

# China / Hong Kong

# Industry Flash Note

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DBS Group Research . Equity

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## China Cement Sector

ANALYST

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### Price rebound on the horizon

- **Suspension of low-grade cement production since October 1; mild price increase in the first week post-suspension**
- **Limited impact on production shipment after serious accidents in Jiangsu and Liaoning**
- **Cement prices reached year-high amid low silo inventory during the National Day holiday**
- **Prefer Southern market cement players CR Cement (1313 HK) and Anhui Conch (914 HK)**

#### What's New

**Supportive on cement prices after suspension of low-grade production.** Anecdotal evidence suggests that cement prices have gone up after cement producers ceased production of low-grade cement products since October 1, 2019. We are aware that market still has its reservations about the effectiveness of the policy and is worried that cement producers would circumvent the new regulations and produce intermediary products by blending other materials. However, the consensus among major producers is supportive of this move. Since high grade products would contain higher clinker ratio, actual production may decrease. We believe that this could be a stepping stone for a further rebound of cement prices ahead.

**National average cement prices to hit year-high amid continuous inventory drawdown.** The collapse of the Wuxi viaduct and serious traffic accident in Liaoning have had limited impact on the shipment of raw materials and finished products. As of mid-Oct, China's cement inventory slightly decreased to the year's low to 53.1% of total warehouse capacity versus 50.7% in the same period in 2018. Cement product shipment has remained steady at above 82% of the production capacity for the first week after the National Day holiday. According to the China

Cement Association, the average price of P.O42.5 grade cement has edged up 0.6% w-o-w and up 2.5% YTD y-o-y.

**China's cement consumption is better than expectation despite slowing growth.** According to the National Bureau of Statistics, China's cement consumption grew 5.2% y-o-y from April to June 2019, accelerating from 4.8% y-o-y in January to March 2019, attributed to the pick-up in construction projects. Based on product delivery rate, we believe that this growth momentum should persist into the third quarter. China's stabilising policies for its domestic economy should help cement consumption growth would be better than expectation at an estimated 4% in the full-year 2019.

**Steady cement demand outlook in 4Q2019.** In addition to construction projects that resumed after the National Day holiday, certain projects that have kicked-off in anticipation of significant year-end progress have increased cement consumption. Real estate development investment have remained steady YTD, with national investment growth reported at 10.5% in August 2019. Infrastructure construction has continued to pick up with YTD infrastructure investment growth of 4.2% y-o-y in August 2019. Overall, we are optimistic for China's cement consumption in 2019.

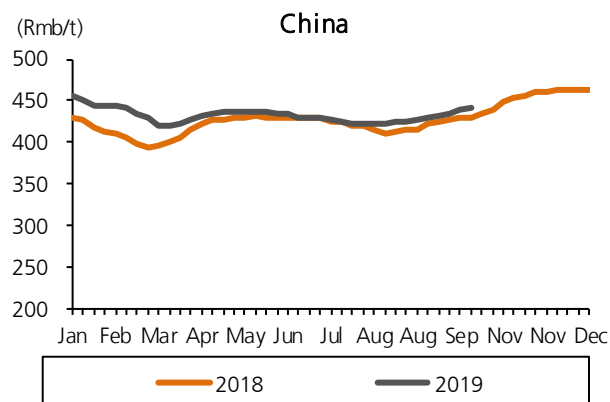
**Still prefer Southern China exposure despite of improving Northeastern market.** Overall, we are less pessimistic on China's northeastern market with remarkable inventory drawdown in the Liaoning province. Meanwhile, we prefer southern China, followed by the eastern market considering the more resilient demand outlook in these regions. CR Cement and Anhui Conch stand to benefit as they have greater exposure in these regions.



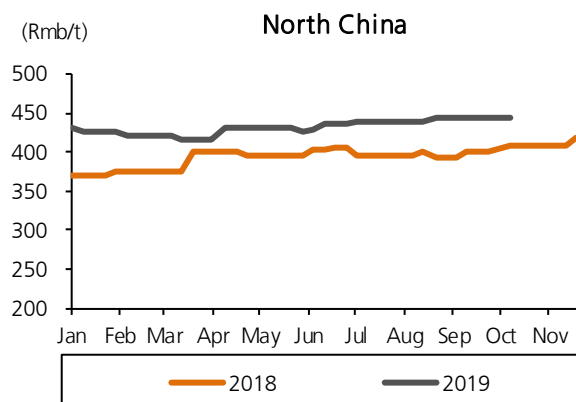
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## Cement Price Weekly (P.O 42.5, Rmb/t incl. VAT)

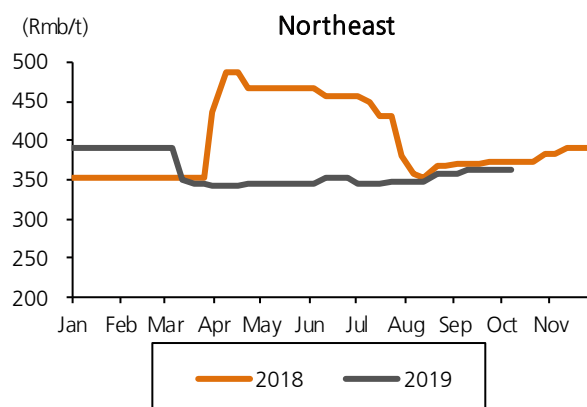
## China



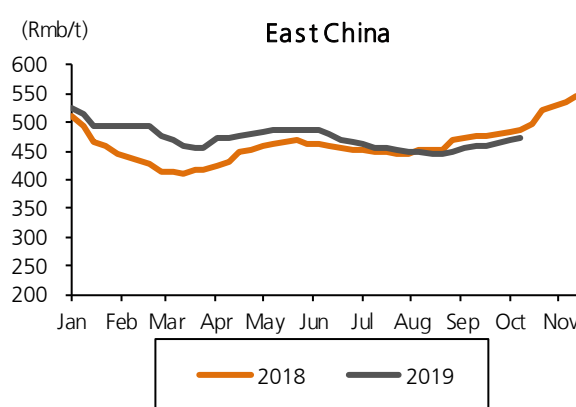
## North China



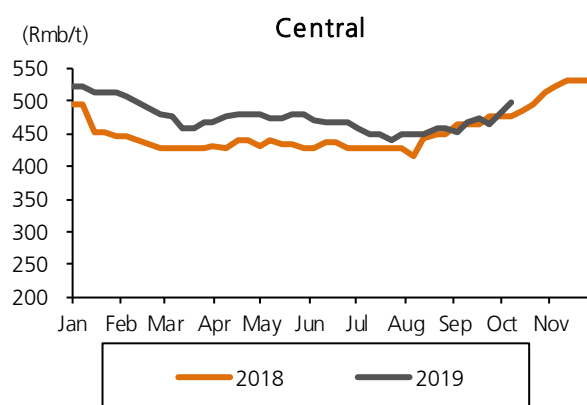
## Northeast



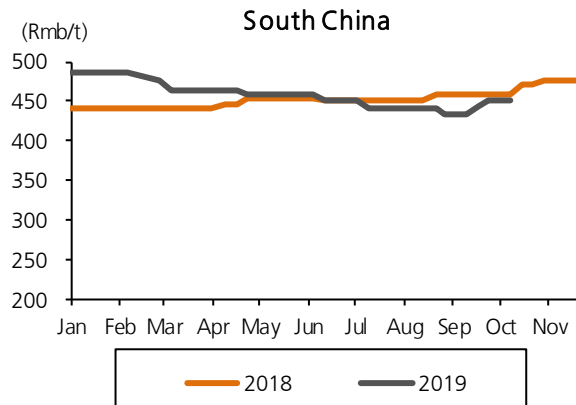
## East China



## Central



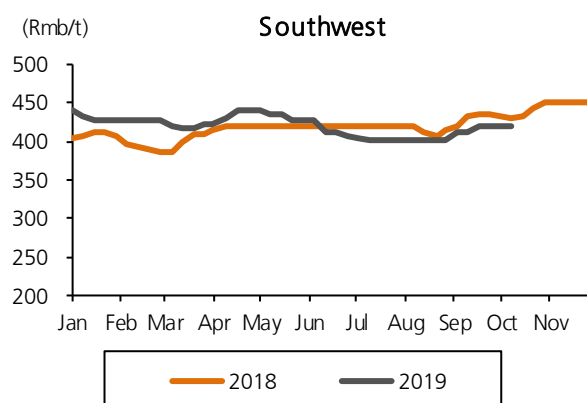
## South China



Source: Digital Cement, DBS HK

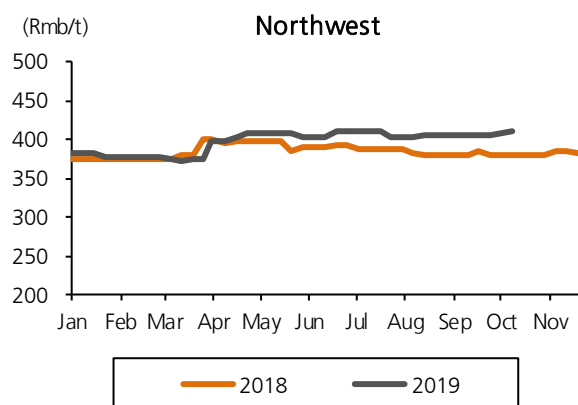
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### Southwest



Source: Digital Cement, DBS HK

### Northwest



Source: Digital Cement, DBS HK

### Peers valuation

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	PE 19F	PE 20F	P/Bk 19F	P/Bk 20F	EV/EBITDA 19F	EV/EBITDA 20F
<b>HK-listed cement companies</b>										
Bbmng 'H'	2009 HK	HKD	2.34	16,208	4.8	4.8	0.4	0.4	8.2	8.1
China National Building Material 'H'*	3323 HK	HKD	6.98	7,406	6.3	5.3	0.7	0.6	6.4	6.5
Asia Cement (China) Hdg.	743 HK	HKD	9.84	1,965	4.4	4.6	1.0	0.9	2.5	2.7
Anhui Conch Cement 'H'*	914 HK	HKD	47.8	32,289	7.9	7.7	1.7	1.5	4.0	3.6
China Shanshui Cmt.Group	691 HK	HKD	2.81	1,560	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Resources Cement Holdings*	1313 HK	HKD	8.31	7,397	7.5	6.5	1.4	1.3	3.9	3.2
China Tian.Gp.Cement	1252 HK	HKD	7.04	2,637	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
West China Cement	2233 HK	HKD	1.32	915	3.7	3.4	0.7	0.6	2.5	2.6
<b>A-share-listed cement companies</b>										
Tangshan Jidong Cmt.'A'	000401 CH	CNY	15.89	3,018	7.4	6.7	1.2	1.1	3.7	3.4
Anhui Conch Cmt. 'A'*	600585 CH	CNY	42.6	32,289	7.8	7.6	1.7	1.5	4.1	3.6
Huaxin Cement 'A'	600801 CH	CNY	20.1	5,941	6.9	6.7	2.0	1.6	3.6	3.6
China Gezhouba Group 'A'	600068 CH	CNY	5.97	3,875	5.5	4.7	0.6	0.6	8.0	6.9
Gansu Qilianshan Cmt.Gp. 'A'	600720 CH	CNY	10.19	1,115	7.8	7.3	1.2	1.1	3.5	3.3
Xinjiang Qingsong Bldg. Mats.& Chm.'A'	600425 CH	CNY	3.81	741	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinjiang Tianshan Cmt 'A'	000877 CH	CNY	10.58	1,564	6.3	5.8	1.2	1.0	n.a.	n.a.
Ningxia Blms.Gp.'A'	600449 CH	CNY	9.5	640	7.5	7.2	0.9	0.8	n.a.	n.a.

# FY19: FY20; FY20: FY21

Source: Thomson Reuters, \*DBS HK

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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