

Yuexiu Transport (1052 HK)

Growth formula: Organic growth + Asset injection + Spin-off via Infrastructure REIT

We believe the strategy of “business incubation (at parent company level) + asset injection (to Yuexiu Transport)”, followed by the spin-off of mature projects through the listing of REITs, will enable Yuexiu Transport to fully capture the most profitable stage of toll road operations. We like the Company’s excellent track record of dividend payment (continuous distribution since listing in 1997) and good execution on asset transaction. As a pure expressway operator in Guangdong and Hubei, Yuexiu Transport is set to benefit from the strong recovery of traffic volume after economy reopening. We forecast core net profit growth of 58% / 10% in 2023E/24E. Initiate with **BUY** with DCF-based TP of HK\$7.0 (WACC 5.7%).

- “Incubation-injection” strategy with the support of Yuexiu Group.** Under this strategy, Yuexiu Group (parent company) acquires expressway assets at the early stage of development. After reaching certain level of profitability, these assets will be injected into Yuexiu Transport. We understand that the transport assets that are at the incubation stage in the parent company amounted to ~RMB7bn (vs Yuexiu Transport’s total assets of RMB36bn as at end-2022E). Yuexiu Transport has completed several asset acquisitions in the past (Hubei projects in 2019 & Henan project in 2022) and we expect more to come this year.
- Enhance cash recycling through the spin-off of infrastructure REITs.** Yuexiu Transport completed the spin-off of 70% interest in Han-Xiao Expressway project through the public offering of infrastructure REIT (**Huaxia Yuexiu Expressway REIT [180202 CH, NR]**) in Dec 2021. The spin-off not only helped Yuexiu Transport recognize RMB961mn gains, but also sped up the cash recycling. We expect more expressway projects reaching mature stage to be spun-off going forward, which will offer potential upside to the upcoming dividend pay-out.
- Economy reopening to boost traffic volume recovery.** Given the U-turn of zero-COVID policy, we expect a meaningful recovery of the traffic volume, driven by the normalization of social activities and travel demand. We expect the traffic volume to return to the pre-pandemic level starting in Feb/Mar, given that the first peak of COVID infection already appeared.
- DCF-based TP of HK\$7.0.** Our TP implies 11x 2023E P/E, which is in line with the historical average (10.5x). We think our TP is not excessive given the strong earnings recovery. Any potential asset injection and spin-off will offer upside to our TP.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,920	3,702	3,351	4,020	4,305
YoY growth (%)	(3.4)	26.8	(9.5)	20.0	7.1
Net profit (RMB mn)	160.5	1,465.0	572.9	906.8	1,000.6
EPS (Reported) (RMB)	0.10	0.88	0.34	0.54	0.60
YoY growth (%)	(85.9)	812.8	(60.9)	58.3	10.3
Consensus EPS (RMB)	na	na	0.41	0.58	0.62
P/E (x)	48.4	4.6	11.6	7.3	6.6
P/B (x)	0.7	0.6	0.6	0.6	0.5
Yield (%)	1.3	12.4	4.9	7.5	8.3
ROE (%)	1.5	13.4	5.0	7.7	8.1
Net gearing (%)	119	95	93	103	111

Source: Company data, Bloomberg, CMBIGM estimates

BUY

Target Price HK\$7.00
Up/Downside 53.2%
Current Price HK\$4.57

China Toll Road

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Stock Data

Mkt Cap (HK\$ mn)	7,646.4
Avg 3 mths t/o (HK\$ mn)	3.8
52w High/Low (HK\$)	5.42/2.96
Total Issued Shares (mn)	1673.2

Source: FactSet

Shareholding Structure

Guangzhou Yue Xiu Holdings	44.2%
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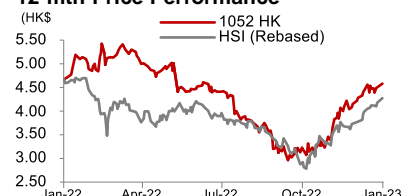
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.1%	-4.9%
3-mth	40.6%	-4.4%
6-mth	3.4%	-5.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Contents

Investment Summary.....	3
Scale up through asset injection from parent company.....	3
More potential projects spin-off to speed up cash re-cycling.....	3
Expansion of GNSR Expressway to help extend concession right.....	3
Economy reopening to drive traffic recovery.....	3
Continuous dividend distribution since listing in 1997.....	3
Company Background.....	4
Solid position in the Greater Bay Area while expanding footprint to Central China.....	5
GNSR Expressway: Concession period to extend through project expansion11	
Core revenue generating asset with high traffic volume.....	11
Concession period will be extended.....	11
Incubation-injection strategy to acquire quality assets.....	14
Hubei assets start to bear fruit.....	15
Hubei Province: a high growth region.....	15
Daguangnan, Hancai and Han'e heading into high growth trajectory.....	15
Potential high-quality asset injections.....	17
Lanwei Expressway: A high IRR project to fully contribute in 2023E.....	17
Shandong Qinbin Expressway: the potential target of asset injection.....	18
Economy reopening is the key recovery driver for toll road.....	19
China toll revenue tends to grow faster than GDP.....	19
Hubei to potentially grow faster than the national average.....	19
Expect passenger turnover volume to see meaningful recovery in Feb/Mar.....	21
Financial Analysis and Earnings Forecast.....	22
We forecast core net profit growth of 58%/10% in 2023E/24E.....	24
Gearing ratio to increase in 2023E-24E.....	24
Financial Summary.....	27
Initiate with BUY with TP of HK\$7.0.....	29
Risk Factors.....	32
Diversion of traffic from other parallel toll roads.....	32
Gearing ratio and finance expense to rebound.....	32
Uncertainties on GNSR expansion project.....	32
Appendix.....	33
Parent Company Overview.....	33
Yuexiu Transport's Management Profile.....	34

Investment Summary

Scale up through asset injection from parent company

Leveraging the ample resource in the parent company, Yuexiu Transport develops an “incubation-injection” strategy to expand the expressway business. Under this strategy, the parent company acquires expressway assets at the early stage of development. After reaching certain level of profitability, the assets will be injected into Yuexiu Transport. Several high-quality expressways were injected into Yuexiu Transport, including Hancui, Han’e and Daguangnan in 2019, which boosted revenue growth over the past three years.

In Nov 2022, Yuexiu Transport completed the acquisition of Henan Lanwei Expressway (with an estimated IRR of 9.5%). The acquisition helped increase Yuexiu Transport’s toll mileage by 12% to 556km. We estimate the project will contribute 8% of revenue in 2023E and will further increase in the coming years.

We understand that the transport assets that are at the incubation stage in the parent company amounted to ~RMB7bn (vs Yuexiu Transport’s total assets of RMB36bn as at end-2022E). We expect more potential acquisitions to drive growth this year.

More potential projects spin-off to speed up cash re-cycling

In Dec 2021, Yuexiu Transport completed the spin-off of 70% interest in Han-Xiao Expressway project through the public offering of infrastructure REIT (Huaxia Yuexiu Expressway REIT [180202 CH, NR]). The spin-off not only helped Yuexiu Transport recognize RMB961mn gains, but also sped up the cash recycling. Yuexiu Transport has retained 30% shareholding in order to maintain a stable income stream from the project, as well as collecting management fee.

We expect more mature projects to be spun off for REIT listing to accelerate the recycling of cash and enhance the investment return of the project in the near future.

Expansion of GNSR Expressway to help extend concession right

GNSR Expressway is the core operating asset of Yuexiu Transport, accounting for 31% of consolidated revenue in 1H22. With the increasing traffic volume in Guangzhou, GNSR Expressway is facing the problem of saturation. Hence, the GNSR Expressway Reconstruction and Expansion (R&E) Project is initiated. The construction works will begin in Jun 2023 and the project is expected to commence operation by 2028E. The IRR of the project is estimated at ~7.2%. The expansion project will help 1) extend the concession period of GNSR Expressway from the present 2032 to up to 2053, and 2) boost the toll revenue as the number of lanes expanded from 6 at present to a range of 10 to 12.

Economy reopening to drive traffic recovery

The COVID outbreak and strict zero-COVID policy had posed huge challenges to China transport industry and adversely affected Yuexiu Transport’s revenue in 2020-2022. With the U-turn of zero-COVID policy, we expect a meaningful recovery of the transport sector, driven by the normalization of social activities and travel demand. We expect the traffic flow to rapidly recover and return to the pre-pandemic level starting in Feb/Mar, given that the first peak of COVID infection already appeared in Jan.

Continuous dividend distribution since listing in 1997

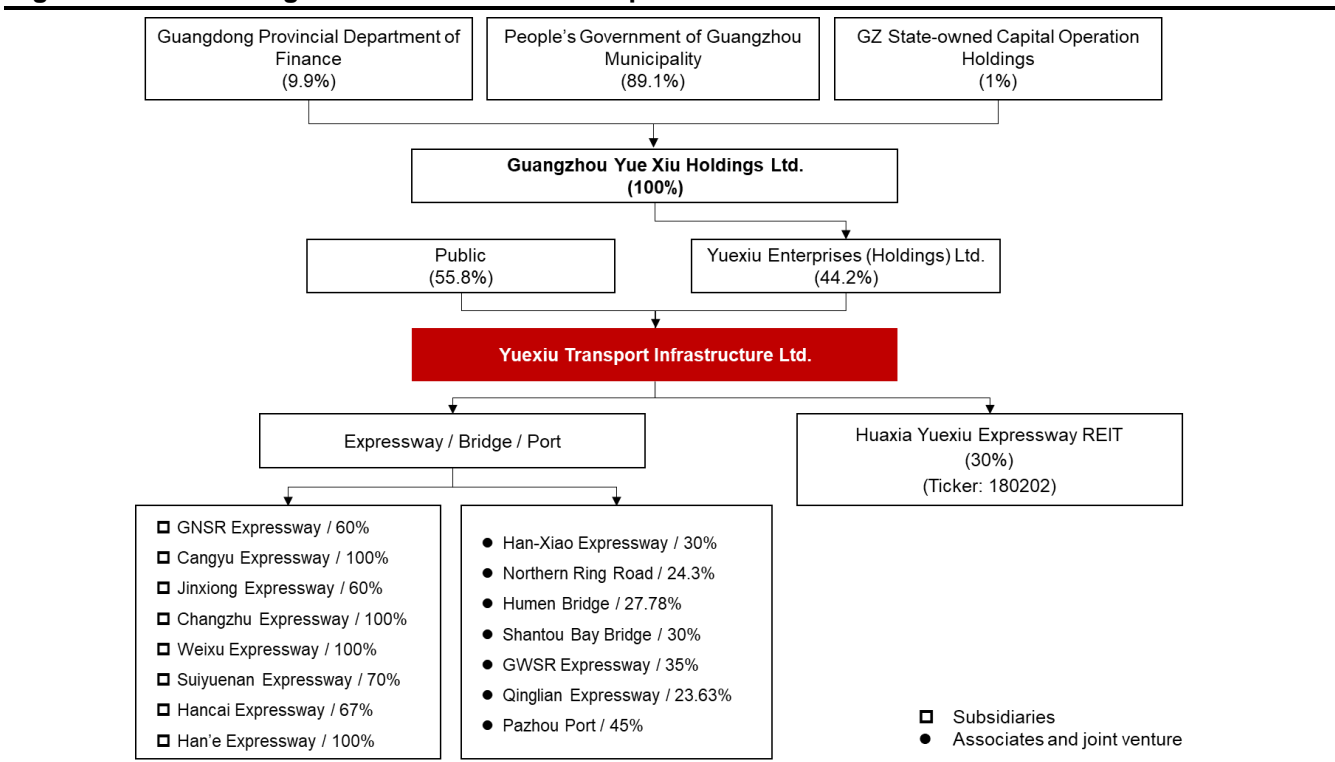
Yuexiu Transport has maintained an impressive record of dividend distribution since 1997, regardless of any change in economic cycle. In 2018-2021, the dividend payout ratio was maintained at 51-61%. We forecast the dividend payout ratio to maintain at 55% over the coming two years.

Company Background

Yuexiu Transport Infrastructure, founded in 1996, is a leading transport infrastructure asset management company in China. The Company is mainly engaged in the investment, operation and management of toll expressways and bridges in Guangdong Province and other high growth provinces in China. Yuexiu Transport is one of the four core industries of **Guangzhou Yue Xiu Holdings** (the Company's controlling shareholder), which is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government. The Company has been listed on HKEX since 1997.

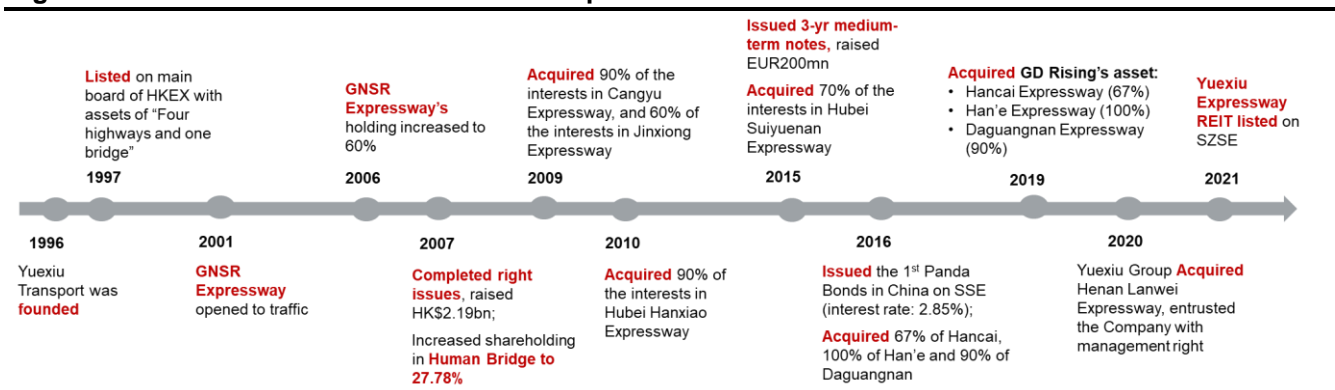
In Dec 2021, **Huaxia Yuexiu Expressway REIT (180202 CH)**, with the underlying asset of the Han-Xiao Expressway project, was spun off from Yuexiu Transport and listed on SSE. The Company retains 30% shareholding of the REIT units.

Figure 1: Shareholding structure of Yuexiu Transport



Source: Company data, CMBIGM

Figure 2: Business milestone of Yuexiu Transport



Source: Company data, CMBIGM

Solid position in the Greater Bay Area while expanding footprint to Central China

Yuexiu Transport owns **16** operating expressways, bridge and port projects in six provinces and regions. As of Nov 2022, the total toll mileage of the subsidiaries reached ~556.23km (attributable: 477.65km), and the attributable total mileage of the associates and joint venture was 88.8km. The remaining concession period of the projects (subsidiaries) averages at ~13.7 years.

Yuexiu Transport operates six toll projects in Guangdong Province, namely GNSR Expressway, GWSR Expressway, Northern Ring Road, Humen Bridge, Qinglian Expressway and Shantou Bay Bridge. In light of the development opportunities brought by the national strategy of “Rise of Central China”, Yuexiu Transport has been actively expanding into Central China with large labor populations, such as Hubei, Hunan and Henan province, through the acquisition of numerous highway projects since 2008. Hence, Yuexiu Transport has successfully formed the strategic layout of **“gaining a foothold in the Greater Bay Area and developing in Central China”**.

The toll revenue generated from the toll projects outside Guangdong province has increased from 49% in 2017 to ~65% of the total consolidated toll revenue in 2021 (incl. the attributable revenue from JV and associates), and remained stable at ~66% in 11M22.

Figure 3: Geographical map of Yuexiu Transport’s toll projects



Source: Company data, CMBIGM

Note: 1) The project in Shandong refers to the potential acquisition of Qinbin Expressway.

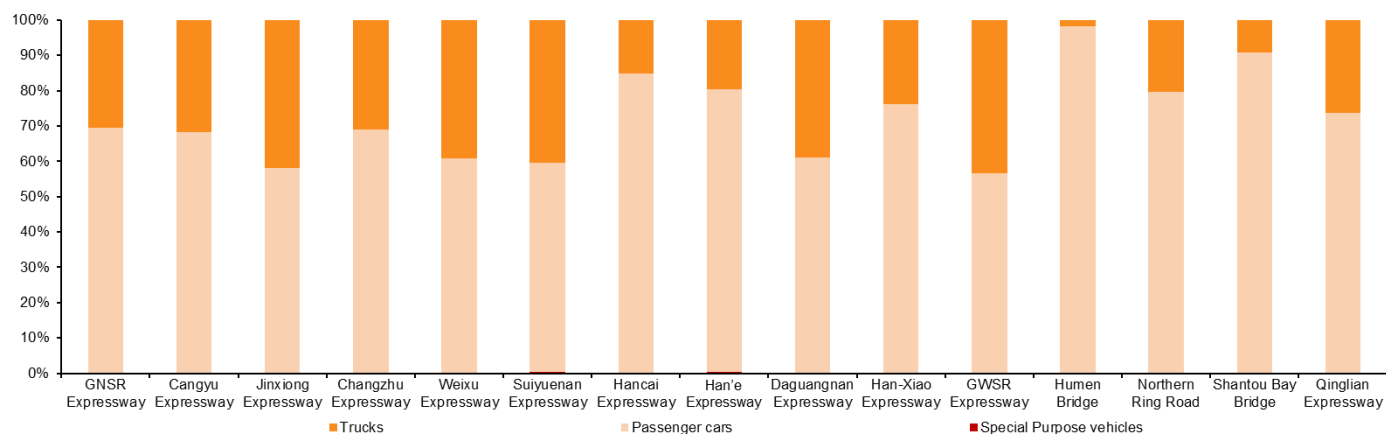
Figure 4: Summary of Yuexiu Transport's operating toll projects

Operating toll roads and bridges	Attributable interests	Toll mileage (km)	Approved last date for toll collection	Width (lanes)	Province	Revenue in 1H22 (RMB mn)	Revenue as % of total toll revenue / JV&asso revenue*
Subsidiaries							
GNSR Expressway	60%	42.5	9/1/2032	6	Guangzhou City, Guangdong	481.84	30.7%
Suiyuenan Expressway	70%	98.1	9/3/2040	4	Jianli County, Hubei	309.48	19.7%
Daguangnan Expressway	90%	107.1	3/5/2042	4	Huangshi City, Hubei	195.08	12.4%
Weixu Expressway	100%	64.3	18/11/2035	4	Xuchang City, Hunan	196.21	12.5%
Changzhu Expressway	100%	46.5	30/8/2040	4	Changsha City, Hunan	115.48	7.4%
Hancai Expressway	67%	36.0	28/8/2038	4 or 6	Wuhan City, Hubei	114.54	7.3%
Han'e Expressway	100%	54.8	29/6/2041	4	Ezhou City, Hubei	80.81	5.1%
Cangyu Expressway	100%	22.0	28/12/2030	4	Wuzhou City, Guangxi	43.49	2.8%
Jinxiong Expressway	60%	23.9	17/3/2030	4	Tianjin	33.11	2.1%
Lanwei Expressway	100%	61.0	1/7/2034	4	Henan	179.12 ²	/
Associates and Joint venture							
Han-Xiao Expressway	30%	38.5	9/12/2036	4 or 6	Wuhan City, Hubei	105.31	7.7%
Northern Ring Road	24.30%	22.0	29/11/2023	6	Guangzhou City, Guangdong	317.67	23.1%
Humen Bridge	27.78% ¹	15.8	8/5/2029	6	Dongguan City, Guangdong	362.87	26.4%
Shantou Bay Bridge	30%	6.5	23/12/2028	6	Shantou city, Guangdong	75.66	5.5%
Qinglian Expressway	23.63%	215.2	30/6/2034	4	Qingyuan City, Guangdong	312.89	22.8%
Pazhou Port	45.00%	/	/	/	Pazhou, Zhuhai	/	/
GWSR Expressway	35%	42.1	19/12/2030	6	Guangzhou City, Guangdong	200.16	14.6%

Source: Company data, CMBIGM

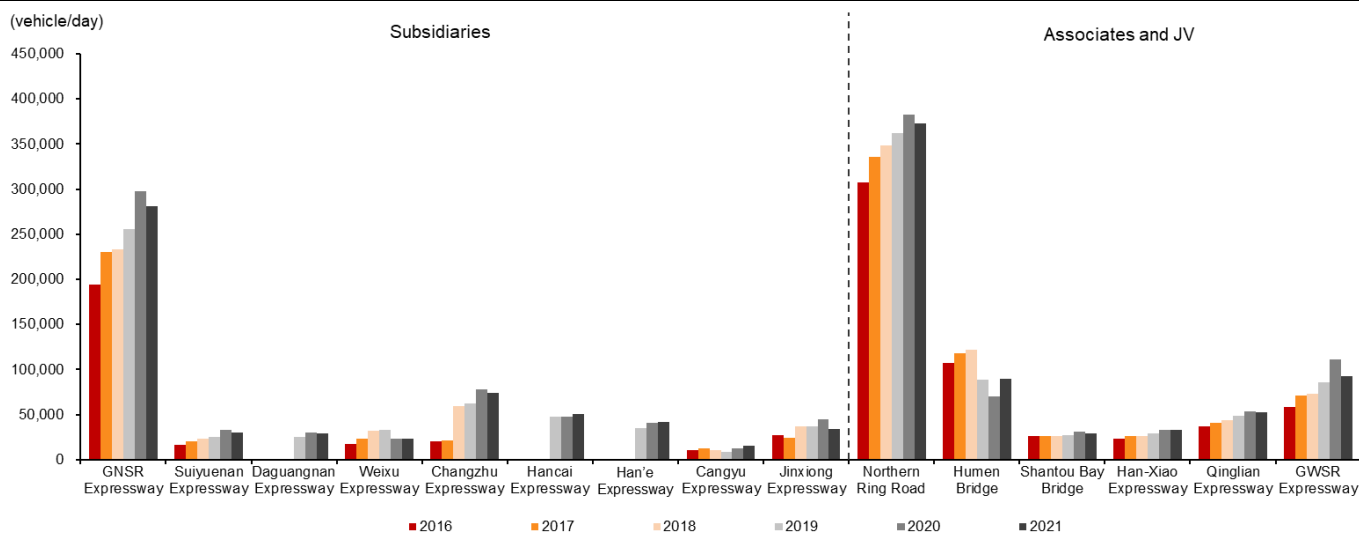
Note: 1) The profit sharing ratio of Humen Bridge was 18.446% from 2010 onwards. 2) The acquisition of Lanwei Expressway completed in Nov 2022. Its revenue refers to 7M22. 3) The concession right of GNSR Expressway is expected to extend from 2032E to up to 2053E upon completion of the R&E project.

Figure 5: Vehicle type breakdown by traffic volume (2021)



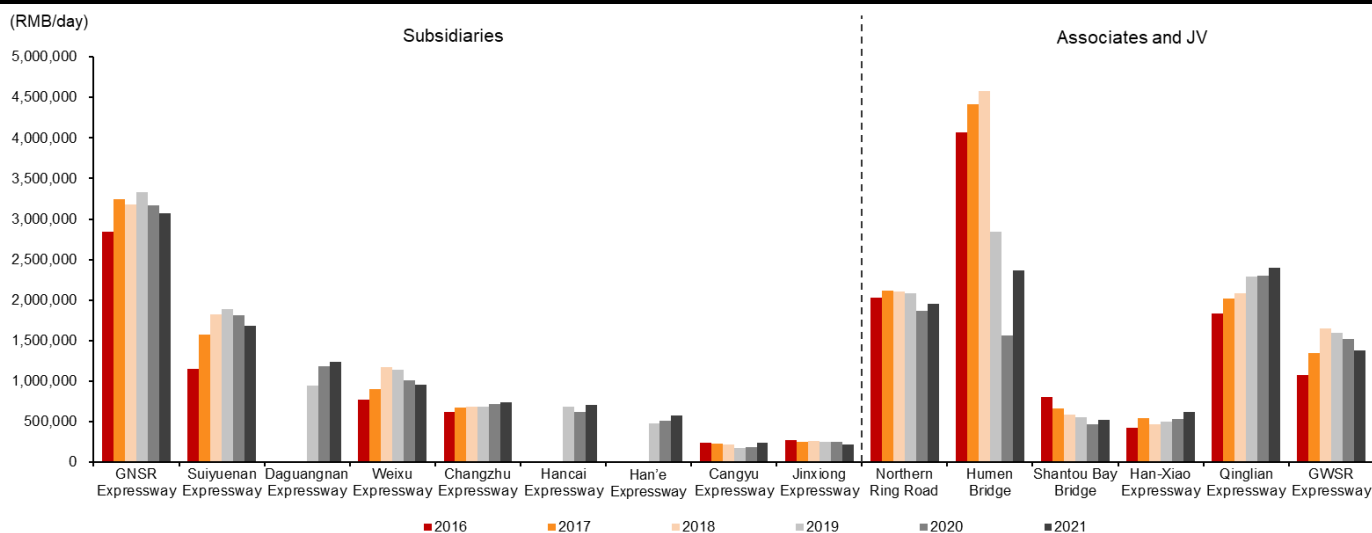
Source: Company data, CMBIGM

Figure 6: Average daily toll traffic volume of toll projects



Source: Company data, CMBIGM

Figure 7: Average daily toll revenue of toll projects






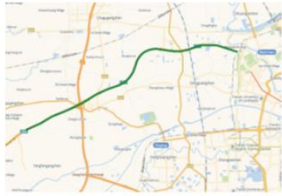
Source: Company data, CMBIGM

Figure 8: Yuexiu Transport and Yue Xiu Group's major acquisition projects

Year	Acquisition Project	Province
2009	Cangyu Expressway (90%)	Guangxi
	Jinbao Expressway (60%)	Tianjin
2010	Hanxiao Expressway (90%)	Hubei
2011	Yuexin Chishui Port (51%)	Guangxi
	Cangyu Expressway (fully acquired after the acquisition of the remaining 10%)	Guangxi
	Changzhu Expressway (90%)	Hunan
2012	Weixu Expressway (100%)	Henan
2014	Hanxiao Expressway (fully acquired after the acquisition of the remaining 10%)	Hubei
2015	Changzhu Expressway (fully acquired after the acquisition of the remaining 10%)	Hunan
	Suiyuan Expressway (70%)	Hubei
2019	Hancai Expressway (67%)	Hubei
	Han'e Expressway (100%)	
	Daguangnan Expressway (90%)	
2021	Qinbin Expressway (100%) (acquired by Yue Xiu Group)	Shandong
2022	Lanwei Expressway (100%)	Henan



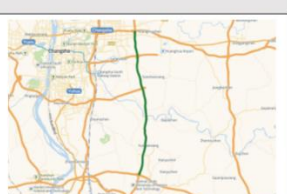
Source: Company data, CMBIGM

Figure 9: Details of Yuexiu Transport's toll project

Toll Name	Location	Description	Map
Guangdong			
GNSR Expressway	Guangzhou city	<ul style="list-style-type: none"> Located in Guangzhou city, Guangdong Connects with 13 main routes, which include GWSR Expressway, Guangqing Expressway, Airport Expressway, National Highway 105, and Provincial Highway 114, etc. 	
Humen Bridge	Dongguan city	<ul style="list-style-type: none"> Key hub of western and eastern Guangdong Province Links between Nansha District of Guangzhou and Humen District of Dongguan Connects the Guangzhou Macau Expressway, Guangshen Yanjiang Expressway and GS Superhighway 	
Northern Ring Road	Guangzhou city	<ul style="list-style-type: none"> A part of Guangzhou Ring Expressway and Fukun Section of National Highway Connects the GS Superhighway and Guangzhou Foshan Expressway 	
Qinglian Expressway	Qingyuan city	<ul style="list-style-type: none"> Key links between Guangdong and Hunan 	
GWSR Expressway	Guangzhou city	<ul style="list-style-type: none"> Connects the GNSR Expressway, Guangqing Expressway, southern part of GWSR Expressway and Guangsan Expressway 	
Shantou Bay Bridge	Shantou city	<ul style="list-style-type: none"> Connects the Shenshan Expressway and Shanfen Expressway 	
Guangxi			
Cangyu Expressway	Wuzhou city	<ul style="list-style-type: none"> Part of Guangkun Expressway (G80) Links between Longxu District of Guangxi and Yunan Country of Guangdong Province 	
Tianjin			
Jinxiong Expressway	Tianjin city	<ul style="list-style-type: none"> Located at the west of Tianjin and Hebei Province Connects the Jinxiong Expressway (Hebei section), Jinghu Expressway and Tianjin Waihuan Lane, etc. 	

Source: Company data, CMBIGM

Figure 10: Details of Yuexiu Transport's toll project (Cont'd)

Toll Name	Location	Description	Map
Hubei			
Han-Xiao Expressway	Wuhan city	<ul style="list-style-type: none"> Connects Wuhan Airport Expressway, G4 Expressway 	
Suiyuan Expressway	Jianli County	<ul style="list-style-type: none"> Crucial expressway in the central region of Hubei Connects passenger and freight transportation among regions such as Henan and Hunan 	
Hancai Expressway	Wuhan city	<ul style="list-style-type: none"> Located in the urban area of Wuhan Key west bound corridor for Wuhan Connects the Wuhan Third Ring Line and the Beijing-Hong Kong-Macau Expressway (G4) and extends to Huyu Expressway (G50) 	
Han'e Expressway	Ezhou city	<ul style="list-style-type: none"> Connects Huahu interchange One of the seven fast urban exit roads in Wuhan 	
Daguangnan Expressway	Huangshi city	<ul style="list-style-type: none"> Located in the southern part of Hubei Province Key passageway connecting Hubei and Jiangxi Provinces 	
Henan			
Lanwei Expressway	Zhengzhou city	<ul style="list-style-type: none"> Connects the Rilan Expressway, Zhengmin Expressway, Daguang Expressway and Shangdeng Expressway and Weixu Expressway 	
Weixu Expressway	Xuchang city	<ul style="list-style-type: none"> Important part of Lan-nan Expressway Connects G4 Expressway, Daguang Expressway (G45), Xuguang Expressway (G0421), Er' guang Expressway (G55), Ningluo Expressway (G36) and Lianhuo Expressway (G30) 	
Hunan			
Changzhu Expressway	Changsha city	<ul style="list-style-type: none"> Connects Changsha City Ring Road, Chang-Liu Expressway, Airport Expressway and Hukun Expressway 	

Source: Company data, CMBIGM

GNSR Expressway: Concession period to extend through project expansion

Core revenue generating asset with high traffic volume

GNSR Expressway is Yuexiu Transport's core revenue-generating asset (Yuexiu Transport owns 60% of interests in GNSR). In 1H22, the expressway generated revenue of RMB482mn, which accounted for ~31% of total consolidated toll revenue, the Company's largest source of toll revenue. The expressway's gross margin reached 66.8% in 1H22, which was the second largest among the projects. The total toll length of GNSR Expressway amounts to 42.5km with six lanes. The concession right of GNSR Expressway will expire in Jan 2032.

GNSR Expressway is a key traffic artery in the northern part of Guangzhou, connecting 13 main routes, which include Guangqing Expressway, Airport Expressway, National Highway 105, etc. Meanwhile, it is a crucial section of expressway network of the Greater Bay Area, given that it connects Guangzhou and Shenzhen, two core tier-one cities.

Concession period will be extended

With the increasing traffic volume in Guangzhou, the GNSR Expressway is facing the problem of saturation. Hence, the GNSR Expressway Reconstruction and Expansion (R&E) Project is launched to improve the traffic conditions and service standards.

The total investment amount of the R&E Project is estimated to be ~RMB17bn, 70% of which will be funded by external bank financing and 30% by the shareholders of GNSR Company (60% by Yuexiu Transport). Yuexiu Transport is estimated to contribute ~RMB3.06bn during 2023-2028E, funded by internal resources (e.g. the proceeds generated from the spin-off of REIT) and/or external financing. The R&E project also involves a total of land expropriation compensation fee of RMB3.26bn (RMB2.42bn for Baiyun District + RMB0.85bn for Huangpu District). The IRR for the equity investment in the R&E Project is estimated to be ~7.2%. The major construction works of R&E Project will start in Jun 2023, and the operation is expected to commence by 2028E. During the reconstruction period, GNSR will adopt traffic maintenance measures to minimize the impact on the traffic flow and toll revenue.

The expansion project was approved by shareholders on 10 Jan. We expect the R&E Project to help 1) **extend the concession period of GNSR Expressway from the present 2032 to up to 2053**, boosting the long-term DCF value of the asset; 2) **increase the toll revenue**, given that the number of lanes expanded from 6 at present to a range of 10 to 12 upon completion.

Figure 11: Location of GNSR Expressway in Guangzhou



Source: Company data, CMBIGM

Figure 12: Location of GNSR Expressway in the Greater Bay Area



Source: Company data, CMBIGM

Figure 13: Location of GNSR Expressway section in Baiyun district, Guangzhou



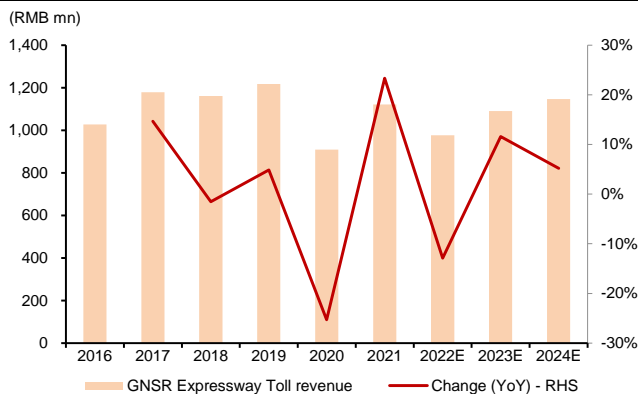
Source: Company data, CMBIGM

Figure 14: Location of GNSR Expressway section in Huangpu District, Guangzhou



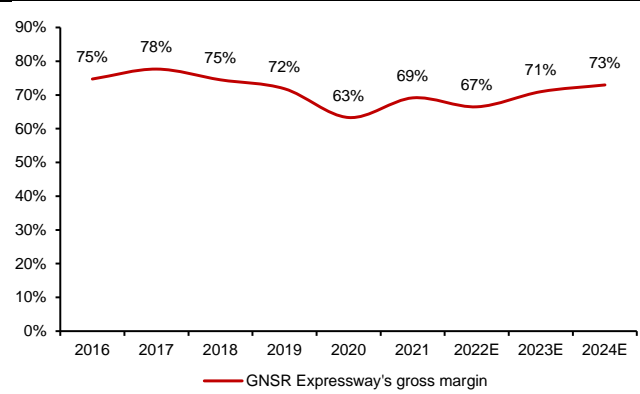
Source: Company data, CMBIGM

Figure 15: GNSR Expressway's toll revenue



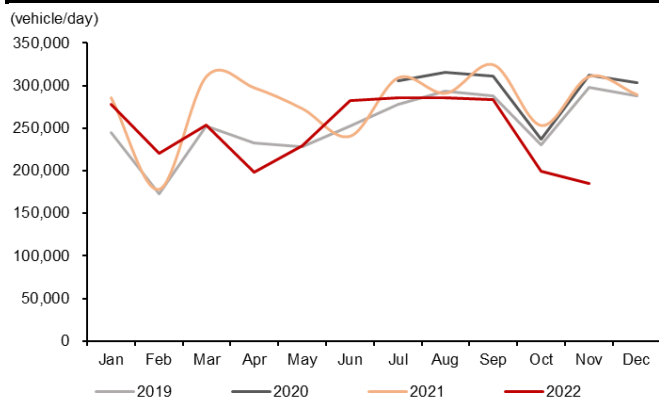
Source: Company data, CMBIGM estimates

Figure 16: GNSR Expressway's gross margin



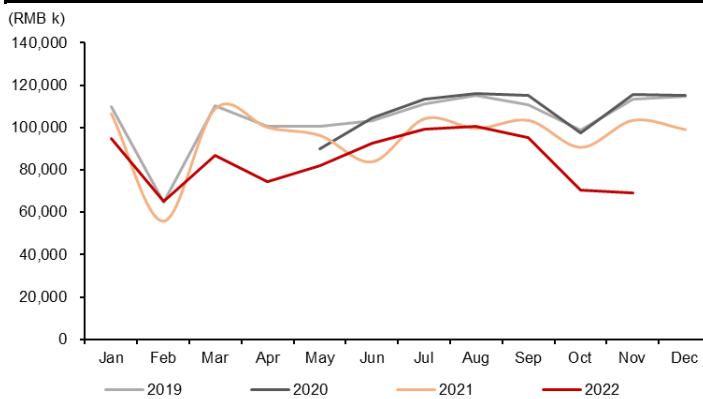
Source: Company data, CMBIGM estimates

Figure 17: GNSR Expressway's average daily toll traffic volume



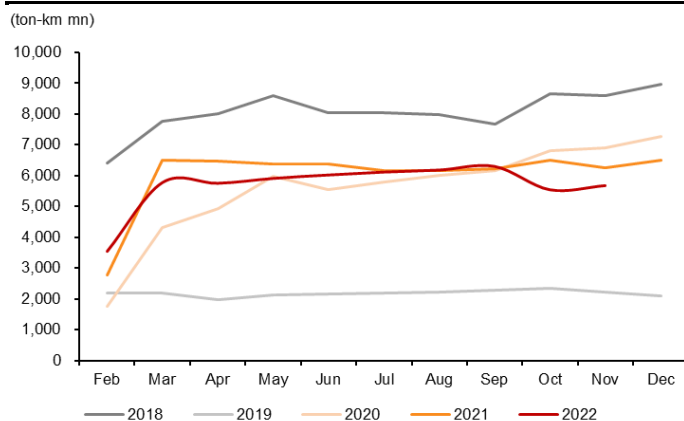
Source: Company data, CMBIGM

Figure 18: GNSR Expressway's monthly toll revenue trend



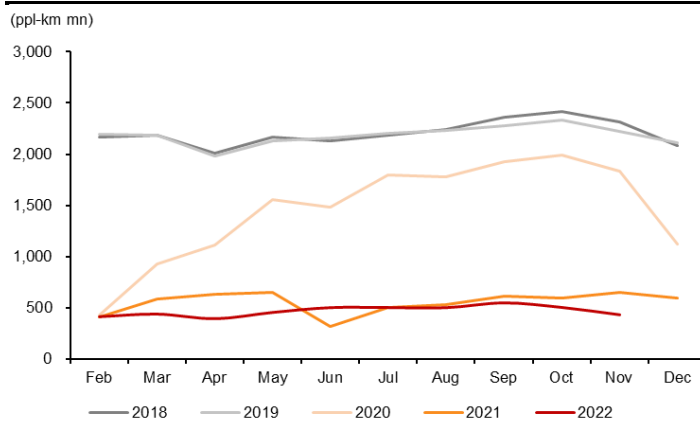
Source: Company data, CMBIGM

Figure 19: Guangzhou's highway cargo turnover volume



Source: Wind, CMBIGM

Figure 20: Guangzhou's highway passenger turnover volume



Source: Wind, CMBIGM

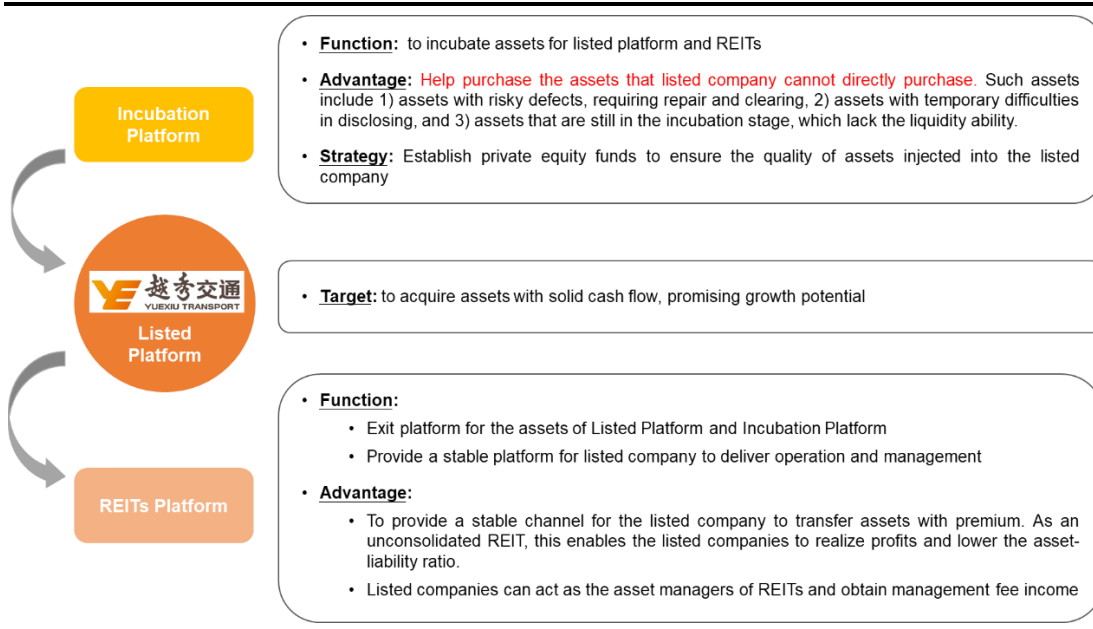
Incubation-injection strategy to acquire quality assets

Leveraging the abundant resource of the parent company, Yuexiu Transport develops an “**incubation-injection**” strategy to strengthen and expand its infrastructure business. The incubation-injection strategy involves three stages of development at different platforms, namely (1) incubation (at the parent company), (2) injection (Yuexiu Transport), and (3) exit (spin-off from Yuexiu Transport). The procedures are as follows:

- (1) **Incubation stage:** The parent company acquires high-quality assets in advance and fine-tune the assets to a higher growth trajectory. Such assets include (1) assets with risky defects, requiring repair and clearing, (2) assets with temporary difficulties in disclosure, and (3) assets that lack the cash generating ability.
- (2) **Injection stage:** Once the listing requirements have been met, the assets with solid cash flow and promising growth potential will be injected into the Yuexiu Transport.
- (3) **Exit stage:** The listed company will exit the assets with stable income but comparatively low growth potential, through the public offerings of REITs. Meanwhile, Yuexiu Transport will continue to act as the manager of the projects and collect stable management fee income.

This strategy enables Yuexiu Transport to (1) shorten the payback period of the projects, (2) increase profitability, and (3) lower asset-liability ratio. We believe that Yuexiu Transport will continue to expand its business and optimize its asset structure through the incubation-injection strategy. We expect more mature projects to be spun off for REIT listing.

Figure 21: Incubation-injection strategy and the interaction between the three platforms



Source: Company data, CMBIGM

Hubei assets start to bear fruit

Through the incubation-injection strategy, Yuexiu Transport has acquired numerous high-quality projects, including Han'e Expressway, Hancai Expressway and Daguangnan Expressway in 2019, all of which are located in Hubei province.

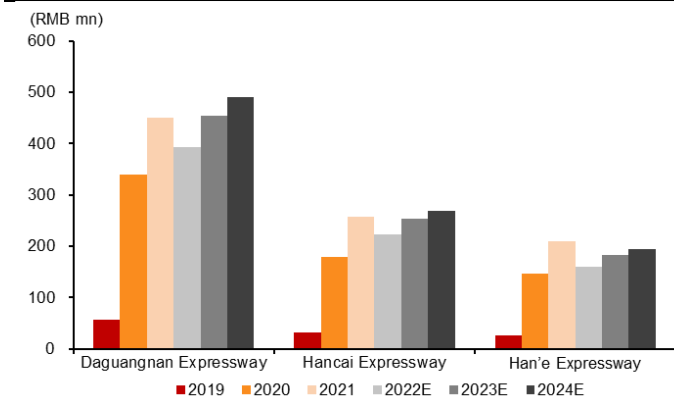
Hubei Province: a high growth region

Given the unique location (“Thoroughfare to Nine Provinces” (九省通衢)) as well as an advanced integrated transportation and logistics network, Hubei and Wuhan have recorded substantial growth in their economies and traffic networks. The regions are expected to become a national crucial industrial base and transportation hub. Upon the acquisition, Yuexiu Transport has a total of five toll projects located in Hubei Province, including Hanxiao Expressway, Suiyuanan Expressway, Hancai Expressway, Han'e Expressway and Daguangnan Expressway, all of which are the main sections of the expressway network of Hubei Province.

Daguangnan, Hancai and Han'e heading into high growth trajectory

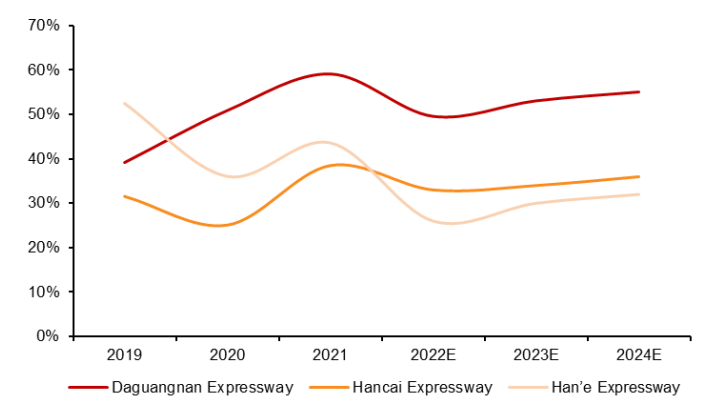
In recent years, Hubei projects, especially the Daguangnan, Hancai and Han'e Expressway, have become Yuexiu Transport's major revenue growth drivers. The total toll revenue generated from Hubei projects amounted to ~RMB700mn (~45% of total consolidated toll revenue) in 1H22. In addition, we expect that following the opening of Shunfeng E'zhou Airport, the fourth cargo airport in the world and first cargo airport in Asia, demand for transportation in Hubei will be driven up, especially China reopens. Hence, there is an expected boost in the traffic volume and toll revenue of Hubei projects upon Shunfeng E'zhou Airport's opening, especially the Daguangnan, Hancai and Han'e Expressway.

Figure 22: Toll revenue of the acquired Hubei projects



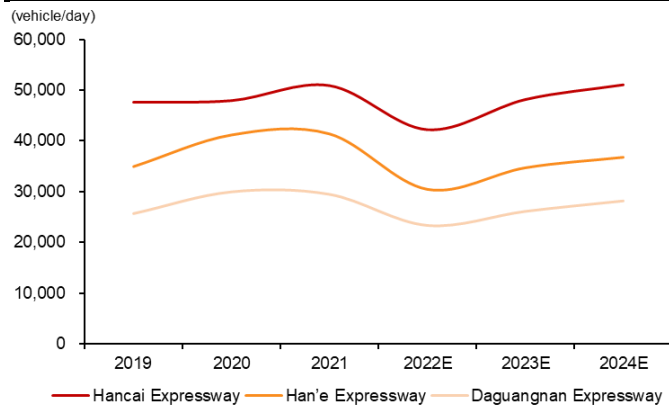
Source: Company data, CMBIGM estimates

Figure 23: Gross margin of the acquired Hubei projects



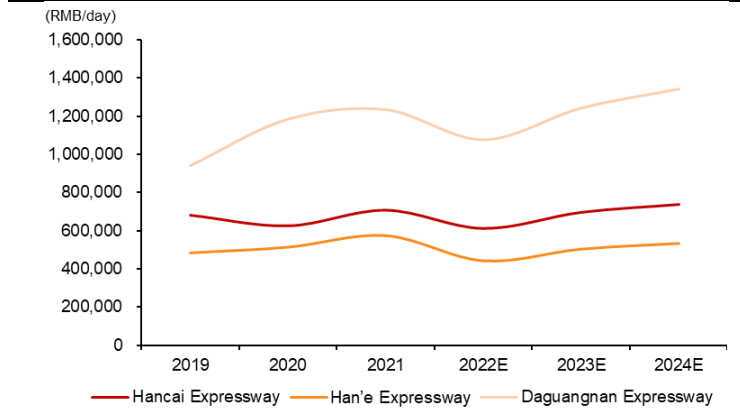
Source: Company data, CMBIGM estimates

Figure 24: Average daily toll traffic volume of acquired Hubei projects



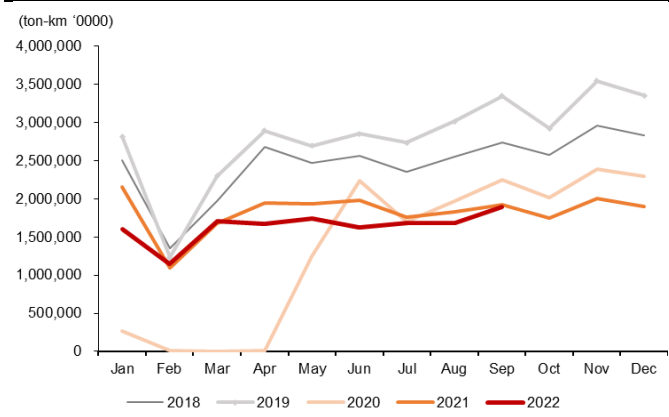
Source: Company data, CMBIGM estimates

Figure 25: Average daily toll revenue of acquired Hubei projects



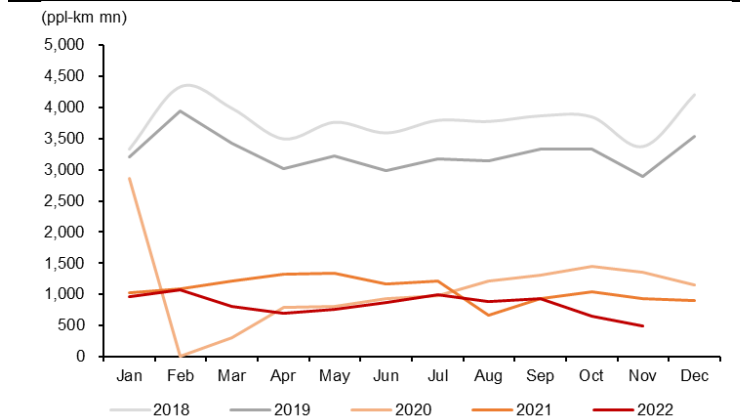
Source: Company data, CMBIGM estimates

Figure 26: Hubei's highway cargo turnover volume






Source: Ministry of Transportation, Wind, CMBIGM

Figure 27: Hubei's highway passenger turnover volume



Source: Ministry of Transportation, Wind, CMBIGM

Figure 28: Location and opportunities of major Hubei projects

	Hancai Expressway	Han'e Expressway	Daguangnan Expressway
Map			
Location	<p>Main exit road in Wuhan</p> <ul style="list-style-type: none"> One of the 7 fast urban exit roads Connecting the Middle Ring Route and the Outer Ring Route of Wuhan, and extends to the Huyu Expressway 	<p>Key route under Wuhan's planning</p> <ul style="list-style-type: none"> Key route of the expressway network of Hubei Province, as well as connecting Wuhan with three cities located in East Hubei One of 7 fast urban exit roads Major Expressway leading to Shunfeng E'zhou Airport 	<p>Key route under Wuhan's planning</p> <ul style="list-style-type: none"> Part of the national "7118" expressway network Key route in Hubei Province Duplicate trunk line of Beijing-Hong Kong-Macau Expressway Major Expressway leading to Shunfeng E'zhou Airport
Opportunities	<p>Passes by numerous industrial base</p> <ul style="list-style-type: none"> Passes by the Caidian Economic Development Zone, the Sino-French Wuhan Ecological Demonstration City and Dongfeng Renault Auto City Surrounded by well-established automobile and home appliance manufacturing industrial park 	<p>Regional economic development supported by favorable policies</p> <ul style="list-style-type: none"> 13th FYP of Wuhan to promote the integrated development of Wuhan and E'zhou Two development zone (WISCO and Gedian) to promote the integration, as well as accelerating the industrial transfer from Wuhan to other region 	<p>Regional economic development supported by favorable policies</p> <ul style="list-style-type: none"> Located in the Wuhan Metropolitan Area, connecting E'zhou, Huangshi and Huanggang (city belt of the province)

Source: Company data, CMBIGM

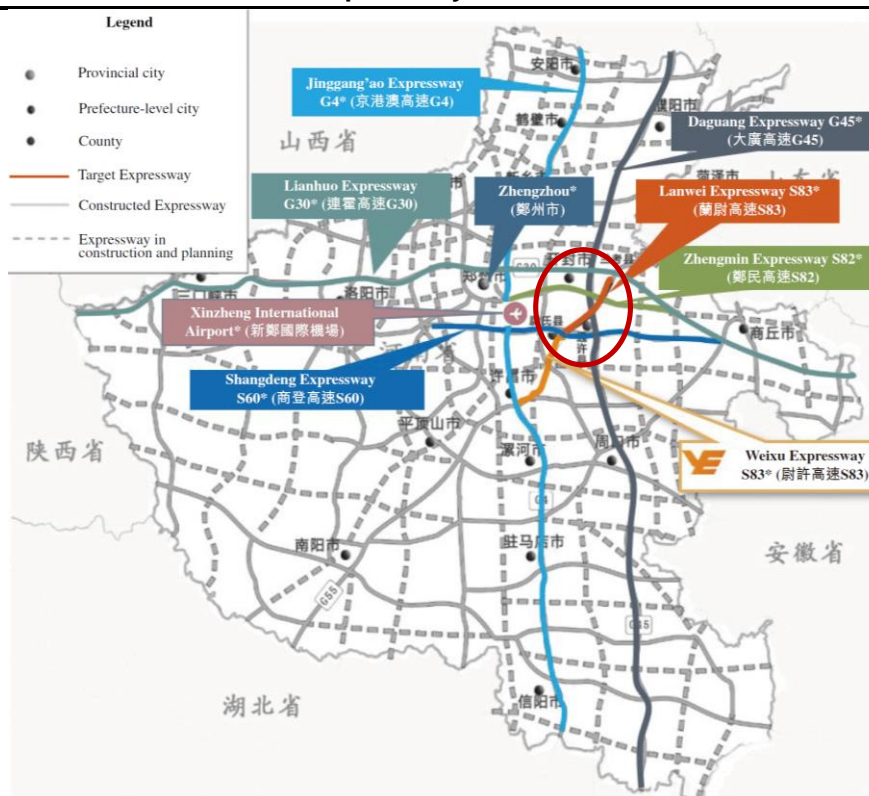
Potential high-quality asset injections

Lanwei Expressway: A high IRR project to fully contribute in 2023E

Lanwei Expressway, a key section of Lannan Expressway, is located in the core development region of the Zhongyuan city cluster in Henan Province. It connects Rilan Expressway, Zhengmin Expressway, Daguang Expressway, Shangdeng Expressway and Weixu Expressway (one of Yuexiu Transport's existing toll projects). Lanwei Expressway is a four-lane mature expressway with a total length of 61.03km, which has been in operation for ~17 years since 2005. Thanks to the superior geographical location, we believe Lanwei Expressway will continue to take advantage of the regional development strategic plans, for instance, the "Rise of Central China" and the constructions of the Zhongyuan city cluster and Zhengzhou Metropolitan Area.

In Nov 2022, Yuexiu Transport passed the acquisition proposal of Lanwei Expressway. The total acquisition cost amounts to RMB1,098mn, 40% of which will be financed by internal resources and the balance will be financed by bank loan. The IRR of the project is estimated at 9.5%, according to Yuexiu Transport. The concession right of Lanwei Expressway will end in Jul 2034, with a remaining period of ~12 years. Upon completion of the acquisition, the toll mileage of Yuexiu Transport's controlled expressways will increase by 12.3% to 556km, which can partially offset the impact brought by the spin-off of Hanxiao Expressway. We forecast Lanwei Express will contribute revenue of 8% in 2023E.

Figure 29: Location of Lanwei Expressway



Source: Company data, CMBIGM

Shandong Qinbin Expressway: the potential target of asset injection

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 "Nine vertical, five horizontal, one ring and seven links" ("9517 Network"). The expressway is the key linkage between the Shandong and Hebei section of Qinbing Expressway. The project has a total length of 9.53km.

Assuming a completion of the acquisition, the toll mileage of Yuexiu Transport's controlled expressways is expected to increase by ~2% to 565.76km. The whole project (including both phase 1 and 2) has been opened to traffic since Jan 2022.

Figure 30: Location of Qinbin Expressway



Source: Company data, CMBIGM

Economy reopening is the key recovery driver for toll road

China toll revenue tends to grow faster than GDP

Due to the tightened policies in liquidity, property and COVID control, China economic growth has experienced a slowdown since 2H21. Looking ahead, with the surprising end of zero-COVID policy, we expect China economic growth to accelerate in 2023-2024E. CMBI macro team expects China GDP growth to speed up from 2.7% in 2022 to 5.1%/4.7% in 2023E/2024E.

Expressway transportation demand has a strong positive correlation with GDP (correlation between expressway toll revenue growth and GDP growth: 0.88). The growth rate of expressway toll revenue has been generally higher than that of GDP over the years (except in 2020, distorted by the COVID-related lockdown and temporary toll fees waive policy). In 2021, China's highway toll revenue rebounded ~37% YoY to RMB623bn upon the elimination of the temporary toll fees waive policy, while China GDP grew 8.4%. We expect the expressway toll revenue to deliver higher growth than China GDP over coming two years.

Hubei to potentially grow faster than the national average

Guangdong and Hubei are the two major provinces that Yuexiu Transport's assets are located in. In particular, we expect Hubei to continue to outperform the national average in the upcoming economic recovery, leading to a quick upturn in transportation volume.

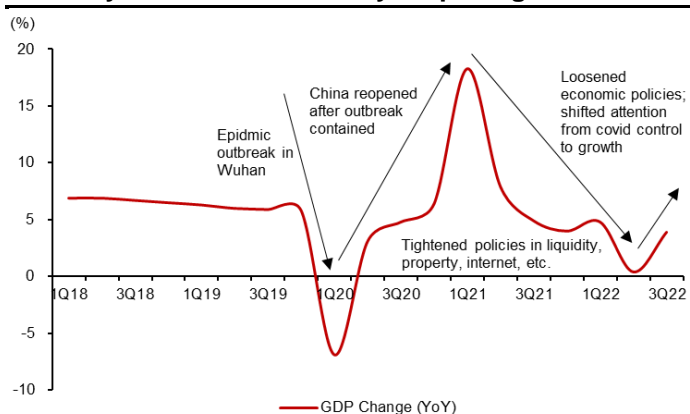
Figure 31: Summary of China national and provincial GDP

		China	Guangdong	Hubei	Hunan	Henan	Guangxi	Tianjin
GDP Change	2021	8.4%	8.0%	12.9%	7.7%	6.3%	7.5%	6.6%
	2020	2.2%	2.3%	-5.0%	3.8%	1.3%	3.7%	1.5%
	9M22	3.0%	2.3%	4.7%	4.8%	3.7%	3.1%	1.0%

Source: NBS, Wind, CMBIGM

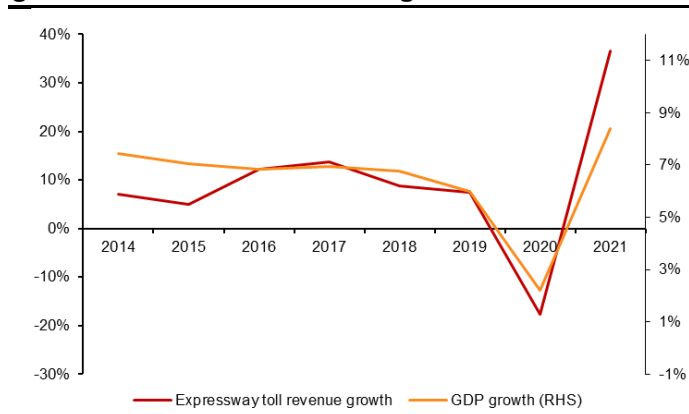
Note: GDP change refers to real GDP growth.

Figure 32: China quarterly real GDP and YoY growth – recovery ahead with economy reopening



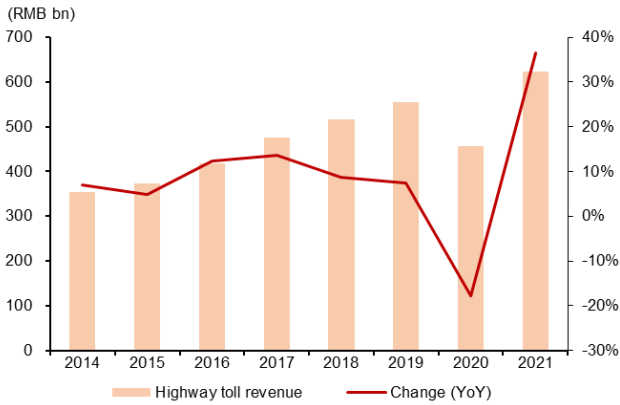
Source: NBS, Wind, CMBIGM

Figure 33: China real GDP growth and toll revenue growth – toll revenue tends to grow faster than GDP



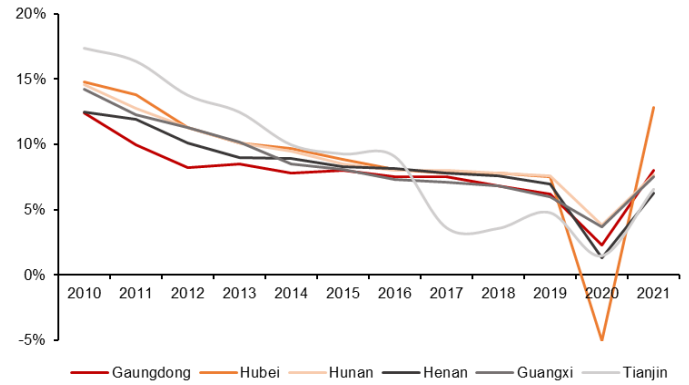
Source: NBS, Ministry of Transport, Wind, CMBIGM

Figure 34: China highway toll revenue



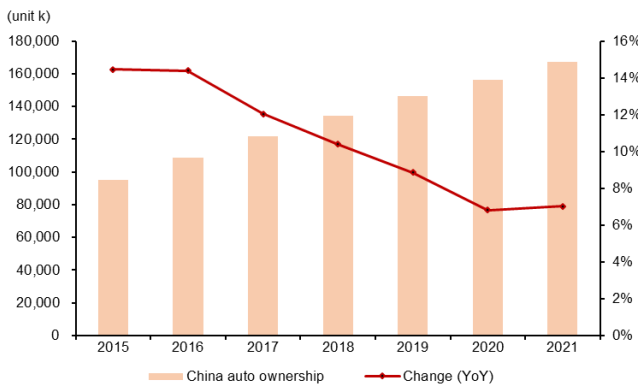
Source: Ministry of Transport, Wind, CMBIGM

Figure 35: China provincial GDP growth



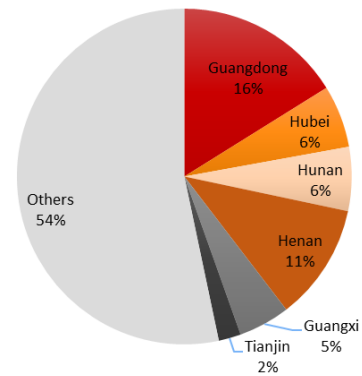
Source: NBS, Ministry of Transport, Wind, CMBIGM

Figure 36: China passenger car ownership volume



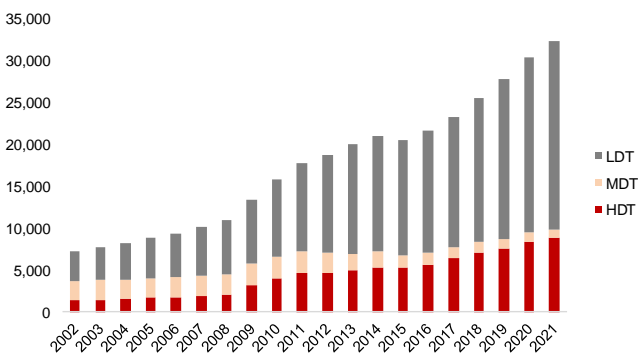
Source: Ministry of Public Security, Wind, CMBIGM

Figure 37: China domestic car ownership by region



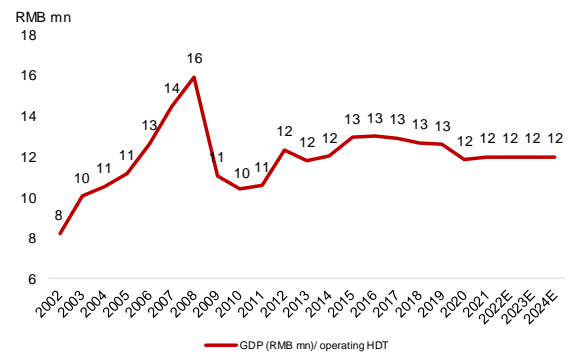
Source: Ministry of Public Security, Wind, CMBIGM

Figure 38: China truck ownership volume



Source: Wind, CMBIGM

Figure 39: China GDP value per unit of operating HDT



Source: Wind, CMBIGM estimates

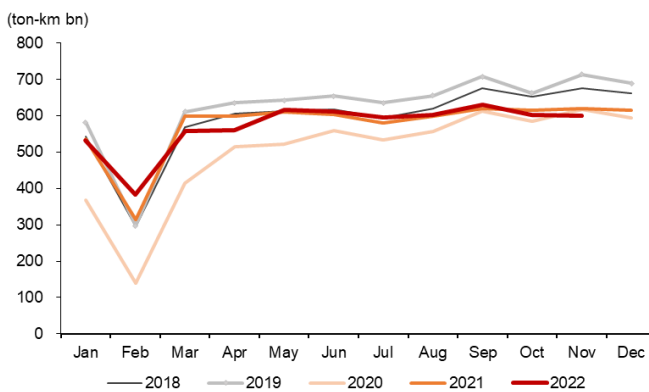
Expect passenger turnover volume to see meaningful recovery in Feb/Mar

Transport infrastructure assets, including toll roads, airports and ports, were hit the hardest due to the zero-COVID policy. The highway passenger turnover volume in 11M22 dropped to the lowest level (225bn ppl-km) in the past decade (11M18/11M19: 821/426bn ppl-km).

On the other hand, highway cargo turnover levels appear to be steadily recovering, fuelled by multiple government measures that smoothen logistics and supply. In 11M22, the total highway cargo volume was stable YoY at 6,292bn ton-km, and 7% below that in 11M19 (the pre-pandemic level).

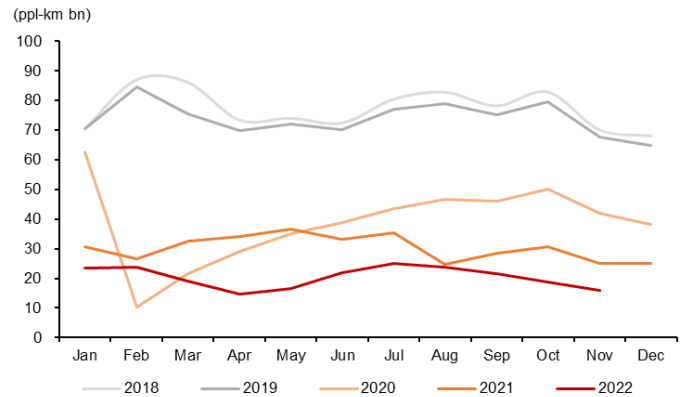
With the end of the zero-COVID policy, we expect the highway passenger turnover volume to rapidly recover. With the first peak of the COVID infections took place in Jan, we expect the passenger turnover will likely recover to pre-pandemic level starting in Feb/Mar.

Figure 40: China highway cargo turnover volume



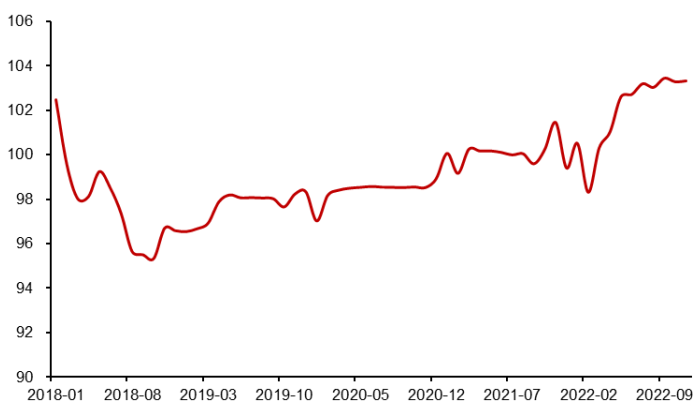
Source: Ministry of Transport, Wind, CMBIGM

Figure 41: China highway passenger turnover volume



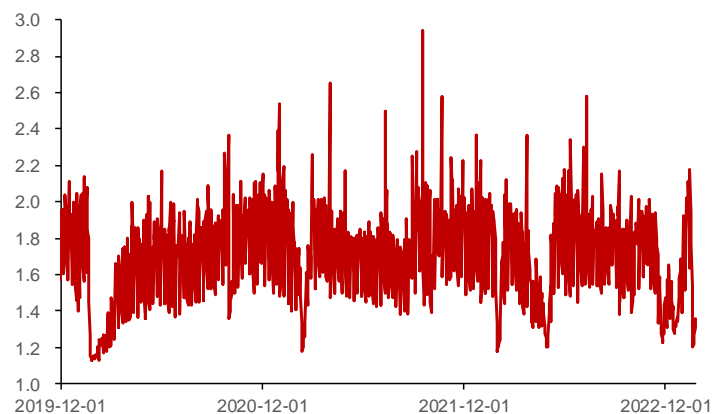
Source: Ministry of Transport, Wind, CMBIGM

Figure 42: China highway logistics freight price index



Source: CFLP, Wind, CMBIGM

Figure 43: Daily traffic congestion index - Guangzhou



Source: Ministry of Transport, Wind, CMBIGM

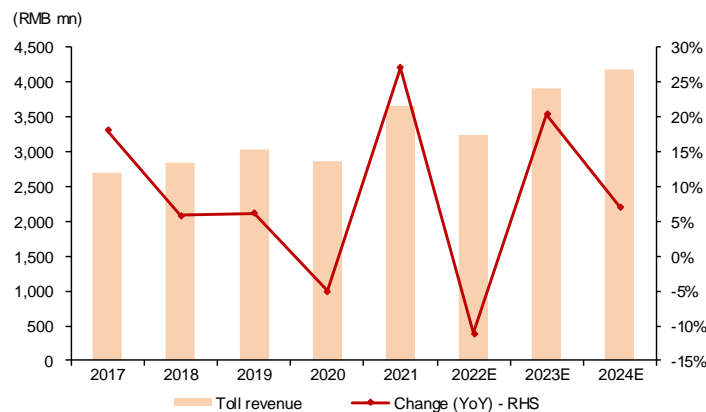
Financial Analysis and Earnings Forecast

Revenue

Yuexiu Transport's total revenue maintained a steady growth trend before 2020. In 2020, total revenue decreased 3.4% YoY, as a result of the COVID outbreak and the extended temporary toll exemption measures (e.g. COVID-related exempted tolls collection for 79 days nationwide from mid Feb to early May) while partially offset by the consolidation of three expressways in Hubei (Daguangnan, Hancui and Han'e). In 2021, the total revenue increased 26.8% YoY to RMB3,702mn. In 1H22, Yuexiu Transport's total revenue dropped 13% YoY, mainly caused by the COVID control measures.

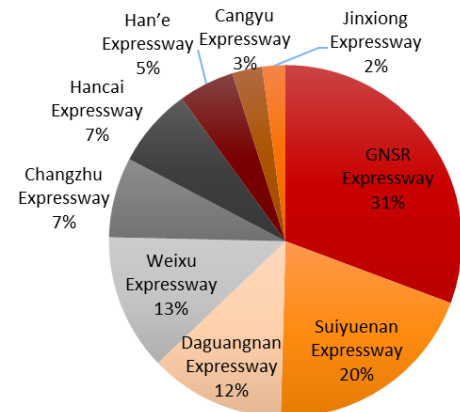
We forecast Yuexiu Transport's revenue in 2022E to drop 10% YoY to RMB3.35bn. We expect a significant recovery in 2023E (+20% YoY), driven by (1) economy re-opening that boosts tariff volume; (2) full year contribution of Lanwei Expressway. We expect 7% YoY revenue growth in 2024E, as we expect the non-Guangzhou assets to continue to deliver decent traffic growth.

Figure 44: Yuexiu Transport toll revenue and growth



Source: Company data, CMBIGM estimates

Figure 45: Toll revenue breakdown by project (1H22)



Source: Company data, CMBIGM

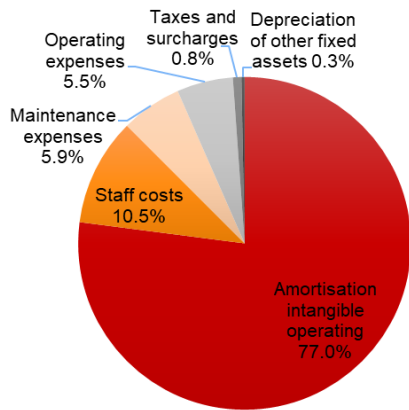
Gross margin

Amortisation of intangible operating rights accounted for 72%/77% of cost of revenue in 2021/1H22. Therefore, the change in gross margin is sensitive to the tariff flow.

Yuexiu Transport's blended gross margin dropped from 70.7% in 2018 to 54.3% in 2020, before recovering to 60.9% in 2021. The margin contraction in 2019 was mainly due to the consolidation of the three newly acquired expressways in Hubei Province which carried lower gross margin. The contraction in 2020 was due to the toll revenue decline as a result of the COVID-related temporary toll exemption measures. Following the removal of toll exemption policies, gross margin rebounded to 60.9% in 2021. In 1H22, the gross margin decreased to 56.9%, due largely to the decrease in traffic.

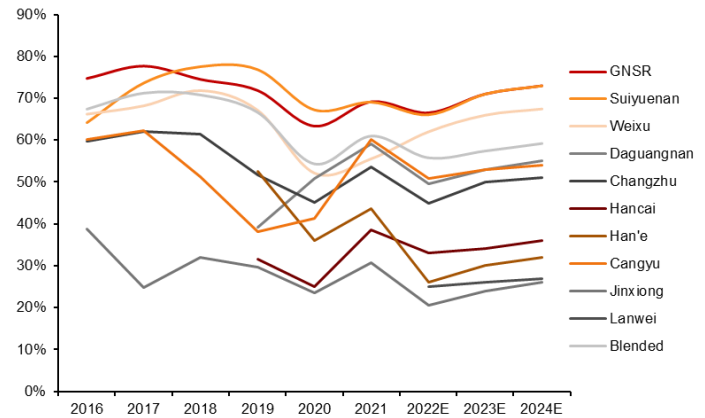
We expect the blended gross margin to drop to 56.7% in 2022E but to recover to 58.2% / 60% in 2023E/24E, driven by the operating leverage.

Figure 46: Cost of services breakdown (1H22)



Source: Company data, CMBIGM

Figure 47: Toll projects' gross margin trend



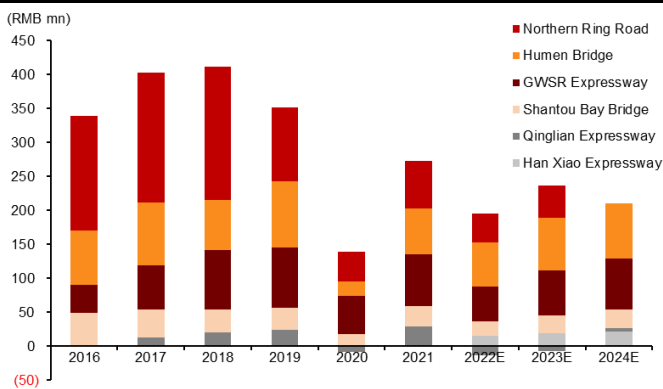
Source: Company data, CMBIGM estimates

Share of profit from associates /JV

Yuexiu Transport's share of results of associates and JV dropped 14.6% YoY to RMB351mn in 2019, a result of the decrease in toll revenue of Humen Bridge due to diversion of Nansha Bridge and the implementation of restriction on trucks and certain types of passenger vehicles since Aug 2019, while it was partially offset by the 3-year tax relief granted to Northern Ring Road. The decrease in 2020 was mainly due to the COVID-related temporary toll exemption measures, followed by a 112% YoY rebound to RMB264mn in 2021 due to the low base effect. In 1H22, the share of profit dropped 35.1%, largely caused by the COVID control and unfavorable economic conditions.

We forecast Yuexiu Transport's share of profit from associates & JV to drop 30% YoY in 2022E but to rebound 26% YoY in 2023E. In 2024E, given the end of concession right of Northern Ring Road profit, we expect the share of profit from associates & JV to drop 9% YoY.

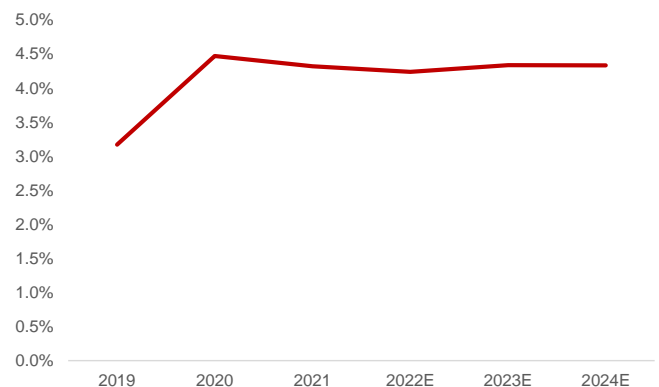
Figure 48: Share of results of associates & JV



Source: Company data, CMBIGM estimates

Note: Qinglian Expressway and Pazhou Port recorded loss in 1H22.

Figure 49: Effective interest expense rate



Source: Company data, CMBIGM estimates

Finance expense

Finance expense is the second largest cost item (amortisation is the largest). Yuexiu Transport's net finance expense decreased 10% YoY/16% YoY to RMB699mn / RMB305mn in 2021/1H22. The reduction of finance expense was helped by the decrease of net debt from RMB16.2bn in Dec 2020 to RMB13.5bn in Jun 2022 (net debt to equity: 95% in Jun 2022).

We expect the net finance expense to rebound in 2023E-24E as Yuexiu Transport will have to increase the finance leverage to support the expansion of GNSR project.

We forecast core net profit growth of 58%/10% in 2023E/24E

In 2019, Yuexiu Transport's net profit grew 8% YoY to RMB1,138mn. Aside from the revenue growth, the profit was helped by (i) the 3-year tax relief granted to GNSR Expressway; (ii) liquidation of Xian Expressway; (iii) government subsidy for additional investment in Guangdong.

In 2020, as a result of (i) the decreased net profit from projects due to the COVID-related temporary toll exemption measures and increase in amortization of intangible operating rights and finance costs, as well as (ii) increase in overall corporate finance costs, the net profit plummeted 86% YoY to RMB160mn.

In 2021, the report net profit surged 8.2x YoY to RMB1.46bn. Excluding the one-off gain from the spin-off of Han-Xiao Expressway (RMB961mn), the impairment loss on Jinxiang (-RMB97mn) and Humen project (-RMB128mn), the adjusted net profit increased 3.6x YoY to RMB729mn.

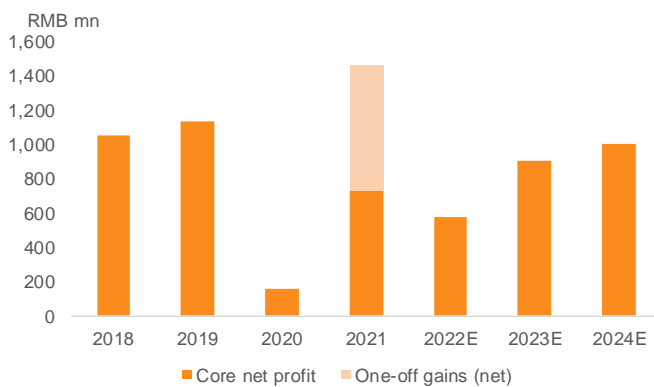
In 1H22, the reported net profit decreased by 37% YoY due to the COVID control measures.

We forecast the adjusted net profit to drop 22% YoY to RMB573mn, but to recover significantly by 58% YoY to RMB907mn in 2023E. We expect 10% YoY growth in 2024E.

Gearing ratio to increase in 2023E-24E

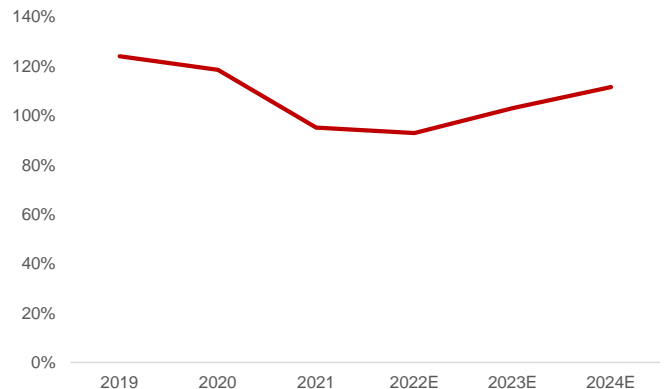
We forecast annual capex of RMB5bn in 2023E and 24E, as a result of the expansion of GNSR project (total capex for the project: RMB17bn). We forecast the net debt/equity ratio will increase from 94.7% in Jun 2022 to 103%/112% in 2023E/24E, assuming no spin-off of projects in our base-case scenario.

Figure 50: Net profit trend



Source: Company data, CMBIGM estimates

Figure 51: Net debt to equity ratio trend



Source: Company data, CMBIGM estimates

Figure 52: Key operating assumptions

		2018	2019	2020	2021	2022E	2023E	2024E
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	247,161	273,113	287,315
Suiyuanan Expressway	湖北随岳南高速	22,903	25,574	33,252	30,465	28,028	31,671	34,839
Daguangnan Expressway	湖北大广南高速	-	25,692	30,017	29,528	23,327	26,126	28,216
Weixu Expressway	河南尉许高速	31,928	32,957	23,676	23,531	21,649	25,112	27,121
Changzhu Expressway	湖南长株高速	59,329	62,641	77,895	73,797	64,941	74,033	78,475
Hancai Expressway	湖北汉蔡高速	-	47,607	47,929	50,878	42,229	48,141	51,029
Han'e Expressway	湖北汉鄂高速	-	34,968	41,220	41,436	30,455	34,719	36,802
Cangyu Expressway	广西苍郁高速	10,857	8,604	12,489	15,550	15,550	17,105	18,131
Jinxiong Expressway	天津津雄高速	37,345	37,039	45,254	34,444	29,966	34,461	36,529
Lanwei Expressway	河南兰尉高速	-	-	-	-	23,500	27,730	29,948
Associates and Joint venture								
Northern Ring Road	广州北环高速	348,447	361,676	382,534	372,746	346,654	363,986	-
Humen Bridge	虎门大桥	121,747	88,507	70,251	89,498	72,542	81,246	84,496
Shantou Bay Bridge	汕头海湾大桥	26,175	27,520	30,703	29,553	25,504	28,565	29,993
Han-Xiao Expressway	湖北汉孝高速	26,719	28,715	32,675	33,520	26,984	30,222	31,733
Qinglian Expressway	清连高速	43,477	48,520	53,893	53,050	45,199	51,978	55,097
GWSR Expressway	广州西二环高速	73,237	85,635	110,815	92,549	72,188	85,182	93,700
Change YoY								
Subsidiaries								
GNSR Expressway	广州北二环高速	1.4%	9.5%	16.4%	-5.5%	-12.0%	10.5%	5.2%
Suiyuanan Expressway	湖北随岳南高速	14.8%	11.7%	30.0%	-8.4%	-8.0%	13.0%	10.0%
Daguangnan Expressway	湖北大广南高速	-	-	16.8%	-1.6%	-21.0%	12.0%	8.0%
Weixu Expressway	河南尉许高速	36.0%	3.2%	-28.2%	-0.6%	-8.0%	16.0%	8.0%
Changzhu Expressway	湖南长株高速	175.8%	5.6%	24.4%	-5.3%	-12.0%	14.0%	6.0%
Hancai Expressway	湖北汉蔡高速	-	-	0.7%	6.2%	-17.0%	14.0%	6.0%
Han'e Expressway	湖北汉鄂高速	-	-	17.9%	0.5%	-26.5%	14.0%	6.0%
Cangyu Expressway	广西苍郁高速	-11.2%	-20.8%	45.2%	24.5%	0.0%	10.0%	6.0%
Jinxiong Expressway	天津津雄高速	53.0%	-0.8%	22.2%	-23.9%	-13.0%	15.0%	6.0%
Lanwei Expressway	河南兰尉高速	-	-	-	-	-	18.0%	8.0%
Associates and Joint venture								
Northern Ring Road	广州北环高速	3.9%	3.8%	5.8%	-2.6%	-7.0%	5.0%	0.0%
Humen Bridge	虎门大桥	2.8%	-27.3%	-20.6%	27.4%	-18.9%	12.0%	4.0%
Shantou Bay Bridge	汕头海湾大桥	-0.8%	5.1%	11.6%	-3.7%	-13.7%	12.0%	5.0%
Han-Xiao Expressway	湖北汉孝高速	0.0%	7.5%	13.8%	2.6%	-19.5%	12.0%	5.0%
Qinglian Expressway	清连高速	5.6%	11.6%	11.1%	-1.6%	-14.8%	15.0%	6.0%
GWSR Expressway	广州西二环高速	2.9%	16.9%	29.4%	-16.5%	-22.0%	18.0%	10.0%
Average annual toll fee (RMB/vehicle)								
Subsidiaries								
GNSR Expressway	广州北二环高速	4,977	4,765	3,889	3,992	3,952	3,991	3,991
Suiyuanan Expressway	湖北随岳南高速	29,132	26,889	19,923	20,157	22,374	21,927	21,927
Daguangnan Expressway	湖北大广南高速	-	13,365	14,395	15,243	16,843	17,348	17,348
Weixu Expressway	河南尉许高速	13,385	12,604	15,523	14,841	19,145	18,187	18,187
Changzhu Expressway	湖南长株高速	4,182	3,996	3,370	3,642	3,576	3,612	3,612
Hancai Expressway	湖北汉蔡高速	-	5,219	4,752	5,072	5,275	5,275	5,275
Han'e Expressway	湖北汉鄂高速	-	5,037	4,541	5,053	5,280	5,280	5,280
Cangyu Expressway	广西苍郁高速	7,196	7,316	5,584	5,750	5,808	5,808	5,808
Jinxiong Expressway	天津津雄高速	2,560	2,502	2,059	2,330	2,522	2,396	2,396
Lanwei Expressway	河南兰尉高速	-	-	-	-	2,258	11,750	11,750
Associates and Joint venture								
Northern Ring Road	广州北环高速	2,210	2,103	1,785	1,918	1,819	1,891	-
Humen Bridge	虎门大桥	13,740	11,718	8,125	9,669	9,776	10,168	10,168
Shantou Bay Bridge	汕头海湾大桥	8,125	7,416	5,617	6,405	5,829	6,062	6,062
Han-Xiao Expressway	湖北汉孝高速	6,364	6,338	5,936	6,737	7,645	7,951	7,951
Qinglian Expressway	清连高速	17,497	17,251	15,585	16,509	13,703	14,251	14,251
GWSR Expressway	广州西二环高速	8,239	6,807	5,017	5,444	5,620	5,845	5,845
Change YoY								
Subsidiaries								
GNSR Expressway	广州北二环高速	-3%	-4%	-18%	3%	-1%	1%	0%
Suiyuanan Expressway	湖北随岳南高速	1%	-8%	-26%	1%	11%	-2%	0%
Daguangnan Expressway	湖北大广南高速	-	-	8%	6%	11%	3%	0%
Weixu Expressway	河南尉许高速	-4%	-6%	23%	-4%	29%	-5%	0%
Changzhu Expressway	湖南长株高速	-63%	-4%	-16%	8%	-2%	1%	0%
Hancai Expressway	湖北汉蔡高速	-	-	-9%	7%	4%	0%	0%
Han'e Expressway	湖北汉鄂高速	-	-	-10%	11%	5%	0%	0%
Cangyu Expressway	广西苍郁高速	3%	2%	-24%	3%	1%	0%	0%
Jinxiong Expressway	天津津雄高速	-30%	-2%	-18%	13%	8%	-5%	0%
Lanwei Expressway	河南兰尉高速	-	-	-	-	-	-	0%
Associates and Joint venture								
Northern Ring Road	广州北环高速	-4%	-5%	-15%	7%	-5%	4%	0%
Humen Bridge	虎门大桥	1%	-15%	-31%	19%	1%	4%	0%
Shantou Bay Bridge	汕头海湾大桥	-12%	-9%	-24%	14%	-9%	4%	0%
Han-Xiao Expressway	湖北汉孝高速	-14%	0%	-6%	13%	13%	4%	0%
Qinglian Expressway	清连高速	-2%	-1%	-10%	6%	-17%	4%	0%
GWSR Expressway	广州西二环高速	20%	-17%	-26%	9%	3%	4%	0%

Source: Company data, CMBIGM estimates

Figure 53: Revenue and gross margin breakdown

(RMB mn)	2018	2019	2020	2021	2022E	2023E	2024E
Revenue							
GNSR Expressway	1,161	1,217	909	1,121	977	1,090	1,147
Suiyuanan Expressway	667	688	521	614	627	694	764
Daguanngan Expressway	-	57	340	450	393	453	490
Weixu Expressway	427	415	289	349	414	457	493
Changzhu Expressway	248	250	206	269	232	267	283
Hancai Expressway	-	32	179	258	223	254	269
Han'e Expressway	-	26	147	209	161	183	194
Cangyu Expressway	78	63	55	89	90	99	105
Jinxiong Expressway	96	93	73	80	76	83	88
Lanwei Expressway	-	-	-	-	53	326	352
Han-Xiao Expressway	170	182	153	209	-	-	-
Sub-total (Toll revenue)	2,847	3,023	2,872	3,650	3,246	3,907	4,185
Other toll operating income	-	-	12	12	8	11	13
Entrusted road management service income	-	-	-	-	28	30	30
Construction service income	-	-	-	-	30	32	35
Income from service area and gas station	-	-	36	40	39	40	42
Others (e.g. port, toll expressway)	-	-	-	-	-	-	-
Revenue	2,847	3,023	2,920	3,702	3,351	4,020	4,305
Revenue Growth (YoY)							
GNSR Expressway	-2%	5%	-25%	23%	-13%	12%	5%
Suiyuanan Expressway	17%	3%	-24%	18%	2%	11%	10%
Daguanngan Expressway	-	-	493%	32%	-13%	15%	8%
Weixu Expressway	31%	-3%	-30%	21%	19%	10%	8%
Changzhu Expressway	2%	1%	-18%	30%	-14%	15%	6%
Hancai Expressway	-	-	466%	44%	-14%	14%	6%
Han'e Expressway	-	-	463%	42%	-23%	14%	6%
Cangyu Expressway	-9%	-19%	-13%	63%	1%	10%	6%
Jinxiong Expressway	7%	-3%	-21%	10%	-6%	9%	6%
Lanwei Expressway	-	-	-	-	-	514%	8%
Han-Xiao Expressway	-14%	7%	-16%	37%	-	-	-
Sub-total (Toll revenue)	6%	6%	-5%	27%	-11%	20%	7%
Other toll operating income	-	-	-	4%	-34%	38%	18%
Entrusted road management service income	-	-	-	-	-	7%	0%
Construction service income	-	-	-	-	-	7%	9%
Income from service area and gas station	-	-	-	12%	-4%	3%	5%
Others (e.g. port, toll expressway)	-	-	-	-	-	-	-
Revenue Growth	6%	6%	-3%	27%	-9%	20%	7%
Gross margin							
GNSR Expressway	75%	72%	63%	69%	67%	71%	73%
Suiyuanan Expressway	78%	77%	67%	69%	66%	71%	73%
Daguanngan Expressway	0%	39%	51%	59%	50%	53%	55%
Weixu Expressway	72%	67%	52%	56%	62%	66%	68%
Changzhu Expressway	61%	52%	45%	54%	45%	50%	51%
Hancai Expressway	0%	32%	25%	39%	33%	34%	36%
Han'e Expressway	0%	52%	36%	44%	26%	30%	32%
Cangyu Expressway	51%	38%	41%	60%	51%	53%	54%
Jinxiong Expressway	32%	30%	23%	31%	21%	24%	26%
Lanwei Expressway	0%	0%	0%	0%	25%	26%	27%
Han-Xiao Expressway	59%	56%	52%	72%	0%	0%	0%
Blended gross margin	71%	67%	54%	61%	56%	57%	59%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	3,023	2,920	3,702	3,351	4,020	4,305
Cost of goods sold	(1,011)	(1,361)	(1,479)	(1,453)	(1,682)	(1,726)
Gross profit	2,012	1,559	2,223	1,898	2,338	2,579
Admin expense	(272)	(247)	(370)	(352)	(382)	(400)
Other income	179	25	800	67	80	86
Share of (losses)/profits of associates/JV	351	124	264	182	230	210
EBITDA	2,589	2,314	3,742	2,768	3,535	4,109
Other amortisation	669	976	1,088	1,154	1,499	1,844
EBIT	1,920	1,337	2,654	1,614	2,036	2,265
Interest income	41	26	44	60	59	34
Interest expense	(411)	(806)	(743)	(712)	(776)	(821)
Net Interest income/(expense)	(370)	(779)	(699)	(651)	(717)	(787)
Pre-tax profit	1,901	682	2,218	1,145	1,550	1,688
Income tax	(305)	(278)	(426)	(263)	(341)	(371)
After tax profit	1,595	404	1,793	881	1,209	1,317
Minority interest	(457)	(244)	(328)	(308)	(302)	(316)
Net profit	1,138	160	1,465	573	907	1,001
Adjusted net profit	1,138	160	729	573	907	1,001
Gross dividends	586	98	833	327	499	550
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	1,798	1,878	3,293	3,668	3,250	1,017
Cash & equivalents	1,435	1,516	2,919	3,269	2,810	590
Account receivables	175	204	153	177	219	206
Prepayment	160	158	140	140	140	140
Other current assets	28	0	81	81	81	81
Non-current assets	35,000	34,490	32,368	32,582	36,081	39,233
Right-of-use assets	11	30	21	21	21	21
Investment in JVs & assos	1,871	2,024	2,561	2,629	2,702	2,773
Intangibles	0	0	8	8	8	8
Goodwill	633	633	515	515	515	515
Other non-current assets	32,486	31,803	29,263	29,409	32,836	35,917
Total assets	36,798	36,368	35,661	36,250	39,331	40,250
Current liabilities	2,535	4,233	4,594	4,801	5,439	5,467
Short-term borrowings	1,305	2,886	3,466	3,466	3,966	4,066
Account payables	1,115	1,219	991	1,198	1,337	1,264
Tax payable	78	82	70	70	70	70
Other current liabilities	15	23	41	41	41	41
Contract liabilities	22	22	26	26	26	26
Non-current liabilities	20,634	18,481	16,595	16,795	18,295	18,295
Long-term borrowings	17,038	14,815	13,224	13,424	14,924	14,924
Deferred income	351	333	313	313	313	313
Other non-current liabilities	3,245	3,333	3,058	3,058	3,058	3,058
Total liabilities	23,169	22,714	21,188	21,595	23,734	23,761
Total shareholders equity	10,572	10,425	11,512	11,385	12,025	12,601
Minority interest	3,057	3,229	2,961	3,270	3,572	3,888
Total equity and liabilities	36,798	36,368	35,661	36,250	39,331	40,250

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,901	682	2,218	1,145	1,550	1,688
Depreciation & amortization	669	976	1,088	1,154	1,499	1,844
Tax paid	(383)	(218)	(499)	(263)	(341)	(371)
Change in working capital	(115)	25	86	183	97	(59)
Others	70	637	(323)	469	486	577
Net cash from operations	2,142	2,103	2,570	2,687	3,291	3,678
Investing						
Capital expenditure	(121)	(247)	(352)	(200)	(4,923)	(4,923)
Acquisition of subsidiaries/ investments	(5,842)	(76)	1,392	(1,148)	(50)	(50)
Others	450	85	245	222	265	221
Net cash from investing	(5,513)	(239)	1,285	(1,126)	(4,708)	(4,752)
Financing						
Dividend paid	(617)	(314)	(376)	(699)	(267)	(425)
Net borrowings	4,612	(627)	(731)	200	2,000	100
Proceeds from share issues	0	0	0	0	0	0
Others	(1,581)	(842)	(1,343)	(712)	(776)	(821)
Net cash from financing	2,414	(1,783)	(2,451)	(1,211)	957	(1,146)
Net change in cash						
Cash at the beginning of the year	2,393	1,435	1,516	2,919	3,269	2,810
Others	(1)	(1)	(2)	0	0	0
Cash at the end of the year	1,435	1,516	2,919	3,269	2,810	590
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	6.2%	(3.4%)	26.8%	(9.5%)	20.0%	7.1%
Gross profit	(0.0%)	(22.5%)	42.6%	(14.6%)	23.2%	10.3%
EBITDA	7.8%	(10.6%)	61.7%	(26.0%)	27.7%	16.2%
EBIT	5.0%	(30.3%)	98.4%	(39.2%)	26.2%	11.2%
Net profit	7.9%	(85.9%)	812.8%	(60.9%)	58.3%	10.3%
Adj. net profit	7.9%	(85.9%)	354.5%	(21.5%)	58.3%	10.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	66.6%	53.4%	60.1%	56.7%	58.2%	59.9%
EBITDA margin	85.6%	79.2%	101.1%	82.6%	87.9%	95.4%
Adj. net profit margin	37.6%	5.5%	19.7%	17.1%	22.6%	23.2%
Return on equity (ROE)	11.0%	1.5%	13.4%	5.0%	7.7%	8.1%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	1.2	1.2	0.95	0.93	1.0	1.1
Current ratio (x)	0.7	0.4	0.7	0.8	0.6	0.2
Receivable turnover days	17.9	23.7	17.6	18.0	18.0	18.0
Payable turnover days	282.9	313.1	272.7	275.0	275.0	275.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	8.4	48.4	4.6	11.6	7.3	6.6
P/B	0.9	0.7	0.6	0.6	0.6	0.5
Div yield (%)	6.1	1.3	12.4	4.9	7.5	8.3

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

Initiate with BUY with TP of HK\$7.0

We value Yuexiu Transport by applying DCF methodology, given the utility nature of the business model. We estimate the cash flow based on the concession period for each project (2023-2053). We have included the expansion of GNSR Expressway in our DCF model.

Our DCF-based TP is HK\$7.0, with key assumptions including: (1) risk free rate of 3.5%, based on 10-year US treasury bond; (2) risk premium of 8%; (3) beta of 0.5x; 50% debt/capital ratio.

As a cross checking, our TP implies 11x 2023E P/E, which is in line with the historical average (10.5x). We think our TP is not excessive given the structural recovery of traffic volume and continuous growth through asset injection. Any potential spin-off of projects will offer additional upside to our TP and dividend payment.

Figure 54: DCF calculation

Enterprise Value	29,772
Net cash / (net debt)	-16,080
Minority interest	-3,572
Equity Value	10,120
Fair value (RMB/shr)	6.0
RMB/HK\$	1.150
Fair value (HK\$ mn)	11,638
Fair value (HK\$/shr)	7.0
Assumptions	
Risk free rate	3.5%
Risk premium	9.0%
Beta	0.5
Cost of equity	8.0%
After tax cost of debt	3.4%
Debt/total capital	50.0%
WACC	5.7%

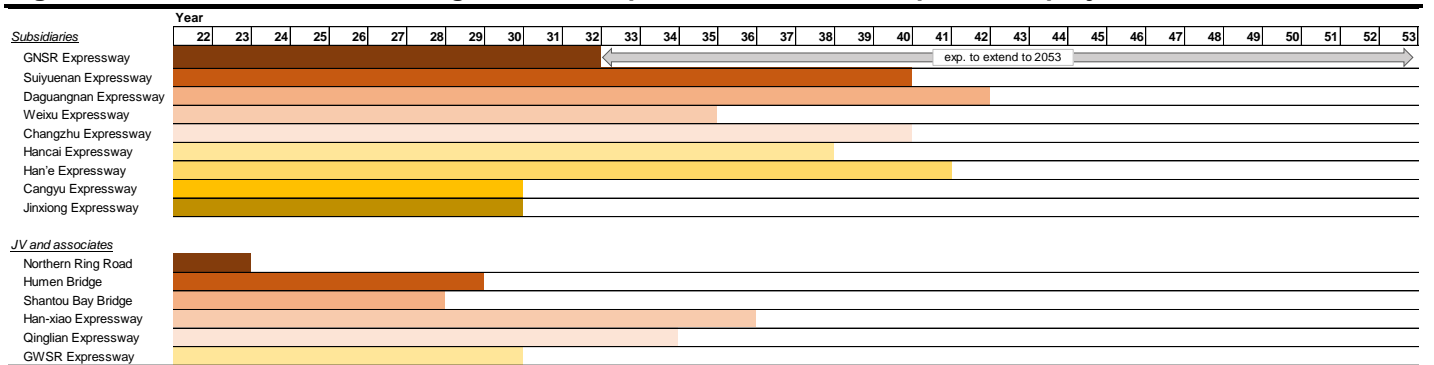
Source: CMBIGM estimates

Figure 55: DCF sensitivity

		LT debt/capital ratio				
		40.0%	45.0%	50.0%	55.0%	60.0%
Cost of equity	4.4%	4.8	5.3	5.7	6.1	6.6
Cost of debt	3.9%	5.3	5.8	6.3	6.8	7.4
After tax cost of debt	3.4%	5.8	6.4	7.0	7.6	8.2
WACC	2.9%	6.3	6.9	7.6	8.3	9.1
Enterprise Value	2.4%	6.8	7.5	8.3	9.1	10.0

Source: CMBIGM estimates

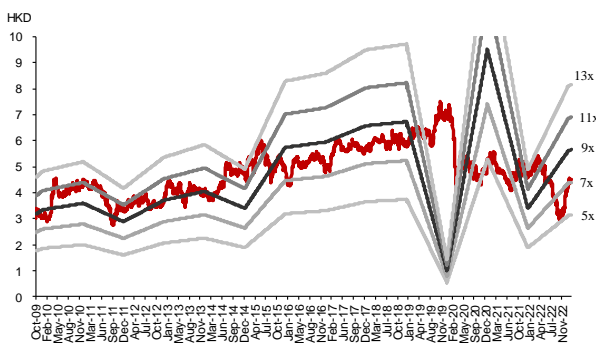
Figure 56: Timeline of the remaining concession period of Yuexiu Transport's toll projects



Source: Company data, CMBIGM

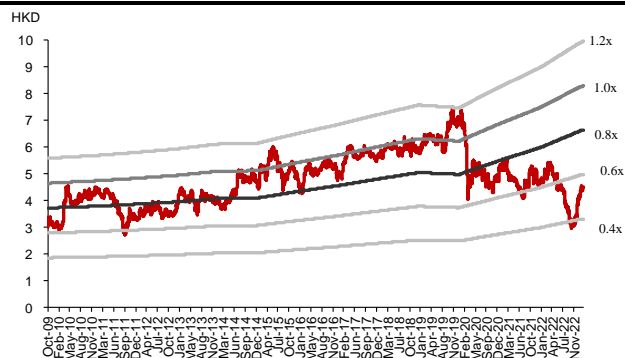
Note: The concession right of GNSR Expressway is expected to extend from the present 2032 to 2053, upon the completion of expansion plan.

Figure 57: 12M forward P/E band



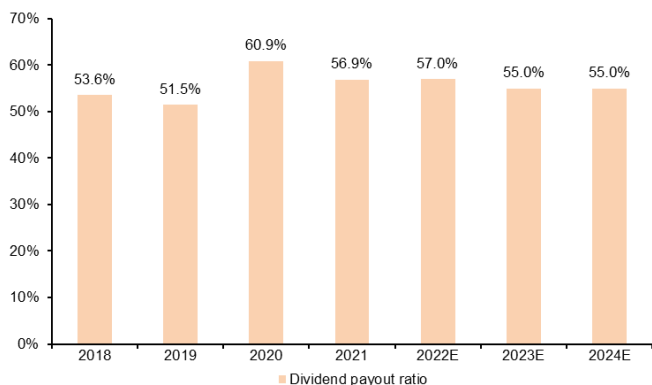
Source: Bloomberg, Company data, CMBIGM estimates
Note: Historical average: 10.5x

Figure 58: 12M forward P/B band



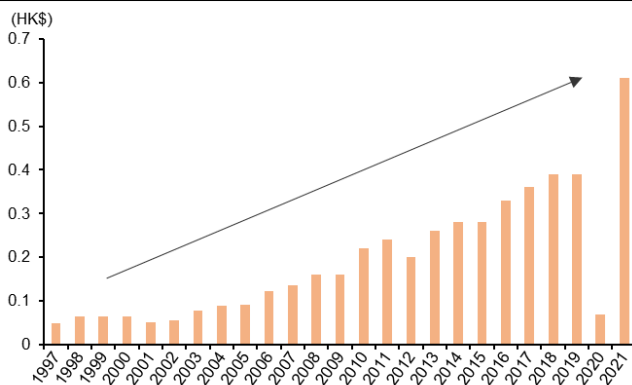
Source: Bloomberg, Company data, CMBIGM estimates
Note: Historical average: 0.85x

Figure 59: Yuexiu Transport has maintained a stable dividend payout policy



Source: Company data, CMBIGM

Figure 60: Yuexiu Transport’s dividend distribution history – solid track record since 1997



Source: Company data, CMBIGM
Note: Yuexiu Transport only distributed final dividend in 2020.

Figure 61: Peers' valuation

Ticker	Company	Price (local currency)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%)
				FY22E	FY23E	FY22E	FY23E	FY22E
HK listed								
1052 HK Equity	YUEXIU TRANSPORT	4.57	977	11.6	7.3	0.6	0.5	4.9
177 HK Equity	JIANGSU EXPRES-H	6.97	3,867	7.5	5.8	1.0	0.9	6.3
548 HK Equity	SHENZHEN EXPRE-H	7.99	6,006	10.0	7.3	1.3	1.2	6.6
576 HK Equity	ZHEJIANGEXPRE-H	7.45	2,638	5.3	5.3	0.8	0.7	9.8
995 HK Equity	ANHUI EXPRESS-H	7.15	1,805	6.7	5.8	1.0	0.9	8.9
737 HK Equity	BAY AREA DEVELOPMENT	1.92	1,443	n/a	n/a	n/a	n/a	n/a
1576 HK Equity	QILU EXPRESSWAY	2.48	634	n/a	n/a	n/a	n/a	n/a
1785 HK Equity	CHENGDU EXPRES-H	1.89	400	n/a	n/a	n/a	n/a	n/a
	HK listed average			8.2	6.3	1.0	0.9	7.3
A share								
001965 CH Equity	CHINA MERCHANT-A	7.79	7,108	9.9	9.1	0.9	0.8	n/a
000429 CH Equity	GUANGDONG PROV-A	7.75	2,249	10.9	9.9	1.8	1.7	n/a
600350 CH Equity	SHANDONG HI-SP-A	5.85	4,170	9.9	8.5	0.9	0.9	n/a
600548 CH Equity	SHENZHEN EXPRE-A	9.13	2,646	8.0	7.6	1.0	0.9	7.7
200429 CH Equity	GUANGDONG PROV-B	5.72	2,593	7.0	6.3	n/a	n/a	10.7
600012 CH Equity	ANHUI EXPRESS-A	7.89	1,810	8.5	7.4	1.1	1.0	7.0
600033 CH Equity	FUJIAN EXPRESS-A	2.89	1,171	n/a	n/a	n/a	n/a	n/a
600269 CH Equity	JIANGXI GANYUE-A	3.41	1,176	n/a	n/a	n/a	n/a	n/a
000900 CH Equity	XIANDAI INVEST-A	4.23	948	n/a	n/a	n/a	n/a	n/a
601518 CH Equity	JILIN EXPRESS-A	2.85	568	n/a	n/a	n/a	n/a	n/a
600035 CH Equity	HUBEI CHUTIAN-A	3.38	804	n/a	n/a	n/a	n/a	n/a
600368 CH Equity	GUANGXI WUZHOU-A	3.80	632	n/a	n/a	n/a	n/a	n/a
	A-share average			9.0	8.1	0.8	0.7	8.4
Toll Road REITs								
180202 CH Equity	CHINA YUEXIU EXP	7.7	343	n/a	n/a	n/a	n/a	5.0
180201 CH Equity	PING AN GUANGZHO	11.7	1,206	n/a	n/a	n/a	n/a	2.8
508001 CH Equity	ZHESHANG SECURIT	8.9	655	n/a	n/a	n/a	n/a	n/a
508018 CH Equity	HUAXIA CHINA JIA	8.5	1,259	n/a	n/a	n/a	n/a	2.1
508008 CH Equity	GUOJIN CRCC CHON	9.8	726	n/a	n/a	n/a	n/a	n/a
508066 CH Equity	HUATAI ZIJIN J-A	7.7	454	n/a	n/a	n/a	n/a	n/a
508009 CH Equity	CICC ANHUI TRAFF	10.4	1,531	n/a	n/a	n/a	n/a	n/a
	REITs average			n/a	n/a	n/a	n/a	3.3

Source: Bloomberg, Company data, CMBIGM estimates

Risk Factors

Diversion of traffic from other parallel toll roads

Toll projects may be subject to the risk of diversion of traffic from other parallel roads under construction/proposed to be constructed/alternative routes in the same area in the future. The diversion of traffic will directly decrease the traffic volume and toll revenue, which will harm the Company's long-term profitability and result in risk of impairment. In 2021, due to the diversion and Covid-related control measures, the Company recognized impairment loss of RMB97mn and RMB128mn on Jinxiong expressway and Humen Bridge, respectively. Going forward, the expected completion of Shenzhen-Zhongshan Bridge in 2024E will potentially affect the traffic volume of Humen Bridge. We currently forecast Humen Bridge to contribute ~5% of total pre-tax profit in 2024E. .

Gearing ratio and finance expense to rebound

As at Jun 2022, the Company's net debt/equity ratio was 95%. We forecast the ratio to increase to 103%/112% in 2023E/24E. This suggests potential increase in funding cost or the need to pursue fund raising exercise. We expect the net finance expense to rebound in 2023E-24E as we forecast Yuexiu Transport will have to increase the finance leverage to support the expansion of GNSR project.

Uncertainties on GNSR expansion project

Given the relatively high capex for the GNSR expansion project (RMB17bn), any delay or over budget will increase the interest cost and reduce the potential IRR of the project.

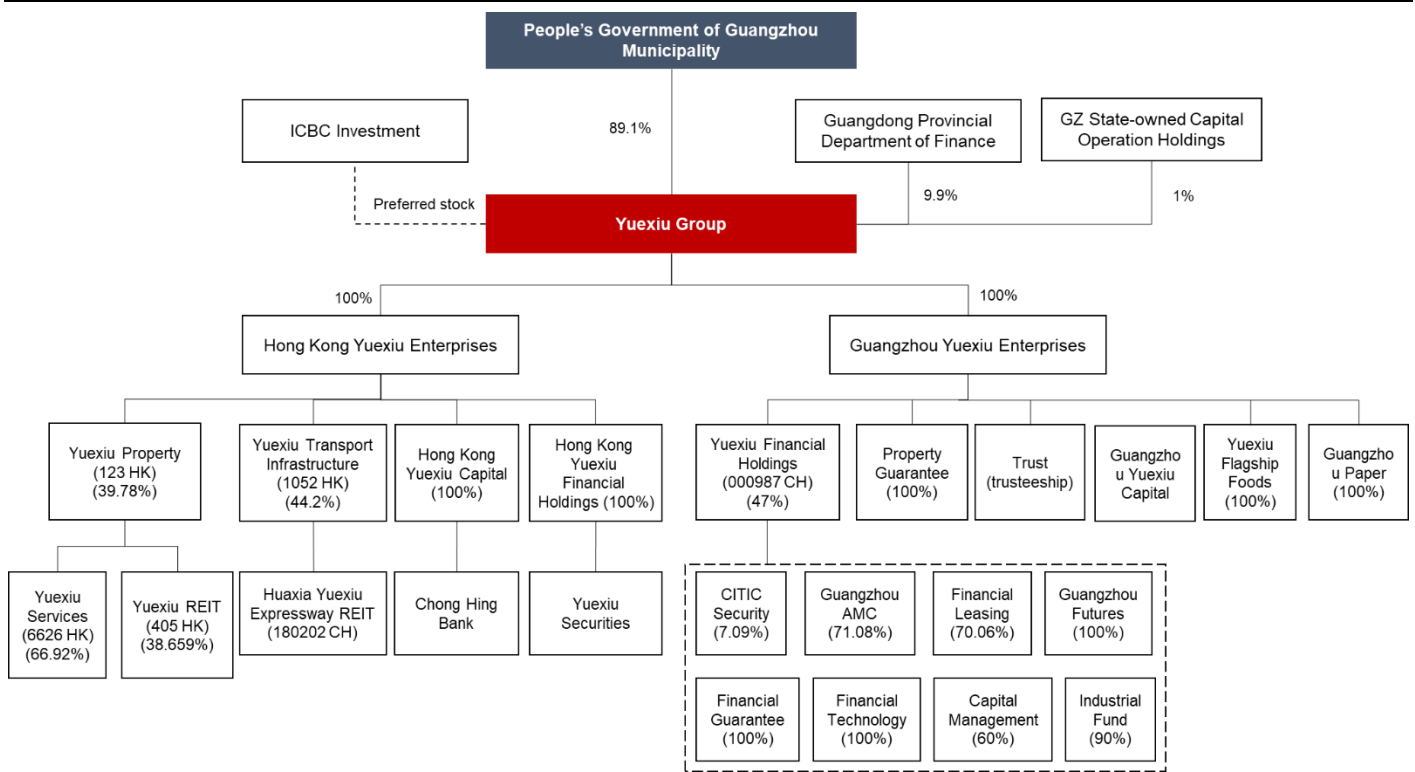
Appendix

Parent Company Overview

Yuexiu Group, Yuexiu Transport's ultimate holding company, is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government. Founded in 1985 in Hong Kong, Yuexiu Group has established a "4+X" modern industrial system, which includes finance, real estate, transportation infrastructure, and agriculture and food as core industry.

Yuexiu Group holds six listed entities, namely **Yuexiu Financial Holdings Group Co. Ltd. (000987 CH)**, **Yuexiu Services Group Ltd. (6626 HK)**, **Yuexiu Property (123 HK)**, **Yuexiu Transport Infrastructure Ltd. (1052 HK)**, **Yuexiu Real Estate Investment Trust (405 HK)** and **Huaxia Yuexiu Expressway REIT (180202 CH)**. In 2021, Yuexiu Group's operating revenue reached RMB93.8bn and total profit reached RMB18.5bn.

Figure 62: Company holding structure of Yuexiu Group



Source: Yuexiu Group, Company data, CMBIGM

Yuexiu Transport's Management Profile

Figure 63: Management team profile of Yuexiu Transport

Name	Age	Position (s)	Profile
Li Feng	54	Executive Director, Chairman	<p>Mr. Li was appointed as an executive director in 2018 and the Chairman in 2019. He is also (1) the chief capital officer of Guangzhou Yue Xiu Holdings Limited (the ultimate holding company of Yuexiu Transport) and Yue Xiu Enterprises; (2) press spokesperson of the Yue Xiu Group; (3) executive director of Yuexiu Property (123 HK); (4) director of Guangzhou City Construction & Development (GCCD); (5) chairman and non-executive director of Yuexiu Financial Holdings; (6) chairman of the board of directors of Yue Xiu Securities; (7) non-executive director of Yuexiu REIT Asset Management; (8) non-executive director of Chong Hing Bank; (9) director of Guangzhou Yuexiu Financial Holdings (000987 CH).</p> <p>Mr. Li is obtained a bachelor's degree of architecture from South China University of Technology and master of business administration degree from Jinan University. He is also president of Association of Guangzhou Belt and Road Investment Enterprises, member of Guangzhou Housing Provident Fund Management Committee, director of Guangzhou People's Association for Friendship with Foreign Countries and vice-president of the Listed Companies Council, Hong Kong Chinese Enterprises Association, a member of the Risk Management Committee of China Evergrande Group (3333 HK). Mr. Li joined Yue Xiu in Dec 2001, he is specialized in business of listed companies and the operations of capital market.</p>
He Baiqing	58	Executive Director, Deputy Chairman, General Manger	<p>Mr. He was appointed as an executive director in 2014 and the Deputy Chairman in 2014. He has been General Manager of the Company since 2013. He previously served as a director in 2005-2007, deputy general manager in 2009 and senior deputy general manager in 2011. Mr. He obtained a bachelor's degree of Highway and City Roads Engineering. Mr. He is a senior engineer of Highway and Bridge, and a chartered civil engineer in China. He has extensive experience in the industry. For example, he had held position as the head of Guangzhou Highway Prospecting and Design Institute. He was in charge of the thirty-year plan of Guangzhou highway network in 1997-1998. He has participated in surveying and designing of Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway.</p>
Chen Jing	51	Executive Director	<p>Ms Chen was appointed as an executive director in 2018. Ms Chen is also (1) the CFO and general manager of the finance department of Guangzhou Yue Xiu and Yue Xiu; (2) executive director and CFO of Yuexiu Property; (3) director of GCCD, Guangzhou Yuexiu Foods Group and Guangzhou Yuexiu Agriculture and Animal Husbandry Technology; (4) non-executive director of YFHL and Chong Hing Bank.</p> <p>Ms Chen obtained a bachelor's degree of audit from Xi'an Jiaotong University and master of business administration degree of the School of Management of Economics of the Beijing Institute of Technology. She holds a qualification of auditor and certified internal auditor. Ms Chen joined Guangzhou Yue Xiu in 2004 and had served as the deputy general manager of the supervisory (audit) office, the general manager of the audit department and the chairman of the board of directors of Yue Xiu Securities Holdings. Ms Chen has extensive experience in risk management and internal control, as well as financial management for enterprises. She has participated in building systems to monitor the major risks and finance of Guangzhou Yue Xiu. Prior to joining Guangzhou Yue Xiu, Ms Chen worked in school of business of Hubei University and Hisense Kelon Electrical Holdings.</p>
Cai Minghua	45	Executive Director	<p>Mr. Cai was appointed as an executive director in 2021. He obtained a bachelor's degree in economics with a major in international economics and trade and a master degree of economics from Wuhan University. Mr. Cai joined Yuexiu Group and has served as the vice chairman of the labor union of the Company, the general manager of the human resources department of the Company, the chief business director of the human resources department of Guangzhou Yue Xiu and Yue Xiu. Mr. Cai has extensive experience in remuneration management, administration and management, performance appraisals and human resources management.</p>

Source: Company data, CMBIGM

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