

China Infrastructure and Transportation

FY15 Results preview

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	PER		PBR		Yield	
			(US\$m)	Ccy				2015E	2016E	2015E	2016E	2015E	2016E
Railway & Construction													
CRG	390 HK	OP	24,898	HKD	5.00	9.3	+86.0	8.0	7.5	0.8	0.8	1.9	2.0
CRCC	1186 HK	OP	19,354	HKD	7.41	10.0	+47.7	6.6	6.3	0.7	0.7	2.5	2.5
CCCC	1800 HK	N/A	23,002	HKD	6.66	N/A	N/A	6.1	5.4	0.7	0.6	3.6	4.0
CRRC	1766 HK	N/A	38,216	HKD	7.10	N/A	N/A	13.1	11.4	1.6	1.5	2.1	2.3
Zhuzhou CSR	3898 HK	N/A	5,780	HKD	37.80	N/A	N/A	13.7	12.3	2.8	2.4	1.9	2.1
CSCI	3311 HK	N/A	6,478	HKD	12.02	N/A	N/A	11.4	9.2	2.1	1.8	2.7	3.1
Toll Road													
ZJE	576 HK	N/A	3,702	HKD	6.75	N/A	N/A	8.7	9.0	1.3	1.3	6.3	6.3
JSE	177 HK	N/A	6,075	HKD	9.44	N/A	N/A	13.7	13.0	1.9	1.8	5.3	5.6
SZE	548 HK	N/A	2,292	HKD	5.66	N/A	N/A	6.5	9.0	0.8	0.8	6.1	4.9
Yuexiu Expressway	1052 HK	N/A	943	HKD	4.39	N/A	N/A	8.8	8.5	0.7	0.7	6.2	7.0
Shenzhen Int'l	152 HK	N/A	2,969	HKD	12.18	N/A	N/A	10.8	10.6	1.2	1.1	3.7	3.1

Source: Bloomberg, CSCI estimates

- China railway infrastructure names have, on average, underperformed the HSI index (HSI: -13.3% vs. railway names: -17.8%), since the beginning of this year, pressured amid anticipations of domestic railway FAI slowdown and stretched balance sheets. Overall, railway names still achieved positive earnings growth in FY15, stimulated by healthy top-line growth and stable margin performance.
- China toll road operators' earnings performance in FY15 was mixed. SZE has released earnings alert, expecting an earnings decline of 20-40% during FY15, dragged by the disposal of Yanguang, Yanpan and Yanba expressways, while the other three names, ZJE, JSE and Yuexiu Expressway, are projected to post double-digit growth.

Railway Infrastructure.: High single-digit earnings growth expectable for 2015E

Railway infrastructure EPC encountered headwinds during FY15, as domestic railway FAI has come in lower than the initial target of RMB800bn and due to the lower-than-expected rollout of overseas projects. Thanks to the margin stability and better investment income performance, railway infrastructure players are forecasted to gain positive earnings growth in FY15.

Railway rolling stocks: Delivery is expected to peak in FY15

We see high single-digit bottom line growth for CRRC in FY15, driven by missed overseas target contracts and headwinds from locomotives and freight wagons. Meanwhile for Zhuzhou CSR, the expected market share gain from the previous suppliers to CNR has not materialised and orders from locomotives and freight were lackluster in FY15 as well.

Toll Road: 2015E results to be eroded by disposals

The disposal of expressway lines in Shenzhen is expected to erode the earnings of both Shenzhen Int'l and SZE (subsidiary of Shenzhen Int'l) in FY15 accordingly. Meanwhile, other names, such as JSE and Yuexiu Expressway, are seen to accomplish c.15-18% YoY growth in earnings in light of solid traffic volume growth in FY15. Furthermore, JSE is estimated to achieve c.20% YoY earnings growth in FY15, on the back of solid earnings contribution from Zhejiang Securities as well as stable traffic growth during the period.

SUN Lingxiao, Roger
 (CE No.: AXO391)

rogersun@csci.hk
 +852 3465 5785

Figure 1: CSCI research estimates vs. consensus

(RMB mn)	Rev. cons.	Revenue estimates by CSCI	Diff.	Earnings cons.	Earnings estimates by CSCI	Diff.	Comments
Railway & Construction							
390.hk	616,464	622,920	1.0%	11,648	12,100	3.9%	Thanks to higher bottom-line growth of 18% YoY in 1H15, driven by high investment income. After excluding the non-operational income, it achieved c.11% growth in 1H15. The growth in 3Q15 has cooled down to 3%, while 4Q should be slightly better than that in 3Q thanks to higher FAI releasing.
1186.hk	613,366	623,926	1.7%	12,234	12,281	0.4%	Expected net gearing to be on the upward track, due to large exposure of BOT projects
*1800.hk	406,269	N/A		14,927	N/A		Catalyst: 1) new contract target of RMB650bn is achievable, driven by expressway construction in southwest China, regional network completion, combined transportation of railway&port and upgrading of existing expressway; 2) overseas revenue contribution should be lifted to 30%, compared to that of c.25% currently 3) delay of spinoff in dredging business will not affect overall earnings in FY15 significantly
*1766.hk	235,994	N/A		12,150	N/A		1) Skyrocketing earnings growth was due to the merge of CSR and CNR; 2) Overseas new orders target of USD7.5bn will not be met, and achieve merely USD4bn; 3)Among its sub-business, only MU and RTV delivered attractive top-line growth but margins were low.
*3898.hk	13,973	N/A		2,743	N/A		1)Expected to gain mkt share from CNR after merging, but merger not materialised in FY15. 2) Orders from locomotives and freight were lackluster in FY15 and the demand from MU should peak in FY16 as well
*3311.hk	41,683	N/A		5,056	N/A		1) HK construction industry is on the back of major upcoming projects such as the third runway of the HK airport and seven new railway lines. But should be cautious on the political risks in HK. 2) Macau: the bottleneck of shortage in land for development will be settled as the central govt. has granted Macau the right to manage a total sea area of 85 sq km in the south sea, which released ample upside potential in macau; 3) China: PPP rollout and revaluation of land gained from the PPP cooperation with domestic local government
Toll road							
*548.hk	3,346	N/A		1,516	N/A		1) Not came from the organic growth, but from the removal of Nanguang, Yanpan and Yanba expressway by Shenzhen government with cash subsidy. 2) Also earnings contraction was coming from the write-off of Qinglian express way
*177.hk	8,752	N/A		2,991	N/A		1) Removal of the limit of 10% of earnings as reserves, which projected the upside potential of dividend payout ratio (current :70%); 2) solid double-digit traffic volume growth in FY15. 3) removal of Huning will not affect FY15 earnings, but is expected to erode its earnings in FY16 by c. RMB500mn.
*576.hk	11,460	N/A		2,806	N/A		1) Has strengthened its core toll road business in 2H15, with the disposal of two low margin auxiliary businesses back to parent company; 2) acquired Hanghui expressway but limited impact on earnings in FY15; 3) Zhejiang Securities, which accounted for c.30%, should achieve doubled earnings growth in FY15
*152.hk	6,282	N/A		1,971	N/A		1)As parent company of 548.hk, its results in FY15 will be dragged by the removal of four lines of expressways (Longda, Nanguang, Yanba, Yanpan) as well; 2) Acquired some domestic logistics parks in FY15 but will not be reflected in FY15 results; 3)Revaluation of Qianhai and Meiguan land
*1052.hk	2,132	N/A		701	N/A		Has announced double-digit growth in both traffic volume and toll revenue in north Erhuang of Guangzhou

Source: Company, CSCI research *the companies we have not covered

Figure 2: Peers Valuation Comparison

Code	Ccy	Close (Local\$)	Mkt cap (US\$m)	Rept'g Ccy	Fiscal Y/E	PER (x)		PBR (x)		EPS Growth (%)		ROE (%)		Gross Margin		EBITDA margin		Net Gearing (%)		EV/EBITDA (x)		Yield (%)		
						15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E
JNS	1186-hk	HKD	7.41	19,196	CNY	12/2014	6.6	6.3	0.7	0.7	(2.6)	4.9	11.4	11.1	10.7	10.6	5.4	5.5	44.6	46.3	5.42	5.24	2.5	2.5
ROU	390-hk	HKD	5.00	24,624	CNY	12/2014	8.0	7.5	0.8	0.8	2.3	7.0	10.1	10.1	8.8	8.6	4.8	4.8	93.7	88.7	9.36	8.89	1.9	2.0
STR	1800-hk	HKD	6.66	22,907	CNY	12/2014	6.1	5.4	0.7	0.6	0.8	12.0	10.8	11.1	11.3	11.1	8.5	8.6	112.5	118.3	9.26	9.03	3.6	4.0
ORP	1618-hk	HKD	1.71	10,354	CNY	12/2014	5.8	4.9	0.5	0.5	11.8	18.1	9.0	9.7	13.2	n.a	6.6	6.5	81.1	53.0	7.57	6.25	2.1	2.5
STR	3311-hk	HKD	12.02	6,259	HKD	12/2014	11.4	9.2	2.1	1.8	18.9	23.1	18.5	19.5	14.5	15.2	12.7	13.0	31.4	31.3	10.65	8.97	2.7	3.1
RIN	2386-hk	HKD	6.30	3,581	CNY	12/2014	7.0	6.8	0.9	0.9	(8.9)	2.1	13.4	12.7	12.7	11.1	9.7	9.5	(47.1)	(46.6)	2.66	2.40	5.7	5.8
EN	1829-hk	HKD	5.28	2,797	CNY	12/2014	9.1	7.5	1.3	1.2	(9.7)	22.0	14.0	15.5	n.a	n.a	8.3	8.0	(138.7)	(135.1)	(0.80)	(1.52)	4.4	5.0
JNL	1766-hk	HKD	7.10	37,735	CNY	12/2014	13.1	11.4	1.6	1.5	10.6	14.5	12.2	12.7	19.5	22.1	9.5	9.9	(4.1)	(8.3)	10.89	9.42	2.1	2.3
SS	3898-hk	HKD	37.80	5,704	CNY	12/2014	13.7	12.3	2.8	2.4	7.4	11.5	20.3	19.4	39.2	39.9	23.2	23.8	(32.1)	(33.7)	10.40	8.76	1.9	2.1
							9.0	7.9	1.3	1.1	3.4	12.8	13.3	13.5	16.2	16.9	9.8	9.9	15.7	12.7	7.3	6.4	3.0	3.3
							8.0	7.5	0.9	0.9	2.3	12.0	12.2	12.7	13.0	11.1	8.5	8.6	31.4	31.3	9.3	8.8	2.5	2.5
JNS	601186-cn	CNY	9.85	19,196	CNY	12/2014	10.4	9.9	1.2	1.1	2.6	5.6	11.3	11.0	10.6	10.6	5.3	5.4	44.6	46.3	5.44	5.26	1.5	1.6
ROU	601390-cn	CNY	7.74	24,624	CNY	12/2014	14.7	13.7	1.5	1.4	8.0	7.7	10.1	10.1	8.8	8.6	4.8	4.8	93.7	88.7	9.31	8.88	1.0	1.1
STR	601800-cn	CNY	10.71	22,907	CNY	12/2014	11.6	10.3	1.3	1.1	7.0	13.2	10.8	11.2	11.3	11.1	8.5	8.6	112.5	118.3	9.25	9.07	1.9	2.2
ORP	601618-cn	CNY	3.94	10,354	CNY	12/2014	16.0	13.5	1.5	1.3	17.0	18.6	9.1	9.8	13.2	n.a	6.6	6.5	82.2	54.6	7.66	6.37	0.8	0.9
CC	601668-cn	CNY	5.11	23,299	CNY	12/2014	6.0	5.4	0.9	0.8	12.9	12.8	15.5	15.3	10.8	8.7	7.5	7.8	10.9	2.8	2.67	2.11	3.9	4.5
ERG	600820-cn	CNY	7.78	3,718	CNY	12/2014	17.3	14.2	1.5	1.4	(11.8)	21.7	8.5	9.7	14.5	n.a	13.4	13.6	n.a	n.a	n.a	n.a	1.9	2.4
JNL	601766-cn	CNY	9.69	37,735	CNY	12/2014	21.5	18.7	2.6	2.4	15.6	14.9	12.2	12.7	19.5	21.8	9.4	9.9	(4.0)	(8.3)	10.99	9.55	1.2	1.4
							14.0	12.2	1.5	1.4	7.3	13.5	11.1	11.4	12.7	12.1	7.9	8.1	56.6	50.4	7.6	6.9	1.8	2.0
							14.7	13.5	1.5	1.3	8.0	13.2	10.8	11.0	11.3	10.6	7.5	7.8	63.4	50.4	8.5	7.6	1.5	1.6
S	576-hk	HKD	6.75	3,764	CNY	12/2014	8.7	9.0	1.3	1.3	13.5	(2.8)	15.3	14.1	n.a	n.a	52.6	50.9	(22.3)	(30.1)	3.45	3.21	6.3	6.3
'	548-hk	HKD	5.66	2,301	CNY	12/2014	6.5	9.0	0.8	0.8	(30.9)	(28.0)	12.3	8.6	38.2	n.a	91.1	83.6	36.6	32.7	6.80	6.53	6.1	4.9
WAY	177-hk	HKD	9.44	6,010	CNY	12/2014	13.7	13.0	1.9	1.8	7.3	5.2	13.7	13.9	46.8	46.8	58.4	60.2	57.2	48.5	10.06	9.00	5.3	5.6
AY	995-hk	HKD	6.40	2,795	CNY	12/2014	9.4	9.2	1.1	1.0	4.5	1.6	11.6	11.2	47.9	45.8	63.3	60.3	4.1	5.2	10.06	9.91	4.5	4.6
WAY	107-hk	HKD	2.22	1,609	CNY	12/2014	5.6	5.7	0.5	0.4	(1.2)	(0.8)	8.1	7.6	n.a	n.a	85.5	85.5	n.a	n.a	8.05	7.90	4.3	4.3
	152-hk	HKD	12.18	2,969	HKD	12/2014	10.8	10.6	1.2	1.1	(13.3)	1.7	10.8	10.3	54.3	53.5	71.2	64.9	49.2	35.9	7.38	6.89	3.7	3.1
	152-hk	HKD	12.18	2,969	HKD	12/2014	10.8	10.6	1.2	1.1	(13.3)	1.7	10.8	10.3	54.3	53.5	71.2	64.9	49.2	35.9	7.38	6.89	3.7	3.1
							9.4	9.6	1.1	1.1	(4.8)	(3.1)	11.8	10.9	48.3	49.9	70.5	67.2	29.0	21.3	7.6	7.2	4.9	4.6
							9.4	9.2	1.2	1.1	(1.2)	1.6	11.6	10.3	47.9	50.2	71.2	64.9	42.9	34.3	7.4	6.9	4.5	4.6
WAY	600377-cn	CNY	7.81	6,010	CNY	12/2014	13.6	12.7	1.9	1.8	12.6	6.8	13.6	13.9	46.8	46.8	58.4	60.2	57.2	48.5	10.06	9.00	5.5	5.7
WAY	601107-cn	CNY	4.12	1,609	CNY	12/2014	12.5	12.5	1.0	0.9	4.1	-	8.1	7.6	n.a	n.a	85.5	85.5	n.a	n.a	8.05	7.90	1.9	1.9
'	600548-cn	CNY	8.07	2,301	CNY	12/2014	10.5	15.5	1.4	1.3	(23.0)	(32.4)	13.0	8.4	38.2	n.a	91.1	83.6	36.6	32.7	6.80	6.53	3.8	2.8
AY	600033-cn	CNY	3.25	1,356	CNY	12/2014	13.5	13.5	1.1	1.0	9.6	-	7.9	7.4	66.1	65.5	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
WAY	000916-cn	CNY	4.39	727	CNY	12/2014	20.0	12.9	1.1	1.0	5.4	54.5	5.3	7.7	44.7	n.a	50.9	61.9	n.a	n.a	n.a	n.a	1.6	2.5
							14.0	13.4	1.3	1.2	1.7	5.8	9.6	9.0	48.9	56.1	71.5	72.8	46.9	40.6	8.3	7.8	3.2	3.3
							13.5	12.9	1.1	1.0	5.4	-	8.1	7.7	45.7	56.1	71.9	72.8	46.9	40.6	8.1	7.9	2.9	2.7

Source: Factset, Company



Research

LIU Taisheng, Steven
TMT
(852) 3465 5652
stevenliu@csci.hk

SO Lai Shan, Jennifer
Consumer
(852) 3465 5781
jenniferso@csci.hk

CHAN Ka Yeung, Duncan
Commodity
(852) 3465 5654
chankayeung@csci.hk

TIAN Yang
Automotive
(852) 3465 5775
tianyang@csci.hk

SUN Lingxiao, Roger
Industrials
(852) 3465 5785
rogersun@csci.hk

XU Bo, Albert
Financials
(852) 3465 5789
albertxu@csci.hk

ZHU Kexin
Renewable energy
(852) 3465 5653
zhukexin@csci.hk

DUAN Xiaoxin, Joyce
Consumer
(852) 3465 5790
joyceduan@csci.hk

Institutional Sales & Trading

XIANG Xinrong, Ron
(852) 3465 5633
ronxiang@csci.hk

CAO Xiaogang, Glen
(852) 3465 5658
caoxiaogang@csci.hk

YUAN Zhefei, Annie
(852) 3465 5657
annieyuan@csci.hk

ZHANG Meng, Maurice
(852) 3465 5656
mauricezhang@csci.hk

HO Wen Hao, Jack
(852) 3465 5685
jackho@csci.hk

HO Hung Wei
(852) 3465 5687
hohungwei@csci.hk

LEE Ying Ju, Rose
(852) 3465 5707
roselee@csci.hk

AO Yiyu, Diana
(852) 3465 5708
dianaao@csci.hk

WANG Fei, Sophie
(852) 3465 5709
sophiewang@csci.hk

XIA Tian
(852) 3465 5670
xiatian@csci.hk

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Outperform	Relative Performance >10%
Neutral	Relative Performance is -10% to 10%
Underperform	Relative Performance <10%

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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852)21809495