

# Sinotrans (598 HK)

**Bruce Yeung, CFA**  
 +852 2135 0214  
 bruce.yeung@oriental-patron.com.hk

## Company Update

### HOLD

UNCHANGE

**Close price:** HK\$5.06  
**Target Price:** Under review  
**Prior TP:** HK\$6.4

### Key Data

HKEx code	598
12 Months High (HK\$)	6.55
12 Month Low (HK\$)	3.13
3M Avg Dail Vol. (mn)	9.88
Issue Share (mn)	2,144.89
Market Cap (HK\$m)	23,308.80
Fiscal Year	12/2013
Major shareholder (s)	Sinotrans & CSC Group Company (57.93%)

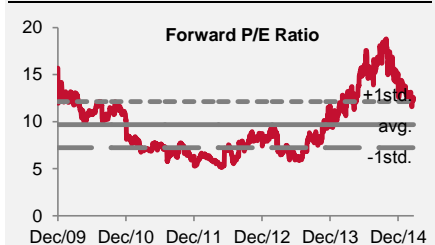
Source: Company data, Bloomberg, OP Research  
 Closing price are as of 24/032015

### Price Chart



	1mth	3mth	6mth
<b>Absolute %</b>	-5.1	-0.8	-14.8
<b>Rel. MSCI CHINA %</b>	-6.3	-9.2	-24.2

### PE



### Company profile

Sinotrans Limited provides integrated logistics services with core service of sea, air, rail and road freight forwarding, express services and shipping agency services. The company also provides support services of storage and terminal services, trucking and marine transportation services.

## FY14 result first take

- Net profit from continuing operations is lower than expected
- Solid volume growth, but suffered from higher costs and lower ASP
- We maintain HOLD rating with TP under review

**FY14 results earnings miss:** Sinotrans (598 HK) restated FY13 financial statements because of disposal of marine transportation business. The company announced FY14 results with revenue and net profit up 0.6% and 36.2% to Rmb45.66bn and Rmb1.23bn respectively. Revenue beats our and consensus estimates by 10.5% and 4.2% driven by 14% yoy growth in 2H14 (Vs -11.6% yoy decline in 1H14). We believe there is recovery in freight forwarding industry in 2H14 as business tax to VAT reform is waived since Sep 2014. However, due to higher than expected staff costs and other operating expenses, FY14 net profit was 10.8% and 0.6% below our and consensus estimates. If excluding gains from discontinued business, net profit from continuing operations was only Rmb516mn and Rmb1.15bn in 2H14 and FY14 or up 12.7% yoy and 22.6% yoy respectively, slowed down from Rmb634mn net profit and 32% yoy growth in 1H14.

**Solid volume growth in 3PL and air freight:** Logistics (3PL) segment revenue recorded solid growth of 9.7% yoy in FY14 where the volume handled increased 14.5% to 12.4mn tonnes in FY14, implying 4.2% decrease in ASP. Although freight forwarding revenue dropped 1.4% due to replacement of business tax to VAT, air freight recorded robust volume growth of 20.7%. Besides, profit shared from JVs increased by 24.1% to Rmb805mn due to strong growth in DHL-Sinoair JV. We believe strong demand in outsourcing to lower total logistics costs and cross-border e-commerce logistics is the major reasons for strong business volume in 3PL and air freight business.

**Maintain HOLD on lower expectation:** Since the disposal of marine business only reduced number of staff by 4.5% to 27,016 while average salary increased by 8.2%, the staff costs increased 7% yoy in FY14, 66% higher than our estimate. Moreover, other expenses increased 15% yoy or 31% higher than our estimates. We maintain HOLD rating with TP and estimates under review upon detail release on analyst briefing.

**Exhibit 1: Result summaries**

(RMB mn)	FY14A	YoY	Vs est.	OP Comment
<b>Revenue</b>	<b>45,660</b>	<b>0.6%</b>	<b>10.5%</b>	Strong revenue growth in 2H14 due to waiving of business tax to VAT for the industry
Other Income	203	25%	46%	
Business tax and other surcharges	(84)	-17%	-5%	
Transportation and related charges	(39,890)	0%	8%	
Staff costs	(3,080)	7%	66%	Disposal of marine transportation only reduce a small number of staff
Depreciation and amortisation	(588)	4%	-1%	
Office and communication expenses	(493)	-9%	4%	
Other (losses)/gains, net	(13)	-85%	-106%	
Other operating expenses	(492)	15%	31%	
<b>Operating profit (EBIT)</b>	<b>1,223</b>	<b>6%</b>	<b>-16%</b>	
Interest income	105	1%	-16%	
Finance costs	(287)	-8%	-11%	Restructured debt in longer maturity
Profit after financing costs	1,041	11%	-18%	
Jointly controlled cos	805	24%	-1%	Solid contribution from DHL-Sinoair JV
Associated cos	(24)	-585%	-149%	Slow efficiency improvement in subsidiaries
Pre-tax profit	1,822	14%	-14%	
Tax	(388)	11%	-12%	
Discontinued operations	81	-337%		Gains from disposal marine transportation
Minority interests	284	-8%	-6%	
<b>Net profit</b>	<b>1,231</b>	<b>36.2%</b>	<b>-10.8%</b>	

Source: OP Research

**Exhibit 2: Result summaries**

(RMB mn)	Restated 1H13	Restated 2H13	1H14	2H14	2H14 YOY	OP Comment
<b>Revenue</b>	<b>23,842</b>	<b>21,561</b>	<b>21,071</b>	<b>24,588</b>	<b>14%</b>	Strong growth in freight forwarding in 2H
Other Income	69	94	84	119	26%	
Business tax and other surcharges	(60)	(40)	(46)	(38)	-7%	
Transportation and related charges	(21,224)	(18,598)	(18,347)	(21,543)	16%	
Staff costs	(1,313)	(1,556)	(1,411)	(1,669)	7%	
Depreciation and amortisation	(228)	(336)	(246)	(342)	2%	
Office and communication expenses	(243)	(298)	(214)	(279)	-6%	
Other (losses)/gains, net	(26)	(64)	(79)	66	-202%	
Other operating expenses	(177)	(250)	(206)	(286)	14%	
<b>Operating profit (EBIT)</b>	<b>638</b>	<b>511</b>	<b>607</b>	<b>616</b>	<b>20%</b>	Solid growth on revenue
Interest income	40	64	46	59	-7%	
Finance costs	(159)	(152)	(144)	(144)	-6%	
Profit after financing costs	519	423	509	532	26%	
Jointly controlled cos	241	408	374	431	6%	
Associated cos	20	(15)	60	(85)	476%	
Pre-tax profit	780	816	944	878	8%	
Tax	(161)	(188)	(218)	(169)	-10%	
Discontinued operations	(30)	(4)	10	71	-1733%	
Minority interests	139	170	91	193	14%	
<b>Net profit</b>	<b>450</b>	<b>454</b>	<b>644</b>	<b>587</b>	<b>29%</b>	Slower than 1H14 growth

Source: OP Research

**Exhibit 3: Segment revenue breakdown**

(RMB mn)	FY13	FY14	YoY	OP Comment
Freight forwarding	35,967	35,457	-1.4%	Rebound in 2H14
Logistics	5,690	6,244	9.7%	Volume up14.5% , ASP down 4.2%
Storage and terminal services	2,016	2,099	4.1%	
Others	1,730	1,860	7.6%	Trucking and express delivery with double digit growth

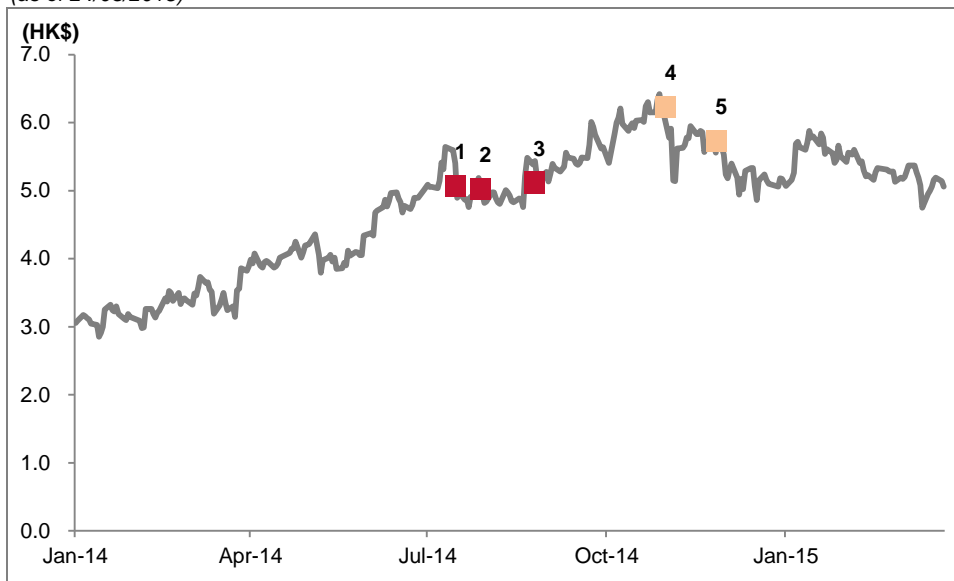
Source: OP Research

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
24/03/2015	Technovator	1206	NDR Takeaway	BUY	Yuji Fung
23/03/2015	Shenzhen International	152	Decent dividend from toll road subsidiary	BUY	Bruce Yeung
19/03/2015	Technovator	1206	FY14 results First Take	BUY	Yuji Fung
18/03/2015	Ju Teng Intl	3336	In-line FY14 result; Margin expansion resumed	BUY	Yuji Fung
17/03/2015	Kwoon Chung Bus	306	Value unlocked	NR	Bruce Yeung
12/03/2015	BWI Intl	2339	FY14 earnings hit huge gain of HK\$169 mn	NR	Kelvin Ng
10/03/2015	Technovator	1206	Spin-off and poised to swamp China	BUY	Yuji Fung
03/03/2015	TCL COMM	2618	Strong guidance ahead	BUY	Yuji Fung
06/02/2015	Technovator	1206	Positive signaling from stake increase by ParentCo	BUY	Yuji Fung
04/02/2015	Beijing Properties	925	Divest for reinvesting logistics properties	BUY	Bruce Yeung
03/02/2015	TK Group	2283	When the best is served by the best of best	NR	Lindsay Hu/ Yuji Fung
15/01/2015	Ju Teng Intl	3336	Correction overdone	BUY	Yuji Fung
12/01/2015	TCL COMM	2618	Profits soar with Iron Man, X-men and OneTouch	BUY	Yuji Fung
09/01/2015	Technovator	1206	Past year promising, New Year winning	BUY	Yuji Fung
06/01/2015	Sinomedia	623	Downgrade on economic slowdown	HOLD	Yuji Fung
05/01/2015	SCUD Group	1399	Beneficiary of Xiaomi Success	BUY	Yuji Fung
22/12/2014	China Fiber Optic Network	3777	Penetrating into a broadband service provider	BUY	Yuji Fung
10/12/2014	SCUD Group	1399	Introducing Value Partner as 2nd largest shareholder	BUY	Vivien Chan/ Yuji Fung
08/12/2014	Great Wall Motor	2333	SUV sales accelerates	BUY	Vivien Chan
27/11/2014	PAX Global	327	Overseas expansion on track	HOLD	Vivien Chan
26/11/2014	BWI Intl	2339	A Chinese-owned, Global Auto Parts Leader with a strong product	NR	Vivien Chan
24/11/2014	Tiangong	826	Solid order growth remains	BUY	Vivien Chan
19/11/2014	Sinotrans	598	A shift to risk aversion	HOLD	Bruce Yeung
17/11/2014	CMGC	8081	Mobile game coming to the stage	NR	Lindsay Hu/ Yuji Fung
13/11/2014	HC International	2280	3Q14 results miss	BUY	Yuji Fung
13/11/2014	CFON	3777	In line 3Q14 operation results	BUY	Yuji Fung
12/11/2014	Shenzhen International	152	A visionary logistics development plan with solid executions	BUY	Bruce Yeung

### Historical recommendations and target price: Sinotrans (598 HK)

(as of 24/03/2015)



1	11 Jul 2014	BUY, Target price HK\$6.5	4	29 Oct 2014	BUY -> HOLD, Target price change HK\$7.20
2	17 Jul 2014	BUY, Target price change HK\$6.07	5	19 Nov 2014	HOLD, Target price change HK\$6.4
3	22 Aug 2014	BUY, Target price change HK\$6.20			

## TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

### Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

### General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

### Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which is carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking is not a market maker in the securities of the subject companies mentioned in this report. Unless otherwise specified, Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron does not have any interests in the subject company(ies) aggregating to an amount equal to or more than 1% of the subject company(ies) market capitalization.

### Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Rating and Related Definitions

<b>Buy (B)</b>	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
<b>Hold (H)</b>	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
<b>Sell (S)</b>	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
<b>Relevant Benchmark</b>	Represents the stock closing price as at the date quoted in this report.

### Copyright © 2015 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

## CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

[www.oriental-patron.com.hk](http://www.oriental-patron.com.hk)

[bruce.yeung@oriental-patron.com.hk](mailto:bruce.yeung@oriental-patron.com.hk)

Tel: (852) 2135 0214

Fax: (852) 2135 0295