

Yuexiu Transport (1052 HK)

Acquisition underpins sustainable growth

On 5 Nov, the Board passed the proposed acquisition of 100% of the equity interests in Yuexiu Hubei, and 38.5% of the equity interests in Hancai Expressway Company, at a total consideration of RMB 1,107mn. Essentially, the Company acquired 67% of Hancai Expressway (汉蔡高速), 100% of Han'e Expressway (汉鄂高速), and 90% of Daguangnan Expressway (大广南高速). We visited the above expressways during the reverse roadshow held on 24 Oct.

- The acquisition positions the Company to capture “Rise of Central China” opportunities.** The target expressways are all located in Hubei Province, Central China. Hancai Expressway, Han'e Expressway, together with Hanxiao Expressway, are three out of the seven expressways radiating out of Wuhan, the capital city of Hubei. Daguangnan Expressway is the southern part of the Daguang Expressway connecting Daqing and Guangzhou. Together with Suiyuan Expressway, the Company will hold concession rights over two out of six south-to-north national trunk lines running through Hubei. Given the nation's “Rise of Central China” strategy, we believe future traffic growth of the Company's expressway assets will be further enhanced.
- The acquisition extends the concession period of the Company's expressway assets.** The concession rights of both Daguangnan Expressway and Han'e Expressway will expire in 2042, while that of Hancai Expressway will expire in 2038. After the acquisition, average remaining concession period of the Company's controlled expressways weighted by mileage will be extended from 17.2 years to 19.1 years, higher than Shenzhen Expressway (548 HK, NOT RATED) and Bay Area Development (737 HK, BUY), enhancing operational sustainability.
- Catalysts.** (1) **Shunfeng E'zhou Airport**, positioned to become a national logistics hub and air cargo freight transshipment airport, which is expected to open in Sep 2021, may boost traffic growth of Han'e Expressway and Daguangnan Expressway. (2) **Surrounding industrial parks** may induce traffic growth of Hancai Expressway. (3) Traffic may be diverted to Daguangnan Expressway if the northern Hubei section of the Beijing-Hong Kong-Macau Expressway undergo expansion construction.
- Valuation.** In 2018, toll revenue of the Daguangnan Expressway/ Hancai Expressway/ Han'e Expressway was RMB 360/ 304/ 211mn, equivalent to a total of 31% of the Company's 2018A revenue. Third party traffic study forecasted that on average of the optimistic and conservative scenarios, average daily traffic of Daguangnan Expressway/ Hancai Expressway/ Han'e Expressway will increase 21.3%/ 9.4%/ 14.4% YoY in 2020E, higher than average of the Company's existing portfolio. The stock is currently trading at 1.0x 2020E P/B, lower than peer average of 1.1x, but higher than historical average of 0.9x.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Revenue (RMB mn)	2,519	2,703	2,847
YoY growth (%)	13.2	7.3	5.3
Net income (RMB mn)	919	948	1,054
EPS (RMB)	0.55	0.57	0.63
YoY growth (%)	72.7	3.2	11.2
P/E (x)	12.1	11.7	10.5
P/B (x)	1.2	1.2	1.1
Yield (%)	4.3	4.5	5.1
ROE (%)	10.4	10.2	10.7
Net gearing (%)	67	56	42

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$7.40

China Transportation Sector

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Stock Data

Mkt Cap (HK\$ mn)	12,381
Avg 3 mths t/o (HK\$ mn)	18.35
52w High/Low (HK\$)	7.53/ 5.72
Total Issued Shares (mn)	1,673

Source: Bloomberg

Shareholding Structure

Yuexiu Enterprises (Holdings) Limited	44.20%
Grace Lord Group	18.12%

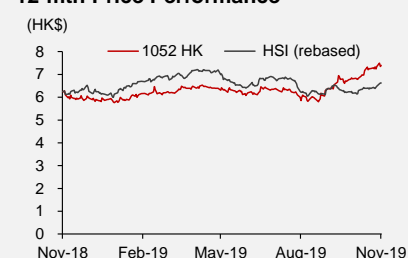
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.9%	0.7%
3-mth	22.5%	15.7%
6-mth	15.0%	25.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Focus Charts

Figure 1: Information on the target expressways

	Daguangnan Expressway	Hancai Expressway	Han'e Expressway
Toll mileage (km)	107.1	35.98	54.75
Number of lanes	Dual two lanes	Dual two lanes	Dual two lanes
Completion	Not yet	Completed	Not yet
Concession period	Apr 2042	Aug 2038	Jun 2042

Source: Company data, CMBIS

Figure 2: Information on the Company's existing expressways

	Location	Mileage (km)	Remaining operating years	Average daily toll revenue in 2018 (RMB'000)
Subsidiaries				
GNSR Expressway	Guangdong	42.5	13	3,180
Cangyu Expressway	Guangxi	23.3	11	214
Jinxiong Expressway	Tianjin	23.9	11	262
Han-Xiao Expressway	Hubei	38.5	17	466
Changzhu Expressway	Hunan	46.5	21	680
Weixu Expressway	Henan	64.3	16	1,171
Suiyuanan Expressway	Hubei	98.1	21	1,828
Associates and JVs				
GWSR Expressway	Guangdong	42.1	11	1,653
Humen Bridge	Guangdong	15.8	10	4,583
Northern Ring Road	Guangdong	22.0	4	2,109
Shantou Bay Bridge	Guangdong	6.5	9	583
Qinglian Expressway	Guangdong	215.2	15	2,084

Source: Company data, CMBIS

Figure 3: The acquisition enhances operational sustainability

HK1052	Mileage (km)	Remaining operating years	HKS48	Mileage (km)	Remaining operating years	HK737	Mileage (km)	Remaining operating years
Controlled projects			Controlled projects			Joint ventures		
GNSR Expressway	42.5	13	Meiguan Expressway	5.4	8	GS Superhighway	122.8	8
Cangyu Expressway	23.3	11	Jihe East	23.7	8	Western Delta Route	97.9	19
Jinxiong Expressway	23.9	11	Jihe West	21.8	8			
Han-Xiao Expressway	38.5	17	Coastal Project	36.6	19			
Changzhu Expressway	46.5	21	Shuiguan Expressway	20.0	8			
Weixu Expressway	64.3	16	Qinglian Expressway	216.0	15			
Suiyuanan Expressway	98.1	21	Wuhuan Expressway	70.3	3			
Daguangnan Expressway	107.1	23	Yichang Project	78.3	14			
Hancai Expressway	36.0	19	Changsha Ring Road	34.7	10			
Han'e Expressway	54.8	23						
Total mileage	534.93		Total mileage	506.8		Total mileage	220.7	
Mileage weighted average remaining operating years	19.1		Mileage weighted average remaining operating years	12.1		Mileage weighted average remaining operating years	12.9	

Source: Company data, CMBIS

Business Overview

In 9M19, average daily traffic of Hubei Suiyuan Expressway increased 12.4% YoY, driving toll revenue to increase 6.0% YoY to RMB 526.8mn. The completion and commencement of operation of Qingxi Bridge, connecting Qinglian Expressway, induced traffic growth of Qinglian Expressway. In 9M19, average daily traffic of Qinglian Expressway increased 13.0% YoY, driving toll revenue to increase 12.5% YoY to RMB 675.6mn. Due to traffic diversion and implementation of restrictions on trucks, traffic and toll revenue of Humen Bridge recorded substantial decrease. Also due to traffic diversion, traffic and toll revenue of Cangyu Expressway recorded substantial decrease.

Figure 4: 9M19 operational data

9M19	Average daily traffic ('000)	YoY	Toll revenue (RMB'000)	YoY
Subsidiaries				
GNSR Expressway	250	6.3%	926,736	5.1%
Cangyu Expressway	9	-20.9%	50,090	-20.1%
Jinxiong Expressway	39	-0.5%	75,319	-2.1%
Han-Xiao Expressway	29	6.5%	140,065	4.3%
Changzhu Expressway	62	3.1%	190,542	-1.5%
Weixu Expressway	33	4.7%	365,863	0.6%
Suiyuan Expressway	26	12.4%	526,830	6.0%
Associates and JVs				
GWSR Expressway	85	15.2%	446,912	0.1%
Humen Bridge	98	-20.7%	914,835	-29.4%
Northern Ring Road	361	2.5%	590,817	-1.4%
Shantou Bay Bridge	28	6.0%	157,894	-3.8%
Qinglian Expressway	50	13.0%	675,567	12.5%

Source: Company data, CMBIS

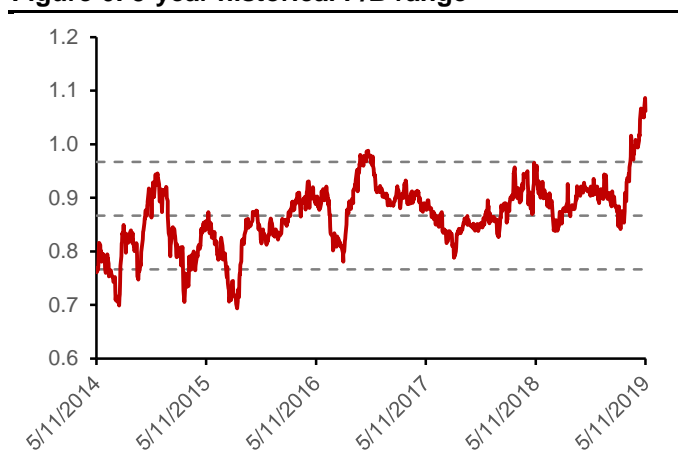
Valuation

Figure 5: Peers' valuation

Ticker	Company	Mkt cap (mn)	P/B (x)		ROE (%)		Div.yield (%)	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
107 HK	SICHUAN EXP-H	11,500	0.4	0.4	5.9	6.0	5.3	5.3
152 HK	SHENZ INTL HLDG	36,541	1.2	1.1	12.4	12.9	6.2	6.7
177 HK	JIANGSU EXPRES-H	58,035	1.7	1.6	15.2	15.1	5.0	5.2
548 HK	SHENZHEN EXPRE-H	25,820	1.2	1.1	17.3	15.3	5.7	4.7
576 HK	ZHEJIANGEXPRES-H	30,489	1.1	1.0	15.4	15.2	6.4	6.7
737 HK	SHENZHEN INVESTM	12,019	2.2	2.2	13.3	15.1	6.0	6.7
995 HK	ANHUI EXPRESS-H	9,779	0.7	0.6	10.3	9.1	5.9	6.0
1052 HK	YUEXIU TRANSPORT	12,381	1.0	1.0	11.9	10.9	5.8	5.9
1785 HK	CHENGDU EXPRES-H	3,710	1.0	0.9	16.8	14.5	8.0	8.5
Average of H-shares			1.2	1.1	13.2	12.7	6.0	6.2
000429 CH	GUANGDONG PROV-A	15,790	1.7	1.6	14.1	14.4	5.6	6.3
200429 CH	GUANGDONG PROV-B	17,668	1.1	1.1	14.1	14.4	9.9	10.5
600012 CH	ANHUI EXPRESS-A	8,740	0.9	0.8	10.3	9.0	4.4	4.0
600350 CH	SHANDONG HI-SP-A	22,612	0.8	0.7	8.2	7.8	4.4	3.9
600377 CH	JIANGSU EXPRES-A	51,865	1.9	1.8	15.2	15.0	4.6	4.7
600548 CH	SHENZHEN EXPRE-A	23,075	1.3	1.2	14.4	11.6	5.1	4.3
601107 CH	SICHUAN EXP-A	10,277	0.8	0.8	5.9	6.0	2.8	2.8
Average of A-shares			1.2	1.1	11.7	11.2	5.2	5.2
Overall average			1.2	1.1	12.5	11.9	5.6	5.7

Source: Bloomberg, CMBIS

Figure 6: 5-year historical P/B range



Source: Bloomberg, CMBIS

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