

Issuing new shares to lower gearing



RESEARCH

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273mn new shares implies 11% dilution; Underperform

China National Building Material (CNBM) plans to issue 272.7mn new shares at HK\$7.45-7.85/shr, in order to lower gearing. There is no change in its FY09-10 capex plan. We revise down FY09e-10e net gearing from 258-214% to 208-179% and FY09e-10e EPS by 7-10%, while NPAT estimates largely remain the same. Maintain Underperform due to overcapacity and competition risk that Nanfang Cement faces and weakening demand for glass fiber and engineering.

No change in capex plan for FY09-10

We maintain our FY09-10e cement capacity estimates as new shares issue this time is just for reducing high gearing. Largely based on CNBM's current new projects under construction, we expect its consolidated cement capacity to increase from 112mt/yr as of YE08 to 132mt/yr as of YE09 and 142mt/yr as of YE10. We forecast its capex at RMB6.5bn in FY09 and RMB3.5bn in FY10.

FY09e net gearing down from 258% to 208%

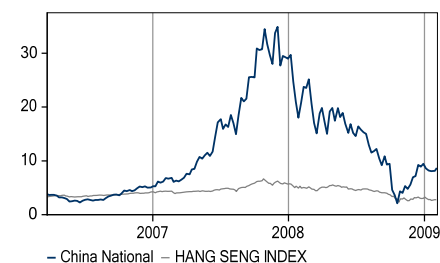
By assuming new issue price at the highest level, ie. HK\$7.85/shr, we estimate CNBM will raise RMB1.9bn and lower its FY09-10e net gearing from 258-214% to 208-179%. We believe it relieves investors' concern on CNBM's stretched balance sheet to some extent, but not significantly.

Valuation not attractive

If we use 8x FY09e PER to value engineering and glass fiber, CNBM's cement segment is trading at US\$57/ton EV/capacity, vs. US\$50/ton replacement cost. In the short term, we believe Nanfang Cement should not trade at a premium to replacement cost given poor profitability, high competition and over-capacity risk, and uncertainty in cement demand. Our 12-month PO of HK\$11.0/shr is based on US\$75/ton for China United and US\$60/ton for Nanfang Cement. CNBM valuation is sensitive to EV/capacity due to high gearing.

Stock Data

Price	HK\$8.67
Price Objective	HK\$12.40 to HK\$11.00
Date Established	6-Feb-2009
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	HK\$1.46-HK\$26.00
Mrkt Val / Shares Out (mn)	US\$2,469 / 2,208.5
Average Daily Volume	25,799,140
ML Symbol / Exchange	CBUMF / HKG
Bloomberg / Reuters	3323 HK / 3323.HK
ROE (2008E)	16.2%
Net Dbt to Eqty (Dec-2007A)	97.9%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	40.9%



Estimates (Dec)

(CNY)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	572	832	1,297	1,706	2,402
EPS	0.301	0.395	0.587	0.707	0.968
EPS Change (YoY)	29.3%	31.2%	48.6%	20.4%	36.9%
Dividend / Share	0.032	0.033	0.070	0.110	0.003
Free Cash Flow / Share	(0.505)	(3.41)	(8.22)	(0.924)	0.932

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	28.89x	20.55x	13.00x	10.81x	7.89x
Dividend Yield	0.372%	0.406%	0.917%	1.44%	0.041%
EV / EBITDA*	43.89x	26.43x	11.30x	8.37x	6.91x
Free Cash Flow Yield*	-5.75%	-42.85%	-107.64%	-13.22%	13.70%

* For full definitions of *iQmethod*SM measures, see page 12.

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Refer to important disclosures on page 13 to 15. Analyst Certification on Page 11. Price Objective Basis/Risk on page 11.

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iQprofileSM China National Building Material Co Ltd.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(CNY Millions)					
Sales	6,452	10,514	25,206	29,037	33,549
Gross Profit	1,297	1,995	4,625	6,093	7,419
Sell General & Admin Expense	(766)	(1,119)	(2,508)	(3,203)	(3,718)
Operating Profit	838	1,439	3,172	4,242	5,241
Net Interest & Other Income	(115)	(394)	(1,467)	(1,807)	(1,853)
Associates	91	231	366	297	383
Pretax Income	814	1,276	2,071	2,732	3,771
Tax (expense) / Benefit	(50)	(207)	(359)	(536)	(711)
Net Income (Adjusted)	572	832	1,297	1,706	2,402
Average Fully Diluted Shares Outstanding	1,901	2,106	2,208	2,413	2,481

Key Cash Flow Statement Data

Net Income	572	832	1,297	1,706	2,402
Depreciation & Amortization	286	428	1,193	1,651	1,904
Change in Working Capital	(641)	(1,025)	(1,610)	(1,207)	(652)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	220	462	1,550	2,118	2,202
Cash Flow from Operations	438	697	2,430	4,268	5,856
Capital Expenditure	(1,408)	(7,929)	(20,594)	(6,498)	(3,543)
(Acquisition) / Disposal of Investments	(737)	(1,315)	(1,144)	(494)	(560)
Other Cash Inflow / (Outflow)	(267)	(911)	(3,600)	184	229
Cash Flow from Investing	(2,412)	(10,154)	(25,337)	(6,808)	(3,874)
Shares Issue / (Repurchase)	1,770	2,351	2,422	2,582	391
Cost of Dividends Paid	(182)	(183)	(223)	(362)	(517)
Cash Flow from Financing	2,590	6,597	23,725	7,058	(1,361)
Free Cash Flow	(970)	(7,232)	(18,164)	(2,230)	2,313
Net Debt	4,074	9,544	28,418	34,530	34,910
Change in Net Debt	677	4,140	22,290	2,483	380

Key Balance Sheet Data

Property, Plant & Equipment	7,752	14,857	32,243	37,394	39,370
Other Non-Current Assets	1,301	4,586	9,083	9,943	10,692
Trade Receivables	1,956	4,480	7,586	9,029	10,271
Cash & Equivalents	1,974	3,837	8,070	8,958	9,578
Other Current Assets	1,007	2,118	4,961	5,080	5,595
Total Assets	13,990	29,880	61,943	70,403	75,507
Long-Term Debt	2,453	4,718	13,393	15,393	16,393
Other Non-Current Liabilities	40	358	490	490	490
Short-Term Debt	3,596	8,664	23,095	28,095	28,095
Other Current Liabilities	2,187	6,388	12,258	8,983	10,089
Total Liabilities	8,276	20,127	49,236	52,961	55,066
Total Equity	5,714	9,753	12,707	17,442	20,440
Total Equity & Liabilities	13,990	29,880	61,943	70,403	75,507

iQmethodSM - Bus Performance*

Return On Capital Employed	8.7%	7.1%	7.6%	6.3%	6.9%
Return On Equity	18.1%	14.4%	16.2%	16.3%	17.8%
Operating Margin	13.0%	13.7%	12.6%	14.6%	15.6%
EBITDA Margin	17.4%	17.8%	17.3%	20.3%	21.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	0.8x	1.9x	2.5x	2.4x
Asset Replacement Ratio	4.9x	18.5x	17.3x	3.9x	1.9x
Tax Rate (Reported)	6.2%	16.2%	17.3%	19.6%	18.9%
Net Debt-to-Equity Ratio	71.3%	97.9%	223.6%	198.0%	170.8%
Interest Cover	3.8x	3.2x	1.9x	2.2x	2.7x

Key Metrics

* For full definitions of iQmethodSM measures, see page 12.

Company Description

China National Building Materials (CNBM) is one of the two centrally controlled state-owned building materials producer in China. It is engaged in cement, lightweight building materials, glass fiber & FRP (fiberglass reinforced plastics) products and engineering services. CNBM is expanding its cement capacity in eastern and south-central China, aiming to be a leader in the region.

Investment Thesis

We expect CNBM to underperform because 1) Nanfang Cement is struggling at break-even level and faces oversupply and competition risk. 2) Overseas demand for glass fiber and engineering (glass and cement) is weakening. 3) Stretched balance sheet.

Stock Data

Price to Book Value 1.9x

Valuation

SOTP-based PO - HK\$11.0/shr

We lower our SOTP-based PO by 11% to HK\$11.0/shr mostly due to dilution.

In our sum-of-the-parts(SOTP) valuation, we have used US\$75/ton EV/capacity, 50% premium to the replacement cost (US\$50/ton), to value China United, due to better market location and profitability than Nanfang Cement; we have used US\$60/ton EV/capacity, 20% premium to the replacement cost, to value Nanfang Cement, given that it is located in less profitable cement markets and therefore has relatively low EBITDA/capacity. Table below reflects the P/E multiples we have used to value other segments.

Table 1: Updated Valuation

Segments	Est. EV (HK\$m)	Net Debt (HK\$m)	Minority interest (HK\$m)	Minority stake (%)	Est. NAV (HK\$m)	% of Total (%)	NAV/sh (HK\$)	Valuation basis	YE09E capacity (mn ton/yr)	09E EBITDA / 09E effective capacity (US\$/ton)
Cement										
China United	24,071	-8,265	-2,370	15%	13,435	59.7%	5.4	EV/YE09 capacity: US\$75/ton	41.1	7.6
Nanfang Cement	42,355	-28,559	-5,466	40%	8,330	37.0%	3.4	EV/YE09 capacity: US\$60/ton	90.5	4.9
Cement Asso.	229				229	1.0%	0.1	1x P/B		
Lightweight building materials										
BNBM	9,915	-1,546	-5,020	60%	948	4.2%	0.4	8x FY09E P/E		
CNBM Investment	67	77	0	0%	312	1.4%	0.1	5x FY09E P/E		
Glass fiber and FRP products										
China Composites	2,790	-455	-122	6%	2,528	11.2%	1.0	8x FY09E P/E		
Jushi Group (29.94%) - Asso.	1,237				1,237	5.5%	0.5	1x P/B		
Shanghai Yaopi (16.26%) - Asso.	536				536	2.4%	0.2	Mkt val		
Engineering services										
China Triumph	3,781	1,037	-1,504	31%	3,532	15.7%	1.4	8x FY09E P/E		
Net debt unallocated		-3,858			-3,858	-17.1%	-1.6			
Total NAV (YE09 PO)	84,983	-41,569	-14,483	33%	27,230	120.9%	11.0			

Source: Banc of America Securities - Merrill Lynch estimates

CNBM valuation sensitive to EV/capacity

Valuation of CNBM is very sensitive to EV/capacity due to much higher net Gearing. When setting our 12-month PO, we used US\$75/ton to value China United and US\$60/ton for Nanfang Cement. In the short term, the market won't accept high EV/capacity, in our view, due to uncertainty in cement demand.

If using US\$65 to value China United and US\$50/ton for Nanfang Cement, PO of CNBM should be HK\$8.2/shr, 5% downside potential. Therefore, we maintain our Underperform rating on CNBM.

Table 2: Valuation sensitivity

EV/capacity(US\$/ton) for China United	EV/capacity(US\$/ton) for Nanfang Cement			
	50.0	60.0	70.0	80.0
65.0	8.2	9.9	11.6	13.3
75.0	9.3	11.0	12.7	14.4
85.0	10.4	12.1	13.8	15.5

Source: Banc of America Securities - Merrill Lynch estimates

Estimated NAV based on DCF - HK\$9.5/shr

For our DCF valuation, we have used an 11% discount rate, based on WACC and long-term cash flow growth rate of 3% beyond FY18E. For valuing the cement segment on DCF, we estimate gross margin will stabilize at around 21% in the long term.

Table 3: Estimated NAV based on DCF

	Est. EV (HK\$m)	Net Debt (HK\$m)	Minority interest (HK\$m)	Est. NAV (HK\$m)	% of NAV/s Total	NAV/s h basis (HK\$)	Valuation basis
Cement							
China United	20,389	-8,265	-1,818	10,305	43.7%	4.2	DCF
Nanfang Cement	29,364	-28,559	-319	486	2.1%	0.2	DCF
Cement Assoc	229			229	1.0%	0.1	1x P/B
Lightweight building materials							
BNBM	6,833	-1,546	-3,178	2,109	8.9%	0.9	DCF
CNBM Investment	568	77		645	2.7%	0.3	DCF
Glass fiber and FRP products							
China Composites - Excl. Shanghai							
Yaopi	7,966	-455	-486	7,025	29.8%	2.8	DCF
China Fiberglass	1,237			1,237	5.2%	0.5	1x P/B
Shanghai Yaopi	536			536	2.3%	0.2	Mkt val
Engineering services							
China Triumph	6,052	1,037	-2,214	4,875	20.7%	2.0	DCF
Business offset and others		-3,858		-3,858	-16.4%	-1.6	
Total NAV	73,175	-41,569	-8,014	23,592	100.0%	9.5	

Source: Banc of America Securities - Merrill Lynch estimates

EV/capacity comparison

If we use 8x FY09E PE to value engineering and glass fiber, CNBM's cement segment is trading at US\$57/ton, while Sinoma's cement segment is trading at US\$52/ton. Anhui Conch is trading at US\$86/ton. We believe Sinoma's cement segment should trade on par with Anhui Conch given its unit gross profit (UGP) in Northwest China is 40-60% higher than Anhui Conch, and its UGP in North China is close to Anhui Conch. In our view, Nanfang cement of CNBM should trade at a discount given poor profitability and higher competition and over-capacity risk.

Table 4: EV/capacity comparison

		Current EV US\$m	YE08 Capacity mn ton	EV/capacity US\$/ton	08E EBITDA/ton US\$/ton
Anhui Conch	914 HK	8,969	104.2	86.1	7.9
Tangshan Jidong Cement	000401 CH	2,474	36.0	97.2	6.8
Tianshan Cement	000877 CH	934	16.5	56.6	7.8
Saima Industrial	600449 CH	576	7.0	82.3	8.9
Huaxin Cement	600801 CH	1,511	29.3	51.6	6.9
Shanshui Cement	691 HK	1,380	28.3	48.7	8.6
Asia Cement	743 HK	884	12.0	73.7	13.4
ACC Ltd	ACC IN	1,835	17.4	105.4	19.7
Grasim Industries	GRASIM IN	2,835	51.5	55.1	25.7
India Cements	ICEM IN	971	11.1	87.7	28.9
Shree Cement	SRCM IN	472	6.8	69.5	32.2
Ultra Tech Cement	UTCEM IN	1,263	17.6	71.6	24.1

Source: Banc of America Securities - Merrill Lynch estimates, the rest IBES consensus, as at Feb 5, 2009

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Cement comps

Table 5: Cement comps

BAS-ML Ticker	Company Name	BL ticker	ML rating	Trd ccy	Rep ccy	Share Price (lcl)	Market cap. (US\$m)	P/E				P/B				ROE			
								2007E	2008E	2009E	2010E	2007E	2008E	2009E	2010E	2007E	2008E	2009E	2010E
CBUMF	CNBM	3323 HK	C-3-7; Underperform	HKD	CNY	8.67	2,469	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)
XFCHF	Sinoma Global	1893 HK	C-1-7; Buy	HKD	CNY	3.78	1,741	18.8	16.1	8.0	6.6	2.0	1.7	1.2	1.0	11.9	13.9	16.0	16.0
HCMLF	Holcim	HOLN VX		CHF	CHF	50.50	11,244	3.4	6.4	7.9	7.5	0.7	0.7	0.7	0.6	22.8	11.0	9.4	9.5
HLBZF	HeidelbergCement AG	HEI GR		EUR	EUR	30.70	4,835	1.8	4.1	4.9	4.8	0.5	0.4	0.4	0.4	32.8	16.3	6.7	9.1
LFGEF	Lafarge SA Asia & Pacific	LG FP		EUR	EUR	39.54	9,830	3.6	4.2	5.2	5.1	0.6	0.6	0.5	0.5	17.8	14.6	10.2	10.3
AHCHF	Anhui Conch	914 HK		HKD	CNY	39.50	8,235	22.7	21.3	17.7	14.2	5.1	2.8	2.5	2.1	27.7	16.8	14.1	15.7
	Tangshan Jidong Cement	000401 CH		CNY	CNY	11.77	2,088	30.8	38.9	27.4	27.2	4.2	2.3	2.1	1.9	13.8	6.0	7.8	6.9
	Tianshan Cement	000877 CH		CNY	CNY	11.94	545	42.3	17.7	16.0	14.9	5.6	3.3	3.2	2.5	13.2	NA	NA	17.0
	Saima Industrial	600449 CH		CNY	CNY	21.39	611	35.7	17.6	13.6	12.5	4.4	2.3	2.3	1.9	12.5	NA	NA	15.3
	Huaxin Cement	600801 CH		CNY	CNY	18.58	944	21.1	17.3	13.4	12.0	3.6	1.9	1.7	1.4	19.0	13.5	11.3	13.3
	Shanshui Cement	691 HK		HKD	CNY	2.26	893	20.0	9.7	6.2	4.7	NA	1.1	1.0	0.9	14.0	15.2	13.1	16.9
	Asia Cement	743 HK		HKD	CNY	3.76	856	14.1	11.9	7.8	7.6	NA	0.9	0.8	0.7	6.9	8.4	10.8	8.7
	Asia Cement	1102 TT		TWD	TWD	26.30	2,265	7.5	9.2	10.2	9.9	1.1	1.0	1.0	0.8	15.3	12.8	13.8	17.0
	Taiwan Cement	1101 TT		TWD	TWD	26.00	2,509	10.3	14.9	13.5	12.2	1.0	1.3	1.2	1.3	11.0	8.4	13.9	17.6
SICVF	Siam City Cement	SCCC TB	C-1-7; Buy	THB	THB	128.00	870	9.1	10.0	10.1	9.0	1.9	1.9	1.9	1.9	20.3	18.7	18.8	21.2
TPILF	TPI Polene	TPIPL TB		THB	THB	3.12	180	2.7	4.4	4.2	NA	0.1	0.1	0.1	NA	4.4	2.8	2.7	NA
PITPF	Indocement TP	INTP LJ	C-1-7; Buy	IDR	IDR	4,500.00	1,401	16.8	10.5	10.4	9.2	2.4	2.1	1.8	1.6	15.2	21.1	18.6	18.4
PSGTF	Semen Gresik	SMGR LJ		IDR	IDR	3,450.00	1,731	11.5	9.3	9.2	8.2	3.1	2.5	2.2	1.9	29.3	28.8	25.5	25.2
ADCLF	ACC Ltd	ACC IN	C-3-7; Underperform	INR	INR	531.05	2,048	7.0	9.2	11.9	15.5	2.4	2.1	1.9	1.7	34.3	24.2	16.6	11.7
GRSJF	Grasim Industries	GRASIM IN	C-3-7; Underperform	INR	INR	1,290.90	2,500	6.0	4.1	4.5	7.0	2.5	1.7	1.2	1.1	50.6	44.0	26.3	16.5
INIAF	India Cements	ICEM IN	C-3-9; Underperform	INR	INR	106.10	596	4.8	4.6	4.9	5.5	2.1	1.2	1.0	0.8	55.0	35.9	23.5	16.2
SREEF	Shree Cement	SRCM IN	C-3-7; Underperform	INR	INR	519.45	364	10.2	6.9	3.5	3.5	3.6	3.6	1.8	1.2	83.4	59.3	68.0	40.1
XDJNF	Ultra Tech Cement	UTCEN IN	C-2-7; Neutral	INR	INR	412.80	1,052	6.6	5.1	5.4	5.8	2.9	1.9	1.4	1.2	55.8	45.2	30.5	22.0
ADBCF	Adelaide Brighton Average	ABC AU	B-1-7; Buy	AUD	AUD	1.69	606	8.1	7.7	7.3	6.3	1.4	1.3	1.3	1.2	17.5	17.5	17.6	19.5
								14.4	11.1	9.8	9.7	2.9	1.9	1.6	1.5	30.0	46.5	13.8	11.9

Note: P/E based on after-exceptional EPS.

Source: *Banc of America Securities - Merrill Lynch estimates, the rest IBES consensus, as at Feb 5, 2009

Key assumptions

Table 6: Key assumptions

		2005A	2006A	2007A	2008E	2009E	2010E
Cement							
<i>Capacity(YE)</i>							
China United	mt/yr	11.1	17.6	26.0	35.1	41.1	45.2
Nanfang Cement	mt/yr			19.0	76.8	90.5	96.7
Total cement capacity	mt/yr	11.1	17.6	45.1	111.9	131.6	141.9
<i>Attr. capacity(YE)</i>							
China United	mt/yr	9.4	15.0	22.4	29.7	35.0	38.2
Nanfang Cement	mt/yr			15.9	62.3	72.9	77.5
Total cement capacity	mt/yr	9.4	15.0	38.3	92.0	107.8	115.7
<i>Sales volume</i>							
China United - clinker	mt	1.8	3.3	6.7	8.7	9.1	9.8
China United - cement	mt	5.6	9.2	13.8	21.8	25.1	28.6
Nanfang Cement - clinker	mt			2.2	11.2	12.0	6.3
Nanfang Cement - cement	mt			3.1	34.2	52.1	73.6
Total sales of clinker	mt	1.8	3.3	9.0	20.0	21.1	16.1
Total sales of cement	mt	5.6	9.2	16.8	56.0	77.1	102.2
		30%	32%	41%	32%	26%	17%
<i>Cement price</i>							
China United - clinker	RMB/ton	153	154	161	215	189	184
China United - cement	RMB/ton	179	186	191	232	215	209
Growth	%		4%	3%	21%	-7%	-3%
Nanfang Cement - clinker	RMB/ton			185	221	191	179
Nanfang Cement - cement	RMB/ton			204	237	203	191
Growth	%				17%	-14%	-6%
Avg. clinker price	RMB/ton	153	154	167	218	190	182
Avg. cement price	RMB/ton	179	186	194	235	207	196
Growth	%		4%	4%	22%	-12%	-5%
Coal price change	%			7%	56%	-15%	-10%
Change in unit power consumption	%			0%	-11%	-8%	0%
Change in power price	%			3%	0%	0%	0%
<i>Unit gross profit</i>							
China United	RMB/ton	37.5	37.4	34.5	46.7	46.4	49.0
Nanfang Cement	RMB/ton			21.0	28.5	31.7	33.0
Avg. unit gross profit	RMB/ton	37.5	37.4	34.1	37.0	37.9	39.3
Lightweight building materials							
Sales of gypsum board	mn sqm	151	247	303	348	417	484
ASP of gypsum board	RMB/sqm	4.5	4.6	4.6	5.1	4.8	4.8
Gross margin of gypsum board	%	25%	26%	29%	41%	41%	40%
Glass fiber and FRP products							
Sales of glass fiber	000 ton	240.0	310.0	392.5	550.9	761.2	806.2
ASP of glass fiber	RMB/ton	5,563.0	6,001.6	7,930.9	7,334.5	6,181.2	6,866.7
Gross margin of glass fiber	%	31.7%	31.0%	32.8%	32.5%	28.2%	31.3%
Unit gross profit of glass fiber	RMB/ton	1,761.1	1,858.9	2,604.2	2,385.8	1,744.7	2,150.5
Sales of rotor blade	unit	0	68	933	2,073	3,110	4,939
ASP of rotor blade	RMB mn/unit	0.00	0.43	0.45	0.47	0.45	0.43
Gross margin of rotor blade	%	0%	20%	25%	34%	34%	34%
Engineering services							
Sales	RMBmn	863	1,282	2,109	3,179	3,815	4,197
Gross margin	%	18%	18%	17%	18%	18%	18%
Exchange rate							
Avg. CNY/USD	x	8.19	7.97	7.61	6.94	6.80	6.80

Source: Company data, Banc of America Securities - Merrill Lynch estimates

Financial statements

Table 7: Income statement

Yr to Dec		2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Revenue	CNYmn	1,845	2,898	4,727	6,452	10,514	25,206	29,037	33,549
Growth	%		57.1%	63.1%	36.5%	63.0%	139.7%	15.2%	15.5%
EBITDA	CNYmn	259	413	762	1,124	1,866	4,364	5,892	7,145
EBITDA Margin	%	14.0%	14.2%	16.1%	17.4%	17.8%	17.3%	20.3%	21.3%
Depreciation & amort	CNYmn	(133)	(134)	(219)	(286)	(428)	(1,193)	(1,651)	(1,904)
EBIT	CNYmn	126	279	543	838	1,439	3,172	4,242	5,241
EBIT Margin	%	6.8%	9.6%	11.5%	13.0%	13.7%	12.6%	14.6%	15.6%
Interest Receipts	CNYmn	14	18	19	105	58	205	95	114
Interest Expense	CNYmn	(58)	(99)	(162)	(220)	(452)	(1,672)	(1,902)	(1,967)
Other financial income	CNYmn	0	0	0	0	0	0	0	0
Share of associates	CNYmn	70	97	109	91	231	366	297	383
Other income	CNYmn	0	0	0	0	0	0	0	0
Profit Pre Tax/exceptionals	CNYmn	152	294	509	814	1,276	2,071	2,732	3,771
Exceptionals pretax	CNYmn	1	0	28	(274)	80	201	100	0
Income Tax	CNYmn	(9)	(25)	(45)	(50)	(207)	(359)	(536)	(711)
Minorities	CNYmn	(33)	(76)	(141)	(191)	(236)	(415)	(490)	(657)
Reported Profit	CNYmn	112	193	351	298	912	1,498	1,806	2,402
Exceptionals aftertax	CNYmn	1	0	28	(274)	80	201	100	0
Pre-exceptionals Profit	CNYmn	110	193	323	572	832	1,297	1,706	2,402
Earnings growth	%		75.0%	67.3%	77.2%	45.4%	55.8%	31.6%	40.8%
Reported EPS	cents	8.1	13.9	25.3	15.7	43.3	67.8	74.9	96.8
EPS growth	%		72.9%	81.7%	-38.0%	176.2%	56.6%	10.4%	29.3%
Pre-except EPS	cents	8.0	13.9	23.3	30.1	39.5	58.7	70.7	96.8
EPS growth	%		75.0%	67.3%	29.3%	31.2%	48.6%	20.4%	36.9%
DPS	cents	1.5	2.0	5.8	3.2	3.3	7.0	11.0	0.3

Gross Profit Breakdown

Divisional

Cement	CNYmn	611.7	778.8	1,272.6	2,215.5	4,753.3	17,539.4	19,959.0	22,982.7
Lightweight building materials	CNYmn	1,028.0	1,482.6	2,326.9	2,744.3	2,957.4	3,373.1	3,681.4	4,057.5
Engineering services	CNYmn	145.5	465.9	863.5	1,281.9	2,108.5	3,179.3	3,815.1	4,196.6
Glass fiber and FRP products	CNYmn	75.1	261.3	317.1	367.4	782.0	1,460.9	1,871.7	2,647.3
Business offset	CNYmn	-15.0	-90.5	-53.5	-157.3	-86.8	-347.1	-290.4	-335.5
Total	CNYmn	1,845.2	2,898.1	4,726.5	6,451.8	10,514.4	25,205.7	29,036.9	33,548.6

Percentage

Cement	%	33.1%	26.9%	26.9%	34.3%	45.2%	69.6%	68.7%	68.5%
Lightweight building materials	%	55.7%	51.2%	49.2%	42.5%	28.1%	13.4%	12.7%	12.1%
Engineering services	%	7.9%	16.1%	18.3%	19.9%	20.1%	12.6%	13.1%	12.5%
Glass fiber and FRP products	%	4.1%	9.0%	6.7%	5.7%	7.4%	5.8%	6.4%	7.9%
Business offset	%	-0.8%	-3.1%	-1.1%	-2.4%	-0.8%	-1.4%	-1.0%	-1.0%
Total	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Gross margin

Cement	%	31.2%	28.3%	23.4%	22.7%	19.0%	16.8%	19.3%	20.6%
Lightweight building materials	%	16.2%	12.2%	14.5%	17.1%	17.3%	26.6%	27.7%	28.4%
Engineering services	%	22.6%	18.5%	17.7%	17.9%	17.3%	17.8%	17.8%	17.8%
Glass fiber and FRP products	%	38.1%	29.3%	28.9%	29.3%	26.0%	29.8%	30.2%	31.1%
Avg gross margin	%	22.7%	19.1%	18.5%	20.1%	19.0%	18.3%	21.0%	22.1%

Source: Company data, Banc of America Securities - Merrill Lynch estimates

Table 8: EBIT and NPAT breakdown

Segment results		2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Divisional									
Cement	CNYmn	48.5	125.9	240.3	381.4	759.3	2,094.4	2,954.3	3,681.5
Lightweight building materials	CNYmn	76.1	98.2	176.9	243.4	277.5	349.2	376.6	409.3
Glass fiber and FRP products	CNYmn	0.7	23.8	51.6	67.0	107.8	288.1	377.4	559.0
Engineering services	CNYmn	14.9	57.4	105.3	167.4	263.6	438.0	533.4	591.1
Business offset	CNYmn	-14.1	-26.6	-30.7	-21.3	30.5	2.1	0.0	0.0
Total	CNYmn	126.0	278.8	543.4	837.8	1,438.7	3,171.8	4,241.7	5,240.9
Percentage									
Cement	%	38.4%	45.2%	44.2%	45.5%	52.8%	66.0%	69.6%	70.2%
Lightweight building materials	%	60.3%	35.2%	32.5%	29.0%	19.3%	11.0%	8.9%	7.8%
Glass fiber and FRP products	%	0.5%	8.5%	9.5%	8.0%	7.5%	9.1%	8.9%	10.7%
Engineering services	%	11.9%	20.6%	19.4%	20.0%	18.3%	13.8%	12.6%	11.3%
Business offset	%	-11.2%	-9.5%	-5.6%	-2.5%	2.1%	0.1%	0.0%	0.0%
Total	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NPAT									
Divisional									
Cement	CNYmn	32.3	79.9	133.8	283.0	342.4	606.6	850.5	1,198.4
Lightweight building materials	CNYmn	42.4	52.3	72.5	76.6	102.7	136.9	153.3	165.1
Glass fiber and FRP products	CNYmn	45.2	75.6	96.2	95.7	277.7	383.3	416.7	634.2
Engineering services	CNYmn	11.6	47.4	88.4	146.0	197.6	305.1	374.2	418.1
Business offset and others	CNYmn	-19.8	-62.0	-39.9	-28.8	-7.9	66.3	11.6	-13.5
Total	CNYmn	111.7	193.1	351.1	572.4	912.4	1,498.2	1,806.4	2,402.4
Percentage									
Cement	%	28.9%	41.4%	38.1%	49.4%	37.5%	40.5%	47.1%	49.9%
Lightweight building materials	%	37.9%	27.1%	20.7%	13.4%	11.3%	9.1%	8.5%	6.9%
Glass fiber and FRP products	%	40.5%	39.1%	27.4%	16.7%	30.4%	25.6%	23.1%	26.4%
Engineering services	%	10.4%	24.5%	25.2%	25.5%	21.7%	20.4%	20.7%	17.4%
Business offset and others	%	-17.7%	-32.1%	-11.4%	-5.0%	-0.9%	4.4%	0.6%	-0.6%
Total	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Banc of America Securities - Merrill Lynch estimates

Table 9: Balance sheet

Yr to Dec		2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Cash & deposits	CNYmn	916	826	933	1,549	3,151	6,373	7,261	7,881
Trade debtors	CNYmn	670	922	1,438	1,956	4,480	7,586	9,029	10,271
Inventories	CNYmn	358	530	722	834	1,519	4,127	4,245	4,761
Others	CNYmn	336	235	221	598	1,286	2,531	2,531	2,531
Current assets	CNYmn	2,281	2,513	3,312	4,937	10,436	20,617	23,066	25,444
Property, plant & equipment	CNYmn	1,604	3,146	4,792	7,063	13,005	29,117	33,953	35,774
Land use rights	CNYmn	109	240	306	408	1,536	2,820	3,145	3,310
Goodwill	CNYmn	1	2	56	254	1,131	2,871	2,953	2,980
Investment in associates	CNYmn	733	799	864	854	1,794	3,215	3,917	4,745
LT Investment	CNYmn	37	41	52	53	107	140	140	140
Non-current assets	CNYmn	2,613	4,438	6,400	9,053	19,444	41,326	47,337	50,062
Trade creditors	CNYmn	696	1,109	1,820	2,069	4,800	8,254	8,491	9,522
Provision for tax	CNYmn	9	19	22	43	121	183	301	375
Loans	CNYmn	990	1,450	3,232	3,596	8,664	23,095	28,095	28,095
Others	CNYmn	49	160	203	75	1,467	3,822	192	192
Current Liabilities	CNYmn	1,744	2,738	5,277	5,783	15,051	35,353	37,078	38,183
Bank loans	CNYmn	477	1,242	1,005	2,453	4,718	13,393	15,393	16,393
Others	CNYmn	10	5	4	40	358	490	490	490
Non-current liabilities	CNYmn	487	1,247	1,009	2,493	5,076	13,883	15,883	16,883
Net assets backing									
Minority interests	CNYmn	-981	-1,077	-1,315	-1,507	-2,367	-4,051	-5,121	-5,725
Net Assets	CNYmn	1,681	1,889	2,112	4,207	7,386	8,655	12,321	14,715
Per share	CNY	1.2	1.4	1.5	2.0	3.5	3.9	5.0	5.9
Shareholders Funds									
Capital	CNYmn	1,387	1,387	1,388	2,072	2,208	2,208	2,481	2,481
Reserves	CNYmn	0	0	0	1,180	3,382	3,308	5,167	5,167
Dividend Proposed/Payables	CNYmn	0	0	69	0	31	0	0	0
Retained Profits	CNYmn	294	502	724	956	1,795	3,139	4,672	7,067
Total	CNYmn	1,681	1,889	2,112	4,207	7,386	8,655	12,321	14,715
Key Ratios									
Shareholders' Equity	%	54.4%	42.7%	35.3%	40.8%	32.6%	20.5%	24.8%	27.1%
Debt/equity ratio	%	55.1%	90.8%	123.6%	105.8%	137.2%	287.2%	249.3%	217.6%
Net debt/equity ratio	%	20.7%	62.9%	96.4%	78.7%	104.9%	237.0%	207.7%	179.1%
(Net debt+ payable to cement plant sellers)/equity ratio	%	20.7%	62.9%	96.4%	78.7%	118.0%	265.6%	207.7%	179.1%
Gross Interest Cover	x	-1.6x	-2.0x	-2.1x	-2.7x	-1.8x	-0.2x	-0.4x	-0.9x

Source: Company data, Banc of America Securities - Merrill Lynch estimates

Table 10: Cash flow statement

Yr to Dec		2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Cashflow from operations									
Pre Tax Profit	CNYmn	126	279	543	838	1,439	3,172	4,242	5,241
+Depreciation	CNYmn	133	134	219	286	428	1,193	1,651	1,904
+Creditors -Debtors	CNYmn	12	140	(74)	(480)	284	411	(1,088)	(137)
-Inventory Increase	CNYmn	(0)	(149)	(214)	(82)	(685)	(2,608)	(118)	(515)
-Other Items	CNYmn	(53)	85	(91)	(63)	(623)	586	0	0
Cashflow from Operations	CNYmn	218	489	383	499	841	2,754	4,686	6,493
-Income Tax Paid	CNYmn	(6)	(17)	(44)	(61)	(144)	(325)	(418)	(637)
Net Cash from Operations	CNYmn	213	472	339	438	697	2,430	4,268	5,856
Investing activities									
Interest received	CNYmn	16	18	19	104	58	205	95	114
+Sale of Assets	CNYmn	8	1	8	60	0	32	0	0
-Capital Expenditure	CNYmn	(239)	(1,664)	(1,015)	(1,408)	(7,929)	(20,594)	(6,498)	(3,543)
+Others	CNYmn	91	90	(25)	(1,167)	(2,283)	(4,980)	(405)	(445)
Total	CNYmn	(124)	(1,555)	(1,013)	(2,412)	(10,154)	(25,337)	(6,808)	(3,874)
Financing activities									
New share issues	CNYmn	0	0	1	1,754	2,351	0	1,866	0
+Net Loan Receipts	CNYmn	360	1,164	1,002	1,293	1,280	23,107	7,000	1,000
-Interest paid	CNYmn	(60)	(125)	(207)	(269)	(517)	(1,797)	(2,162)	(2,235)
-Dividends Paid	CNYmn	(39)	(53)	(26)	(150)	(38)	(104)	(155)	(273)
+Change in amount due to cement plants sellers	CNYmn	0	0	0	0	1,280	2,350	(3,630)	0
+Others	CNYmn	27	7	11	(39)	7,983	4,869	(3,122)	147
Total	CNYmn	288	993	781	2,590	11,059	26,074	3,428	(1,361)
Net Cashflow	CNYmn	377	(90)	107	616	1,602	3,167	888	620
Effect of foreign exchange	CNYmn	3	0	(1)	(0)	(0)	(1)	0	0
Cash & Deposits	CNYmn	916	826	933	1,549	3,151	6,373	7,261	7,881
Net Debt	CNYmn	551	1,866	3,304	4,499	10,231	30,115	36,227	36,607

Source: Company data, Banc of America Securities - Merrill Lynch estimates

Price objective basis & risk China National (CBUMF)

Our 12-month price objective is set at HK\$11.0/share in line with our sum-of-the-parts valuation of the stock. In our valuation of the cement segment, we use US\$75/ton EV/capacity to value China United, 50% premium to the replacement cost (US\$50/ton), due to better market location and profitability than Nanfang Cement. We have used US\$60/ton EV/capacity (20% premium to the replacement cost) to value Nanfang Cement, given that it is located in less profitable cement markets and therefore has relatively low EBITDA/capacity.

For the other segments, we use 8x FY08e P/E to value lightweight building materials, Glass fiber and FPR products, and engineering services.

At our PO, CNBM would be trading at 14x FY09e P/E and 10x FY10e P/E, in line with its peers. 12-month historical trading range is 8-37x FY09e P/E and 6-27x FY09e EV/EBITDA.

Upside risks: stronger cement demand in China, faster phase-out of backward capacity, and faster capacity expansion. Downside risks: weaker demand for glass fiber and glass fiber engineering overseas, consolidation execution risk, financing risk given high gearing, slower capacity expansion, weaker market position, weaker cement demand in China

Analyst Certification

I, Jacqueline Li, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Autos, Industrials, Shipbuilding Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	China National Materials	XFCHF	1893 HK	Jacqueline Li
	China Railway Construction Corporation	CWYCF	1186 HK	Jacqueline Li
	Denway Motors Limited	DENMF	203 HK	Min Lu
	Dongfang Ele-H	DNGFF	1072 HK	Min Lu
	Dongfeng Motor Group Company Limited	DNFGF	489 HK	Min Lu
	Sino-Forest Corp	YTRE	TRE CN	Jacqueline Li
NEUTRAL				
	Guangxi Liugong	GXLMF	000528 CH	Charlotte Liu
	Harbin Power-H	HBPWF	1133 HK	Min Lu
	Qingling Motors Co. Ltd.	QGLHF	1122 HK	Min Lu
	Zhuzhou CSR	ZHUZF	3898 HK	Min Lu
UNDERPERFORM				
	China National	CBUMF	3323 HK	Jacqueline Li
	China Railway Group Limited	CRWOF	390 HK	Jacqueline Li
	Haitian INTL	XHIAF	1882 HK	Min Lu
	Lonking Holdings Limited	LONKF	3339 HK	Charlotte Liu
	Shanghai Elect-H	SIELF	2727 HK	Min Lu
	Xiamen XGMA Machinery Company Limited	XMENF	600815 CH	Charlotte Liu
REVIEW				
	China Communications Construction	CCCCF	1800 HK	Jacqueline Li

06 February 2009

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

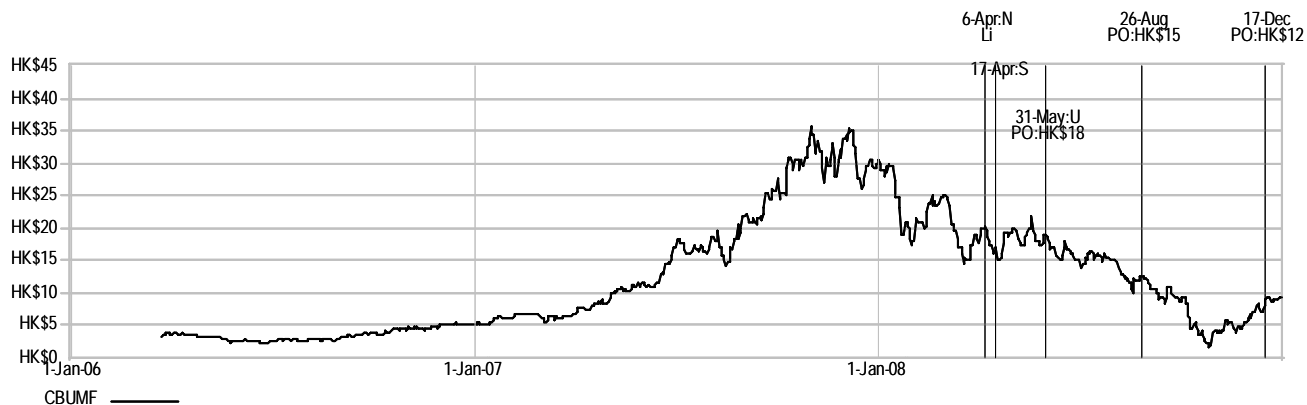
iQmethodSM is the set of Banc of America Securities-Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Banc of America Securities-Merrill Lynch.

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Important Disclosures

CBUMF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2008 or such later date as indicated.

BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website.*

Investment Rating Distribution: Building Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	26.04%	Buy	4	17.39%
Neutral	23	23.96%	Neutral	3	15.00%
Sell	48	50.00%	Sell	3	6.38%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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