

BUY (Maintain)

China Hongqiao (1378 HK)

Aiming for long-term growth

CHQ experienced range-bound trading in Mar – May. Share price has been largely fluctuating based on aluminum spot price in China, while investors paid attentions on government's counter inflation pricing controls. **We suggest investors to shift focus to longer term growth**, since we believe 1) Chinese government's carbon emission control is likely to extend aluminum strong cycle; 2) CHQ is in favorable position for tightened environmental controls; 3) CHQ is accumulating future growth potential through light-weight product and secondary aluminum; and 4) short-term financial pressure is largely alleviated. Based on revised pricing outlook, we lifted CHQ's FY21-23E EPS by 16.6-19.4%. **Maintain BUY with TP unchanged at HK\$15.00.**

- Strong aluminum cycle to extend on tightened carbon emission.** We think Chinese government's strong will in reducing carbon emission will bring an aluminum capacity cap in short-medium term, which will likely tighten aluminum supply in 2021-23E, while demand is expected to maintain decent growth. Despite government's recent efforts in suppressing material prices, we still expect aluminum price to stand at around RMB18,000/mt in the remaining of 2021. We lifted 2021-23E ASP assumptions by 8.0%/6.3%/6.3% to RMB17,600/17,000/17,000 per mt respectively to reflect our optimistic outlook for the better-than-expected aluminum strong cycle.
- Favorable position in green development.** We think CHQ takes the lead in green development for shifting 2.03mtpa (31.4% of total capacity) from Shandong to Yunnan to utilize low carbon hydro power resources. By far, the Company had put 0.3mtpa Yunnan capacity in production, which is excluded from output curb caused by recent hydropower supply shortage in Yunnan. We expect CHQ to ramp up Yunnan capacity in full swing by 2023E, and that will make CHQ more comfortable in responding to tightening environmental requirements.
- Accelerating pace for new growth.** In view of limited primary aluminum supply growth, we are now more optimistic on CHQ's secondary aluminum business. According to Shandong Loftan Aluminum (002379 CH, NR), CHQ's major subsidiary (holding 28.18%, consolidated) for fabrication business, the Company had commenced operation of 0.2mtpa secondary aluminum capacity, and it is planning for phase 2 project for another 0.2mtpa. Moreover, CHQ formed a JV with Scholz Recycling Group on recycling end-of-life vehicles to green aluminum, with total capacity of 0.5mtpa and phase 1 project to commence operation in 2022. We think those secondary aluminum sales will contribute new earnings growth to CHQ.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	84,179	86,145	102,925	106,455	108,185
Net income (RMB mn)	6,095	10,496	16,268	17,009	18,035
EPS (RMB)	0.71	1.22	1.81	1.86	1.98
EPS CHG (%)	14.0	72.3	48.0	3.2	6.0
Consensus EPS (RMB)	n/a	1.12	1.60	1.77	2.26
P/E (x)	12.6	7.3	5.0	4.8	4.5
P/B (x)	0.87	0.80	0.69	0.62	0.56
Dvd Yield (%)	3.13	5.99	9.45	10.01	10.62
ROE	9.6	15.2	19.5	18.1	17.4
Net gearing (%)	56.5	39.7	21.2	7.1	Net Cash

Source: Company data, CMBIS estimates, Bloomberg

Target Price	HK\$15.00
(Previous TP)	HK\$15.00)
Up/Downside	+38.1%
Current Price	HK\$10.86

China Aluminum Sector

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Mkt. Cap. (HK\$ mn)	103,983
Avg. 3mths t/o (HK\$ mn)	431.73
52W High/Low (HK\$)	13.8/3.08
Total Issued Shares (mn)	9,121
Source: Bloomberg	

Shareholding Structure

Hongqiao Holdings	66.62%
CITIC Group	9.62%
Freefloat	23.66%

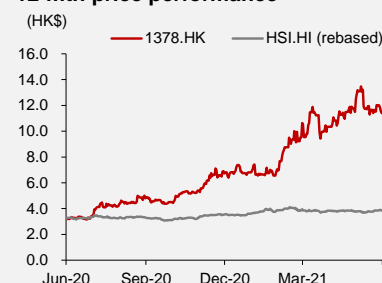
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-0.9%	-3.0%
3-mth	7.2%	10.5%
6-mth	69.4%	56.4%
12-mth	259.2%	201.7%

Source: Bloomberg

12-mth price performance



Source: Wind

Auditor: Shinewing (HK)

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- China Hongqiao (1378 HK) - Re-rating to continue on strong fundamentals – 22 Mar 2021 ([link](#))
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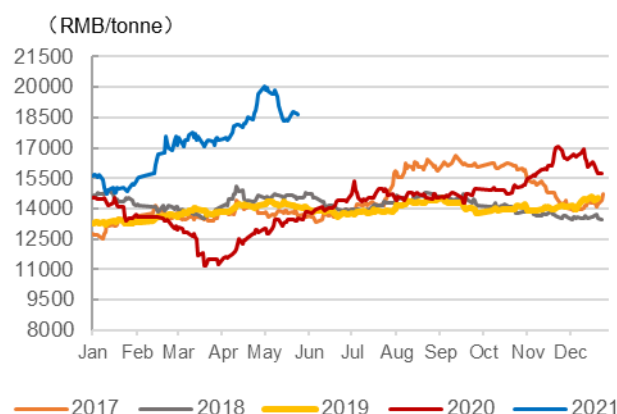
- **Improving financials.** According to our recent update with CHQ, the Company had repaid more than RMB20bn matured bonds, and has RMB5bn bonds + RMB7.8bn puttable bonds remaining in 2H21E. We think CHQ's short-term debt repayment pressure is largely alleviated, and the Company is gaining increasing market recognition for improving financials and well-planned future development roadmap. On 1 Jun, CHQ issued US\$500mn senior unsecured notes with interest priced at 6.25%, lowest in the recent years and received 6.9x over subscription.
- **Lifted FY21-23E earnings by 16.6-19.4%.** Based on revised ASP and costs outlook, we lifted our FY21-23E earnings projection by 16.6-19.4% to RMB16.3/17.0/18.0bn respectively. We suggest investors should not over-focus on short-term commodity pricing movement, but pay more attention to longer term supply-demand and future growth outlook. Trading at 5.0x FY21E P/E, we still see CHQ's valuation very attractive with potential dividend yield of 9.5%. Maintain BUY with TP unchanged at HK\$15.0.
- **Risks:** Chinese government to release national reserve to suppress aluminum price.

Figure 1: Though experienced some retreat, China Shanghai Changjiang Aluminum Spot Price still stands at 5-yr high range



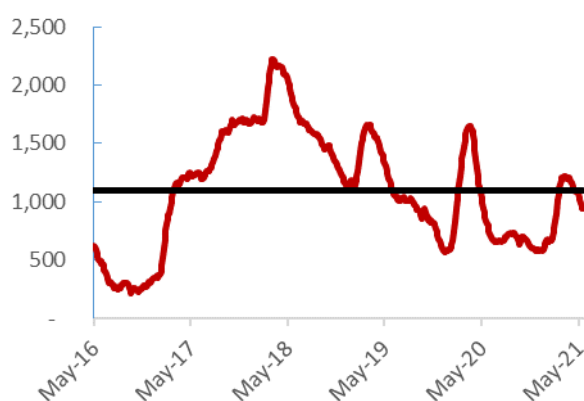
Source: Antaike, Bloomberg, CMBIS

Figure 2: We expect aluminium price to stay around RMB18,000/mt in the remaining 2021



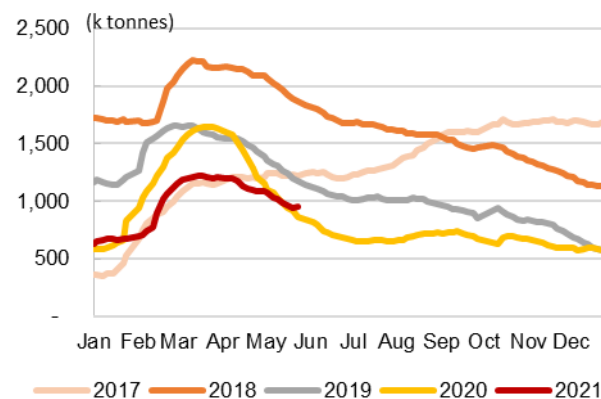
Source: Antaike, Bloomberg, CMBIS

Figure 3: Commercial aluminium inventory returned to below 1mn tonnes level

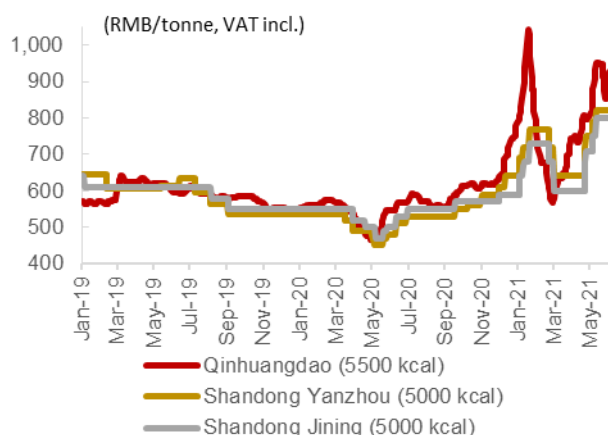


Source: Wind, CMBIS

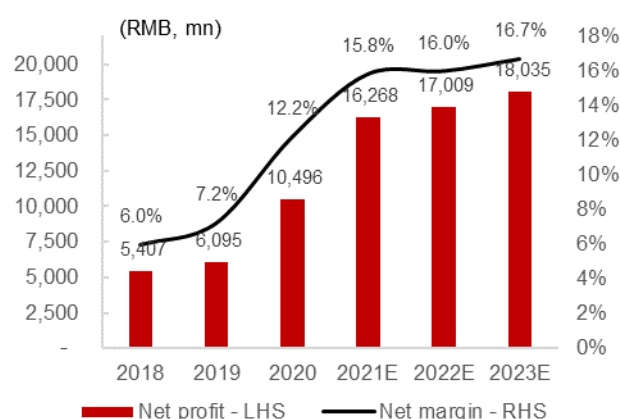
Figure 4: Commercial inventory level is following a declining seasonal trend



Source: Wind, CMBIS

Figure 5: Surging coal price is well covered by aluminium price hike


Source: Wind, CMBIS estimates

Figure 6: We project 48% earnings growth in 2021E


Source: Company data, CMBIS estimates

Figure 7: CHQ issued US\$500mn senior unsecured notes with interest priced at 6.25%, lowest in the recent years

发行日	到期年份	发行规模	票据利率	发行价
(US\$ mn)				
2021/06	2025	500	6.250%	100.00
2021/09	2023	200	7.375%	99.99
2019/07	2022	300	7.125%	100.00
2018/04	2019	450	6.850%	100.00
2014/10	2018	300	6.875%	100.00
2014/06	2017	400	6.625%	100.00

Source: Company data, CMBIS

Figure 8: CHQ's capacity is not in the impact list of Yunnan power supply shortage

	Capacity		
	Total	In operation	Output curb
云南铝业	20.0	18.0	10%
云铝永鑫	30.0	25.5	15%
云铝消鑫	38.0	34.2	10%
云铝泽鑫	30.0	25.5	15%
云铝润鑫	25.0	21.5	15%
云铝海鑫	70.0	32.0	20%
云铝文山	50.0	42.5	10%
云铝溢鑫	45.0	35.7	15%
云南神火	90.0	63.8	15%
云南宏泰	30.0	22.5	25%
云南其压	13.0	11.7	10%
合计	441.0	332.9	-25%

Source: CAA, CMBIS

Figure 9: Our key assumptions and projections

	2018	2019	2020	2021E	2022E	2023E
Aluminum product						
Production (k tonnes)	6,282	5,644	5,622	5,900	6,300	6,400
Sales (k tonnes)	5,865	5,058	5,060	5,095	5,420	5,446
Sales to production rate	93%	90%	90%	86%	86%	85%
ASP (RMB/t, VAT excl.)	12,194	12,236	12,501	15,541	15,011	15,011
Revenue (RMB mn)	71,516	61,891	63,257	77,597	79,736	80,121
Aluminum fabrication						
Production (k tonnes)	503	630	622	684	753	828
Sales (k tonnes)	493	623	601	671	738	811
Sales to production rate	98%	99%	98%	98%	98%	98%
ASP (RMB/t, VAT excl.)	14,470	14,607	14,877	18,493	17,863	17,863
Revenue (RMB mn)	7,135	9,105	8,781	12,653	13,444	14,788
Alumina						
Production (k tonnes)	14,403	14,650	14,650	15,150	15,650	15,650
Sales (k tonnes)	4,090	5,277	6,734	7,071	7,424	7,424
ASP (RMB/t, VAT excl.)	2,700	2,373	2,078	2,124	2,124	2,124
Revenue (RMB mn)	11,045	12,521	13,487	12,014	12,615	12,615
Internal consumption(k tonnes)	11,261	9,711	9,715	9,783	10,407	10,457
External procurement(k tonnes)	451	284	828	725	1,141	1,186
Self-sufficiency rate	87.2%	89.1%	90.0%	90.0%	90.0%	90.0%
Material costs						
Coal costs(RMB/t VAT excl.)	543	515	509	619	566	566
Blended Bauxite costs (RMB/t VAT excl.)	418	403	353	378	375	375
Pre-cultured anode (RMB/t, VAT excl.)	3,151	2,868	2,676	3,163	3,074	2,986
Aluminum costs structure (RMB/tonne)						
Electricity costs	3,995	3,912	3,814	4,269	3,950	3,785
Alumina costs	3,791	3,643	3,372	3,499	3,490	3,492
Pre-cultured anode	1,512	1,377	1,285	1,518	1,476	1,433
Others	925	969	981	994	1,006	1,019

Source: Company data, CMBIS estimates

Figure 10: Earnings revision

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Aluminum sales volume (k tonnes)	5,095	5,420	5,446	5,095	5,420	5,446	0.0%	0.0%	0.0%
ASP (RMB/tonne, VAT incl.)	16,300	16,000	16,000	17,600	17,000	17,000	8.0%	6.3%	6.3%
Revenue (RMB mn)	96,259	100,974	102,602	102,925	106,455	108,185	6.9%	5.4%	5.4%
Net Income (RMB mn)	13,951	14,247	15,114	16,268	17,009	18,035	16.6%	19.4%	19.3%
EPS (RMB)	1.55	1.56	1.66	1.81	1.86	1.98	16.6%	19.4%	19.3%

Source: CMBIS estimates

Figure 11: Peers' valuation: CHQ's valuation is very attractive

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS				PER			PB Ratio		
				20A	21E	22E	CAGR	FY0	FY1	FY2	FY0	FY1	FY2
CHINA HONGQIAO	1378 HK	10.86	99,058	1.22	1.76	1.94	26.1%	7.36	5.10	4.62	1.12	0.95	0.86
RUSAL	486 HK	48.40	111,998	2.31	2.66	2.92	12.5%	21.00	18.20	16.56	3.09	2.85	2.59
ALUMINUM CORP-H	2600 HK	141.70	160,032	5.59	6.43	7.31	14.3%	20.95	18.21	16.02	4.31	3.71	3.20
ALUMINUM CORP-A	601600 CH	6.76	58,533	0.70	0.87	0.62	-6.3%	22.76	6.45	9.08	0.90	0.95	0.90
SHANDONG NANSH-A	600219 CH	5.04	14,963	0.50	0.57	0.61	10.8%	10.20	8.87	8.29	0.72	0.71	0.68
HENAN SHENHUO-A	000933 CH	8.45	8,481	1.04	1.02	1.14	4.7%	6.67	6.85	6.12	1.49	1.27	1.09
Average								14.8	10.6	10.1	1.9	1.7	1.6

Source: Bloomberg, CMBIS

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	84,179	86,145	102,925	106,455	108,185
Aluminum products	61,891	63,257	77,597	79,736	80,121
Aluminum fabrication	9,105	8,781	12,653	13,444	14,788
Alumina	12,521	13,487	12,014	12,615	12,615
Steam	663	619	661	661	661
COGS	(67,715)	(66,789)	(73,818)	(76,254)	(76,457)
Gross profit	16,464	19,355	29,107	30,201	31,728
Other income and gains	3,141	2,701	2,779	2,855	2,977
S&D expenses	(449)	(400)	(515)	(532)	(541)
Admin expenses	(3,646)	(4,052)	(4,426)	(4,578)	(4,652)
Other expenses	(2,167)	(617)	(554)	(560)	(562)
Financial costs	(5,220)	(4,506)	(4,084)	(3,806)	(3,645)
Change in fair value	138	(291)	130	130	130
Share profits	509	515	637	674	703
Subsidy disposal loss	-	-	-	-	-
Profit Before Tax	8,771	12,704	23,075	24,385	26,138
Income tax	(2,316)	(2,260)	(5,769)	(6,096)	(6,534)
Less: Minority Interest	360	(51)	1,038	1,280	1,568
Net profit	6,095	10,496	16,268	17,009	18,035

Cash flow Summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	8,771	12,704	23,075	24,385	26,138
Interest payment	5,220	4,506	4,084	3,806	3,645
DD&A	7,413	7,565	7,743	7,954	8,192
Change in WC	1,323	(5,372)	(8,145)	(1,309)	(118)
Tax adjustments	(2,484)	(2,882)	(6,552)	(6,132)	(6,605)
Others	(5,701)	1,258	335	(1,865)	(2,741)
Net cash from operation	14,541	17,779	20,539	26,840	28,511
Capex & investments	(11,912)	(5,921)	(3,549)	(5,483)	(5,923)
Others	4,216	(1,053)	-	-	-
Net cash from investment	(6,263)	(6,974)	(3,549)	(5,483)	(5,923)
Equity raised	(379)	1,007	1,898	-	-
Change of Debts	511	(3,831)	(8,000)	(1,500)	(4,000)
Dividend paid	(1,921)	(3,833)	(4,920)	(7,609)	(8,064)
Interest payment	(5,220)	(4,506)	(4,084)	(3,806)	(3,645)
Others	(4,808)	4,014	1,038	1,280	1,568
Net cash from financing	(11,816)	(7,150)	(14,068)	(11,635)	(14,140)
Net change in cash	(3,537)	3,655	2,922	9,722	8,448
Cash at beginning	45,380	41,857	44,887	47,809	57,532
FX change	13	(625)	-	-	-
Cash at the end	41,857	44,887	47,809	57,532	65,979
Less: pledged cash	-	-	-	-	-
Cash at balance sheet	41,857	45,465	47,809	57,532	65,979

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current Assets	86,416	81,598	80,356	77,935	75,767
Fixed Assets	71,019	64,750	63,458	60,112	56,941
Right-of-use assets	5,152	5,647	5,549	5,750	5,950
Interests in associates	4,723	6,681	5,879	6,553	7,257
Others	5,521	4,520	5,469	5,519	5,619
Current Assets	92,657	95,345	109,259	120,478	129,120
Cash and cash	41,857	45,465	47,809	57,532	65,979
Trade and bills	21,451	19,493	25,935	26,824	27,044
Prepayments	6,075	9,126	9,778	10,113	10,278
Inventories	21,847	19,718	24,360	25,164	25,231
Others	1,427	1,542	1,377	845	589
Current Liabilities	65,319	73,351	60,903	55,746	42,522
Account Payables	18,216	13,377	14,764	15,251	15,291
Other payables	13,380	12,106	14,025	13,726	13,762
ST borrowings	31,971	45,577	29,797	24,429	11,102
Others	1,753	2,291	2,316	2,341	2,366
Non-Current Liabilities	47,119	30,163	40,215	43,489	51,649
LT borrowings	45,568	28,131	37,839	41,039	49,106
Derivative component of	280	550	578	606	637
Deferred income	549	582	611	641	674
Others	722	900	1,187	1,202	1,232
Total net assets	66,016	76,802	91,086	101,765	113,305
Minority Interests	2,852	5,606	6,644	7,924	9,492
Shareholder's equity	63,164	71,196	84,442	93,841	103,812

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Aluminum products	73.5%	73.4%	75.4%	74.9%	74.1%
Aluminum fabrication	10.8%	10.2%	12.3%	12.6%	13.7%
Alumina	14.9%	15.7%	11.7%	11.8%	11.7%
Steam	0.8%	0.7%	0.6%	0.6%	0.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
P&L ratios (%)					
Gross profit margin	19.6	22.5	28.3	28.4	29.3
Operating margin	16.6	20.0	26.4	26.5	27.5
Net margin	7.2	12.2	15.8	16.0	16.7
Effective tax rate	26.4	17.8	25.0	25.0	25.0
Balance sheet ratios					
Current ratio (x)	1.43	1.33	1.80	2.16	3.04
Inventory turnover days	112.3	114.5	109.0	118.5	120.3
Creditor's turnover	86.6	86.7	80.6	90.4	90.9
Debtors turnover days	94.0	87.0	69.6	71.8	72.9
Liabilities/Assets (%)	63.2	57.7	52.6	49.4	45.4
Net gearing ratio (%)	56.5	39.7	21.2	7.1	-5.56
Returns (%)					
ROE	9.6	14.7	19.3	18.1	17.4
ROA	3.4	5.8	8.5	8.5	8.7
Per share					
EPS (RMB)	0.71	1.22	1.81	1.86	1.98
DPS (HK\$)	0.34	0.65	1.03	1.09	1.15
BVPS (RMB)	7.37	8.02	9.26	10.29	11.38

Source: Company data, CMBIS estimates

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