IPO Flash

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An industry giant — China Transportation

China Communications Construction (1800 HK) — Not Rated

China Communications Construction Co. Ltd. (CCCC) began its H-share IPO roadshow yesterday in H.K. CCCC is engaged in infrastructure design and construction of ports, in additional to dredging and port machinery manufacturing, roads and bridge construction in China. Due to technical issues, it cannot apply for an A and H-share dual listing in China and H.K. According to the local press, the listing of A-shares will be held in 2008.

Investment highlights: i) Potential benefit from the Beijing Olympic Games; ii) Benefits from the 11th five-year (2006-2010) plan of building of more than 24,000 kilometers of highways & iii) Benefit from the addition of 2.1 billion tons to the country's seaports' capacity by 2010.

Table 1: Offer statistics

Ticker	1800 HK
Offer size (excluding overallotment)	3.5b shares
Over-allotment option	15% of the offering
Proposed fund raised	HK$16.1b
Price range	HK$3.40 – HK$4.60
Offer P/E (2007F)	13x -18x
Dividend policy	Payout not less than 25% of distributable profits
Lock-up	i) 12 months for CCCC
	ii) 12 months for China Life Insurance (Group) Company, Chow Tai Fook Nominee Ltd. & Government of Singapore Investment Corporation Pte. Ltd.
Use of proceeds	i) Purchase, upgrade of equipment and vessels in its Dredging and Infrastructure Construction Business
	ii) Invest in its "build, operate and transfer" ("BOT") projects, including a project relating to a section of Guangming Expressway in Guangdong province
	iii) Construct production bases in Shanghai for its Port Machinery Manufacturing Business
	iv) Repay short-term bank loans and working capital purposes
Bookrunners	UBS, Myrill Lynch, BOCI
IPO open	1 Dec 2006
IPO close	6 Dec 2006
Pricing date	9 Dec 2006
Listing date	15 Dec 2006

Source: Company data

Table 2: Key financials

Year to Dec	Net profit (RMBm)	YoY %
2004A	1,070	n.a.
2005A	2,190	105
2006F	2,800	28
2007F	3,790	35

Source: Company data & syndicates' estimates

Table 3: Peer comparions

Company Name	Ticker	Curr	Price (HK$)	Mkt cap. (US$m)	P/E (x) FY05A	FY06F	FY07F	ROA (%)	ROE (%)	Margin (%) Op	Net	Major operations
Shanghai Zhenhua Port Machinery	900947 CH	US$	1.2	3,871.4	24.9	17.0	13.9	9.5	29.7	11.2	9.8	Designs, manufactures and markets large-size port handling equipment, engineering vessels, large-size metal structures and leases cranes
Balfour Beatty	BBY GB	GBP	406.5	3,375.3	22.4	14.6	13.5	4.7	46.3	1.9	2.8	Design and management services for businesses in the transport and energy sectors. Also invests in infrastructure projects and developments in the U.K. and overseas
Washington Group	WGII US	US$	58.3	1,735.1	16.0	22.7	20.3	3.6	7.9	2.2	1.8	Design, engineering, construction management, facilities and operations management, environmental remediation and mining services
Flour Corp	FLR US	US$	82.5	7,253.1	29.7	31.2	21.8	5.3	15.3	2.2	1.7	Design, engineering, procurement, and construction services. Also provides outsourcing of maintenance services and asset operations, equipment rental and sales.
Average					*23.3*	*21.4*	*17.4*	*5.8*	*24.8*	*4.4*	*4.0*	
CCCC	**1800 HK**	**HK$**	**3.4 -4.6**	**6,233 -8,433**	**22-30**	**17-23**	**13-18**	**n.a.**	**n.a.**	**n.a.**	**2.6**	

Source: SBI E2-Capital & Bloomberg

Valuation. Shanghai Zhenhua Port Machinery (900947 CH) is one of CCCC's subsidiaries, which is engaged in the design and manufacture of large-size port handling equipment, engineering vessels as well as the leasing of cranes. Zhenhua posted strong sales and net profit growth in the past three years (2003-2005). Sales and net profit rose 68% YoY and 1.4x YoY to RMB12.1b and RMB3.1b respectively in FY12/05A. For CCCC, net profit grew at a more rapid pace of c.1.5x in FY12/05A. According to the syndicates' forecast, it is estimated to grow 33% and 34% in FY12/06F and FY12/07F respectively. On the operation side, CCCC commanded a lower net margin of 2.6%, compared with Zhenhua's 9.8% in FY12/05A. We believe it is due to the inclusion of other lower-margin business segments. However, the net margin is inline with international average of 2.1%, such as Balfour Beatty (BBY GP), Washington Croup (WGII US) and Fluor Corp. (FLR US). On average, the industry trades at 17.4x FY12/07F P/E, compared with 13-18x proposed offer P/E for CCCC. Prospectus is not available yet. The counter is a giant in China's port construction industry. There are no other listed comparables in H.K.