

Bay Area Development (737 HK)

Land development on the way

SUMMARY. The Company announced framework agreements with Guangdong Highway Construction and Leatop Real Estate. The agreements set out principles of cooperation in relation to potential development and utilization of the land along the GS Superhighway (including the Xintang interchange). We have factored in land development of Xintang Interchange, and we estimate NAV of RMB 1,367mn. We believe potential land development of other interchanges and higher-priced areas such as Shenzhen, will release more value. Based on DCF, we maintain our target price at HK\$ 4.88, representing upside potential of 28.1%. Reiterate BUY.

- **Land development on the way. (1)** This agreement marks a solid progress of land development of Xintang Interchange. Next, we expect the company to set up a project company and start real estate development, which will bring cash flow to the company starting from 2022E. **(2)** The GS Superhighway has 23 toll stations or interchanges, of which ~10 toll stations or interchanges are suitable to undergo traffic layout transformation for land utilization in order to release land for comprehensive development. This agreement not only marks the progress of land development of Xintang Interchange, but also suggest that the development of other interchanges along the GS Superhighway is also under consideration. **(3)** The GS Superhighway is comprised of three sections spanning Guangzhou, Shenzhen and Dongguan. We believe land development in higher-priced areas such as Shenzhen will release more value.
- **Toll business remains in good shape.** In Sep, average daily traffic of GS superhighway was 102,000 vehicles, same as last year. Average daily traffic of Western Delta Route was 66,000 vehicles, representing a YoY increase of 15.8%. YTD average daily toll revenue of GS superhighway was RMB 8.813mn, down 4.2% YoY. YTD average daily toll revenue of Western Delta Route was RMB 4.143mn, up 7.2% YoY.
- **Reiterate BUY.** We have factored in land development of Xintang Interchange, and we estimate NAV to be RMB 1,367mn. We believe potential land development of other interchanges and higher-priced areas such as Shenzhen, will release more value. Based on DCF valuation method, we maintain target price at HK\$ 4.88, representing upside potential of 28.1%. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Net toll revenue (RMB mn)	2,188	2,160	2,189	2,311	2,412
YoY growth (%)	5.6	(1.3)	1.3	5.6	4.4
Net income (RMB mn)	714	601	653	790	856
EPS (RMB)	0.23	0.20	0.21	0.26	0.28
EPS CHG (%)	35.2	(15.8)	8.6	21.0	8.3
P/B (x)	2.02	2.18	2.19	2.17	2.15
P/E (x)	14.7	17.5	16.1	13.3	12.3
Yield (%)	6.8	5.7	6.2	7.5	8.1
ROE (%)	13.4	12.0	13.5	16.4	17.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$4.88
(Previous TP) HK\$4.88)
Up/Downside +28.1%
Current Price HK\$3.81

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Stock Data

Mkt Cap (HK\$ mn)	11,741
Avg 3 mths t/o (HK\$ mn)	1.24
52w High/Low (HK\$)	4.38/3.69
Total Issued Shares (mn)	3,082

Source: Bloomberg

Shareholding Structure

Shenzhen Inv't Holdings	71.83%
China Vanke	9.90%
China Taiping	9.45%

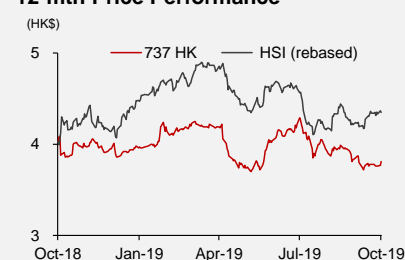
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-1.6%	-5.0%
3-mth	-10.7%	-5.7%
6-mth	-10.0%	-0.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Solid step in real estate development" – 12 Aug 2019
2. "Focusing on infrastructure within Greater Bay Area" – 20 Mar 2019

Figure 1: Framework agreements

Equity interests in the relevant project company	The Company	Guangdong Highway Construction
For land development projects in Guangzhou	37.5%	62.5%
For land development projects in Shenzhen	57.5%	42.5%
For land development projects in Dongguan		
If the project is led by Guangdong Highway Construction	37.5%	62.5%
If the project is led by the Company	57.5%	42.5%

Source: Company data, CMBIS

Figure 2: DCF Valuation

DCF Valuation (RMB mn)	0	1	2	3	4	5	6	7	8	9	10
	CY19E	CY20E	CY21E	CY22E	CY23E	CY24E	CY25E	CY26E	CY27E	CY28E	CY29E
Attributable EBIT from GS Superhighway	910	965	1,008	1,038	1,069	1,102	1,124	1,146	584	N/A	N/A
YoY		6.0%	4.5%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%		
Tax	(216)	(231)	(243)	(260)	(267)	(275)	(281)	(287)	(146)		
Effective tax rate		25.4%	25.4%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		
Depreciation and amortisation	332	314	295	303	313	322	328	335	342		
YoY		-5.5%	-6.2%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%		
Change in working capital	(45)	(47)	(49)	(51)	(52)	(54)	(55)	(56)	(57)		
YoY		5.0%	6.0%	4.5%	3.0%	3.0%	2.0%	2.0%	2.0%		
CAPEX	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)		
FCF	981	999	1,009	1,030	1,061	1,093	1,115	1,137	721		
YoY		1.9%	0.9%	2.1%	3.0%	3.0%	2.0%	2.0%	-36.6%		
PV	981	878	778	698	632	572	512	459	256		
Attributable EBIT from Western Delta Route	455	507	556	606	649	694	743	780	819	860	903
YoY		11.4%	9.7%	9.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%
Tax	(79)	(92)	(105)	(152)	(162)	(174)	(186)	(195)	(205)	(215)	(226)
Effective tax rate		24.9%	24.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Depreciation and amortisation	244	263	279	304.6	325.9	348.7	373.1	391.8	411.4	431.9	453.5
YoY		8.0%	6.1%	9.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%
Change in working capital	(10)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
YoY		10.0%	11.4%	9.7%	9.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%
CAPEX	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
FCF	608	665	717	744	796	852	912	958	1,006	1,056	1,109
YoY		9.4%	7.8%	3.8%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%
PV	608	584	553	504	474	446	419	387	357	329	303
Terminal Value											10,539
Assumptions											
WACC	13.8%										
Tax rate	6.1%										
Cost of debt	0.0%										
Risk free rate	1.7%										
Beta	0.90										
Market risk return	15.2%										
Cost of equity	13.8%										
Debt/Assets	0.0%										
Terminal growth rate	3.0%										
Equity Value											
GS Superhighway	4,785										
Western	7,241										
Land value of Xintang interchange	1,367										
Net cash	127										
Minority Interest	(30)										
Equity Value (RMB mn)	13,489										
HKDCNY	0.90										
Equity Value (HK\$ mn)	15,038										
Weighted average number of ordinary shares (mn)	3,082										
TP (HK\$)	4.88										

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Share of results of JVs	771	684	725	879	953
GS Superhighway	545	527	502	517	526
Western Delta Route	121	162	185	207	229
Others	105	(6)	38	156	197
Other income and other	40	(1)	16	17	17
Depreciation	(0)	(0)	(0)	(0)	(0)
General and admin	(41)	(32)	(34)	(42)	(45)
Finance costs	(0)	(1)	(1)	(1)	(1)
Profit before tax	769	649	705	853	924
Income tax expense	(45)	(39)	(43)	(52)	(56)
Profit for the year	724	610	663	802	868
Less: Non-controlling	10	9	9	11	12
Net profit	714	601	653	790	856

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating activities	(37)	(39)	(35)	(42)	(46)
Dividends received	835	1,040	945	1,073	1,253
Other investing activities	20	18	16	17	17
Investing activities	855	1,058	961	1,089	1,270
Dividends paid to:					
– owners of the Company	(925)	(953)	(931)		
– non-controlling interests	(3)	(6)	(9)	(9)	(11)
Financing activities	(928)	(958)	(939)		
Net change in cash	(110)	61	(13)	(11)	(5)
Cash at the beginning of the	523	331	140	127	116
Exchange difference	4	2	-	-	-
Cash at the end of the year	417	394	127	116	111

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	4,908	4,810	4,888	4,937	4,969
Interests in joint ventures	4,903	4,798	4,875	4,925	4,957
Other non-current assets	5	12	12	12	12
Current assets	419	141	128	117	112
Bank balances and cash	417	140	127	116	111
Other current assets	3	1	1	1	1
Total assets	5,328	4,951	5,015	5,054	5,081
Current liabilities	14	11	106	101	89
Payables and accruals	14	11	11	11	11
Other current liabilities	-	-	94	90	78
Non-current liabilities	70	70	70	70	70
Deferred tax liability	70	70	70	70	70
Other non-current liabilities	-	-	-	-	-
Total liabilities	84	81	175	171	159
Share capital	271	271	271	271	271
Share premium and	4,937	4,569	4,539	4,582	4,621
Shareholders' equity	5,207	4,839	4,810	4,853	4,891
Non-controlling interests	36	30	30	30	31
Total Equity	5,244	4,869	4,840	4,883	4,922

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue mix (%)					
GS Superhighway	70.7	77.2	69.3	58.8	55.2
Western Delta Route	15.7	23.7	25.5	23.5	24.0
Others	13.7	-0.9	5.2	17.7	20.7
Growth (%)					
Share of results of joint	31.4	-11.3	6.0	21.3	8.4
GS Superhighway	-1.8	-3.2	-4.8	2.9	1.8
Western Delta Route	67.0	34.3	14.1	11.9	10.8
Profit before tax	35.5	-15.6	8.6	21.0	8.3
Profit for the year	34.7	-15.7	8.6	21.0	8.3
Net profit	35.2	-15.8	8.6	21.0	8.3
Returns (%)					
ROE	13.4	12.0	13.5	16.4	17.6
ROA	13.1	11.7	13.1	15.7	16.9
Per share (RMB)					
EPS	0.23	0.20	0.21	0.26	0.28
DPS	0.23	0.20	0.21	0.26	0.28
BVPS	1.69	1.57	1.56	1.57	1.59

Source: Company data, CMBIS estimates

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