

## Sinotrans

598 HK

Share price (13 Mar): **HKD4.75**

12-mth rating: **Buy (1)**

Target price: **HKD6.60 (PER-based)**

# No intention to sell SinoAir stake, in our view; buy on weakness

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#### ■ What's new

- Sinotrans' share price dropped by 6.5% on 13 March. Investors seem concerned that the company may be selling its stake in subsidiary SinoAir (Not rated). However, we believe management has no such intention and that the market has overreacted.

#### ■ Analysis

- SinoAir will be in a share lock-up period until 18 March 2015 upon the end of its asset restructuring, and the market appears to believe that the company is planning to sell all or part of its 63.46% stake in SinoAir.
- However, we do not think management intends to sell its stake because it is a significant revenue generator.
- Should the share sell-off continue, however, we think it would be negative for Sinotrans's earnings as SinoAir accounted for 51% of Sinotrans's total net profit in 2013. Nearly all of SinoAir's net profit is from its JV with DHL. These are mostly from express services.

#### ■ Recommendation

- Sinotrans is trading at a 2015E PER of 11.3x and a 2016E PER of 9.2x. We have a BUY rating on the stock with a target price of HKD6.60, based on a 2015E PER of 16x. Risks to our call include lower-than-expected contributions from the third-party logistics businesses.

#### Summary of share reform and asset injection:

Sinotrans management in October 2006 announced a share reform package as well as plans to inject quality assets into Sinotran Air Transportation Development (Sinoair). The original lock-up period was 36 months from that date. However, due to the unfinished asset injection, the share reform could only be finished up until March 2013. The lock-up period, therefore, is due to end next Wednesday, 18 March 2015.

The proposed asset injection in 2009 was to sell Sinotrans Heavy-lift's 51% ownership to Sinoair and was approved by the board in early 2010. However, the deal was later rejected in late 2010.

In order to fulfill the request from CSRC and promises made by management, Sinotrans announced its plan to inject: 1) 100% ownership of Sinotrans Foshan Express Management, and 2) the air freight business from 4 subsidiaries of Sinotran Changjiang in January 2012. The deal ultimately was completed in March 2013, totaling RMB 49mn.

After the deal was completed, CITIC securities submitted a revised plan for amending the original document to relax the sales restrictions.

However, due to personnel changes, the new proposal was further amended and final date of the relaxation of sales was set for 18 March 2015.

*In the interests of timeliness, this document has not been edited.*

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