

## Company Report: CIMC Enric (03899 HK)

公司报告: 中集安瑞科 (03899 HK)

David Feng 冯廷帅

(852) 2509 2113

david.feng@gtjas.com.hk

5 January 2021

# Outlook Still Promising Despite Challenging 2020, "Accumulate"

尽管2020年颇具挑战但前景依然可期, “收集”

- **A surge in gas price highlighted the urgent demand for gas storage facilities but project construction may be delayed.** Despite suppression on downstream application of LNG due to lower fuel economy, we expect LNG price to return to normal levels when the winter ends. We expect the spin-off of chemical and environmental business to trigger revaluation, while the A-share separate listing may take at least one year.
- **Expansion into hydrogen energy and vaccine storage markets may provide long-term growth driver.** We believe that the Company has been a pioneer in the promising domestic hydrogen energy market under the strong stimulus from China's carbon neutrality pledge. We expect that the Company will be able to embrace fast-growing demand for vaccine storage containers once its R&D of liquid nitrogen biological containers is complete.
- **We have trimmed our basic EPS forecasts for 2020/ 2021/ 2022 by 9.5%/ 6.1%/ 2.2%, respectively.** We have mainly 1) revised down sales assumptions for the clean energy segment, 2) trimmed revenue assumptions for the chemical and environmental and liquid food segments in 2020, and 3) slightly trimmed gross margin assumptions due to rise in steel price in 2H20.
- **Raise TP to HK\$5.70 but downgrade to "Accumulate".** Despite that the Company's results may still suffer from impacts from the global COVID-19 pandemic in 2H20, we maintain our positive outlook on the Company's expansions into new market segments of energy equipment, plus potential revaluation of the Company's chemical and environmental business triggered by the spin-off. Our latest TP represents 14.1x/ 9.5x/ 7.5x 2020-2022 PE ratio and 1.2x 2021 PB ratio.
- **气价暴涨凸显对储气设施的迫切需求, 但项目建设可能延迟。** 尽管 LNG 下游应用因燃料经济性降低而受到抑制, 但我们预计冬季结束后 LNG 价格将恢复到正常水平。我们预计化工和环保业务的分拆将引发价值重估, 而于 A 股独立上市或将至少需要一年时间。
- **向氢能和疫苗储存市场的拓展或将为长期增长提供助力。** 我们认为, 公司已在中国碳中和承诺的强烈刺激下前景广阔的国内氢能市场中占得先机。我们预计公司在其液氮生物容器研发完成后, 将得以拥抱快速增长的疫苗储存容器需求。
- **我们将 2020/2021/2022 年的基本每股收益预测分别下调 9.5%/6.1%/2.2%。** 我们主要 1) 下调了清洁能源板块的销售假设, 2) 下调了 2020 年化工环保和液态食品板块的收入假设, 以及 3) 根据 2020 年下半年钢价的上涨略微下调了毛利率假设。
- **上调目标价至 5.70 港元但下调至“收集”。** 尽管 2020 年下半年公司业绩或仍受全球新冠疫情的冲击, 但我们依然看好公司向能源装备新细分市场的拓展, 以及公司化工环境业务分拆引发的潜在价值重估。我们最新的目标价对应 14.1 倍/ 9.5 倍/ 7.5 倍的 2020-2022 年市盈率及 1.2 倍的 2021 年市净率。

Rating:

**Accumulate**

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

**HK\$5.70**

Revised from 原目标价:

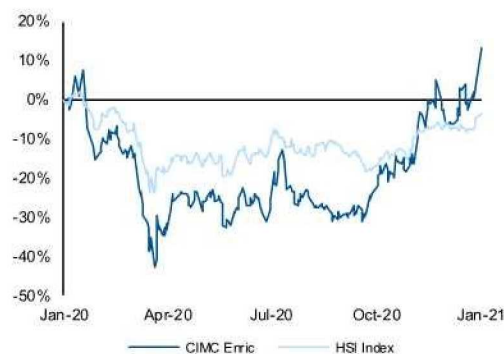
HK\$4.20

Share price 股价:

HK\$5.060

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	20.5	48.8	6.5
Rel. % to HS Index 相对恒指变动 %	17.1	31.7	9.1
Avg. Share price (HK\$) 平均股价 (港元)	4.4	4.1	3.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	13,052	786	0.403	85.7	11.0	3.189	1.4	0.120	2.7	13.0
2019A	13,743	911	0.464	15.1	9.7	3.550	1.3	0.181	4.0	13.5
2020F	12,680	689	0.342	(26.3)	12.5	3.729	1.1	0.137	3.2	9.4
2021F	15,981	1,030	0.509	48.8	8.4	4.123	1.0	0.229	5.3	13.0
2022F	18,206	1,310	0.645	26.7	6.6	4.563	0.9	0.290	6.8	14.9
Shares in issue (m) 总股数 (m)				2,010.5	Major shareholder 大股东				CIMC Group 68.7%	
Market cap. (HK\$ m) 市值 (HK\$ m)				10,173.1	Free float (%) 自由流通比率 (%)				31.3	
3 month average vol. 3 个月平均成交股数 ('000)				3,177.8	FY21 Net gearing (%) FY21 净负债/股东资金 (%)				Net cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				5.210 / 2.720	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)				6.0	

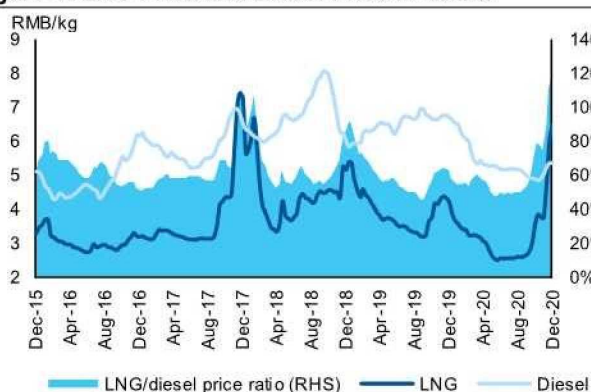
Source: the Company, Guotai Junan International.





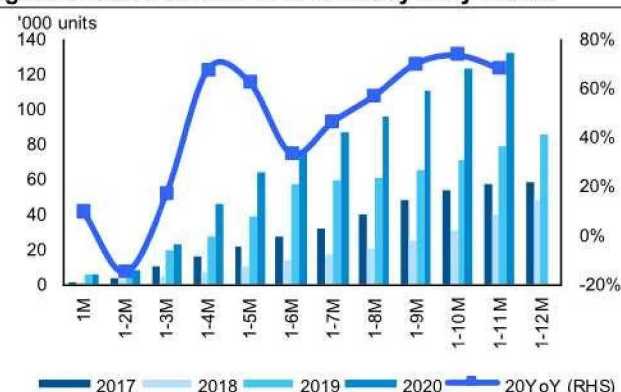
**A surge in gas price highlighted the urgent demand for gas storage facilities but project construction may be delayed.** LNG price surged by around 45% in 4Q20 due to short supply as it did in late 2017 and early 2018. On one hand, increased heating demand due to the cold winter as well as strong industrial demand driven by recovery in global manufacturing. On the other hand, despite that most local governments have set gas reserve capacity targets requiring construction of gas storage facilities to be completed by the end of 2020, many projects may not be completed until 2021 due to both the COVID-19 pandemic and lack of incentives to gas suppliers. Reforms conducted by the national pipeline company may also have caused discrepancy in interests of different parties involved in the gas supply chain. We believe that sales of LNG transportation equipment such as LNG trailers will remain strong, but the lower fuel economy of LNG may suppress the downstream application of LNG, e.g. LNG heavy-duty trucks. However, we expect the high LNG price to be seasonal and LNG price to return to normal levels when the winter ends.

**Figure-1: LNG Price and Diesel Price in China**



Source: National Bureau of Statistics of China, Guotai Junan International.

**Figure-2: Sales Volume of LNG Heavy-Duty Trucks**



Source: China Association of Automobile Manufacturers, Guotai Junan International.

**Spin-off of chemical and environmental business is expected to trigger revaluation.** The Company is preparing for a spin-off and separate A-share listing of CIMC Safe Tech, which is the main component of the Company's chemical and environmental segment. In terms of operating margin, the chemical and environmental segment has been the Company's most profitable segment in most years during 2012-2019, despite being hit hardest by the COVID-19 pandemic in 2020. We believe that the spin-off is to trigger a revaluation of the Company's chemical and environmental business by providing better transparency on operations. The Company's financial channel may also be broadened by the separate A-share listing. However, we expect that the separate listing will take at least one year to be completed, given that the spin-off is still at a preliminary stage and A-share listings can be quite time-consuming.

**Expansion into hydrogen energy and vaccine storage markets may provide long-term growth driver.** By jointly undertaking R&D of liquid hydrogen storage and transportation equipment in a national key project and establishing a joint venture with Hexagon Composites ASA (HEX NO), a leading provider of Type 4 hydrogen storage cylinders, we believe that the Company has been a pioneer in the promising domestic hydrogen energy market under the strong stimulus from China's pledge to be carbon neutral by 2060. In addition, the Company started R&D of liquid nitrogen biological containers that could be applied in vaccine storage. Although it may take up to one year for the R&D to be completed, we expect that the global deployment of vaccines will take more than one year due to capacity restraints, so the Company will still be able to embrace fast-growing demand for vaccine storage containers.

## EARNINGS FORECASTS

**We have trimmed our basic EPS forecasts for 2020/ 2021/ 2022 by 9.5%/ 6.1%/ 2.2%, respectively.** Main revisions are as follows:

- We have revised down our sales assumptions for the clean energy segment based on less positive outlook on gas storage projects and suppression on LNG application due to high LNG price;
- We have trimmed our revenue assumptions for the chemical and environmental and liquid food segments in 2020 due to the worse-than-expected control of the global COVID-19 pandemic but remain positive on 2021-2022 based on our confidence in the vaccines;
- We have slightly trimmed our gross margin assumptions based on higher materials cost due to rise in steel price in 2H20.



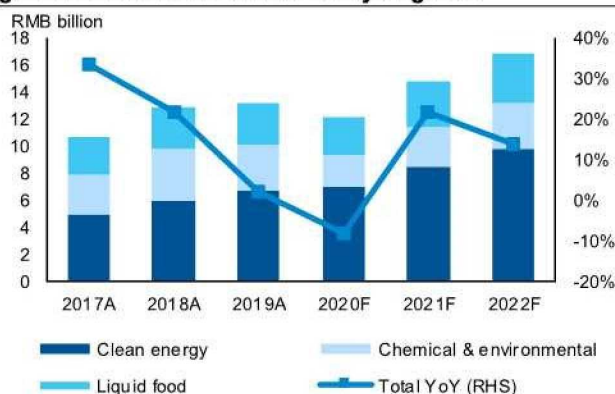


**Table-1: Changes in Key Assumptions for Financial Forecasts**

	New			Old			Change		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
<b>Revenue by segment (RMB mn)</b>									
Clean energy	6,982	9,041	10,531	7,384	9,363	10,871	-5.4%	-3.4%	-3.1%
Chemical and environmental	2,414	3,072	3,474	2,483	2,968	3,337	-2.8%	+3.5%	+4.1%
Liquid food	2,788	3,356	3,681	2,848	3,278	3,592	-2.1%	+2.4%	+2.5%
<b>Gross margin by segment</b>									
Clean energy	14.7%	15.9%	17.1%	15.1%	16.2%	16.8%	-0.3 ppts	-0.2 ppts	+0.4 ppts
Chemical and environmental	15.6%	15.8%	16.0%	16.4%	16.3%	16.3%	-0.8 ppts	-0.5 ppts	-0.3 ppts
Liquid food	18.8%	19.2%	19.3%	19.2%	19.6%	19.5%	-0.4 ppts	-0.3 ppts	-0.2 ppts
<b>Key financial data (RMB mn)</b>									
Revenue	12,680	15,981	18,206	13,211	16,120	18,319	-4.0%	-0.9%	-0.6%
Gross profit	1,958	2,601	3,100	2,093	2,665	3,095	-6.4%	-2.4%	+0.1%
Shareholders' profit	689	1,030	1,310	762	1,097	1,339	-9.5%	-6.1%	-2.2%
Basic EPS (RMB)	0.342	0.509	0.645	0.378	0.542	0.660	-9.5%	-6.1%	-2.2%

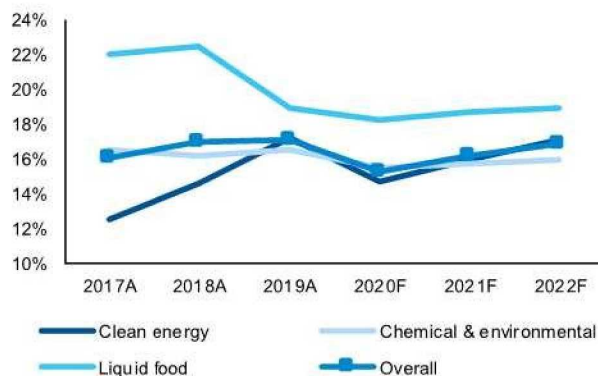
Source: the Company, Guotai Junan International.

**Figure-3: CIMC Enric's Revenue by Segment**



Source: the Company, Guotai Junan International.

**Figure-4: CIMC Enric's Gross Margin by Segment**

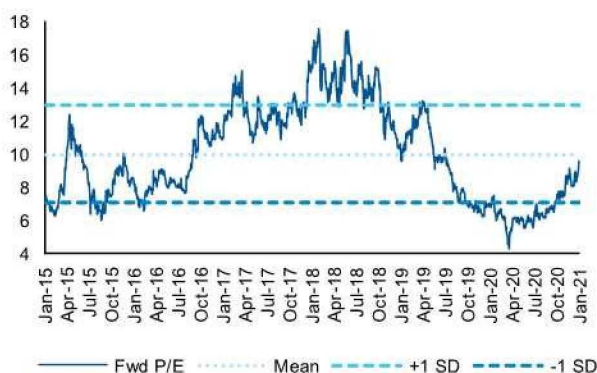


Source: the Company, Guotai Junan International.

## VALUATION

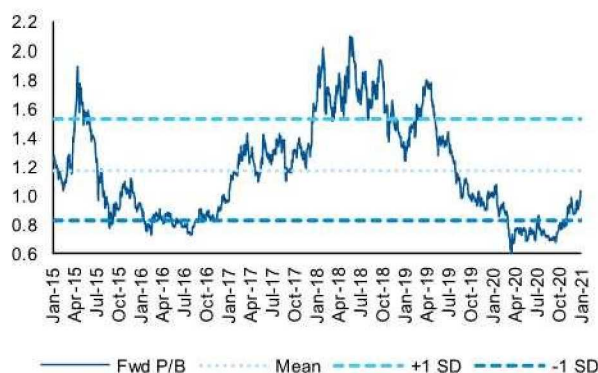
**Raise target price to HK\$5.70 but downgrade to "Accumulate".** Fair value derived from our DCF model is HK\$6.01 per share. Despite that the Company's results may still suffer from impacts from the global COVID-19 pandemic in 2H20, we maintain our positive outlook on the Company's expansions into new market segments of energy equipment, plus potential revaluation of the Company's chemical and environmental business triggered by the spin-off. Our target price of HK\$5.70 represents 14.1x/ 9.5x/ 7.5x 2020-2022 PE ratio and 1.2x 2021 PB ratio. We downgrade our investment rating to "Accumulate" mainly on less attractive valuation.

**Figure-5: CIMC Enric's 12-Month Forward PE Ratio**



Source: Bloomberg, Guotai Junan International.

**Figure-6: CIMC Enric's 12-Month Forward PB Ratio**



Source: Bloomberg, Guotai Junan International.



**Table-2: Peers Comparison**

Company	Stock Code	Currency	Last Price	Market Cap (HKD mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
					19A	20F	21F	22F	19A	20F	21F	22F	20F	20F	20F
Hong Kong Listed Peers															
CIMC Enric Holdings Ltd	3899 HK	HKD	5.060	10,173	9.6	12.7	9.8	8.2	1.3	1.1	1.1	1.0	9.2	3.3	6.3
China Intl Marine Containers-H	2039 HK	HKD	11.840	53,071	28.2	15.9	12.5	11.1	1.1	0.9	0.8	0.7	5.7	2.0	n.a.
CIMC Vehicles Group Co Ltd-H	1839 HK	HKD	7.100	12,532	8.3	8.9	7.3	6.8	0.4	1.0	0.9	0.9	11.7	5.4	n.a.
Singamas Container Holdings	716 HK	HKD	0.540	1,305	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
COSCO Shipping Development-H	2866 HK	HKD	1.420	34,822	9.8	5.7	5.3	5.3	0.9	0.5	0.5	0.5	7.0	n.a.	n.a.
Honghua Group	196 HK	HKD	0.250	1,339	10.9	12.5	6.3	6.0	0.3	0.3	0.2	0.2	2.1	0.0	n.a.
Hilong Holding Ltd	1623 HK	HKD	0.305	517	2.6	n.a.	7.6	5.4	0.1	0.1	0.1	0.1	1.2	0.0	4.8
Simple Average					11.6	11.1	8.1	7.1	0.6	0.7	0.6	0.6	6.1	2.2	5.6
Weighted Average					18.3	11.6	9.3	8.5	0.9	0.8	0.7	0.7	7.0	2.7	6.3
Mainland China Listed Peers															
China Intl Marine Containers -A	000039 CH	CNY	15.570	53,071	42.1	27.9	20.8	20.0	1.6	1.3	1.2	1.1	4.2	1.2	17.9
Houpu Clean Energy Co Ltd-A	300471 CH	CNY	10.990	4,810	192.8	n.a.	n.a.	n.a.	3.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Square Tech Group Co Ltd-A	603339 CH	CNY	11.420	4,240	27.3	27.2	18.7	14.5	2.0	1.9	1.8	1.6	7.1	n.a.	n.a.
Furui Special Equipment Co Ltd-A	300228 CH	CNY	7.090	4,011	n.a.	n.a.	n.a.	n.a.	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Jingcheng Machinery-A	600860 CH	CNY	4.400	2,183	n.a.	n.a.	n.a.	n.a.	5.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Lehui International-A	603076 CH	CNY	48.680	4,352	n.a.	n.a.	n.a.	n.a.	4.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					87.4	27.5	19.8	17.2	3.3	1.6	1.5	1.4	5.6	1.2	17.9
Weighted Average					52.7	27.8	20.6	19.6	2.1	1.3	1.2	1.2	4.4	1.2	17.9

Source: Bloomberg, Guotai Junan International.



## Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total revenue	13,052	13,743	12,680	15,981	18,206
Cost of sales	(10,826)	(11,392)	(10,722)	(13,380)	(15,106)
Gross profit	2,226	2,351	1,958	2,601	3,100
Other revenue and income, net	333	259	352	376	409
Selling expenses	(372)	(360)	(337)	(406)	(451)
Administrative expenses	(1,088)	(1,112)	(1,051)	(1,264)	(1,403)
Operating profit	1,098	1,139	922	1,307	1,655
Finance costs	(74)	(62)	(56)	(63)	(66)
Share of results of associates	(4)	9	12	13	13
Profit before tax	1,020	1,086	877	1,256	1,602
Income tax	(238)	(184)	(193)	(233)	(301)
Profit after tax	782	901	685	1,023	1,301
Non-controlling interest	3	10	5	7	9
Shareholders' profit / loss	786	911	689	1,030	1,310
Basic EPS	0.403	0.464	0.342	0.509	0.645

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Profit before tax	1,020	1,086	877	1,256	1,602
Depreciation & amortization	279	300	334	358	384
Changes in working capital	459	(535)	60	(1,023)	(742)
Income tax paid	(245)	(146)	(175)	(213)	(275)
Other adjustments	76	157	97	97	105
Cash from operating activities	1,590	862	1,193	475	1,075
Capital expenditure	(379)	(510)	(544)	(556)	(572)
Other investing activities	(233)	(41)	127	118	112
Cash from investing activities	(611)	(551)	(418)	(438)	(460)
Net changes in borrowings	(349)	(624)	230	163	143
Interest paid	(71)	(49)	(48)	(55)	(59)
Dividends paid	(131)	(248)	(365)	(276)	(463)
Other financing activities	201	218	16	20	19
Cash from financing activities	(350)	(703)	(167)	(148)	(360)
Cash at beg of year	2,260	2,930	2,535	3,141	3,031
Net changes in cash	628	(393)	608	(111)	255
Effect of exchange rate changes	42	(3)	(2)	1	0
Cash at End of Year	2,930	2,535	3,141	3,031	3,286

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Property, plant and equipment	2,615	2,967	3,083	3,241	3,414
Lease prepayments	578	578	527	462	396
Goodwill & other intangible assets	462	452	421	386	349
Others non-current assets	438	784	836	876	900
Total non-current assets	4,092	4,781	4,868	4,965	5,059
Inventories	3,865	3,676	3,445	4,287	4,850
Trade & bills receivables	3,012	2,716	2,595	3,365	3,913
Cash & cash equivalents	2,930	2,535	3,141	3,031	3,286
Other current assets	1,954	2,192	2,057	2,555	2,893
Total current assets	11,761	11,119	11,238	13,238	14,942
Total assets	15,853	15,900	16,106	18,203	20,001
ST bank loans & other borrowings	521	472	616	725	810
Contract liabilities	2,950	2,871	2,808	3,159	3,379
Trade & bills payables	2,711	2,420	2,316	2,931	3,353
Other payables and accrued expenses	1,525	1,376	1,087	1,209	1,273
Other current liabilities	382	259	286	293	305
Total current liabilities	8,090	7,398	7,113	8,317	9,120
LT bank loans and other borrowings	709	583	655	697	751
Other non-current liabilities	509	535	563	596	632
Total non-current liabilities	1,218	1,118	1,219	1,293	1,383
Total liabilities	9,308	8,516	8,332	9,610	10,503
Share capital	18	18	18	18	19
Reserves	6,349	7,118	7,512	8,338	9,252
Total shareholders' equity	6,368	7,136	7,531	8,356	9,271
Minority interest	178	248	244	237	228
Total equity	6,546	7,385	7,774	8,593	9,498
Total equity & liabilities	15,853	15,900	16,106	18,203	20,001

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Gross margin (%)	17.1	17.1	15.4	16.3	17.0
Operating margin (%)	8.4	8.3	7.3	8.2	9.1
Net margin (%)	6.0	6.6	5.4	6.4	7.2
ROE (%)	13.0	13.5	9.4	13.0	14.9
ROA (%)	5.6	6.0	4.6	6.3	7.1
Interest coverage ratio (x)	14.9	18.5	16.7	20.8	25.1





## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

## Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; or the fundamental outlook of the sector is unfavorable.

## DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN I (01788 HK), JINSHANG BANK (02558 HK), HAITIAN ANTENNA (08227 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

## DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2021 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk