COMPANY PROFILE

China Communications Construction Company Limited

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COMPANY OVERVIEW

China Communications Construction Company Limited (CCCC or 'the group') is an infrastructure group engaged in infrastructure construction, infrastructure design, dredging, and heavy machinery manufacturing business. The group has operations in more than 130 countries within regions including Africa, Middle East, and South East Asia. It is headquartered in Beijing, China and employed 115,179 people as of December 31, 2015.

The group recorded revenues of CNY403,616 million ($58,307.2 million) during the financial year ended December 2015 (FY2015), an increase of 10.3% over FY2014. The operating profit of the group was CNY25,798 million ($3,726.8 million) in FY2015, an increase of 8.5% over FY2014. The net profit of the group was CNY15,828 million ($2,286.5 million) in FY2015, an increase of 13.2% over FY2014.

KEY FACTS

Head Office	China Communications Construction Company Limited 85 De Sheng Men Wai Street Xicheng District Beijing CHN
Phone	86 10 8201 6562
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Web Address	http://en.ccccltd.cn/
Revenue / turnover (CNY Mn)	403,616.0
Revenue (USD Mn)	58,307.2
Financial Year End	December
Employees	115,179
Hong Kong Stock Exchange Ticker	1800

SWOT ANALYSIS

China Communications Construction Company Limited (CCCC or 'the group') is an infrastructure group engaged in infrastructure construction, infrastructure design, dredging, and heavy machinery manufacturing business. The group holds strong position in many of its business segments. Strong position in all business segments increases bargaining power of the group and enhances its brand image. However, shortage of labor in the urban areas of China could adversely affect CCCC's business operations.

Strength	**Weakness**
CCCC's strong position in all its business segments Large order backlog of the group	Limited international presence Increasing financial leverage
Opportunity	**Threat**
China's Twelfth Five-year Plan for urban infrastructure development Growing infrastructure industry in emerging economies	Shortage of labor in urban China Foreign exchange fluctuations Intense competition

Strength

CCCC's strong position in all its business segments

CCCC holds strong position in many of its business segments. The group, through its 37 principal wholly-owned or controlled subsidiaries, primarily operates in five businesses: construction, dredging, heavy machinery, design, and other (includes logistics). CCCC is well known in China for its ability to construct complex projects. Further, it is one of the leading players in the construction and design of roads and bridges and in the construction of railways in China. Some of its best works recognized around the world include Sutong Yangtze River Bridge, Yangshan Deepwater Port and Yangtze River Mouth Deepwater Navigation Channel Regulation project. Further, CCCC has participated in more than 70 Chinese railway projects, including Harbin-Dalian PDL, Beijing-Shanghai PDL and Lanzhou-Chongqing Railway project. In the heavy machinery manufacturing segment, the group is the largest manufacturer of container cranes in the world. In the dredging business, CCCC has the largest capacity of suction hopper dredgers and cutter suction dredgers in the world. In addition, the group is the largest international contractor and designer in China.

The group's leading position was recognized by one of the global business magazines in the recent past. CCCC was ranked 165th in the Fortune Magazine's Global 500 companies list for 2015, up from 213 in 2013 and 426 in 2008. In addition, the group ranked 5th in the Engineering News Records' (ENR) list of the world's top 225 international contractors. CCCC was also ranked top by ENR among the Chinese enterprises in terms of revenues from overseas projects for eight consecutive years. Strong position in all its business segments increases the group's bargaining power and also enhances its brand image.

Large order backlog of the group

CCCC has large order backlogs in its portfolio. At the end of December 2015, the group had backlog of CNY867,298 million ($125291.6million), an increase of 6% over the previous year. During FY2015, the backlog for the construction segment of CCCC was CNY757,842 million ($109479.4 million, representing a year-on-year increase of 5.3%. Similarly, the backlog for the group's heavy machinery segment was CNY22,685 million ($3277.1 million), representing a year-on-year increase of 5.3% in FY2015. Furthermore, the backlogs for CCCC's infrastructure design business and dredging business rose by 14.2% and 21.5%, respectively during the year. A strong order backlog is indicative of the group's secure top-line growth against the backdrop of an economic downturn.

Weakness

Limited international presence

Though CCCC is one of the leading infrastructure companies in China and is well recognized for its ability to perform complex projects, it has not been able to leverage its capabilities in the international markets. The group built some of the biggest bridges in the country but has not been able to secure bigger projects in the US and Europe. Chinese companies have been making a mark in the developing economies in the recent times. CCCC has its presence in more than 130 countries around the world, but most of its revenues are generated from China (excluding Hong Kong and Macau). In FY2015, the group generated 81.4% of its revenues from China.

Furthermore, the group's new contracts in its infrastructure construction business accounted for CNY650,315 million ($93945.8 million) in FY2015, of which only CNY136,249 million ($19682.8 million) were from overseas projects. Excessive dependence on China may increase the group's business risk and may adversely affect the operations in non-conducive economic conditions.

Increasing financial leverage

The group's financial leverage, as measured by gearing ratio, calculated as net debt divided by total capital, has been increasing since FY2010. The group's gearing ratio increased from 36.5% in FY2010 to 48.7% in FY2015.

In comparison, the group's key competitor, Cheung Kong Infrastructure Holdings Limited (CKI) reported a gearing ratio of 8% in FY2015. Despite the substantial acquisitions made by CKI, its gearing ratio remained low. High financial leverage of CCCC, compared to its peers, makes the group more vulnerable to downturns in the business cycle.

Opportunity

China's Twelfth Five-year Plan for urban infrastructure development

China has large investment plans for the development of infrastructure in urban areas. According to industry sources, in the Twelfth Five-year Plan during 2011-15, China planned to invest nearly CNY7 trillion ($1.1 trillion) for its urban infrastructure development. Further, it is estimated that investment on urban rail transit would exceed CNY700 billion ($113.9 billion) during the same period. In addition, China's fixed asset investment is expected to grow by 16% during 2011-15. The group's infrastructure construction business is into construction of ports, roads, and railways. It generated revenues of CNY403,616 million ($58307.2million) during FY2015, an increase of 10.3% over FY2014. China's large investment plan to develop its urban infrastructure over these five years is an opportunity for the group to increase its revenues.

Growing infrastructure industry in emerging economies

Emerging countries in Asia Pacific, South and Central America, Middle East and Africa are experiencing rapid urban development combined with exponential growth in infrastructure needs. The infrastructure construction market in these economies is growing at a rapid pace. According to industry estimates, emerging and developing economies are expected to become a $7 trillion market accounting for 55% of the global construction market by 2020. The expected increase in construction activities in these economies is attributed to their increasing population size, accelerating urbanization and robust economic development. Further, by 2020, Asia Pacific market is expected to register strongest growth among emerging economies.

CCCC has its operations in South East Asia, the Middle East, Africa and South America. The group can leverage its long-standing experience in construction business, and take advantage of the increasing construction demand in emerging countries.

Threat

Shortage of labor in urban China

Many Chinese companies are facing labor shortage in the urban areas of China. This is due to decrease in the number of workers migrating to cities from various provinces in China. According to industry experts, the cost of living in provinces like Sichuan and Chongqing municipality in Southwest China and Hebei province and Tianjin municipality in North China has increased in the last few years, which diverted a large number of migrant workers. Increasing efforts of the Chinese government for economic growth of its underdeveloped western region has increased job opportunities in that region. This has further reduced the workers based in western China to migrate to urban areas of east. Industry experts expect that the problem of labor shortage in Chinese urban areas remains in near future.

CCCC would have to focus on recruitment and retention of workers in tight labor market conditions in China. Increasing inflation will further increase labor shortage issues and would affect the group's business operations adversely.

Foreign exchange fluctuations

CCCC primarily operates in China and its reporting currency is Renminbi. The group generated 18.6% of its total revenues from outside China in FY2015. CCCC uses foreign currencies to settle the invoices from operations outside China. Further, a significant proportion of the group's bank borrowings are denominated in foreign currencies, particularly the US Dollar, Euro, and Japanese Yen. Hence, CCCC is susceptible to the foreign exchange fluctuations of the applicable currencies. For instance, in July 2005, Chinese government introduced a managed floating exchange rate system which allows Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. This appreciated Renminbi against the US Dollar. As at December 31, 2015, Renminbi had appreciated by approximately 15% against the US Dollar since July 2005. Further changes in the exchange rate system by the Chinese government could adversely affect the costs associated with the group, therefore affecting its profitability.

Intense competition

CCCC faces intense competition from players across various regions and all of its business segments. The group's main competitors include Cheung Kong Infrastructure Holdings, Skanska AB, and VINCI. The construction companies find it very challenging to exploit the opportunities that emerge from the government spending on public works in the back drop of the downturn. The competition is becoming increasingly intensive as project opportunities are fewer, while more and more companies are vying for them. Price competition is escalating, especially when it comes to small and medium-sized projects. In the US, home builders are moving into new segments and regions in order reduce risks. However, for really large assignments, the number of competitors is still limited but the competition among those present may even be more intense. Therefore, intense competition in the market could adversely affect the group's earnings growth and market share.