

China State Const'n

Run in HK & China market

to summarize...

- CSCI results were better than our expectation with bottom line growth of 37.8% YoY to HK\$319.9m for 2H FY12/09A..
- Mainland China market is ramping up quickly with a 92% YoY growth and HK\$9.09b backlog contract so far.
- HK market is expected still to be the key profit contribution in FY12/10 with both top line growth and further margin expansion potential.
- Macau market is recovering but the contribution would be small in FY12/10. .
- No new contract from UAE market so far while current contract backlog is mainly from Abu Dhabi
- Maintain BUY call with revised target price of HK\$3.86.

2HFY12/09A results. CSCI's results for 2H FY12/09A were running ahead of our expectation. Although the top line was only increased 3.8% YoY to HK\$5,829.2m, the bottom line increased 37.8% YoY to HK\$319.9m. The better results come from the better than expected margin level in HK (estimate: 4.8%, actual: 5.0%) and Macau (estimate: 11.8%, actual: 18.3%) and lower administration expenses level (estimate: 3.5% of total sales, actual 3.4%).

Table 1. 2H FY12/09A results

6 months to Dec	Turnover (HK\$m)	Gross Profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)
2H FY09	5829.2	528.4	9.1	397.839	19.6	319.9
1H FY09	5502.0	464.5	8.4	329.543	9.6	297.9
HoH(%)	5.9	13.7		20.7		7.4
2H FY08	5613.9	511.3	9.1	291.284	15.0	232.1
YoY (%)	3.8	3.3		36.6		37.8

Source: Company data

Mainland China market expect to ramp up quickly. CSCI's revenue from mainland China increased 92.0% YoY to HK\$1,141.3m, which was mainly driven by the new contribution of HK\$505.0m from BT project. So far, the company has backlog of HK\$9.09b in mainland China, including HK\$3.65b two years BT and BOT projects. The building construction project is ramping up quickly as well. For the first 3 month of 2010, the company has secured HK\$3.97b building construction contract in Hebei province and Guangdong Province. The updated backlog in mainland China is now HK\$9.09b.

HK market is still the key with its revenue increase and margin expansion. In 2H FY12/09A, the revenue from HK market increased 8.0% to HK\$3,616.8 accounting for 62.0% of total revenue. The gross margin widened 1.5 pcp YoY to 4.98%. With the on-going of 10-Mega Projects in HK, CSCI as a market leader would be the key beneficiary. Currently, CSCI has backlog contract value of HK\$16.39 in HK market. With the scale improvement and quality project in HK, the margin level in HK market is expected to further improve.

Macau and UAE market contribution will be small. Affected by the financial crisis, the Macau and UAE market shrunk in 2009. The revenue from Macau dropped 8.2% YoY to HK\$735.8m while the UAE market dropped 60.7% to HK\$335.2m. Both market reported a loss. The company had a further provision of HK\$80m for Dubai project. So far, the company has contract backlog of HK\$1.02b in Macau and HK\$1.89b in UAE. The company did not take any new contract in UAE in 2009 and the current backlog contract is mainly for the Abu Dhabi rather than Dubai. The management expects that the Macau market would recover with the effort of Macau

Ticker	3311 HK
Rating	BUY(Unchanged)
Price (HK\$)	3.13
Target Price (HK\$)	3.86(+23%)
12m Price Range (HK\$)	1.14-4.05
Market cap. (US\$m)	1,186.4
Daily t/o (US\$m)	2.2
Free float (%)	37.0

Financial summary

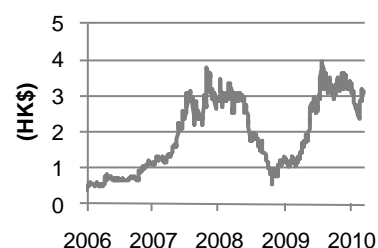
Year to Dec	08A	09A	10F	11F	12F
Turnover (HK\$m)	11,021.411	331.112	862.515	308.018	018,063.5
Net Profit (HK\$m)	489.3	617.8	755.5	912.9	1,086.3
EPS (HK\$)	0.192	0.221	0.257	0.311	0.370
P/E (x)	16.3	14.2	12.2	10.1	8.5
P/B (x)	3.04	2.14	1.85	1.83	1.72
EV/EBITDA (x)	11.3	6.9	7.7	5.8	4.3
Yield (%)	2.6	2.2	2.5	3.0	3.5
ROE (%)	20.9	18.1	16.3	18.3	20.9
ROCE (%)	20.4	15.2	14.3	15.6	18.2
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (RMB)	0.263	0.346	0.300
Previous earnings (RMBm)	712.4	895.4	-
Previous EPS (RMB)	0.242	0.305	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+20.3	-5.6	+65.1
Actual price changes (%)	+25.7	-4.9	+168.5



Source: Bloomberg

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government. However, we expect that the contribution from Macau would be small for FY12/10F.

Table 2. 2H FY12/09A revenue breakdown

6months to Dec Year end Dec (HK\$m)	2H 07A			2H 08A			2H 09A		
	Revenue	YoY (%)	%	Revenue	YoY (%)	%	Revenue	YoY (%)	%
Hong Kong	2892.8	(25.6)	58.2	3349.6	15.8	59.7	3616.8	8.0	62.0
Mainland China construction	360.8	-	7.3	316.7	(12.2)	5.6	362.7	14.5	6.2
Mainland China BT&BOT project	-	-	-	-	-	-	505.0	-	8.7
Mainland China others	302.4	-	6.1	277.8	(8.1)	4.9	273.6	(1.5)	4.7
Macau	240.0	(67.0)	4.8	801.9	234.1	14.3	735.8	(8.2)	12.6
Dubai	1158.1	222.9	23.3	852.7	(26.4)	15.2	335.2	(60.7)	5.8
India	12.1	(97.3)	0.2	15.2	26.3	0.3	-	-	-
Total	4966.3	(8.5)	100.0	5613.9	13.0	100.0	5829.2	3.8	100.0

Source: Company data

New contracts and backlog. To date in 2010, CSCI has secured HK\$5.41b in new contracts from HK and mainland China. It currently has contract backlog of HK\$28.70b mainly in HK and mainland China.

Table 3: New contracts awarded

(HK\$b)	1H 08	2008	2010 To Date
Hong Kong	9.48	10.85	1.38
Macau	1.62	0.04	-
UAE	1.82	-	-
India	-	0.33	-
Mainland China	1.26	5.88	4.03
Total	14.18	17.10	5.41

Source: Company data

Table 4: Project in progress

(HK\$b)	2008		2009		2010 To Date	
	Contract Value	Backlog	Contract Value	Backlog	Contract Value	Backlog
Hong Kong	20.48	11.94	24.66	15.95	26.03	16.39
Macau	10.42	5.06	2.53	1.17	2.53	1.02
UAE	6.08	3.22	5.74	2.01	5.74	1.89
India	-	-	0.33	0.33	0.33	0.31
Mainland China	1.06	0.91	6.64	5.21	10.67	9.09
Total	38.04	21.13	39.90	24.67	45.3	28.70

Source: Company data

Cash flow. By the end of 2009, the company has net cash of HK\$2,435.5m. The main cash outflow in 2010 would include: 1) capex of HK\$1.5b for 2010 which would be mainly for securing projects; 2) invest HK\$200m CB in Skyjoy, a land developer, on 7 February 2010 with 12% coupon rate and rights to convert to 18% shares in Skyjoy while the company secured the contract of developing this land as well; 3) general working capital and dividend payment. Although the capex looks big, we think the company is capable in handling it based on its current cash level and credit control track record.

Maintain BUY with revised target price of HK\$3.86. We revised our sales estimate to HK\$12,862.5m in FY12/10F and HK\$15,308.0m in FY12/11F (from HK\$14,511.6m in FY12.10F and HK\$17,879.2m in FY12/11F) and net profit estimate to HK\$755.5m in FY12/10F and 912.9m in FY12/11F (from HK\$712.4m in FY12/10F and HK\$895.4m). We introduced our net profit estimate for FY12/12F to be HK\$1,086.3m. We maintain our BUY call on the counter for its growth potential in HK and China market. Based on 11.3% WACC and 2% terminal growth rate, we revised up our target price to HK\$3.86, representing 15.0x FY12/10F and 12.4x FY12/11F P/E.

Table 5: DCF valuation reference table

WACC	Terminal Growth				
	1.0%	2.0%	3.0%	4.0%	5.0%
9.3%	4.15	4.41	4.76	5.23	5.93
11.3%	3.70	3.86	4.06	4.31	4.64
13.3%	2.86	2.93	3.02	3.12	3.25
14.3%	2.65	2.71	2.77	2.85	2.95

Source: SBI E2-Capital

Table 6: P & L

Year to Dec (HK\$m)	08A	09A	10F	11F	12F
Turnover	11,021.4	11,331.1	12,862.5	15,308.0	18,063.5
Cost of sales	(10,112.0)	(10,338.2)	(11,627.0)	(13,842.9)	(16,347.3)
Gross profit	909.4	992.9	1,235.5	1,465.1	1,716.2
Other income	71.3	137.7	111.5	117.2	123.3
Selling and distribution costs	(17.8)	(9.8)	(10.8)	(11.9)	(13.1)
Administrative expenses	(394.0)	(356.5)	(392.2)	(431.4)	(474.5)
Other Expenses	12.5	(22.3)	(25.7)	(28.2)	(18.1)
Operating profit	581.3	741.9	918.3	1,110.7	1,333.7
Financial costs	(20.1)	(26.1)	(42.2)	(50.0)	(54.2)
Share of loss of an associate	9.4	11.6	12.8	13.4	13.7
Pre-tax profit	570.7	727.4	888.8	1,074.1	1,293.2
Tax	(66.3)	(109.5)	(133.3)	(161.1)	(206.9)
Minority interests	(15.1)	-	-	-	-
Net Profit	489.3	617.8	755.5	912.9	1,086.3

Source: Company data and SBI E2-Capital

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