

# Sinotrans Ltd. (598 HK)

## Disposing 1.59% Stake of Sinoair

**BUY**

Price target HK\$6.90

Price HK\$5.63

**Key Takeaway**

**Sinotrans announced after market close today that it has reduced its Sinoair (600270.CH) stake by 1.59% from 63.46% to 61.87% in the open market since April. This is in-line with company's guidance that it would be seeking to realise some value while retaining majority control. We see this as a positive development as Sinoair currently trades at 27x 2015PE vs. Sinotrans at 13x 2015PE.**

**Sinotrans sold 1.59% stake in Sinoair at an estimated average price of RMB27.44/share:** We estimate that the proceeds from the sales were around RMB394m and Sinotrans should be able to book disposal gains of around RMB278m. We see this as a good capital reallocation strategy from the company, given Sinoair trades at 38x 2014 in the Shanghai market. Sinotrans remains in control of Sinoair with 61.87% stake and we believe the company's long-term strategy remains unchanged.

**Use of proceeds - more asset injections on the cards:** We believe the proceeds from Sinoair will mainly be deployed for further logistics asset acquisitions from the parent company. Using Sinoair to fund these asset injections should be earnings accretive to shareholders. Currently, Sinoair trades at 38x 2014/27x 2015 PE while Sinotrans itself trade at 13x 2015 PE. Historically, asset injections from the parent company were done at around 10-12x PE. We believe selling a small stake in Sinoair would also be a more attractive funding option than an equity placement at Sinotrans (598.HK) level given Sinoair valuation premium vs. Sinotrans.

**Valuation/Risks:** Our 12-month PT is HK\$6.9 based on 16x 2015 PE. Major downside risks include macro economy slows down, depressed consumer demand etc. Upside risks include value accretive asset injections from the parent company.

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## Company Description

Sinotrans Limited and its subsidiaries (the Company) provide services including freight forwarding, logistics, storage and terminal services and express services. The Company is also engaged in Entrustment Services Agreement with its controlling Parent, Sinotrans & CSC Group. Sinotrans Limited holds 50% of the joint venture with DHL through its subsidiary, Sinoair, in PRC.

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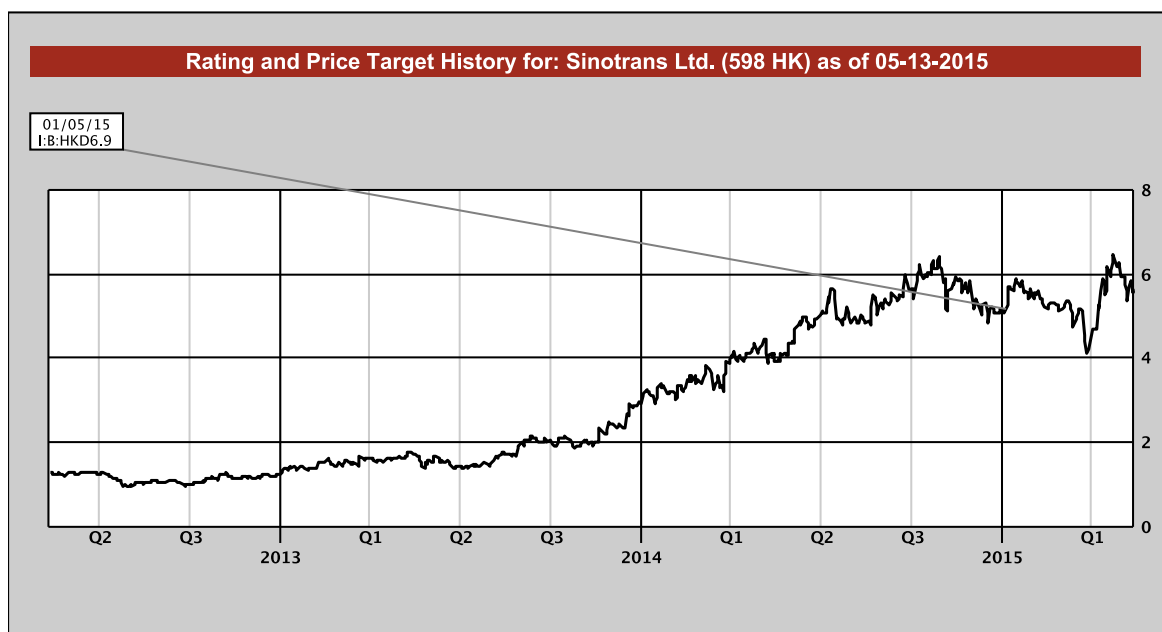
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## Other Companies Mentioned in This Report

- Sinotrans Ltd. (598 HK: HK\$5.63, BUY)



## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	840	40.44%	160	19.05%
UNDERPERFORM	170	8.18%	11	6.47%

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