

Yuexiu Transport Infrastructure

Bloomberg: 1052 HK Equity | Reuters: 1052.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Feb 2022

BUY

Last Traded Price (31 Jan 2022): HK\$4.72 (HSI : 23,802)
 Price Target 12-mth: HK\$8.30 (76% upside) (Prev HK\$7.70)

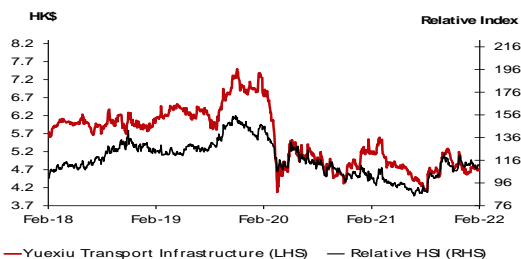
Analyst

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What's New

- RMB960m pretax gain on disposal from spin-off of Hanxiao Expressway into a C-REIT in China not priced in
- Acquisition of Lanwei E'way up next; continued asset recycling could raise ROE on a sustained basis
- Attractive FY21F valuations of 0.6x P/B against 14% ROE and FY21F yield of 11.4% on just 50% payout
- Maintain BUY on higher TP of HK\$8.30

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	2,920	3,719	3,845	3,963
EBITDA	2,438	3,574	3,706	3,808
Pre-tax Profit	682	2,729	2,088	2,245
Net Profit	160	1,467	1,138	1,240
Net Profit Gth (Pre-ex) (%)	(85.9)	215.6	124.6	9.0
EPS (HK\$)	0.12	1.07	0.83	0.91
EPS Gth (%)	(85.9)	813.8	(22.4)	9.0
Core EPS Gth (%)	(85.9)	215.6	124.6	9.0
DPS (HK\$)	0.07	0.54	0.42	0.45
BV Per Share (HK\$)	7.63	8.17	8.59	9.04
PE (X)	40.2	4.4	5.7	5.2
CorePE (X)	40.2	12.7	5.7	5.2
P/Free CF (X)	3.6	2.8	3.3	2.8
EV/EBITDA (X)	10.6	6.3	5.7	5.1
Net Div Yield (%)	1.5	11.4	8.8	9.6
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	1.2	0.8	0.7	0.5
ROAE(%)	1.5	13.6	9.9	10.3
Earnings Rev (%)		36	(7)	New
Consensus EPS (RMB)		0.86	0.69	0.73
Other Broker Recs:		B:4	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

C-REIT spinoff the start of a virtuous asset recycling cycle

Investment Thesis

Firm pipeline of assets for further recycling into its newly spun-off C-REIT CYX. YTI completed the spin-off of Hanxiao Expressway in December into China Yuexiu Expressway CLOS (CYX) on the SZSE while retaining a 30% stake for a pre-tax gain of c. RMB960m. Meanwhile, we believe there are another 3 to 4 roads that could be recycled into CYX in the next few years, implying further upside to YTI's earnings, ROE, NAV and dividend yield beyond 2021.

Acquisition of Lanwei Expressway is next on the cards, putting YTI on the cusp of a virtuous asset recycling cycle. Backed by the proceeds from CYX's spinoff and having significantly deleveraged, we believe YTI will next focus on acquiring Lanwei Expressway from its parent to grow its earnings and portfolio. With CYX trading up by c.30% since IPO and enhancing its own ability to acquire accretively, YTI can keep divesting mature assets into CYX while buying other roads, putting them in a virtuous asset recycling cycle. More acquisitions and/or divestments should catalyse YTI's share price.

Sustained improvement in ROE the critical factor for P/B multiple and share price re-rating. We expect YTI's core earnings to recover firmly as traffic and toll revenues for most of the company's roads are close to pre-COVID levels. If YTI can continue to sell its assets into the C-REIT consistently, this should lead to a sustained increase in its ROE and hence its Price-to-Book (P/B) multiple. The stock is currently trading at 0.6x FY21F P/B, which is c.1.5 SD below its 5-year P/B range, against a record high ROE of 13.6% for FY21F.

Valuation:

Maintain BUY, DCF-based TP raised to HK\$8.30 to reflect the crystallisation of Hanxiao Expressway at a substantial profit that is above our implied DCF valuation of the asset.

Where we differ:

We have yet to factor in any asset acquisitions or divestments for YTI, which should be accretive, to our estimates.

Key Risks to Our View:

Higher interest rates would impact YTI's earnings with its current high gearing level, which is due to recent acquisitions.

At A Glance

Issued Capital (m shrs)	1,673
Mkt Cap (HK\$m/US\$m)	7,897 / 1,013
Major Shareholders (%)	
Yue Xiu Enterprises (Holdings) Limited	44.2
Matthews Int'l Capital Management, L.L.C.	8.0
Free Float (%)	47.8
3m Avg. Daily Val. (US\$m)	0.79
GICS Industry: Industrials / Transportation	



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Yuexiu Transport Infrastructure

WHAT'S NEW

RMB960m pre-tax gain from spin-off of Hanxiao Expressway

Spin-off of Hanxiao Expressway into China Yuexiu Expressway CLOS (180202.SZ) on SZSE completed on 14 December 2021. YTI completed its disposal of the company that holds the Wuhan-Xiaogan Expressway (Hanxiao Expressway), reducing YTI's interest in the company from 100% to c.30%. As it will no longer be a subsidiary, its accounts will not be consolidated into YTI thereafter.

Net proceeds from the spin-off is projected at RMB2.1bn while the gain is c. RMB960m before costs, expenses and taxes. Deleveraging from the spin-off, YTI's net-debt-to-equity ratio is expected to decline to c.0.8x by end-FY21F from 1.2x at end-2020. For the C-REIT, we estimate that the projected FY22F DPU at c. RMB 0.51 and accompanying 7.2% FY22F yield on listing at IPO price of RMB 7.10 has now compressed to c.5.6% yield, which leaves more room for the C-REIT to make yield-accretive acquisitions.

Continued asset recycling to crystallise value of more assets. As the parent company helps to source and incubate assets until ready for injection into YTI, the healthy pipeline of assets enables YTI to keep up its asset recycling strategy. We believe potential assets YTI could recycle in the future include Changzhu Expressway, Weixu Expressway, Han'e Expressway and Hancai Expressway as they are similar in scale and concession period to Hanxiao Expressway. With suitable assets to monetise into the CREIT, we see a virtuous cycle of YTI being able to sell mature assets to raise its earnings, recycle capital and acquire other toll road assets at a faster pace.

Acquisition of Lanwei Expressway by YTI on the cards next.

YTI's parent company acquired the toll collection right of Lanwei Expressway for RMB2.5bn in December 2020. Backed by the proceeds of the C-REIT spinoff and having significantly deleveraged, we believe YTI will next focus on acquiring Lanwei Expressway from its parent company to grow its earnings and portfolio. Lanwei Expressway connects Henan Province and Shandong Province, and this acquisition is in line with YTI's strategy of pursuing high quality projects in the central core area. The operating concession of Lanwei Expressway will expire on 1 July 2034 (remaining operation term c.12 years). We believe this is a mature expressway concession that can be immediately accretive to earnings and ROE if executed at a reasonable price.

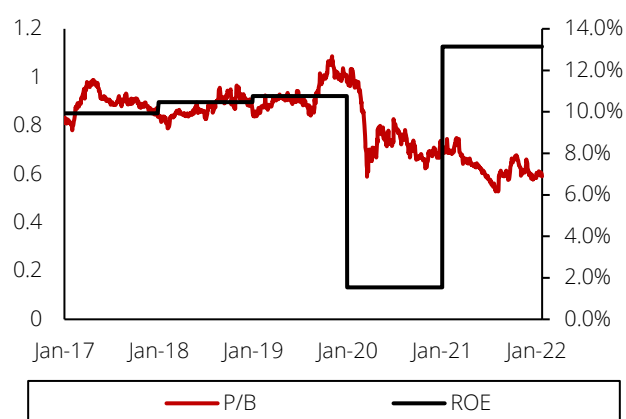
Potential assets to recycle vs Hanxiao Expressway

Asset	FY20 Revenue (RMBm)	FY20 Gross Profit (RMBm)	Concession Expiry
Hanxiao Expressway	152.5	79.0	2036
Changzhu Expressway	206.4	93.1	2040
Weixu Expressway	289.0	150.7	2035
Han'e Expressway	147.2	53.0	2042
Hancai Expressway	179.1	44.8	2038

Source: Company

Sustained improvements in earnings to raise ROE. With YTI's ability to recycle assets, we believe that profitability can be raised on a sustained basis, pushing ROE up. ROE is a critical factor for P/B multiple and share price re-rating as investors are inclined to pay higher P/B multiples for a company that is more efficient at using shareholder's equity to generate profit. With FY21F ROE of 13.6% that is significantly higher than FY19 ROE of 10.8%, we think that P/BV can re-rate to 2 SD above the 5-year P/B range. Our TP of HK\$8.30 implies c.1.03x FY21F P/B, which is c. 2 SD above its 5-year P/B range.

YTI P/B vs ROE



Source: Bloomberg Finance L.P., DBS HK

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Attractive valuations despite being on track for record high earnings in FY21F. Although we lower our top-line revenue projection by c.7% as 11M21 operating data came in slightly softer than expected, we revise our FY21F earnings upwards by 36%, boosted by the gain on disposal. The stock is currently trading at 0.6x FY21F P/B, which is c.1.5 SD below its 5-year P/B range, against record high ROE of 13.6%, hence undemanding in our view. It is also extremely attractive at 11.4% FY21F yield vs 4.4x FY21F PE.

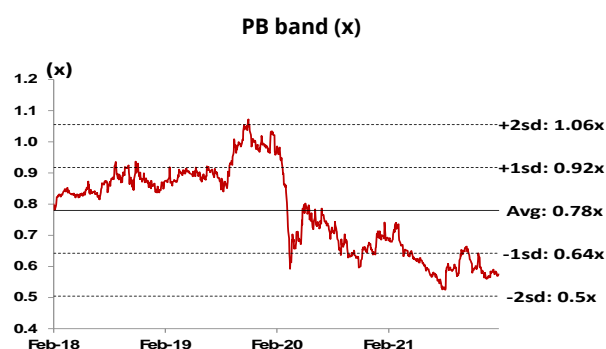
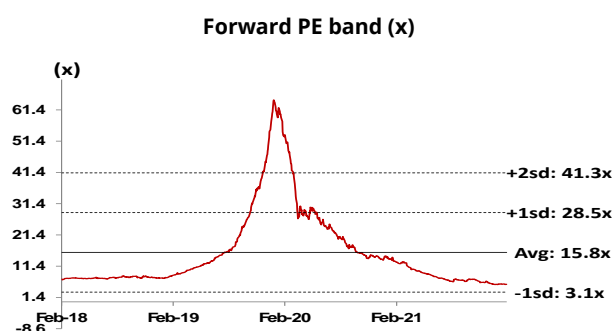
We revise our FY21F/22F earnings by +36%/-7% to RMB1,467m/1,138m mainly due to the gain on disposal recorded in FY21F and the reduction of YTI's interest in the company that holds Hanxiao Expressway from 100% to 30% from Dec 2021. We have yet to factor in any asset acquisitions or divestments for YTI, which should be accretive, to our estimates.

Maintain BUY with higher TP of HK\$8.30. Our target price is raised to reflect the crystallisation of Hanxiao Expressway at a substantial profit, that is above our implied DCF valuation of the asset.

Company Background

Guandong-based toll road operator with assets in six provinces. Yuexiu Transport Infrastructure (YTI) is a toll road and bridge operator with road assets in Guangdong and five other provinces in China. It had a total of 15 investment projects (including joint ventures [JVs] and associates) with total attributable length of 456km as at end-2019, which increased by 175km during the year with the successful acquisition of three toll roads in November 2019.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Yuexiu Transport Infrastructure

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Average Daily Traffic					
Volume of Subsidiary Roads	558.9	576.6	593.8	561.3	572.6
Average Daily Traffic					
Volume of Associate/JV Roads	611.9	587.4	624.2	635.5	638.9
Total Debt	17,346.9	17,701.1	16,220.6	15,461.6	14,731.6
Effective Interest Cost (bps)	451.6	450.0	425.0	425.0	425.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
GNSR Expressway	1,217	909	1,030	1,093	1,104
Inland Expressways	1,691	1,297	1,529	1,446	1,461
Recently Acquired Expressways	115	666	1,160	1,306	1,399
Others	0	48	0	0	0
Total	3,023	2,920	3,719	3,845	3,963

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	3,023	2,920	3,719	3,845	3,963
Cost of Goods Sold	(1,011)	(1,361)	(1,373)	(1,332)	(1,348)
Gross Profit	2,012	1,559	2,346	2,512	2,616
Other Opng (Exp)/Inc	(92)	(222)	(234)	(239)	(242)
Operating Profit	1,920	1,337	2,112	2,273	2,374
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	351	124	364	384	378
Net Interest (Exp)/Inc	(370)	(779)	(707)	(569)	(507)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	960	0	0
Pre-tax Profit	1,900	682	2,729	2,088	2,245
Tax	(305)	(278)	(693)	(530)	(570)
Minority Interest	(457)	(244)	(570)	(421)	(436)
Preference Dividend	0	0	0	0	0
Net Profit	1,138	160	1,467	1,138	1,240
Net Profit before Except.	1,138	160	507	1,138	1,240
EBITDA	2,940	2,438	3,574	3,706	3,808
Growth					
Revenue Gth (%)	6.2	(3.4)	27.4	3.4	3.1
EBITDA Gth (%)	4.5	(17.1)	46.6	3.7	2.8
Opg Profit Gth (%)	5.0	(30.3)	57.9	7.6	4.4
Net Profit Gth (%)	7.9	(85.9)	813.8	(22.4)	9.0
Margins & Ratio					
Gross Margins (%)	66.6	53.4	63.1	65.3	66.0
Opg Profit Margin (%)	63.5	45.8	56.8	59.1	59.9
Net Profit Margin (%)	37.6	5.5	39.4	29.6	31.3
ROAE (%)	11.0	1.5	13.6	9.9	10.3
ROA (%)	3.8	0.4	4.0	3.1	3.3
ROCE (%)	5.6	2.2	4.5	4.9	5.0
Div Payout Ratio (%)	51.5	60.9	50.0	50.0	50.0
Net Interest Cover (x)	5.2	1.7	3.0	4.0	4.7

Source: Company, DBS HK

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Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	1,381	1,642	840	2,080	1,832
Cost of Goods Sold	(404)	(607)	(587)	(773)	(682)
Gross Profit	976	1,036	252	1,307	1,150
Other Oper. (Exp)/Inc	(72)	(21)	(54)	(168)	(78)
Operating Profit	905	1,015	198	1,139	1,071
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	216	135	(12)	136	140
Net Interest (Exp)/Inc	(146)	(225)	(392)	(387)	(364)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	975	926	(206)	889	847
Tax	(99)	(206)	(58)	(220)	(214)
Minority Interest	(241)	(217)	(24)	(220)	(165)
Net Profit	635	503	(288)	449	468
Net profit bef Except.	635	503	(288)	449	468

Growth

Revenue Gth (%)	0.7	11.3	(39.2)	26.7	118.2
Opg Profit Gth (%)	(1.2)	11.2	(78.1)	12.2	441.1
Net Profit Gth (%)	37.3	(15.1)	N/A	(10.7)	N/A

Margins

Gross Margins (%)	70.7	63.1	30.0	62.8	62.8
Opg Profit Margins (%)	65.5	61.8	23.6	54.8	58.5
Net Profit Margins (%)	46.0	30.6	(34.3)	21.6	25.5

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	52	53	61	62	63
Invt in Associates & JVs	1,871	2,024	2,783	2,793	2,790
Other LT Assets	33,077	32,413	29,528	28,561	27,589
Cash & ST Invt	1,435	1,516	4,023	5,001	6,346
Inventory	0	0	0	0	0
Debtors	175	204	260	269	277
Other Current Assets	188	158	158	158	158
Total Assets	36,798	36,368	36,812	36,844	37,223
ST Debt	1,305	2,886	2,192	2,192	2,192
Creditors	1,115	1,219	1,230	1,194	1,208
Other Current Liab	115	127	738	575	615
LT Debt	16,042	14,815	14,029	13,270	12,540
Other LT Liabilities	4,592	3,666	3,666	3,666	3,666
Shareholder's Equity	10,572	10,425	11,158	11,727	12,347
Minority Interests	3,057	3,229	3,799	4,220	4,656
Total Cap. & Liab.	36,798	36,368	36,812	36,844	37,223
Non-Cash Wkg. Capital	(867)	(984)	(1,550)	(1,342)	(1,388)
Net Cash/(Debt)	(15,912)	(16,185)	(12,198)	(10,461)	(8,385)
Debtors Turn (avg days)	17.9	23.7	22.8	25.1	25.2
Creditors Turn (avg days)	836.1	1,108.2	1,626.3	1,559.4	1,501.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.7	0.4	1.1	1.4	1.7
Quick Ratio (x)	0.6	0.4	1.0	1.3	1.6
Net Debt/Equity (X)	1.2	1.2	0.8	0.7	0.5
Net Debt/Equity ex MI (X)	1.5	1.6	1.1	0.9	0.7
Capex to Debt (%)	34.4	1.9	0.4	0.4	0.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Yuexiu Transport Infrastructure

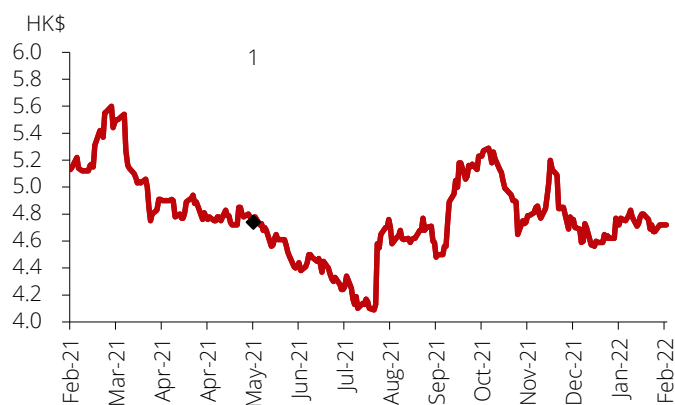
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,900	682	2,729	2,088	2,245
Dep. & Amort.	669	976	1,098	1,049	1,056
Tax Paid	(287)	(218)	(82)	(693)	(530)
Assoc. & JV Inc/(loss)	(351)	(124)	(364)	(384)	(378)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	0	113	(45)	(45)	5
Other Operating CF	211	673	(960)	0	0
Net Operating CF	2,142	2,103	2,376	2,015	2,398
Capital Exp.(net)	(5,967)	(337)	(62)	(62)	(62)
Other Invt.(net)	0	0	2,107	(22)	(22)
Invt in Assoc. & JV	0	0	(639)	0	0
Div from Assoc & JV	401	47	244	374	381
Other Investing CF	54	51	0	0	0
Net Investing CF	(5,513)	(239)	1,650	291	298
Div Paid	(969)	(387)	(733)	(569)	(620)
Chg in Gross Debt	3,383	(1,396)	(786)	(759)	(730)
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	2,414	(1,783)	(1,519)	(1,328)	(1,350)
Currency Adjustments	(1)	(1)	0	0	0
Chg in Cash	(958)	81	2,507	978	1,345
Opg CFPS (RMB)	1.28	1.19	1.45	1.23	1.43
Free CFPS (RMB)	(2.29)	1.06	1.38	1.17	1.40

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-May-21	HK\$4.77	HK\$7.70	Buy

Source: DBS HK

Analyst: Paul YONG, CFA

Yuexiu Transport Infrastructure

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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