



## Company Report: Shenzhen Expressway (00548 HK)

公司报告: 深高速 (00548 HK)

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# FY15 Results In-line, Maintain "Accumulate"

2015年业绩符合预期, 维持“收集”评级

- Toll revenue was RMB3,014 million, up 0.2% yoy in FY15. **Shareholders' profit decreased by 29.0% yoy to RMB1,554 million in FY15, in-line with our expectations.** After excluding the effect of the non-recurring investment income and impairment loss in FY15, as well as the gains on disposal of assets of the toll free section of Meiguan expressway recognized in FY14 and reduction of deferred tax assets of Qinglian Company, the recurring profit recorded a yoy decrease of 5.1% in FY15, in-line. The decrease was mainly due to a significant yoy decrease in profit from entrusted construction management services during FY15.
- The Company has agreed to invest in the Outer Ring Section A of Shenzhen.** The Company will invest RMB6.5 billion into the project to obtain the concession, which will comprise a 38-month construction period and a 25-year operation period. Outer Ring Section A will provide 6 lanes in two directions with a length of approximately 60 km. It's estimated that the IRR of the project is above 8%, which is attractive for expressway projects.
- Toll road business of the Company is expected to be stable and we think the non-toll-road business of the Company still has a lot of potential. Outer Ring Section A of Shenzhen will benefit the Company in the long term. We think the valuation and dividend yield of the Company is still attractive. **We maintain investment rating of 'Accumulate' and revise up our TP to HK\$7.40 to reflect the slightly upward revisions of earnings estimates.** Our TP represents 11.6x, 10.5x and 9.4x FY16-FY18 PER, respectively
- 2015年路费收入为30.14亿元人民币, 同比增长0.2%。**2015年股东净利同比下降29.0%至15.54亿元人民币, 符合我们预期。**在扣除2015年非经常性投资收益和减值损失及2014年梅观高速免费路段资产处置收益和减记清连公司递延所得税资产的影响后, 2015年经常性利润同比下降5.1%, 符合预期。下降主要由于2015年委托建设管理服务利润同比有较大减少所致。
- 公司决定投资于深圳外环高速A段。**公司为获得特许经营权将投资65亿元人民币到该项目, 特许经营期分为38个月的建设期和25年的运营期。外环A段为双向六车道高速公路, 长约60公里。预计该项目的内部收益率将高于8%, 对于高速公路项目属吸引。
- 公司收费公路业务预计稳定而我们认为其非公路业务依然有较大潜力。深圳外环高速A段将长远为公司带来收益。我们认为公司估值和股息率依然吸引。**我们维持投资评级“收集”, 上调目标价至7.40港元以反映轻微上调的盈利预测。**我们的目标价相当于11.6倍, 10.5倍和9.4倍的2016-2018市盈率。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$7.40**

Revised from 原目标价:

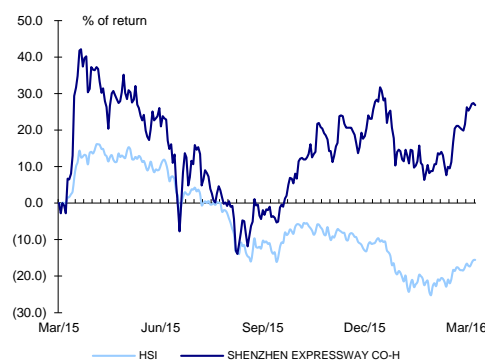
HK\$7.20

Share price 股价:

HK\$6.750

### Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	11.9	0.9	23.7
Rel. % to HS index 相对恒指变动	4.7	6.0	38.8
Avg. share price(HK\$) 平均股价 (港元)	6.3	6.2	6.1

Source: Bloomberg.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	3,620	2,187	1.003	203.9	5.4	5.410	1.0	0.450	8.3	20.1
2015A	3,421	1,553	0.712	(29.0)	7.9	5.672	1.0	0.340	6.0	12.9
2016F	4,051	1,185	0.543	(23.7)	10.6	5.873	1.0	0.250	4.4	9.4
2017F	4,240	1,307	0.599	10.3	9.6	6.222	0.9	0.276	4.8	9.9
2018F	4,503	1,454	0.667	11.3	8.6	6.613	0.9	0.307	5.3	10.4

Shares in issue (m) 总股数 (m)	2,180.8	Major shareholder 大股东	Shenzhen International 50.9%
Market cap. (HK\$ m) 市值 (HK\$ m)	14,720.2	Free float (%) 自由流通比率 (%)	49.1
3 months average vol. 3 个月平均成交股数 ('000)	3,113.0	FY16 net gearing (%) FY16 净负债/股东资金 (%)	27.8
52 weeks high/low (HK\$) 52 周高低	8.182/4.550	FY16 NAV (HK\$) FY16 每股估值	7.6

Source: the Company, Guotai Junan International.

**Net profit decreased by 29.0% yoy in FY15, in-line.** Revenue of Shenzhen Expressway decreased by 5.5% yoy to RMB3,420.6 million in FY15. Toll revenue was RMB3,014.1 million, which increased by 0.2% yoy. Shareholder's profit decreased by 29.0% yoy to RMB1,553.7 million in FY15, in-line with our expectations. The decline of net income was mainly affected by non-recurring income: the Company recognized the net gains on disposal of assets after tax of the toll free section of Meiguan Expressway of RMB1,114 million during FY14. Meanwhile, Non-recurring investment income and impairment loss as a whole have resulted in an increase of the Company's net profit of RMB513.8 million during 2015. After excluding the effect of the non-recurring investment income and impairment loss in FY15, as well as the gains on disposal of assets of the toll free section of Meiguan expressway recognized in FY14 and reduction of deferred tax assets of Qinglian Company, the net profit recorded a yoy decrease of 5.10% in FY15. The decrease was mainly due to a significant yoy decrease in profit from entrusted construction management services during FY15.

**The Company has agreed to invest in the Outer Ring Section A of Shenzhen.** The Company has entered into a concession agreement with the Transport Commission of Shenzhen, pursuant to which the Transport Commission conditionally agreed to grant concession rights in respect of Outer Ring Section A of Shenzhen (including the right to invest in Outer Ring Section A and collect vehicle tolls) to Outer Ring Company, a wholly-owned subsidiary of Shenzhen Expressway. The concession period of Outer Ring Section A shall comprise a 38-month construction period and a 25-year operation period. The Company will invest RMB6.5 billion into the project to obtain the concession. Outer Ring Section A will start in Bao'an District, Shenzhen connecting Guangshen Coastal Expressway and run through Guangming New Area, Longhua New Area, Dongguan City (the Dongguan Section not being covered by this project), Longgang District and Pingshan New District, connecting with the planned Julong Road after the inter-connection with Shenzhen-Shantou Expressway. It provides 6 lanes in two directions with a length of approximately 60 km. It's indicated that the IRR of the project is above 8%, which is attractive for expressway projects. We think the investment amount for the concession is reasonable and it will benefit the Company in the long term.

**Table-1: Toll Road Performance in FY15**

Project	Interests	Daily Revenue (RMB'000)	YoY Change	Daily Traffic ('000 Vehicles)	YoY Change
Meiguan Expressway	100%	283	N/A	75	N/A
Jihe East	100%	1,745	8.1%	219	15.6%
Jihe West	100%	1,491	17.6%	176	17.1%
Yanba Expressway	100%	473	-4.1%	37	2.8%
Yanpai Expressway	100%	442	24.4%	57	-0.6%
Nanguang Expressway	100%	880	4.8%	96	11.0%
Shuiguan Expressway*	50%	1,537	11.0%	191	13.4%
Qinglian Expressway	76.37%	1,746	-18.3%	33	0.8%
Wuhuang Expressway	55%	908	2.0%	41	4.4%

Source: the Company

\* The Company owns 50% equity of Shuiguan Expressway project Company, which became a subsidiary of the Company on 30 October 2015.

**Shenzhen Expressway signed toll adjustment agreements with the Transport Commission of Shenzhen in December 2015.**

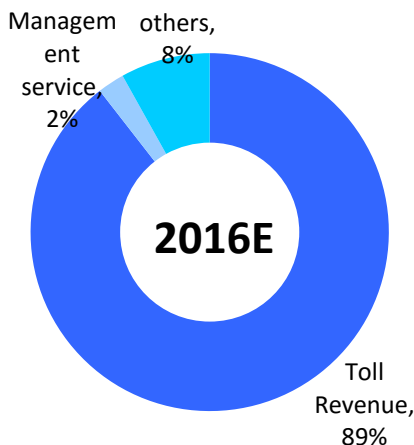
According to the toll adjustment agreement, toll of Nanguang Expressway, Yanpai Expressway and Yanba Expressway has been free since 7 February 2016 and Transport Commission of Shenzhen (Shenzhen Government) will compensate Shenzhen Expressway in cash. The adjustment agreements will be implemented in two phases. During phase 1 (from 00:00 on 7 February 2016 to 24:00 on 31 December 2018), Shenzhen Expressway will retain its fee entitlement right and be responsible for the maintenance and repair of the three Expressways, and will implement toll-free for the three expressways in exchange for cash compensation from the Transport Commission of Shenzhen. During phase 2, the Transport Commission may elect to adopt either option 1 or option 2 to be effective from 00:00 on 1 January 2019. Under option 1, the parties will continue to implement toll-free in the same manner in phase 1. Under option 2, the fee entitlement right of the three expressways will be returned to the Transport Commission in exchange for cash compensation and the Transport Commission will implement toll-free for the three expressways. Total compensation in cash for option 1 will be RMB9,688 million while total compensation in cash for option 2 will be RMB7,652 million. In either way, Transport Commission has paid

the Company RMB6,588 million by 31 Dec 2015. All the expressways are six-lane highway and total length is approx. 76 km, equivalent to 18.3% of total length of Shenzhen Expressway's toll roads. For the nine months ended 30 September 2015, the three expressways accounted for 18.8% net profit of the Company. Total book value of three expressways was RMB4,328 million on 30 Sep 2015 and the compensation is a premium in either way. During phase 1 (from 00:00 on 7 February 2016 to 24:00 on 31 December 2018), Shenzhen expressway will retain its fee entitlement right of the three expressways, and continue to recognize it as intangible assets; the accounting treatment of toll revenue, cost and profit in respect of the three expressways will remain unchanged. It is estimated that the three expressways adjustments will not have material financial effect on the revenue and profit of Shenzhen Expressway. The influence after 1 Jan 2019 will depend on the Government's choice. Meanwhile, the payment of RMB6,588 million by 31 Dec 2015 has significantly increased the cash flow of the Company. Also, the compensation arrangement would enable the Company to improve its financial position and enhance its ability and room for future sustainable development. However, all compensation payable by the Transport Commission to Shenzhen Expressway are subject to interest; therefore, we estimate that total financial costs of the Company will not be significantly reduced in the short-term.

**Mainly due to the consolidation of Shuiguan Expressway, toll revenue is expected to grow by 20.3% in FY16.** With the consolidation of Shuiguan Expressway since Oct 2015, toll revenue increased by 0.2% yoy in FY15. If excluding such effect, toll revenue decreased by 3.3% yoy in FY15. Meiguan Expressway was affected by the adjustment of toll; Yanpai Expressway, Yanba Expressway and Qinglian Expressway were affected by factors including diversion by road network in the surrounding area. However, the toll adjustment of Meiguan Expressway has boosted traffic volume of Jihe East Expressway and Jihe West Expressway; both expressways recorded double-digit growth in daily revenue in FY15. Diversion effects for Qinglian Expressway and Wuhuang Expressway are expected to continue in 2016. Meanwhile, due to the consolidation of Shuiguan Expressway for full year in 2016, toll revenue is expected to grow by 20.3% in FY15. If excluding such effect, we expect toll revenue to increase by 3.9% yoy in FY16.

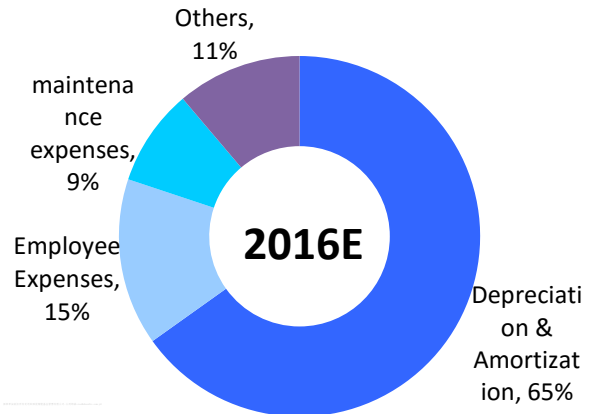
**Outlook for non-toll-road business.** For the Meilin Checkpoint Urban Renewal Project, the project company has entered into the land transfer agreements with the government. The project company has paid the first instalment of 30% of the land premium of RMB1,070 million, thereby the project company successfully acquired the land use rights in the Meilin Checkpoint land parcels. Land area is approximately 96,000 square meters and the land is for residential and commercial use. The gross floor area is not more than 486,400 square meters (including public affiliated facilities etc.) Currently, the negotiation between the project company and the operators and tenants of the existing properties on the land is still underway. It is planned that the agreements would be executed and the cleaning up works would be commenced by the end of 2016. According to current progress of related work, it is estimated that the total land cost of the project land parcel would be RMB5 billion to RMB5.2 billion. Shenzhen Expressway owns 49% equity interest of the project. We assumed in the previous report that the Company can share RMB2.8 billion in net profit after the project is totally completed. We expect it to complete in 2018.

**Figure-1: Revenue Contribution by Segments**



Source: the Company.

**Figure-2: Analysis on Cost of Services**



Source: the Company.

**Slightly revise earnings estimates.** We slightly revise up FY16-FY17 revenue estimates to mainly reflect the consolidation of Shuiguan Expressway and stable toll revenue (without more diversion effect) from Nanguang Expressway, Yanpai Expressway and Yanba Expressway paid by Shenzhen Government. We also revise up net profit estimates by 0.7% and 0.2% in FY16 and FY17 for the above reasons. The corresponding EPS is RMB0.574, RMB0.599 and RMB0.667 in FY16-FY18, respectively.

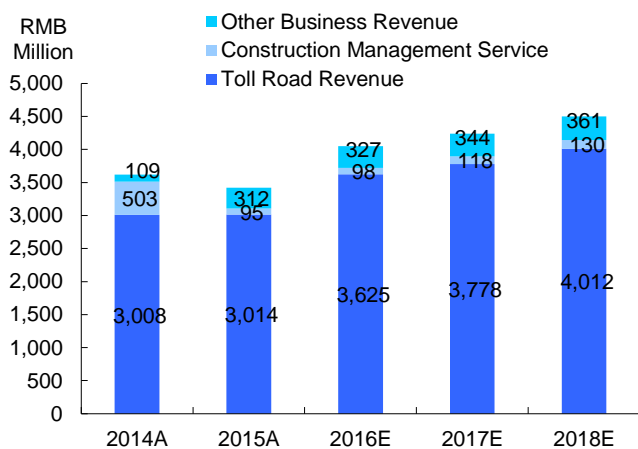
**Table-2: Changes in Earnings Estimates**

RMB mn	FY16F	FY17F	FY18F
		New estimates	
Revenue	4,051	4,240	4,503
EBIT	1,654	1,746	1,878
Net profit	1,185	1,307	1,454
		Original estimates	
Revenue	3,861	4,007	n.a.
EBIT	1,781	1,836	n.a.
Net profit	1,176	1,304	n.a.
		Changes	
Revenue	4.9%	5.8%	n.a.
EBIT	-7.2%	-4.9%	n.a.
Net profit	0.7%	0.2%	n.a.

Source: Guotai Junan International.

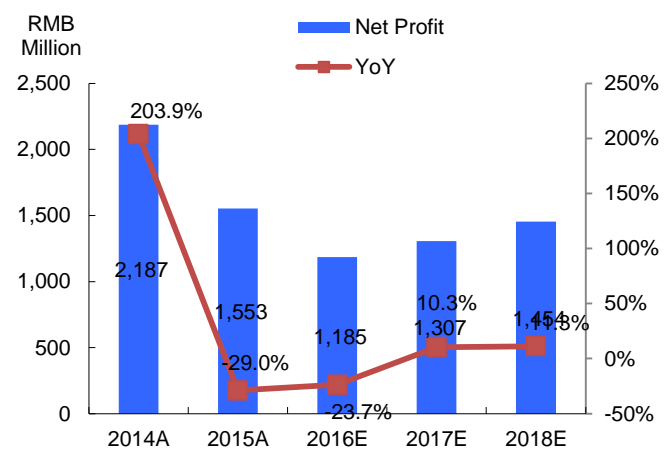
**Maintain investment rating of 'Accumulate' and revise up TP to HK\$7.40.** HK-listed companies of toll road sector are trading at weighted average 11.9x FY16 PER and 11.0x FY15 PER. Meanwhile, shares of the Shenzhen Expressway are trading at 10.6x FY16 PER and 4.4% FY16 dividend yield. Toll road business of the Company is expected to be stable and we think the non-toll-road business of the Company still has a lot of potential. Outer Ring Section A of Shenzhen will benefit the Company in the long term. We think the valuation of the Company is still attractive. We revise up our TP to HK\$7.40 from HK\$7.20 to reflect the slightly upward revisions of earnings estimates. Our TP represents 11.6x, 10.5x and 9.4x FY16-FY18 PER, respectively; it also represents 1.07x, 1.01x and 0.95x FY16-FY18 PBR, respectively.

**Figure-3: Revenue Forecasts of Shenzhen Expressway**



Source: the Company, Guotai Junan International.

**Figure-4: Net Profit Estimates of Shenzhen Expressway**



Source: the Company, Guotai Junan International.

**Table-3: Peer Group Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA	ROA(%)
				14A	15F	16F	17F	14A	15F	16F	17F	15F	15F	15F	15F
HK - Listed companies															
Anhui Expressway Co Ltd-H	995 HK	HKD	6.32	n.a.	9.5	9.1	n.a.	n.a.	1.0	1.0	n.a.	12.0	4.7	11.1	7.6
Shenzhen Expressway Co-H	548 HK	HKD	6.75	7.7	10.9	10.1	13.1	n.a.	0.9	0.9	0.9	8.4	4.0	7.1	4.1
Jiangsu Express Co Ltd-H	177 HK	HKD	10.38	n.a.	14.3	13.4	n.a.	n.a.	2.0	1.9	n.a.	14.1	5.2	9.7	8.1
Yuexiu Transport Infrastruct	1052 HK	HKD	5.18	13.2	9.5	9.5	n.a.	0.8	0.8	0.8	n.a.	8.5	6.2	7.6	n.a.
Hopewell Highway Infrastruct	737 HK	HKD	3.77	17.8	16.2	15.1	15.1	1.3	1.4	1.5	1.5	8.1	5.9	8.5	n.a.
Zhejiang Expressway Co-H	576 HK	HKD	8.70	10.2	11.6	10.9	10.8	1.9	1.6	1.5	1.5	14.0	4.8	5.6	4.4
Sichuan Expressway Co-H	107 HK	HKD	2.61	n.a.	7.2	6.9	n.a.	n.a.	0.5	0.5	n.a.	7.4	3.4	9.5	n.a.
Simple Average				12.2	11.3	10.7	13.0	1.3	1.2	1.1	1.3	10.4	4.9	8.5	6.0
Weighted Average				11.0	11.9	11.2	12.2	1.6	1.4	1.4	1.3	11.9	4.9	8.5	6.4
China - Listed companies															
Shenzhen Expressway Co Ltd-A	600548 CH	CNY	8.80	12.4	17.5	16.8	20.5	n.a.	1.5	1.4	1.4	8.0	2.6	7.7	7.0
Jiangsu Expressway Co Ltd-A	600377 CH	CNY	8.71	n.a.	14.4	13.3	n.a.	n.a.	2.0	1.9	n.a.	14.2	5.3	9.6	8.0
Anhui Expressway Co Ltd-A	600012 CH	CNY	14.54	n.a.	26.0	25.5	n.a.	n.a.	2.8	2.7	n.a.	12.3	1.7	11.1	7.7
Shandong Hi-Speed Co Ltd -A	600350 CH	CNY	5.40	n.a.	8.4	7.4	n.a.	n.a.	1.0	n.a.	n.a.	12.1	4.3	n.a.	6.8
Sichuan Expressway Co-A	601107 CH	CNY	4.31	n.a.	14.1	13.7	n.a.	n.a.	1.0	1.0	n.a.	7.4	1.7	9.5	n.a.
Henan Zhongyuan Expressway-A	600020 CH	CNY	5.45	n.a.	6.7	5.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fujian Expressway Developm-A	600033 CH	CNY	3.48	n.a.	14.5	13.9	n.a.	n.a.	1.1	1.0	n.a.	7.5	n.a.	n.a.	n.a.
Hubei Chutian Expressway-A	600035 CH	CNY	5.34	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				12.4	14.5	13.7	20.5	n.a.	1.6	1.6	1.4	10.3	3.1	9.5	7.4
Weighted Average				12.4	14.6	13.7	20.5	n.a.	1.7	1.8	1.4	11.6	3.8	9.6	7.5

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F	Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F
Revenue	3,620	3,421	4,051	4,240	4,503	Property, plant and equipment	1,031	1,156	1,116	1,068	1,013
-Toll road business	3,008	3,014	3,625	3,778	4,012	Investment in JVs & Associates	1,695	1,983	3,834	3,631	3,556
-Other business	613	407	426	462	491	Intangible assets	16,155	19,272	19,107	18,336	17,537
Business tax and surcharges	(131)	(123)	(145)	(152)	(161)	Other non-current assets	1,421	835	1,575	3,537	5,209
Cost of services	(1,705)	(1,679)	(2,043)	(2,129)	(2,230)	Non-current assets	20,303	23,246	25,632	26,573	27,314
SG&A	(93)	(148)	(178)	(195)	(213)	Cash and cash equivalents	1,255	6,181	3,196	2,408	2,301
Share of results of JVs & Associates	187	248	171	180	287	Trade and other receivables	820	783	1,005	1,168	1,392
Other income, net	1,508	324	(31)	(18)	(20)	Inventories	535	649	649	649	649
Financial costs, net	(419)	(371)	(315)	(318)	(326)	Other current assets	1,416	811	516	466	448
Earnings before taxes	2,967	1,672	1,510	1,608	1,839	Current assets	4,027	8,424	5,366	4,691	4,790
Taxation	(695)	(177)	(180)	(152)	(182)	Long-term borrowings	7,189	4,892	4,912	4,768	4,968
Non-controlling interests	(85)	58	(145)	(149)	(202)	Deferred tax liabilities	773	1,340	710	720	720
Net profit attributable to shareholders	2,187	1,553	1,185	1,307	1,454	other non-current liabilities	311	6,367	5,678	4,961	4,170
Basic EPS (RMB)	1.003	0.712	0.543	0.599	0.667	Non-current liabilities	8,274	12,599	11,300	10,449	9,857
YoY (%)	203.9	(29.0)	(23.7)	10.3	11.3	Short-term bank borrowings	976	1,046	635	533	451
DPS (RMB)	0.450	0.340	0.250	0.276	0.307	Accruals, trade & other payables	694	440	530	609	704
Cash Flow Statement						Financial Ratio					
Year end Dec (RMB m)	2014A	2015A	2016F	2017F	2018F		2014A	2015A	2016F	2017F	2018F
Profit before income tax	2,271	1,495	1,330	1,456	1,657	Provisions, tax & others	1,195	1,834	1,553	1,595	1,644
Depreciation and amortization	984	899	1,209	1,238	1,266	Current liabilities	2,935	4,111	4,021	4,085	4,307
Share of profits of JCEs	(187)	(1,155)	(171)	(180)	(287)	Non-controlling interests	1,323	2,592	2,865	3,154	3,511
Profits on disposal of assets	(1,497)	593	31	18	20	Share capital	2,181	2,181	2,182	2,182	2,182
Finance costs, net	419	371	318	321	329	Reserves	9,617	10,188	10,631	11,393	12,247
Profit before working capital changes	1,991	2,202	2,717	2,853	2,986	Shareholders' equity	11,798	12,369	12,813	13,575	14,428
Change in working capital	(221)	(203)	(355)	(63)	(152)	BPS(RMB)	5,410	5,672	5,873	6,222	6,613
Change in deferred tax assets/liabilities	24	(228)	39	45	51	YoY (%)	18.3	4.8	3.5	5.9	6.3
Net cash flow from operating activities	1,794	1,772	2,400	2,835	2,885						
Purchase of PP&E	(313)	(128)	(385)	(420)	(412)	Gross margin (%)	49.3	47.3	46.0	46.2	46.9
Cash received from disposal of assets	739	1,589	17	17	18	EBIT margin (%)	88.4	26.0	40.8	41.2	41.7
Others	69	(877)	(3,831)	(2,147)	(1,932)	ROA (%)	9.3	5.5	3.8	4.2	4.6
Net cash flow from investing activities	495	584	(4,199)	(2,550)	(2,326)	ROE (%)	20.1	12.9	9.4	9.9	10.4
Change in bank loans	(1,258)	(2,467)	121	(201)	279	A/R turnover (x)	4.9	4.4	4.7	3.9	3.4
Dividends paid	(367)	(1,063)	(869)	(685)	(755)	Current ratio (x)	1.4	2.0	1.3	1.1	1.1
Interest paid	(525)	(485)	(440)	(438)	(440)	Quick ratio (x)	0.4	1.5	0.8	0.6	0.5
Others	27	6,586	0	250	250	CFO to current liabilities (x)	0.6	0.5	0.6	0.7	0.7
Net cash flow from financing activities	(2,123)	2,571	(1,188)	(1,074)	(666)	A/P turnover days	138.4	183.1	170.4	152.1	147.3
Beginning cash balance	1,090	1,255	6,181	3,196	2,408	Total debt / EBITDA (x)	2.0	3.8	2.4	2.2	2.2
Effects of changes in exchange rates	(0)	(0)	1	1	1	Net gearing ratio (%)	56.0	2.5	27.8	31.0	32.0
Change in cash and cash equivalent	166	4,926	(2,986)	(789)	(108)	Interest coverage ratio (x)	6.1	1.8	3.8	4.1	4.3
Ending cash balance	1,255	6,181	3,196	2,408	2,301						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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