

Bay Area Development (737 HK)

2019 results in line; great progress in land development

The Company's 2019 results was in line with our forecast. It has achieved great progress in land development as well. Considering impact of the COVID-19, we lower target price to HK\$ 4.41. Maintain BUY.

- **2019 Revenue in line.** Share of profit from GZ West Superhighway increased 16.67% YoY to RMB 189mn, beating our expectation by 2%. Share of profit from GS Superhighway decreased 7.67% YoY to RMB 487mn, missing our expectation by 4%. Net profit increased 1.76% YoY to RMB 612mn, missing our expectation by 7%. The Board proposed final dividend of RMB 10.1 cents per share. Together with interim dividend of RMB 9.8 cents per share, total payout ratio remained 100% for the year.
- **Growth of GZ West Superhighway remained steady while that of GS Superhighway decreased.** GZ West Superhighway remained steady growth. Average daily traffic increased 9% YoY to 59,000 vehicles, and average daily toll revenue increased 5% YoY to RMB 4.150mn. For GS Superhighway, average daily traffic decreased 2% YoY to 100,000 vehicles due to traffic diversion and construction works, and average daily toll revenue decreased 3% YoY to RMB 8.835mn, mainly due to the impact of higher ETC discount.
- **Great progress in land development.** The Company and Guangdong Provincial Communication Group established the Xintang JV in Nov 2019. The JV won the bid for the residential land use rights of Xintang Interchange in Dec last year. We believe the Company will benefit from land development and create better returns for shareholders.
- **Risks. (1) ETC discount.** During 2H19, share of average daily traffic of vehicles using ETC increased from 45% to 54%. We expect ETC penetration to increase, weighing on toll revenue of the Company. **(2) Expansion of GS Superhighway.** GS Superhighway has started feasibility study of road expansion. We expect the potential expansion to have a negative impact on traffic of GS Superhighway.
- **Valuation.** In Jan 2020, for GZ West Superhighway, average daily traffic decreased 19% YoY, and for GS Superhighway, average daily traffic decreased 34% YoY. We forecast 2020E average daily traffic for GZ West / GS Superhighway will decrease 3.3%/7.7% YoY, respectively, and we assume the toll-free policy will end 31 Mar. Based on DCF valuation method, we lower target price to HK\$ 4.41, representing upside potential of 43%. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Net toll revenue (RMB mn)	2,160	2,144	1,719	2,055	2,164
YoY growth (%)	(1.3)	(0.8)	(19.8)	19.6	5.3
Net income (RMB mn)	601	612	466	687	773
EPS (RMB)	0.20	0.20	0.15	0.22	0.25
EPS CHG (%)	(15.8)	1.8	(23.9)	47.3	12.6
Consensus EPS (RMB)	N/A	N/A	0.17	0.25	N/A
P/B (x)	1.76	1.76	1.81	1.76	1.77
P/E (x)	14.2	13.9	18.3	12.4	11.0
Yield (%)	7.1	7.2	5.5	8.1	9.1
ROE (%)	12.0	12.6	9.7	14.4	16.0
Net gearing (%)	Net cash	4.7	2.0	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$4.41
(Previous TP	HK\$4.88)
Up/Downside	+43.2%
Current Price	HK\$3.08

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Stock Data

Mkt Cap (HK\$ mn)	9,492
Avg 3 mths t/o (HK\$ mn)	1.16
52w High/Low (HK\$)	4.38/ 2.98
Total Issued Shares (mn)	3,082

Source: Bloomberg

Shareholding Structure

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

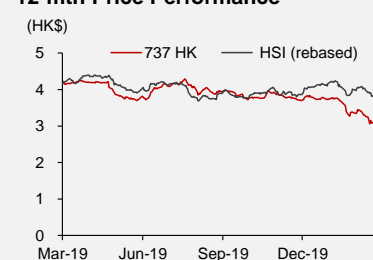
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-10.7%	-2.3%
3-mth	-18.6%	-13.9%
6-mth	-23.6%	-18.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Land development on the way" – 29 Oct 2019
2. "Solid step in real estate development" – 12 Aug 2019

Figure 1: 2019 results review

RMB mn	2019	2018	YoY
Share of results of JVs	701	684	2.5%
GS Superhighway	487	527	-7.7%
GZ West Superhighway	189	162	16.7%
Others	25	(6)	-515.3%
Other net income	2	(1)	-256.7%
Depreciation	(0)	(0)	90.0%
General and admin exp	(37)	(32)	14.5%
Finance costs	(1)	(1)	82.9%
Profit before tax	664	649	2.2%
Income tax expense	(43)	(39)	8.4%
Profit for the period	621	610	1.8%
Non-controlling interests	9	9	4.3%
Net profit	612	601	1.8%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	CY20E	CY21E	CY20E	CY21E	CY20E	CY21E
Share of results of JVs	532	785	879	953	-39.5%	-17.6%
GS Superhighway	385	449	517	526	-25.5%	-14.7%
GZ West Superhighway	156	195	207	229	-24.8%	-14.9%
Others	(8)	142	156	197	-105.4%	-28.1%
Profit before tax	505	744	853	924	-40.8%	-19.4%
Profit for the year	473	697	802	868	-41.0%	-19.8%
Net profit	466	687	790	856	-41.0%	-19.8%

Source: Company data, CMBIS estimates

Figure 3: DCF Valuation

DCF Valuation (RMB mn)	0	1	2	3	4	5	6	7	8	9	10
	CY20E	CY21E	CY22E	CY23E	CY24E	CY25E	CY26E	CY27E	CY28E	CY29E	CY30E
Attributable EBIT from GS Superhighway	707	900	927	954	983	1,003	1,023	522	N/A	N/A	N/A
YoY		27.2%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%			
Tax	(166)	(216)	(232)	(239)	(246)	(251)	(256)	(130)			
Effective tax rate		25.4%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%			
Depreciation and amortisation	289	261	269	277	285	291	297	303			
YoY		-9.6%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%			
Change in working capital	(45)	(57)	(59)	(60)	(62)	(63)	(65)	(66)			
YoY		27.2%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%			
CAPEX	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)			
FCF	740	842	860	887	915	934	954	582			
YoY		13.9%	2.1%	3.2%	3.2%	2.1%	2.1%	-38.9%			
PV	740	740	663	601	545	489	438	235			
Attributable EBIT from Western Delta Route	320	461	502	537	575	615	646	678	712	748	785
YoY		43.8%	9.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Tax	(46)	(81)	(126)	(134)	(144)	(154)	(162)	(170)	(178)	(187)	(196)
Effective tax rate		24.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Depreciation and amortisation	210	202	220.6	236.1	252.6	270.3	283.8	298.0	312.9	328.5	344.9
YoY		-3.6%	9.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Change in working capital	(10)	(15)	(16)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(26)
YoY		43.8%	9.0%	7.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%
CAPEX	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
FCF	429	522	535	576	620	666	702	739	778	819	863
YoY		21.8%	2.6%	7.6%	7.6%	7.5%	5.3%	5.3%	5.3%	5.3%	5.3%
PV	429	458	413	390	369	348	322	298	276	255	236
Terminal Value											8,200
Assumptions											
WACC	13.8%										
Tax rate	6.4%										
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	4,451										
Western	6,350										
Land value of Xintang interchange	1,367										
Net cash	50										
Minority Interest	(24)										
Equity Value (RMB mn)	12,194										
HKDCNY	0.90										
Equity Value (HK\$ mn)	13,594										
Weighted average number of ordinary shares (mn)	3,082										
TP (HK\$)	4.41										

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Share of results of JVs	684	701	532	785	884
GS Superhighway	527	487	385	449	460
Western Delta Route	162	189	156	195	214
Others	(6)	25	(8)	142	210
Other income & other expenses	(1)	2	2	2	2
Depreciation	(0)	(0)	(0)	(0)	(0)
General and admin expenses	(32)	(37)	(28)	(41)	(47)
Finance costs	(1)	(1)	(1)	(1)	(2)
Profit before tax	649	664	505	744	838
Income tax expense	(39)	(43)	(32)	(48)	(54)
Profit for the year	610	621	473	697	784
Less: Non-controlling interests	(9)	(9)	(7)	(10)	(11)
Net profit	601	612	466	687	773

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating activities	(39)	(35)	(29)	(43)	(48)
Dividends received	1,040	916	891	1,038	1,064
Other investing activities	18	2	2	2	2
Investing activities	1,058	918	893	1,041	1,067
Changes in debt		281	(66)	(48)	(113)
Dividends paid to:					
– owners of the Company	(953)	(1,187)	(778)	(759)	(959)
– non-controlling interests	(6)	(9)	(9)	(7)	(10)
Financing activities	(958)	(915)	(853)	(814)	(1,082)
Net change in cash	61	(31)	12	184	(63)
Cash at the beginning of the year	331	140	109	120	304
Exchange difference	2	-	-	-	-
Cash at the end of the year	394	109	120	304	241

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	4,810	5,194	4,928	4,829	4,732
Interests in joint ventures	4,798	4,858	4,593	4,493	4,396
Other non-current assets	12	335	335	335	335
Current assets	141	51	121	305	242
Bank balances and cash	140	50	120	304	241
Other current assets	1	1	1	1	1
Total assets	4,951	5,245	5,049	5,134	4,974
Current liabilities	11	294	228	180	68
Payables and accruals	11	13	13	13	13
Other current liabilities	-	281	215	168	55
Non-current liabilities	70	81	81	81	81
Deferred tax liability	70	81	81	81	81
Other non-current liabilities	-	-	-	-	-
Total liabilities	81	374	309	261	148
Share capital	271	271	271	271	271
Share premium and reserves	4,569	4,575	4,446	4,578	4,531
Shareholders' equity	4,839	4,846	4,717	4,849	4,802
Non-controlling interests	30	24	23	24	24
Total Equity	4,869	4,870	4,740	4,873	4,825

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix (%)					
GS Superhighway	77.2	69.5	72.3	57.1	52.0
Western Delta Route	23.7	27.0	29.3	24.8	24.2
Others	-0.9	3.5	-1.6	18.0	23.8
Growth (%)					
Share of results of joint ventures	-11.3	2.5	-24.0	47.5	12.6
GS Superhighway	-3.2	-7.7	-21.0	16.5	2.5
Western Delta Route	34.3	16.7	-17.6	25.1	10.0
Profit before tax	-15.6	2.2	-23.9	47.3	12.6
Profit for the year	-15.7	1.8	-23.9	47.3	12.6
Net profit	-15.8	1.8	-23.9	47.3	12.6
Returns (%)					
ROE	12.0	12.6	9.7	14.4	16.0
ROA	11.7	12.0	9.1	13.5	15.3
Per share (RMB)					
EPS	0.20	0.20	0.15	0.22	0.25
DPS	0.20	0.20	0.15	0.22	0.25
BVPS	1.57	1.57	1.53	1.57	1.56

Source: Company data, CMBIS estimates

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