



Rating
Buy

Asia
China

Transportation
Infrastructure

Company
**Jiangsu
Expressway-H Alert**

Reuters 0177.HK	Bloomberg 177 HK	Exchange HKG	Ticker 0177
ADR Ticker JEXYY	ISIN US4773731041		

Date
29 March 2015

Results

Price at 27 Mar 2015 (HKD)	9.90
Price target - 12mth (HKD)	11.24
52-week range (HKD)	10.16 - 8.13
HANG SENG INDEX	24,486

2014 results in line with DBE, improved 2015 earnings outlook; Buy

2014 net profit declined 5%, in line with DBE but below market expectation

JSE reported 2014 net profit of RMB2,575m (down 4.9% yoy), largely in line with our expectation of RMB2,656m, but 7% below Bloomberg consensus. Reported DPS was RMB0.38, indicating a payout ratio of 74% in 2014 (vs. 71% in 2013). Total revenue in 2014 grew 3.1% yoy on the back of 0.5%, 2.7% and 240% yoy growth in toll income, revenue from ancillary service and the property business, respectively. Operating margin contracted 2.8ppt to 45%, due to business mix downgrade and higher depreciation and amortization from toll operations (mainly caused by the adoption of the new estimation of traffic volume for the amortization of the franchise rights of the toll roads).

Management guidance on 2015 sales slightly higher than our forecast

JSE expects 2015 revenue to exceed RMB9.0bn, slightly higher than our expectation of RMB8.8bn, which we believe is mainly supported by the revenue contribution from the newly-acquired Ningchangzhenli Expressway and Xiyi Expressway in 2015. The acquisition was approved by the board in March and is expected to be consolidated into JSE's financials in 1Q15. It should offset weak toll income growth on the Shanghai-Nanjing Expressway (SNEX), given that the commencement of the Lima Expressway (end-2013) should continue to have a positive impact on the Ningchang Expressway.

Maintaining Buy on improved earnings outlook

We believe that the negative impact from traffic diversion to the Lima Expressway should gradually fade away from 2Q15. We suggest investors Buy JSE as we think its earnings outlook should improve and the company is likely the largest beneficiary of the opening of the SH Disney resort. Recent asset acquisitions from its parentco could further drive its long-term outlook. In addition, JSE recently received a commitment letter from its parentco, which will replace the government in compensating JSE for the removal of toll stations and toll points on the G312 national highway in 2012. JSE is trading at P/Es of 13.9x 2015E and 12.6x 2016E with a dividend yield of 5-6%, which looks attractive, given its solid earnings outlook. We now forecast JSE's recurrent net profit to grow 8% in 2015 and 10% in 2016 (vs. -5% in 2014).

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Stock data

Market cap (HKDm)	49,874
Market cap (USDm)	6,432
Shares outstanding (m)	5,037.7
Major shareholders	Jiangsu Comm. (55.2%)
Free float (%)	33
Avg daily value traded (USDm)	4.1

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	7,412	7,880	8,768
Net Profit (CNYm)	2,707.7	2,655.6	3,298.9
DB EPS (CNY)	0.54	0.53	0.57
PER (x)	12.7	15.1	13.9
Yield (net) (%)	5.6	4.8	5.2

Source: Deutsche Bank

Figure 1: JSE – 2014 result highlights

RMBm	2014	2013	yoy change
Revenue	7,638	7,412	3.1%
Toll revenue	5,372	5,345	0.5%
Operating profit	3,424	3,532	-3.0%
Net profit	2,575	2,708	-4.9%
Net margin	33.7%	36.5%	-2.8%

Source: Deutsche Bank, company data

Deutsche Bank AG/Hong Kong

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