

Industrials
Conglomerates
 Equity – China

Shanghai Industrial (363 HK)

Hold

Target price (HKD)	26.00
Share price (HKD)	23.90
Upside/Downside (%)	8.8

Performance	1M	3M	12M
Absolute (%)	1.7	3.0	-6.8
Relative ^A (%)	4.2	2.5	-21.7

Index^A HSCEI

RIC 0363.HK
 Bloomberg 363 HK

Market cap (USDm) 3,337
 Market cap (HKDm) 25,878

Enterprise value (HKDm) 27,242
 Free float (%) 48

Hold: Decent 2014 results; expect a stable 2015

- **2014 results beat our forecast mainly from property profit bookings**
- **We expect a stable outlook for 2015 given an uncertain property market and slower acquisition pace of water assets**
- **We establish a Hold rating and set a fair value TP of HKD26 (from HKD25.2)**

2014 results beat our forecast mainly on property profit bookings. Shanghai Industrial's (SIHL) reported net profit was HKD3.1bn (+14% y-o-y). We estimate recurring net profit was HKD2.5bn, up 12% from 2013 which was driven by more property sales at higher margins although there were also higher effective tax and minority interest rates. Property EBIT increased 48%, Infrastructure's EBIT grew 11% y-o-y while the tobacco-led Consumer business had EBIT growth of 21%. The result was 15% above our forecast as property bookings in 2H14 was higher than we expected; the result was also 6% below consensus. DPS rose to HKD0.90 (from HKD0.87 in 2013).

A stable outlook. For the property business, Management expects contract sales to be slightly lower than the RMB8.6bn in 2014 given the uncertain China property market. We forecast the tobacco-led consumer and toll road businesses to have gradual single-digit net profit growth. Finally, we also expect the acquisition pace of its water business will slow as SIHL only has ~36% of SIIC Environment (SIIC SP, NR) ownership and thus acquisitions through SIIE can only be done through debt rather than equity raising (the latter can cause further ownership dilution). We raise our 2015e/2016e earnings by 4%/1% only, as (i) we believe the higher 2014 property profit bookings were from projects which we originally expected to be booked in 2015-16e; and (ii) we factored in higher tax and minority interest rates going forward. We also introduce 2017 earnings forecasts. Our 2015e/16e earnings forecast are 6%/5% below consensus.

We establish a Hold rating. We apply Sum-of-The-Parts valuation and set a fair value target price of HKD26 (from HKD25.2). We raise our TP slightly due to our minor upgrade in earnings. The main downside risks are value destructive deals and a worsening residential property market in Yangtze River Delta. The main upside risks are a continued lowering of China interest rates and an aggressive sales strategy in its cigarettes division.

31 March 2015

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Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (HKDm)				
Revenue	19,967	24,245	22,454	25,823
EBITDA	7,014	7,080	7,587	8,103
Depreciation & amortisation	-1,027	-1,145	-1,204	-1,227
Operating profit/EBIT	5,987	5,935	6,383	6,876
Net interest	-583	-872	-736	-593
PBT	6,885	5,268	5,859	6,502
HSBC PBT	5,604	5,268	5,859	6,502
Taxation	-2,467	-1,627	-1,785	-2,022
Net profit	3,195	2,731	3,056	3,360
HSBC net profit	2,487	2,731	3,056	3,360

Cash flow summary (HKDm)

Cash flow from operations	1,236	11,057	7,390	11,812
Capex	-3,215	-2,933	-686	-704
Cash flow from investment	-3,215	-2,933	-686	-704
Dividends	-939	-1,118	-956	-1,069
Change in net debt	8,806	-5,447	-5,700	-10,084
FCF equity	-1,979	8,124	6,704	11,108

Balance sheet summary (HKDm)

Intangible fixed assets	14,596	13,785	12,926	12,031
Tangible fixed assets	20,920	23,824	24,470	25,145
Current assets	35,045	42,004	46,980	58,249
Cash & others	25,120	30,567	36,267	46,350
Total assets	82,422	92,255	97,017	108,067
Operating liabilities	29,295	33,789	31,387	30,557
Gross debt	44,573	44,573	44,573	44,573
Net debt	19,453	14,006	8,306	-1,778
Shareholders funds	35,518	37,293	39,279	41,463
Invested capital	16,147	15,258	16,721	18,518

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	-7.4	21.4	-7.4	15.0
EBITDA	29.3	0.9	7.2	6.8
Operating profit	35.4	-0.9	7.5	7.7
PBT	42.4	-23.5	11.2	11.0
HSBC EPS	10.6	9.8	11.9	10.0

Ratios (%)

Revenue/IC (x)	1.7	1.5	1.4	1.5
ROIC	32.8	26.1	27.8	26.9
ROE	7.1	7.5	8.0	8.3
ROA	5.5	4.2	4.3	4.4
EBITDA margin	35.1	29.2	33.8	31.4
Operating profit margin	30.0	24.5	28.4	26.6
EBITDA/net interest (x)	12.0	8.1	10.3	13.7
Net debt/equity	36.4	25.0	14.1	-2.8
Net debt/EBITDA (x)	2.8	2.0	1.1	-0.2
CF from operations/net debt	6.4	78.9	89.0	

Per share data (HKD)

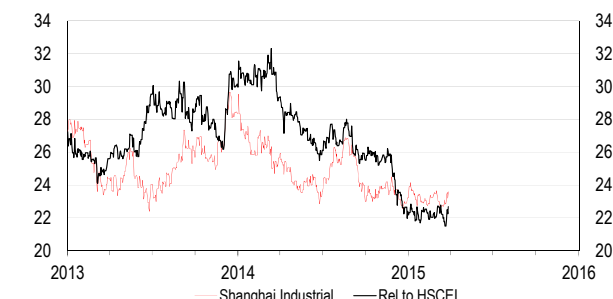
EPS reported (fully diluted)	2.96	2.53	2.83	3.11
HSBC EPS (fully diluted)	2.30	2.53	2.83	3.11
DPS	1.04	0.89	0.99	1.09
Book value	32.89	34.54	36.38	38.40

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	2.9	2.1	2.1	1.5
EV/EBITDA	8.3	7.3	6.2	4.7
EV/IC	0.9	0.8	0.7	0.7
PE*	10.8	9.5	8.4	7.7
P/Book value	0.8	0.7	0.7	0.6
FCF yield (%)	7.0	35.5	24.7	34.8
Dividend yield (%)	4.2	3.7	4.1	4.6

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

Price relative



Source: HSBC

Note: price at close of 30 Mar 2015

Better than expected 2014 results from property bookings

1. 2014 results versus 2013 and HSBC estimates

HKDm	2014	2013	Chge	HSBC 2014e	Diff	Major reasons for differences to HSBC estimate
Infrastructure	3,681	3,550	4%	4,114	-11%	
Real estate	12,328	14,374	-14%	8,549	44%	
Consumer	3,958	3,643	9%	3,986	-1%	
Revenue	19,967	21,568	-7%	16,649	20%	
Infrastructure	1,768	1,599	11%	1,600	11%	
Real estate	3,516	2,377	48%	1,758	100%	More property bookings at higher than expected margins
Consumer	1,308	1,077	21%	1,151	14%	
Other	-603	-633	-5%	-633	-5%	
EBIT	5,989	4,421	35%	3,877	54%	
Net interest cost	-710	-620	15%	-633	12%	
AJCE	199	103	95%	151	32%	
Non-recurring	1,281	930	38%	1,686	na	
PBT	6,759	4,834	40%	5,081	33%	
Recurring PBT	5,478	3,904	40%	3,395	61%	
Tax	-2,467	-1,390	78%	-1,180	109%	Effective tax rate of 36% versus our estimate of 23%
MI	-1,223	-742	65%	-744	64%	MI% of 28% versus our estimate of 19%
Net profit	3,069	2,702	14%	3,157	-3%	
Recurring NP	2,487	2,229	12%	2,154	15%	

Source: Company data, HSBC estimates

Valuation and Risks

We apply sum-of-the-parts methodology. We raise our appraised value to HKD47 (from HKD46) mainly due to our minor upgrade in earnings. We apply an unchanged 45% NAV discount and arrive at a TP of HKD26 (from HKD25.2). Our fair value target price implies 8.8% upside to the current share price; therefore, we establish a Hold rating on the stock.

The main downside risks are (1) value destructive acquisitions/disposals; and (2) a worsening residential property market in Yangtze River Delta, where SIHL's projects are mostly located. The main upside risks are: (1) A continued lowering of China interest rates, which would lower the required returns for its asset-heavy investments such as toll roads; and (2) aggressive sales strategy in its cigarettes division.

2. Appraised valuation of Shanghai Industrial

	EV	Net debt	Equity value	HKD/ share	% Equity	Pre-disc 2015e PE	Post-disc 2015e PE	Assumptions
Properties	36,373	(10,220)	26,153	24.2	51%	31	17	Land at 15% discount, 12% WACC for DP, 7.5% net cap rate for IP
Tollroads	13,259	(901)	12,358	11.4	24%	15	8	DCF using 10.5% WACC, implied 11x 2014e PE
Water	5,096	(386)	4,710	4.4	9%	14	8	SIIC at current price, others at 20x PE
Tobacco	8,733	(144)	8,589	8.0	17%	12	7	7.0x 2016e EV/EBITDA of Tobacco sector (which factors in a 40% discount)
Printing	974	(16)	958	0.9	2%	6	3	3.05x 2016e EV/EBITDA based on AMVIG (closest peer)
HO costs	(1,781)	-	(1,781)	-1.6	-3%	10	6	
Total	62,654	(11,667)	50,987	47.2	100%	19	10	

Note: * The high property PE is mainly due to SIHL's conservative launch schedule.
Source: HSBC estimates

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

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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Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

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Rating distribution for long-term investment opportunities

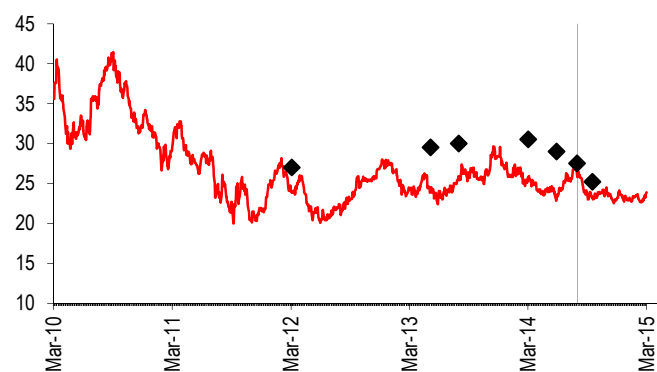
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For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Shanghai Industrial (0363.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight	Neutral	28 August 2014
Target Price	Value	Date
Price 1	27.00	01 April 2012
Price 2	29.50	03 June 2013
Price 3	30.00	29 August 2013
Price 4	30.50	31 March 2014
Price 5	29.00	26 June 2014
Price 6	27.50	28 August 2014
Price 7	25.20	14 October 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SHANGHAI INDUSTRIAL	0363.HK	23.90	30-Mar-2015	6

Source: HSBC

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