


Rating
Hold

Asia
China

Transportation
Road / Rail

Company
**Shenzhen
Expressway-H Alert**

Reuters 0548.HK	Bloomberg 548 HK	Exchange HKG	Ticker 0548
ADR Ticker SHZNY	ISIN US8232181029		

Date
21 March 2015

Results

Price at 20 Mar 2015 (HKD)	5.65
Price target - 12mth (HKD)	5.45
52-week range (HKD)	6.18 - 3.41
HANG SENG INDEX	24,469

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2014 results largely in line with our expectations; maintaining Hold

2014 net profit surged 204% on one-off item, largely in line with our estimate

SZE recorded a 203.9% yoy increase in net profit in 2014 to RMB2,187m. Excluding the one-off gain of RMB1.1bn (after tax) from disposal of assets of a toll-free section of Meiguan Expressway, the company reported recurrent profit of RMB964m in 2014 (up 16% yoy), largely in line with our estimate (RMB1,004m). Reported DPS was RMB0.45 (including special dividend of RMB0.255/share for gain on disposal of Meiguan assets), for a payout ratio of 45% in 2014 (vs. 48% in 2013). Total revenue rose 10.4% yoy to RMB3,620m in 2014, on the back of 3.8% yoy growth in toll revenue and an 88.8% yoy surge in revenue from entrusted management services. Operating margin contracted 0.5ppt yoy to 46.7% in 2014, mainly due to lower margin from the Meiguan Expressway that was partly offset by margin improvement on Qinglian, Jihe (E) and Jihe (W) Expressways. Nonetheless, with a 28% decline in finance cost, recurrent net margin in 2014 improved 1.4ppt to 26.6%.

Traffic diversion continues on Qinglian Expressway in 2015

With the opening of the Guang Expressway at end-September 2014 and the commencement of Erguang Expressway at end-December 2014, traffic started to divert from Qinglian expressway, especially truck traffic. Indeed, toll income on Qinglian Expressway dropped 23.2% yoy in 2M15. Going forward, we expect the traffic diversion to continue to have a negative impact on Qinglian for the rest of this year. SZE set the toll income target for 2015 of no less than Rmb3.0bn; we now forecast for 2015 toll income to grow only 2.9% yoy to Rmb3.1bn. SZE also expects a lower borrowing scale in 2015 on a yoy basis, and consequently, finance costs should be down compared to 2014.

Unexciting earnings outlook in 2015; maintain Hold

SZE trades at a 2015E P/E of 9.4x and a 2016E P/E of 8.3x, below its 10-year average (11x). However, we believe its valuations are not attractive, as we expect its recurrent EPS growth to slow to 4% in 2015, below the 9% EPS CAGR recorded in 2004-2014. Downside risks include regulatory risks (such as tariff cuts), VAT reform, lower traffic growth, and higher interest rate. Upside risks include better traffic growth and potential tariff increases.

Stock data

Market cap (HKDm)	12,321
Market cap (USDm)	1,588
Shares outstanding (m)	2,180.8
Major shareholders	Xin Tong Chan Dev. Co. (30%)
Free float (%)	33
Avg daily value traded (USDm)	2.6

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	3,279	3,561	3,503
Net Profit (CNYm)	719.7	2,111.5	1,044.2
DB EPS (CNY)	0.39	0.46	0.48
PER (x)	6.2	9.8	9.4
Yield (net) (%)	6.5	4.1	4.2

Source: Deutsche Bank

Figure 1: SZE – 2014 result highlights

Rmbm	2014	2013	yoy change
Revenue	3,620	3,279	10.4%
Operating profit	1,691	1,549	9.1%
Operating margin	46.7%	47.2%	-0.5%
Net profit	2,187	720	203.9%
Recurrent net profit	964	828	16.4%

Source: Company data, Deutsche Bank

Deutsche Bank AG/Hong Kong

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