

China Hongqiao (1378 HK)

Net profit 1H24 +2.7x YoY, beat expectations

Hongqiao's net profit came in at RMB9.16bn (+2.7x YoY), which is better than the pre-announced profit growth of 2.2x in Jun. Excluding the fair value loss of convertible bonds (CB), the core net profit would be even higher at RMB10.5bn (+3.3x YoY). The strong profit growth was driven by higher-than-expected unit gross margin expansion for both aluminum (Al) (+2x YoY to RMB4,277/t) and Alumina (+2.3x to RMB748/t). Hongqiao proposed interim dividends of HK\$0.59/shr, representing ~57% payout ratio. The latest Shanghai Al price (VAT included) rebounded to RMB19,310/t from RMB18,835/t in early Aug. We see the recent share price pullback as a buying opportunity. We estimate every 1% increase in Al price will boost Hongqiao's earnings by 4%. The current price offers an attractive yield of >8%. Our TP of HK\$17.9 is unchanged (based on 9.8x 2024E P/E). Maintain **BUY**.

- **Aluminum alloy products (67% of revenue in 1H24):** The segment revenue in 1H24 increased ~7% YoY to RMB49bn (sales volume +0.5% YoY to 2.84mn tonnes; ASP +7% to RMB17,379/t). This, together with a 12% YoY decrease in unit cost, boosted the unit gross margin by 2x YoY to RMB4,277/t.
- **Alumina segment (22% of revenue):** The segment revenue increased ~20% YoY to RMB16bn (sales volume +2.4% YoY to 5.5mn tonnes; ASP +17% to RMB2,942/t). We calculated the unit gross margin surged 2.3x YoY to RMB748/t.
- **Aluminum fabrication products (10% of revenue):** The segment revenue increased ~34% YoY to RMB7.58bn (sales volume +36% YoY to 379mn tonnes; ASP -1% to RMB20,027/t). The unit gross margin increased 53% YoY to RMB4,229/t.
- **Al price stabilizing.** The latest Shanghai Al price (VAT included) rebounded to RMB19,310/t from RMB18,835/t in early Aug. QTD, Shanghai Al price averaged at RMB19,500/t, up 6% YoY.
- **Key risks.** (1) A slowdown of global economy that affects the Al and alumina prices; (2) sharp increases in input costs such as bauxite, coal and power.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	131,699	133,624	142,329	145,867	146,251
YoY growth (%)	15.0	1.5	6.5	2.5	0.3
Adjusted net profit (RMB mn)	8,702.0	11,460.7	16,103.7	16,937.2	17,089.5
EPS (Reported) (RMB)	0.94	1.21	1.70	1.79	1.80
YoY growth (%)	(47.2)	29.3	40.5	5.2	0.9
Consensus EPS (RMB)	na	na	1.83	1.80	1.99
P/E (x)	10.1	7.8	5.6	5.3	5.3
P/B (x)	1.1	1.0	0.9	0.8	0.7
Yield (%)	4.9	6.1	8.4	8.9	8.9
Net gearing (%)	35.3	34.3	28.2	16.6	9.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$17.90
Up/Downside	73.4%
Current Price	HK\$10.32

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Stock Data

Mkt Cap (HK\$ mn)	97,787.6
Avg 3 mths t/o (HK\$ mn)	489.9
52w High/Low (HK\$)	13.38/5.28
Total Issued Shares (mn)	9475.5

Source: FactSet

Shareholding Structure

Shipping Trust Company (Zhang's family)	64.2%
CITIC Group	9.0%

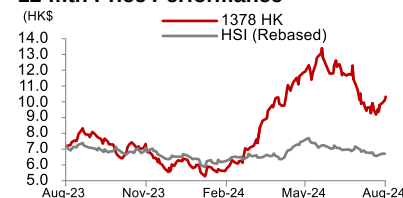
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-3.0%	-1.4%
3-mth	-13.4%	-3.8%
6-mth	78.2%	65.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

China Hongqiao – A key beneficiary of tight aluminum supply trading at attractive valuation; resume coverage with BUY – 17 Jun 2024 ([link](#))

1H24 results review

Figure 1: 1H24 results highlights

(RMB mn)	1H23	1H24	Change (YoY)
Total revenue	65,734	73,592	12.0%
Cost of sales	-59,842	-55,790	-6.8%
Gross profit	5,892	17,802	202.1%
Other income	1,562	1,738	11.3%
S&D expenses	-304	-366	20.5%
Administrative expenses	-2,808	-2,454	-12.6%
Other expenses	-89	-596	567.3%
EBIT	4,253	16,123	279.1%
Net finance income/(cost)	-1,378	-1,461	6.0%
Other gains/(losses)	14	-1,615	n/a
Share of profit of JV and associates	954	824	-13.7%
Pretax profit	3,844	13,871	260.9%
Income tax	-872	-3,863	343.2%
After tax profit	2,972	10,008	236.7%
MI	-515	-853	65.5%
Net profit	2,457	9,155	272.7%
Recurring net profit	2,457	10,542	329.1%
Key ratios			Change (ppt)
Gross margin	9.0%	24.2%	15.2
S&D expenses ratio	0.5%	0.5%	0.0
Administrative expense ratio	4.3%	3.3%	-0.9
R&D expense ratio	0.1%	0.8%	0.7
Net margin	4.5%	13.6%	9.1
Effective tax rate	22.7%	27.9%	5.2

Source: Company data, CMBIGM

Figure 2: Revenue and gross profit breakdown in 1H24

(RMB mn)	1H23	1H24	Change (YoY)
Revenue			
Aluminum alloy products	45,979	49,312	7.2%
Alumina	13,532	16,200	19.7%
Aluminum fabrication products	5,645	7,582	34.3%
Steam	578	499	-13.7%
Total	65,734	73,592	12.0%
Gross profit			
Aluminum alloy products	3,986	12,142	204.6%
Alumina	1,209	4,120	240.7%
Aluminum fabrication products	770	1,595	107.1%
Steam	-73	-55	-25.4%
Total	5,892	17,802	202.1%
Gross margin			Change (ppt)
Aluminum alloy products	8.7%	24.6%	16.0
Alumina	8.9%	25.4%	16.5
Aluminum fabrication products	13.6%	21.0%	7.4
Steam	-12.7%	-10.9%	1.7
Blended gross margin	9.0%	24.2%	15.2

Source: Company data, CMBIGM

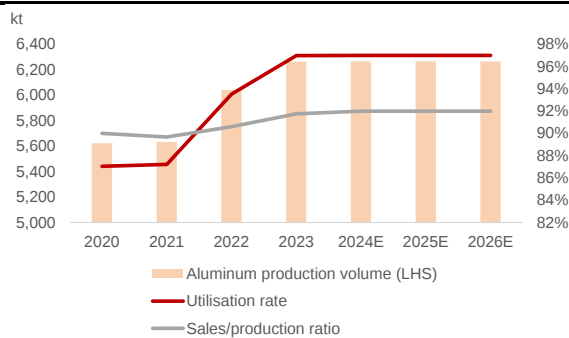
Operating assumptions

Figure 3: Key operating assumptions

	2021	2022	2023	2024E	2025E	2026E
Sales volume (000 tonnes)						
Aluminum alloy products	5,052	5,473	5,748	5,764	5,764	5,764
Alumina	7,163	8,298	10,374	10,502	10,626	10,626
Aluminum fabrication products	657	609	580	610	636	649
Change YoY						
Aluminum alloy products	-0.2%	8.3%	5.0%	0.3%	0.0%	0.0%
Alumina	6.4%	15.8%	25.0%	1.2%	1.2%	0.0%
Aluminum fabrication products	9.3%	-7.3%	-4.8%	5.1%	4.3%	2.0%
ASP (RMB/t) ex-VAT						
Aluminum alloy products	16,689	17,582	16,465	17,206	17,550	17,550
Alumina	2,369	2,580	2,560	2,816	2,844	2,844
Aluminum fabrication products	19,062	21,843	19,835	20,529	20,940	20,940
Change YoY						
Aluminum alloy products	33.5%	5.4%	-6.4%	4.5%	2.0%	0.0%
Alumina	18.3%	8.9%	-0.8%	10.0%	1.0%	0.0%
Aluminum fabrication products	30.5%	14.6%	-9.2%	3.5%	2.0%	0.0%
Unit cost (RMB/t)						
Aluminum alloy products	-12,035	-15,212	-13,602	-14,068	-14,293	-14,307
Alumina	-1,812	-2,186	-2,275	-2,260	-2,281	-2,281
Aluminum fabrication products	-14,160	-17,930	-17,016	-17,039	-17,171	-17,171
Change YoY						
Aluminum alloy products	26.7%	26.4%	-10.6%	3.4%	1.6%	0.1%
Alumina	8.2%	20.6%	4.1%	-0.6%	0.9%	0.0%
Aluminum fabrication products	24.3%	26.6%	-5.1%	0.1%	0.8%	0.0%
Unit gross profit (RMB/t)						
Aluminum alloy products	4,654	2,370	2,863	3,138	3,257	3,243
Alumina	556	394	285	556	563	563
Aluminum fabrication products	4,902	3,913	2,819	3,490	3,769	3,769
Change YoY						
Aluminum alloy products	55.1%	-49.1%	20.8%	9.6%	3.8%	-0.4%
Alumina	69.6%	-29.2%	-27.6%	94.9%	1.3%	0.0%
Aluminum fabrication products	52.3%	-20.2%	-28.0%	23.8%	8.0%	0.0%

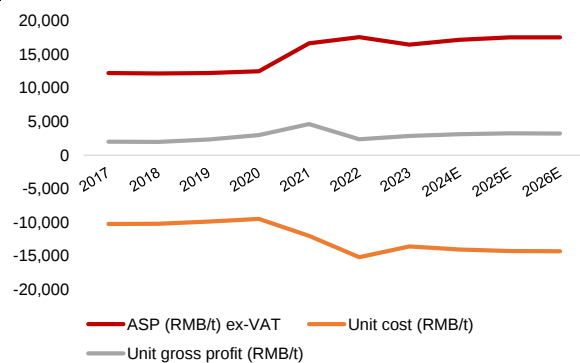
Source: Company data, CMBIGM estimates

Figure 4: Aluminum production volume, utilisation rates & sales/production ratios



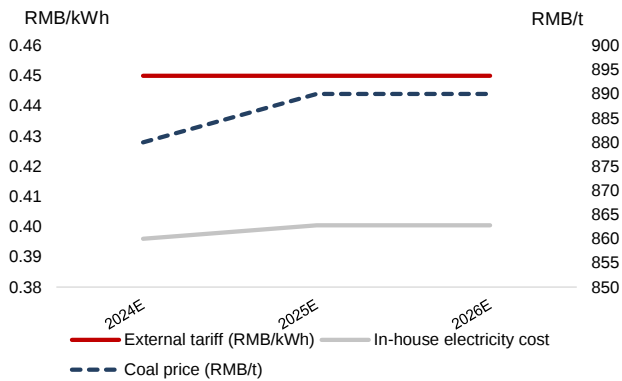
Source: Company data, CMBIGM estimates

Figure 5: Aluminum ASP, unit cost & margin



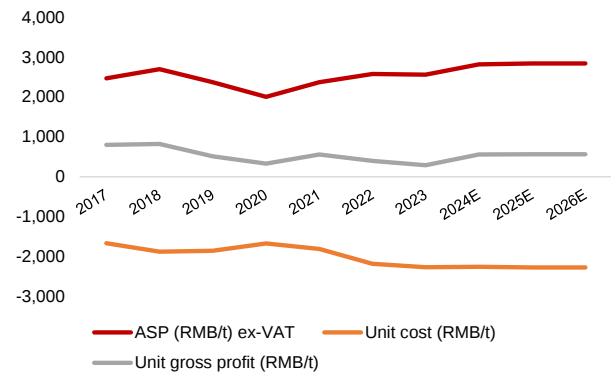
Source: Company data, Wind, CMBIGM

Figure 6: Electricity and coal cost



Source: Company data, CMBIGM estimates

Figure 7: Alumina ASP, unit cost & margin



Source: Company data, Wind, CMBIGM

Figure 8: Segment revenue and margin projection

(RMB mn)	2021	2022	2023	2024E	2025E	2026E
Revenue						
Aluminum alloy products	84,313	96,227	94,641	99,175	101,159	101,159
Alumina	16,967	21,405	26,557	29,575	30,221	30,221
Aluminum fabrication products	12,524	13,302	11,500	12,516	13,317	13,584
Steam	687	765	925	1,064	1,170	1,287
Total	114,491	131,699	133,624	142,329	145,867	146,251
Revenue growth						
Aluminum alloy products	33.3%	14.1%	-1.6%	4.8%	2.0%	0.0%
Alumina	25.8%	26.2%	24.1%	11.4%	2.2%	0.0%
Aluminum fabrication products	42.6%	6.2%	-13.5%	8.8%	6.4%	2.0%
Steam	10.9%	11.4%	20.8%	15.0%	10.0%	10.0%
Average	32.9%	15.0%	1.5%	6.5%	2.5%	0.3%
Gross profit						
Aluminum alloy products	23,512	12,974	16,456	18,090	18,775	18,692
Alumina	3,986	3,269	2,960	5,839	5,984	5,984
Aluminum fabrication products	3,221	2,383	1,634	2,128	2,397	2,445
Steam	-266	-386	-95	11	12	13
Total	30,453	18,239	20,955	26,067	27,168	27,134
Gross margin						
Aluminum alloy products	27.9%	13.5%	17.4%	18.2%	18.6%	18.5%
Alumina	23.5%	15.3%	11.1%	19.7%	19.8%	19.8%
Aluminum fabrication products	25.7%	17.9%	14.2%	17.0%	18.0%	18.0%
Steam	-38.6%	-50.4%	-10.3%	1.0%	1.0%	1.0%
Blended gross margin	26.6%	13.8%	15.7%	18.3%	18.6%	18.6%

Source: Company data, CMBIGM estimates

Earnings sensitivity

Figure 9: Earnings sensitivity (annualized) to 5% change in AI ASP & coal cost

2024E net profit (RMB mn)		AI ASP (RMB/t)				
		15,485	16,346	17,206	18,066	18,927
Coal cost	792	10,409	14,012	17,614	21,217	24,820
	836	9,657	13,259	16,862	20,465	24,067
	880	8,905	12,507	16,110	19,713	23,315
	RMB/t	924	8,152	11,755	15,358	18,961
	968	7,400	11,003	14,606	18,208	21,811

Source: CMBIGM estimates

Figure 10: Earnings sensitivity (annualized) to 5% change in AI ASP & external tariff

2024E net profit (RMB mn)		AI ASP (RMB/t)				
		15,485	16,346	17,206	18,066	18,927
External tariff	0.41	10,246	13,848	17,451	21,054	24,656
	0.43	9,575	13,178	16,781	20,383	23,986
	0.45	8,905	12,507	16,110	19,713	23,315
	RMB/kWh	0.47	8,234	11,837	15,439	19,042
	0.50	7,563	11,166	14,769	18,372	21,974

Source: CMBIGM estimates

Figure 11: Earnings sensitivity (annualized) to 5% change in alumina ASP & bauxite cost

2024E net profit (RMB mn)		Alumina ASP (RMB/t)				
		2,534	2,675	2,816	2,957	3,098
Bauxite	540	16,602	17,224	17,846	18,468	19,090
	570	15,734	16,356	16,978	17,600	18,222
	600	14,866	15,488	16,110	16,732	17,354
	RMB/t	630	13,998	14,620	15,242	15,864
	660	13,130	13,752	14,374	14,996	15,618

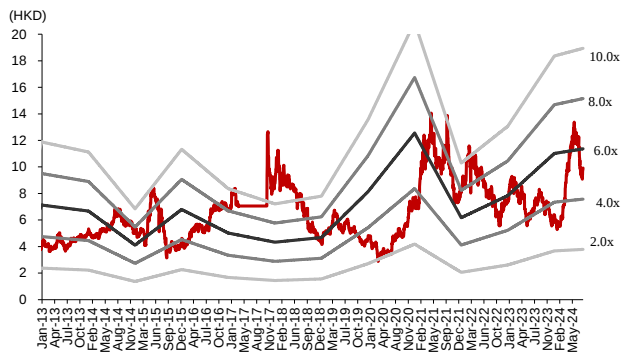
Source: CMBIGM estimates

Valuation

Over the past decade, Hongqiao traded at an average forward P/E of 6x. The stock normally peaked at 10x (except in 2017) and bottomed out at ~3x during the trough cycles (except 2020 due to the outbreak of COVID-19).

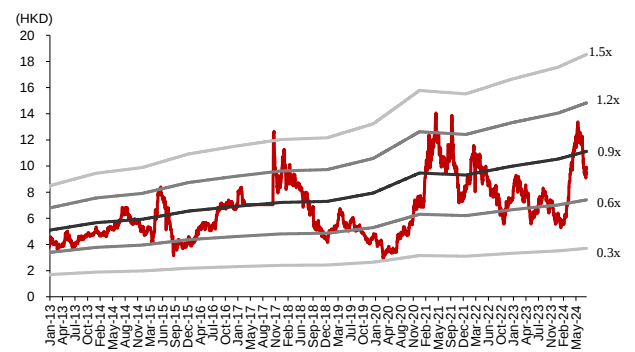
Our TP of HK\$17.9 is based on 9.8x 2024E P/E, equivalent to 1.5SD above the historical average of 6x. Our above-average assumption is to reflect the potential industry upcycle.

Figure 12: Hongqiao's 12M forward P/E band



Source: Bloomberg, company data, CMBIGM estimates

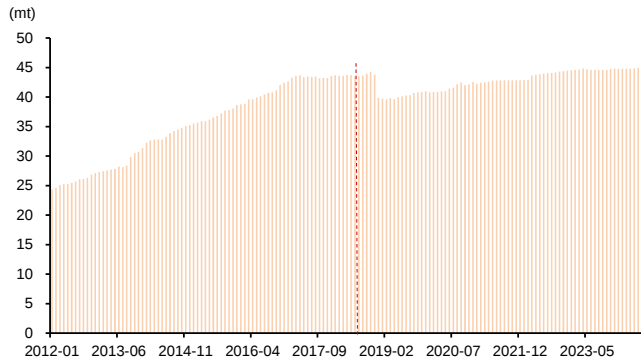
Figure 13: Hongqiao's 12M forward P/B band



Source: Bloomberg, company data, CMBIGM estimates

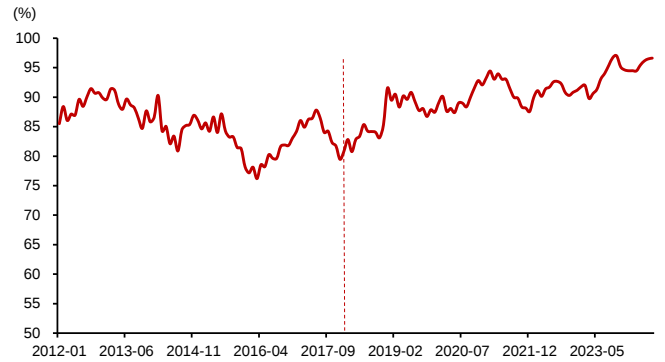
Industry trend

Figure 14: China aluminum annual capacity



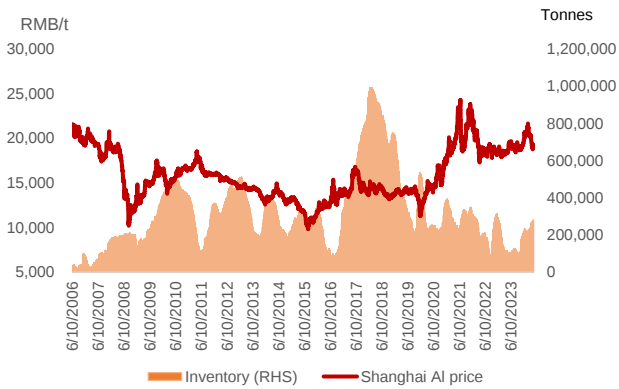
Source: Wind, CMBIGM

Figure 15: China aluminum capacity utilisation rate (%)



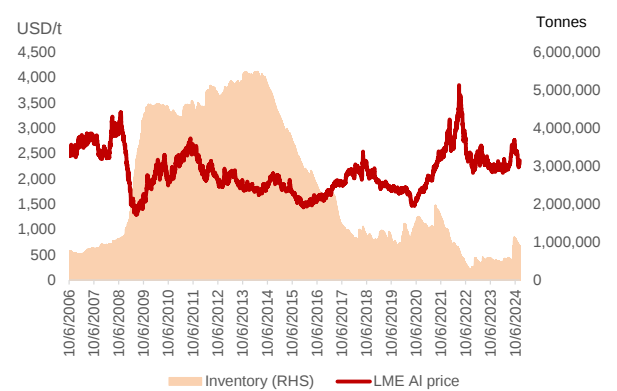
Source: Wind, CMBIGM

Figure 16: Shanghai aluminum price and inventory

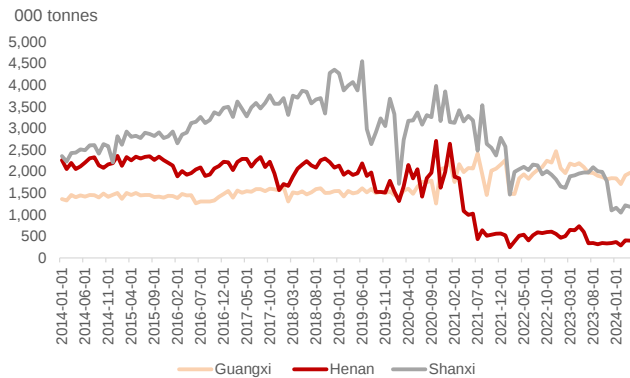


Source: Bloomberg, CMBIGM

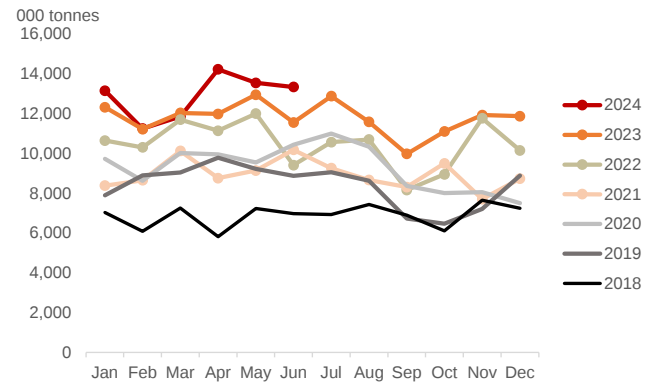
Figure 17: LME aluminum price and inventory



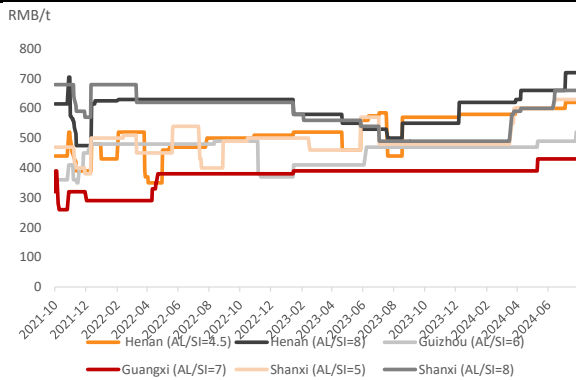
Source: Bloomberg, CMBIGM

Figure 18: Bauxite output in China has been declined since 2019


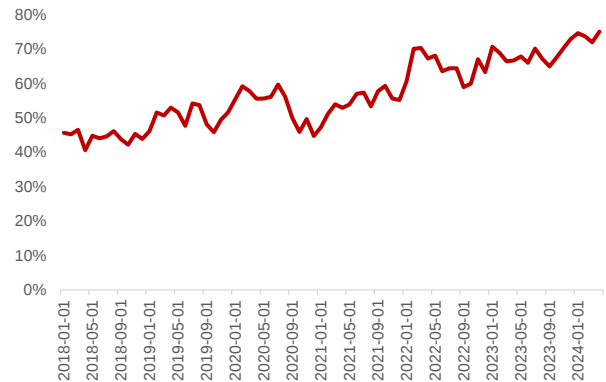
Source: Wind, CMBIGM

Figure 19: Monthly import volume of bauxite on the rise


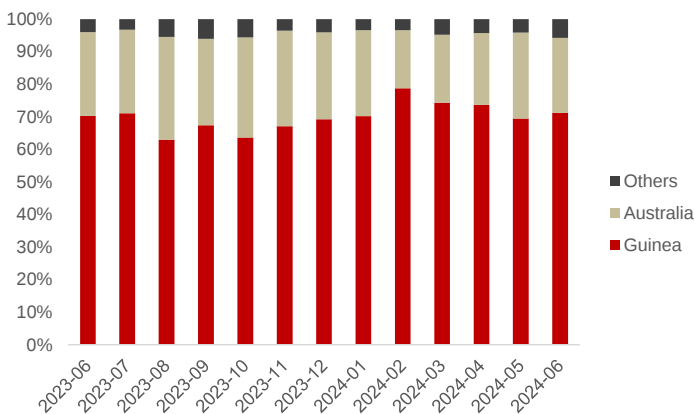
Source: Wind, CMBIGM

Figure 20: Bauxite price in China


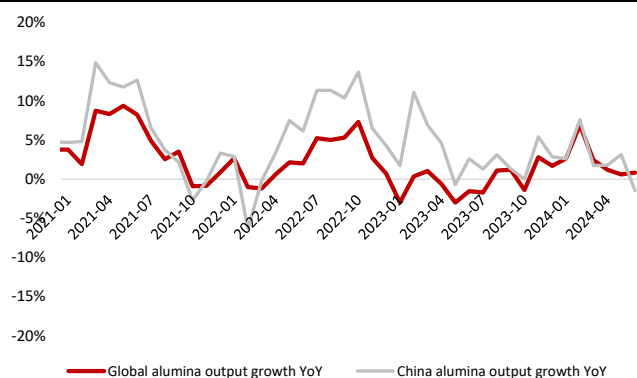
Source: Wind, CMBIGM

Figure 21: Bauxite import dependency marks a decade high


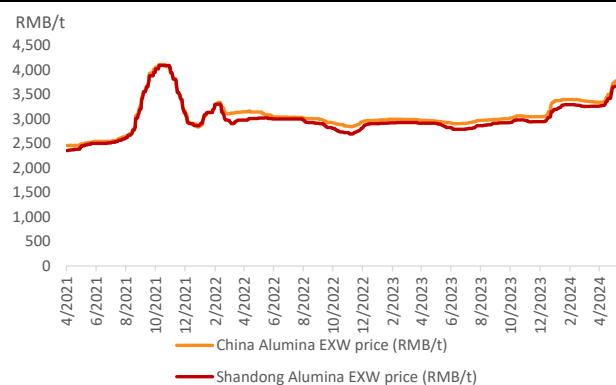
Source: Wind, CMBIGM

Figure 22: Bauxite import breakdown


Source: Wind, CMBIGM

Figure 23: Alumina production in China and the world


Source: Wind, CMBIGM

Figure 24: Alumina EXW price in China has moved up since early this year


Source: Wind, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	114,491	131,699	133,624	142,329	145,867	146,251
Cost of goods sold	(84,038)	(113,460)	(112,669)	(116,262)	(118,699)	(119,117)
Gross profit	30,453	18,239	20,955	26,067	27,168	27,134
Selling expense	(526)	(598)	(755)	(712)	(729)	(731)
Admin expense	(5,708)	(5,934)	(4,953)	(4,982)	(5,105)	(5,119)
R&D expense	(1,691)	(329)	(945)	(712)	(729)	(731)
Other income	3,473	3,736	3,405	3,558	3,647	3,656
Other gains/(losses)	(117)	(185)	(49)	(71)	(73)	(73)
Share of (losses)/profits of associates/JV	62	503	1,193	1,409	1,448	1,617
EBITDA	32,483	21,836	24,619	30,416	31,673	31,833
Depreciation	6,482	6,721	6,912	7,196	7,422	7,624
EBIT	26,001	15,115	17,707	23,221	24,251	24,209
Interest income	234	193	308	490	553	637
Interest expense	(3,626)	(3,020)	(3,268)	(3,286)	(3,291)	(3,296)
Net Interest income/(expense)	(3,392)	(2,826)	(2,960)	(2,796)	(2,738)	(2,659)
Pre-tax profit	22,554	12,607	15,890	21,762	22,888	23,094
Income tax	(5,705)	(2,798)	(3,393)	(4,352)	(4,578)	(4,619)
Minority interest	(775)	(1,107)	(1,037)	(1,306)	(1,373)	(1,386)
Adjusted net profit	16,073	8,702	11,461	16,104	16,937	17,090
Gross dividends	8,449	4,386	5,465	7,569	7,960	8,032

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	103,528	87,568	87,395	97,531	103,418	115,613
Cash & equivalents	49,227	27,385	31,721	35,115	45,007	52,870
Account receivables	7,285	4,611	5,489	4,650	5,741	4,677
Inventories	22,705	37,268	33,958	40,577	36,171	40,847
ST bank deposits	1,624	1,720	1,827	1,827	1,827	1,827
Other current assets	22,687	16,585	14,400	15,363	14,671	15,393
Non-current assets	84,892	98,174	112,925	116,653	119,694	121,703
PP&E	63,442	68,061	70,200	72,513	74,100	74,488
Deferred income tax	2,617	2,605	2,990	2,990	2,990	2,990
Investment in JVs & assos	6,065	10,297	11,034	12,443	13,891	15,508
Intangibles	33	34	43	50	55	59
Goodwill	278	278	278	278	278	278
Financial assets at FVTPL	1,059	1,543	13,127	13,127	13,127	13,127
Other non-current assets	11,399	15,356	15,253	15,253	15,253	15,253
Total assets	188,421	185,742	200,320	214,184	223,112	237,315
Current liabilities	63,067	71,373	74,029	78,226	74,803	78,524
Short-term borrowings	29,377	43,434	49,118	49,218	49,318	49,418
Account payables	18,735	14,911	11,648	15,745	12,223	15,843
Tax payable	2,720	618	2,586	2,586	2,586	2,586
Other current liabilities	12,234	12,410	10,677	10,677	10,677	10,677
Non-current liabilities	32,915	18,063	20,035	20,035	20,035	20,035
Long-term borrowings	30,973	16,236	13,792	13,792	13,792	13,792
Other non-current liabilities	1,942	1,827	6,243	6,243	6,243	6,243
Total liabilities	95,982	89,436	94,064	98,260	94,838	98,559
Total shareholders equity	81,308	84,499	92,245	100,606	111,583	120,680
Minority interest	11,131	11,807	14,012	15,317	16,691	18,076
Total equity and liabilities	188,421	185,742	200,320	214,184	223,112	237,315

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	22,554	12,607	15,890	21,762	22,888	23,094
Depreciation & amortization	6,482	6,721	6,912	7,196	7,422	7,624
Tax paid	(5,001)	(6,148)	(1,686)	(4,352)	(4,578)	(4,619)
Change in working capital	376	(8,660)	(983)	(2,646)	484	(712)
Others	20,697	20,693	11,647	21,564	19,560	20,801
Net cash from operations	28,650	7,622	22,402	23,347	27,506	26,429
Investing						
Capital expenditure	(4,178)	(8,798)	(5,662)	(9,500)	(9,000)	(8,000)
Acquisition of subsidiaries/ investments	(2,207)	(3,550)	(3,700)	0	0	0
Others	921	(4,425)	(8,526)	475	538	622
Net cash from investing	(5,463)	(16,773)	(17,889)	(9,025)	(8,462)	(7,378)
Financing						
Dividend paid	(7,184)	(8,226)	(3,786)	(7,742)	(5,960)	(7,993)
Net borrowings	(14,488)	(681)	3,240	100	100	100
Proceeds from share issues	1,972	0	0	0	0	0
Others	305	(3,884)	347	(3,286)	(3,291)	(3,296)
Net cash from financing	(19,396)	(12,790)	(200)	(10,928)	(9,151)	(11,189)
Net change in cash						
Cash at the beginning of the year	45,465	49,227	27,385	31,721	35,115	45,007
Exchange difference	(28)	98	22	0	0	0
Cash at the end of the year	49,227	27,385	31,721	35,115	45,007	52,870
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	32.9%	15.0%	1.5%	6.5%	2.5%	0.3%
Gross profit	57.3%	(40.1%)	14.9%	24.4%	4.2%	(0.1%)
EBITDA	38.8%	(32.8%)	12.7%	23.5%	4.1%	0.5%
EBIT	54.6%	(41.9%)	17.1%	31.1%	4.4%	(0.2%)
Adj. net profit	53.1%	(45.9%)	31.7%	40.5%	5.2%	0.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.6%	13.8%	15.7%	18.3%	18.6%	18.6%
EBITDA margin	28.4%	16.6%	18.4%	21.4%	21.7%	21.8%
Adj. net profit margin	14.0%	6.6%	8.6%	11.3%	11.6%	11.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.1	0.4	0.3	0.3	0.2	0.1
Current ratio (x)	1.6	1.2	1.2	1.2	1.4	1.5
Receivable turnover days	28.1	16.5	13.8	13.0	13.0	13.0
Inventory turnover days	92.1	96.5	115.4	117.0	118.0	118.0
Payable turnover days	69.7	54.1	43.0	43.0	43.0	43.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	5.4	10.1	7.8	5.6	5.3	5.3
P/B	1.1	1.1	1.0	0.9	0.8	0.7
Div yield (%)	9.8	4.9	6.1	8.4	8.9	8.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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