

BUY (Maintain)

China Hongqiao (1378 HK)

Outstanding 1H21 profitability; aim higher with support from good pricing in 2H21

CHQ read 1H21 net profit of RMB8,143mn, up 187.5% YoY, largely in line with our expectation. The Company realized GPM of 30.0%, up 13.8ppt on the back of strong performing aluminum price, significantly higher than our estimates (GPM of 27.7%). Looking ahead in 2H21E, we expect aluminum ASP to be 11.5% higher than 1H21, contributing higher earnings outlook. We lifted FY21-23E earnings by 17.4-19.8% on positive aluminum pricing trend. Trading at 4.0x FY21E PER with attractive dividend yield of 11.7%, we believe CHQ is extremely attractive. We maintain conviction view on CHQ strong fundamentals. TP is maintained at HK\$15.0.

- 1H21 profitability beat our expectation.** Revenue surged 31.4% YoY to RMB52.5bn, driven by aluminum price increase of more than 33.5% YoY in 1H21. GPM expanded 13.8ppt YoY to 30.0%, significantly higher than our estimate of 27.7%. Administrative expenses exhibited a jump by 37.3% due to more maintenance conducted in the 1H, while finance costs read a decline of 14.5% YoY to RMB1.89bn. The Company recognized fair value loss of RMB1,166mn during 1H21, mainly due to non-cash and non-business CB valuation impact. Profit of the period was RMB8,424mn, up 200.4% YoY, in line with CHQ's positive profit alert. Stripping out fair value impact, CHQ's 1H21 core earnings would be RMB9.3bn, significantly beating our expectation.
- Earnings to boom higher with good aluminum pricing.** 1H21 aluminum sales volume was largely stable, while we estimate realized ASP (VAT incl.) exhibited a significant jump to RMB17.4k/ton. In 2H21E, with reference to recent good performing aluminum price (above RMB20,200/ton), we expect ASP to increase by another 11.5% to RMB19.36k/ton (VAT incl.). Given capacity expansion is largely curb due to China's tightening carbon emission controls, we are now more optimistic on 2022-23 aluminum prices.
- Debt repayment on track; with potential to reduce borrowing costs.** CHQ's short-term MTN shrank by ~RMB14.5bn in 1H21. The Company regained the favor of domestic bond investors, with recent revolving bond rate of 4.16% only. We think strong fundamentals and good earnings outlook had flipped market view. We believe both CHQ's equity and fixed income investments will be a hot trace in the market.
- Conviction BUY at an extremely attractive valuation.** We lifted FY21-23E earnings by 17.4-19.8% to RMB19.0/20.4/21.4bn respectively on higher aluminum ASP outlook. CHQ is only trading at 4.0/3.8x FY21/22E PER, and the Company is paying generous dividend ratio (48% payout) with potential yield to reach 11.7%/12.6% respectively. **We maintain our conviction view on CHQ strong fundamentals. TP is unchanged at HK\$15.0.**

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	84,179	86,145	109,768	112,659	114,443
Net income (RMB mn)	6,095	10,496	19,099	20,375	21,448
EPS (RMB)	0.71	1.22	2.12	2.23	2.35
EPS CHG (%)	14.0	72.3	73.8	5.3	5.3
Consensus EPS (RMB)	n/a	n/a	1.94	2.22	2.57
P/E (x)	12.0	7.0	4.0	3.8	3.6
P/B (x)	0.87	0.80	0.67	0.59	0.53
Dvd Yield (%)	3.29	6.30	11.7	12.6	13.3
ROE	9.6	15.2	22.2	20.6	19.4
Net gearing (%)	56.5	39.7	19.9	3.7	Net Cash

Source: Company data, CMBIS estimates, Bloomberg

Target Price	HK\$15.00
(Previous TP)	HK\$15.00)
Up/Downside	+45.3%
Current Price	HK\$10.32

China Aluminum Sector

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Mkt. Cap. (HK\$ mn)	94,132
Avg. 3mths t/o (HK\$ mn)	251.57
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%

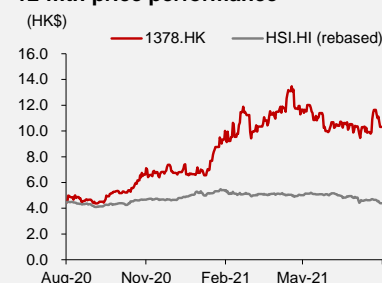
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-0.8%	10.7%
3-mth	-11.4%	1.4%
6-mth	3.1%	25.8%
12-mth	132.8%	135.2%

Source: Bloomberg

12-mth price performance



Source: Wind

Auditor: Shinewing (HK)

Related report:

- China Hongqiao (1378 HK) - Positive profit alert to strengthen market sentiment – 6 Jul, 2021 ([link](#))
- 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](#))

Figure 1: 1H21 results summary

YE Dec-31 (RMB, mn)	1H20	2H20	FY20	1H21A	2H21E	FY21E	1H21 YoY	FY21E YoY	1H21E	Act vs. Est.
Revenue	39,939	46,206	86,145	52,481	57,288	109,768	31.4%	27.4%	51,051	2.8%
Aluminum products	29,042	34,215	63,257	38,356	44,532	82,888	32.1%	31.0%	n/a	n/a
Aluminum fabrication	4,134	4,647	8,781	5,779	7,282	13,062	39.8%	48.7%	n/a	n/a
Alumina	6,391	7,095	13,487	7,921	5,238	13,158	23.9%	-2.4%	n/a	n/a
Steam	370	249	619	424	236	661	14.5%	6.6%	n/a	n/a
										11.5%
Costs of good sold	(33,470)	(33,319)	(66,789)	(36,745)	(38,393)	(75,138)	9.8%	12.5%	(36,909)	-0.4%
Gross profit	6,468	12,887	19,355	15,736	18,895	34,631	143.3%	78.9%	14,142	11.3%
Gross profit margin	16.2%	27.9%	22.5%	30.0%	33.0%	31.5%	13.8ppt	9.1ppt	27.7%	2.3ppt
Other income and gains	1,076	1,625	2,701	1,506	1,368	2,874	40.0%	6.4%	1,334	12.9%
Selling and distribution expenses	(153)	(247)	(400)	(260)	(288)	(549)	70.7%	37.2%	(206)	26.5%
Administrative expenses	(1,858)	(2,194)	(4,052)	(2,552)	(2,168)	(4,720)	37.3%	16.5%	(1,992)	28.1%
Other expenses	(362)	(254)	(617)	(104)	(260)	(365)	-71.3%	-40.9%	(277)	-62.4%
Finance costs	(2,211)	(2,295)	(4,506)	(1,890)	(2,055)	(3,945)	-14.5%	-12.5%	(2,246)	-15.9%
Change in fair value	86	(377)	(291)	(1,166)	(34)	(1,200)	-1452.6%	312.0%	39	-3088.5%
Share of profits of associates	354	160	515	12	352	364	-96.7%	-29.3%	446	-97.4%
Loss on disposal of a subsidiary	-	-	-	(5)	5	-	n/a	n/a	-	#DIV/0!
Profit before tax	3,400	9,304	12,704	11,277	15,814	27,090	231.7%	113.2%	11,240	0.3%
Income tax	(596)	(1,664)	(2,260)	(2,853)	(3,920)	(6,773)	379.0%	199.7%	(2,248)	26.9%
effective tax rate	17.5%	17.9%	17.8%	25.3%	24.8%	25.0%	7.8ppt	7.2ppt	20.0%	5.3ppt
Profit for the period	2,804	7,640	10,445	8,424	11,894	20,318	200.4%	94.5%	8,992	-6.3%
Minority interests	(27)	(24)	(51)	281	938	1,219	-1127.4%	-2481.7%	415	-32.3%
Net profit	2,832	7,664	10,496	8,143	10,956	19,099	187.5%	82.0%	8,577	-5.1%
Net profit margin	7.1%	16.6%	12.2%	15.5%	19.1%	17.4%	8.4ppt	5.2ppt	16.8%	-1.3ppt

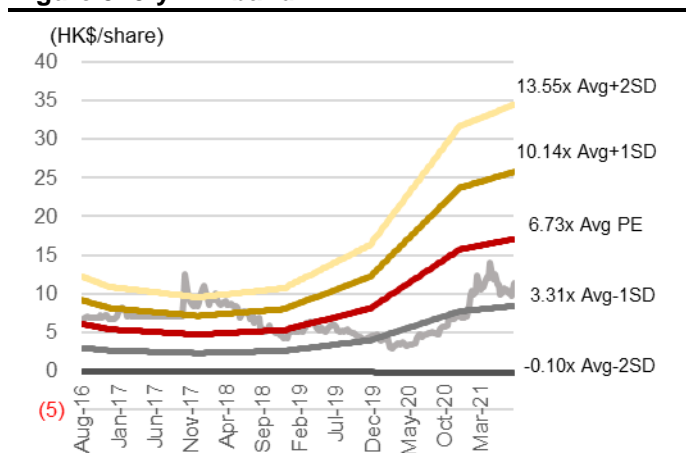
Source: Company data, CMBIS estimates

Figure 2: 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.)	17,600	17,000	17,000	18,800	18,000	18,000	6.8%	5.9%	5.9%
Revenue (RMB bn)	102.92	102.92	102.92	109.77	109.77	109.77	6.6%	5.8%	5.8%
Net Income (RMB mn)	16,268	17,009	18,035	19,099	20,375	21,448	17.4%	19.8%	18.9%
EPS (RMB)	1.81	1.86	1.98	2.12	2.23	2.35	17.4%	19.8%	18.9%

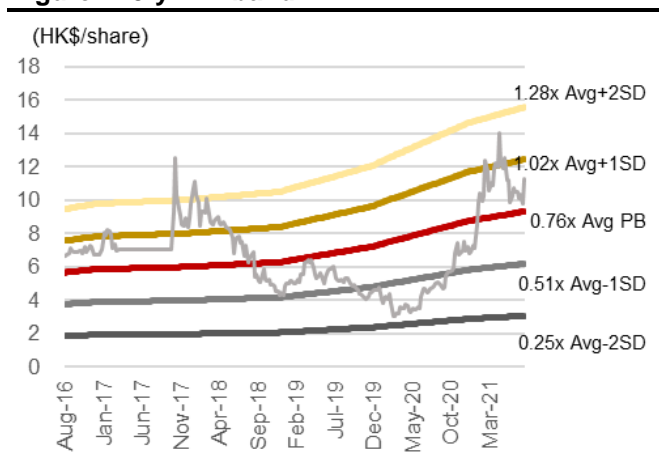
Source: Company data, CMBIS estimates

Figure 3: 5-yr PE band



Source: Bloomberg, CMBIS

Figure 4: 5-yr PB band



Source: Bloomberg, CMBIS

Figure 5: 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	16,600	15,894	15,894
Revenue (RMB mn)	71,516	61,891	63,257	82,888	84,426	84,834
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	19,090	18,278	18,278
Revenue (RMB mn)	7,135	9,105	8,781	13,062	13,756	15,132
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	7,744	8,131	8,131
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	13,158	13,816	13,816
Internal consumption(k tonnes)	11,261	9,711	9,715	9,783	10,407	10,457
External procurement(k tonnes)	451	284	828	1,398	1,848	1,893
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	575	575
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)						
10,223	9,901	9,451	10,280	9,962	9,769	
Electricity costs	3,995	3,912	3,814	4,269	3,991	3,824
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	109,768	112,659	114,443
Aluminum products	61,891	63,257	82,888	84,426	84,834
Aluminum fabrication	9,105	8,781	13,062	13,756	15,132
Alumina	12,521	13,487	13,158	13,816	13,816
Steam	663	619	661	661	661
COGS	(67,715)	(66,789)	(75,138)	(77,757)	(77,982)
Gross profit	16,464	19,355	34,631	34,902	36,461
Other income and gains	3,141	2,701	2,874	2,946	3,075
S&D expenses	(449)	(400)	(549)	(563)	(572)
Admin expenses	(3,646)	(4,052)	(4,720)	(4,844)	(4,921)
Other expenses	(2,167)	(617)	(365)	(419)	(422)
Financial costs	(5,220)	(4,506)	(3,945)	(3,578)	(3,334)
Change in fair value	138	(291)	(1,200)	130	130
Share profits	509	515	364	639	666
Subsidy disposal loss	-	-	-	-	-
Profit Before Tax	8,771	12,704	27,090	29,211	31,083
Income tax	(2,316)	(2,260)	(6,773)	(7,303)	(7,771)
Less: Minority Interest	360	(51)	1,219	1,534	1,865
Net profit	6,095	10,496	19,099	20,375	21,448

Cash flow Summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	8,771	12,704	27,090	29,211	31,083
Interest payment	5,220	4,506	3,945	3,578	3,334
DD&A	7,413	7,565	7,743	7,954	8,192
Change in WC	1,323	(5,372)	(10,440)	(1,091)	(123)
Tax adjustments	(2,484)	(2,882)	(8,038)	(7,411)	(7,831)
Others	(5,701)	1,258	154	(2,118)	(3,037)
Net cash from operation	14,541	17,779	20,454	30,123	31,618
Capex & investments	(11,912)	(5,921)	(3,277)	(5,447)	(5,886)
Others	4,216	(1,053)	-	-	-
Net cash from investment	(6,263)	(6,974)	(3,277)	(5,447)	(5,886)
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)	(8,934)	(9,660)
Interest payment	(5,220)	(4,506)	(3,945)	(3,578)	(3,334)
Others	(4,808)	4,014	1,219	1,534	1,865
Net cash from financing	(11,816)	(7,150)	(13,748)	(12,478)	(15,128)
Net change in cash	(3,537)	3,655	3,430	12,198	10,604
Cash at beginning	45,380	41,857	44,887	48,317	60,515
FX change	13	(625)	-	-	-
Cash at the end	41,857	44,887	48,317	60,515	71,119
Less: pledged cash	-	-	-	-	-
Cash at balance sheet	41,857	45,465	48,317	60,515	71,119

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current Assets	86,416	81,598	80,771	78,419	76,199
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	5,606	6,245	6,911
Others	5,521	4,520	6,158	6,312	6,396
Current Assets	92,657	95,345	112,577	126,110	136,922
Cash and cash	41,857	45,465	48,317	60,515	71,119
Trade and bills	21,451	19,493	27,659	28,388	28,608
Prepayments	6,075	9,126	10,428	10,703	10,872
Inventories	21,847	19,718	24,795	25,660	25,734
Others	1,427	1,542	1,377	845	589
Current Liabilities	65,319	73,351	61,417	56,318	43,101
Account Payables	18,216	13,377	15,028	15,551	15,596
Other payables	13,380	12,106	14,276	13,996	14,037
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	40,421	43,727	51,882
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	1,393	1,440	1,465
Total net assets	66,016	76,802	94,097	107,072	120,725
Minority Interests	2,852	5,606	6,825	8,358	10,223
Shareholder's equity	63,164	71,196	87,273	98,714	110,502

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Aluminum products	73.5%	73.4%	75.5%	74.9%	74.1%
Aluminum fabrication	10.8%	10.2%	11.9%	12.2%	13.2%
Alumina	14.9%	15.7%	12.0%	12.3%	12.1%
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	31.5	31.0	31.9
Operating margin	16.6	20.0	28.3	29.1	30.1
Net margin	7.2	12.2	17.4	18.1	18.7
Effective tax rate	26.4	17.8	25.0	25.0	25.0
Balance sheet ratios					
Current ratio (x)	1.43	1.33	1.83	2.24	3.18
Inventory turnover days	112.3	114.5	108.1	118.4	120.3
Creditor's turnover	86.6	86.7	78.4	90.8	90.9
Debtors turnover days	94.0	87.0	69.0	71.8	72.9
Liabilities/Assets (%)	63.2	57.7	52.0	48.3	44.0
Net gearing ratio (%)	56.5	39.7	19.9	3.7	N.C
Returns (%)					
ROE	9.6	14.7	21.9	20.6	19.4
ROA	3.4	5.8	9.7	9.8	9.9
Per share					
EPS (RMB)	0.71	1.22	2.12	2.23	2.35
DPS (HK\$)	0.34	0.65	1.20	1.30	1.37
BVPS (RMB)	7.37	8.02	9.57	10.82	12.11

Source: Company data, CMBIS estimates

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