

# China Hongqiao (1378 HK)

## A potential beneficiary of EU energy crisis

**China Hongqiao announced its 1H22 results.** Top-line rose by 31% YoY to RMB68.7bn while bottom-line declined by 3.6% YoY to RMB7.8bn. The Company declared an interim dividend of HK\$0.41 per share, representing a 42% of payout ratio. The stock is currently trading at 3.4x 2022E P/E with a potential full year dividend yield of over 14%. We believe that the Company's valuation remains attractive which provides a good investment choice amid turbulent market condition.

- **1H22 topline rose by 31% YoY benefiting from the increase in both volume and ASP.** In 1H22, the Company's aluminum output achieved 2.93mn tons, an increase of 4.6%YoY. Meanwhile, the average price of 3M-LME aluminum has risen to US\$3,076 per ton, an increase of 36.3%YoY. As a result, CHQ's operating income continued to grow, maintaining its leading position in the industry. The revenue from EU region reached RMB1.4bn, an increase by 169%. We expect the CHQ to achieve a top-line of RMB127.1bn in 2022E, an increase of 11%.
- **Rising costs of raw materials eroded the bottom-line.** In 1H22, CHQ realized a GPM of 21.8%, a decline of 8.2ppt YoY, mainly due to 1) a substantial increase in coal price and 2) a large increase in anode carbon. We believe that the rising cost of raw materials exceeded the market expectation. Affected by the price rise, the GPM of the alumina products increased by 2.0ppt YoY, partially offset by the decline of GPM of aluminum. Given 1) the continuous effort to influence coal price at the central government level and 2) the gradual implementation of coal supply guarantee by local enterprises in major production areas, we expect the coal price to reach its peak in 2H22, which will benefit the profit margin of the aluminum industry.
- **Maintain BUY rating given the attractive valuation.** We believe that the European energy crisis will further intensify in 2H22E/1H23E, lifting the global aluminum price. We lower our earnings forecast to RMB17.1bn in 2022E to reflect lower margin forecast. In 1H22, the aluminum price shows an "inverted V" trend, which affected the sentiment of the capital market. Considering multiple factors such as 1) low inventory of aluminum products; 2) China's economic rebound in 4Q22E; and 3) weak overseas supply given EU energy crisis, we believe that the aluminum price is expected to stabilize in 2H22E. We further expect that the capital market sentiment will recover accompanied by the improvement of fundamentals. We adjusted our TP to HK\$13.8 (based on 6.2x 2022E P/E) from HK\$15.6 (based on initial 6.2x 2022E P/E). Reiterate BUY rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	86,145	114,491	127,136	124,031	122,603
YoY (%)	2.33	32.91	11.04	-2.44	-1.15
Net Income (RMB mn)	10,496	16,073	17,091	19,924	20,535
EPS (RMB)	1.22	1.77	1.85	2.13	2.20
EPS CHG (%)	72.3	45.1	4.5	15.2	3.1
Consensus EPS (RMB)	1.12	1.60	2.25	2.35	2.44
PE (x)	4.9	3.4	3.3	2.8	2.7
PB (x)	0.80	0.72	0.66	0.59	0.53
Yield (%)	8.88	14.3	15.4	17.7	18.3
ROE (%)	15.2	19.9	19.1	19.6	18.2
Net gearing (%)	39.7	7.7	5.5	NC	NC

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$13.8**  
 (Previous TP **HK\$15.6**)  
 Up/Downside **+89.0%**  
 Current Price **HK\$7.3**

### China Aluminum Sector

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### Stock Data

Mkt Cap (HK\$ mn)	68,325
Avg 3 mths t/o (HK\$ mn)	136.28
52w High/Low (HK\$)	12.74/6.46
Equity share -1378.hk	9,334

Source: Wind

### Shareholding Structure

Hongqiao Holdings	66.62%
CITIC Group	10.93%

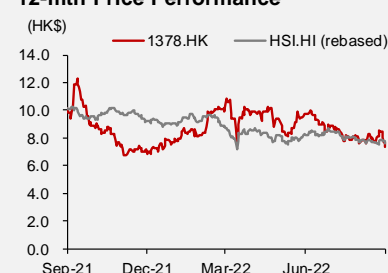
Source: HKEx, Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-7.3%	-4.7%
3-mth	-25.0%	-18.5%
6-mth	-26.3%	-14.4%

Source: Wind

### 12-mth Price Performance



Source: Wind

**Auditor: Shinewing (HK)**

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>86,145</b>	<b>114,491</b>	<b>127,136</b>	<b>124,031</b>	<b>122,603</b>
Aluminum products	63,257	84,313	90,891	88,858	88,113
Aluminum fabrication	8,781	12,524	15,988	15,523	15,789
Alumina	13,487	16,967	19,597	18,989	18,040
Steam	619	687	661	661	661
<b>COGS</b>	<b>(66,789)</b>	<b>(84,038)</b>	<b>(97,346)</b>	<b>(91,409)</b>	<b>(89,940)</b>
Gross profit	19,355	30,453	29,791	32,622	32,663
Other income and gains	2,701	3,707	3,639	3,662	3,770
S&D expenses	(400)	(526)	(610)	(595)	(588)
Admin expenses	(4,052)	(5,708)	(6,357)	(5,705)	(5,272)
Other expenses	(617)	(1,691)	(430)	(425)	(422)
Financial costs	(4,506)	(3,626)	(2,814)	(2,391)	(2,143)
Change in fair value	(291)	(117)	130	130	130
Share profits	515	62	639	666	684
Subsidy disposal loss	-	-	-	-	-
<b>Profit Before Tax</b>	<b>12,704</b>	<b>22,554</b>	<b>23,987</b>	<b>27,963</b>	<b>28,821</b>
Income tax	(2,260)	(5,705)	(5,997)	(6,991)	(7,205)
Less: Minority Interest	(51)	775	900	1,049	1,081
<b>Net profit</b>	<b>10,496</b>	<b>16,073</b>	<b>17,091</b>	<b>19,924</b>	<b>20,535</b>

### Cash flow Summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>12,704</b>	<b>22,554</b>	<b>23,987</b>	<b>27,963</b>	<b>28,821</b>
Interest payment	4,506	3,626	2,814	2,391	2,143
DD&A	6,904	6,717	7,573	7,833	8,074
Change in WC	(5,372)	(176)	(7,315)	2,588	(1,723)
Tax adjustments	(2,882)	(5,522)	(6,952)	(7,308)	(7,228)
Others	1,919	2,457	(2,107)	(3,026)	48
<b>Net cash from operation</b>	<b>17,779</b>	<b>28,650</b>	<b>18,000</b>	<b>30,441</b>	<b>30,136</b>
Capex & investments	(5,260)	(4,869)	(6,289)	(6,377)	(6,011)
Others	(1,714)	(425)	-	-	-
<b>Net cash from investment</b>	<b>(6,974)</b>	<b>(5,102)</b>	<b>(6,289)</b>	<b>(6,377)</b>	<b>(6,011)</b>
Equity raised	1,007	1,183	(35)	-	-
Change of Debts	(3,831)	(18,195)	(8,000)	(5,000)	(2,000)
Dividend paid	(3,833)	(7,145)	(7,889)	(8,554)	(9,859)
Interest payment	(4,506)	(3,626)	(2,814)	(2,391)	(2,143)
Others	4,014	5,526	900	1,049	1,081
<b>Net cash from financing</b>	<b>(7,150)</b>	<b>(19,758)</b>	<b>(17,839)</b>	<b>(14,897)</b>	<b>(12,921)</b>
Net change in cash	3,655	3,790	(6,128)	9,167	11,204
Cash at beginning	41,857	44,887	48,677	42,549	51,716
FX change	(625)	-	-	-	-
<b>Cash at the end</b>	<b>45,465</b>	<b>49,227</b>	<b>42,549</b>	<b>51,716</b>	<b>62,920</b>
Less: pledged cash	-	-	-	-	-
<b>Cash at balance sheet</b>	<b>45,465</b>	<b>49,227</b>	<b>42,549</b>	<b>51,716</b>	<b>62,920</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current Assets</b>	<b>84,097</b>	<b>84,892</b>	<b>84,392</b>	<b>83,389</b>	<b>81,358</b>
Fixed Assets	64,750	63,442	61,364	58,843	55,798
Right-of-use assets	5,647	5,718	6,333	6,733	7,033
Interests in associates	6,681	6,065	6,245	6,911	7,595
Others	7,019	9,667	10,450	10,903	10,933
<b>Current Assets</b>	<b>97,434</b>	<b>103,528</b>	<b>109,393</b>	<b>117,440</b>	<b>128,769</b>
Cash and cash	45,465	49,227	42,549	51,716	62,920
Trade and bills	19,493	19,203	24,792	24,186	23,908
Prepayments	9,126	10,768	13,985	12,403	11,647
Inventories	19,718	22,705	26,283	27,423	29,680
Others	3,631	1,624	1,784	1,712	614
<b>Current Liabilities</b>	<b>73,351</b>	<b>61,158</b>	<b>60,609</b>	<b>43,577</b>	<b>42,147</b>
Account Payables	13,377	18,735	19,469	18,282	17,988
Other payables	12,106	11,480	14,602	16,454	16,189
ST borrowings	45,577	26,120	21,686	3,961	3,059
Others	2,291	4,823	4,852	4,881	4,911
<b>Non-Current Liabilities</b>	<b>30,163</b>	<b>31,284</b>	<b>30,659</b>	<b>42,318</b>	<b>41,288</b>
LT borrowings	28,131	29,393	28,346	39,812	38,714
Derivative component of CB	550	241	253	266	279
Deferred income	582	835	877	921	967
Others	900	814	1,182	1,318	1,328
<b>Total net assets</b>	<b>76,802</b>	<b>92,439</b>	<b>102,516</b>	<b>114,935</b>	<b>126,692</b>
<b>Minority Interests</b>	<b>5,606</b>	<b>11,131</b>	<b>12,031</b>	<b>13,079</b>	<b>14,160</b>
<b>Shareholder's equity</b>	<b>71,196</b>	<b>81,308</b>	<b>90,486</b>	<b>101,855</b>	<b>112,532</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Aluminum products	73.4%	73.6%	71.5%	71.6%	71.9%
Aluminum fabrication	10.2%	10.9%	12.6%	12.5%	12.9%
Alumina	15.7%	14.8%	15.4%	15.3%	14.7%
Steam	0.7%	0.6%	0.5%	0.5%	0.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	22.5	26.6	23.4	26.3	26.6
Operating margin	20.0	22.9	21.1	24.5	25.3
Net margin	12.2	14.0	13.4	16.1	16.7
Effective tax rate	17.8	25.3	25.0	25.0	25.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.33	1.64	1.79	2.66	3.04
Inventory turnover days	114.5	100.7	91.8	107.2	115.9
Creditor's turnover	86.7	61.7	63.2	72.1	71.6
Debtors turnover days	87.0	76.2	71.6	75.4	73.6
Liabilities/Assets (%)	57.7	50.9	47.3	43.1	39.8
Net gearing ratio (%)	39.7	7.7	5.5	NC	NC
<b>Returns (%)</b>					
ROE	14.7	19.8	18.9	19.6	18.2
ROA	5.8	8.5	8.9	10.0	9.8
<b>Per share</b>					
EPS (RMB)	1.22	1.77	1.85	2.13	2.20
DPS (HK\$)	0.65	1.05	1.13	1.30	1.34
BVPS (RMB)	8.02	8.91	9.69	10.91	12.06

Source: Company data, CMBIGM estimates

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