2024 Third Quarter Results Presentation of China Communications Construction （601800SH,1800HK）

Time: 31 October 2024 11: 00-12: 00

Location: Conference call

Attendees of the Company:

Securities Affairs Representative:Yu Jingjing

On-site Participating Organisations: Citibank, China International Capital Corporation, Huatai Securities, GF Securities, and other domestic and foreign institutions and investors.

Part 2: Q&A

1. What measures has China Communications Construction taken in tracking comprehensive debt work policies, including internal assessments?

Answer: Actually, we have been paying close attention to debt-related matters at both the national and company levels in the past two years. **Firstly,** based on our efforts and the support from local governments and various levels of the national government, we have achieved some results, as seen in our semi-annual report. For example, some large debts with high bad debt provisions for a period of 3 years or longer have been recovered. **Secondly,** in the third quarter and beyond,

on one hand, we have reported specific difficulties encountered in our operations to investors and industry authorities in a timely manner and the national government has coordinated us accordingly. **On the other hand,** we have also implemented assessments and incentives internally, increasing the emphasis on bad debts and using special teams for collection. These efforts may lead to some results and achievements by the end of this year.

After "September 24th" and "September 26th", the central government has made coordinated arrangements for the entire economic development. Debt-related work requires a relatively long-term effort, and we believe that the results achieved next year will be more remarkable. The Company is confident in this regard.

2. In terms of new contracts in the third quarter, the overseas business has maintained a relatively fast growth momentum. Can you please explain the main reasons for the historical development of China Communications Construction 's overseas business this year, as well as the outlook for the whole year and 2025?

Answer: The Company has always advocated an overseas priority strategy, and after more than ten years of implementing this strategy, we have achieved positive results. This was especially true after the Belt and Road Initiative was proposed in 2014, which further solidified our measures for developing the overseas market. As we can see, our overseas orders have grown rapidly since last year, and the contribution to revenue has also increased significantly compared to the domestic market. The overall profit level from overseas business has remained steady at around a 10% gross profit margin. In terms of net profit margin, since the payment terms for overseas projects are much better than domestic ones, the projects generate fewer additional financial expenses, resulting in a significantly higher net profit margin than domestic projects. Therefore, we are confident in the overall development and operational level of our overseas business and its future direction.

When we go overseas, we must use both wheels, combining domestic and overseas resources. We use the experience gained from infrastructure construction in China and apply it to overseas business. On one hand, we use localized market operations to expand the market. On the other hand, we export domestic technology and resources to give our overseas business a good competitive edge.

3. What changes have there been in the structure of contracts, why is the growth rate of orders increasing, but it seems that the income cannot reflect the same level of growth? What is the expected range for the growth of orders next year?

Answer: Currently, the Company's order growth rate is relatively good in the industry, mainly due to overseas projects. The growth rate of overseas orders exceeded 40% in 2023, and it has grown by more than 20% in the first three quarters of this year. Secondly, in the face of a slowdown in transportation orders, we have made efforts in urban construction through our “two macros and two priorities” projects. Since the relative base for some business areas is small, our increased efforts in market development have resulted in more orders, which can offset the decline in transportation orders.

Although we have set targets for revenue growth for the year, the pressure is currently high, mainly due to customer payment conditions not being ideal. As we have to follow the contract terms, the Company has slowed down the implementation of these orders with poor payment conditions, resulting in a slower revenue growth rate compared to the order growth rate.

With the implementation of a series of policies and arrangements by the state, such as "September 26th", to stimulate economic development, we believe that these aspects will gradually improve. For example, the revenue should recover in the fourth quarter when looking at it on a quarterly basis.

Through these measures, we believe that, first of all, as you mentioned, the Company's orders should increase in overall scale next year, and the quality of orders may be better than this year. In addition, revenue growth has been stagnant this year, but I believe it will increase next year. The Company will comprehensively analyze the market environment by the end of the year and propose an operational plan, and the board of directors will review it in January. At that time, everyone can pay attention to the changes in these indicators.

4. The Company's net cash outflow in the first three quarters was about RMB 40 billion, is there a target to achieve a reduction in cash flow by the end of the year?

Answer: From the perspective of cash flow in the third quarter, there has been a significant change. In the first quarter, the net cash outflow from operations was RMB 39,600 million, in the second quarter it was RMB 34,500 million, and in the third quarter the net cash outflow has been greatly reduced to only RMB 2,800 million, which is in line with the industry standards. Currently, the Company's cash flow ratio is included in the Company's assessment, so we are also striving to achieve a positive cash flow for the whole year. Of course, there may be difficulties, because the base is relatively large, and it is still difficult to achieve a complete turnaround in cash flow. In addition, we must fully utilize national policies. After September 26th, the central government has increased the intensity of its monetary easing policies, and at the same time, it has gradually implemented policies that favor the Company. Therefore, during this process, we will be fully prepared, grasp the direction of the policies, and accelerate the return of funds. We also need to implement specific work to achieve the assessment goals.

5. The Company has significantly controlled investment

this year. If bond issuance can bring about an improvement in cash flow, will it consider increasing investment in specific areas and regions?

Answer: From the perspective of new projects, the Company's management has higher requirements for the field, scale, profitability, and risk of current domestic investment projects in the 14th Five-Year Plan period. The overall investment scale is significantly lower than in the 13th Five-Year Plan period. The Company will continue to control the number of new projects. The investment plan announced by the board of directors this year has significantly decreased. Future investments need to comply with the Company's strategic and main business investment direction, and the return indicators must be strictly required for implementation. In addition, the Company will accelerate the output and transfer of existing assets, launch a plan to solidify assets, and accelerate the revitalization of existing assets.

6. What is the Company's project reserve and planning in the canal sector for the next two years?

Answer: Canal projects are a branch of the Company's river and lake business. There is a wealth of projects at the national level, which can be divided into several major mainlines. Among them, there are projects under construction and being implemented in the Pinglu Canal, and another project is being arranged for feasibility. The Company has certain reserves for such projects, and they are national strategic projects. The overall progress depends on the speed of the industry's supervisory department, and we will provide advice and carry out corresponding pre-design work. In the construction field, once the conditions for commencement are met, we can actively convert resources and capabilities and tilt towards it. The Company is also actively promoting overseas canal projects.

7. With a concentrated return of operating cash flow in the fourth quarter, will there still be a significant outflow of cash flow and payment pressure?

Answer: There is rigid pressure on cash flow in terms of payment, and this year's rigid payment requirements are more obvious. The impact of the fourth quarter's single quarter change should not be significant, and there is no possibility of concentrated payments in the fourth quarter.

8. Has the Company broken down accounts receivable and contract assets by region, and what impact will debt conversion have on the Company?

Answer: The Company has already divided the accounts receivable and payment sources by region, including the central government, local governments, and social investment entities, and they have been divided according to the payment period, and have been reported to investors in a timely manner. Debt conversion will have a partial impact on the Company's fourth-quarter performance, but the impact will be greater next year.

9. With the income not meeting the target in the first three quarters, is the Company able to achieve its annual income goal?

Answer: Considering the Company's signing situation last year and the market environment this year, a relatively aggressive order growth target and income growth target have been set, but there is still a large gap in the first three quarters. It is believed that there will be some improvement in the fourth quarter.

10. Regarding asset disposal, what types of assets are mainly disposed of and are there continued plans for asset disposal in the future?

Answer: The Company has formulated a special plan for solidifying assets starting from the 14th Five-Year Plan. In the past two years, it has been exploring and organizing the Company's overall asset situation and has made initial progress in real estate, holding-type ABS, and other related areas. There are also corresponding disposals in financial assets, which will continue to be carried out according to plan.

11. Are the implicit liabilities recognized by the Ministry of Finance in 2018 mostly platform's interest-bearing debts?

Regarding the Company's debts and seeking help from what level to solve the problem of local governments paying for central state-owned enterprises, the relevant documents from the State Council specifically mentioned that there is greater support for small and medium-sized enterprises. Will central state-owned enterprises have a lower priority compared to private enterprises, and how can they strive for a larger share of debt conversion?

Answer: The issue of debt conversion was not first proposed in this stimulus policy. It was mainly for PPP projects at the time, within the contract. However, due to changes in investment conditions and policy environment, the implicit debts cannot be paid on time or cannot be paid at all. The Company has been discussing this issue with local governments since the year before last, and has actively arranged for debt conversion through changing contract conditions and changing payment conditions for some projects, including extending the toll collection period for highways.

For private enterprises, the Company not only faces the government at the enterprise level but also faces the enterprises themselves. We have fulfilled our social responsibility and even in cases where we have not received payments yet due to not reaching the final payment deadline, we have still paid private enterprises, which has put pressure on our cash flow but on the other hand, fulfills our social responsibility and reduces the burden on these private enterprises.

12. There was a slight decline in the gross profit margin in Q3. What was the reason for this?

Answer: In Q3, some projects had insufficient funds from the construction party, so the Company chose to suspend or defer corresponding progress. However, costs and expenses for some projects that have already started will continue to occur, thus having a slight impact on the gross profit margin. However, from the perspective of the entire year, the gross profit margin is still continuously improving.

13. Recently, many central state-owned enterprises have started share buyback programs. Does the Company have any other measures for market value management in the future?

Answer: Regarding market value management arrangements, the Company has been thinking about it since the SASAC put forward it in January this year. At the same time, the market has also given the Company many good suggestions, including some investors continuously sharing good market cases and their personal experiences. The Company has been very seriously digesting and absorbing them.

Market value management is a systemic change and also a relatively important focus for the Company in a period of time.

At the level of listed companies, the Company will consider market value management system construction, including the mechanism for increasing and decreasing holdings and share buyback, as well as whether to consider launching medium- to long-term improvement policies for dividends under the condition of further improving business performance. On the other hand, from the Company's internal development perspective, the Company also has the willingness to further improve market value management level in accordance with the requirements of high-quality development. The Company is willing to respond to these demands and come up with a good overall plan, which will be implemented faster next year.

14. In October, what changes have there been in the Company's new project construction and payment compared to the first three quarters? When will the changes brought by fiscal and debt conversion policies be manifested?

Answer: Policies have a transmission path and corresponding timeliness. I believe that there will be some positive changes gradually released within this year.

15. How does the Company predict the impairment situation for the entire fourth quarter and next year?

Answer: The Company's impairment provision ratio in the first nine months of this year is normal in the industry. Large provisions have been made in the previous two years to fully reflect risks, but not yet this year. The country is also proposing suggestions that if it is necessary to make arrangements for historical legacy issues under the policy, we can actively take appropriate measures. The Company will also consider this in the fourth quarter.