

Industrials
Transport Infrastructure
Equity – China

Buy

Target price (HKD)	5.70
Share price (HKD)	4.06
Upside/Downside (%)	40.4

Performance	1M	3M	12M
Absolute (%)	8.8	9.7	-4.9
Relative ^A (%)	9.4	5.6	-23.2
Index ^A	HSCEI		
RIC	3369.HK		
Bloomberg	3369 HK		
Market cap (USDm)	2,633		
Market cap (HKDm)	20,419		
Enterprise value (CNYm)	22781		
Free float (%)	17		

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Qinhuangdao Port (3369 HK)

Buy: Higher ore imports should offset slower coal volumes

- **2014 recurring profit of RMB1.6bn (+5% y-o-y) 6% below our forecast due to lower revenues and income from associates**
- **We keep our 2015-16e earnings unchanged. Higher metal ore imports should offset slower coal volumes**
- **We set our fair value target price at HKD5.70 and establish a Buy rating**

2014 reported profit was RMB2.0bn, up 12% y-o-y and 12% above our forecast:

Stripping out non-recurring items (relocation compensation, one-off government grants) we estimate recurring profit was RMB1.6bn, up 5% y-o-y and 6% below our forecast. The profits were lower than our forecast mainly due to lower than expected coal throughput revenues and lower contribution from associates and joint ventures.

Forecast weak coal demand in 2015-16e: Our metals and mining team expects structural pressure on coal demand in China to persist through 2015, as China's economic growth drivers change (driven more by services and innovation than fixed asset investments) and energy efficiency further improves with increasing reliance on renewable and nuclear energy (see [Searching for the bottom](#), 18 March 2015). Indeed they forecast China's reliance on thermal power to decline from 78% in 2013 to 72% in 2016e and expect coal consumption in China to decline at a 0.4% CAGR in 2015-16e.

Update from management: During the FY14 results briefing, management guided for slightly higher coal volume in Qinhuangdao port in 2015 vs 2014 driven by some newly built coal fired power plants in coastal areas. The company is looking to add 50mt of coal handling capacity in Tangshan Caofeidian Port area which should drive coal throughput growth in coming years. Management expects higher metal ore throughput to be driven by an increase in iron ore imports following the decline in international prices. Two new metal ore berths in Huanghua port are scheduled to commence trial run in 2H15.

We keep our 2015-16e recurring earnings largely unchanged and imply 8% earnings growth in 2015-16e driven by higher metal ore throughput (higher imports on lower iron ore prices) which should offset a slower growth in coal volumes.

We set our fair value TP at HKD5.7 and establish a Buy rating. Y-t-d, QHD's share price has increased by 13% vs. a flat HSCEI index. It is now trading at an 8.8x 2015e PE with a 2015 dividend yield of 4.5%. With stable throughput outlook at Qinhuangdao coal throughput (despite slowdown in coal consumption in China), current price offers an attractive entry point, although we acknowledge that the stock is illiquid. We base our fair value target price on the average of DCF and PE (local market peer comparison). We set our fair value TP at HKD5.7 (implies 12.2x 2015e PE) and establish a Buy rating.

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (CNYm)				
Revenue	7,189	7,223	8,391	9,102
EBITDA	3,325	3,386	3,972	4,170
Depreciation & amortisation	-1,002	-1,113	-1,322	-1,435
Operating profit/EBIT	2,323	2,273	2,650	2,735
Net interest	-314	-369	-509	-510
PBT	2,357	2,593	2,399	2,490
HSBC PBT	2,007	2,175	2,399	2,490
Taxation	-419	-580	-555	-576
Net profit	1,926	2,016	1,847	1,917
HSBC net profit	1,576	1,649	1,847	1,917

Cash flow summary (CNYm)

Cash flow from operations	2,869	2,984	3,532	3,620
Capex	-2,518	-3,330	-2,072	-1,001
Cash flow from investment	-2,245	-3,172	-1,913	-838
Dividends	-1,609	-1,760	-739	-767
Change in net debt	-1,609	3,096	-973	-2,265
FCF equity	178	-2,737	943	2,102

Balance sheet summary (CNYm)

Intangible fixed assets	60	5	5	5
Tangible fixed assets	20,804	22,019	22,898	22,464
Current assets	6,493	3,783	3,268	3,781
Cash & others	5,945	3,095	2,569	3,034
Total assets	29,242	28,137	28,590	28,762
Operating liabilities	5,429	3,709	3,818	3,875
Gross debt	10,763	11,010	9,510	7,710
Net debt	4,818	7,915	6,941	4,676
Shareholders funds	11,882	12,241	14,088	16,005
Invested capital	15,983	19,003	19,785	19,342

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	15.0	0.5	16.2	8.5
EBITDA	15.6	1.8	17.3	5.0
Operating profit	15.7	-2.2	16.6	3.2
PBT	29.1	10.0	-7.5	3.8
HSBC EPS	1.1	4.6	12.0	3.8

Ratios (%)

Revenue/IC (x)	0.5	0.4	0.4	0.5
ROIC	12.4	10.1	10.5	10.7
ROE	14.9	13.7	14.0	12.7
ROA	8.4	8.1	7.9	8.1
EBITDA margin	46.3	46.9	47.3	45.8
Operating profit margin	32.3	31.5	31.6	30.0
EBITDA/net interest (x)	10.6	9.2	7.8	8.2
Net debt/equity	36.9	59.0	45.5	27.2
Net debt/EBITDA (x)	1.4	2.3	1.7	1.1
CF from operations/net debt	59.5	37.7	50.9	77.4

Per share data (CNY)

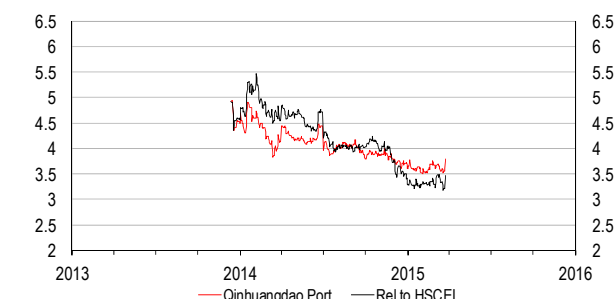
EPS reported (fully diluted)	0.38	0.40	0.37	0.38
HSBC EPS (fully diluted)	0.31	0.33	0.37	0.38
DPS	0.32	0.35	0.15	0.15
Book value	2.36	2.43	2.80	3.18

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	2.8	3.2	2.6	2.1
EV/EBITDA	6.0	6.7	5.5	4.6
EV/IC	1.3	1.2	1.1	1.0
PE*	10.4	9.9	8.8	8.5
P/Book value	1.4	1.3	1.2	1.0
FCF yield (%)	1.2	-18.4	6.4	14.3
Dividend yield (%)	9.9	10.8	4.5	4.7

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 25 Mar 2015

2014 recurring profit of RMB1.6bn was 6% below our forecast

1. QHD: 2H14/2014 Results Summary

(RMBm)	2H14	2H13	vs. 2H13	1H14	vs. 1H14	2H14e	vs. 2H14e	2014	2013	vs. 2013	2014e	vs. 2014e
Revenue	3,742	3,803	-2%	3,481	7%	3,789	-1%	7,223	7,189	0%	7,270	-1%
EBIT	1,078	1,160	-7%	1,159	-7%	1,130	-5%	2,237	2,162	3%	2,289	-2%
Net finance costs	(183)	(180)	2%	(186)	-1%	(188)	-2%	(369)	(314)	18%	(374)	-1%
Associates and JVs	67	48	39%	107	-37%	111	-40%	173	111	56%	217	-20%
Other income	50	12	314%	84	-40%	23	119%	134	48	176%	107	25%
Non-recurring	359	13	NM	24	NM	-	-	382	189	103%	24	1513%
Profit before tax	1,370	1,054	30%	1,187	15%	1,075	27%	2,557	2,196	16%	2,263	13%
Profit before tax (recurring)	1,011	1,040	-3%	1,164	-13%	1,075	-6%	2,175	2,007	8%	2,239	-3%
Tax	(326)	(192)	70%	(254)	29%	(237)	38%	(580)	(419)	38%	(491)	18%
Minority interests	4	1	227%	(1)	-421%	(1)	-677%	3	(12)	-123%	(2)	-242%
Reported PAT to equity holders	1,048	863	21%	932	12%	837	25%	1,980	1,764	12%	1,770	12%
HSBC Recurring PAT to equity holders	740	849	-13%	909	-19%	837	-12%	1,649	1,576	5%	1,746	-6%
Basic and diluted EPS (RMB)	0.21	0.20	3%	0.19	12%	0.17	25%	0.39	0.35	12%	0.35	12%
HSBC recurring EPS (RMB)	0.15	0.20	-26%	0.18	-19%	0.17	-12%	0.33	0.31	5%	0.35	-6%
DPS (RMB)	-	-	-	-	-	-	-	0.35	0.32	9%	0.32	9%
Key ratios and operational data												
EBIT margin (%)	29%	31%	-1.7 pts	33%	-4.5 pts	30%	-1.0 pts	31%	30%	0.9 pts	31%	-0.5 pts
ROE (%)	13%	16%	-3.4 pts	16%	-3.1 pts	14%	-1.8 pts	14%	15%	-1.2 pts	15%	-0.9 pts
Consolidated throughput (mn tonnes)	152	150	1%	147	4%	159	-4%	298	296	1%	305	-2%
Consolidated coal throughput (mn tonnes)	123	123	0%	119	3%	128	-4%	242	241	0%	247	-2%
Coal ASP (RMB/tonne)	23.9	24.2	-1%	23.3	3%	23.3	3%	23.6	23.4	1%	23.3	1%

Source: Company data, HSBC estimates

Valuation

We continue to value QHD using two methods – a comparative PE valuation based on select Hong Kong listed infrastructure peers (rolled forward to 2015e from 2014), which gives us a fair value per share of HKD5.4 based on 11.5x 2015e PE (from HKD5.0 based on 10.6x 2015e PE) and discounted cash flows which gives us a fair value per share of HKD6.1 (from HKD6.5 on higher capex estimates). For our DCF, we use a WACC of 9.3% for QHD, assuming a risk-free rate of 3.5%, an equity risk premium of 6.5% and an ungeared asset beta of 0.9 (all unchanged). Based on the average of the above we set a fair value target price of HKD5.7 which implies a 12.2x 2015e PE. Our target price implies a 40.4% upside from the current share price; therefore we establish a Buy rating on the shares.

Downside risks include a slowdown in China's economy causing slower-than-forecast port throughput growth and a de-rating of the port sector; delay in start of new rail lines could postpone the turnaround of new berths; and faster-than-expected growth of imported coal.

Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

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Rating distribution for long-term investment opportunities

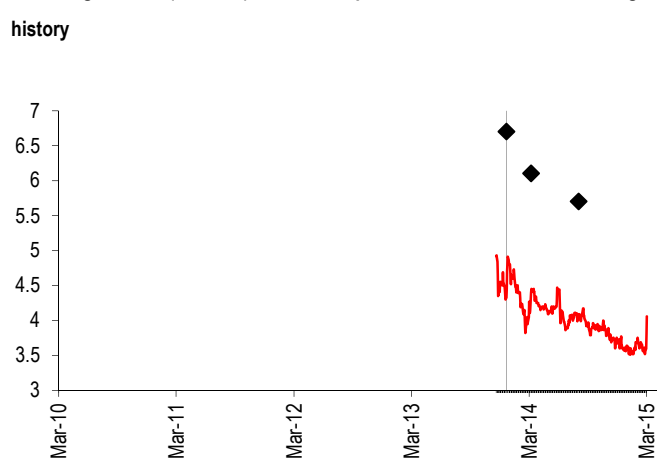
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Share price and rating changes for long-term investment opportunities

Qinhuangdao Port (3369.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	14 January 2014
Target Price	Value	Date
Price 1	6.70	14 January 2014
Price 2	6.10	31 March 2014
Price 3	5.70	26 August 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
QINHUANGDAO PORT	3369.HK	4.06	25-Mar-2015	1, 5, 7

Source: HSBC

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