



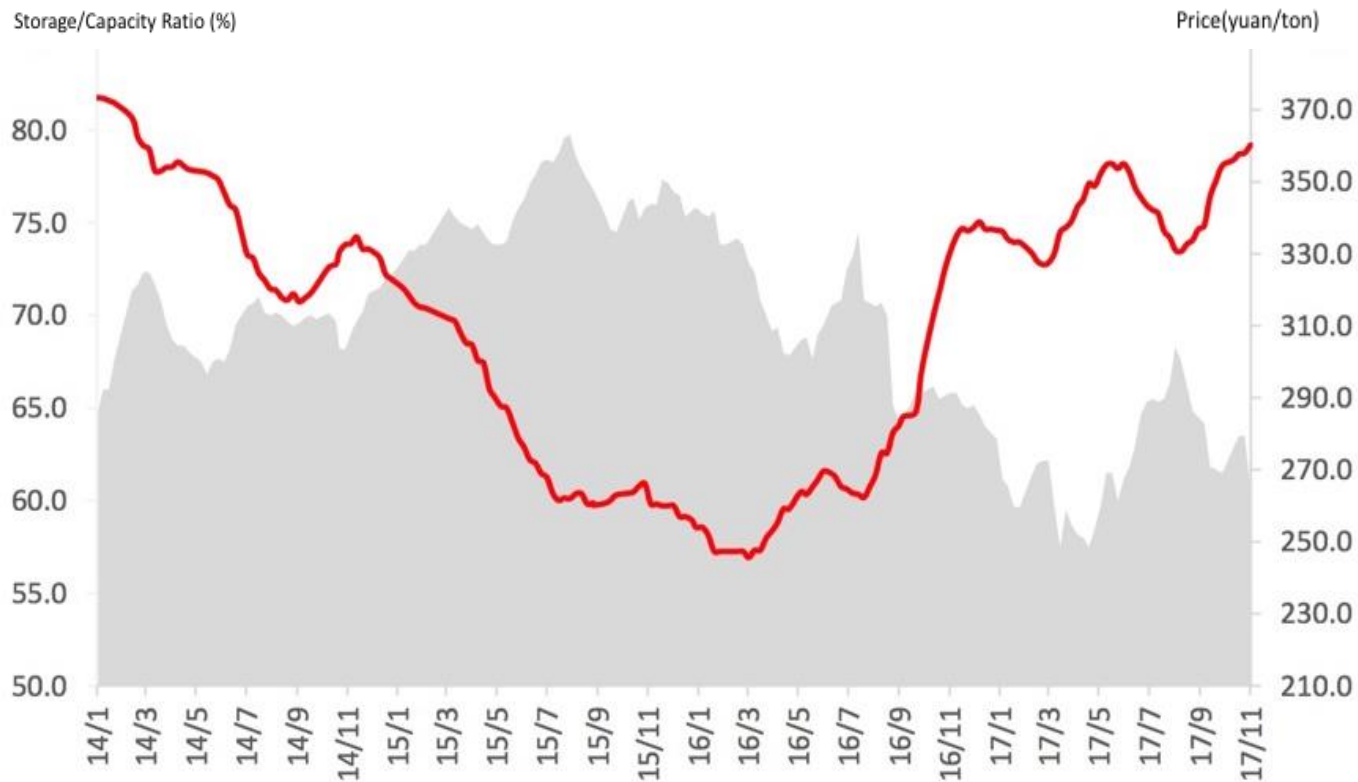
Anhui Conch Cement (600585.SH)

BOFU ZHANG, LUN ZHOU, DONGMING ZHU, ZHIJUN LI

OUTLINES

- We expect a gentle rise of FY18/19 cement price.
- Taking the leading position with outstanding cost-control ability and financial metrics, Conch will enjoy the policy bonus through a double-click on its revenue: higher selling price plus higher market share.
- Conch's ambitions in expanding capacity and market will enhance its ROE in the long run and create another double-click on its stock price: higher profitability plus higher P/E ratio.
- A safe shelter and cheap call option of china's capital market with 10 P/E, 1.6P/B and 3% dividend yield.

Industry Analysis - Policy



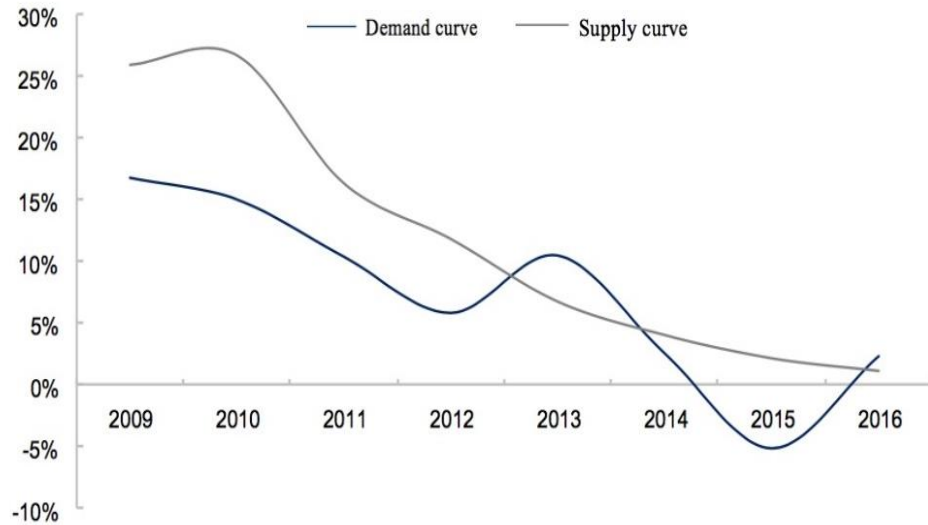
Supply-side reform

- Cut capacity by 400mtpa (20% of existing capacity)
- industry concentration reaches 80%(54% in 2015)
- pollutants discharge down 30%
- encourage Intelligent Manufacturing, e-commerce occupation reaches 30%(10% in 2015)

Environmental Restrictions

over 40% of cement output will be cut during the heating season.

Industry Analysis – S&D Outlook



In FY18 and FY19, we expect a 100mtpa clinker capacity cut annually according to the action plan of supply-side reform. Maintaining current cement/clinker ratio, it will result in a 7.3% decline of cement output. Though most of them can be covered by the rise of capacity utilization, it's very hard for the production growth to be positive again. By the end of Sep, 2017, cement's output growth was -0.5%yoy. Considering capacity cut plan for cement industry released in Jun 2017, a -0.5% yoy output growth for FY18 and FY19 is a conservative assumption.

Assume demand can maintain its current growth, cement will go through a shortage in the future. Even it stops increasing since 2016, in 2019 the market is still balanced. Thus, we expect a smooth uplift in cement price in the following 2 years.

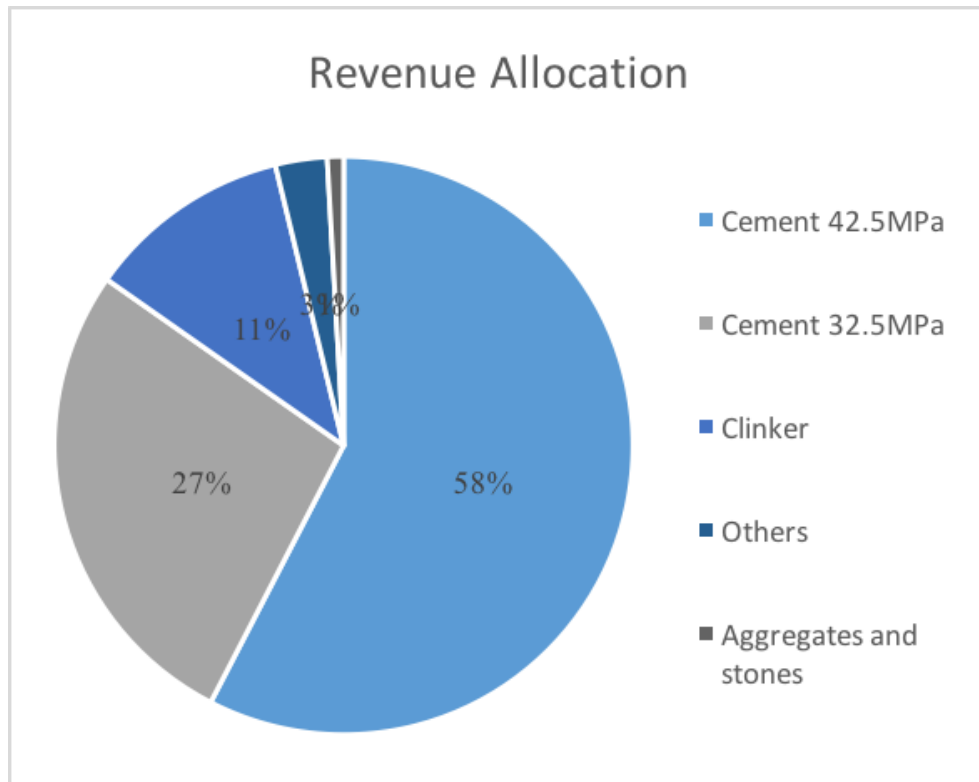
	2014	2015	2016	2017E	2018E	2019E
Production (million ton)	2476.19	2347.96	2402.95	2390.93	2378.98	2367.08
yoy	2.6%	-4.9%	2.5%	-0.5%	-0.5%	-0.5%
Consumption (million ton)	2475.62	2307.89	2347.12	2389.39	2425.21	2461.58
yoy	3.0%	-6.7%	1.7%	1.8%	1.5%	1.5%

Industry Analysis - Regional Structure

Area	Demand	Concentration	Profit Margin
North China	Mid	Mid	Mid
Northeast	Low	High	Mid
East China	High	High	High
Mid-South	High	Low	High
Southwest	Mid	Mid	Mid
Northwest	Mid	Mid	Low

Given the unpredictable cement price and high volatility of coal cost in a highly homogenized market, those companies that built its main business in East China and Mid-south area and has strong cost-control ability and management efficiency can take full advantage of the cyclicity bonus.

Company Insights – Introduction



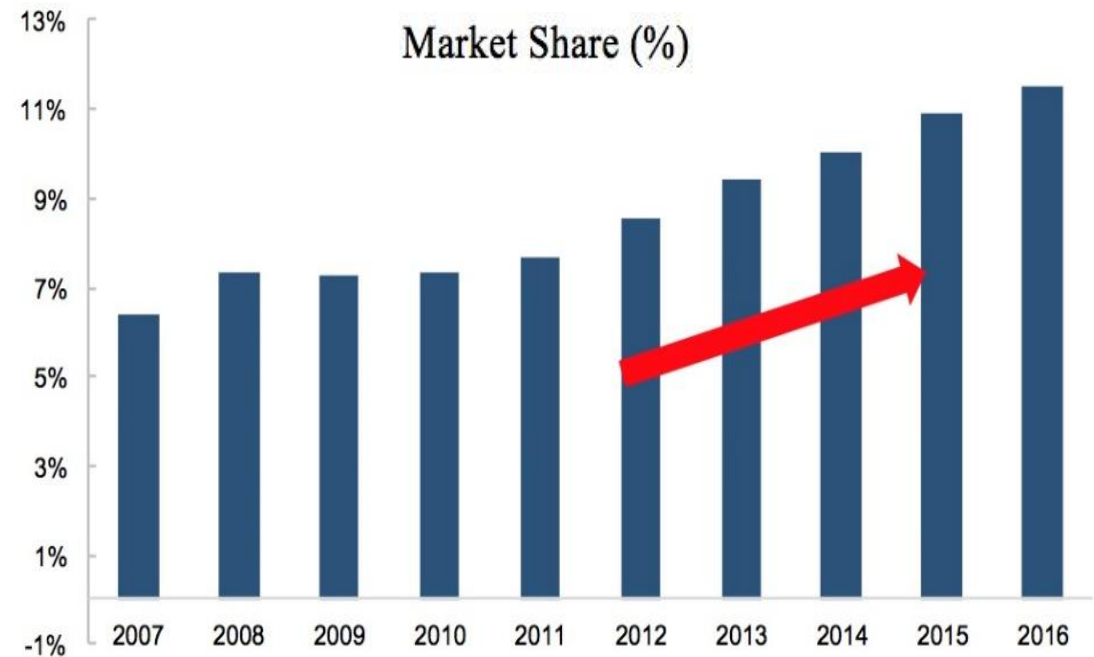
Since its listing in 1997, Conch has focused on developing and growing its cement business by promoting independent innovation and technology innovation, facilitating energy conservation and emission reduction and developing recycling economy. After nearly 20-years' constant, healthy and steady development, and by continuously enhancing internal management and promoting technology innovation, the Company has created the unique “Conch model”, establishing strong advantage in resources, technology, human resources, funding, market share and brand recognition.

Company Insights – Position Advantage

- Leading status

	CNB M	Con ch	Jido ng	CRC	Hua xin	Sha nsh ui	Hon gshi	TCC l	Tian rui	Tap ai	Tota l
Eastern	29%	19%	0%	1%	0%	5%	4%	1%	0%	1%	60%
Southern	14%	12%	1%	12%	8%	0%	1%	5%	5%	1%	59%
Northern	8%	0%	32%	2%	0%	5%	0%	0%	0%	0%	47%
Northeastern	22%	0%	10%	0%	0%	12%	0%	2%	9%	0%	55%
Southwestern	27%	12%	1%	1%	9%	1%	5%	4%	1%	0%	61%
Northwestern	27%	8%	6%	0%	0%	1%	2%	0%	0%	0%	44%
Total	22%	11%	6%	4%	4%	3%	2%	2%	2%	0%	56%

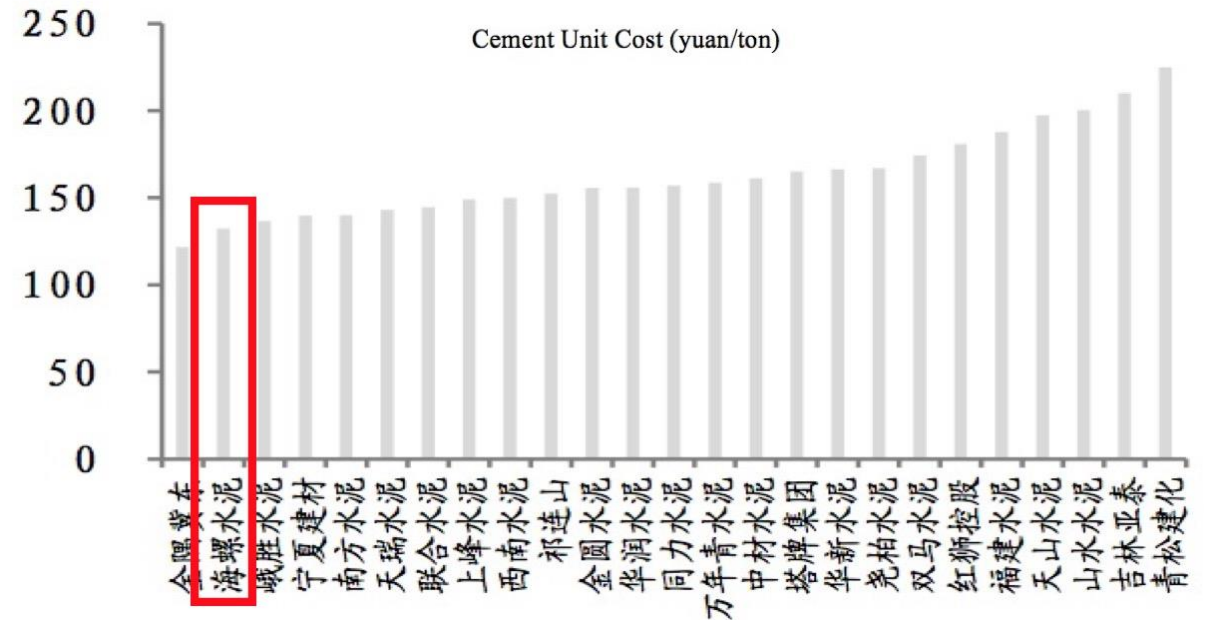
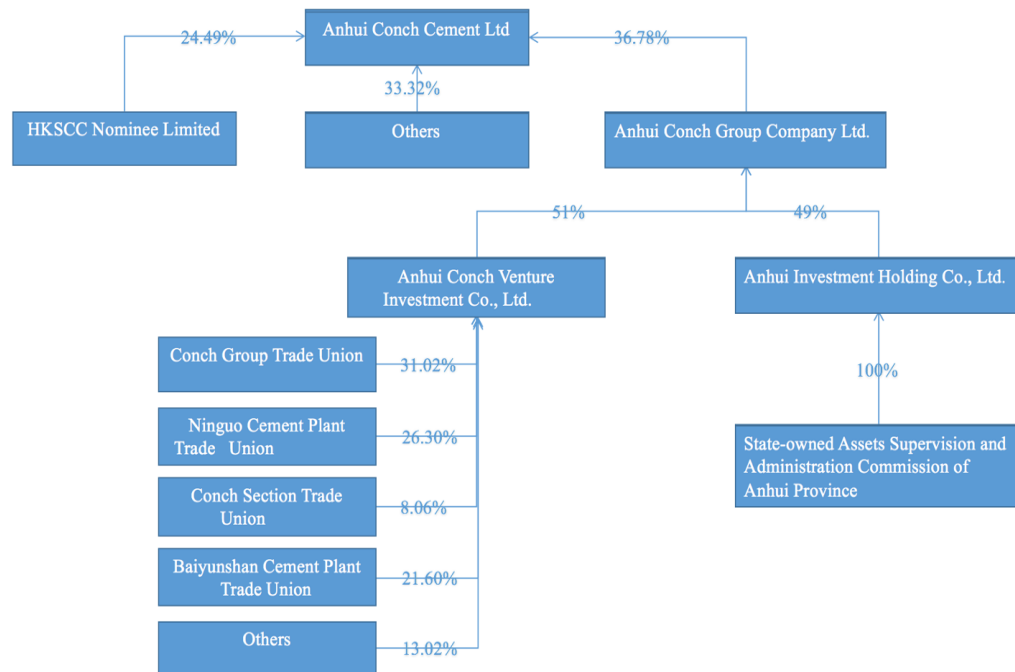
- Rising market share



Company Insights – Management Advantage

- High efficiency

- Low unit cost



Company Insights – Financials

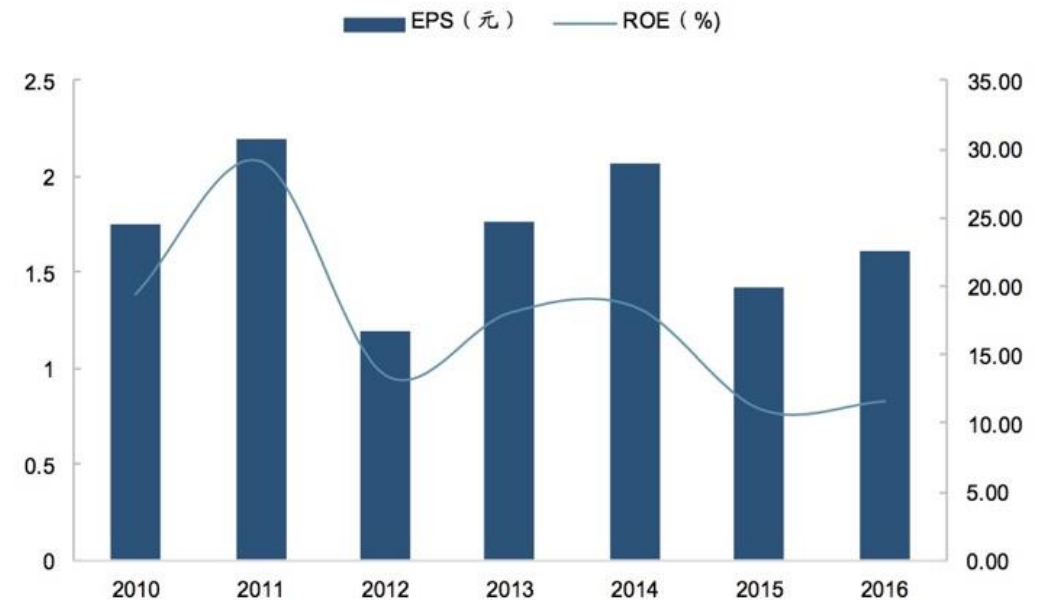
- Health cash condition

With 20.7billion cash, 8.09 billion net cash flow 8.09 billion(7%yoy) and 26.35% A/L ratio disclosed in Q3 report, Conch is likely to increase its dividend yield afterwards.



- Sustainable ROE

Conch's profit margin ranked 2nd among its comparable companies and maintained an over 10% ROE even in the downward market, showing its strong profitability.



Company Insights - Strategies

- Domestic

Rooted in the T-shape area and expand across the country



- Overseas

While continuing to further fine-tune its strategic market planning at home, Conch also proactively promoted its overseas expansion by keeping abreast with the “One Belt and One Road” policy advocated by the China government. In 2016, the Group has invested in the construction of cement projects and has gained control over or shareholding in 14 companies in five countries including Indonesia, Myanmar and Cambodia, achieving remarkable results.

Company Insights - Conclusion

- As a highly homogenized industry, those company has location and cost advantages will benefit most through the production control. Conch, as the largest cement producer located in East China where has buoyant industrial demand, abundant raw martial recourses and high concertation level, can take advantage from its highest management efficiency as well as lowest unit cost to improve market share.
- Moreover, we see that Conch owns vast potential to proactively expand its ROE through M&A and overseas capacity additions, as well as vertical business expansion (e.g. aggregate and concrete) backed by its robust cash position and net cash flow. This should fundamentally differentiate its valuation from other domestic peers, which rely on further cement price hikes to improve their ROE and are forced to involve in the remnant competition.

Evaluation - FCFF

RMB 100M	2017E	2018E	2019E	2020E	2021E	2022E		
EBIT after tax	152.1	169	185.9	202.8	220	236.6	Risk Free Rate	3.93%
D&A	20	23.42	27.42	32.11	37.6	44	Risk Premium	8.37%
NWC	-11.7	-13.7	-16	-18.8	-22	-25.8	Beta	1.18
Capex	-83.5	-75.2	-66.8	-58.5	-50.1	-41.8	Cost Debt	5%
FCFF	76.9	103.6	130.5	157.7	185	213.1	Cost Equity	13.81%
PV FCFF	76.9	93.2	105.6	114.7	121	125.4	Debt Ratio	26.35%
							Tax	23.12%
PV terminal	1393.4						WACC	11.18%
PV total	2030.4						Growth	2%
Net Debt	-94.78							
Firm Value	1935.62							
No. shares	52.99							
Value Price	36.52							
Price now	24.99							
Up potential	46.14%							

Evaluation - Multiple

	Mkt Cap	Net Profit	PE	PB	ROE	GrossMrgn	NetMrgn
600585	1325	98.1	10.1	1.59	12.30%	32.40%	20.50%
Industry Average	134	4.9	20.4	1.96	9.59%	26.60%	9.60%
Rank in Industry	1	1	1	9	9	7	4

Multiple Evaluation	Price	Mkt Cap	EPS			PE		
			EPS17E	EPS18E	EPS19E	PE17E	PE18E	PE19E
SH.600585 海螺水泥	25	1325	2.58	2.86	3.15	9.69	8.74	7.9
SH.000401 冀东水泥	14.18	191	0.474	0.569	0.683	29.92	24.92	20.76
SZ.002233 塔牌集团	12.16	144	0.847	1.02	1.22	14.36	11.9	9.97
SH.600720 祁连山	10.75	83	0.61	0.73	0.88	17.6	14.73	12.22



up!!!



Thank you

BOFU ZHANG, LUN ZHOU, DONGMING ZHU, ZHIJUN LI