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Materials | Company Research

The Chinese View on China

June 19,2012

Not rated

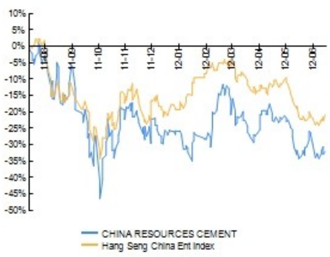
下行周期，成本取胜

华润水泥(1313 HK)

Market Data: Jun,18

Closing Price (HK$)	5.30
Price Target (HK$)	
HSCEI	9,745
HSCCI	3,851
52-week High/Low (HK$)	7.94/4.11
Market Cap (USD Mn)	4,453
Market Cap (HK$ Mn)	34,552
Shares Outstanding (Mn)	6,519
Exchange Rate (RMB-HK$)	1.23

Price Performance Chart:



Source: Bloomberg

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投资要点：

- 摘要：我们最近进行了一次华润水泥公司调研，拜访了相关水泥行业的专家以及公司管理层。我们认为，华润水泥的竞争优势在于最低的“门到门费用”和最高的售价，这也是华润水泥在竞争对手中脱颖而出的原因。
- 有别于大众的认识：
- **较低的综合成本**：在华南地区，由于华润水泥沿西江布局采用了水路运输和中转库的中转方式(Figure 2, 3)，它的“门到门”物流成本比安徽海螺水泥低 20-30 元/吨，因此导致华润水泥的总成本比海螺水泥低 10-25 元/吨(Figure 1)。在当前大部门水泥加工厂处于盈亏平衡甚至亏损的情况下，相对较低的综合成本将无疑成为华润水泥盈利的重要驱动力。
- **比同行更高的售价**：华润水泥的水泥产品享有比其他同行更高的售价(Figure 5, 6)。我们认为其中的原因除了华润水泥有更节省的物流运输系统之外，还有以下三点原因：1）华润水泥的石灰石的氧化钙含量更高，所以它的水泥产品质量更高(Figure 4)。2）华润水泥在华南市场的先行优势为其产品带来了更高的品牌认知度(Figure 7, 8)。3）华润水泥在华南市场拥有最高的市场份额（28%），从而也拥有最强的定价能力(Figure 9)。
- 股价表现催化剂：我们认为，政府出台包括银根放松和财政刺激在内的一系列需求拉动的政策还需要时间积累。由于第四季度旺季和刺激政策的共同推动，我们预期在今年的第四季将会有一个需求回升。
- 投资风险：市场由于华润水泥的管理水平和良好的经营记录而对其有较高预期，但是在行业下行周期中，系统性的风险导致公司的基本面有下行趋势。我们认为中期业绩将低于预期概率较大。

Investments Highlights:

- **Summary:** We met industry experts and senior management of CRC during our recent field trip to South China. We believe CRC's competitive advantages are lowest door-to-door cost and highest selling prices, which distinguish the company from peers in South market.

- **Where we differ from consensus:**

- **Lower cost makes difference.** Due to transshipment through waterways and silo-terminals in South China (Figure 2, 3), CRC's door-to-door logistics cost is around RMB20-35/T lower than Anhui Conch's, with results in overall cost savings of RMB10~25/T (Figure 1). We believe this is a key earnings driver for CRC as most cement mills are close to break-even level or are actually loss-making.

- **Higher selling cost vs. peers.** CRC enjoys higher sales prices (RMB10-50/T, VAT incl.) for its cement products (Figure 5, 6), and apart from a better logistics system, we attribute this to: the higher CaCO3 grade of its limestone, which indicates higher product quality (Figure 4); greater brand recognition due to its position in South China market (Figure 7, 8); and highest market share (28%), which allows for the strongest pricing power (Figure 9).

- **Catalysts:** It will take time for government policies supporting demand to have an effect, and as such we expect a demand recovery in 4Q12 on both positive policies and seasonal strength.

- **Risk:** Street generally has high expectations for CRC due to its management quality and track record. However, during the current industry down-cycle the company's fundamentals are trending down as a result of systemic risks. We therefore believe that interim results will be lower than expected.

Appendix

Figure 1: CRC's logistic cost to cement end markets would be 20-30 lower vs. Conch

	Cement end markets								
	Shenzhen深圳			Guangzhou广州			Dongguan东莞		
	CRC	Conch	Diff.	CRC	Conch	Diff.	CRC	Conch	Diff.
Production cost	207	198	9	207	198	9	207	198	9
Door-to-door cost	60	95	-35	30	50	-20	45	70	-25
Prod.+ Door-to-door cost	**267**	**293**	**-26**	**237**	**248**	**-11**	**252**	**268**	**-16**

Source: SWS On the Ground

Figure 2: CRC's silo-terminals in Xijiang river.

Source: SWS On the Ground

Figure 3: CRC's silo-terminals in Xijiang river.

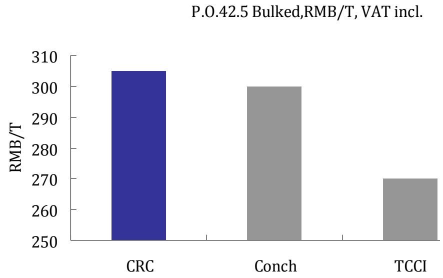
Source: SWS On the Ground

Figure 4: CRC's products enjoys better quality due to higher CaCO3 grade of its limestone

	CaCO3 grade	Clinker strength (Mpa)
CRC GX/GD	53%	58-70
Conch Yingde	46-48%	56-62
Industry average	40%-45%	55-59

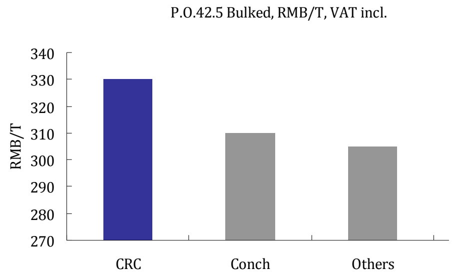
Source: SWS On the Ground

Figure 5: CRC's selling prices are higher by RMB10-40/T vs. peers in GX



Source: SWS On the Ground

Figure 6: CRC's selling prices are higher by RMB20-50/T vs. peers in GD



Source: SWS On the Ground

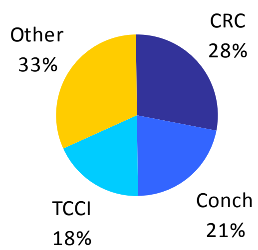
Figure 7: "红水河" is a famous brand in Guangxi market

Source: SWS On the Ground

Figure 8: "CRC" is a brand used since its inception in Dongguaan in 2003

Source: SWS On the Ground

Figure 9: CRC has highest market share in Guangxi/Guangdong



Source: Digital Cement, SWS On the Ground

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