

Shenzhen Expressway (548 HK)

Integrated land development model brings more benefits

INTRODUCTION. Incorporated in Shenzhen, the Company principally engages in the investment, construction, operation and management of toll expressways. As of 1H19, the Company operated and invested in a total of 16 toll expressway projects in Guangdong and other provinces. It also invested in environmental projects. In 1H19, revenue +0.81% YoY to RMB 2,699mn, net profit +62.79% YoY to RMB 1,577mn, due to use of unrecognized tax losses in previous periods.

- What's new?** During the reverse roadshow held on 26 Sep, we visited **(1) the construction site of Duohua Bridge.** The Duohua Bridge Project is a municipal project invested by the government of Longli County, Guizhou. It is a road construction project in Longli County undertaken by the Company with BT model. We also visited the Company's **(2) real estate development project – the Interlaken Town.** It is a high-end, quality real estate project with unique architectural style, beautiful landscape and nice living environment.
- The integrated land development model brings more benefits than road construction.** Longli County is located right next to Guiyang, the provincial capital of Guizhou. The Company expected the land in the area of Longli County will enjoy great appreciation potential. Since the Guilong Road Project, the Company has established long-term relationship with the local government of Longli County, and has successfully acquired peripheral land. As of 1H19, the Company has cumulatively won the bids for the land of Longli area of approximately 3,005 mu, including 235 mu for the Duohua Bridge Project. The integrated land development model – road construction + secondary development of residential projects – will bring investors more benefits than road construction.
- Catalysts.** (1) In August, the China Transportation Services Index (CTSI) increased 5.4% YoY to 177.3 points, indicating strong travel demand during the summer. (2) China aims to raise its global competitiveness in the transportation sector by setting up transport networks with wider coverage and higher speed, according to a document jointly released by the CCP Central Committee and the State Council (《交通强国建设纲要》).
- Valuation.** The stock is currently trading at 1.1x 2019E P/B, close to peer average of 1.1x, and historical average of 1.0x.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Toll revenue (RMB mn)	3,680	4,684	5,066
YoY growth (%)	22.1	27.3	8.2
Net profit (RMB mn)	1,169	1,384	3,440
EPS (RMB)	0.54	0.64	1.58
EPS CHG (%)	(24.7)	18.5	148.3
P/B (x)	1.6	1.6	1.5
P/E (x)	17.2	14.5	5.9
Yield (%)	2.4	3.2	7.7
ROE (%)	9.3	10.5	22.2
Net gearing (%)	9.8	76.5	50.1

Source: Company data, CMBIS

NOT RATED

Current Price

HK\$10.30

China Transportation Sector

Hanbo Xu

 (852) 3761 8725
 xuhanbo@cmbi.com.hk

Wenjie Ding, PhD

 (852) 3900 0856
 dingwenjie@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	24,051
Avg 3 mths t/o (HK\$ mn)	22.08
52w High/Low (HK\$)	11.00/ 6.54
Total Issued Shares (mn)	748 (H)
	1,433 (A)

Source: Bloomberg

Shareholding Structure

Shenzhen International	51.56%
Free float	48.44%

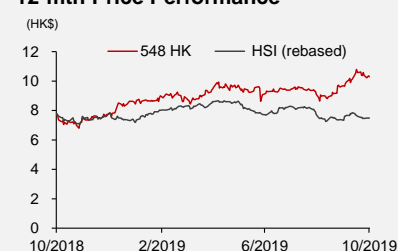
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.9%	5.2%
3-mth	10.3%	22.3%
6-mth	10.2%	25.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

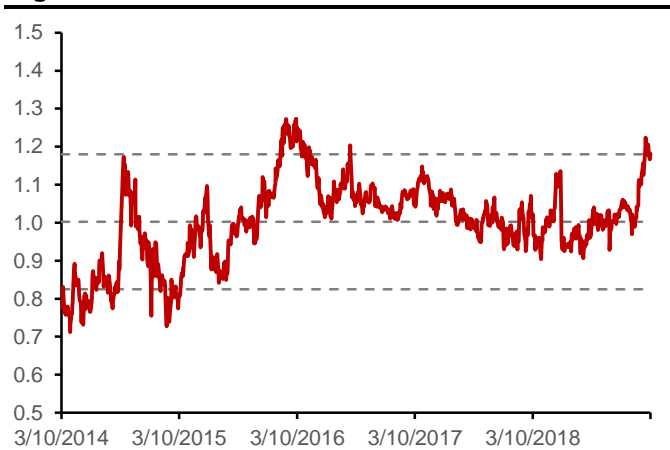
Valuation

Figure 1: Peer valuation

Ticker	Company	Mkt cap (mn)	P/B (x)			ROE (%)			Div.yield (%)		
			FY18A	FY19E	FY20E	FY18A	FY19E	FY20E	FY18A	FY19E	FY20E
107 HK EQUITY	SICHUAN EXP-H	10,989	0.4	0.4	0.4	7.7	5.9	6.0	4.7	5.2	5.2
152 HK EQUITY	SHENZ INTL HLDG	32,764	1.2	1.1	1.0	14.1	12.4	12.6	6.0	6.4	6.7
177 HK EQUITY	JIANGSU EXPRES-H	55,687	1.8	1.7	1.6	16.9	14.9	14.9	5.5	5.3	5.4
548 HK EQUITY	SHENZHEN EXPRE-H	24,051	1.4	1.1	1.0	23.0	13.1	11.6	6.8	5.9	4.9
576 HK EQUITY	ZHEJIANGEXPRES-H	27,622	1.1	1.0	0.9	15.4	15.5	15.4	6.8	6.9	7.2
737 HK EQUITY	SHENZHEN INVESTM	11,926	2.1	2.2	2.2	11.4	13.3	15.1	5.0	6.0	6.7
995 HK EQUITY	ANHUI EXPRESS-H	9,073	0.6	0.6	0.6	11.4	10.3	9.1	6.1	6.3	6.5
1052 HK EQUITY	YUEXIU TRANSPORT	11,461	1.0	1.0	0.9	11.1	11.6	11.3	5.4	6.2	6.2
1785 HK EQUITY	CHENGDU EXPRES-H	3,544	1.0	1.0	0.9	18.2	16.8	14.5	11.8	8.2	8.7
Average of H-shares			1.2	1.1	1.1	14.4	12.6	12.3	6.5	6.3	6.4
000429 CH EQUITY	GUANGDONG PROV-A	15,337	1.7	1.6	1.6	16.7	14.1	14.4	6.9	5.8	6.1
200429 CH EQUITY	GUANGDONG PROV-B	16,825	1.2	1.2	1.1	16.7	14.1	14.4	10.3	9.6	10.2
600012 CH EQUITY	ANHUI EXPRESS-A	8,271	0.9	0.8	0.8	11.4	10.6	9.6	4.3	4.7	4.7
600350 CH EQUITY	SHANDONG HI-SP-A	21,025	0.7	0.7	0.7	8.4	7.7	7.0	4.0	3.9	3.2
600377 CH EQUITY	JIANGSU EXPRES-A	50,763	2.0	1.9	1.7	17.1	14.8	14.7	4.8	4.6	4.7
600548 CH EQUITY	SHENZHEN EXPRE-A	21,924	1.4	1.2	1.2	18.8	14.3	11.7	5.7	5.4	4.4
601107 CH EQUITY	SICHUAN EXP-A	10,017	0.8	0.8	0.7	7.7	5.9	6.0	2.7	2.9	2.9
Average of A-shares			1.2	1.2	1.1	13.9	11.6	11.1	5.5	5.3	5.2
Overall average			1.2	1.1	1.1	14.1	12.1	11.7	6.0	5.8	5.8

Source: Bloomberg, CMBIS

Figure 2: Historical P/B



Source: Bloomberg, CMBIS

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.