

Yuexiu Transport (1052 HK)

1H23 earnings +45% YoY with solid div payout; Potential asset injection to boost growth

Yuexiu Transport's net profit in 1H23 surged 45% YoY to RMB427mn, driven by the recovery of tariff volume and reduction of finance expense. Yuexiu Transport proposed interim dividend of HK\$0.15/share, implying 53.8% dividend payout ratio (1H22: 48.8%). The Company is confident of maintaining a full year payout target of 50-60%. We maintain our positive view on Yuexiu Transport with catalysts coming from (1) potential injection of high-quality assets (Henan Pinglin and Shandong Qinbin Expressway) from the parent company; (2) potential spin-off of infrastructure REITs. We revise up our 2023E/24E earnings forecast by 6%/5% largely due to higher gross margin and lower finance cost assumptions. Maintain **BUY** with new DCF-based TP of HK\$7.5, implying 12x 2023E P/E.

- 1H23 results highlights.** Revenue grew 20% YoY to RMB1.9bn, mainly driven by the increased toll revenue on the back of recovery of traffic volume and the consolidation of the newly acquired Henan Lanwei Expressway. Gross margin increased 1ppt YoY to 56.6%. Admin expense ratio slightly expanded 0.6ppt YoY to 6.9%. Profit from associates & JV increased 43% YoY to RMB130mn. Net finance expense dropped 11% YoY to RMB270mn, as effective interest cost reduced to 3.33% in 1H23 (3.78% in 1H22). Net profit grew 45% YoY to RMB427mn. Operating cash inflow increased 25% YoY to RMB1,340mn. As at end Jun 2023, net debt/equity ratio improved to 102%.
- Solid revenue growth of major toll projects.** The three major projects, namely GNSR Expressway, Suiyuan Expressway and Daguangan Expressway, reported solid revenue growth in 1H23 (+11%/14%/20% YoY). Hancai Expressway delivered a 20% YoY increase in toll revenue, driven by the strong recovery in traffic volume (+36% YoY). Besides, Henan Lanwei Expressway, the newly acquired project, contributed revenue of RMB153mn in 1H23.
- GNSR Expressway R&E Project is on track.** GNSR Expressway R&E Project has completed the design optimisation of construction drawing, application of approval for land use and environmental impact assessment. Moreover, mgmt. expects capex saving of ~RMB900mn upon the design optimisation. The full-scale construction work is expected to be carried out in Oct 2023, at the latest by the end-23.
- Capex guidance.** Capex in 1H23 amounted to RMB645mn. Mgmt. guided a full year capex of RMB1.95bn in 2023E, comprising RMB1.6bn for the GNSR Expressway R&E project and RMB350mn for maintaining capex.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	3,702	3,289	3,955	4,241	4,328
YoY growth (%)	26.8	(11.2)	20.2	7.3	2.0
Net profit (RMB mn)	1,465.0	453.1	963.3	1,059.6	1,094.7
EPS (Reported) (RMB)	0.88	0.27	0.58	0.63	0.65
YoY growth (%)	812.8	(69.1)	112.6	10.0	3.3
Consensus EPS (RMB)	na	0.00	0.56	0.60	0.61
P/E (x)	4.6	13.6	6.6	6.0	5.8
P/B (x)	0.6	0.5	0.5	0.5	0.5
Yield (%)	12.4	4.7	8.3	9.2	9.5
ROE (%)	13.4	4.0	8.3	8.7	8.6
Net gearing (%)	95.2	107.2	99.0	107.9	114.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.50**
 (Previous TP **HK\$7.00**)
 Up/Downside **81.6%**
 Current Price **HK\$4.13**

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Stock Data

Mkt Cap (HK\$ mn)	6,910.2
Avg 3 mths t/o (HK\$ mn)	5.1
52w High/Low (HK\$)	4.84/2.96
Total Issued Shares (mn)	1673.2

Source: FactSet

Shareholding Structure

Guangzhou Yue Xiu Holdings	44.2%
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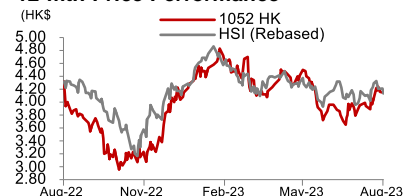
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.0%	4.3%
3-mth	-8.2%	-2.9%
6-mth	-11.9%	-2.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

Yuexiu Transport – Growth formula: Organic growth + Asset injection + Spin-off via infrastructure REIT – 27 Jan 2023

Expect high-quality asset injections to boost earnings

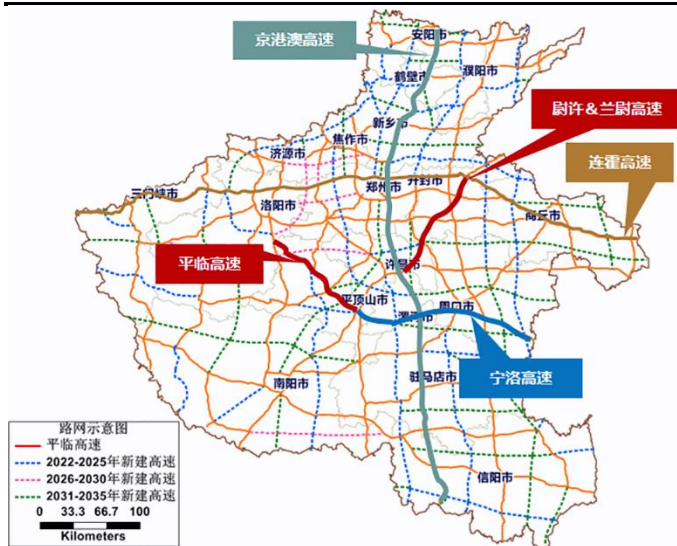
The success of the acquisition of Henan Lanwei Expressway has reaffirmed the feasibility of Yuexiu Transport's "incubation-injection" strategy, which helps scale up and diversify the Company's asset pool. We expect Yuexiu Transport to accelerate the asset injections with a view to further enhance its profitability.

Yuexiu Group, the parent company, currently holds two high-quality toll projects: (1) Shandong Qinbin Expressway (Chengkou-Zhanhua section) (山东秦滨高速(埭口-沾化路段)), and (2) Henan Pinglin Expressway (河南平临高速).

- **Henan Pinglin Expressway:** In Feb 2023, Yuexiu Group acquired Henan Pinglin Expressway for RMB2.45bn. Pinglin Expressway, with a total length of 106.45km, is a crucial section of Ningluo National Expressway (G36) in Henan. Upon the acquisition, Pinglin Expressway will be Yuexiu Transport's third investment project in Henan (others include Weixu Expressway and Lanwei Expressway), which will help expand the Company's footprint to central China and promote the effect of coordinated operation management. According to Yuexiu Transport, the IRR of Pinglin Expressway project is expected to achieve double-digit level.
- **Shandong Qinbin Expressway:** The Chengkou-Zhanhua section of Qinbin Expressway is a crucial component of Beijing-Harbin Expressway, as well as one of the five horizontal lanes under Shandong province's highway planning layout of 9517 Network. The expressway is the key linkage between the Shandong and Hebei section of Qinbin Expressway. The project has a total length of 9.53km. The whole project (including both phase 1 and 2) has been opened to traffic since Jan 2022.

Assuming a completion of the aforementioned asset injection, the toll mileage of Yuexiu Transport's controlled expressways is expected to increase by ~21% to 672.18km.

Figure 1: Location of Pinglin Expressway



Source: Company data, CMBIGM

Figure 2: Location of Qinbin Expressway

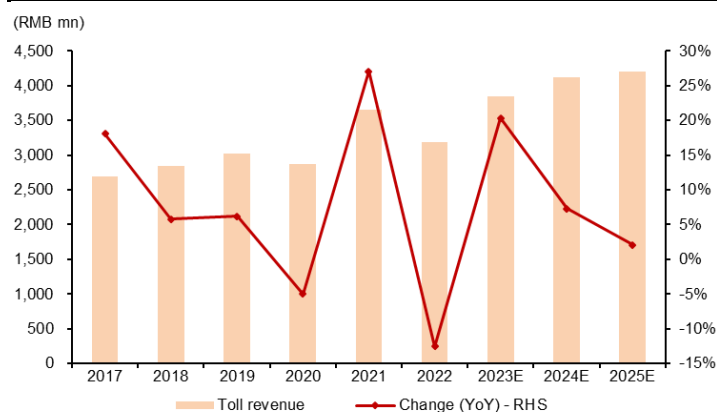


Source: Company data, CMBIGM

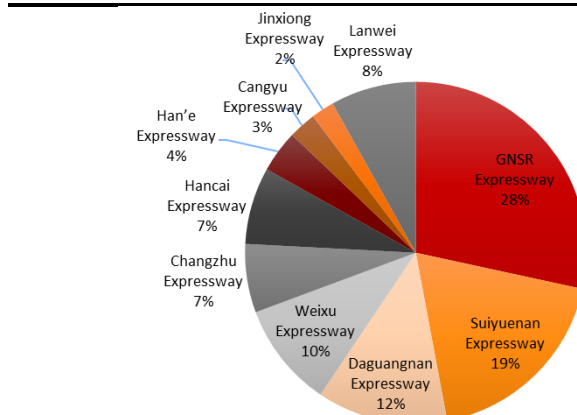
Figure 3: Yuexiu Transport's 1H23 results

YE Dec 31(RMB mn)	1H22	1H23	Change (YoY)
Revenue	1,616	1,935	19.8%
Cost of sales	(718)	(841)	17.1%
Gross profit	898	1,095	21.9%
Other income	38	11	-72.1%
Administrative expenses	(102)	(134)	31.1%
EBIT	833	971	16.6%
Net finance income/(cost)	(305)	(270)	-11.4%
Finance income	29	14	-52.7%
Finance expenses	(334)	(284)	-15.0%
Share of profit of JV and associates	91	130	43.4%
Pretax profit	619	831	34.3%
Income tax	(173)	(219)	26.4%
After tax profit	446	613	37.4%
MI	(151)	(185)	23.1%
Net profit	295	427	44.6%
D&A	561	652	16.3%
EBITDA	1,394	1,623	16.5%

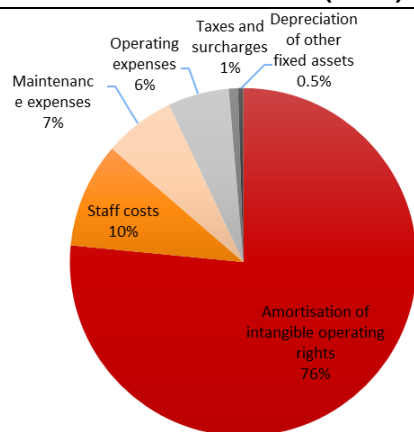
Source: Company data, CMBIGM

Figure 4: Yuexiu Transport's toll revenue and growth

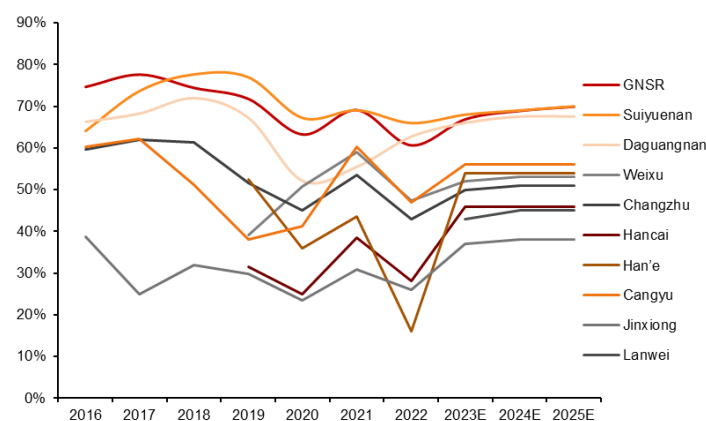
Source: Company data, CMBIGM estimates

Figure 5: Toll revenue breakdown by project (1H23)

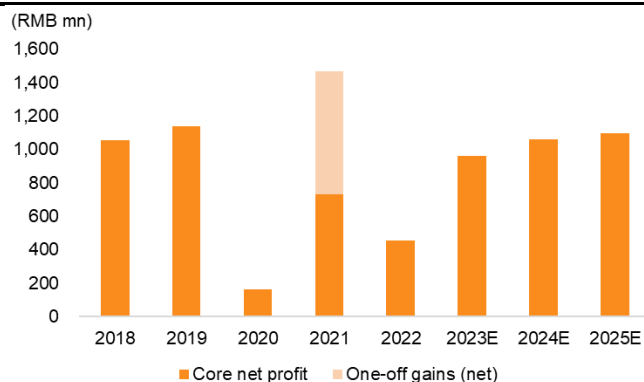
Source: Company data, CMBIGM

Figure 6: Cost of services breakdown (1H23)

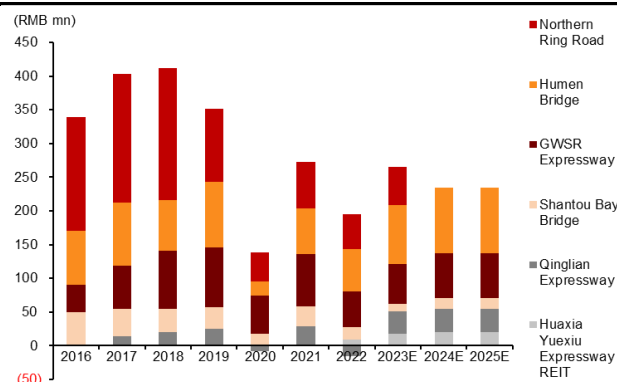
Source: Company data, CMBIGM

Figure 7: Toll projects' gross margin trend

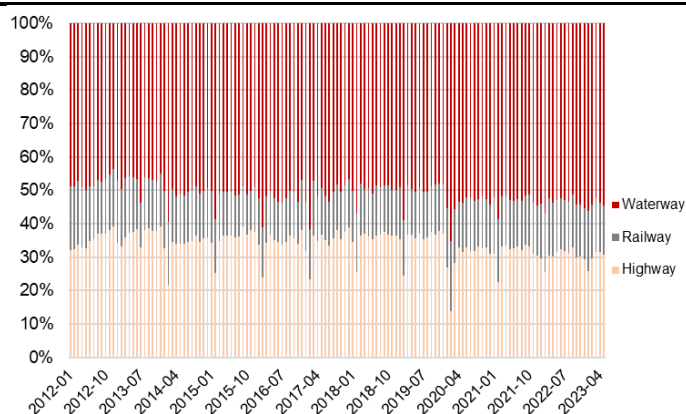
Source: Company data, CMBIGM

Figure 8: Yuexiu Transport's core net profit

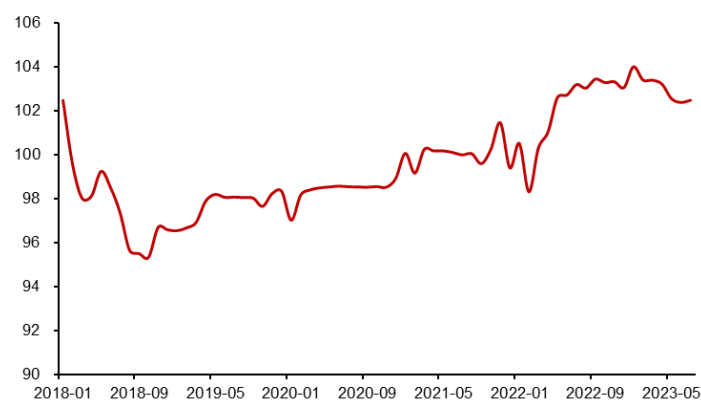
Source: Company data, CMBIGM

Figure 9: Share of results of associates & JV

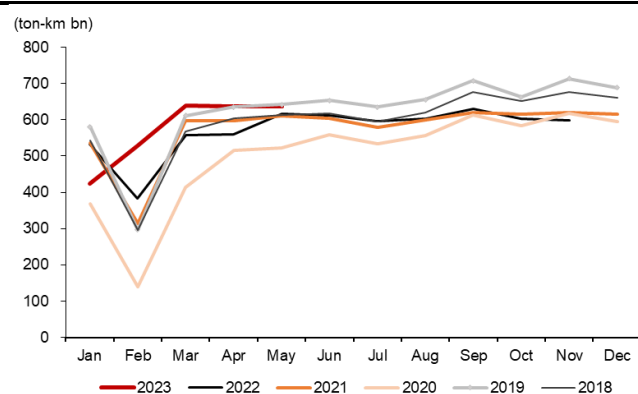
Source: Company data, CMBIGM

Figure 10: Cargo turnover volume breakdown

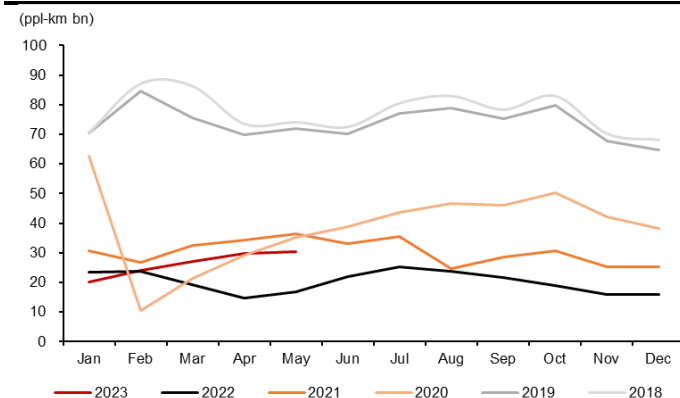
Source: Company data, CMBIGM

Figure 11: China highway logistics freight price index

Source: Company data, CMBIGM

Figure 12: China highway cargo turnover volume

Source: Company data, CMBIGM

Figure 13: China highway passenger turnover volume

Source: Company data, CMBIGM

Operating assumptions

Figure 14: Change in key assumptions

	2023E	Old 2024E	2025E	2023E	New 2024E	2025E	Change 2023E	2024E	2025E
(RMB mn)									
Revenue									
GNSR Expressway	1,090	1,147	-	1,072	1,128	1,139	-1.7%	-1.7%	-
Suiyuan Expressway	694	764	-	700	770	808	0.8%	0.8%	-
Daguan Expressway	453	490	-	453	489	494	0.0%	0.0%	-
Weixu Expressway	457	493	-	390	421	425	-14.7%	-14.7%	-
Changzhu Expressway	267	283	-	266	282	285	-0.4%	-0.4%	-
Hancai Expressway	254	269	-	274	290	293	7.7%	7.7%	-
Han'e Expressway	183	194	-	173	183	185	-5.9%	-5.9%	-
Cangyu Expressway	99	105	-	100	106	107	0.8%	0.8%	-
Jinxiong Expressway	83	88	-	89	94	95	7.9%	7.9%	-
Lanwei Expressway	326	352	-	325	358	376	-0.1%	1.7%	-
Han-Xiao Expressway	-	-	-	0	0	0	-	-	-
Sub-total (Toll revenue)	3,907	4,185	-	3,842	4,121	4,208	-1.7%	-1.5%	-
Other toll operating income	11	13	-	11	13	13	0.0%	0.0%	-
Entrusted road management service income	30	30	-	30	30	30	0.0%	0.0%	-
Construction service income	32	35	-	32	35	35	0.0%	0.0%	-
Income from service area and gas station	40	42	-	40	42	42	0.0%	0.0%	-
Others (e.g. port, toll expressway)	-	-	-	0	0	0	-	-	-
Revenue	4,020	4,305	-	3,955	4,241	4,328	-1.6%	-1.5%	-
Gross margin									
GNSR Expressway	71.0%	73.0%	-	67.0%	69.0%	70.0%	(4.0)	(4.0)	-
Suiyuan Expressway	71.0%	73.0%	-	68.0%	69.0%	70.0%	(3.0)	(4.0)	-
Daguan Expressway	53.0%	55.0%	-	52.0%	53.0%	53.0%	(1.0)	(2.0)	-
Weixu Expressway	66.0%	67.5%	-	66.0%	67.5%	67.5%	0.0	0.0	-
Changzhu Expressway	50.0%	51.0%	-	50.0%	51.0%	51.0%	0.0	0.0	-
Hancai Expressway	34.0%	36.0%	-	46.0%	46.0%	46.0%	12.0	10.0	-
Han'e Expressway	30.0%	32.0%	-	54.0%	54.0%	54.0%	24.0	22.0	-
Cangyu Expressway	53.0%	54.0%	-	56.0%	56.0%	56.0%	3.0	2.0	-
Jinxiong Expressway	24.0%	26.0%	-	37.0%	38.0%	38.0%	13.0	12.0	-
Lanwei Expressway	26.0%	27.0%	-	43.0%	45.0%	45.0%	17.0	18.0	-
Blended gross margin	57.4%	59.1%	-	59.0%	60.3%	60.8%	1.7	1.2	-
Change (ppt)									
Admin expense ratio	9.5%	9.3%	-	9.5%	9.4%	9.3%	0.0	0.1	-
Net finance income/(cost)	(716.72)	(787.48)	-	(601.13)	(629.95)	(687.08)	-16.1%	-20.0%	-
Share of profit of JV and associates	230.36	210.40	-	265.05	234.71	234.71	15.1%	11.6%	-
Net profit	907	1,001	-	963	1,060	1,095	6.2%	5.9%	-

Source: Company data, CMBIGM estimates

Figure 15: Key operating assumptions

		2018	2019	2020	2021	2022	2023E	2024E	2025E
Average daily toll traffic volume (vehicle/day)									
Subsidiaries									
GNSR Expressway	广州北二环高速	233,210	255,418	297,280	280,865	243,180	279,657	294,199	297,141
Suiyuanan Expressway	湖北随岳南高速	22,903	25,574	33,252	30,465	28,181	31,845	35,029	36,780
Daguanqian Expressway	湖北大广南高速	-	25,692	30,017	29,528	23,365	28,038	30,281	30,584
Weixu Expressway	河南尉许高速	31,928	32,957	23,676	23,531	21,491	26,864	29,013	29,303
Changzhu Expressway	湖南长株高速	59,329	62,641	77,895	73,797	64,434	73,455	77,862	78,641
Hancai Expressway	湖北汉蔡高速	-	47,607	47,929	50,878	42,871	57,876	61,348	61,962
Han'e Expressway	湖北汉鄂高速	-	34,968	41,220	41,436	29,157	33,239	35,233	35,586
Cangyu Expressway	广西苍郁高速	10,857	8,604	12,489	15,550	15,445	19,306	20,465	20,669
Jinxiong Expressway	天津津雄高速	37,345	37,039	45,254	34,444	29,413	38,237	40,531	40,936
Lanwei Expressway	河南兰尉高速	-	-	-	-	25,802	33,543	36,897	38,742
Associates and Joint venture									
Northern Ring Road	广州北环高速	348,447	361,676	382,534	372,746	344,067	378,474	-	-
Humen Bridge	虎门大桥	121,747	88,507	70,251	89,498	72,149	101,009	105,049	105,049
Shantou Bay Bridge	汕头海湾大桥	26,175	27,520	30,703	29,553	24,521	17,165	18,023	18,023
Han-Xiao Expressway	湖北汉孝高速	26,719	28,715	32,675	33,520	27,043	30,288	31,803	31,803
Qinglian Expressway	清连高速	43,477	48,520	53,893	53,050	44,922	51,660	54,760	54,760
GWSR Expressway	广州西二环高速	73,237	85,635	110,815	92,549	72,054	85,024	93,526	93,526
Change YoY									
Subsidiaries									
GNSR Expressway	广州北二环高速	1.4%	9.5%	16.4%	-5.5%	-13.4%	15.0%	5.2%	1.0%
Suiyuanan Expressway	湖北随岳南高速	14.8%	11.7%	30.0%	-8.4%	-7.5%	13.0%	10.0%	5.0%
Daguanqian Expressway	湖北大广南高速	-	-	16.8%	-1.6%	-20.9%	20.0%	8.0%	1.0%
Weixu Expressway	河南尉许高速	36.0%	3.2%	-28.2%	-0.6%	-8.7%	25.0%	8.0%	1.0%
Changzhu Expressway	湖南长株高速	175.8%	5.6%	24.4%	-5.3%	-12.7%	14.0%	6.0%	1.0%
Hancai Expressway	湖北汉蔡高速	-	-	0.7%	6.2%	-15.7%	35.0%	6.0%	1.0%
Han'e Expressway	湖北汉鄂高速	-	-	17.9%	0.5%	-29.6%	14.0%	6.0%	1.0%
Cangyu Expressway	广西苍郁高速	-11.2%	-20.8%	45.2%	24.5%	-0.7%	25.0%	6.0%	1.0%
Jinxiong Expressway	天津津雄高速	53.0%	-0.8%	22.2%	-23.9%	-14.6%	30.0%	6.0%	1.0%
Lanwei Expressway	河南兰尉高速	-	-	-	-	-	30.0%	10.0%	5.0%
Associates and Joint venture									
Northern Ring Road	广州北环高速	3.9%	3.8%	5.8%	-2.6%	-7.7%	10.0%	0.0%	0.0%
Humen Bridge	虎门大桥	2.8%	-27.3%	-20.6%	27.4%	-19.4%	40.0%	4.0%	0.0%
Shantou Bay Bridge	汕头海湾大桥	-0.8%	5.1%	11.6%	-3.7%	-17.0%	-30.0%	5.0%	0.0%
Han-Xiao Expressway	湖北汉孝高速	0.0%	7.5%	13.8%	2.6%	-19.3%	12.0%	5.0%	0.0%
Qinglian Expressway	清连高速	5.6%	11.6%	11.1%	-1.6%	-15.3%	15.0%	6.0%	0.0%
GWSR Expressway	广州西二环高速	2.9%	16.9%	29.4%	-16.5%	-22.1%	18.0%	10.0%	0.0%
Average annual toll fee (RMB/vehicle)									
Subsidiaries									
GNSR Expressway	广州北二环高速	4,977	4,765	3,889	3,992	4,034	3,833	3,833	3,833
Suiyuanan Expressway	湖北随岳南高速	29,132	26,889	19,923	20,157	22,430	21,982	21,982	21,982
Daguanqian Expressway	湖北大广南高速	-	13,365	14,395	15,243	16,663	16,163	16,163	16,163
Weixu Expressway	河南尉许高速	13,385	12,604	15,523	14,841	18,132	14,506	14,506	14,506
Changzhu Expressway	湖南长株高速	4,182	3,996	3,370	3,642	3,589	3,625	3,625	3,625
Hancai Expressway	湖北汉蔡高速	-	5,219	4,752	5,072	5,253	4,728	4,728	4,728
Han'e Expressway	湖北汉鄂高速	-	5,037	4,541	5,053	5,191	5,191	5,191	5,191
Cangyu Expressway	广西苍郁高速	7,196	7,316	5,584	5,750	5,762	5,185	5,185	5,185
Jinxiong Expressway	天津津雄高速	2,560	2,502	2,059	2,330	2,451	2,329	2,329	2,329
Lanwei Expressway	河南兰尉高速	-	-	-	-	-	9,700	9,700	9,700
Associates and Joint venture									
Northern Ring Road	广州北环高速	2,210	2,103	1,785	1,918	1,865	1,865	-	-
Humen Bridge	虎门大桥	13,740	11,718	8,125	9,669	9,650	9,747	9,747	9,747
Shantou Bay Bridge	汕头海湾大桥	8,125	7,416	5,617	6,405	5,776	5,776	5,776	5,776
Han-Xiao Expressway	湖北汉孝高速	6,364	6,338	5,936	6,737	7,349	7,349	7,349	7,349
Qinglian Expressway	清连高速	17,497	17,251	15,585	16,509	13,700	13,426	13,426	13,426
GWSR Expressway	广州西二环高速	8,239	6,807	5,017	5,444	5,621	5,283	5,283	5,283
Change YoY									
Subsidiaries									
GNSR Expressway	广州北二环高速	-3%	-4%	-18%	3%	1%	-5%	0%	0%
Suiyuanan Expressway	湖北随岳南高速	1%	-8%	-26%	1%	11%	-2%	0%	0%
Daguanqian Expressway	湖北大广南高速	-	-	8%	6%	9%	-3%	0%	0%
Weixu Expressway	河南尉许高速	-4%	-6%	23%	-4%	22%	-20%	0%	0%
Changzhu Expressway	湖南长株高速	-63%	-4%	-16%	8%	-1%	1%	0%	0%
Hancai Expressway	湖北汉蔡高速	-	-	-9%	7%	4%	-10%	0%	0%
Han'e Expressway	湖北汉鄂高速	-	-	-10%	11%	3%	0%	0%	0%
Cangyu Expressway	广西苍郁高速	3%	2%	-24%	3%	0%	-10%	0%	0%
Jinxiong Expressway	天津津雄高速	-30%	-2%	-18%	13%	5%	-5%	0%	0%
Lanwei Expressway	河南兰尉高速	-	-	-	-	-	-	0%	0%
Associates and Joint venture									
Northern Ring Road	广州北环高速	-4%	-5%	-15%	7%	-3%	0%	0%	0%
Humen Bridge	虎门大桥	1%	-15%	-31%	19%	0%	1%	0%	0%
Shantou Bay Bridge	汕头海湾大桥	-12%	-9%	-24%	14%	-10%	0%	0%	0%
Han-Xiao Expressway	湖北汉孝高速	-14%	0%	-6%	13%	9%	0%	0%	0%
Qinglian Expressway	清连高速	-2%	-1%	-10%	6%	-17%	-2%	0%	0%
GWSR Expressway	广州西二环高速	20%	-17%	-26%	9%	3%	-6%	0%	0%

Source: Company data, CMBIGM estimates

Figure 16: Revenue and gross margin breakdown

(RMB mn)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue								
GNSR Expressway	1,161	1,217	909	1,121	981	1,072	1,128	1,139
Suiyuanan Expressway	667	688	521	614	632	700	770	808
Daguangnan Expressway	-	57	340	450	389	453	489	494
Weixu Expressway	427	415	289	349	390	390	421	425
Changzhu Expressway	248	250	206	269	231	266	282	285
Hancai Expressway	-	32	179	258	225	274	290	293
Han'e Expressway	-	26	147	209	151	173	183	185
Cangyu Expressway	78	63	55	89	89	100	106	107
Jinxiong Expressway	96	93	73	80	72	89	94	95
Lanwei Expressway	-	-	-	-	32	325	358	376
Han-Xiao Expressway	170	182	153	209	-	-	-	-
Sub-total (Toll revenue)	2,847	3,023	2,872	3,650	3,193	3,842	4,121	4,208
Other toll operating income	-	-	12	12	5	11	13	13
Entrusted road management service income	-	-	-	-	32	30	30	30
Construction service income	-	-	-	-	24	32	35	35
Income from service area and gas station	-	-	36	40	34	40	42	42
Others (e.g. port, toll expressway)	-	-	-	-	-	-	-	-
Revenue	2,847	3,023	2,920	3,702	3,289	3,955	4,241	4,328
Revenue Growth (YoY)								
Toll revenue								
GNSR Expressway	-2%	5%	-25%	23%	-12%	9%	5%	1%
Suiyuanan Expressway	17%	3%	-24%	18%	3%	11%	10%	5%
Daguangnan Expressway	-	-	493%	32%	-14%	16%	8%	1%
Weixu Expressway	31%	-3%	-30%	21%	12%	0%	8%	1%
Changzhu Expressway	2%	1%	-18%	30%	-14%	15%	6%	1%
Hancai Expressway	-	-	466%	44%	-13%	22%	6%	1%
Han'e Expressway	-	-	463%	42%	-28%	14%	6%	1%
Cangyu Expressway	-9%	-19%	-13%	63%	0%	13%	6%	1%
Jinxiong Expressway	7%	-3%	-21%	10%	-10%	23%	6%	1%
Lanwei Expressway	-	-	-	-	-	914%	10%	5%
Han-Xiao Expressway	-14%	7%	-16%	37%	-	-	-	-
Sub-total (Toll revenue)	6%	6%	-5%	27%	-13%	20%	7%	2%
Other toll operating income	-	-	-	4%	-55%	101%	18%	0%
Entrusted road management service income	-	-	-	-	-	-7%	0%	0%
Construction service income	-	-	-	-	-	35%	9%	0%
Income from service area and gas station	-	-	-	12%	-15%	16%	5%	0%
Others (e.g. port, toll expressway)	-	-	-	-	-	-	-	0%
Revenue Growth	6%	6%	-3%	27%	-11%	20%	7%	2%
Gross margin								
GNSR Expressway	75%	72%	63%	69%	61%	67%	69%	70%
Suiyuanan Expressway	78%	77%	67%	69%	66%	68%	69%	70%
Daguangnan Expressway	0%	39%	51%	59%	47%	52%	53%	53%
Weixu Expressway	72%	67%	52%	56%	63%	66%	68%	68%
Changzhu Expressway	61%	52%	45%	54%	43%	50%	51%	51%
Hancai Expressway	0%	32%	25%	39%	28%	46%	46%	46%
Han'e Expressway	0%	52%	36%	44%	16%	54%	54%	54%
Cangyu Expressway	51%	38%	41%	60%	47%	56%	56%	56%
Jinxiong Expressway	32%	30%	23%	31%	26%	37%	38%	38%
Lanwei Expressway	0%	0%	0%	0%	0%	43%	45%	45%
Han-Xiao Expressway	59%	56%	52%	72%	0%	0%	0%	0%
Blended gross margin	71%	67%	54%	61%	53%	59%	60%	61%

Source: Company data, CMBIGM estimates

Valuation

We revise up our DCF-based TP to HK\$7.5 from HK\$7.0. Our TP implies 12x 2023E P/E, which is slightly above the historical average of 10.5x. We believe our target valuation is justified, given the foreseeable growth through asset injection. Any potential spin-off of projects will offer additional upside to our TP and dividend payment.

Figure 17: DCF calculation

Enterprise Value	29,997
Net cash / (net debt)	(15,040)
Minority interest	(3,326)
Equity Value	11,631
Fair value (RMB/shr)	7.0
RMB/HK\$	1.080
Fair value (HK\$ mn)	12,561
Fair value (HK\$/shr)	7.5
Assumptions	
Risk free rate	4.0%
Risk premium	9.0%
Beta	0.5
Cost of equity	8.5%
After tax cost of debt	2.7%
Debt/total capital	50.0%
WACC	5.6%

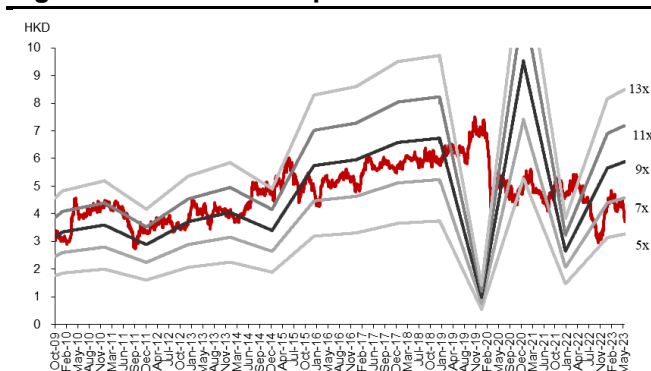
Source: CMBIGM estimates

Figure 18: DCF sensitivity

		LT debt/capital ratio				
		40.0%	45.0%	50.0%	55.0%	60.0%
After tax cost of debt	3.7%	5.3	5.8	6.3	6.9	7.5
	3.2%	5.7	6.3	6.9	7.5	8.2
	2.7%	6.2	6.8	7.5	8.2	9.0
	2.2%	6.6	7.4	8.1	8.9	9.8
	1.7%	7.1	7.9	8.8	9.7	10.6

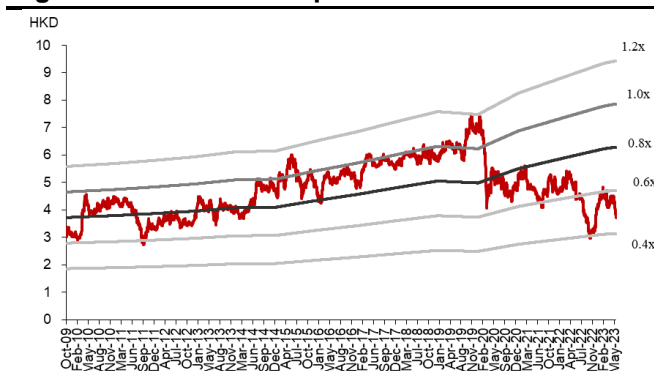
Source: CMBIGM estimates

Figure 19: Yuexiu Transport's P/E band



Source: Bloomberg, Company data, CMBIGM estimates
 Note: Historical average: 10.4x

Figure 20: Yuexiu Transport's P/B band



Source: Bloomberg, Company data, CMBIGM estimates
 Note: Historical average: 0.83x

Key risk factors: (1) diversion of traffic from other parallel toll roads, (2) rebound of gearing ratio and finance expense, and (3) uncertainties on GNSR expansion project.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,920	3,702	3,289	3,955	4,241	4,328
Cost of goods sold	(1,361)	(1,479)	(1,570)	(1,590)	(1,652)	(1,666)
Gross profit	1,559	2,223	1,719	2,365	2,589	2,661
Admin expense	(247)	(370)	(310)	(376)	(399)	(402)
Other income	25	800	46	59	64	65
Share of (losses)/profits of associates/JV	124	264	172	265	235	235
EBITDA	2,314	3,742	2,630	3,335	3,886	4,300
Other amortisation	976	1,088	1,175	1,287	1,632	1,976
EBIT	1,337	2,654	1,455	2,049	2,254	2,324
Interest income	26	44	64	60	59	31
Interest expense	(806)	(743)	(625)	(661)	(689)	(718)
Net Interest income/(expense)	(779)	(699)	(562)	(601)	(630)	(687)
Pre-tax profit	682	2,218	1,065	1,713	1,859	1,871
Income tax	(278)	(426)	(328)	(428)	(465)	(468)
After tax profit	404	1,793	738	1,284	1,394	1,403
Minority interest	(244)	(328)	(285)	(321)	(335)	(309)
Net profit	160	1,465	453	963	1,060	1,095
Adjusted net profit	160	729	453	963	1,060	1,095
Gross dividends	98	833	292	530	583	602

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,878	3,293	2,776	4,168	2,748	1,162
Cash & equivalents	1,516	2,919	2,480	3,803	2,429	790
Account receivables	204	153	128	197	151	204
Prepayment	158	140	156	156	156	156
Other current assets	0	81	11	11	11	11
Non-current assets	34,490	32,368	33,562	34,303	37,670	40,690
Right-of-use assets	30	21	15	15	15	15
Investment in JVs & assos	2,024	2,561	2,287	2,363	2,437	2,510
Intangibles	0	8	17	15	13	9
Goodwill	633	515	515	515	515	515
Other non-current assets	31,803	29,263	30,728	31,395	34,690	37,641
Total assets	36,368	35,661	36,337	38,472	40,418	41,852
Current liabilities	4,233	4,594	7,433	8,505	9,508	10,022
Short-term borrowings	2,886	3,466	6,424	7,424	8,424	8,924
Account payables	1,219	991	922	994	997	1,012
Tax payable	82	70	51	51	51	51
Other current liabilities	23	41	12	12	12	12
Contract liabilities	22	26	23	23	23	23
Non-current liabilities	18,481	16,595	14,670	14,770	14,770	14,770
Long-term borrowings	14,815	13,224	11,320	11,420	11,420	11,420
Deferred income	333	313	293	293	293	293
Other non-current liabilities	3,333	3,058	3,057	3,057	3,057	3,057
Total liabilities	22,714	21,188	22,102	23,275	24,278	24,792
Total shareholders equity	10,425	11,512	11,230	11,871	12,480	13,091
Minority interest	3,229	2,961	3,005	3,326	3,660	3,969
Total equity and liabilities	36,368	35,661	36,337	38,472	40,418	41,852

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	682	2,218	1,065	1,713	1,859	1,871
Depreciation & amortization	976	1,088	1,175	1,287	1,632	1,976
Tax paid	(218)	(499)	(367)	(428)	(465)	(468)
Change in working capital	25	86	(6)	3	49	(39)
Others	637	(323)	343	336	395	452
Net cash from operations	2,103	2,570	2,211	2,910	3,470	3,793
Investing						
Capital expenditure	(247)	(352)	(311)	(1,950)	(4,923)	(4,923)
Acquisition of subsidiaries/ investments	(76)	1,392	(862)	(50)	(50)	(50)
Others	85	245	505	296	269	242
Net cash from investing	(239)	1,285	(668)	(1,704)	(4,704)	(4,731)
Financing						
Dividend paid	(314)	(376)	(740)	(323)	(451)	(483)
Net borrowings	(627)	(731)	(345)	1,100	1,000	500
Proceeds from share issues	0	0	0	0	0	0
Others	(842)	(1,343)	(895)	(661)	(689)	(718)
Net cash from financing	(1,783)	(2,451)	(1,981)	116	(140)	(701)
Net change in cash						
Cash at the beginning of the year	1,435	1,516	2,919	2,480	3,803	2,429
Others	(1)	(2)	0	0	0	0
Cash at the end of the year	1,516	2,919	2,480	3,803	2,429	790
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(3.4%)	26.8%	(11.2%)	20.2%	7.3%	2.0%
Gross profit	(22.5%)	42.6%	(22.7%)	37.5%	9.5%	2.8%
EBITDA	(10.6%)	61.7%	(29.7%)	26.8%	16.5%	10.7%
EBIT	(30.3%)	98.4%	(45.2%)	40.8%	10.0%	3.1%
Net profit	(85.9%)	812.8%	(69.1%)	112.6%	10.0%	3.3%
Adj. net profit	(85.9%)	354.5%	(37.9%)	112.6%	10.0%	3.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	53.4%	60.1%	52.3%	59.8%	61.0%	61.5%
EBITDA margin	79.2%	101.1%	80.0%	84.3%	91.6%	99.4%
Adj. net profit margin	5.5%	19.7%	13.8%	24.4%	25.0%	25.3%
Return on equity (ROE)	1.5%	13.4%	4.0%	8.3%	8.7%	8.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	118.5%	95.2%	107.2%	99.0%	107.9%	114.6%
Current ratio (x)	0.4	0.7	0.4	0.5	0.3	0.1
Receivable turnover days	23.7	17.6	15.6	15.0	15.0	15.0
Payable turnover days	313.1	272.7	222.4	220.0	220.0	220.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	48.4	4.6	13.6	6.6	6.0	5.8
P/B	0.7	0.6	0.5	0.5	0.5	0.5
Div yield (%)	1.3	12.4	4.7	8.3	9.2	9.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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