

BUY (Maintain)

Target Price HK\$15.00
(Previous TP) HK\$15.00
Up/Downside +38.1%
Current Price HK\$10.72

China Aluminum Sector

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| | |
|--------------------------|----------|
| Mkt. Cap. (HK\$ mn) | 94,862 |
| Avg. 3mths t/o (HK\$ mn) | 298.84 |
| 52W High/Low (HK\$) | 13.8/3.5 |
| Total Issued Shares (mn) | 9,121 |
| Source: Bloomberg | |

Shareholding Structure

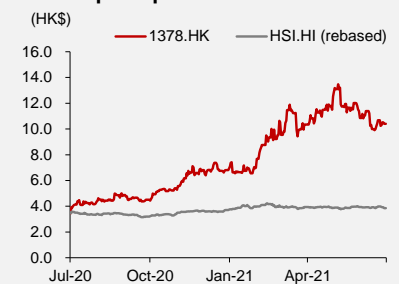
| | |
|-------------------|--------|
| Hongqiao Holdings | 66.62% |
| CITIC Group | 9.62% |
| Freefloat | 23.66% |

Source: HKEx, Bloomberg

Share performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | -4.2% | -2.2% |
| 3-mth | 0.5% | 2.7% |
| 6-mth | 50.1% | 45.6% |
| 12-mth | 201.1% | 169.9% |

Source: Bloomberg

12-mth price performance

Source: Wind

Auditor: Shinewing (HK)**Related report:**

- China Hongqiao (1378 HK) - Re-rating to continue on strong fundamentals – 22 Mar 2021 ([link](#))
- China Hongqiao (1378 HK Initiation) - Sail through the winds and waves – 8 Feb 2021 ([link](#))

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China Hongqiao (1378 HK)

Positive profit alert to strengthen market sentiment

CHQ released positive profit alert, stating 1H21E net profit to surge by more than 200% YoY, implying half-year profit to reach above RMB8.5bn. Strong earnings results was mainly driven by good aluminum ASP, as domestic aluminum demand was picking up post-pandemic in 2021. CHQ's strong 1H21E earnings is largely in line with our estimates. Based on 47.5% payout ratio, we expect CHQ to distribute HK\$0.538/shr interim dividend, implying 5% yield at current price. Looking ahead in 2H21E/2022E, given limited supply growth with steady increasing demand, we expect aluminum price to stay high and the market apex cycle will last longer than market expected. Trading at only 4.9x PER, CHQ's valuation is extremely attractive. **Maintain BUY with TP unchanged at HK\$15.0.**

- **1H21E earnings to surge by more than 200% YoY.** The positive profit alert implied 1H21E net profit of over RMB8.5bn on the back of a significant increase of ASP. Based on Shanghai Changjiang Aluminum Spot price, we estimate 1H21E ASP increased by 32.5% YoY to RMB17,448/tonne (VAT incl.), and we expect 1H21E GPM to surge 11.5ppt to 27.7%.
- **Strong aluminum pricing to sustain in 2H21E.** We think short term overhang on aluminum price had been removed, as National Food and Strategic Reserves Administration announced only 50k tonnes aluminum reserve auction for the first batch. We believe the pricing impact to aluminum spot price will be mild, and we expect aluminum price to stand above RMB18,000/tonne on the back of steady demand while inventory level is declining.
- **Dividend yield will be another highlight for interim results.** With reference to CHQ's 1H20 dividend distribution, we expect the Company to maintain stable dividend policy, i.e. an interim dividend payout rate at ~47.5%. Based on that expectation, we estimate 1H21E dividend to be HK\$0.538/shr, reflecting ~5.0% interim dividend yield to current price.
- **Aluminum sector is in an atypical cycle.** In a decarbonization era in China, we would like to remind investors that aluminum sector is in an atypical cycle, as growing demand is facing limited supply addition, and we expect existing capacity to provide an enjoyable profitability in the near-medium term. CHQ is leading in global aluminum capacity and having more than 30% capacity shifting to areas with low carbon hydro-power support. Trading at only 4.9x FY21E PER, we think the Company's valuation is incredibly attractive. Our TP is unchanged at HK\$15.0. Maintain BUY rating.

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 | n/a | 1.88 | 2.19 | 2.53 |
| P/E (x) | 12.5 | 7.2 | 4.9 | 4.7 | 4.5 |
| P/B (x) | 0.87 | 0.80 | 0.69 | 0.62 | 0.56 |
| Dvd Yield (%) | 3.17 | 6.06 | 9.57 | 10.14 | 10.76 |
| 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

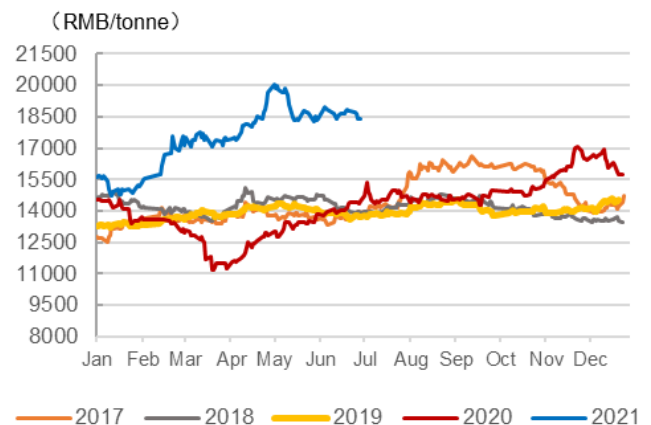
Figure 1: We expect 1H21E net profit to be RMB8,577mn

| YE Dec-31 (RMB, mn) | 1H20 | 2H20 | FY20 | 1H21E | 2H21E | FY21E |
|---|--------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 39,939 | 46,206 | 86,145 | 51,051 | 51,874 | 102,925 |
| Costs of good sold | (33,470) | (33,319) | (66,789) | (36,909) | (36,909) | (73,818) |
| Gross profit | 6,468 | 12,887 | 19,355 | 14,142 | 14,965 | 29,107 |
| Gross profit margin | 16.2% | 27.9% | 22.5% | 27.7% | 28.8% | 28.3% |
| | | | | 11.5% | | |
| Other income and gains | 1,076 | 1,625 | 2,701 | 1,334 | 1,445 | 2,779 |
| Selling and distribution expenses | (153) | (247) | (400) | (206) | (309) | (515) |
| Administrative expenses | (1,858) | (2,194) | (4,052) | (1,992) | (2,434) | (4,426) |
| Other expenses | (362) | (254) | (617) | (277) | (277) | (554) |
| Finance costs | (2,211) | (2,295) | (4,506) | (2,246) | (1,838) | (4,084) |
| Change in fair value of financial instruments | 86 | (377) | (291) | 39 | 91 | 130 |
| Share of profits of associates | 354 | 160 | 515 | 446 | 191 | 637 |
| Loss on disposal of a subsidiary | - | - | - | - | - | - |
| Profit before tax | 3,400 | 9,304 | 12,704 | 11,240 | 11,835 | 23,075 |
| Income tax paid | (596) | (1,664) | (2,260) | (2,248) | (3,521) | (5,769) |
| effective tax rate | 17.5% | 17.9% | 17.8% | 20.0% | 29.7% | 25.0% |
| Profit for the year | 2,804 | 7,640 | 10,445 | 8,992 | 8,314 | 17,306 |
| Minority interests | (27) | (24) | (51) | 415 | 623 | 1,038 |
| Net profit | 2,832 | 7,664 | 10,496 | 8,577 | 7,691 | 16,268 |
| Net profit margin | 7.1% | 16.6% | 12.2% | 16.8% | 14.8% | 15.8% |

Source: Company data, CMBIS estimates

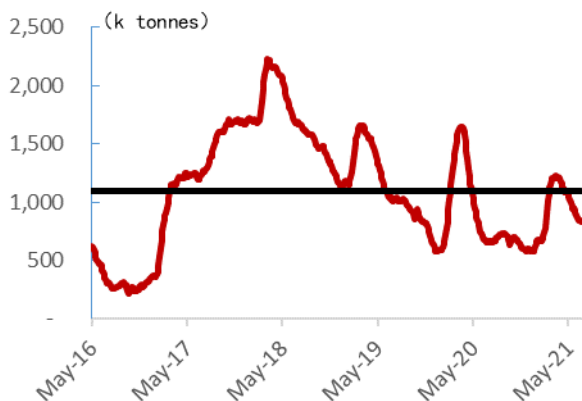
Figure 2: Though experienced some retreat, China Shanghai Changjiang Aluminum Spot Price still stands at 5-yr high range

Source: Antaike, Bloomberg, CMBIS

Figure 3: We expect aluminium price to stay around RMB18,000/mt in the remaining 2021

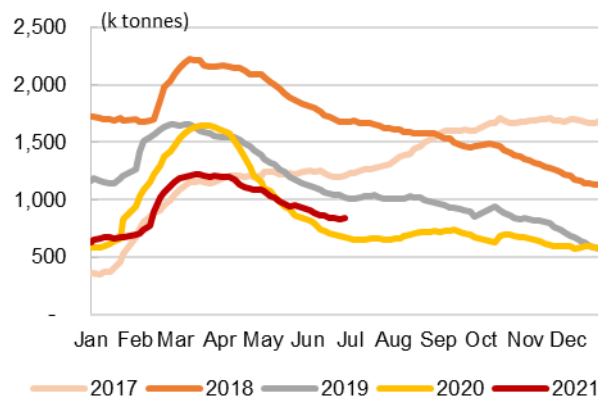
Source: Antaike, Bloomberg, CMBIS

Figure 4: Commercial aluminium inventory returned to below 1mn tonnes level



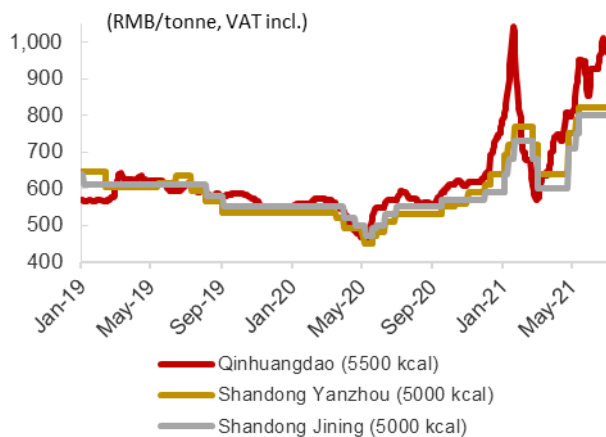
Source: Wind, CMBIS

Figure 5: Commercial inventory level is following a declining seasonal trend



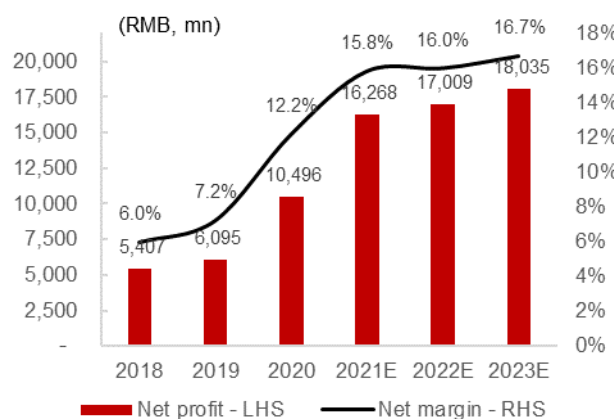
Source: Wind, CMBIS

Figure 6: Surging coal price is well covered by aluminium price hike



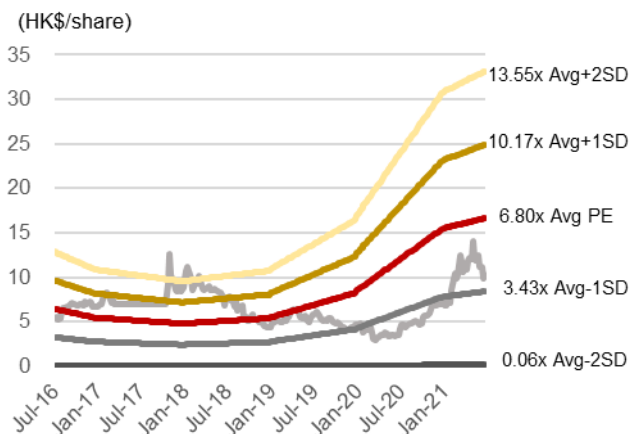
Source: Wind, CMBIS estimates

Figure 7: We project 48% YoY earnings growth in 2021E



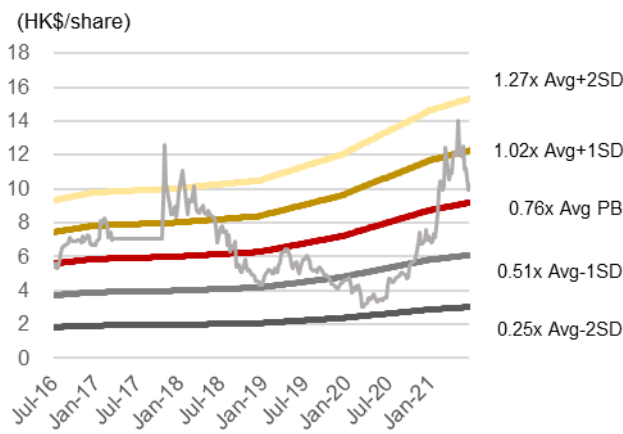
Source: Company data, CMBIS estimates

Figure 8: 5-yr PE band



Source: Bloomberg, CMBIS

Figure 9: 5-yr PB band



Source: Bloomberg, CMBIS

Figure 10: 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

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 CB | 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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