China State Construction Engineering Corporation (601668 CH)

1H26: 2Q26 Net Profit Down 40.7%; Targets yoy Improvement In OCF And Lower Impairment In 2H26

Highlights

- 1H26 attributable net profit fell 24.3% yoy to Rmb23.0b. 2Q26 alone fell 40.7% yoy. A 32% increase in impairment was the major drag.
- For 2026, management guides: a) yoy improvement in OCF, b) impairment will be no higher than 2025, and c) stable dividend.
- Maintain HOLD with a lower target price of Rmb4.90 on lower EBITDA.

1H26 Results

Year to 31 Dec (Rmbb)	2Q25	1Q26	2Q26	2Q26 yoy	2Q26 qoq	1H25	1H26	yoy
Revenue	553	512	464	-16.1%	-9.3%	1,108	976	-12.0%
- housing construction	331	332	239	-27.8%	-28.0%	696	571	-18.0%
- infrastructure	145	119	128	-11.9%	+7.8%	273	246	-9.9%
- property development	78	52	100	+27.3%	+90.1%	132	152	+15.2%
Gross profit	61	41	60	-1.6%	+47.6%	104	100	-3.9%
Operating profit	27	21	20	-26.6%	-6.2%	49	40	-18.3%
Attributable net profit	15	14	9	-40.7%	-34.3%	30	23	-24.3%
Core net profit	13	14	6	-51.5%	-55.5%	27	20	-27.5%
Core EPS (Rmb)	0.31	0.33	0.15	-51.5%	-55.5%	0.67	0.48	-27.5%
Margins								
Gross profit margin	11.0%	7.9%	12.9%	+1.9ppt	+5.0ppt	9.4%	10.3%	+0.9ppt
- housing construction	8.7%	6.4%	10.8%	+2.1ppt	+4.4ppt	7.3%	8.2%	+0.9ppt
- infrastructure	12.1%	8.8%	12.6%	+0.5ppt	+3.8ppt	10.2%	10.8%	+0.6ppt
- property development	15.3%	13.5%	15.7%	+0.4ppt	+2.2ppt	16.0%	15.0%	-1.0ppt
SG&A to revenue	1.9%	1.8%	2.4%	+0.4ppt	+0.5ppt	1.9%	2.1%	+0.2ppt
R&D to revenue	2.1%	1.1%	2.3%	+0.2ppt	+1.2ppt	1.6%	1.7%	+0.1ppt
Impairment to revenue	1.4%	0.0%	2.2%	+0.8ppt	+2.2ppt	0.7%	1.0%	+0.3ppt
Net profit margin	2.8%	2.7%	2.0%	-0.8ppt	-0.7ppt	2.7%	2.4%	-0.4ppt
Leverage								
Net gearing ratio	65.9%	72.6%	65.6%	-0.3ppt	-7.0ppt	65.9%	65.6%	-0.3ppt
Debt to asset ratio	76.3%	76.8%	77.1%	+0.8ppt	+0.3ppt	76.3%	77.1%	+0.8ppt

Source: CSCEC, UOB Kay Hian

Analysis

- **Net profit fell 24.3% yoy in 1H26, with a weaker 2Q.** China State Construction Engineering Corporation's (CSCEC) 1H26 attributable net profit declined 24.3% yoy to Rmb23.0b. 2Q26 attributable net profit fell 40.7% yoy to Rmb9.1b. Revenue dropped 12.0% yoy to Rmb975.8b but with a 0.9ppt improvement in gross profit margin. A 32% yoy increase in impairment and sharp decline in investment income were the major drags on earnings. Net gearing was 66% as of Jun 26, +1.7ppt hoh and -0.3ppt yoy. No interim dividend was declared.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	2,187,148	2,082,142	2,021,664	2,052,294	2,080,858
EBITDA	111,671	100,178	95,668	97,595	88,338
Operating profit	96,371	84,878	79,868	81,795	85,038
Net profit (rep./act.)	46,187	39,069	35,216	37,028	38,302
Net profit (adj.)	46,187	39,069	35,216	37,028	38,302
EPS (fen)	113.7	96.2	86.7	91.1	94.3
PE (x)	3.8	4.5	5.0	4.8	4.6
P/B (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	10.1	11.2	11.8	11.5	12.7
Dividend yield (%)	6.3	6.3	6.3	6.3	6.3
Net margin (%)	2.1	1.9	1.7	1.8	1.8
Net debt/(cash) to equity (%)	95.2	107.7	114.3	123.8	119.8
Interest cover (x)	5.7	5.7	5.5	6.0	5.2
ROE (%)	10.4	8.2	7.0	7.0	6.9
Consensus net profit (Rmbm)	-	-	36,157.5	36,005.3	37,806.2
UOBKH/Consensus (x)	-	-	0.97	1.03	1.01

Source: CSCEC, Bloomberg, UOB Kay Hian

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HOLD (Maintained)

Share Price	Rmb4.33
Target Price	Rmb4.90
Upside	+13.2%
Previous TP	Rmb5.38

Stock Data

GICS sector	Industrials
Bloomberg ticker:	601668 CH
Shares issued (m):	41,320.4
Market Cap (Rmbm):	178,917.3
Market cap (US$m):	26,622.2
3-mth avg t'over (US$m):	155.1

Price Performance (%)

52-week high/low: Rmb5.80/Rmb4.28

1mth	3mth	6mth	1yr	YTD
(7.9)	(10.4)	(14.1)	(22.5)	(15.6)

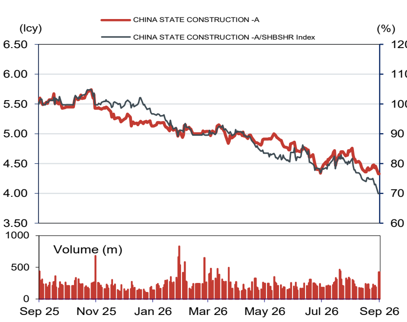
Major Shareholders (%)

China State Construction Engineering Group	57.7

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	12.49
FY26 Net Debt/ Share (Rmb)	14.53

Price Chart



Source: Bloomberg, UOB Kay Hian

Company Description

China State Construction Engineering Corporation is the world's largest construction company by revenue and a Shanghai-listed subsidiary of the state-owned China State Construction Engineering Group. It operates in housing construction, infrastructure construction and investment, property development and investment, and survey and design, and is the controlling shareholder of China Overseas Land & Investment.

- **1H26 operating cash flow improved; management reiterates its target for further growth in 2026.** Operating cash outflow narrowed by Rmb54.4b yoy to Rmb28.5b in 1H26, driven by stronger collections — over Rmb940b in total receipts, including more than Rmb80b of overdue government receivables — tighter project-level cash-flow budgeting and controls over cash-draining projects, accelerated asset monetisation, and enhanced centralised treasury management. Given the sector's seasonal collection pattern, with 4Q typically the peak recovery period, management expects operating cash flow (OCF) to improve further in 2H26 and exceed 2025's level.
- **1H26 impairments worsened, but management expects 2026 provisions not to exceed the 2025 level.** 1H26 impairment provisions rose Rmb2.43b yoy to Rmb10.04b, weighing on interim earnings. The increase mainly reflected Rmb5.36b of receivables impairment and Rmb2.48b for contract assets, alongside Rmb0.66b for inventories and Rmb1.54b for other assets. Management noted that it has recognised provisions annually throughout the 14th Five-Year Plan period and believes the associated asset risks have now been largely released. Management expects 2026 impairment provisions not to exceed the 2025 level.
- **Stable dividend policy and parent share-purchase plan.** Management reiterated its commitment to maintaining a stable dividend despite earnings volatility. On 20 Jul 26, the parent company announced plans to acquire Rmb0.5b-1.0b of CSCEC A-shares over the following 12 months.

Key Operational Figures

	1H25	1H26	yoy	7M25	7M26	yoy
New contracts, total (Rmb b)	2,501.0	2,464.7	-1.5%	2,679.1	2,660.4	-0.7%
- construction	2,326.5	2,291.1	-1.5%	2,485.8	2,468.4	-0.7%
- housing construction	1,496.4	1,551.1	+3.7%	1,625.4	1,693.7	+4.2%
- infrastructure	823.7	734.4	-10.8%	852.9	767.6	-10.0%
- survey and design	6.4	5.6	-12.6%	7.7	7.0	-8.9%
Overseas new contracts (Rmb b)	114.8	165.5	+44.2%	127.3	181.2	+42.4%
HC area under construction (m sqm)	1,501.1	1,480.8	-1.4%	1,532.0	1,495.3	-2.4%
HC new starts (m sqm)	129.5	108.0	-16.6%	157.0	121.5	-22.6%
HC completions (m sqm)	81.9	78.2	-4.5%	103.7	90.8	-12.4%
Property contracted sales (Rmb b)	174.5	173.6	-0.5%	193.0	192.0	-0.5%

Source: CSCEC, UOB Kay Hian

Valuation/Recommendation

- **Maintain HOLD on CSCEC with a lower target price of Rmb4.90,** derived from an SOTP model. CSCEC is currently trading at 6.3% 2026 dividend yield. In a falling rate environment, that yield remains the main support for the shares.

Earnings Revision/Risk

- Lower our 2026/27/28 earnings forecasts by 3%/4%/5%, respectively, to factor in lower revenue growth estimates.

Share Price Catalyst

- Stronger-than-expected property and fiscal stimulus in 2H26; a turn in the receivables build-up.

Impairment Provisions

(Rmb b)	1H26	1H25	yoy
Credit impairment loss	6.82	5.99	+13.7%
Asset impairment loss	3.22	1.62	+99.6%
- of which contract assets	2.31	0.40	n.m.
Total impairment	10.04	7.61	+32.0%

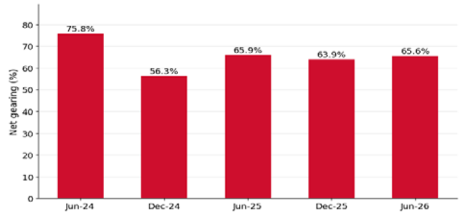
Source: CSCEC, UOB Kay Hian

1H26 New Land Acquired By City

City	Attr. consideration (Rmb b)	% of total
Beijing	2.08	15.1%
Xi'an	1.72	12.5%
Suzhou	1.69	12.3%
Hong Kong	1.63	11.9%
Singapore	1.59	11.6%
Five-city sub-total	8.71	63.1%
Other cities	5.09	36.9%
Total	13.80	100.0%

Source: CSCEC, UOB Kay Hian

Net Gearing Ratio



Source: CSCEC, UOB Kay Hian

Investment And Collections By Business, 1H26

	Investment	Collections
By business (Rmb b)		
Property development	68.6	125.6
Infrastructure	14.1	11.4
Housing construction	15.7	17.6
Other	4.1	6.2
Total	102.4	160.8
Collection-to-investment ratio	1H26	1H25
Group	157.0%	119.5%
Property development	183.2%	122.0%
Infrastructure	81.1%	95.6%
Housing construction	112.5%	109.3%

Source: CSCEC, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	2,082,141.8	2,021,664.4	2,052,293.9	2,080,857.6
EBITDA	100,177.6	95,667.9	97,595.3	88,337.7
Deprec. & amort.	15,300.0	15,800.0	15,800.0	3,300.0
EBIT	84,877.6	79,867.9	81,795.3	85,037.7
Total other non-operating income	1,272.8	0.0	0.0	0.0
Associate contributions	1,713.0	1,738.7	1,764.8	1,791.2
Net interest income/(expense)	(17,641.8)	(17,537.8)	(16,301.3)	(17,031.9)
Pre-tax profit	70,221.6	64,068.9	67,258.7	69,797.1
Tax	(16,664.0)	(13,712.6)	(14,408.7)	(14,961.3)
Minorities	(14,488.6)	(15,140.6)	(15,821.9)	(16,533.9)
Net profit	39,069.0	35,215.6	37,028.1	38,301.9
Net profit (adj.)	39,069.0	35,215.6	37,028.1	38,301.9

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	220,629.1	238,650.8	239,198.6	239,773.7
Other LT assets	733,534.0	741,048.3	777,000.9	816,211.1
Cash/ST investment	411,670.2	370,908.0	305,416.8	302,493.1
Other current assets	2,194,846.5	1,970,760.6	2,070,112.7	2,102,662.2
Total assets	3,560,679.8	3,321,367.7	3,391,729.0	3,461,140.2
ST debt	297,294.2	304,561.5	307,720.1	305,848.2
Other current liabilities	1,768,582.4	1,459,167.5	1,471,205.3	1,482,764.9
LT debt	643,678.3	656,475.4	669,528.4	682,842.4
Other LT liabilities	28,616.7	28,616.7	28,616.7	28,616.7
Shareholders' equity	491,555.6	516,453.5	542,743.5	572,619.0
Minority interest	330,952.6	356,093.2	371,915.1	388,449.0
Total liabilities & equity	3,560,679.8	3,321,367.7	3,391,729.0	3,461,140.2

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	20,537.1	69,026.8	32,317.9	102,252.7
Profit fo the year	70,221.6	64,068.9	67,271.2	69,680.1
Tax	(16,664.0)	(13,712.6)	(14,411.4)	(14,935.6)
Deprec. & amort.	15,300.0	15,800.0	15,800.0	15,800.0
Associates	(1,713.0)	(1,738.7)	(1,764.8)	(1,791.2)
Working capital changes	(174,835.6)	(36,142.6)	(74,531.3)	(5,473.6)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	128,228.1	40,751.9	39,954.2	38,973.0
Investing	(32,150.0)	(40,000.0)	(40,000.0)	(40,000.0)
Capex (growth)	(65,659.2)	(40,000.0)	(40,000.0)	(40,000.0)
Investment	163,996.4	175,735.1	187,499.9	189,291.1
Others	(163,996.4)	(175,735.1)	(187,499.9)	(189,291.1)
Financing	11,579.4	(480.1)	(6,060.4)	(15,272.9)
Dividend payments	(11,231.0)	(10,916.8)	(10,741.0)	(8,406.4)
Proceeds from borrowings	68,486.3	33,429.3	26,979.7	19,163.3
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(45,675.9)	(22,992.5)	(22,299.1)	(26,029.8)
Net cash inflow (outflow)	(33.5)	28,546.8	(13,742.4)	46,979.8
Beginning cash & cash equivalent	424,396.1	411,670.2	370,908.0	286,923.7
Changes due to forex impact	(12,406.8)	(69,308.9)	(70,241.9)	(49,974.7)
Ending cash & cash equivalent	411,955.8	370,908.0	286,923.7	283,928.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	4.8	4.7	4.8	4.2
Pre-tax margin	3.4	3.2	3.3	3.4
Net margin	1.9	1.7	1.8	1.8
ROA	1.2	1.0	1.1	1.1
ROE	8.2	7.0	7.0	6.9
Growth				
Turnover	(4.8)	(2.9)	1.5	1.4
EBITDA	(10.3)	(4.5)	2.0	(9.5)
Pre-tax profit	(12.3)	(8.8)	5.0	3.8
Net profit	(15.4)	(9.9)	5.1	3.4
Net profit (adj.)	(15.4)	(9.9)	5.1	3.4
EPS	(15.4)	(9.9)	5.1	3.4
Leverage				
Debt to total capital	53.4	52.4	51.7	50.7
Debt to equity	191.4	186.1	180.1	172.7
Net debt/(cash) to equity	107.7	114.3	123.8	119.8
Interest cover (x)	5.7	5.5	6.0	5.2