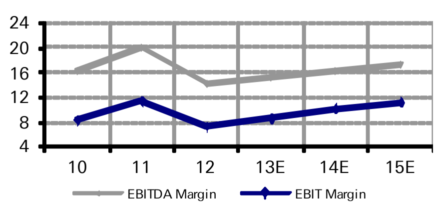
Company Profile

Established by the Far Eastern Group in 1957, Asia Cement is the second-largest cement manufacturer in Taiwan. With its expansion to China in mid-1990's, Asia Cement, together with its 68%-owned subsidiary ACC China (0743 HK), currently owns cement production facilities in Taiwan (5.78mtpa), Sichuan (4mtpa), Jiangxi (6mtpa), and Hubei (2mtpa). As a member and a holding company under the Far Eastern Group, Asia Cement also owns stakes in key group companies including Far Eastern New Century (23.8%) and U-Ming Marine (38.7%).

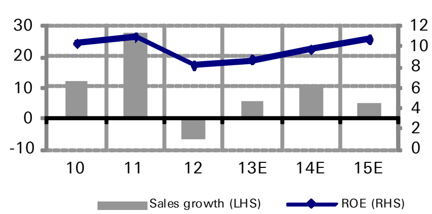
Price Performance



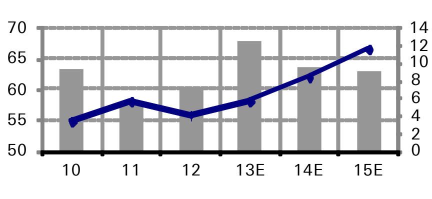
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec	2010	2011	2012	2013E	2014E	2015E
Financial Summary						
DB EPS (TWD)	2.58	2.89	2.16	2.27	2.57	2.89
Reported EPS (TWD)	2.58	2.89	2.16	2.27	2.57	2.89
DPS (TWD)	2.04	2.06	2.52	1.81	2.06	2.31
BVPS (TWD)	25.6	27.5	26.2	26.0	26.7	27.5
Weighted average shares (m)	3,075	3,137	3,231	3,231	3,231	3,231
Average market cap (TWDm)	94,390	112,040	117,264	120,513	120,513	120,513
Enterprise value (TWDm)	101,914	125,026	130,683	140,261	137,284	138,020
Valuation Metrics						
P/E (DB) (x)	11.9	12.4	16.8	16.4	14.5	12.9
P/E (Reported) (x)	11.9	12.4	16.8	16.4	14.5	12.9
P/BV (x)	1.26	1.23	1.43	1.44	1.40	1.35
FCF Yield (%)	nm	4.7	5.6	0.3	6.4	4.0
Dividend Yield (%)	6.6	5.8	7.0	4.9	5.5	6.2
EV/Sales (x)	1.9	1.8	2.0	2.1	1.8	1.8
EV/EBITDA (x)	11.6	9.0	14.3	13.7	11.2	10.2
EV/EBIT (x)	22.4	15.8	27.5	24.0	17.9	15.7
Income Statement (TWDm)						
Sales revenue	53,814	68,827	64,244	67,788	74,719	78,466
Gross profit	10,753	16,349	11,157	12,504	14,691	16,114
EBITDA	8,749	13,882	9,122	10,267	12,226	13,524
Depreciation	3,709	5,413	3,852	3,934	4,120	4,305
Amortisation	490	538	522	496	448	405
EBIT	4,549	7,931	4,747	5,837	7,658	8,814
Net interest income(expense)	-1,342	-1,407	-1,143	-1,036	-908	-761
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	6,042	6,557	4,942	4,559	3,852	3,885
Profit before tax	9,249	13,081	8,547	9,360	10,602	11,939
Income tax expense	624	1,787	859	1,032	1,169	1,316
Minorities	678	2,232	702	999	1,132	1,275
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	7,947	9,061	6,985	7,329	8,302	9,348
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	7,947	9,061	6,985	7,329	8,302	9,348
Cash Flow (TWDm)						
Cash flow from operations	5,266	10,049	14,511	5,320	12,705	9,806
Net Capex	-9,713	-4,774	-7,938	-5,000	-5,000	-5,000
Free cash flow	-4,447	5,275	6,573	320	7,705	4,806
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,374	-5,843	-7,215	-8,156	-5,863	-6,641
Net inc/(dec) in borrowings	1,354	10,811	507	7,136	3,178	7,323
Other investing/financing cash flows	-2,238	556	-2,361	0	0	0
Net cash flow	-10,705	10,799	-2,496	-700	5,020	5,487
Change in working capital	*-5,020*	*-8,333*	*2,922*	*-4,932*	*971*	*-3,152*
Balance Sheet (TWDm)						
Cash and other liquid assets	7,133	17,933	15,437	14,737	19,757	25,244
Tangible fixed assets	66,510	73,282	70,380	71,446	72,326	73,021
Goodwill/intangible assets	4,800	5,113	5,107	4,611	4,163	3,758
Associates/investments	63,575	61,884	62,374	64,881	67,147	69,522
Other assets	27,563	35,394	36,534	41,985	41,625	44,737
Total assets	169,581	193,605	189,832	197,660	205,019	216,283
Interest bearing debt	65,260	76,817	75,674	82,810	85,989	93,311
Other liabilities	12,707	14,432	13,933	14,451	15,062	15,022
Total liabilities	77,967	91,249	89,607	97,262	101,051	108,334
Shareholders' equity	78,641	86,370	84,669	83,843	86,281	88,988
Minorities	12,973	15,986	15,556	16,555	17,687	18,962
Total shareholders' equity	91,614	102,356	100,225	100,398	103,968	107,950
Net debt	*58,126*	*58,885*	*60,237*	*68,073*	*66,231*	*68,067*
Key Company Metrics						
Sales growth (%)	11.9	27.9	-6.7	5.5	10.2	5.0
DB EPS growth (%)	-33.8	11.8	-25.2	4.9	13.3	12.6
EBITDA Margin (%)	16.3	20.2	14.2	15.1	16.4	17.2
EBIT Margin (%)	8.5	11.5	7.4	8.6	10.2	11.2
Payout ratio (%)	78.9	71.3	116.8	80.0	80.0	80.0
ROE (%)	10.3	11.0	8.2	8.7	9.8	10.7
Capex/sales (%)	18.0	6.9	12.4	7.4	6.7	6.4
Capex/depreciation (x)	2.3	0.8	1.8	1.1	1.1	1.1
Net debt/equity (%)	63.4	57.5	60.1	67.8	63.7	63.1
Net interest cover (x)	3.4	5.6	4.2	5.6	8.4	11.6

Source: Company data, Deutsche Bank estimates

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Revisions

Assumptions revisions

Figure 126: Assumption revisions for ACC

For year ended Dec 31		New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	%chg 2013E	%chg 2014E	%chg 2015E
ACCH (743.HK)										
Cement capacity	**mt**	**28.1**	**28.1**	**31.1**	**28.1**	**36.1**	**39.1**	**0%**	**-22%**	**-20%**
Cement sales volume	**mt**	**26.0**	**31.0**	**33.8**	**26.0**	**32.1**	**34.6**	**0%**	**-3%**	**-2%**
Sichuan Region	mt	6.0	6.0	6.0	6.0	6.0	6.0	0%	0%	0%
Central Yangtze River Region	mt	19.1	19.1	22.1	19.1	27.1	30.1	0%	-30%	-27%
Yangtze River Delta Region &Others	mt	3.0	3.0	3.0	3.0	3.0	3.0	0%	0%	0%
Cement ASP	**RMB/t**	**247**	**256**	**260**	**258**	**262**	**263**	**-4%**	**-2%**	**-1%**
Sichuan Region	RMB/t	264	264	251	251	254	256	5%	4%	-2%
Central Yangtze River Region	RMB/t	251	262	267	264	267	267	-5%	-2%	0%
Yangtze River Delta Region &Others	RMB/t	218	224	229	241	243	246	-10%	-8%	-7%
Unit cement COGS	**RMB/t**	**192**	**192**	**192**	**201**	**201**	**201**	**-5%**	**-5%**	**-5%**
Cement GP per ton	**RMB/t**	**56**	**64**	**69**	**57**	**61**	**62**	**-3%**	**5%**	**11%**

Source: Deutsche Bank

Figure 127: Earning revisions for ACC

For year ended Dec 31	New 2013E	New 2014E	New 2015E	Old 2013E	Old 2014E	Old 2015E	%chg 2013E	%chg 2014E	%chg 2015E
Revenue	**67,788.4**	**74,719.0**	**78,465.9**	**69,821.0**	**77,704.0**	**80,729.0**	**-3%**	**-4%**	**-3%**
Cost of sales	(59,714.5)	(64,595.3)	(67,062.3)	(60,592.0)	(66,720.0)	(69,153.0)	-1%	-3%	-3%
Gross profit	**8,073.9**	**10,123.7**	**11,403.6**	**9,229.0**	**10,984.0**	**11,576.0**	**-13%**	**-8%**	**-1%**
SG&A	(2,237.0)	(2,465.7)	(2,589.4)	(2,212.0)	(2,462.0)	(2,558.0)	1%	0%	1%
Other income	4,559.1	3,852.5	3,884.8	4,350.0	4,350.0	5,166.0	5%	-11%	-25%
EBITDA	10,267.1	12,225.8	13,524.2	11,541.0	13,245.0	13,818.0	-11%	-8%	-2%
Depreciation and Amortization	(4,430.2)	(4,567.8)	(4,710.0)	(4,525.0)	(4,724.0)	(4,800.0)	-2%	-3%	-2%
Operating Profit (EBIT)	5,836.9	7,658.0	8,814.2	7,017.0	8,521.0	9,018.0	-17%	-10%	-2%
Net interest	(1,036.0)	(908.4)	(760.6)	(1,758.0)	(1,801.0)	(1,864.0)	-41%	-50%	-59%
Pre-tax profit	9,360.1	10,602.0	11,938.5	9,609.0	11,070.0	12,320.0	-3%	-4%	-3%
Income tax	(1,031.6)	(1,168.5)	(1,315.8)	(1,059.0)	(1,220.0)	(1,358.0)	-3%	-4%	-3%
Minority interests	(999.4)	(1,132.0)	(1,274.7)	(1,026.0)	(1,182.0)	(1,315.0)	-3%	-4%	-3%
Net profit	**7,329.0**	**8,301.5**	**9,348.0**	**7,524.0**	**8,668.0**	**9,647.0**	**-3%**	**-4%**	**-3%**
EPS	**2.27**	**2.57**	**2.89**	**2.33**	**2.68**	**2.99**	**-3%**	**-4%**	**-3%**

Source: Deutsche Bank

Valuation

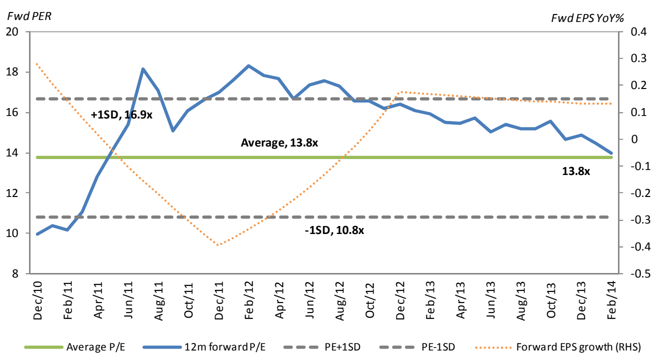
Hold with target price of TWD35.97

We derive our target price of TWD 35.97 based on 14x FY14E, equivalent to its three-year mid-cycle average. This is a change from the SOTP valuation methodology we have used previously due to the new reporting standards in Taiwan. The target PE of 14x also puts them on par with TCC which we think is justified given the similar business nature and holding company structure for both companies.

Upside/downside side risks: higher-/lower-than-expected cement price hike, lower-/higher-than-expected coal price, higher-/lower-than-expected recovery in textile, petrochemical and shipping industry.

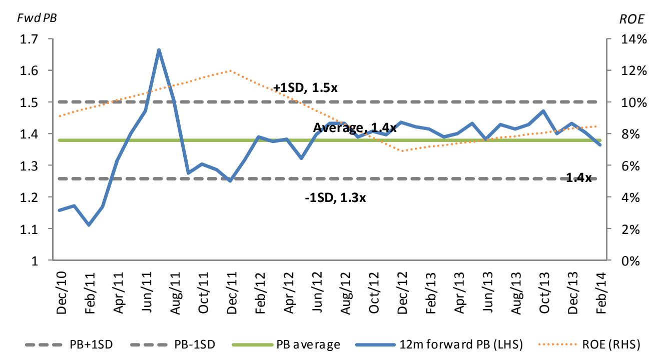
Valuation band charts

Figure 128: ACC's three-year historical forward PE



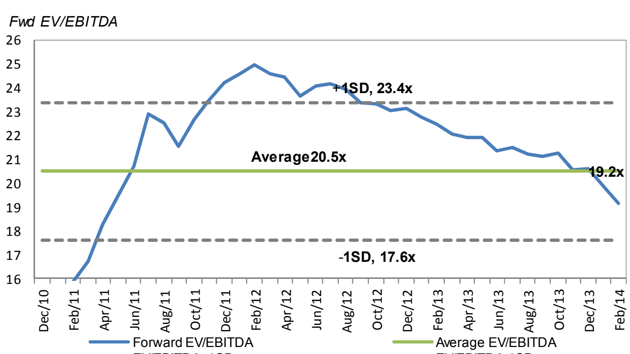
Source: Deutsche Bank

Figure 129: ACC's three-year historical forward PB



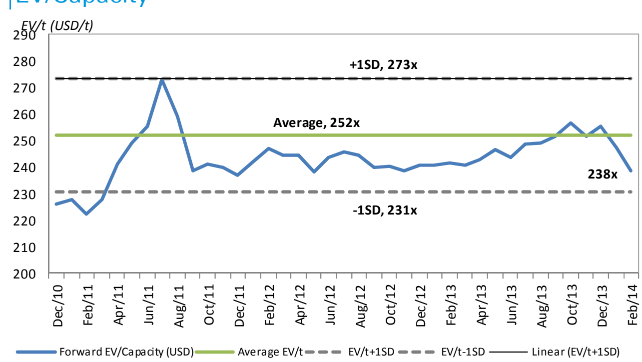
Source: Deutsche Bank

Figure 130: ACC's three-year historical forward EV/EBITDA



Source: Deutsche Bank

Figure 131: ACC's three-year historical forward EV/Capacity



Source: Deutsche Bank

Appendix A

Cement waste incineration

Case study from overseas countries

China is a latecomer to cement kiln waste co-processing and research on co-processing of hazardous waste did not begin till the 1990s. However, only in recent years did the government place an increasing focus on promoting technology to control pollution in China. At the end of 2012, China had only c.20 out of the 1,750 clinker production lines equipped with waste incineration systems. This is still very underpenetrated compared to developed countries such as Germany, which have 80% of the cement kilns equipped with such technology.

Cement kiln waste co-processing and its history overseas

Co-processing, by definition, is the use of waste material to replace natural mineral resources and fossil fuels such as coal or petroleum in industrial processes. The types of waste that are used in co-processing are also referred to as alternative fuels and raw materials (AFR). This is widely accepted in the cement industry globally as the process provides a cost-effective way of turning waste into resources.

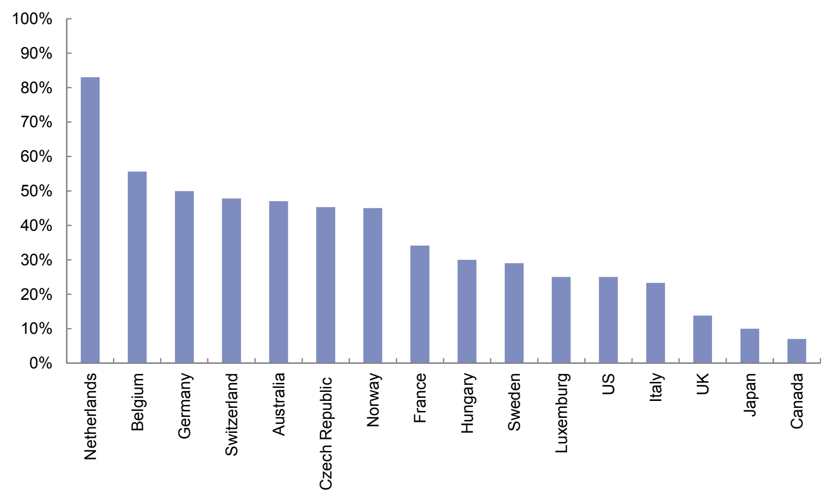
Figure 132: Historical development in different countries

Countries	Development
United States	US cement industry started to utilize organic waste in 1974, and it became very popular in 1987. In U.S, the Environmental Protection Agency requires every industrial city to have at least 1 cement plant. These cement plants do not only produce cement but also burn hazardous waste. In 1989, U.S cement plants burned over 1mt of industrial hazardous waste, 4 times compared to industrial waste burned in incinerators. In 1990, 34 out of the 111 cement plants used industrial waste as AFR. In 1994, 37 cement plants received relevant approvals, and they were responsible for burning 60% of the industrial waste produced in the US. Between 1989 and 2000, the amount of industrial waste incinerated in cement kilns reaching 1mt/yr. In 2009, 24 out of 163 cement kilns used co-processing technology for hazardous industrial waste treatment. Experiments showed that cement kiln can eliminate organic waste of up to 99.9999%.
Japan	Japan is the fourth biggest country in terms of cement production. In 2007, there were 18 cement producers, 32 plants, and 57 kilns with annual production capacity amounting to 70.2mt. According to Japan Cement Association, the use of AFR in cement industry has gained popularity. The consumption of sludge increased from 2.3mt in 2002 to 3mt in 2006. Between 1980 and 1990, when people did not realize that cement kilns could treat waste economically and safely, 2,000 waste incinerators were already built in Japan. These incinerators were capable of handling all domestic combustible wastes, and the technology was advanced with high environmental standards. Therefore, the use of AFR in Japan's cement industry is lower than that of European countries. In April 2001, Japan built a few production lines with annual capacities amounting to 110kt; these production lines were specially designed to use ashes (produce from incinerators) as raw material. In 2006, AFR consumption reached 28.9mt (equivalent to 395kg of AFR used per tonne of cement).
Germany	Germany was one of the first countries to adopt the co-processing technology. In 1999, there were 19 cement plants that used tires as AFR and 50% of the cement plants have used various types of combustible wastes to replace traditional fuels and raw materials in cement production. In 2001, the thermal substitution rate reached 30% and 6.7mt of waste are used as raw material in the cement industry, accounting for 17.1% of total recycling waste in Germany. In 2005, more than 80% of cement plants have adopted the cement kiln co-processing technology.
France	Lafarge started research on the use of AFR in 1980 and after 30 years of research, hazardous waste treatment in its cement plants continues to rise. In 2004, the substitution rate (for alternative fuel) reached 50%. In the same year, within France, 50% of incinerated wastes were co-processed by Lafarge.
Switzerland	Holcim started research on the use of AFR in 1980. One of their Belgium-based wet kiln cement factories has already reached an AFR rate of 80% and 20% using pet coke. That has helped to reduce fuel cost by 2%.
Sweden	Thermal substitution rate reached 50%+ in 2008, and the country is targeting at 100% in 2020.
Denmark	Denmark's Aalborg city produces 30kt of sludge each year. Cement plants using the sludge were able to reduce CO_2 and NOx release.
UK	Research on co-processing of municipal waste using cement kilns, and experiment shows that 1t of coal can be substitute by 4t of municipal wastes

Source: Deutsche Bank, Ministry of Environmental Protection of the People's Republic of China

Waste co-processing in cement kilns is not a new technology overseas. The US and Europe have already established a set of technical and environmental standards on the construction and operation of cement kilns waste incineration. As of end-2005, Holland, Belgium and Germany had replaced more than 50% of their fuel used in cement plants with solid waste (Figure 133).

Figure 133: Proportion of cement production from hazardous waste globally



Source: Deutsche Bank, Solidwaste.com.cn

Current status of waste treatment in China

China has just begun to enter the cement kiln waste incineration market. At the end of 2012, China had 20 cement production lines equipped with incineration systems for up to 6,000 tonnes/day, which implies a total investment of approximately RMB1.6bn based on the assumption of RMB200,000 tonnes/day investment cost.

Not all cement plants can apply the cement kiln waste incineration system. Three key factors have to be considered.

- Plants smaller than 2,000 tons/day are not well suited to installing a cement kiln waste incineration system.
- It should be located within approximately an 80km radius of cities.
- The line's capacity for co-processing municipal waste has to match the quantity of the waste that needs to be processed, and the composition of the processed waste and exhaust has to be suitable for cement production.

Figure 134: Waste co-processing cement lines in China

Company	Time of commisioning	Capacity	Remark
Co-processing of hazardous waste in cement kiln			
Company	**Time of commisioning**	**Capacity**	**Remark**
Ningbo Kehuan Novel Building Material Co., Ltd	2004	20-30kt per annum	•Co-process electroplating sludge
BBMG (Beijing)	2005	80kt-100kt per annum	•Obtained licenses issue by MEP to co-process 30 types of hazardous waste •Co-processed 60kt of hazardous waste in 2011
Huaxin Cement (Wuxue)	2007		•Obtained licenses issued by Hubei MEP to co-process 15 types of hazardous waste •Co-processed 2.8kt of hazardous waste in 2011
BBMG (Hebei)	2009		•Obtained license issued by Hebei MEP to co-process 19 types of hazardous waste •Co-processed 3kt of hazardous waste in 2011
West China Cement	2014	210kt per annum	•The first phase has already been completed and can incinerate 70,000 tonnes of industrial waste each year •The second phase has incorporated drying facilities and therefore has greater waste handling capacity •In completion, the total waste treatment capacity will reach 210,000 tonnes
Other companies that have received liscences to co-process hazardous waste include: Shanshui Cement (Yantai), Taiyuan Shitou Group, Taiyuan Guangsha Cement, Shaanxi, Qinneng Resources and Technology Development Co., Ltd, Liuzhou Jintaiyang Industry Waste Handling Co., Ltd			
Co-processing of sludge in cement kiln			
Introduction: There are 2 common technology to co-process municipal sludge using cement kiln: 1) Feed sludge directly to the high-temperature zone of cement kiln after the sludge mechanical dehydration process (water content:80%) 2) Drying sludge (water content reduces to 10%-35%) after mechanical dehydration process, then feed into cement kiln. The first method is cheaper but the handling capacity is lower due to high water content.			
Company	**Time of commisioning**	**Capacity**	**Remark**
BBMG (Beijing)	2006	100t/d	
Lafarge Shui On Cement (Chongqing)	2008	100t/d	
Huaxin Cement (Yichang)	2009	150t/d	
BBMG (Beijing)	2009	500t/d	•Using indirect drying technology
Guangzhou Yuexiu Cement Group	2009	600t/d	•Using contact drying technology
Tianshan Cement (Liyang)	2010	120t/d	
Co-processing of municipal waste in cement kiln			
Introduction: There are three common methods to co-process municipal solid waste in cement kiln: 1) Process as RDF (Refused-derived fuel); sorting garbage and select the combustible components, crushing and then feed into cement kiln 2) Gasification; Waste first undergoes gasification process before feeding into cement kiln 3) Using fermentation process before feeding into cement kiln			
Company	**Time of commisioning**	**Capacity**	**Remark**
Conch Cement (Tongling)	2009	600t/d	•Undergoes gasification process
Huaxin Cement (Zigui)	2010	140t/d	•Process as RDF
Huaxin Cement (Wuxue)	2011	500t/d	•Undergoes fermentation process
Conch Cement (Guiding)	2012	200t/d	
Other projects under-constuction include: Tongli Cement (Henan Luoyang), Tianrui Cement (Zhengzhou), Conch (Pingliang, Liquan, Zunyi, Chongqing, Guiyang), Longling Cement (Longyan), TCCI (Yingde), Lafarge Shui On Cement (Zunyi), Tianshan Cement (Jiangsu Liyang), Liuhe Cement (Beijing)			
Co-processing of containminated soil in cement kiln			
Company	**Time of commisioning**	**Capacity**	**Remark**
BBMG (Beijing)	2007		•The containmination is mainly DDT and HCH pesticide, total processing capacity amounting to 200kt
Lafarge Diwei Cement	2010		•Co-process PoP containminated soil with annual capacity reaching 30kt
Others: BBMG (Hebei) and Huaxin Cement (Wuxue) also plan to carry out co-processing of PoPs contaminated soil using cement kiln			

Source: Deutsche Bank, MEP

Huge market potential driven by favorable policies

China's municipal waste production has grown at an annual rate of 2.3% from 2002-2012, according to the data from the Ministry of Housing and Urban-rural Development. In 2012, China produced 300m tons of waste, of which 170m tons were municipal waste. The traditional waste treatment includes landfill, incineration and composting.

Sanitary landfill has been the most common form of municipal waste treatment in the last 10 years. By the end of 2011, sanitary landfill treatment accounted for 77% of the total waste processed via hazard-free methods, followed by incineration, which accounted for 20% of total waste processed via hazard-free methods. Going forward, waste incineration will likely play a more dominant role given that it will be encouraged by government policies and it has advantages: it takes less space, reduces higher volume and quantity of waste, and creates less secondary pollution. According to China's 12th Five-Year Plan (Figure 37), waste incineration should account for 35% of the total waste processed by 2015 vs. only 20% in 2010.

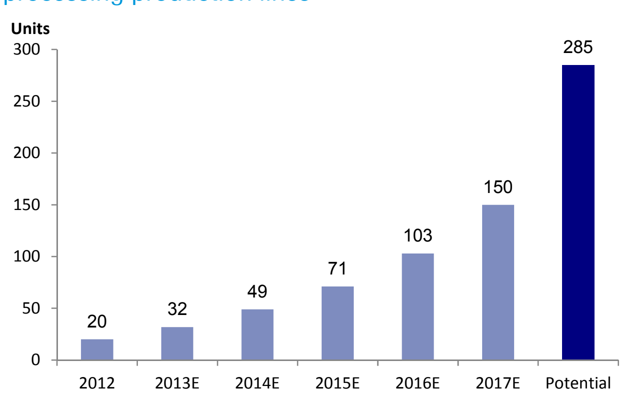
Figure 135: China's 12th Five-Year Plan for solid waste treatment

	11th Five-Year Period	12th FiveYear Period
Municipal waste treatment rate (%)		
City	63.5	
Design city	77.9	90
County	27.4	70
Municipal waste treatment capacity ('000 tons/day)		
Landfill	352	514
Incineration	90	307
Others	15	51
Total	**457**	**871**
Percentage mix		
Landfill	77%	59%
Incineration	20%	35%
Others	3%	6%
Total	**100%**	**100%**
	11th Five Year Period	12th Five Year Period
New capacity addition ('000 tons/day)		
Landfill	79	162
Incineration	52	218
Others	0.5	35
Total	**131**	**415**
Total investments required (Rmb bn)		
Landfill	22	46
Incineration	22	93

Source: Deutsche Bank

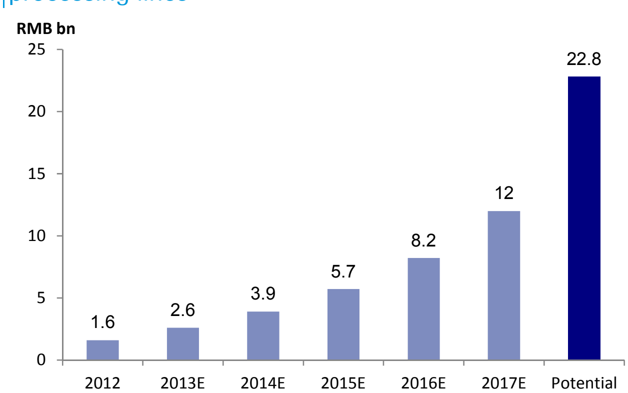
Since 2013, the development of cement waste incineration has accelerated at a rapid pace. In 1H13, over 20 projects were newly announced or planned, which is more than the total number of projects in 2012. In addition, some provinces have already given the green light to develop more cement kiln waste incineration systems within the province. The regulatory landscape is also turning more favorable, with the government promoting the use of cement kiln incineration for municipal waste treatment and encouraging the technology development of cement kiln incineration. Based on the guidance provided under the 12th Five-Year Plan, by the end of 2017, China is expected to have a total of 150 cement production lines that are equipped with cement kiln waste incineration solutions, compared to 20 cement production lines at the end of 2012. The additional 130 lines present a potential market of RMB10.4bn in aggregate between 2013-2017, or a CAGR of 49.6%.

Figure 136: Total number of municipal waste co-processing production lines



Source: Deutsche Bank, Roland Berger analysis

Figure 137: Total investments in the municipal waste-co processing lines



Source: Deutsche Bank, Roland Berger analysis

Figure 138: List of regulations on cement kiln incineration

Policy	Content
Guideline for municipal solid waste treatment technology (生活垃圾处理技术指南)	▪ The guideline suggests that pre-treated waste can be used as an alternative fuel in NSP cement plant near urban areas.
The 12th Five-Year program for China's Economic and Social Development (中国国民经济和社会发展第十二个五年规划纲要)	▪ Enhance the treatment capacity of sewage water and MSW (municipal solid wastes), targeting sewage water treatment to reach 85% and harmless treatment of MSW to reach 80%. ▪ Establish polluter pays principal, increase discharge fee. ▪ Reform the waste disposal fee levying system, including applying higher waste disposal fees and higher financial subsidies.
Suggestions on promoting MSW processing (关于进一步加强城市生活垃圾处理工作的意见)	▪ The guidance highlights that by 2015, harmless treatment of MSW is targeted to reach 80% or above nationwide, with municipalities, provincial capitals and planned cities achieving 100%. ▪ Each province needs to set up at least one demonstration city. ▪ The recycling rate of MSW is to reach 30% nationwide, with 50% for provincial capitals, municipalities and other planned cities. ▪ By 2030, the ratio of harmless treatment of MSW is targeted to achieve 100%; MSW processing facilities will be extended to rural areas; the utilization rate of MSW in China is to be on par with the average level of developed countries.
The 12th Five Year development plan of Chinese cement industry (中国水泥工业"十二五"发展规划)	▪ Promote the use of co-processing technology for existing cement lines around large and medium size cities and to construct demonstration projects.
The 12th Five Year resource comprehensive utilization plan ("十二五"资源综合利用指导意见)	▪ The guideline encourages the use of cement kiln to co-process municipal waste and sludge.
The 12th Five-Year Plan for the Development of State Environmental Protection Standard (国家环境保护标准"十二五"发展规划)	▪ Improve solid waste (especially hazardous waste) harmless treatment control, revise standards for controlling hazardous waste and municipal waste incineration. For cement kiln waste co-processing, develop appropriate solid waste treatment and disposal of pollution control standards.
Document 41 (国务院关于化解产能严重过剩矛盾的指导意见)	▪ China's State Council issued guidelines under Document 41 on October 15, 2013, supporting the development of waste incineration in cement kilns and aiming that the number of waste con-processing kiln lines to be no less than 10% of total cement production lines.
Execution plan of implementing municipal waste co-processing using cement kilns in Guizhou province (贵州省推行水泥窑协同处置生活垃圾实施方案)	▪ Taking 2000t/d production lines as a basis, to collect MSW from county, towns, villages that locate at a radius of 30-50km from cement factory for waste processing ▪ To complete 47 cement kiln waste incineration projects by 2015, and recycling rate of MSW to reach 30% ▪ By 2020, the ratio of harmless treatment of MSW to achieve 85%+, similar to the national average, but higher than that of Western region
Standard for pollution control on co-processing of solid wastes in cement kiln (水泥窑协同处置固体废物污染控制标准)	▪ The document set clear standard for pollution control on co-processing of solid wastes in cement kiln. ▪ This is the first standard that issue by MEP and AQSIQ regarding co-processing of solid wastes in cement kiln

Source: Deutsche Bank, State Council, NDRC, MOHURD, Ministry of environmental protection

Challenge

Currently, the greatest challenge of promoting the cement kiln waste co-processing technology is the lack of actionable government incentive scheme. Through our channel checks with cement producers that have incorporated waste incineration facilities, we have found that for most of them, profit margins are quite slim as the government subsidy is still quite low compared to their operating cost. Therefore margins for the business can vary by operator and by region. This creates an entry barrier for the business as there is a natural advantage for SOE's as they have stronger government relationships and can likely get a higher subsidy.

In contrast, the government has set clear incentives for municipal waste power generation. In April 2012, NDRC announced that developers of waste-to-energy plants will be paid RMB0.65/kWhr incl. VAT versus RMB0.3-0.4/kWhr for a coal-fired plant. Subsidy wise, depending on regions, operators receive RMB80-150/t for waste treatment. In addition, operators also enjoy preferential tax policies.

In the near future, we believe the government will release more incentive policies to further promote cement kiln co-processing technology. In addition, as the quality of waste improves with an improving waste management system in China, the use of AFR will also increase, which could further save coal and raw material cost for cement producers, as a result, profit margin will see a substantial increase. For the time being, the use of AFR is still in the early stages.

Figure 139: Profitability between different waste treatment methods

	Units	Co-processing in cement kiln (Government funded)	Co-processing in cement kiln (Self-funded)	Grate furnace waste incineration (Self-funded)
Capacity	t/d	300	300	1000
Total investment	RMB mn	75	75	550
Investment cost per ton per day	RMB/t/d	250,000	250,000	550,000
Revenue		**80**	**160**	**213**
Waste treatment subsidy	RMB/t	80	160	80
Electricity generated from per ton of waste	kWhr	n.a	n.a	240
Electricity tariff (excl. VAT)	RMB/kWh	n.a	n.a	0.56
Revenue from sales of electricity		n.a	n.a	133.3
Cost		**70**	**104**	**125**
Operating cost + SG&A	RMB/t	70	70	50
D&A	RMB/t	n.a	34	75
Unit EBIT		**10**	**56**	**88**
EBIT Margin	**RMB/t**	**13%**	**35%**	**41%**
Finance cost		n.a	28	62
Unit EBT	**RMB/t**	**10**	**27**	**26**
Tax (Assume 15%)	RMB/t	2.5	4	4
Unit NP	**RMB/t**	**7.5**	**23.4**	**21.9**
NPM	**RMB/t**	**9%**	**15%**	**10%**
ROIC		**--**	**7%**	**5%**

Source: Deutsche Bank
1) Depreciation is computed using straight line depreciation method, assume 20-year useful life and zero salvage value

Cement prices

Figure 140: P.O.42.5 cement market price

P.O. 42.5 *RMB/t (Incl. VAT)*

Region	City	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
North China	Beijing	420	420	460	500	430	335	320	310	330	350	360	360	360	360	390	375	360	350	350	344	340	340	340	340	340	340
	Tianjin	380	380	380	380	350	315	290	280	280	280	280	280	280	280	330	330	330	330	320	320	320	320	320	320	320	320
	Shijiazhuang	300	300	350	350	300	320	260	260	275	290	275	260	295	330	330	330	315	300	300	292	280	300	304	310	310	310
	Taiyuan	330	330	330	330	300	300	300	300	300	300	290	290	290	290	290	290	290	290	290	290	290	290	290	290	290	290
	Huhehaote	410	410	350	380	380	380	380	380	380	380	370	360	300	300	300	300	300	310	320	320	313	310	310	310	310	310
	Avg price	**368**	**368**	**374**	**388**	**352**	**330**	**310**	**306**	**313**	**320**	**315**	**310**	**305**	**312**	**328**	**325**	**319**	**316**	**316**	**313**	**309**	**312**	**313**	**314**	**314**	**314**
Northeast China	Shenyang	425	425	425	425	445	445	435	410	410	410	410	410	410	410	410	395	380	380	375	370	370	370	340	340	335	335
	Changchun	475	475	475	475	475	475	455	443	430	425	480	480	480	480	480	480	480	480	490	490	490	490	490	490	490	490
	Haerbin	450	450	450	450	510	495	495	495	495	495	488	480	480	480	480	480	465	450	450	462	450	450	430	430	430	430
	Avg price	**450**	**450**	**450**	**450**	**477**	**472**	**462**	**449**	**445**	**443**	**459**	**457**	**457**	**457**	**457**	**452**	**442**	**433**	**438**	**441**	**437**	**437**	**420**	**420**	**418**	**418**
East China	Shanghai	430	430	385	330	310	300	280	280	295	335	360	330	300	300	315	360	360	348	335	335	350	390	424	450	450	420
	Nanjing	410	395	340	310	280	280	258	255	265	310	320	305	275	275	295	340	340	320	300	300	290	320	342	370	370	340
	Hangzhou	430	410	375	350	380	350	295	280	300	310	350	345	305	305	313	350	360	350	343	360	360	360	394	440	440	440
	Hefei	400	400	350	310	310	300	275	263	260	295	315	295	280	280	285	290	290	270	270	270	278	347	368	380	375	360
	Fuzhou	430	420	410	400	385	370	355	340	355	395	410	375	370	370	360	370	370	360	339	355	360	375	432	450	460	460
	Nanchang	410	400	360	365	320	340	320	280	315	365	370	370	340	300	300	370	400	380	338	369	358	373	416	420	420	380
	Jinan	400	400	400	400	380	380	360	360	350	370	355	340	340	340	360	340	340	335	330	330	330	330	340	340	340	340
	Avg price	**416**	**408**	**374**	**352**	**338**	**331**	**306**	**294**	**306**	**340**	**354**	**337**	**316**	**310**	**318**	**346**	**351**	**338**	**322**	**331**	**332**	**356**	**388**	**407**	**408**	**391**
Central & South China	Zhengzhou	345	343	345	350	350	345	330	330	330	330	330	330	325	320	320	320	320	320	300	292	290	290	296	320	320	320
	Wuhan	440	440	420	390	340	330	320	320	335	370	420	405	370	360	350	380	380	355	325	310	310	343	378	420	420	420
	Changsha	430	420	400	333	315	310	310	325	320	320	360	330	330	330	290	290	285	280	298	308	330	370	414	420	410	400
	Guangzhou	400	400	400	385	355	325	300	275	345	405	410	405	365	355	305	295	305	315	335	351	378	415	439	445	445	445
	Nanning	360	315	310	310	310	290	270	260	260	310	320	320	310	285	270	260	250	260	270	272	280	317	348	360	360	360
	Haikou	430	415	400	400	420	410	380	370	360	370	380	360	345	340	330	320	320	320	320	320	320	360	410	460	460	460
	Avg price	**401**	**389**	**379**	**361**	**348**	**335**	**318**	**313**	**325**	**351**	**370**	**358**	**341**	**332**	**311**	**311**	**310**	**310**	**308**	**309**	**318**	**349**	**381**	**404**	**403**	**401**
Southwest China	Chongqing	270	270	270	270	270	270	265	250	240	250	310	310	310	310	310	300	280	270	270	270	290	310	320	335	340	340
	Chengdu	360	360	360	360	360	310	310	295	290	320	330	330	330	330	330	360	360	350	330	330	330	330	370	380	380	380
	Guiyang	310	310	310	310	310	310	290	280	300	300	300	300	300	300	310	320	330	350	390	430	425	410	380	380	380	380
	Kunming	300	300	340	340	340	340	335	330	330	330	330	330	330	330	330	330	330	330	330	330	330	330	336	345	345	345
	Tibet	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	600	600	600	600	600	600	600	600
	Avg price	**362**	**362**	**370**	**370**	**370**	**360**	**354**	**345**	**346**	**354**	**368**	**368**	**343**	**318**	**320**	**328**	**325**	**325**	**330**	**340**	**344**	**345**	**352**	**360**	**361**	**361**
Northwest China	Xi'an	275	305	310	350	350	350	340	330	330	328	325	313	300	300	300	340	350	300	300	300	290	313	340	340	340	340
	Lanzhou	315	315	333	350	350	350	350	350	350	355	360	360	300	300	310	380	410	410	373	370	370	373	380	380	380	380
	Xining	290	290	290	320	350	350	350	350	350	335	320	320	315	315	343	370	370	370	320	320	320	350	350	350	350	350
	Yinchuan	310	310	305	300	280	280	280	280	280	280	280	280	280	280	330	280	225	280	250	250	250	250	250	250	250	250
	Xinjiang	460	460	490	480	450	450	440	415	400	385	370	370	370	370	370	370	320	320	320	320	320	320	320	320	320	320
	Average	**330**	**336**	**346**	**360**	**356**	**356**	**352**	**345**	**342**	**337**	**331**	**329**	**313**	**313**	**331**	**348**	**335**	**325**	**313**	**312**	**310**	**321**	**328**	**328**	**328**	**328**
National	**31 provinces**	**386**	**383**	**377**	**373**	**364**	**354**	**339**	**331**	**336**	**351**	**360**	**352**	**337**	**331**	**335**	**344**	**341**	**334**	**329**	**333**	**334**	**348**	**362**	**373**	**373**	**369**

Region	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
North China	368	368	374	388	352	330	310	306	313	320	315	310	305	312	328	325	319	316	316	313	309	312	313	314	314	314
Northeast China	450	450	450	450	477	472	462	449	445	443	459	457	457	457	457	452	442	433	438	441	437	437	420	420	418	418
East China	416	408	374	352	338	331	306	294	306	340	354	337	316	310	318	346	351	338	322	331	332	356	388	407	408	391
Central & South China	401	389	379	361	348	335	318	313	325	351	370	358	341	332	311	311	310	310	308	309	318	349	381	404	403	401
Southwest China	362	362	370	370	370	360	354	345	346	354	368	368	343	318	320	328	325	325	330	340	344	345	352	360	361	361
Northwest China	330	336	346	360	356	356	352	345	342	337	331	329	313	313	331	348	335	325	313	312	310	321	328	328	328	328
National	**386**	**383**	**377**	**373**	**364**	**354**	**339**	**331**	**336**	**351**	**360**	**352**	**337**	**331**	**335**	**344**	**341**	**334**	**329**	**333**	**334**	**348**	**362**	**373**	**373**	**369**

Source: Deutsche Bank, Digital Cement

Figure 141: P.C.32.5 cement market price

P.C32.5 *RMB/t (Incl. VAT)*

Region	City	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
North China	Beijing	380	380	428	460	400	332	300	300	300	300	312	320	320	320	340	330	320	320	320	320	320	320	320	320	320	320
	Tianjin	335	335	335	335	335	314	270	270	270	270	270	270	270	270	294	310	310	310	300	300	300	300	300	300	300	300
	Shijiazhuang	290	290	290	290	270	250	230	230	238	260	260	260	260	260	260	260	260	260	260	260	260	280	284	290	290	290
	Taiyuan	290	290	290	290	270	270	270	270	270	270	264	260	260	260	260	260	260	260	260	260	260	260	260	260	260	260
	Huhehaote	320	320	280	318	330	330	330	326	310	303	300	300	275	250	250	250	250	260	270	270	270	270	270	270	270	270
	Avg price	**323**	**323**	**325**	**339**	**321**	**299**	**280**	**279**	**278**	**281**	**281**	**282**	**277**	**272**	**281**	**282**	**280**	**282**	**282**	**282**	**282**	**286**	**287**	**288**	**288**	**288**
Northeast China	Shenyang	395	395	395	395	415	415	398	385	385	385	385	385	385	385	385	370	355	355	355	355	355	355	320	320	285	285
	Changchun	395	395	420	420	420	420	420	412	400	397	390	390	390	390	390	390	413	420	450	450	450	450	450	431	375	375
	Haerbin	408	410	430	430	475	475	475	475	475	475	462	410	410	410	410	410	425	410	410	422	410	410	390	388	380	380
	Avg price	**399**	**400**	**415**	**415**	**437**	**437**	**431**	**424**	**420**	**419**	**412**	**395**	**395**	**395**	**395**	**390**	**398**	**395**	**405**	**409**	**405**	**405**	**387**	**380**	**347**	**347**
East China	Shanghai	380	360	357	321	290	282	280	278	275	287	300	285	280	275	273	293	295	295	295	295	300	335	379	415	406	360
	Nanjing	370	360	308	285	265	260	250	240	245	277	286	268	260	250	261	293	295	290	280	280	280	300	310	300	295	280
	Hangzhou	380	375	348	325	335	342	293	270	290	320	340	330	298	290	290	313	345	330	323	340	340	340	368	400	390	360
	Hefei	355	355	327	305	300	292	271	265	265	282	285	285	285	273	264	288	280	255	250	250	255	317	338	350	348	340
	Fuzhou	400	400	400	400	378	358	335	310	313	350	370	355	350	350	354	370	370	350	323	330	335	350	394	400	400	400
	Nanchang	390	385	338	350	320	310	303	288	320	330	340	340	318	295	278	323	360	345	323	328	325	347	370	370	370	340
	Jinan	360	365	370	370	360	350	335	326	320	340	334	330	330	330	350	350	350	350	350	350	350	350	350	350	350	350
	Avg price	**376**	**371**	**350**	**337**	**321**	**313**	**295**	**282**	**290**	**312**	**322**	**313**	**303**	**295**	**296**	**318**	**328**	**316**	**306**	**310**	**312**	**334**	**358**	**369**	**366**	**347**
Central & South China	Zhengzhou	325	324	320	320	320	318	303	300	300	300	300	300	293	290	290	290	290	285	280	272	270	270	276	300	300	300
	Wuhan	390	390	374	370	333	314	303	300	308	380	404	390	355	340	330	330	320	290	290	308	315	345	367	375	375	375
	Changsha	400	390	372	325	298	290	290	298	290	290	340	310	305	300	278	270	270	270	283	288	310	350	386	390	368	320
	Guangzhou	360	360	360	355	335	330	290	271	313	373	390	365	343	340	318	290	293	300	325	330	353	380	404	410	391	385
	Nanning	280	278	270	270	270	254	240	236	240	293	300	300	290	265	250	245	240	244	258	268	280	287	342	350	350	350
	Haikou	400	400	400	400	400	400	380	372	360	360	360	360	350	340	332	320	320	320	320	320	320	333	380	440	440	440
	Avg price	**359**	**357**	**349**	**340**	**326**	**318**	**301**	**296**	**302**	**333**	**349**	**338**	**323**	**313**	**300**	**291**	**289**	**285**	**293**	**298**	**308**	**328**	**359**	**378**	**371**	**362**
Southwest China	Chongqing	250	250	250	250	250	250	248	232	220	227	276	290	290	290	290	280	260	250	250	250	270	290	300	315	320	320
	Chengdu	330	330	320	310	280	280	280	266	260	287	300	300	300	300	324	330	319	315	315	315	315	315	331	335	335	335
	Guiyang	260	260	284	295	295	291	275	260	275	280	288	290	283	260	268	280	290	310	380	400	360	360	360	360	345	330
	Kunming	280	280	304	320	320	320	318	310	310	310	314	310	310	310	310	310	310	310	310	310	310	310	310	310	310	310
	Tibet																										
	Avg price	**280**	**280**	**290**	**294**	**286**	**285**	**280**	**267**	**266**	**276**	**295**	**298**	**296**	**290**	**298**	**300**	**295**	**296**	**314**	**319**	**314**	**319**	**325**	**330**	**328**	**324**
Northwest China	Xi'an	260	270	288	343	350	350	340	326	320	310	310	310	310	310	307	320	330	300	290	290	290	297	310	310	310	310
	Lanzhou	295	295	305	320	320	320	320	320	320	323	330	330	295	260	268	333	350	350	343	340	340	343	350	350	350	350
	Xining	260	260	276	300	300	300	300	300	300	293	280	280	280	280	294	350	350	300	300	300	300	300	300	300	300	300
	Yinchuan	290	290	274	270	233	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220
	Xinjiang	390	390	396	390	360	350	340	326	320	320	320	320	320	320	320	310	305	300	300	300	300	300	300	300	300	300
	Average	**299**	**301**	**308**	**325**	**313**	**308**	**304**	**298**	**296**	**293**	**292**	**292**	**285**	**278**	**282**	**307**	**311**	**294**	**291**	**290**	**290**	**292**	**296**	**296**	**296**	**296**
National	**31 provinces**	**341**	**339**	**337**	**338**	**328**	**320**	**307**	**299**	**301**	**314**	**321**	**315**	**308**	**301**	**302**	**310**	**312**	**306**	**308**	**311**	**312**	**323**	**335**	**341**	**335**	**329**

Region																										
North China	323	323	325	339	321	299	280	279	278	281	281	282	277	272	281	282	280	282	282	282	282	286	287	288	288	288
Northeast China	399	400	415	415	437	437	431	424	420	419	412	395	395	395	395	390	398	395	405	409	405	405	387	380	347	347
East China	376	371	350	337	321	313	295	282	290	312	322	313	303	295	296	318	328	316	306	310	312	334	358	369	366	347
Central & South China	359	357	349	340	326	318	301	296	302	333	349	338	323	313	300	291	289	285	293	298	308	328	359	378	371	362
Southwest China	280	280	290	294	286	285	280	267	266	276	295	298	296	290	298	300	295	296	314	319	314	319	325	330	328	324
Northwest China	299	301	308	325	313	308	304	298	296	293	292	292	285	278	282	307	311	294	291	290	290	292	296	296	296	296
National	**341**	**339**	**337**	**338**	**328**	**320**	**307**	**299**	**301**	**314**	**321**	**315**	**308**	**301**	**302**	**310**	**312**	**306**	**308**	**311**	**312**	**323**	**335**	**341**	**335**	**329**

Source: Deutsche Bank, Digital Cement

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Johnson Wan

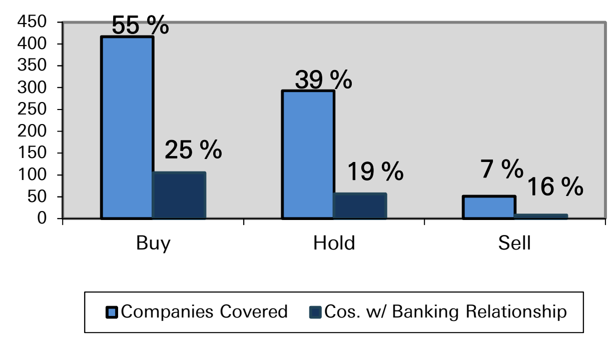
Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:

    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
    Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

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