

March 26, 2015

Kerry Logistics Network

First Read: 2014 Core Earnings In-Line; Higher Revaluation Gains

Industry View

In-Line

Stock Rating

Equal-weight

KLN's total profit declined by 10% YoY to HK\$1,659m, beating our estimate by 31%. However, excluding the higher-than-expected revaluation gains from logistics properties, core earnings increased by 10% to HK\$976m, slightly above our estimate by 1%. It is holding an analyst briefing on Mar 26, 2015. We will provide further updates afterwards.

Key highlights of 2014 results are set below:

- Core net profit of HK\$976m (+10% YoY) in 2014, in line with our estimates of HK\$964m but missed consensus estimates by 9%.
- Revenues rose by 6% to HK\$21,115m, 0.5% above our estimates of HK\$21,004m. Both IL and IFF segment revenue are in line with our estimates.
- All segments recorded improved margins in 2014. Specifically, the margin from Hong Kong Warehouse increased by +0.9ppt to 59.7%, and the margin from logistics operations improved by 0.2ppt to 10%. For IFF segment, margins improved by 0.2ppt to 3.0%.
- Profit contribution from associates dropped 29% YoY to HK\$91.4m, mainly led by the poor performance at CCT. However, it beat our estimate by 2.4%.
- Profit contribution from associates dropped 29% YoY to HK\$91.4m, 2.4% above our estimate.
- Kerry declared a final DPS of HK\$0.08, implying a 24% payout ratio from a core earnings basis, up from 21% in 2013, above our estimates of 20%.

Exhibit 1: KLN: Summary of 2014 Results

(HK\$ mn)	2014	2013	YoY%	2014E	% vs. MSE	2H14	2H13	YoY%	1H14	1H13	YoY%
Operating Revenue	21,115	19,969	6%	21,004	1%	11,131	10,447	7%	9,984	9,522	5%
Operating Expense	18,787	17,562	7%	19,088	-2%	9,763	9,216	6%	9,024	8,346	8%
Operating Profit	2,328	2,407	-3%	1,916	22%	1,368	1,231	11%	960	1,176	-18%
OP Margin	11.0%	12.1%	-1.0ppt	9.1%	1.9ppt	12.3%	11.8%	.5ppt	9.6%	12.4%	-2.7ppt
Net Profit	1,659	1,835	-10%	1,262	31%	1,024	931	10%	634	904	-30%
Net Margin	7.9%	9.2%	-1.3ppt	6.0%	1.8ppt	9.2%	8.9%	.3ppt	6.4%	9.5%	-3.1ppt
Core Net Profit	976	886	10%	964	1%	486	431	13%	490	455	8%
Core Net Profit Margin	4.6%	4.4%	.2ppt	4.6%	.0ppt	4.4%	4.1%	.2ppt	4.9%	4.8%	.1ppt

Source: Company Data, Morgan Stanley Research (E) estimates

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Kerry Logistics Network (0636.HK , 636 HK)

Hong Kong/China Transportation & Infrastructure / China

Stock Rating

Equal-weight

Industry View

In-Line

Shr price, close (Mar 23, 2015)

HK\$11.94

52-Week Range

HK\$13.30-10.92

Sh out, dil, curr (mn)

1,690

Mkt cap, curr (mn)

HK\$20,177

EV, curr (mn)

HK\$22,297

Avg daily trading value (mn)

HK\$23

Fiscal Year Ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS (HK\$)	0.67	0.57	0.65	0.71
Prior ModelWare EPS (HK\$)	-	-	-	-
Consensus EPS (HK\$)§	0.53	0.62	0.69	0.77
Revenue, net (HK\$ mn)	19,969	21,004	23,571	26,362
EBITDA (HK\$ mn)	1,848	1,845	2,002	2,149
ModelWare net inc (HK\$ mn)	874	962	1,091	1,206
P/E	16.5	21.4	18.5	16.7
P/BV	1.4	1.4	1.2	1.1
RNOA (%)	7.6	7.3	7.3	7.1
ROE (%)	10.5	7.2	7.4	7.4
EV/EBITDA	11.0	12.7	11.5	10.8
Div yld (%)	1.0	0.9	1.1	1.2
FCF yld ratio (%)	3.9	(1.7)	(0.9)	(0.3)
Leverage (EOP) (%)	3.4	4.9	4.9	4.2

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

e = Morgan Stanley Research estimates

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(as of February 28, 2015)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL	% OF RATING IBC CATEGORY
Overweight/Buy	1161	35%	321	41%	28%
Equal-weight/Hold	1459	44%	370	47%	25%
Not-Rated/Hold	101	3%	10	1%	10%
Underweight/Sell	609	18%	88	11%	14%
TOTAL	3,330		789		

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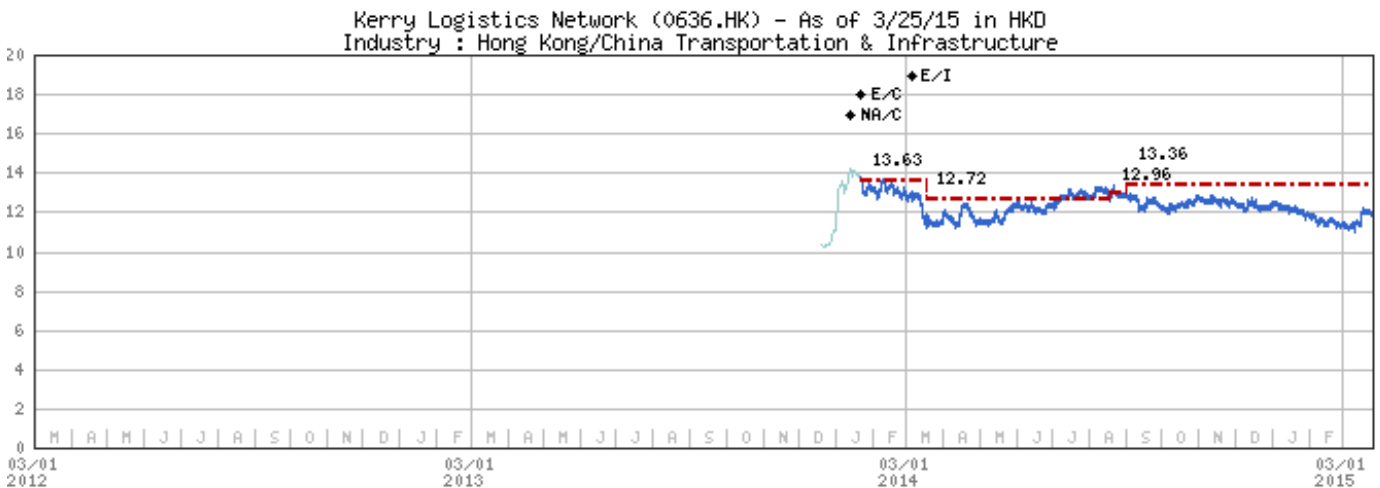
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/25/2015)
Wong CFA, Victoria		
China COSCO (601919.SS)	U (08/19/2014)	Rmb7.19
China COSCO (1919.HK)	U (08/19/2014)	HK\$3.85
China Shipping CL (2866.HK)	E (07/09/2012)	HK\$2.29
China Shipping CL (601866.SS)	U (08/19/2014)	Rmb5.30
China Shipping Development (1138.HK)	O (10/23/2013)	HK\$5.07
China Shipping Development (600026.SS)	E (11/03/2014)	Rmb9.02
Hopewell Highway Infrastructure (0737.HK)	E (08/12/2014)	HK\$3.70
Jiangsu Expressway Company Limited (600377.SS)	O (08/12/2014)	Rmb7.81
Jiangsu Expressway Company Limited (0177.HK)	O (08/12/2014)	HK\$10.06
Orient Overseas Int'l Limited (0316.HK)	O (03/05/2014)	HK\$47.20
Pacific Basin Shipping (2343.HK)	O (11/03/2014)	HK\$2.46
Zhejiang Expressway Company (0576.HK)	U (07/16/2013)	HK\$9.62
Xu CFA, Edward H		
Air China Limited (0753.HK)	E (12/16/2014)	HK\$6.89
Air China Limited (601111.SS)	U (12/16/2014)	Rmb9.43
Beijing Capital Int'l Airport (0694.HK)	E (12/17/2013)	HK\$7.37
Cathay Pacific Airways (0293.HK)	E (08/19/2013)	HK\$17.68
China Eastern Airlines (0670.HK)	E (12/16/2014)	HK\$4.16
China Eastern Airlines (600115.SS)	U (12/16/2014)	Rmb7.24
China Merchants Hldg Int'l (0144.HK)	O (02/08/2007)	HK\$28.95
China Southern Airlines (600029.SS)	E (03/04/2015)	Rmb8.25
China Southern Airlines (1055.HK)	O (12/16/2014)	HK\$4.71
CIMC (2039.HK)	E (07/14/2014)	HK\$16.04
CIMC (000039.SZ)	U (01/19/2015)	Rmb21.68
COSCO Pacific (1199.HK)	E (03/25/2015)	HK\$10.28
Daqin Railway Co. Ltd. (601006.SS)	O (01/07/2010)	Rmb10.90
Guangshen Railway (0525.HK)	U (04/28/2014)	HK\$3.83
Guangshen Railway (601333.SS)	U (07/18/2014)	Rmb4.92
Hutchison Port Holdings Trust (HPHT.SI)	E (03/05/2014)	US\$0.70
Kerry Logistics Network (0636.HK)	E (01/22/2014)	HK\$11.86
Shanghai International Airport (600009.SS)	E (07/24/2014)	Rmb24.23
Shenzhen International Holdings (0152.HK)	O (05/27/2014)	HK\$11.50
Sinotrans Limited (0598.HK)	O (05/27/2014)	HK\$4.56
SITC International Holdings Company (1308.HK)	O (08/08/2011)	HK\$4.14
Spring Airlines (601021.SS)	O (02/24/2015)	Rmb89.32

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* Historical prices are not split adjusted.