

Yuexiu Transport Infrastructure

1052 HK

Target (HKD): 5.90 → 5.10

Downside: 1.2%

17 Mar price (HKD): 5.16

- 1 Buy
- 2 Outperform
- 3 Hold (from Buy)
- 4 Underperform
- 5 Sell

Lack of near-term catalysts

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- 2014 results slightly weaker than our expectations
- We see a lack of near-term share-price catalysts
- We recommend taking profits; downgrading to Hold (3)

■ What's new

Yuexiu Transport Infrastructure (YTI) posted a 2014 net profit (adjusted) of CNY587m, up 15% YoY but lower than our expectation of CNY645m. After the acquisition of Suiyuan Expressway, we see a lack of catalysts for YTI to rerate further. Hence, we downgrade our rating to Hold (3) from Buy (1) and revise down our target price to HKD5.1. This marks the transfer coverage of the company to the above analyst.

■ What's the impact

YTI's reported 2014 net profit was CNY609m, up 10% YoY but slightly lower than the Bloomberg consensus estimate (CNY655m). However, if we exclude one-offs, its net profit would be CNY587m, lower than our expectation. We believe the major differences were lower-than-expected interest income and contribution from associates, which mainly includes the shortfall from the Qinglian Expressway.

For the newly-acquired Suiyuan Expressway, management said it was breaking even at the project level but still loss-making when interest payments for the acquisition

are taken into account. Management expects the expressway to break even on a consolidated basis in 2017.

YTI stated there would be no major near-term acquisitions as it wants to lower its gearing after the acquisition of Suiyuan, which would increase its net debt-to-equity ratio to more than 50% (from 45% at end-2014), per management. YTI does not plan to raise or reduce its payout ratio in the near term.

On the policy front, YTI expects more supportive policies to be announced by the government, especially on securing investment returns for its toll road business in the future. We do not expect positive near-term policy announcements, however, given the economic slowdown in China, under which any favourable policy is likely to receive criticism from the public due to increasing logistics costs for manufacturers.

YTI said it may consider selling its stake in the Wuzhou port, which made a small net loss of CNY7.7m in 2014, if the price is appropriate. We believe this is a slight positive as ownership of the Wuzhou port did not help YTI diversify its portfolio from toll roads. However, the financial impact would likely be limited, in our view.

We lower our 2015-16 EPS forecasts by 24-31% due to the weaker-than-expected 2014 results as well as our assumption of weaker-than-previously-expected EPS growth of 12-13% (25-34% YoY previously).

■ What we recommend

As a result, we revise down our DCF-based 12-month target price to HKD5.1 from HKD5.9. While we flag a lack of near-term share-price

catalysts for YTI, we expect the 2015E dividend yield of 6% to provide downside support. Hence, we downgrade our rating to Hold (3) from Buy (1). Our top sector pick is now Jiangsu Expressway (177 HK, HKD9.7, Outperform [2]). The key risk to our call is better- or worse-than-expected toll revenue growth.

■ How we differ

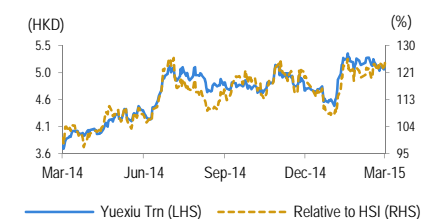
We are the only broker with a Hold rating as we see a lack of catalysts, while the market is mostly positive on the stock.

Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	(6.2)	(10.3)	n.a.
Net profit change	(23.8)	(30.9)	n.a.
Core EPS (FD) change	(23.8)	(30.9)	n.a.

Source: Daiwa forecasts

Share price performance



12-month range	3.68-5.36
Market cap (USDbn)	1.11
3m avg daily turnover (USDm)	0.89
Shares outstanding (m)	1,673
Major shareholder	Yuexiu Enterprises (Hldg) Ltd. (60.7%)

Financial summary (CNY)

Year to 31 Dec	15E	16E	17E
Revenue (m)	2,200	2,513	2,494
Operating profit (m)	1,195	1,352	1,230
Net profit (m)	660	745	729
Core EPS (fully-diluted)	0.394	0.445	0.436
EPS change (%)	12.3	13.0	(2.2)
Daiwa vs Cons. EPS (%)	(14.3)	(16.7)	n.a.
PER (x)	10.6	9.3	9.6
Dividend yield (%)	5.7	6.4	6.3
DPS	0.237	0.267	0.261
PBR (x)	0.7	0.7	0.7
EV/EBITDA (x)	7.9	6.8	6.9
ROE (%)	7.3	7.7	7.1

Source: FactSet, Daiwa forecasts

■ YTI: Income Statement (CNY m)

				YoY (%)		
	1H14	2H14	FY14	1H14	2H14	FY14
Toll revenue	877	977	1,854	6	5	6
Construction income	2	21	23	-93	-67	-76
Business Tax	(30)	(33)	(63)	6	6	6
Total revenue	850	969	1,819	2	1	2
Operating Profit	516	448	964	6	-7	0
Profit before tax	487	528	1014	5	7	6
Net profit - Shareholder	291	319	609	14	7	10
Net profit (adj.)	284	304	587	15	14	15
EPS (CNY)	0.17	0.19	0.36	14	7	10
EPS (adj.) (CNY)	0.17	0.18	0.35	15	14	15
DPS (CNY)	0.09	0.13	0.22	10	4	6
Margin (%)						
Operating margin	61	46	53	2	(4)	(1)
Net profit margin (adj.)	33	31	32	4	4	4

Source: Company

Financial summary

■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Average daily traffic growth (%)	21.6	1.6	8.5	16.3	6.6	8.4	6.4	6.6
Average daily toll revenue growth (%)	25.8	8.3	1.4	14.8	6.8	14.3	6.0	6.7
Average daily traffic (vehicles/day)	525,379.4	533,823.5	579,082.0	673,314.0	717,999.0	778,171.2	828,248.7	882,983.3
Average daily toll revenue ('000/day)	10,537.3	11,416.6	11,577.4	13,289.3	14,192.1	16,228.1	17,199.3	18,344.7

■ Profit and loss (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Toll revenue Revenues	1,253	1,322	1,485	1,753	1,854	2,240	2,562	2,543
Construction revenue Revenues	95	311	65	97	23	23	23	23
Other Revenue	(42)	(46)	(51)	(59)	(59)	(63)	(73)	(72)
Total Revenue	1,306	1,587	1,499	1,791	1,819	2,200	2,513	2,494
Other income	0	0	0	0	0	0	0	0
COGS	(395)	(552)	(356)	(429)	(414)	(502)	(608)	(656)
SG&A	(36)	(59)	(76)	(70)	(69)	(83)	(99)	(119)
Other op.expenses	(241)	(251)	(279)	(323)	(372)	(420)	(453)	(489)
Operating profit	633	726	788	968	964	1,195	1,352	1,230
Net-interest inc./ (exp.)	(35)	(139)	(272)	(279)	(251)	(335)	(411)	(408)
Assoc/forex/extraord./others	250	272	291	265	301	265	319	375
Pre-tax profit	848	859	806	954	1,014	1,125	1,260	1,198
Tax	(146)	(134)	(249)	(261)	(237)	(300)	(328)	(287)
Min. int./pref. div./others	(167)	(167)	(131)	(139)	(168)	(165)	(186)	(182)
Net profit (reported)	535	558	427	554	609	660	745	729
Net profit (adjusted)	516	481	362	512	587	660	745	729
EPS (reported)(CNY)	0.319	0.334	0.255	0.331	0.364	0.394	0.445	0.436
EPS (adjusted)(CNY)	0.308	0.287	0.216	0.306	0.351	0.394	0.445	0.436
EPS (adjusted fully-diluted)(CNY)	0.308	0.287	0.216	0.306	0.351	0.394	0.445	0.436
DPS (CNY)	0.187	0.197	0.163	0.206	0.219	0.237	0.267	0.261
EBIT	633	726	788	968	964	1,195	1,352	1,230
EBITDA	874	977	1,067	1,292	1,335	1,615	1,805	1,719

■ Cash flow (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	848	859	806	954	1,014	1,125	1,260	1,198
Depreciation and amortisation	241	251	279	323	372	420	453	489
Tax paid	(114)	(156)	(200)	(211)	(252)	(300)	(328)	(287)
Change in working capital	(33)	24	(49)	(115)	17	0	0	0
Other operational CF items	(303)	(220)	(411)	(140)	(213)	(1,094)	(458)	(358)
Cash flow from operations	639	758	425	812	938	151	926	1,042
Capex	(107)	(778)	(142)	(86)	(175)	(120)	(120)	(120)
Net (acquisitions)/disposals	(81)	(835)	(52)	180	(5)	0	0	0
Other investing CF items	307	(108)	(646)	725	162	(1,257)	176	176
Cash flow from investing	119	(1,721)	(840)	818	(19)	(1,377)	56	56
Change in debt	(160)	453	508	(583)	(803)	1,950	606	(738)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(451)	(481)	(356)	(504)	(511)	(424)	(422)	(442)
Other financing CF items	0	179	22	4	(88)	0	0	0
Cash flow from financing	(611)	152	173	(1,083)	(1,402)	1,526	184	(1,180)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	148	(812)	(242)	547	(482)	300	1,167	(82)
Free cash flow	532	(21)	283	725	763	31	806	922

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (CNYm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	2,112	1,298	1,057	1,605	1,124	1,424	2,591	2,509
Inventory	20	21	33	32	57	69	79	79
Accounts receivable	1,154	818	702	200	292	1,140	1,302	1,293
Other current assets	25	0	202	0	0	2,480	2,601	2,773
Total current assets	3,311	2,137	1,993	1,837	1,473	5,114	6,573	6,653
Fixed assets	7,829	11,441	14,210	13,963	13,687	13,667	13,614	13,525
Goodwill & intangibles	302	308	408	497	477	477	477	477
Other non-current assets	2,400	2,260	2,099	1,929	1,873	1,873	1,873	1,873
Total assets	13,842	16,147	18,710	18,226	17,510	21,131	22,537	22,528
Short-term debt	583	598	615	706	358	358	358	358
Accounts payable	961	611	612	540	488	550	613	651
Other current liabilities	39	39	58	81	49	552	552	552
Total current liabilities	1,583	1,249	1,285	1,327	896	1,460	1,524	1,561
Long-term debt	1,472	3,766	5,812	5,096	4,640	6,594	7,203	6,469
Other non-current liabilities	1,101	1,174	1,529	1,525	1,530	1,530	1,530	1,530
Total liabilities	4,156	6,188	8,626	7,948	7,065	9,584	10,256	9,560
Share capital	147	147	147	147	147	147	147	147
Reserves/R.E./others	7,666	7,787	7,947	8,128	8,380	9,318	9,865	10,370
Shareholders' equity	7,814	7,934	8,094	8,276	8,528	9,465	10,012	10,518
Minority interests	1,873	2,026	1,990	2,003	1,917	2,082	2,268	2,450
Total equity & liabilities	13,843	16,147	18,711	18,226	17,510	21,131	22,537	22,528
EV	6,696	10,089	12,377	11,249	10,898	12,716	12,345	11,875
Net debt/(cash)	(57)	3,065	5,370	4,197	3,875	5,528	4,971	4,318
BVPS (CNY)	4.670	4.742	4.838	4.946	5.097	5.657	5.984	6.286

■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	32.5	21.6	(5.6)	19.5	1.5	21.0	14.2	(0.7)
EBITDA (YoY)	23.7	11.8	9.2	21.1	3.4	21.0	11.7	(4.7)
Operating profit (YoY)	25.2	14.8	8.5	22.9	(0.5)	24.0	13.1	(9.0)
Net profit (YoY)	12.8	(6.7)	(24.7)	41.4	14.7	12.3	13.0	(2.2)
Core EPS (fully-diluted) (YoY)	12.8	(6.7)	(24.7)	41.4	14.7	12.3	13.0	(2.2)
Gross-profit margin	69.7	65.2	76.3	76.0	77.2	77.2	75.8	73.7
EBITDA margin	66.9	61.6	71.2	72.1	73.4	73.4	71.8	68.9
Operating-profit margin	48.5	45.8	52.6	54.1	53.0	54.3	53.8	49.3
Net profit margin	39.5	30.3	24.2	28.6	32.3	30.0	29.7	29.2
ROAE	6.7	6.1	4.5	6.3	7.0	7.3	7.7	7.1
ROAA	4.0	3.2	2.1	2.8	3.3	3.4	3.4	3.2
ROCE	5.6	5.6	5.1	5.9	6.1	7.0	7.1	6.2
ROIC	5.6	5.4	3.8	4.7	5.1	5.6	5.8	5.4
Net debt to equity	n.a.	38.6	66.3	50.7	45.4	58.4	49.6	41.1
Effective tax rate	17.3	15.6	30.8	27.3	23.3	26.7	26.1	24.0
Accounts receivable (days)	174.6	226.7	185.0	91.9	49.4	118.8	177.4	189.9
Current ratio (x)	2.1	1.7	1.6	1.4	1.6	3.5	4.3	4.3
Net interest cover (x)	18.2	5.2	2.9	3.5	3.8	3.6	3.3	3.0
Net dividend payout	58.4	58.9	63.7	62.1	60.0	60.0	60.0	60.0
Free cash flow yield	7.6	n.a.	4.1	10.4	11.0	0.4	11.6	13.2

Source: FactSet, Daiwa forecasts

■ Company profile

Formerly GZI Transportation, Yuexiu Transport Infrastructure (YTI) is engaged in the investment, operation and management of expressways, national highways and bridges in China, mainly in Guangdong Province.

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