

Equities

Hong Kong/China

Company Update

## Company Report

27 March 2014

# Dragon Crown (935 HK)

## Upgrade to Buy on Solid Recovery

*Dragon Crown's FY14 results missed our expectations, owing to a halt in industrial activity in Nanjing in 3Q14 due to the city hosting the Youth Olympic Games. But it has made a full recovery in the past two months. New-capacity performance has been in line with expectation. Upgrade to Buy.*

- Recovery on track.** Throughput volume of liquid chemical products handled reached 1,900,100 metric tonnes, down 11% YoY from 2013. 2H14 throughput declined rapidly by 18% YoY. Management attributed the decline in handling to the Youth Olympic Games being held in Nanjing, where the company's flagship terminal is based. But data for the first two months of the year indicated that it has made a full recovery and that performance was better than last year.
- Satisfactory performance of Nanjing Terminal Phase III.** The company completed its major expansion in FY14. It entered into long-term leases with a key customer for two large and two small tanks, and leased four tanks to a chemical-trading company at spot rate, which it expects to renew periodically. This new capacity should help diversify the customer base in the long run.
- Brought in Value Partners as a shareholder.** The company completed the sale of 1% of its issued share capital to Value Partners, but terminated the sale of warrants as some conditions were not fulfilled. Management has no concrete plans to sell warrants currently. We do not believe the company needs to raise funds, but it may look to introduce other strategic partners. At the end of 2014, it had net cash of HK\$189m or c. 20% of its market cap.
- Forecasts and valuation.** We tweak our FY15-17E EPS by -4% to 3% post results and hence lift our DCF-based target price to HK\$1.05 from HK\$1.03. Following the recent share-price correction, we upgrade from Hold to Buy. The stock is attractive given its defensiveness. We expect a solid recovery with EPS to increase 13% in FY15. 6.7% dividend yield and net cash equivalent to 20% of its market cap offer downside protection.

### Investment Summary

FY-end 31 Dec	2013	2014	2015E	2016E	2017E
Turnover (HK\$ m)	270	262	281	293	302
Growth (%)	4.8	3.1	7.4	4.1	3.1
Net profit (HK\$ m)	104	81	91	97	97
Growth (%)	5.2	(22.4)	12.8	5.9	0.8
EPS (HK cents)	9.4	7.3	8.2	8.7	8.8
Growth (%)	5.2	(22.4)	12.9	5.9	0.8
PER (x)	9.3	11.9	10.6	10.0	9.9
OCF/Share (HK\$)	0.13	0.14	0.12	0.14	0.14
PBR (x)	1.0	1.0	1.0	1.0	0.9
EV/EBITDA (x)	4.6	5.3	4.9	4.6	4.4
DPS (HK cents)	5.8	5.8	6.0	6.0	6.2
Yield (%)	6.7	6.7	6.9	6.9	7.1

Sources: Company, CER estimates

China / Infrastructure / Logistics

# BUY

Share Price	Target Price	Upside
HK\$0.87	HK\$1.05	20.7%

(As of 25 March 2015)

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52-week price range (HK\$)	0.82-1.18
Div yield %	6.70

### Latest Key Data

FF no of shares (m)	291
FF (%)	26.19
FF market cap (HK\$ m)	253
12M daily turnover (HK\$ m)	0.24
12M volatility (%)	31.55
12M Hi/Lo (HK\$)	0.82-1.18
PEG 2014-16E (x)	1.28
RoAE 2014 (%)	8.60
PBR 2015E (x)	1.00
Net debt/equity 2014 (%)	Net cash

### Performance (%)

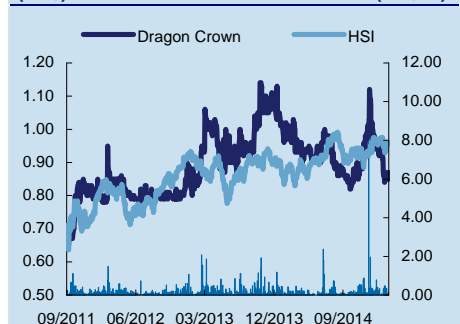
	1M	YTD	12M
Absolute	(8.5)	(12.2)	(8.5)
Relative to HSCEI	(6.0)	(11.7)	(29.5)

### Major Shareholder (%)

Ng Wai Man	69.28
Free float	26.19

### Price Chart

(HK\$) Turnover (HK\$ m)



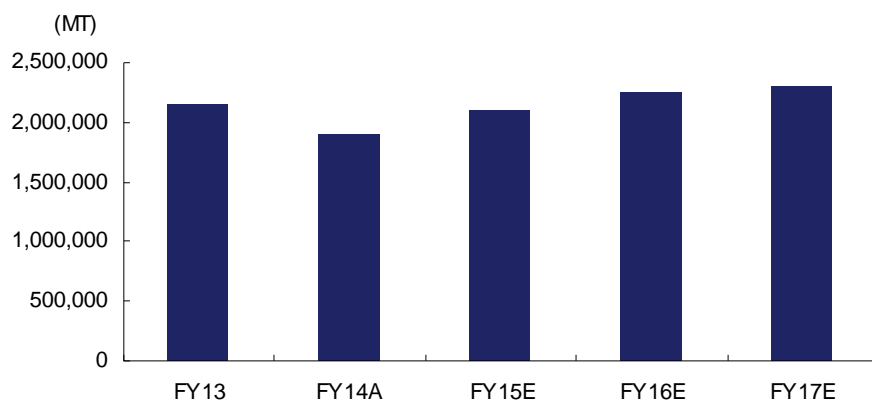
Sources: Bloomberg, CER estimates

Figure 1: FY14 results highlights

HK\$'000	FY13	FY14	YoY
Revenue	270,020	261,574	-3%
COS	(108,142)	(112,059)	4%
Gross profit	161,878	149,515	-8%
Other income	12,987	8,431	-35%
Administrative expenses	(34,240)	(45,425)	33%
Finance costs	(3,274)	(4,367)	33%
Share of profits and losses of associates	409	(529)	N/A
Share of profits and losses of JV	6,325	6,495	3%
PBT	144,085	114,120	-21%
tax	(25,778)	(20,910)	-19%
PAT	118,307	93,210	-21%
Attributable to:			
Owners of the company	104,234	80,933	-22%
Non-controlling interests	14,073	12,277	-13%
EPS – HK cents	9.39	7.29	-22%
Final DPS – HK cents	3.80	3.80	0%

Sources: Company and CER

Figure 2: Company throughput trend



Sources: Company and CER

### Company Description

Dragon Crown is an integrated terminal service provider in the PRC specialising in the storage and handling of liquid chemical products. The company offers a comprehensive range of terminal and storage services. These include loading and discharging liquid chemical products at jetties, storing liquid chemical products at its tank farm, and delivering products through dedicated pipelines and other basic terminal infrastructure. It has long-term service agreements with large chemical production companies.

### Income Statement (Consolidated)

FY-end 31 Dec (HK\$ m)	2013	2014	2015E	2016E	2017E
<b>Sales</b>	<b>270.0</b>	<b>261.6</b>	<b>281.0</b>	<b>292.6</b>	<b>301.6</b>
<b>Cost of sales</b>	<b>(108.1)</b>	<b>(112.1)</b>	<b>(116.0)</b>	<b>(119.6)</b>	<b>(121.7)</b>
<b>Gross profit</b>	<b>161.9</b>	<b>149.5</b>	<b>165.0</b>	<b>173.0</b>	<b>179.9</b>
Other income	13.0	8.4	6.3	5.8	4.9
Operating expenses	(34.2)	(45.4)	(46.4)	(43.9)	(40.7)
<b>Operating profit</b>	<b>140.6</b>	<b>112.5</b>	<b>125.0</b>	<b>135.0</b>	<b>144.0</b>
Finance cost, net	(3.3)	(4.4)	(3.9)	(3.3)	(2.6)
Share of P/L of asso. & JCE	6.7	6.0	5.5	5.7	6.3
<b>Pre-tax profit</b>	<b>144.1</b>	<b>114.1</b>	<b>126.5</b>	<b>137.3</b>	<b>147.7</b>
Tax	(25.8)	(20.9)	(22.8)	(27.5)	(36.9)
Minorities	(14.1)	(12.3)	(12.4)	(13.2)	(13.3)
<b>Net profit</b>	<b>104.2</b>	<b>80.9</b>	<b>91.3</b>	<b>96.7</b>	<b>97.5</b>
EBITDA	182.1	159.7	173.1	183.9	192.9
EBIT	140.6	112.5	125.0	135.0	144.0
EPS (HK cents)	9.4	7.3	8.2	8.7	8.8
DPS (HK cents)	5.8	5.8	6.0	6.0	6.2

Sources: Company, CER estimates

### Cash Flow (Consolidated)

FY-end 31 Dec (HK\$ m)	2013	2014	2015E	2016E	2017E
<b>Operating cash flow</b>	<b>141.9</b>	<b>155.6</b>	<b>127.6</b>	<b>156.4</b>	<b>155.6</b>
Net profit	104.2	80.9	91.3	96.7	97.5
Depreciation & amortization	41.5	47.1	48.1	48.9	48.8
Change in working capital	(7.9)	23.7	(22.7)	(0.0)	(0.4)
Others	4.0	3.8	10.9	10.8	9.7
<b>Investment cash flow</b>	<b>(166.7)</b>	<b>(69.1)</b>	<b>(60.0)</b>	<b>(60.0)</b>	<b>(60.0)</b>
Net capex	(140.5)	(100.0)	(60.0)	(60.0)	(60.0)
Disposals	0.1	0.0	0.0	0.0	0.0
Change in LT asset	0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>	<b>1.4</b>	<b>55.6</b>	<b>67.6</b>	<b>96.4</b>	<b>95.6</b>
<b>Financing cash flow</b>	<b>39.4</b>	<b>(84.5)</b>	<b>(81.2)</b>	<b>(96.6)</b>	<b>(93.3)</b>
Change in share capital	0.0	0.0	0.0	0.0	0.0
Net change in debt	135.9	(15.7)	(10.7)	(24.5)	(19.6)
Dividend paid	(83.2)	(64.4)	(66.6)	(68.8)	(71.0)
<b>Net cash flow</b>	<b>14.5</b>	<b>2.1</b>	<b>(13.5)</b>	<b>(0.3)</b>	<b>2.3</b>

Sources: Company, CER estimates

### Balance Sheet (Consolidated)

FY-end 31 Dec (HK\$ m)	2013	2014	2015E	2016E	2017E
<b>Total assets</b>	<b>1,229.0</b>	<b>1,216.4</b>	<b>1,233.9</b>	<b>1,252.4</b>	<b>1,273.6</b>
<b>Current assets</b>	<b>372.8</b>	<b>361.5</b>	<b>361.6</b>	<b>363.3</b>	<b>367.2</b>
Cash & ST investments	320.5	322.6	309.0	308.7	311.0
Marketable securities	-	-	-	-	-
Account & notes receivable	45.6	32.0	44.6	46.5	47.9
Inventories	3.6	3.2	4.3	4.5	4.5
Others	3.0	3.7	3.7	3.7	3.7
<b>Non-current assets</b>	<b>856.3</b>	<b>854.9</b>	<b>872.2</b>	<b>889.0</b>	<b>906.5</b>
LT investments	-	-	-	-	-
Net fixed assets	796.3	806.8	818.7	829.8	841.0
Others	60.0	48.1	53.5	59.2	65.5
<b>Total liabilities</b>	<b>217.5</b>	<b>211.3</b>	<b>191.7</b>	<b>169.1</b>	<b>150.6</b>
<b>Current liabilities</b>	<b>76.8</b>	<b>163.8</b>	<b>136.6</b>	<b>124.0</b>	<b>113.6</b>
Account payable	57.8	71.5	62.5	64.5	65.6
ST borrowings	14.2	90.8	72.6	58.1	46.5
Others	4.8	1.4	1.4	1.4	1.4
<b>Non-current liabilities</b>	<b>140.8</b>	<b>47.6</b>	<b>55.1</b>	<b>45.1</b>	<b>37.1</b>
Long-term debts	134.9	42.5	50.0	40.0	32.0
Others	5.9	5.1	5.1	5.1	5.1
<b>Total equity</b>	<b>1,011.5</b>	<b>1,005.0</b>	<b>1,042.2</b>	<b>1,083.3</b>	<b>1,123.0</b>
Shareholders' equity	942.6	939.0	963.7	991.6	1,018.0
Minority shareholders	68.9	66.0	78.5	91.7	105.0
<b>Total liabilities + total equities</b>	<b>1,229.0</b>	<b>1,216.4</b>	<b>1,233.9</b>	<b>1,252.4</b>	<b>1,273.6</b>
Net cash / (debt)	171.4	189.3	186.4	210.6	232.6
Working capital	296.0	197.7	225.0	239.3	253.6
Total capital employed	1,152.3	1,052.6	1,097.3	1,128.3	1,160.1
Shareholders' equity + Minorities	1,011.5	1,005.0	1,042.2	1,083.3	1,123.0
Net gearing (%)	NC	NC	NC	NC	NC

Sources: Company, CER estimates

### Financial Summary

FY-end 31 Dec	2013	2014	2015E	2016E	2017E
<b>Growth (%)</b>					
Revenue	4.8	-3.1	7.4	4.1	3.1
EBITDA	2.4	-12.3	8.4	6.2	4.9
EBIT	-0.6	-20.0	11.1	8.0	6.7
Net profit	5.2	-22.4	12.8	5.9	0.8
EPS	5.2	-22.4	12.9	5.9	0.8
<b>Margins (%)</b>					
Gross	60.0	57.2	58.7	59.1	59.6
EBITDA	67.4	61.0	61.6	62.8	63.9
EBIT	52.1	43.0	44.5	46.1	47.8
Net	38.6	30.9	32.5	33.0	32.3
<b>Others (%)</b>					
Effective tax rate	17.9	18.3	18.0	20.0	25.0
Payout ratio	61.8	79.6	72.9	68.9	70.6
RoCE	13.3	10.2	11.6	12.1	12.6
Average RoE	11.3	8.6	9.6	9.9	9.7
Average RoA	10.4	7.6	8.5	8.8	8.8
Interest cover (x)	43.0	25.8	31.7	40.8	54.4

Sources: Company, CER estimates

## China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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