Anhui Conch Cement Co Ltd

BUY: CN¥ 72.2

Equity Research Division | 30 April 2021

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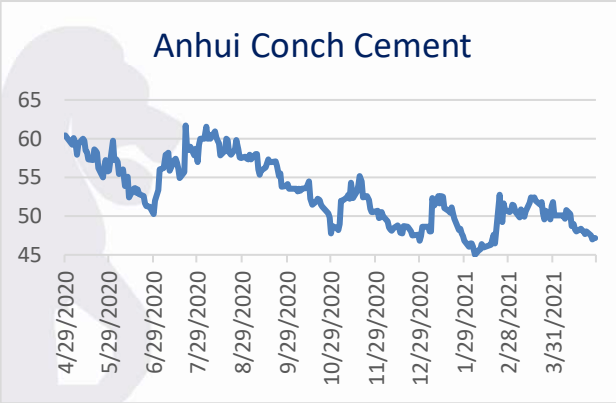
Basic Information

Last Closed Price	CN[illegible]
12M Target Price	CN[illegible]
+/- Potential	+[illegible]
Bloomberg Ticker	600585: SHH
GICS Sector	Materials

-15.8%
CN¥ 49.74

12 months Price performance (Yahoo Finance)



Company Description

Anhui Conch Cement Ltd, founded in 1997 and based in the province of Anhui, China, is the largest manufacturer and concrete seller and clinker of mainland China, and second in the world. While continuing to further fine-tune its strategic market planning at home, Conch also proactively promoted its oversea expansion by keeping abreast with the "One Belt and One Road" policy advocated by the China government.

Key Financials

Market Cap	301.1B
Basic Shares O/S	5.299B
Free Float	91.03%
52-Wk High-Low	CN¥ 62.69 – CN¥ 49.00
Fiscal Year End	31-Dec-2020

CN¥(M)	FY2018A	FY2019A	FY2020A
Gross Profit	53,706	58,473	61,036
EBITDA	49,961	53,312	56,561
Margin (%)	*34.2%*	*30.3%*	*27%*
EBIT	44,321	47,415	50,136
Margin (%)	*30.3%*	*27%*	*24%*
Net Income	33,948	37,579	41,720

Key Executives

Bin Hu	Chief Executive Officer
Guo Ming Li	Chief Financial Officer

2020 Annual Announcements Highlights

- Substantial development both in terms of operating activities and financials
- Stable growth for all the profitability indicators
- Extreme resilience to the Covid-19 outbreak

Summary

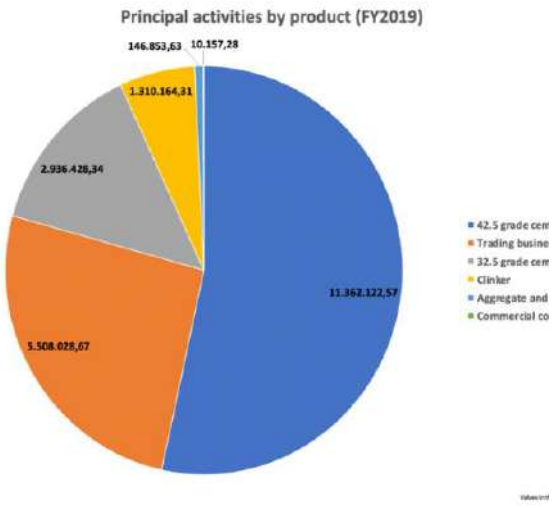
Anhui Conch is the leading cement producer in China and second in the World. The company has been recently characterized by an exceptionally prompt growth. It has shown outstanding resilience, managing to recover the losses recorded at the beginning of 2020 as early as in the first quarter of 2021. The demand for construction materials worldwide has surged in the last decade. In the Asia-Pacific region, the growth of the cement market is driven by substantial public investments, aimed at the development of new infrastructures, such as bridges, railways and highways. The company is particularly successful in South and East China, where it performs better than the rest of the market. In these regions it is expected that public investments will remain strong, thanks also to the low provincial government Deficit/GDP.

To conclude, Anhui Conch Cement will continue to grow following prosperous Chinese market. Because of its peculiarly strong R&D department the company will likely maintain its leading position in China. After consistent investments, the company will also lead in the new green technology's trends.

Investment Thesis

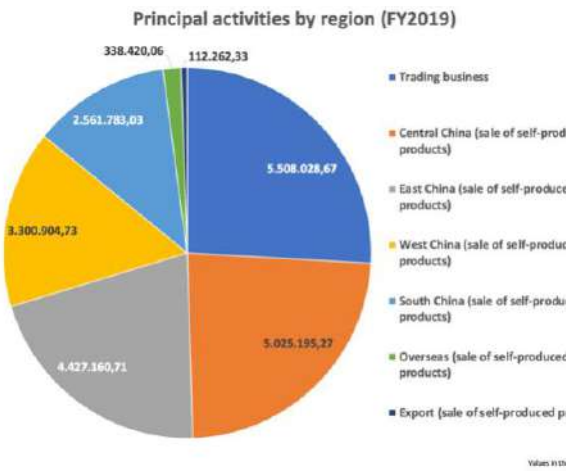
As a result of the financial analysis and the valuation performed, our recommendation is a "BUY". Indeed, our results showed that Anhui Conch Cement's shares are currently underpriced by the market.We executed both a DCF analysis (due to the nature of the firm and the trend registered by cash flows) and multiple valuations (aimed at confirming the results obtained). The target price observed from the model is CN¥ 69.7, while the target price from the market multiple valuations, using both equity-side and asset-side multiples, is CN¥ 74.7, considering multiples calculated on median values. Therefore, to recognize both these approaches, we came up with a final target price of CN¥ 72.2. The valuation suggests that stocks are underpriced and that the increasing trends as regards operating items along with the extraordinary reaction to the Covid-19 crisis hint at a "STRONG BUY". The elevated uncertainty linked to investing in emerging markets along with the share price's historical trend led us to recommend a "BUY".

Figure 1.



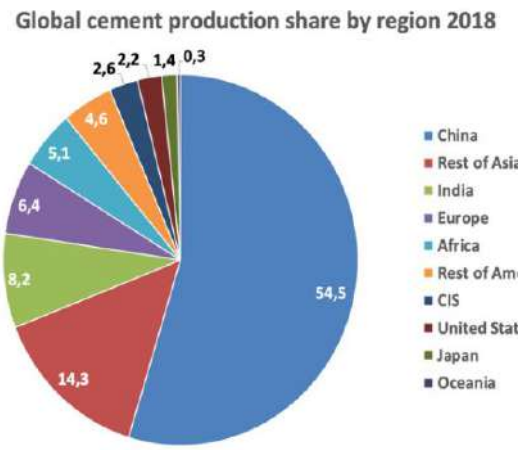
Source: Company 2019 Financial Report

Figure 2.



Source: Company 2019 Financial Report

Figure 3.



Source: Statista

Company Overview

Anhui Conch Cement Co Ltd, founded in 1997 and based in Anhui, is a manufacturer of construction material, and in particular produces and distributes a range of cement and clinker products, under the brand name "Conch model (in different grades, such as 32.5 grade, 42.5 grade, 52.5 grades [see figure 1 for breakdown of revenues by activity])". Conch has focused on developing and growing its cement business by promoting independent innovation and technology innovation, facilitating energy conservation and emission reduction and developing recycling economy. The company is the leading cement and clicker producer in China, and second in the world by annual cement production. It has 32 production sites and produces 286 million tons of cement per year. The company's products find application for the construction works of roads, bridges, housing and other construction projects (some of the greatest projects are "Beijing - Shanghai High Speed Railway", Burj Khalifa in Dubai, Oakland Bay Side Bridge in San Francisco, as well as countless highways in China), and sells its products mainly in East and Central China [see chart 2 for breakdown of revenues by region]. The Company continued to improve the planning for domestic and overseas market and steadily promote the development strategy of internationalization (Conch is the biggest cement exporter in China). The Group has adopted a sales model focusing on direct sales and is supplemented by distribution and has established over 500 marketing departments in the marketplaces where the Company operates across the PRC and overseas, building up a relatively extensive marketing network. Meanwhile, the Group continuously improved its marketing strategy by accelerating the construction or lease of the transfer storages and other landing stages in the Yangtze River Delta, Pearl River Delta, coastal areas of Zhejiang and Fujian to proactively pursue trading business, further improve the market planning and strengthen the control of the market. The Group proactively extended upstream and downstream industrial chain, and steadily implemented its development strategy. Conch boasts advanced processes, excellent quality, sales network, production capacity and a professional technical support. In the coming years, the company intends to expand, reorganize and carry out M&A operations.

Industry Outlook

Market Overview

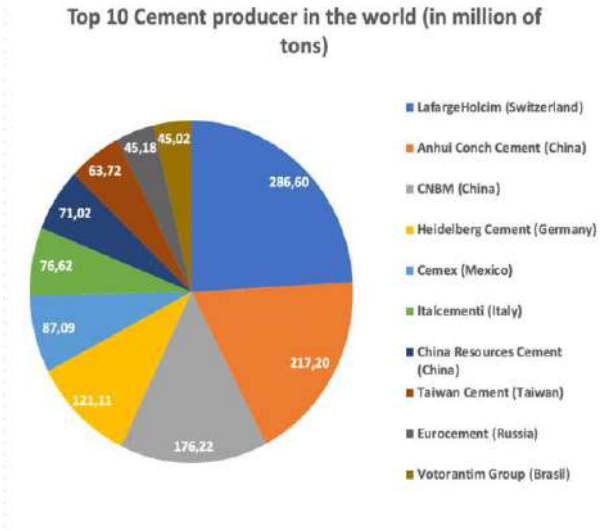
INTRODUCTION AND GENERAL INFORMATION

One of the major uses of cement is to make concrete that is used in the construction industry. Other products can be made from cement, such as tiles, pipelines, blocks, and plank. Ready-mix concrete is frequently used over other concrete products owing to its low cost and a broad choice of usage in high-rise buildings and bridges. The growing use of ready-mix concrete is a key factor responsible for the rise in market size as it has a longer average lifespan as compared to the other concretes, including asphalt concrete. Hence, the rising demand from the expanding construction industry is the current cement market trend.

MARKET DRIVER

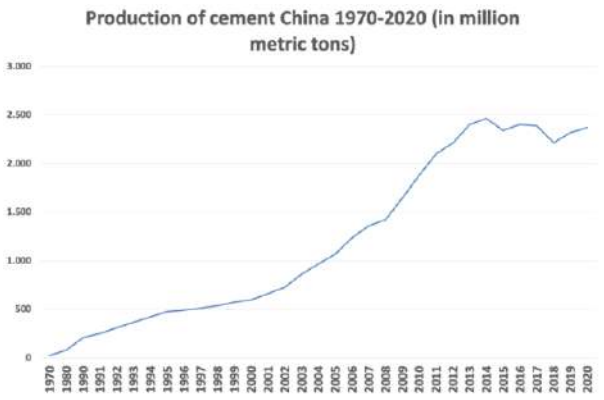
The rising population will effectively influence the market growth on account of the increasing need for residential spaces, such as apartments and private bungalows. Furthermore, the growing demand for amenities in the residential spaces is expected to accelerate the market size. The cement market is segmented into residential, and non-residential, on the basis of application. Among these, the non-residential segment is expected to be dominant in the future.

Figure 4.



Source: Statista

Figure 5.



Source: Statista

Growth in the residential segment is because of rising world population and increasing demand for residential spaces from the developing nations in the Asia Pacific, and the Middle East & Africa. Government initiatives to support construction and infrastructural activities in the developing countries will further increase the demand for cement. Moreover, the growing demand for pre-casted cement products, such as blocks, panels, roof tiles, and others will increase the consumption of cement, globally. Currently, China, is the dominant producer and consumer of cement across the world, hence, the growth in the construction activities in this country will boost the market size.

SEGMENTATION BY TYPE

The cement market is mainly segmented into Portland and blended cement. Among these, the blended segment accounts for the largest market share: the increasing demand for blended cement from applications such as buildings, road construction, and mining is expected to contribute to increase the cement market revenue globally. Portland cement category is majorly used to produce concrete which is further used in the construction of megastructures, such as dams and roads. Hence, growing demand for all these cement types for various applications will boost the market substantially.

REGIONAL ANALYSIS

Asia-Pacific accounted for the highest market share in 2018 and is expected to remain so in the future. This is attributable to the increased demand for cement from the developing nations, such as China, India, and Southeast Asian countries. China is the major country contributing to the market growth in the region. The Middle East & Africa is projected to witness substantial growth, associated with the increasing demand for cement from the growing infrastructural activities in the region. Moreover, the use of cement in mining and oil exploration activities is another factor driving this market. The cement market in Europe is anticipated to grow at a significant CAGR, with Russia, Germany, France, and the U.K. as the main drivers. In North America, the rising demand for public infrastructure is of the major factor influencing the growth of the market. Latin America will exhibit development in the market owing to rising urbanization.

Focus on China

As it appears in Figure 5, the production of cement in China had a continued growth from 1970 to 2013. Since 2013, however, the cement production has been stagnating, ranging between 2.200 and 2.400 million metric tons a year. In 2020, despite the COVID outbreak, production rose by 2,1% YoY, showing great resilience. Thanks to new innovations in the Chinese cement industry, such as the "Green Cement", and public investments, cement production is expected to start growing again, after the above mentioned 7 years' stagnation.

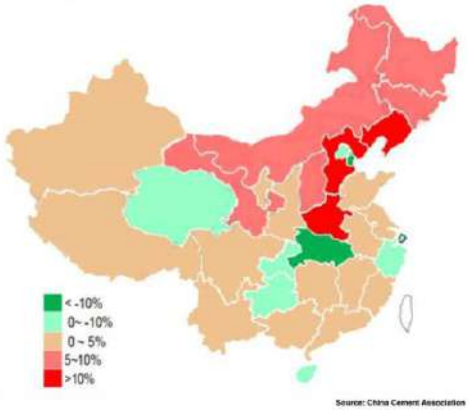
THE DRIVING FORCE

The explosive growth in cement production correlates with China's economic expansion. While industrialization and urbanization advanced in the country, the demand of cement rose sharply. According to the National Bureau of Statistics of China, the net output of the construction industry grew constantly in the previous decade. Houses, roads and bridges had been built here with phenomenal speed over the past three decades.

INFRASTRUCTURE IS THE KEY

Since extensive roads and railways are indispensable for a modern economy, installing and upgrading physical infrastructure were intensive in China. Over the last decade, the total length of public roads in China was expanding gradually. A major benefit, particularly for rural areas, has been the modernization of domestic transportation infrastructure. To counteract sluggish economic growth, Chinese local and central government also boosted public investment on infrastructure.

Figure 6. Annual cement production growth by Province in 2020



Source: China Cement Association

Figure 7. Cement production in China and YoY change in prices

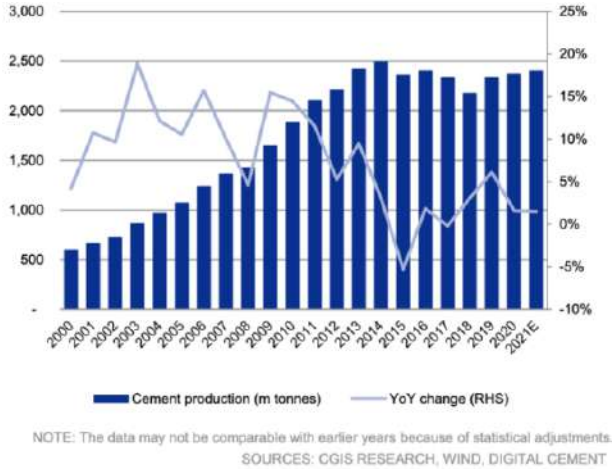
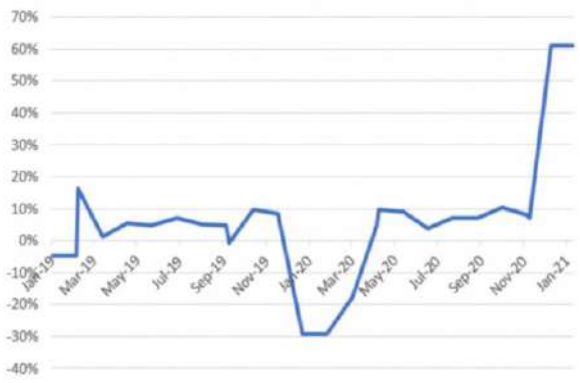


Figure 8. Year-on-year change in cement output in China (Jan 2019 – Feb 2021)



Source: National Bureau of Statistics of China

COVID-19 outbreak and impact on cement industry

Figure 6 above shows cement production in 2020 from a provincial perspective. Note the sharp decline, more than 10% year-on-year, in Hubei Province (shown in dark green). Its capital Wuhan is where the first documented outbreak of coronavirus took place followed by a severe lockdown. The reason is that Hubei capital, Wuhan, was the epicenter of the COVID 19 outbreak, and the entire city was put on lockdown from January to April 2020.

The Chinese cement market appears to have more than compensated for the shocks it faced in 2020 with growth in January and February 2021 surpassing the depression in early 2020.

Outlook for 2021

To support the economy of the COVID-19 pandemic, expansionary policies were undertaken, but these measures, as China contained the spread of the virus, began to run out. As a result, the government budget deficit as a percentage of GDP was lowered from 3.6% in 2020 to about 3.2% in 2021 during the National People's Congress meeting in Mar 2021. However, it is expected that infrastructure investment to be relatively stable in 2021 rather than declining sharply, as the lower budget deficit target will be offset by higher tax revenue thanks to the economic recovery. As infrastructure investment will be capped by the potential deleveraging of local governments, and property investment will be lukewarm because of the "Three Red Lines" policy (government policy aimed to control the financial leverage of property developers), the cement production volume is expected to grow only 1.5% in 2021 (2020: 1.6%). On the supply side, it is estimated that about 46.5M tones of new clinker production capacity will be added in 2021, which implies a net addition of only about 1%, after taking into account the potential shutdown of obsolete capacity. Therefore, cement prices are expected to be largely stable on a full-year basis in 2021.

In terms of local government debt/GDP, provincial governments in east and south-central China are generally in a healthier financial position, enabling them to maintain relatively high "Fixed Asset Investment "(FAI) growth. Most provinces in east China are expected to achieve FAI growth of 6–9% in 2021, based on their track record in the past few years. In south China, Guangdong and Guangxi set relatively high FAI growth targets of 8% and 15%, respectively, for 2021. East and south-central China are the main operating regions of Conch Cement and CNBM, while CR Cement is heavily exposed to Guangdong and Guangxi.

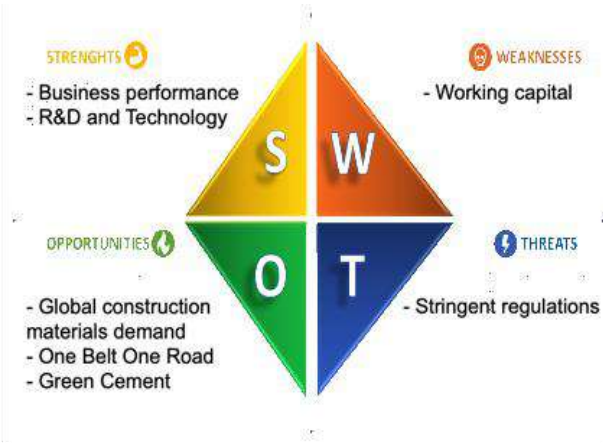
SWOT Analysis

Strengths

OUTSTANDING BUSINESS PERFORMANCE IN CHINA
The Eastern China segment's revenue in FY2019 was CN¥ 47.44 B (around €6.07 B), the 30.2% of the total revenue FY2019, with a year-on-year growth of 19.7%. The demand of cement in the region is still swiftly increasing. The profit before tax of the region grew of 2.9% from the previous year. As far as Southern China is concerned, the increase in revenue from the previous year was of 41.2% (FY 2019) with a revenue of CN¥ 22.4933 B (around 2.88 B). The profit before tax in the segment grew of 6.8% from 2018 to 2019.

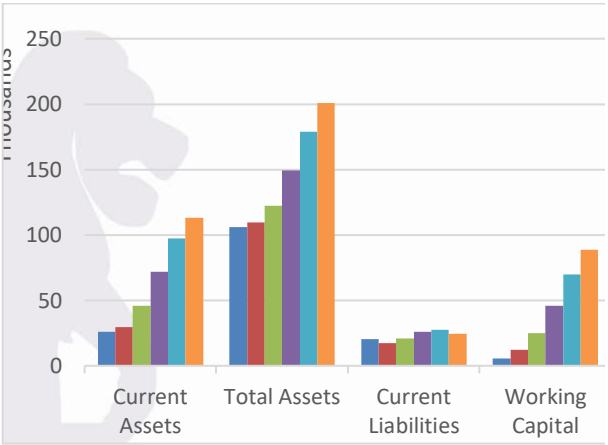
FOCUS ON R&D AND TECHNOLOGY
The company is developing technologies that lead to energy conservation and emission reduction through developing a recycling economy. The company's products are some of the most performant and efficient in the world. It carries out an innovative dry-process cement technique that leads to consumption reduction and optimization of energy. It currently has a low-cost advantage in the industry by minimizing coal and energy utilization, improving efficiency, and controlling cost. The R&D activities carried out aim to the construction of intelligent factories and to new products.

Figure 9.



Source: Minerva Investment Management Est.

Figure 10. Balance sheet evolution 2015-2020



Source: Minerva Investment Management Est.

Weaknesses

ABRUPT SURGE IN WORKING CAPITAL
In the last three years, current assets have been rapidly growing going from CN¥ 72053M in 2018 to CN¥ 112980M in 2020 (+56.80%). This surge is the main driver of the increase total assets. Indeed, the non-current assets increase of only +13.55% in these years. Current liabilities do not justify similarly high values of current assets. The Working Capital of the company in 2018 was only CN¥ 45901M, in 2020 it reaches CN¥ 88756.70M with a growth, in this 3 year, of 93%.

Opportunities

SURGE IN GLOBAL CONSTRUCTION MATERIALS DEMAND
The company strongly benefits from the increase in demand for construction materials worldwide. According to MarketLine researches the global construction materials market is forecasted to reach US$ 1284.7B in 2022. Notably, the Asia-Pacific market is expected to reach US$ 1047.6B. The growth in this region will be driven by infrastructure investment in China, Japan, and India. In the US non-residential construction will expand the market. In Europe growth will mainly be supported by large public investments in new infrastructure projects.

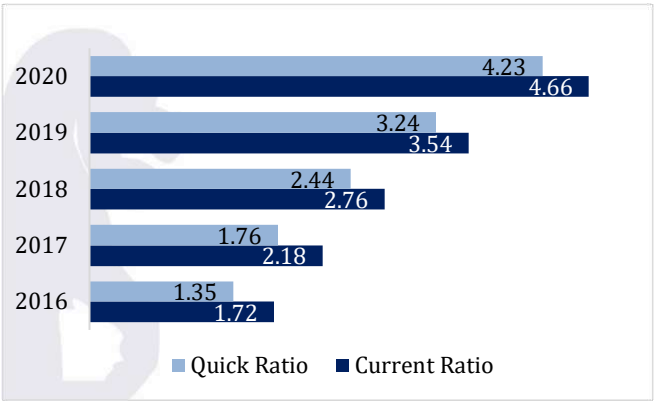
ONE BELT ONE ROAD, CHINA
The Chinese government firstly introduced the One Belt One Road Initiative in 2013 (BRI). The initiative is a trade project that aims to create a network of shipping lanes and railroads with 70 countries in Europe, Asia, and Africa. It has been called the silk road of the 21st century. The BRI plans to make China the leading global power by 2050 and is expected to spend more than US$ 1TN in transport, infrastructure, and energy projects. In March 2019 already 173 cooperation agreements were signed with 125 different countries and more than 20 international organizations. For the company this is a great opportunity to continue to expand its business and grow not only in China but also in the connected countries.

GREEN CEMENT
The recent development of technologies lead to a surge in the use of green cement. Anhui Conch Cement has heavily invested in it, successfully predicting its growth. According to the Global Green Cement Market Report 2020-2027 the forecasts predict a growth for the Green Cement Market from US$ 21.42B in 2019 to 43.59B by 2027 with a CAGR of 8.7%. This market is highly fragmented, many different players participate in the production and distribution of the green cement, Anhui Conch Cement could take advantage of it and obtain a prominent role also in this market.

Threats

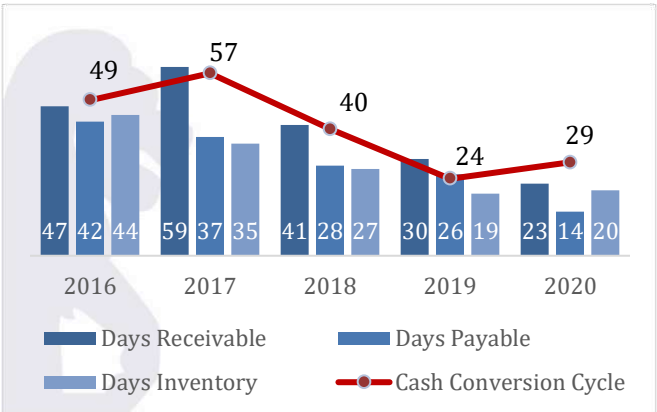
STRINGENT REGULATIONS
The company must comply with stringent regulations from different levels: federal, state, and local. All the products that do not respect the legislation of the various regulatory bodies has to face delays in reaching the customers. Also, non-compliance leads to legal proceedings and fees that can lead to a damaged image of the company. The bodies ACC's products in China must comply with include the National Development and Reform Commission of Environmental Protection, China Building Decoration Association, Contract Law of the PRC 1999, the Ministry of Housing and Urban-Rural Development, the State Administration of Work Safety. Furthermore, there are local and national safety health and environmental regulations.

Figure 11. Anhui Conch Cement Liquidity 2016-2020



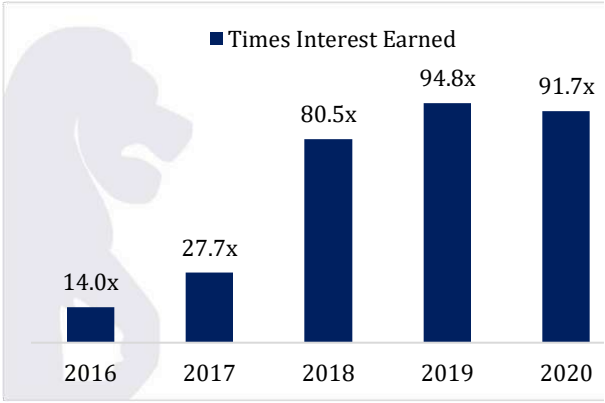
Source : Minerva Investment Society Est.

Figure 12. Anhui Conch Cement Cash Conversion Cycle, 2016-2020



Source : Minerva Investment Society Est.

Figure 13. Anhui Conch Cement Interest Coverage Ratio, 2016-2020



Source : Minerva Investment Society Est.

The Ministry of Transportation, the Ministry The striking number of regulations and their complexity makes the production and distribution not easy. The government continues to tighten regulations on new production capacity and is in the process of introducing new rules increasing the ratio of old lines that have to be shut down before new ones can be built. Finally, China introduced its interim national emissions trading scheme in February 2021, which has large implications for the cement sector in the future, even if the current price lags well behind Europe at present. To get a better understanding of the new regulations, we consider the due to the government policy changes in response to environmental protection, the number of cement companies in China has been shrinking in the past years. In 2018, there were around 2,900 cement companies and the projected figure indicate that in 2035 there will be only to 100 standing, representing a continuous plummet in the cement industry. Also, the number of cement plants in China has been shrinking in the past years. In 2015, there were around 3,100 cement plants, which is the half compared to a decade ago. The projected figure would further decrease to 1000 by 2035.

Financial Analysis

Anhui Conch Cement Company LTD demonstrated a strong funding structure, solid business model, and sustainable profitability. The financial statement analysis has been conducted computing ratios and other measures to assess liquidity, cash conversion cycle, solvency and profitability. Some ratios have been computed also for a selected number of peers in order to better understand the values. These comparable companies, the same employed in the multiple valuation, are Taiwan Cement Corp, Asia Cement (China) Holdings Corporation, Cementos Argos S.A., Shree Cement LTD, and Buzzi Unicem S.p.A.

Liquidity

The Current Ratio has been constantly increasing from 2016 to 2020 (Figure 11), starting from a value of 1.72 to 4.66. This escalating trend shows the company's growing power of meeting short-term liabilities with its liquid assets. Regarding the Quick Ratio, over the analysis horizon; another upward trend is noticeable. Furthermore, during the analysis period the Current Ratio grew approximately 2.7 times, the Quick Ratio grew 3 times. The comparison between these two ratios indicates that the company holds most of its liquidity power in non-inventory assets. Therefore, Anhui Conch Cement is not likely to experience liquidity shortfall in the foreseeable future.

Cash Conversion Cycle

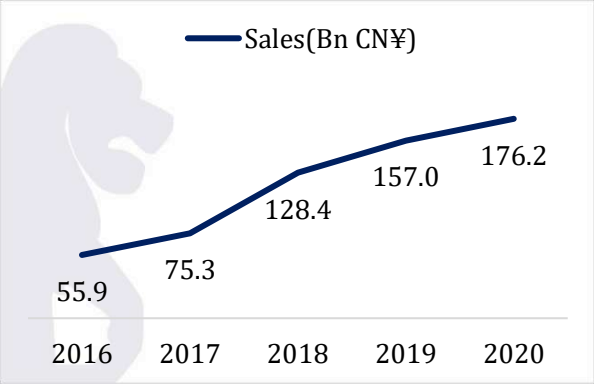
The Cash Conversion Cycle (CCC) of Anhui Conch Cement is determined by Days Receivable (DR), Days Payable (DP), and Days Inventory (DI). The CCC is positive throughout the analysis period which implies that the company finances its cash transactions through sources different than trade payables. Although the CCC increased slightly in 2017 and 2020, it follows a decreasing trend overtime (Figure 12). The change in the CCC is attributable to overall reduction in DR, DP, and DI. 2020 was the only year Days Inventory rose, by 1 day. Also, in that year, Days Payable was almost halved and fell to 14 from 26. Although, Covid-19 crisis is likely to be the reason behind the interruption in DI's trend, the significant improvement in DP kept company's cash management stable. Anhui Conch Cement seems to convert investments into inventories and receivables into cash in a short-time period, in 29 days in 2020. On the other hand, since the company has a short cash conversion cycle and pays its suppliers at a short notice; it is likely to miss alternative investment opportunities into which its cash collected from receivables can be channelized.

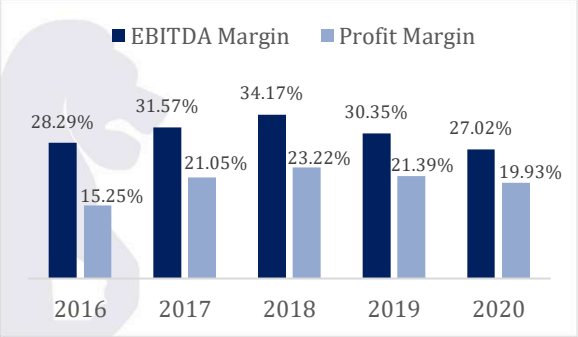
Figure 14. Debt-to Equity Ratios, 2018-202

	2018	2019	2020
Anhui Conch	28.46%	25.62%	19.47%
Taiwan Cement Corp.	53.40%	56.80%	60.30%
Asia Cement (China) Holdings	53.30%	43.10%	18.60%
Cementos Argos S.A.	80.60%	87.60%	87.60%
Shree Cement LTD	38.60%	30.20%	13.30%
Buzzi Unicem S.p.A	40.50%	37.20%	36.70%

Source: Minerva Investment Society Est.

Figure 15 & 16. Anhui Conch Cement Sales & Margins, 2016-2020





Source: Minerva Investment Society Est.

Solvency

The ability to meet long-term obligations and overall riskiness of Anhui Conch Cement is analyzed through solvency ratios. The Interest Coverage Ratio measures how many times the EBIT can cover the interest expense on debt of a company. The company managed to cover its interest expense through its EBIT, by a substantially increasing Interest Coverage Ratio (ICR) from 2016-2019 (Figure 13). Even though there was a slight reduction in 2020, ICR still reached 91.7x level. The ratio validates the company's capability of fulfilling its financial liabilities in abundance, despite the Covid-19 effect. Therefore, Anhui Conch achieves to secure a convincing level of solvency.

For the analysis of capital structure of the company and its peers, the period from 2018 to 2020 is used. All observed D/E levels are moderate values that do not engender any increased overall riskiness for the company (Figure 14). The Debt-to-Equity Ratio (D/E) of Anhui Conch fell from 28.46% to 19.47% constantly over the period.. The trend mostly arose from the influential increase in Stockholder's Equity (See Appendix: Balance Sheet). Taking the decreasing trend into account, one can argue that the capital structure of the company is well managed. Unlike Anhui Conch, capital structure of Cementos Argos S.A. is worrisome due to its high level of debt.

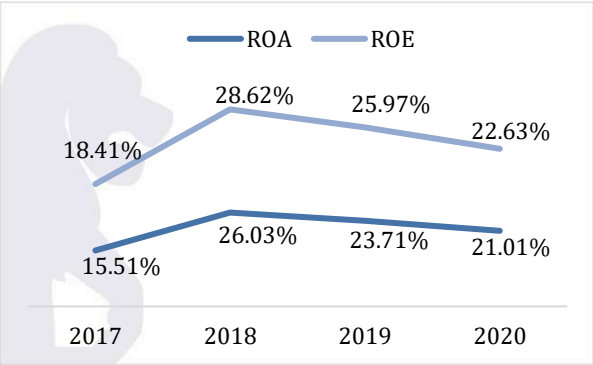
Moreover, the company has some room to raise more debt in case of a need. It can exploit this option to reduce weighted average of cost of capital and finance itself at a cheaper cost. Also, Anhui Conch has a cash position of CN¥ 89.1 B that strengthens the balance sheet. Hence, the company has an advantageous position among its peers, based on the above-mentioned findings.

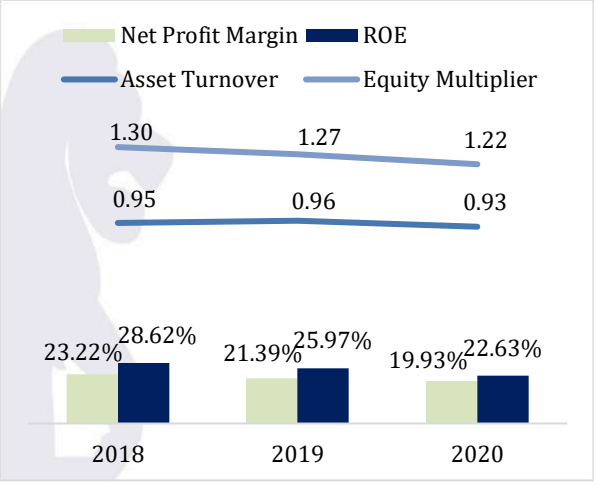
Profitability

Anhui Conch Cement' profitability is analyzed trough Return on Assets (ROA) and Return on Equity Ratios (ROE). A DuPont analysis is conducted further to determine the break-down of ROE.
Sales have been steadily increasing in the past five years, from CN¥ 55.9 B in 2016 to CN¥ 176.2 B in 2020 (Figure 15). On the other hand, margins have not followed the same trend, as the EBITDA margin has decreased in percentage from 34.17% in 2018 to 27.02% in 2020 (Figure 16), and the profit margin from 23.22% to 19.93%. This phenomenon is partly due to increased Depreciation and Amortization expenses over the analysis horizon.

Return Ratios have peaked in 2018, then followed a decreasing trend (Figure 17). ROA, which measures the ratio between EBIT and Total Assets, has decreased from 26.03% in 2018 to 21.01% in 2020. Similarly, ROE (Net Income/Equity) reduced from 28.62% in 2018 to 22.63% in 2020. Although both ratios de-escalated overtime, overall level of profitability does not seem to put stress on Anhui Conch's future. Nevertheless, the components of ROE were examined by DuPont analysis to identify the reason behind decreasing profitability.
The break-down of ROE can be seen in the figure 18. The DuPont analysis covers the period between 2018 and 2020. Over the horizon, Asset Turnover remained almost stable, which is consistent with the nature of business model of the company. Therefore, the change in ROE is mainly attributable to decreased Equity Multiplier (EM) and Net Profit Margin (NPM), the latter having most of the effect. The change in EM shows that the company held fewer average assets per equity gradually. On top of that, NPM contracted moderately, which in return affected ROE. Despite its reducing ROE, Anhui Conch Cement managed to have the highest Return on Equity among its most relevant peers throughout the analyzed period.

Figure 17 & 18. Profitability Ratios & DuPont Analysis, 2017-2020





Source: Minerva Investment Society Est.

Figure 19. ROE Comparison, 2018-2020

	2018	2019	2020
Anhui Conch	28.62%	25.97%	22.63%
Taiwan Cement Corp.	12.90%	12.50%	13.10%
Asia Cement (China) Holdings	22.10%	23.90%	17.60%
Cementos Argos S.A.	3.30%	2.20%	1.60%
Shree Cement LTD	16.70%	10.90%	13.40%
Buzzi Unicem S.p.A	12.80%	11.30%	15.40%

Source: Minerva Investment Society Est.

The company achieved to have significantly higher profitability level than the companies listed in figure 19. Especially, extremely low ROE of Cementos Argos S.A. raises serious concerns about the success of the business. On top of troublesome profitability, Cementos Argos has high level of D/E (Figure 13), which signals the company is likely to face financial distress in the near future.

In conclusion, Anhui Conch Cement is characterized by its well capital structuring, satisfying profitability and solid business model. Based on the conducted financial analysis, it is in the leading position among the selected peers. The negative impact of Covid-19 seems to be compensated by considering its solid balance sheet. However, financials of the company should be kept under observation in the future to detect further effects of Covid-19. Additionally, the trends in construction materials sector, mainly cement-based products, will determine whether Anhui Conch will be able to sustain its historical financial success.

Valuation

Price Target: CN¥ 72.2

Our analysis followed two main approaches:

- An intrinsic valuation regarding the DCF model (FCFF)
- Relative valuation with market multiple of comparable companies

Free Cash Flow to Firm Approach

Among different indirect evaluation methods, we choose the DCF asset side model. Indeed, the DCF is a quantitative method used to estimate the value of an investment based on its expected future cash flows. If the value obtained from the DCF is lower than the current trading price of shares, then the stock is overvalued and qualifies for a sell and vice versa. The target price is CN¥ 69.66 which, compared with the current share price and considering the previous qualitative analysis, resulted in a BUY recommendation.
Proceeding step by step, the first element we computed was the cost of equity, based on the following assumptions:

- RISK-FREE RATE (3.19%): it expresses the recent 10-year Chinese treasury bond yield was chosen.
- EQUITY RISK PREMIUM (5.40% according to Damodaran's country default spreads and risk-premiums): it denotes the premium an investor will require to invest in the stock instead of investing in risk-free security. It also includes the Country Risk Premium of 0.68%.
- BETA (0.99): it represents the specific risk of a company comparing the performance of the market with the performance of the company.

Within the last years, the company has been registering a negative net debt, meaning that cash and cash equivalents exceed financial debt. This feature led us to consider the yield on cash instead of the cost of debt in the computation of the WACC:

- YIELD ON CASH (4.80%): it represents the long-term deposit interest rate for Chinese banks. We took this as a proxy of the yield earned by Anhui Conch Cement on its liquidity.

Figure 20. DCF Sensitivity Analysis

TV g \ WACC	11.5%	11.0%	10.5%	19.0%	9.57%	9.0%	8.5%	8.0%	7.5%
1.4%	59.34	61.89	64.73	67.89	70.92	75.47	80.06	85.34	91.5
1.35%	59.16	61.69	64.5	67.63	70.63	75.13	79.66	84.88	90.94
1.3%	58.98	61.49	64.27	67.37	70.34	74.79	79.27	84.42	90.4
1.25%	58.8	61.29	64.04	67.12	70.06	74.45	78.88	83.96	89.86
1.18%	58.55	61.01	63.73	66.77	69.66	73.99	78.35	83.34	89.12
1.15%	58.45	60.89	63.6	66.62	69.49	73.8	78.12	83.08	88.81
1.1%	58.28	60.7	63.38	66.37	69.22	73.48	77.75	82.64	88.3
1.05%	58.1	60.51	63.17	66.13	68.85	73.16	77.38	82.21	87.8
1.0%	57.93	60.32	62.96	65.89	68.68	72.84	77.02	81.79	87.3

Source: Minerva Investment Society Est.

Figure 21. Computed Results

Cost of Equity	8.57%
TV Growth Rate	1.18%
data in CNY millions	
Discounted cash flows	65401
Discounted TV	248142
Equity Value	369220
Net Debt	-50426
EV core	313544
N° of Shares (in millions)	5299
Share Price Target	CNY 69.66

Source: Minerva Investment Society Est.

Beta Computation

Beta is a coefficient that expresses how

We put in comparison the security's return with those of the Shanghai Stock Exchange Composite Index, which was considered the Market Index. In so doing, we applied, as required by the model, an OLS regression between the streams of returns of the stock and market index. We considered two different return's frequencies and estimation windows:

- 5 year monthly
- 5 year daily

To determine the most reliable and significant model we considered the regression with a higher Adjusted R2.

Cost of Equity and WACC

We used the Capital Asset Pricing Model (CAPM), a theory based on stock's volatility and level of risk compared to the general market. Thus, we assumed that that the expected cost of capital Ke is:

Ke $= rf + \beta \times [E(rm) - rf] = 8.57\%$

Where rf is the expected return of a risk-free asset, $E(rm) - rf$ is the equity risk premium, and β is the sensitivity Anhui Conch Cement shares to the systematic market risk.
Due to the negative net debt, we came up with a WACC of 9.57%, slightly higher than the Cost of Equity because of the "negative" impact of debt in the weighted average. Hence, the company could exploit the low Cost of Debt of 3.82% (calculated through Damodaran's approach) but prefers to have a large stock of liquidity, not optimizing its financial structure.
Moreover, we decided to consider the market capitalization as a proxy of equity and the 3-year average of net debt as a proxy of debt, to acknowledge the "not ordinary" increasing trend of this item.

Findings

In the valuation, we applied a two-stage growth period. Given the positive recovery after the Covid-19 crisis, a higher growth rate of revenues is assumed for the estimated period (2021-2023). In the second stage, we considered a stable growth, in which Unlevered Free-Cash Flow grows by 1.18% constantly. To estimate the stable growth rate, the historical averages of ROC and Reinvestment Rate were calculated. Based on the findings, a constant ROC (19.35%) and a constant Reinvestment Rate (6.10%) were multiplied to obtain a stable growth rate.

Market Multiples Approach

Peers analysis

We decided to focus on a group of comparables coherent with the core business of the company evaluated, regardless the size. We conducted our analysis over five companies: three of them operate in the Asian market (very similar to Anhui Conch), while the others two are from Italy and Colombia respectively.
We are aware that these companies could be affected by different and specific country risks, but we decided to include them in our analysis because they all have significant exposure to the international markets.
materials. The Company produces cements, clinkers, oil well cements, and sludge treatment agents. Through its subsidiaries, operates also power, chemical, and logistics businesses. Its revenue fell by 7% year-on-year to $ 4.02B in 2020 from $ 4.32B in 2019, while net income registered a growth by 4% to $ 0.88B.

Figure 22. Peer Analysis

Comparables multiples	EV / SALES	EV / EBITDA	P/E	P/BV
Taiwan Cement Corp	1,8x	12,3x	14,3x	1,7x
Asia Cement China Corp's	1,8x	12,9x	17,1x	1,7x
Cementos Argos SA	1,6x	6,6x	17,9x	1,5x
Shree Cement LTD	2,2x	9,4x	13,5x	2,0x
Buzzi Unicem SPA	1,9x	11,7x	12,2x	1,4x
Average	1,9x	10,6x	15,0x	1,7x
Median	1,8x	11,7x	14,3x	1,7x

Source: Minerva Investment Society Est.

Figure 23. Multiple Valuations

Method	P/E	P/E	P/BV	P/BV
Multiple choice	Average	Median	Average	Median
Anhui's corresponding metric	Net Income 2020	Net Income 2020	Book Value	Book Value
Anhui's corresponding metric	35,129,691.0	35,129,691.0	161,822,228.0	161,822,228.0
Multiple	15.0x	14.3x	1.7x	1.7x
Enterprise value				
(Net debt)				
(Minorities)				
Equity value	526,945,365.0	502,354,581.3	268,624,898.5	275,097,787.6
Net debt	(79,102,190.0)	(79,102,190.0)	(79,102,190.0)	(79,102,190.0)
Minorities	1,240,488.0	1,240,488.0	1,240,488.0	1,240,488.0
Enterprise value	449,083,663.0	424,492,879.3	190,763,196.5	197,236,085.6
Shares outstanding	5,299,000.0	5,299,000.0	5,299,000.0	5,299,000.0
share price	99.4	94.8	50.7	51.9

Method	EV / SALES	EV / SALES	EV / EBITDA	EV / EBITDA
Multiple choice	Average	Median	Average	Median
Anhui's corresponding metric	SALES 2020	SALES 2020	EBITDA 2020	EBITDA 2020
Anhui's corresponding metric	176.242.682,0	176.242.682,0	47.626.840,0	47.626.840,0
Multiple	1,9x	1,8x	10,6x	11,7x
Enterprise value	327.811.388,5	317.236.827,6	503.891.967,2	557.234.028,0
(Net debt)	79.102.190,0	79.102.190,0	79.102.190,0	79.102.190,0
(Minorities)	(1.240.488,0)	(1.240.488,0)	(1.240.488,0)	(1.240.488,0)
Equity value	405.673.090,5	395.098.529,6	581.753.669,2	635.095.730,0
Net debt				
Minorities				
Enterprise value				
Shares outstanding	5.299.000,0	5.299.000,0	5.299.000,0	5.299.000,0
share price	76,6	74,6	109,8	119,9

Source: Minerva Investment Society Est.

Taiwan Cement Corp is a cement *company* headquartered in Taiwan. It manufactures and markets building

Asia Cement China Corp's core business is really similar with the peer just presented. Indeed, it manufactures and sells cement, clinker, ready-mixed concrete, as well as granulated blast-furnace slag and fly ash. Its revenue has almost doubled over the years, rising from 0.95B in 2016 to 1.8B in 2019. The biggest and amazing growth, however, is associated with net income which grew from $ 20.1M to $ 455.48M over the same time period.

Cementos Argos SA is located in Barranquilla, Colombia and is part of the Cement & Concrete Product Manufacturing Industry. It covers several markets such as Colombia, Caribbean and Central America, and United States. It has approximately 2.100 employees across all of its locations and controls 148 different companies. It generated $ 2.72B in sales during the 2019 fiscal year, constant compared with the previous years. We can state that it could be a value company.

Shree Cement LTD is an Indian cement manufacturer company headquartered in Kolkata. It is one of the biggest cement makers in Northern India. It has more than 6.000 employees and its revenue was $ 1.8B in 2020, recording a CAGR of 12.6%.

Buzzi Unicem SPA is an Italian multinational specialized in the production of cement, active in Europe, the United States and South America. It is the second largest operator in its home country, with a market share of 16%. It has almost 9.850 employees and it registered a revenue of $ 3.78B in 2020, the same as in 2019. One interesting element about Buzzi Unicem is that in the last fiscal year it reduced its net debt consistently, moving from $ 666M to $ 284M.

Computation

We have performed a market multiples approach analysis to check the results obtained through the DCF model. We decided to use both equity and asset side multiples in order to have a more complete view.

On the one hand, as for the equity side multiple we chose to consider the P/E and P/BV since they are two of the most diffused tools in relative valuation.

As for the asset side multiples, we selected EV/SALES and EV/EBITDA, to observe the market appreciation of different capital, focusing on the revenues-costs structure.

We took the market multiples of the set of comparables mentioned before and computed respectively the average and the median as you can see in Figure 21.

Then we used our results to calculate the enterprise value of the company analyzed as shown in Figure 22.

We decided not to take into consideration the value outsorted from the EBITDA multiple because it was not in line with others estimates. Hence, we calculated the average of the other multiples (EV/Sales, P/E and P/BV).

The market multiples method yielded a target share price of 74.7 CN¥, which approximately confirms our DCF results.

Finally, we chose as our target price the average of both results.

Investment Risks

Construction materials sector. Despite its solid capital structure and its role in the Green Cement initiative, Anhui Conch Cement operates in an area where both lack of innovation and the maturity of the business itself might compromise its ability to retain market share in the long term. One of the main elements to consider is the increasing degree of Trading Asset Securities during the last two years. This trend suggests that the company might be concerned about the future profitability of the operations and thus preferred to increase its financial exposure.

Company's Shareholders. Although there is a consistent presence of privates and institutional investors in Anhui Conch Shareholders structure, the impact of the political variable could be very determinant in China. Indeed, sometimes the disclosure of information might be insufficient, creating uncertainty about future trends.

Country risk. We cannot underestimate the risk related to the political and social situation in China. The Chinese government has a huge control over strategic companies of the country and could threaten its smooth running of the business. The recent scandal of Alibaba and his disappeared CEO Jack Ma is an example of how much companies are subject to the will of the government. The communist regime is also famous for not respecting human rights and for not having a great welfare policy. This could lead to social tensions and protests that would impact the economy of the entire country.

Disclaimer

Appendix:

Income Statement

Million CN¥	31-Dec-2016	31-Dec-2017	31-Dec-2018	31-Dec-2019	31-Dec-20
Revenue	**55,932**	**75,311**	**128,403**	**157,030**	**176,243**
Cost of Revenue, Total	37,770	48,888	81,237	104,760	124,848
Gross Profit	**18,162**	**26,423**	**47,166**	**52,270**	**51,395**
Selling/General/Admin. Expenses, Total	1,150	2,156	2,106	3,886	2,919
Provision for Bad Debts	0	--	1	7	-4
Research & Development	--	42	71	187	647
Depreciation/Amortization	4,753	4,833	4,954	5,272	5,412
Other Operating Expenses, Total	1,190	447	1,111	533	206
Total Operating Expense	7,093	7,478	8,243	9,885	9,180
Operating Income	**11,069**	**18,945**	**38,923**	**42,385**	**42,215**
Interest Expense	-792	-684	-483	-447	-461
Interest and Invest. Income	762	2,671	1,735	2,799	3,788
Net Interest Expense	**-30**	**1,987**	**1,252**	**2,352**	**3,327**
Currency Exchange Gains (Loss)	101	-165	-114	206	-261
Other Non-Operating Inc. (Exp.)	297	39	-129	89	-2
EBT Excluding Unusual Items	**11,437**	**20,806**	**39,932**	**45,032**	**45,279**
Gain (Loss) On Sale Of Invest.	6	2	23	258	101
Gain (Loss) On Sale Of Assets	107	68	4	30	888
Asset Write-down	-385	--	-200	-1,164	--
Other Unusual Items	488	354	-130	401	837
EBT Incl. Unusual Items	**11,653**	**21,230**	**39,629**	**44,557**	**47,105**
Income Tax Expense	2,703	4,800	8,993	10,205	10,738
Net Income After Taxes	8,950	16,430	30,636	34,352	36,367
Minority Interest	-421	-574	-822	-759	-1,241
Net Income	**8,530**	**15,855**	**29,814**	**33,593**	**35,130**

Balance Sheet

	31-Dec-2016	31-Dec-2017	31-Dec-2018	31-Dec-2019	31-Dec-2020
ASSETS					
Cash and Short-Term Investments	15,586	26,786	47,768	73,831	89,060
Accounts Receivable - Trade, Net	7,166	12,187	14,367	13,000	10,891
Total Receivables, Net	8,020	13,254	15,671	14,432	12,631
Total Inventory	4,549	4,705	6,023	5,572	7,002
Prepaid Expenses	42	17	2	15	18
Other Current Assets, Total	1,198	1,191	2,589	3,260	4,269
Total Current Assets	**29,394**	**45,953**	**72,053**	**97,110**	**112,980**
Property/Plant/Equipment, Total - Net	64,172	63,361	63,779	65,151	67,474
Goodwill, Net	494	494	514	514	576
Intangibles, Net	7,498	7,976	8,372	9,979	13,710
Long Term Investments	6,251	3,252	3,441	4,147	4,614
Note Receivable - Long Term	--	--	--	--	--
Loans Receivable Long-Term	--	28	28	28	28
Deferred Tax Assets, LT	530	679	954	1,099	852
Other Long-Term Assets, Total	1,176	401	407	750	739
Total Assets	**109,514**	**122,143**	**149,547**	**178,777**	**200,973**
LIABILITIES					
Accounts Payable	4,379	4,986	6,396	7,304	4,786
Accrued Expenses	1,750	2,758	4,382	4,289	3,378
Notes Payable/Short Term Debt	1,275	935	1,377	2,942	1,982
Current Port. of LT Debt/Capital Leases	3,262	4,685	2,751	996	1,144
Current Income Taxes Payable	620	1,907	4,156	3,895	3,961
Unearned Revenue, Current	1,550	2,144	3,313	3,494	4,245
Other Current liabilities, Total	4,213	3,700	3,777	4,502	4,728
Total Current Liabilities	**17,049**	**21,114**	**26,152**	**27,421**	**24,223**
Total Long-Term Debt	11,443	8,359	6,105	7,369	6,808
Long-Term Leases	--	--	--	35	23
Unearned Revenue, Non-Current	249	339	406	450	532
Deferred Income Tax	474	366	466	724	772
Other Liabilities, Total	--	--	--	458	397
Total Liabilities	**29,215**	**30,179**	**33,130**	**36,457**	**32,756**
SHAREHOLDERS EQUITY					
Common Stock, Total	5,299	5,299	5,299	5,299	5,299
Additional Paid-In Capital	10,684	10,576	10,585	10,587	10,583
Retained Earnings (Accumulated Deficit)	60,035	73,240	96,695	121,332	145,920
Treasury Stock - Common	--	--	--	--	--
Comprehensive Inc. and Other	591	291	110	144	19
Minority Interest	3,690	2,558	3,729	4,959	6,395
Total Equity	**80,299**	**91,964**	**116,418**	**142,320**	**168,217**
Total Liabilities & Shareholders' Equity	**109,514**	**122,143**	**149,547**	**178,777**	**200,973**

DCF Analysis

	CY21F	CY22F	CY23F	Terminal value
Revenue	206,670	240,802	280,572	
EBITDA	49,849	50,294	49,191	
% margin	*24.1%*	*20.9%*	*17.5%*	
Less D&A	(7,271)	(8,482)	(9,883)	
EBIT	**42,578**	**41,812**	**39,308**	
Less tax on EBIT	10,644	10,453	9,827	
NOPAT	**31,934**	**31,359**	**29,481**	
% margin	*15.5%*	*13.0%*	*10.5%*	
Add D&A	7,271	8,482	9,883	
Less capex	(13,741)	(13,096)	(10,793)	
Less Δ NWC	(857)	(537)	(800)	
Unlevered FCF	**24,607**	**26,208**	**27,771**	**326,402**
Timing	1.0	2.0	3.0	
Discount factor	1.1	1.2	1.32	1.32
DCF	**22,458**	**21,831**	**21,112**	**248,142**

Valuation		
Discounted cash flows		65,401
Discounted TV		248,142
Enterprise value		**313,543**
-Net Debt		50,426
-Pension Provisions		(108)
-Minority Interests		6,395
Equity Value		369,220
# shares		**5,299**
Share Price (CN¥)		**69.68**

Assumptions	
Tax Rate	25.0%
WACC	9.57%
Terminal Growth Rate	1.18%
Cost of Equity	8.57%