

Yuexiu Transport (1052 HK)

2023 core profit +91% YoY but below estimates; >7% yield + potential asset injection

Yuexiu Transport's net profit in 2023 grew 69% YoY to RMB765mn. Adjusted for RMB100mn of non-cash impairment on Shantou Bay Bridge, the core net profit would be RMB865mn (+91% YoY), 10%/8% below our/consensus forecast as the gross margin is below expectation. Yuexiu Transport proposed final dividend of HK\$0.15/share. Including the interim dividend (HK\$0.15/share), the full-year payout ratio is ~60% and the dividend yield is >7% based on the current share price. We revise down our 2024E/25E earnings forecast by 7%/3%, mainly due to lower gross margin and lower traffic volume assumptions for GNSR due to diversion of traffic. Looking forward, we believe the recent increase in the company's shareholding by **China Merchants Expressway (001965 CH, NR)** not only helps support share price, but also implies progress on the potential asset injection of Henan Pinglin Expressway (河南平临高速). Maintain **BUY** with new DCF-based TP of HK\$7.2, implying 11x 2024E P/E.

- **2023 results highlights.** Revenue grew 21% YoY to RMB3.97bn (in line with our expectation), mainly driven by the increase in toll revenue, on the back of recovery of traffic volume and the consolidation of the acquired Henan Lanwei Expressway. Gross margin expanded 1.8ppt YoY to 54.1% (only 51.8% in 2H23, vs 56.6% in 1H23). Admin expense ratio dropped 2.6ppt YoY to 6.8%. Profit from associates & JV surged 61% YoY to RMB277mn. Net finance expense dropped 5% YoY to RMB532mn, as effective interest cost fell to 3.24% (3.38% in 2022). Core net profit surged 91% YoY to RMB865mn. Operating cash inflow increased 27% YoY to RMB2.8bn. As at end-2023, net debt/equity ratio improved to 99% (107% at end-2022).
- **Construction of GNSR Expressway R&E Project to start in Jun 2024.** Construction work will start after obtaining land use and construction approvals. Mgmt. expects the impact on traffic volume will be limited as four lanes (out of six) will remain in operation during the construction period.
- **Increase in shareholding by CM Expressway.** CM Expressway first disclosed it owned 5% interest in Yuexiu Transport in early Dec 2023 and gradually increased the interest to 7% in late Dec (price range: HK\$4.34-4.41). We expect more co-operations between the two companies, including the asset injection of Henan Pinglin Expressway which is jointly owned by CM Expressway and Yuexiu Group (parent company of Yuexiu Transport).
- **Capex in 2024E.** Capex in 2023 amounted to RMB1.55bn. Mgmt. guides a capex range of RMB2.4-2.6bn for 2024E, comprising RMB1.9-2.0bn for the GNSR Expressway R&E project and RMB500-600mn for maintenance capex. Mgmt will also set aside budget for any potential M&A.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|--------|-------|-------|---------|---------|
| Revenue (RMB mn) | 3,289 | 3,967 | 4,160 | 4,290 | 4,405 |
| YoY growth (%) | (11.2) | 20.6 | 4.9 | 3.1 | 2.7 |
| Net profit (RMB mn) | 453.1 | 765.3 | 978.3 | 1,062.6 | 1,118.9 |
| EPS (Reported) (RMB) | 0.27 | 0.46 | 0.58 | 0.64 | 0.67 |
| YoY growth (%) | (69.1) | 68.9 | 27.8 | 8.6 | 5.3 |
| Consensus EPS (RMB) | na | na | 0.65 | 0.70 | 0.00 |
| P/E (x) | 13.6 | 8.3 | 7.2 | 6.6 | 6.3 |
| P/B (x) | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 |
| Yield (%) | 4.7 | 7.2 | 7.6 | 8.3 | 8.7 |
| ROE (%) | 4.0 | 6.7 | 8.2 | 8.5 | 8.5 |
| Net gearing (%) | 135.9 | 126.5 | 123.8 | 118.9 | 115.1 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$7.20
 (Previous TP) HK\$7.50
Up/Downside 57.2%
Current Price HK\$4.58

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 7,663.1 |
| Avg 3 mths t/o (HK\$ mn) | 10.4 |
| 52w High/Low (HK\$) | 4.70/3.65 |
| Total Issued Shares (mn) | 1673.2 |

Source: FactSet

Shareholding Structure

| | |
|----------------------------|-------|
| Guangzhou Yue Xiu Holdings | 44.2% |
| China Merchants Expressway | 7.0% |

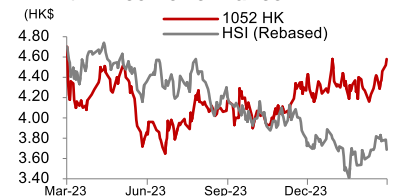
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 4.6% | 0.3% |
| 3-mth | 4.3% | 5.4% |
| 6-mth | 9.8% | 25.4% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

Yuexiu Transport – 1H23 earnings +45% YoY with solid div payout; Potential asset injection to boost growth – 9 Aug 2023 ([link](#))

Yuexiu Transport (initiation) – Growth formula: Organic growth + Asset injection + Spin-off via infrastructure REIT – 27 Jan 2023 ([link](#))

Potential high-quality asset injection to boost earnings

The success of the acquisition of Henan Lanwei Expressway has reaffirmed the feasibility of Yuexiu Transport's "incubation-injection" strategy, which helps scale up and diversify the company's asset pool. We expect Yuexiu Transport to accelerate the asset injection with a view to further enhance its profitability.

Yuexiu Group, the parent company, currently holds two high-quality toll projects: (1) Shandong Qinbin Expressway (Chengkou-Zhanhua section) (山东秦滨高速(埭口-沾化路段)), and (2) Henan Pinglin Expressway (河南平临高速), jointly with China Merchants Expressway.

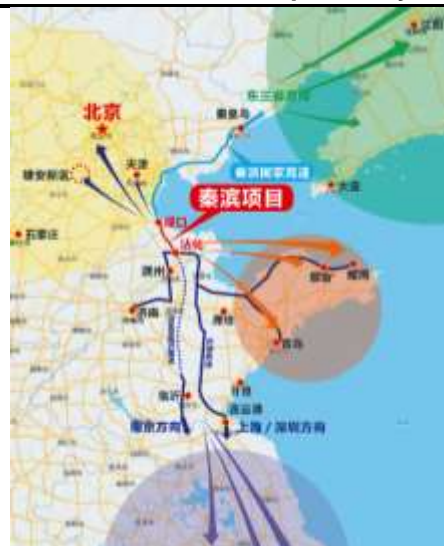
- **Henan Pinglin Expressway:** In Feb 2023, Yuexiu Group acquired Henan Pinglin Expressway for RMB2.45bn. Pinglin Expressway, with a total length of 106.45km, is a crucial section of Ningluo National Expressway (G36) in Henan. Upon the acquisition, Pinglin Expressway will be Yuexiu Transport's third investment project in Henan (others include Weixu Expressway and Lanwei Expressway), which will help expand the company's footprint in central China and promote coordinated operation management. According to Yuexiu Transport, the IRR of Pinglin Expressway project is expected to reach a double-digit level.
- **Shandong Qinbin Expressway:** The Chengkou-Zhanhua section of Qinbin Expressway is a crucial part of Beijing-Harbin Expressway, as well as one of the five horizontal lanes under Shandong province's highway planning layout of 9517 Network. The expressway is the key linkage between the Shandong and Hebei section of Qinbin Expressway. The project has a total length of 9.53km. The whole project (including both phase 1 and 2) has been opened to traffic since Jan 2022.

Figure 1: Location of Pinglin Expressway



Source: Company data, CMBIGM

Figure 2: Location of Qinbin Expressway



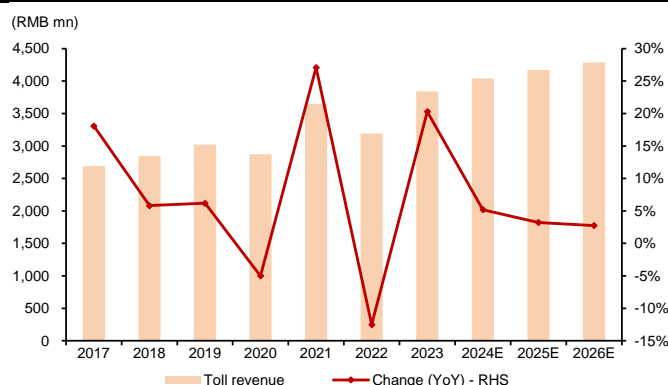
Source: Company data, CMBIGM

Figure 3: Yuexiu Transport's 2023 results

| YE Dec 31(RMB mn) | 2022 | 2023 | Change (YoY) | 2023E | A vs E | 1H22 | 1H23 | Change (YoY) | 2H22 | 2H23 | Change (YoY) |
|--------------------------------------|--------|--------|--------------|--------|---------|-------|-------|--------------|-------|-------|--------------|
| Revenue | 3,289 | 3,967 | 20.6% | 3,955 | 0.3% | 1,616 | 1,935 | 19.8% | 1,673 | 2,031 | 21.4% |
| Cost of sales | -1,570 | -1,819 | 15.9% | -1,590 | 14.5% | -718 | -841 | 17.1% | -852 | -979 | 14.9% |
| Gross profit | 1,719 | 2,147 | 24.9% | 2,365 | -9.2% | 898 | 1,095 | 21.9% | 822 | 1,053 | 28.1% |
| Other income | 46 | -75 | n/a | 59 | -226.7% | 38 | 11 | -72.1% | 8 | -86 | n/a |
| Administrative expenses | -310 | -268 | -13.7% | -376 | -28.7% | -102 | -134 | 31.1% | -208 | -134 | -35.7% |
| EBIT | 1,455 | 1,804 | 24.0% | 2,049 | -11.9% | 833 | 971 | 16.6% | 622 | 833 | 34.0% |
| Net finance income/(cost) | -562 | -532 | -5.3% | -601 | -11.5% | -305 | -270 | -11.4% | -257 | -262 | 2.0% |
| Finance income | 64 | 30 | -52.5% | 60 | -49.6% | 29 | 14 | -52.7% | 35 | 17 | -52.4% |
| Finance expenses | -625 | -562 | -10.1% | -661 | -14.9% | -334 | -284 | -15.0% | -291 | -278 | -4.5% |
| Share of profit of JV and associates | 172 | 277 | 60.6% | 265 | 4.4% | 91 | 130 | 43.4% | 81 | 146 | 79.8% |
| Pretax profit | 1,065 | 1,549 | 45.4% | 1,713 | -9.6% | 619 | 831 | 34.3% | 446 | 718 | 60.8% |
| Income tax | -328 | -427 | 30.5% | -428 | -0.2% | -173 | -219 | 26.4% | -154 | -208 | 35.0% |
| After tax profit | 738 | 1,122 | 52.0% | 1,284 | -12.7% | 446 | 613 | 37.4% | 292 | 509 | 74.4% |
| MI | -285 | -356 | 25.2% | -321 | -11.0% | -151 | -185 | 23.1% | -134 | -171 | 27.4% |
| Net profit | 453 | 765 | 68.9% | 963 | -20.6% | 295 | 427 | 44.6% | 158 | 338 | 114.3% |
| Adjusted net profit | 453 | 865 | 91.0% | 963 | -10.2% | | | | | | |
| D&A | 1,175 | 1,308 | 11.3% | 1,287 | 1.7% | 561 | 652 | 16.3% | 615 | 656 | 6.7% |
| EBITDA | 2,630 | 3,112 | 18.3% | 3,335 | -6.7% | 1,394 | 1,623 | 16.5% | 1,236 | 1,489 | 20.4% |

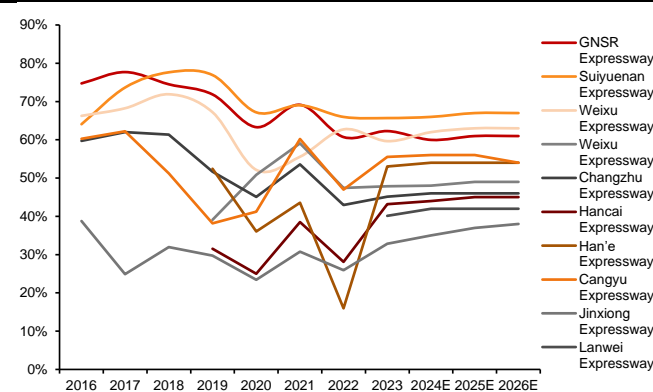
Source: Company data, CMBIGM estimates

Figure 4: Yuexiu Transport's toll revenue and growth



Source: Company data, CMBIGM estimates

Figure 5: Toll road projects' gross margin trend



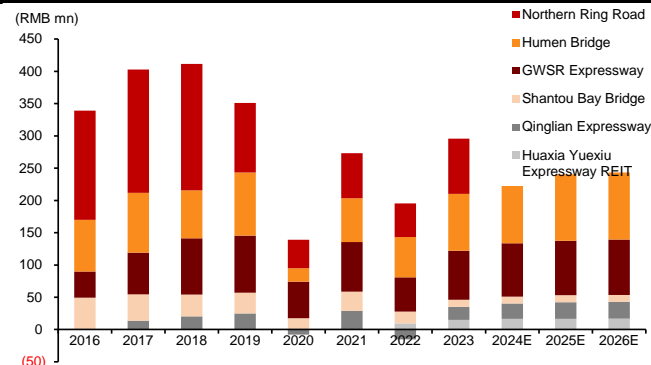
Source: Company data, CMBIGM

Figure 6: Yuexiu Transport's core net profit



Source: Company data, CMBIGM

Figure 7: Share of results of associates & JV



Source: Company data, CMBIGM

Operating assumptions

Figure 8: Change in key assumptions

| | Old | | | New | | | Change | | |
|--|--------------|--------------|-------|--------------|--------------|--------------|--------------|--------------|----------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| (RMB mn) | | | | | | | | | |
| Revenue | | | | | | | | | |
| GNSR Expressway | 1,128 | 1,139 | | 1,050 | 1,061 | 1,061 | -6.9% | -6.9% | - |
| Suiyuanan Expressway | 770 | 808 | | 801 | 841 | 883 | 4.0% | 4.0% | - |
| Daguanan Expressway | 489 | 494 | | 512 | 538 | 565 | 4.6% | 8.8% | - |
| Weixu Expressway | 421 | 425 | | 407 | 415 | 424 | -3.2% | -2.3% | - |
| Changzhu Expressway | 282 | 285 | | 272 | 278 | 283 | -3.5% | -2.6% | - |
| Hancai Expressway | 290 | 293 | | 288 | 294 | 300 | -0.7% | 0.2% | - |
| Han'e Expressway | 183 | 185 | | 173 | 176 | 180 | -5.5% | -4.5% | - |
| Cangyu Expressway | 106 | 107 | | 107 | 109 | 111 | 0.9% | 1.9% | - |
| Jinxiong Expressway | 94 | 95 | | 90 | 92 | 94 | -4.2% | -3.3% | - |
| Lanwei Expressway | 358 | 376 | | 339 | 367 | 385 | -5.1% | -2.4% | - |
| Han-Xiao Expressway | 0 | 0 | | 0 | 0 | 0 | - | - | - |
| Sub-total (Toll revenue) | 4,121 | 4,208 | | 4,040 | 4,170 | 4,285 | -2.0% | -0.9% | - |
| Other toll operating income | 13 | 13 | | 13 | 13 | 13 | 0.0% | 0.0% | - |
| Entrusted road management service income | 30 | 30 | | 30 | 30 | 30 | 0.0% | 0.0% | - |
| Construction service income | 35 | 35 | | 35 | 35 | 35 | 0.0% | 0.0% | - |
| Income from service area and gas station | 42 | 42 | | 42 | 42 | 42 | 0.0% | 0.0% | - |
| Others (e.g. port, toll expressway) | 0 | 0 | | 0 | 0 | 0 | - | - | - |
| Revenue | 4,241 | 4,328 | | 4,160 | 4,290 | 4,405 | -1.9% | -0.9% | - |
| Gross margin | | | | | | | | | |
| GNSR Expressway | 69.0% | 70.0% | | 60.0% | 61.0% | 61.0% | (9.0) | (9.0) | - |
| Suiyuanan Expressway | 69.0% | 70.0% | | 66.0% | 67.0% | 67.0% | (3.0) | (3.0) | - |
| Daguanan Expressway | 53.0% | 53.0% | | 48.0% | 49.0% | 49.0% | (5.0) | (4.0) | - |
| Weixu Expressway | 67.5% | 67.5% | | 62.0% | 63.0% | 63.0% | (5.5) | (4.5) | - |
| Changzhu Expressway | 51.0% | 51.0% | | 46.0% | 46.0% | 46.0% | (5.0) | (5.0) | - |
| Hancai Expressway | 46.0% | 46.0% | | 44.0% | 45.0% | 45.0% | (2.0) | (1.0) | - |
| Han'e Expressway | 54.0% | 54.0% | | 54.0% | 54.0% | 54.0% | 0.0 | 0.0 | - |
| Cangyu Expressway | 56.0% | 56.0% | | 56.0% | 56.0% | 54.0% | 0.0 | 0.0 | - |
| Jinxiong Expressway | 38.0% | 38.0% | | 35.0% | 37.0% | 38.0% | (3.0) | (1.0) | - |
| Lanwei Expressway | 45.0% | 45.0% | | 42.0% | 42.0% | 42.0% | (3.0) | (3.0) | - |
| Blended gross margin | 60.3% | 60.8% | | 55.4% | 56.1% | 56.1% | (4.9) | (4.7) | - |
| Change (ppt) | | | | | | | | | |
| Admin expense ratio | 9.4% | 9.3% | | 9.4% | 9.3% | 9.3% | 0.0 | 0.0 | - |
| Net finance income/(cost) | (629.95) | (687.08) | | (517.77) | (533.24) | (540.96) | -17.8% | -22.4% | - |
| Share of profit of JV and associates | 234.71 | 234.71 | | 222.32 | 240.39 | 243.39 | -5.3% | 2.4% | - |
| Net profit | 1,060 | 1,095 | | 978 | 1,063 | 1,119 | -7.7% | -2.9% | - |

Source: Company data, CMBIGM estimates

Figure 9: Key operating assumptions

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Average daily toll traffic volume (vehicle/day) | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| GNSR Expressway | 233,210 | 255,418 | 297,280 | 280,865 | 243,180 | 298,196 | 283,286 | 286,119 | 286,119 |
| Suiyuanan Expressway | 22,903 | 25,574 | 33,252 | 30,465 | 28,181 | 33,544 | 37,569 | 39,448 | 41,420 |
| Daguanqian Expressway | - | 25,692 | 30,017 | 29,528 | 23,365 | 28,518 | 31,940 | 33,537 | 35,214 |
| Weixu Expressway | 31,928 | 32,957 | 23,676 | 23,531 | 21,491 | 26,520 | 28,642 | 29,214 | 29,799 |
| Changzhu Expressway | 59,329 | 62,641 | 77,895 | 73,797 | 64,434 | 72,129 | 76,457 | 77,986 | 79,546 |
| Hancai Expressway | - | 47,607 | 47,929 | 50,878 | 42,871 | 59,294 | 62,852 | 64,109 | 65,391 |
| Han'e Expressway | - | 34,968 | 41,220 | 41,436 | 29,157 | 36,964 | 39,182 | 39,965 | 40,765 |
| Cangyu Expressway | 10,857 | 8,604 | 12,489 | 15,550 | 15,445 | 18,676 | 19,797 | 20,192 | 20,596 |
| Jinxiong Expressway | 37,345 | 37,039 | 45,254 | 34,444 | 29,413 | 37,101 | 39,327 | 40,114 | 40,916 |
| Lanwei Expressway | - | - | - | - | 25,802 | 33,204 | 36,524 | 39,446 | 41,419 |
| Associates and Joint venture | | | | | | | | | |
| Northern Ring Road | 348,447 | 361,676 | 382,534 | 372,746 | 344,067 | 387,106 | - | - | - |
| Humen Bridge | 121,747 | 88,507 | 70,251 | 89,498 | 72,149 | 103,620 | 107,765 | 108,842 | 109,931 |
| Shantou Bay Bridge | 26,175 | 27,520 | 30,703 | 29,553 | 24,521 | 18,558 | 19,486 | 19,876 | 20,273 |
| Han-Xiao Expressway | 26,719 | 28,715 | 32,675 | 33,520 | 27,043 | 32,560 | 34,188 | 34,530 | 34,875 |
| Qinglian Expressway | 43,477 | 48,520 | 53,893 | 53,050 | 44,922 | 51,855 | 54,966 | 55,516 | 56,071 |
| GWSR Expressway | 73,237 | 85,635 | 110,815 | 92,549 | 72,054 | 92,687 | 101,956 | 103,995 | 106,075 |
| Change YoY | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| GNSR Expressway | 1.4% | 9.5% | 16.4% | -5.5% | -13.4% | 22.6% | -5.0% | 1.0% | 0.0% |
| Suiyuanan Expressway | 14.8% | 11.7% | 30.0% | -8.4% | -7.5% | 19.0% | 12.0% | 5.0% | 5.0% |
| Daguanqian Expressway | - | - | 16.8% | -1.6% | -20.9% | 22.1% | 12.0% | 5.0% | 5.0% |
| Weixu Expressway | 36.0% | 3.2% | -28.2% | -0.6% | -8.7% | 23.4% | 8.0% | 2.0% | 2.0% |
| Changzhu Expressway | 175.8% | 5.6% | 24.4% | -5.3% | -12.7% | 11.9% | 6.0% | 2.0% | 2.0% |
| Hancai Expressway | - | - | 0.7% | 6.2% | -15.7% | 38.3% | 6.0% | 2.0% | 2.0% |
| Han'e Expressway | - | - | 17.9% | 0.5% | -29.6% | 26.8% | 6.0% | 2.0% | 2.0% |
| Cangyu Expressway | -11.2% | -20.8% | 45.2% | 24.5% | -0.7% | 20.9% | 6.0% | 2.0% | 2.0% |
| Jinxiong Expressway | 53.0% | -0.8% | 22.2% | -23.9% | -14.6% | 26.1% | 6.0% | 2.0% | 2.0% |
| Lanwei Expressway | - | - | - | - | - | 28.7% | 10.0% | 8.0% | 5.0% |
| Associates and Joint venture | | | | | | | | | |
| Northern Ring Road | 3.9% | 3.8% | 5.8% | -2.6% | -7.7% | 12.5% | 0.0% | 0.0% | 0.0% |
| Humen Bridge | 2.8% | -27.3% | -20.6% | 27.4% | -19.4% | 43.6% | 4.0% | 1.0% | 1.0% |
| Shantou Bay Bridge | -0.8% | 5.1% | 11.6% | -3.7% | -17.0% | -24.3% | 5.0% | 2.0% | 2.0% |
| Han-Xiao Expressway | 0.0% | 7.5% | 13.8% | 2.6% | -19.3% | 20.4% | 5.0% | 1.0% | 1.0% |
| Qinglian Expressway | 5.6% | 11.6% | 11.1% | -1.6% | -15.3% | 15.4% | 6.0% | 1.0% | 1.0% |
| GWSR Expressway | 2.9% | 16.9% | 29.4% | -16.5% | -22.1% | 28.6% | 10.0% | 2.0% | 2.0% |
| Average annual toll fee (RMB/vehicle) | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| GNSR Expressway | 4,977 | 4,765 | 3,889 | 3,992 | 4,034 | 3,707 | 3,707 | 3,707 | 3,707 |
| Suiyuanan Expressway | 29,132 | 26,889 | 19,923 | 20,157 | 22,430 | 21,317 | 21,317 | 21,317 | 21,317 |
| Daguanqian Expressway | - | 13,365 | 14,395 | 15,243 | 16,663 | 16,031 | 16,031 | 16,031 | 16,031 |
| Weixu Expressway | 13,385 | 12,604 | 15,523 | 14,841 | 18,132 | 14,218 | 14,218 | 14,218 | 14,218 |
| Changzhu Expressway | 4,182 | 3,996 | 3,370 | 3,642 | 3,589 | 3,561 | 3,561 | 3,561 | 3,561 |
| Hancai Expressway | - | 5,219 | 4,752 | 5,072 | 5,253 | 4,581 | 4,581 | 4,581 | 4,581 |
| Han'e Expressway | - | 5,037 | 4,541 | 5,053 | 5,191 | 4,412 | 4,412 | 4,412 | 4,412 |
| Cangyu Expressway | 7,196 | 7,316 | 5,584 | 5,750 | 5,762 | 5,410 | 5,410 | 5,410 | 5,410 |
| Jinxiong Expressway | 2,560 | 2,502 | 2,059 | 2,330 | 2,451 | 2,299 | 2,299 | 2,299 | 2,299 |
| Lanwei Expressway | - | - | - | - | - | 9,295 | 9,295 | 9,295 | 9,295 |
| Associates and Joint venture | | | | | | | | | |
| Northern Ring Road | 2,210 | 2,103 | 1,785 | 1,918 | 1,865 | 1,861 | - | - | - |
| Humen Bridge | 13,740 | 11,718 | 8,125 | 9,669 | 9,650 | 9,953 | 9,953 | 9,953 | 9,953 |
| Shantou Bay Bridge | 8,125 | 7,416 | 5,617 | 6,405 | 5,776 | 5,735 | 5,735 | 5,735 | 5,735 |
| Han-Xiao Expressway | 6,364 | 6,338 | 5,936 | 6,737 | 7,349 | 7,273 | 7,273 | 7,273 | 7,273 |
| Qinglian Expressway | 17,497 | 17,251 | 15,585 | 16,509 | 13,700 | 13,106 | 13,106 | 13,106 | 13,106 |
| GWSR Expressway | 8,239 | 6,807 | 5,017 | 5,444 | 5,621 | 5,378 | 5,378 | 5,378 | 5,378 |
| Change YoY | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| GNSR Expressway | -3% | -4% | -18% | 3% | 1% | -8% | 0% | 0% | 0% |
| Suiyuanan Expressway | 1% | -8% | -26% | 1% | 11% | -5% | 0% | 0% | 0% |
| Daguanqian Expressway | - | - | 8% | 6% | 9% | -4% | 0% | 0% | 0% |
| Weixu Expressway | -4% | -6% | 23% | -4% | 22% | -22% | 0% | 0% | 0% |
| Changzhu Expressway | -63% | -4% | -16% | 8% | -1% | -1% | 0% | 0% | 0% |
| Hancai Expressway | - | - | -9% | 7% | 4% | -13% | 0% | 0% | 0% |
| Han'e Expressway | - | - | -10% | 11% | 3% | -15% | 0% | 0% | 0% |
| Cangyu Expressway | 3% | 2% | -24% | 3% | 0% | -6% | 0% | 0% | 0% |
| Jinxiong Expressway | -30% | -2% | -18% | 13% | 5% | -6% | 0% | 0% | 0% |
| Lanwei Expressway | - | - | - | - | - | - | 0% | 0% | 0% |
| Associates and Joint venture | | | | | | | | | |
| Northern Ring Road | -4% | -5% | -15% | 7% | -3% | 0% | 0% | 0% | 0% |
| Humen Bridge | 1% | -15% | -31% | 19% | 0% | 3% | 0% | 0% | 0% |
| Shantou Bay Bridge | -12% | -9% | -24% | 14% | -10% | -1% | 0% | 0% | 0% |
| Han-Xiao Expressway | -14% | 0% | -6% | 13% | 9% | -1% | 0% | 0% | 0% |
| Qinglian Expressway | -2% | -1% | -10% | 6% | -17% | -4% | 0% | 0% | 0% |
| GWSR Expressway | 20% | -17% | -26% | 9% | 3% | -4% | 0% | 0% | 0% |

Source: Company data, CMBIGM estimates

Figure 10: Revenue and gross margin breakdown

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (RMB mn) | | | | | | | | | |
| Revenue | | | | | | | | | |
| GNSR Expressway | 1,161 | 1,217 | 909 | 1,121 | 981 | 1,105 | 1,050 | 1,061 | 1,061 |
| Suiyuanan Expressway | 667 | 688 | 521 | 614 | 632 | 715 | 801 | 841 | 883 |
| Daguanqnan Expressway | - | 57 | 340 | 450 | 389 | 457 | 512 | 538 | 565 |
| Weixu Expressway | 427 | 415 | 289 | 349 | 390 | 377 | 407 | 415 | 424 |
| Changzhu Expressway | 248 | 250 | 206 | 269 | 231 | 257 | 272 | 278 | 283 |
| Hancai Expressway | - | 32 | 179 | 258 | 225 | 272 | 288 | 294 | 300 |
| Han'e Expressway | - | 26 | 147 | 209 | 151 | 163 | 173 | 176 | 180 |
| Cangyu Expressway | 78 | 63 | 55 | 89 | 89 | 101 | 107 | 109 | 111 |
| Jinxiong Expressway | 96 | 93 | 73 | 80 | 72 | 85 | 90 | 92 | 94 |
| Lanwei Expressway | - | - | - | - | 32 | 309 | 339 | 367 | 385 |
| Han-Xiao Expressway | 170 | 182 | 153 | 209 | - | - | - | - | - |
| Sub-total (Toll revenue) | 2,847 | 3,023 | 2,872 | 3,650 | 3,193 | 3,841 | 4,040 | 4,170 | 4,285 |
| Other toll operating income | - | - | 12 | 12 | 5 | 7 | 13 | 13 | 13 |
| Entrusted road management service income | - | - | - | - | 32 | 36 | 30 | 30 | 30 |
| Construction service income | - | - | - | - | 24 | 47 | 35 | 35 | 35 |
| Income from service area and gas station | - | - | 36 | 40 | 34 | 35 | 42 | 42 | 42 |
| Others (e.g. port, toll expressway) | - | - | - | - | - | - | - | - | - |
| Revenue | 2,847 | 3,023 | 2,920 | 3,702 | 3,289 | 3,967 | 4,160 | 4,290 | 4,405 |
| Revenue Growth (YoY) | | | | | | | | | |
| <i>Toll revenue</i> | | | | | | | | | |
| GNSR Expressway | -2% | 5% | -25% | 23% | -12% | 13% | -5% | 1% | 0% |
| Suiyuanan Expressway | 17% | 3% | -24% | 18% | 3% | 13% | 12% | 5% | 5% |
| Daguanqnan Expressway | - | - | 493% | 32% | -14% | 17% | 12% | 5% | 5% |
| Weixu Expressway | 31% | -3% | -30% | 21% | 12% | -3% | 8% | 2% | 2% |
| Changzhu Expressway | 2% | 1% | -18% | 30% | -14% | 11% | 6% | 2% | 2% |
| Hancai Expressway | - | - | 466% | 44% | -13% | 21% | 6% | 2% | 2% |
| Han'e Expressway | - | - | 463% | 42% | -28% | 8% | 6% | 2% | 2% |
| Cangyu Expressway | -9% | -19% | -13% | 63% | 0% | 14% | 6% | 2% | 2% |
| Jinxiong Expressway | 7% | -3% | -21% | 10% | -10% | 18% | 6% | 2% | 2% |
| Lanwei Expressway | - | - | - | - | - | 862% | 10% | 8% | 5% |
| Han-Xiao Expressway | -14% | 7% | -16% | 37% | - | - | - | - | - |
| Sub-total (Toll revenue) | 6% | 6% | -5% | 27% | -13% | 20% | 5% | 3% | 3% |
| Other toll operating income | - | - | - | 4% | -55% | 27% | 87% | 0% | 0% |
| Entrusted road management service income | - | - | - | - | - | 12% | -16% | 0% | 0% |
| Construction service income | - | - | - | - | - | 98% | -26% | 0% | 0% |
| Income from service area and gas station | - | - | - | 12% | -15% | 3% | 18% | 0% | 0% |
| Others (e.g. port, toll expressway) | - | - | - | - | - | - | - | 0% | 0% |
| Revenue Growth | 6% | 6% | -3% | 27% | -11% | 21% | 5% | 3% | 3% |
| Gross margin | | | | | | | | | |
| GNSR Expressway | 75% | 72% | 63% | 69% | 61% | 62% | 60% | 61% | 61% |
| Suiyuanan Expressway | 78% | 77% | 67% | 69% | 66% | 66% | 66% | 67% | 67% |
| Daguanqnan Expressway | 0% | 39% | 51% | 59% | 47% | 48% | 48% | 49% | 49% |
| Weixu Expressway | 72% | 67% | 52% | 56% | 63% | 60% | 62% | 63% | 63% |
| Changzhu Expressway | 61% | 52% | 45% | 54% | 43% | 45% | 46% | 46% | 46% |
| Hancai Expressway | 0% | 32% | 25% | 39% | 28% | 43% | 44% | 45% | 45% |
| Han'e Expressway | 0% | 52% | 36% | 44% | 16% | 53% | 54% | 54% | 54% |
| Cangyu Expressway | 51% | 38% | 41% | 60% | 47% | 56% | 56% | 56% | 54% |
| Jinxiong Expressway | 32% | 30% | 23% | 31% | 26% | 33% | 35% | 37% | 38% |
| Lanwei Expressway | 0% | 0% | 0% | 0% | 0% | 40% | 42% | 42% | 42% |
| Han-Xiao Expressway | 59% | 56% | 52% | 72% | 0% | 0% | 0% | 0% | 0% |
| Blended gross margin | 71% | 67% | 54% | 61% | 53% | 55% | 55% | 56% | 56% |

Source: Company data, CMBIGM estimates

Valuation

We trim our DCF-based TP to HK\$7.2 from HK\$7.5. Our TP implies 11x 2024E P/E, which is slightly above the historical average of 10.2x. We believe our target valuation is justified, given the foreseeable growth through asset injection. Any potential asset injection from parent company or spin-off of projects will offer additional upside to our TP and dividend payment.

Figure 11: DCF calculation

| | |
|------------------------------|---------------|
| Enterprise Value | 29,053 |
| Net cash / (net debt) | -14,695 |
| Minority interest | -3,237 |
| Equity Value | 11,122 |
| Fair value (RMB/shr) | 6.6 |
| RMB/HK\$ | 1.083 |
| Fair value (HK\$ mn) | 12,045 |
| Fair value (HK\$/shr) | 7.2 |
| Assumptions | |
| Risk free rate | 4.2% |
| Risk premium | 9.0% |
| Beta | 0.5 |
| Cost of equity | 8.7% |
| After tax cost of debt | 2.3% |
| Debt/total capital | 48.0% |
| WACC | 5.6% |

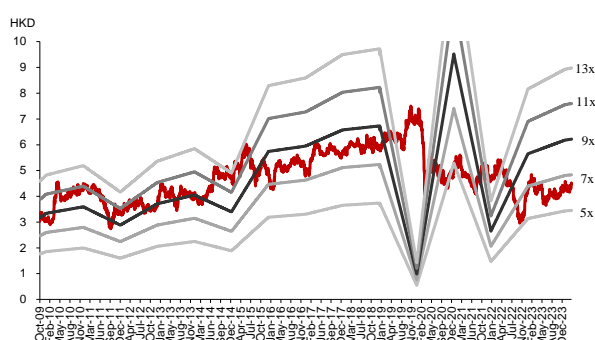
Source: CMBIGM estimates

Figure 12: DCF sensitivity

| | | LT debt/capital ratio | | | | |
|------------------------|-------------|-----------------------|-------|--------------|-------|-------|
| | | 38.0% | 43.0% | 48.0% | 53.0% | 58.0% |
| After tax cost of debt | 3.3% | 5.2 | 5.7 | 6.2 | 6.8 | 7.3 |
| | 2.8% | 5.5 | 6.1 | 6.7 | 7.3 | 8.0 |
| | 2.3% | 5.9 | 6.5 | 7.2 | 7.9 | 8.6 |
| | 1.8% | 6.3 | 7.0 | 7.7 | 8.5 | 9.3 |
| | 1.3% | 6.7 | 7.4 | 8.3 | 9.1 | 10.1 |

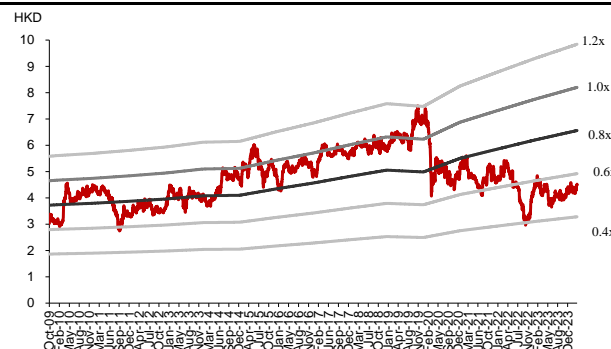
Source: CMBIGM estimates

Figure 13: Yuexiu Transport's P/E band



Source: Bloomberg, company data, CMBIGM estimates
 Note: Historical average: 10.2x

Figure 14: Yuexiu Transport's P/B band



Source: Bloomberg, company data, CMBIGM estimates
 Note: Historical average: 0.8x

Key risk factors: (1) diversion of traffic from other parallel toll roads, (2) rebound of gearing ratio and finance expense, and (3) uncertainties on GNSR expansion project.

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|---------|---------|---------|---------|---------|---------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 3,702 | 3,289 | 3,967 | 4,160 | 4,290 | 4,405 |
| Cost of goods sold | (1,479) | (1,570) | (1,819) | (1,820) | (1,846) | (1,899) |
| Gross profit | 2,223 | 1,719 | 2,147 | 2,340 | 2,444 | 2,506 |
| Admin expense | (370) | (310) | (268) | (391) | (399) | (410) |
| Other income | 800 | 46 | (75) | 62 | 64 | 66 |
| Share of (losses)/profits of associates/JV | 264 | 172 | 277 | 222 | 240 | 243 |
| EBITDA | 3,742 | 2,630 | 3,112 | 3,472 | 3,765 | 4,014 |
| Other amortisation | 1,088 | 1,175 | 1,308 | 1,460 | 1,656 | 1,851 |
| EBIT | 2,654 | 1,455 | 1,804 | 2,012 | 2,109 | 2,162 |
| Interest income | 44 | 64 | 30 | 52 | 61 | 63 |
| Interest expense | (743) | (625) | (562) | (570) | (594) | (604) |
| Net Interest income/(expense) | (699) | (562) | (532) | (518) | (533) | (541) |
| Pre-tax profit | 2,218 | 1,065 | 1,549 | 1,716 | 1,816 | 1,865 |
| Income tax | (426) | (328) | (427) | (429) | (454) | (466) |
| After tax profit | 1,793 | 738 | 1,122 | 1,287 | 1,362 | 1,399 |
| Minority interest | (328) | (285) | (356) | (309) | (300) | (280) |
| Net profit | 1,465 | 453 | 765 | 978 | 1,063 | 1,119 |
| Adjusted net profit | 729 | 453 | 865 | 978 | 1,063 | 1,119 |
| Gross dividends | 833 | 292 | 457 | 538 | 584 | 615 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 3,293 | 2,776 | 2,635 | 3,361 | 3,623 | 3,601 |
| Cash & equivalents | 2,919 | 2,480 | 2,381 | 2,990 | 3,358 | 3,220 |
| Account receivables | 153 | 128 | 112 | 230 | 123 | 239 |
| Prepayment | 140 | 156 | 103 | 103 | 103 | 103 |
| Other current assets | 81 | 11 | 39 | 39 | 39 | 39 |
| Non-current assets | 32,368 | 33,562 | 33,868 | 34,982 | 36,200 | 37,223 |
| Right-of-use assets | 21 | 15 | 5 | 5 | 5 | 5 |
| Investment in JVs & assos | 2,561 | 2,287 | 2,079 | 2,151 | 2,225 | 2,299 |
| Intangibles | 8 | 17 | 19 | 14 | 7 | 1 |
| Goodwill | 515 | 515 | 515 | 515 | 515 | 515 |
| Other non-current assets | 29,263 | 30,728 | 31,251 | 32,298 | 33,449 | 34,404 |
| Total assets | 35,661 | 36,337 | 36,502 | 38,344 | 39,823 | 40,824 |
| Current liabilities | 4,594 | 7,433 | 7,835 | 8,794 | 9,367 | 9,457 |
| Short-term borrowings | 3,466 | 6,424 | 6,619 | 7,619 | 8,119 | 8,219 |
| Account payables | 991 | 922 | 1,117 | 1,077 | 1,149 | 1,140 |
| Tax payable | 70 | 51 | 79 | 79 | 79 | 79 |
| Other current liabilities | 41 | 12 | 3 | 3 | 3 | 3 |
| Contract liabilities | 26 | 23 | 16 | 16 | 16 | 16 |
| Non-current liabilities | 16,595 | 14,670 | 13,818 | 13,818 | 13,818 | 13,818 |
| Long-term borrowings | 13,224 | 11,320 | 10,456 | 10,456 | 10,456 | 10,456 |
| Deferred income | 313 | 293 | 286 | 286 | 286 | 286 |
| Other non-current liabilities | 3,058 | 3,057 | 3,075 | 3,075 | 3,075 | 3,075 |
| Total liabilities | 21,188 | 22,102 | 21,653 | 22,612 | 23,184 | 23,275 |
| Total shareholders equity | 11,512 | 11,230 | 11,613 | 12,186 | 12,793 | 13,424 |
| Minority interest | 2,961 | 3,005 | 3,237 | 3,546 | 3,845 | 4,125 |
| Total equity and liabilities | 35,661 | 36,337 | 36,502 | 38,344 | 39,823 | 40,824 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 2,218 | 1,065 | 1,549 | 1,716 | 1,816 | 1,865 |
| Depreciation & amortization | 1,088 | 1,175 | 1,308 | 1,460 | 1,656 | 1,851 |
| Tax paid | (499) | (367) | (375) | (429) | (454) | (466) |
| Change in working capital | 86 | (6) | 203 | (158) | 179 | (125) |
| Others | (323) | 343 | 112 | 295 | 293 | 298 |
| Net cash from operations | 2,570 | 2,211 | 2,798 | 2,885 | 3,490 | 3,422 |
| Investing | | | | | | |
| Capital expenditure | (352) | (311) | (1,550) | (2,500) | (2,800) | (2,800) |
| Acquisition of subsidiaries/ investments | 1,392 | (862) | 0 | (50) | (50) | (50) |
| Others | 245 | 505 | 388 | 250 | 277 | 282 |
| Net cash from investing | 1,285 | (668) | (1,162) | (2,300) | (2,573) | (2,568) |
| Financing | | | | | | |
| Dividend paid | (376) | (740) | (377) | (405) | (456) | (488) |
| Net borrowings | (731) | (345) | (668) | 1,000 | 500 | 100 |
| Proceeds from share issues | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (1,343) | (895) | (690) | (570) | (594) | (604) |
| Net cash from financing | (2,451) | (1,981) | (1,735) | 25 | (550) | (993) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 1,516 | 2,919 | 2,480 | 2,381 | 2,990 | 3,358 |
| Others | (2) | 0 | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 2,919 | 2,480 | 2,381 | 2,990 | 3,358 | 3,220 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | 26.8% | (11.2%) | 20.6% | 4.9% | 3.1% | 2.7% |
| Gross profit | 42.6% | (22.7%) | 24.9% | 9.0% | 4.4% | 2.5% |
| EBITDA | 61.7% | (29.7%) | 18.3% | 11.5% | 8.4% | 6.6% |
| EBIT | 98.4% | (45.2%) | 24.0% | 11.5% | 4.8% | 2.5% |
| Net profit | 812.8% | (69.1%) | 68.9% | 27.8% | 8.6% | 5.3% |
| Adj. net profit | 354.5% | (37.9%) | 91.0% | 13.0% | 8.6% | 5.3% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 60.1% | 52.3% | 54.1% | 56.3% | 57.0% | 56.9% |
| EBITDA margin | 101.1% | 80.0% | 78.5% | 83.4% | 87.8% | 91.1% |
| Adj. net profit margin | 19.7% | 13.8% | 21.8% | 23.5% | 24.8% | 25.4% |
| Return on equity (ROE) | 13.4% | 4.0% | 6.7% | 8.2% | 8.5% | 8.5% |
| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | 1.2 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 |
| Current ratio (x) | 0.7 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 |
| Receivable turnover days | 17.6 | 15.6 | 11.0 | 15.0 | 15.0 | 15.0 |
| Payable turnover days | 272.7 | 222.4 | 204.6 | 220.0 | 220.0 | 220.0 |

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

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