Company Report: Shenzhen International (00152 HK)

公司报告：深圳国际 (00152 HK)

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16 October 2015

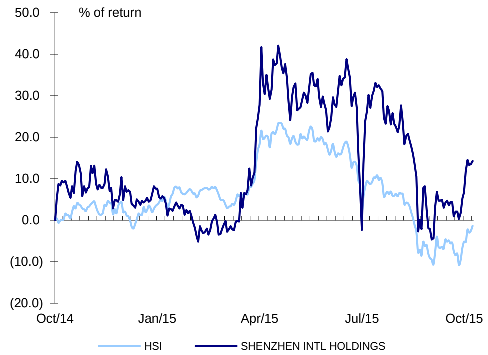
Sustained Expansion of Logistics Business, Initiate with "Buy"

物流业务持续扩张，首予"买入"

- **Shenzhen International is principally engaged in the investment, construction and operation of logistic infrastructure facilities, toll roads and also provides various value-added logistic services.** As of 30 June 2015, the Company operated 5 logistics parks with total GFA of 1.05 million sqm and 17 expressway projects with total mileage of 525 km in China. The Company also owns 49% of interest in Shenzhen Airlines.
- **The Company will focus on building new logistics parks.** Investment agreements have been signed of new logistics projects in 10 cities in China. Total land area is 3.14 million sqm. Phase 1 of project in Shenyang will be completed by 2015 and another three projects will be completed in 2016.
- Income from toll road business is expected to remain stable and revenue from logistics business will grow sustainably. **Excluding the non-recurring items, the adjusted net profit was HK$1,761 million in 2014 and is expected to grow by 1.5% /5.4% /15.2% to be HK$1,788 /HK$1,883 /HK$2,170 million in 2015 /2016 /2017.**
- Currently the Company is trading at 11.4x 2015 PER, which is a discount to its logistics peers and expressway peers in both Hong Kong and China. Moreover, land of the Company in Meilin Checkpoint and Qianhai will bring additional profit to the Company after 2017 and boost the NAV. **Our initial investment rating is "Buy" and we set the target price to HK$14.80**, which represents 13.7x/15.0x/13.1x FY15/16/17 PER and a 20% discount to NAV.
- **深圳国际主要从事物流基础设施以及收费公路的投资、运营、建设以及提供多种物流增值服务。**截至 2015 年 6 月 30 日，公司运营着 5 个物流园，总面积 105 万平方米，17 条高速公路，总里程 525 千米。公司同时持有深圳航空 49%股权。
- **公司将专注于建设新物流园。**已签订协议的新物流项目覆盖中国 10 个城市，土地总面积 314 万平方米。沈阳项目 1 期将在 2015 年底前建成，另外三个项目将在 2016 年建成。
- 公路业务的收益预计保持稳定而物流业务收入预计将持续增长。**除去非经常性项目，调整后的净利润在 2014 年为 17.61 亿港元，预计 2015 /2016 /2017 年分别增长 1.5% /5.4% /15.2%至 17.88 /18.83 /21.70 亿港元。**
- 当前公司股票交易在 11.4 倍 2015 年市盈率，与中国及香港的物流和公路同业相比均有折让。另外，公司在梅林关以及前海的土地预计将在 2017 年后带来额外收益并增加每股估值。总的来说，**我们首予"买入"评级，目标价为 14.80 港元**，相当于 13.7/15.0/13.1 倍 2015 /2016 /2017 年市盈率以及对每股估值 20%的折让。

Rating:	**Buy** Initial
评级：	买入 (首次评级)
6-18m TP 目标价:	**HK$14.80**
Share price 股价：	HK$12.30

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	14.3	(7.4)	10.0
Rel. % to HS index 相对恒指变动	7.6	1.3	11.1
Avg. share price(HK$) 平均股价（港元）	11.3	11.8	11.9

Source: Bloomberg.

Year End 年结 12/31	Turnover 收入 (HK$ m)	Net Profit 股东净利 (HK$ m)	EPS 每股净利 (HK$)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	BPS 每股净资产 (HK$)	PBR 市净率 (x)	DPS 每股股息 (HK$)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	5,963	1,641	0.996	(13.2)	12.4	8.442	1.5	0.374	3.0	12.3
2014A	6,370	2,229	1.304	31.0	9.4	9.357	1.3	0.455	3.7	14.1
2015F	6,025	2,078	1.083	(16.9)	11.4	9.664	1.3	0.408	3.3	11.4
2016F	6,467	1,947	0.988	(8.8)	12.5	9.929	1.2	0.372	3.0	10.1
2017F	7,046	2,292	1.132	14.6	10.9	10.357	1.2	0.427	3.5	11.2

Shares in issue (m) 总股数 (m)	1,899.0	Major shareholder 大股东	Shenzhen Investment Hlds 43.8%
Market cap. (HK$ m) 市值 (HK$ m)	23,357.9	Free float (%) 自由流通比率 (%)	56.2
3 months average vol. 3 个月平均成交股数 ('000)	3,962.6	FY15 net gearing (%) FY15 净负债/股东资金 (%)	26.6
52 weeks high/low (HK$) 52 周高/低	15.243/9.600	FY15 est. NAV (HK$) FY15 每股估值（港元）	18.5

Source: the Company, Guotai Junan International.

GTJA Research 国泰君安研究

Shenzhen International 深圳国际 (00152 HK)

Company Report

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INDUSTRY ANALYSIS

Economy Growth in China

Economy significantly grew in China in the last decade. According to National Bureau of Statistics, from 2009 to 2014, China's GDP increased at a CAGR of 12.98%, making it the fastest growing major economies in the world. In February 2011, China overtook Japan to become the world's second largest economy. From 2009 to 2014, retail sales in China grew at a CAGR of 15.43%, with retail sales rising to RMB27.2 trillion in 2014 as household disposable income grew by double-digits in average and the Chinese economy increasingly focused on raising domestic consumption in order to reduce its reliance on investment and exports. Per capita annual disposable income of urban households across China grew at a CAGR of 10.93% during the same period. In the first half of 2015, economy growth in China has slowed down. However, China's economy will still grow at around 6%-7% in the next five years according to the preliminary information of 13th Five-Year Plan (2016-2020) of China.

Table-1: Economy Growth in China

Item	2009	2010	2011	2012	2013	2014	CAGR 2009-2014	1H14	1H15	yoy
GDP (RMB trillion)	34.6	40.9	48.4	53.4	58.8	63.6	12.98%	27.7	29.7	7.0%
Real GDP Growth Rate (%)	9.2%	10.6%	9.5%	7.7%	7.7%	7.3%	N.A.	7.4%	7.0%	N.A.
Per Capita GDP (RMB)	25,963	30,567	36,018	39,544	43,320	46,652	12.44%	N.A.	N.A.	N.A.
Per Capita Disposable Income of Urban Households (RMB)	17,175	19,109	21,810	24,565	26,955	28,844	10.93%	14,523	15,699	8.1%
Fixed Asset Investment (RMB trillion)	22.5	27.8	31.1	37.5	44.6	51.3	17.95%	21.3	23.7	11.4%
Retail Sales (RMB trillion)	13.3	15.7	18.4	21.0	24.3	27.2	15.43%	12.8	14.2	10.4%
Real Estate Investment (RMB trillion)	3.6	4.8	6.2	7.2	8.6	9.5	21.26%	4.2	4.4	4.6%

Source: National Bureau of Statistics of PRC.

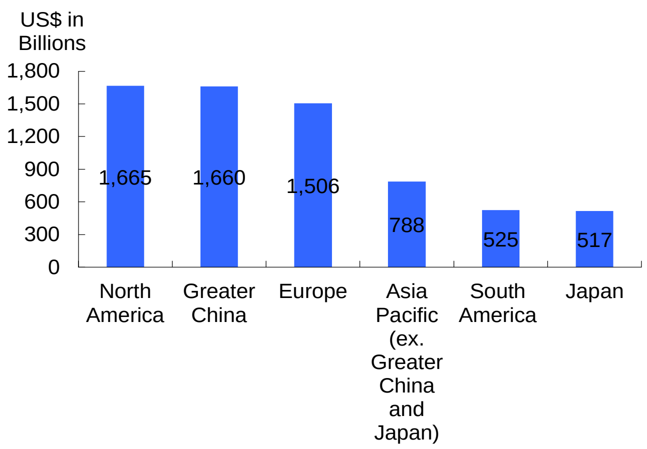
Global Logistics Industry Overview

Logistics involves the movement and storage of goods between different locations from origin suppliers to intermediate points, and eventually to end users. In the logistics industry, logistics service providers generally focus on two primary service functions: transportation by different modes (such as ground, ocean, air or rail) and warehousing (storage, consolidation/deconsolidation and cross docking).

Globally, Asia Pacific is the largest logistics market. According to by Armstrong & Associates, Asia Pacific accounted for 35% of total global logistics spending in 2013. The logistics spend in Asia (excluding Japan) was estimated at US$2.4 trillion in 2013, the largest among all regions. The majority of this spend was in Greater China which was estimated at US$1.7 trillion with Asia Pacific (excluding Greater China and Japan) at US$0.8 trillion. For a single country, China's logistics spend was the highest in the world at US$1.6 trillion in 2013, compared to US$1.4 trillion for the United States, and was equivalent to more than half of the total Asia Pacific region.

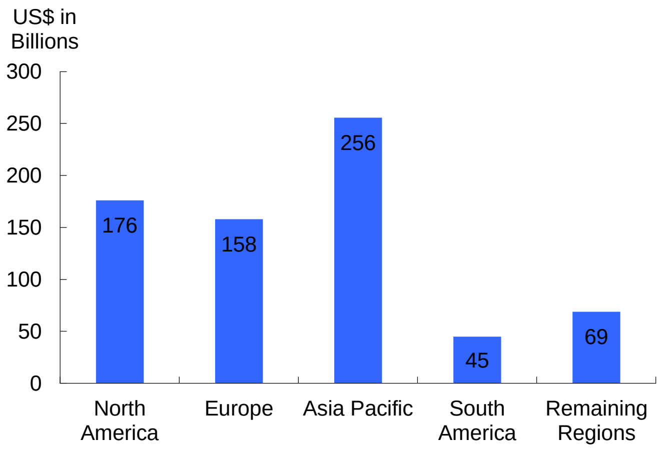
Third-party logistics service is a trend in the global logistics industry. Companies outsource functions to third-party logistics service providers in order to reduce costs, gain operational efficiencies, and focus on core competencies in manufacturing. Beginning in the early 1990s, there was a significant increase in off-shoring of manufacturing operations and a shift from domestic supply chains with domestic logistics management needs to global supply chains with international logistics needs. Doing business globally is more complex and requires increased regional and local market expertise in managing transportation and warehousing and adhering to governmental regulations. These increases in supply chain complexity have driven many companies to engage the help of third-party logistics service providers as logistics and regulatory specialists. In turn, third-party logistics service providers with expertise in international transportation management and warehousing and distribution are providing economies with the operational “backbone” for global trade.

Figure-1:Logistics Spending of Major Regions in 2013



Source: Armstrong & Associates.

Figure-2: Third-Party Logistics Revenue in 2013



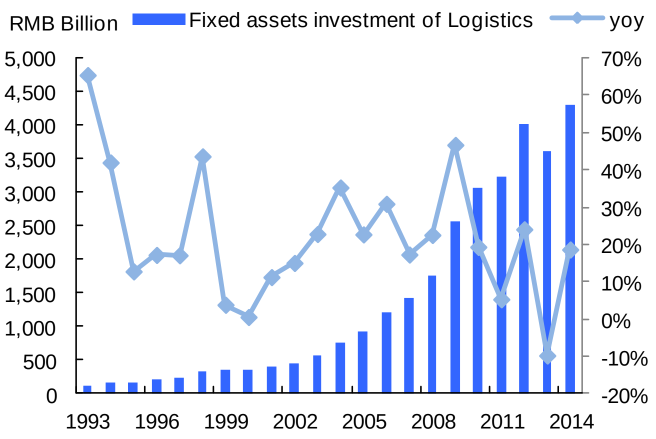
Source: Armstrong & Associates.

Growth in GDP and demand for logistics are expected to be fast in Greater China and Asia Pacific. The growth is expected to be supported by spending momentum from Asia, which has a young population and ongoing urbanization. In 2010, approximately 45% of Asia’s 4.2 billion people were aged 20-49, an age group that tends to have the highest disposable income and spending capacity. This percentage will remain largely unchanged between 2010 and 2020. Within Asia, China is a key market given its large population and government policies aimed at ongoing economic and infrastructure development to promote internal consumption. Economic growth, demand for labor in cities and improvements in infrastructure are expected to drive the ongoing trend to urbanization in Asia. It is estimated that approximately 87.8 million more people will move from rural to urban centers in Greater China between 2012 and 2017. Other Asian countries are also expected to experience an ongoing migration from rural to urban locations.

Logistics Industry in China

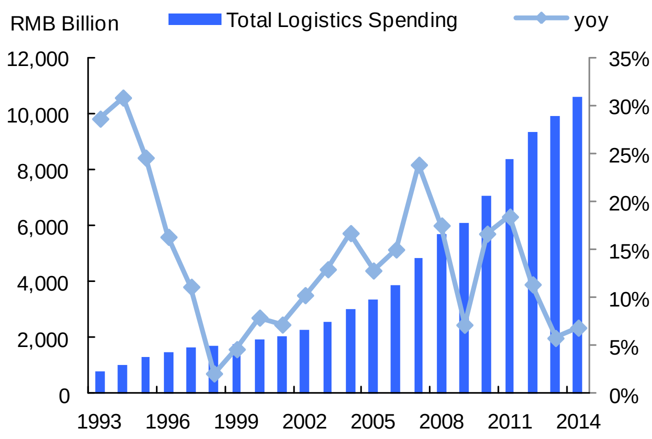
Total logistics costs and logistics investment in China have significantly grown along with the GDP growth. According to National Bureau of Statistics of PRC, fixed assets investment of logistics in 2014 was RMB4,298 billion in China, increased by 18.7% yoy; total logistics spending was RMB10.6 trillion in 2014, increased by 6.9% yoy and it represents a CAGR of 13.5% in 2004-2014. With the development of e-commerce, the volume of express package has significantly grown in the past few years, much higher than the growth of overall logistics spending.

Figure-3:Fixed Assets Investment of Logistics



Source: National Bureau of Statistics of PRC.

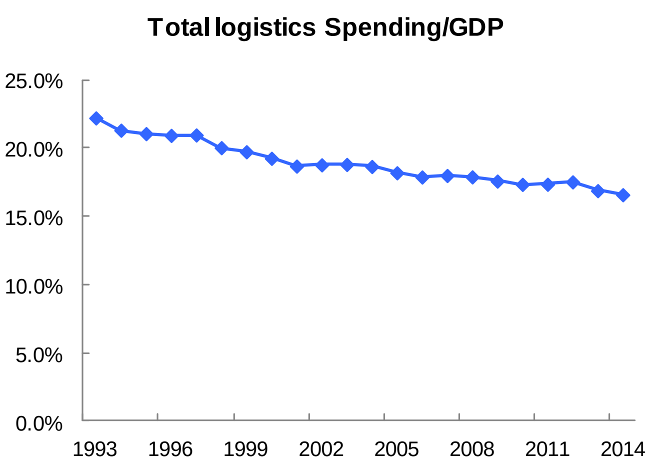
Figure-4: Total Logistics Spending



Source: National Bureau of Statistics of PRC.

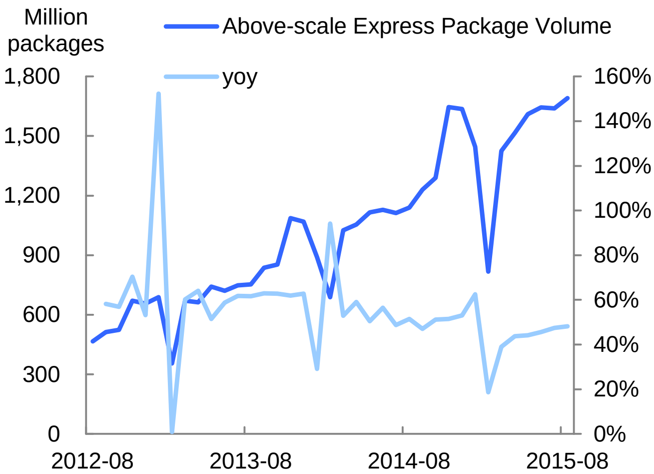
Logistics activities in China are still complicated and costly with high logistics spending/GDP ratio. In developed countries such as the United States, Japan, and Singapore, transportation infrastructure is relatively homogenous, allowing goods to be efficiently transported throughout the country. In contrast, China's vast disparity in the quality of urban versus rural transportation infrastructure makes managing logistics more complicated and costly. Without good transportation infrastructure, transportation costs are higher. In addition, warehousing and inventory carrying costs are higher due to the need to maintain higher levels of inventory closer to demand because of longer delivery cycle times. In the long-term with governmental support, improved road and rail infrastructure is well positioned to greatly reduce China's overall logistics costs as a percentage of GDP from its current 17% to the 8.5% to 9% range seen in developed countries. In addition, improved transportation infrastructure will increase asset and labor productivity within large third-party logistics service providers who already have significant domestic distribution networks. Less time spent navigating poor roads, or having to utilize alternative transportation modes (such as sea, inland waterway, air), will improve transportation routings, reduce operating costs, and allow for shorter origin to delivery cycle times. Being able to be quicker to market for retailers, healthcare and other companies is expected to greatly benefit consumers with improved food and grocery product quality, more efficient pharmaceutical and healthcare supply chains, and reduced product shelf times.

Figure-5: Logistics Spending/GDP Ratio in China



Source: National Bureau of Statistics of PRC.

Figure-6: Above-scale Express Package Volume in China

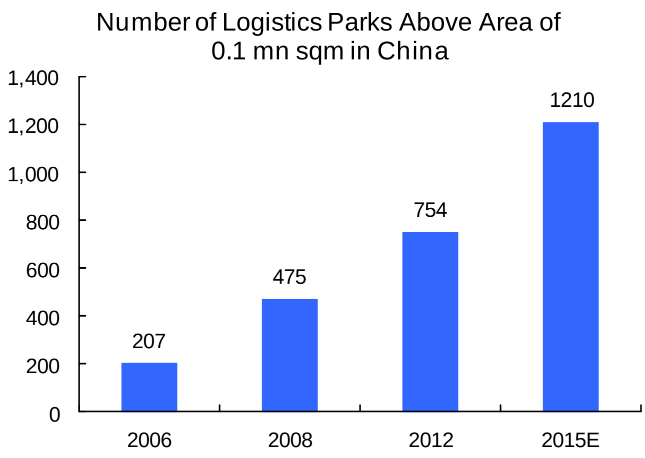


Source: National Bureau of Statistics of PRC.

Market in China has highly fragmented nature. According to Colliers International ("Colliers"), China's logistics industry is still in relatively early development. Demand is growing, and the fundamentals of the property market are strong. Rising salaries and urbanization have fueled the growth of consumption spending, driving an increasing need for warehousing, transportation and delivery of goods. At the same time, many manufacturers have switched their focus from exports to the domestic economy, given uncertainty in global markets in recent years. The highly fragmented nature of the current market has resulted in a relatively inefficient system, as well as a lack of supply in the property market just as demand is taking off.

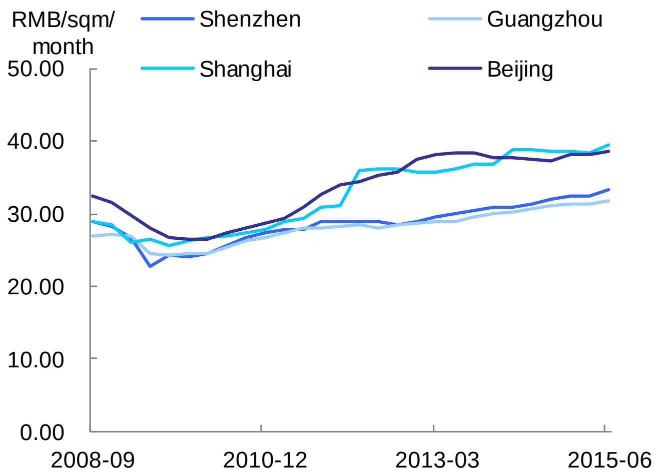
Development of logistics properties will be a key component to drive the economic growth. The current regulatory environment in China is aimed at developing and modernizing the logistics system. The government's aim to make domestic consumption the driver of the economy will help contribute to an increasing need to move and store goods. Development of properties to support this will be a key component. According to China Federation of Logistics and Purchasing, total number of logistics parks with area above 100,000 sqm has significantly increased in the past decade. According to Colliers, logistics properties offer high and stable rental yields. In the current market, where growing demand has outstripped supply, rentals have grown at a nationwide average of 5% to 10% per annum over the past few years.

Figure-7:Logistics Park Numbers



Source: China Federation of Logistics & Purchasing.

Figure-8: Logistics Park Rentals in Major Cities



Source: CBRE Inc.

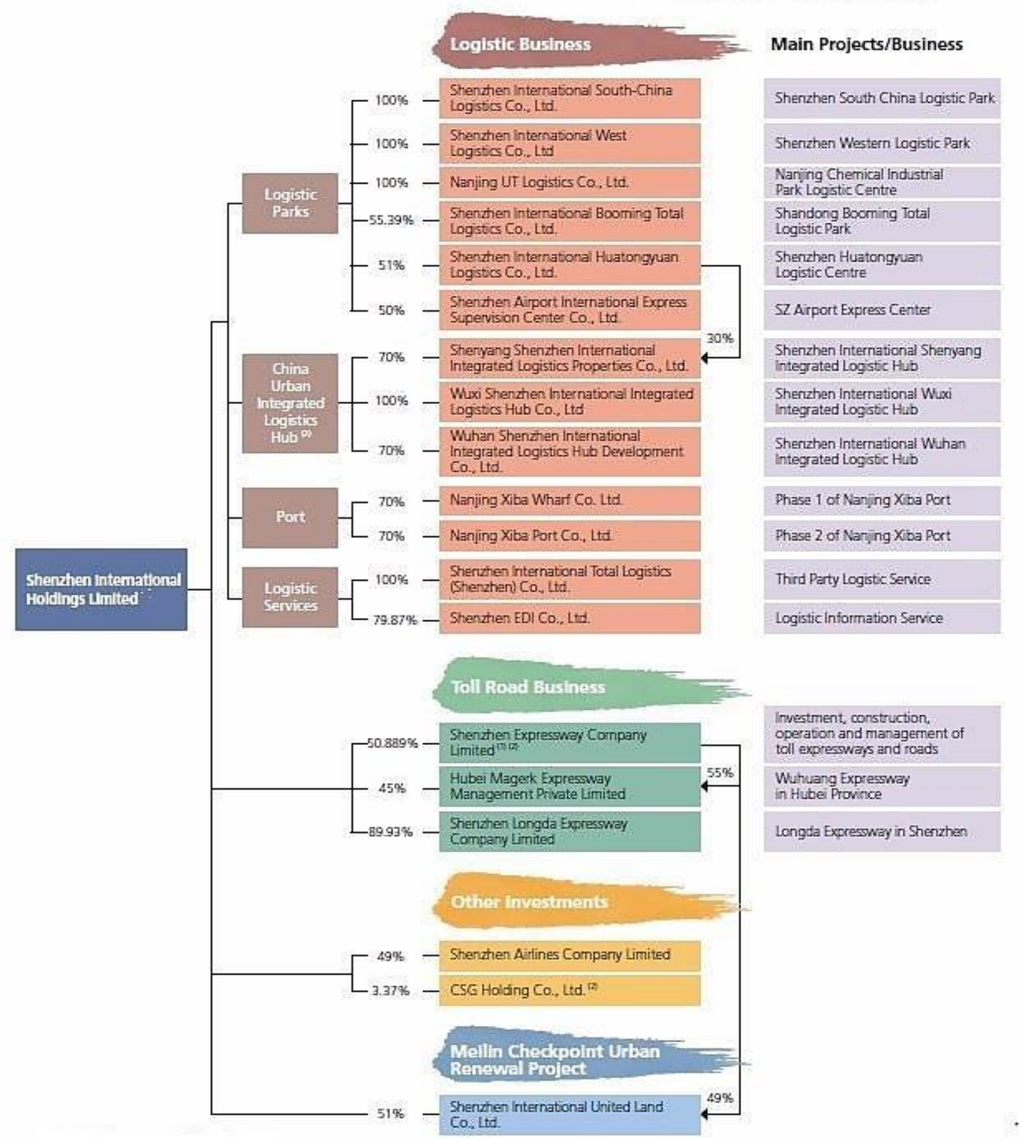
Capitalization rate and rentals level of logistics parks in China. According to Colliers, based on their understanding from logistics investors, the capitalization rate of logistics properties is normally in the range of 6% to 8%, a compelling return compared to commercial properties. According to Colliers, the rentals of logistics or industrial properties in Singapore, Hong Kong and Tokyo (the three most popular logistics hubs in Asia) average approximately US$22 per sq.ft. per annum. In China, the average rental level is approximately US$7 to US$8 per sqft per annum, which is expected to increase at 3% to 5% per annum in most Chinese cities.

BUSINESS ANALYSIS

Company Overview

Shenzhen International Holdings Limited ("the Company" or "Shenzhen Intl") is principally engaged in the investment, construction and operation of logistics infrastructure facilities, toll roads and also provides various value-added logistics services to customers leveraging its infrastructure facilities and information services platform. The Company is incorporated in Bermuda with limited liability and is listed on the main board of the Stock Exchange of Hong Kong. The Company defines the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim in the PRC as strategic regions. Through investment, mergers and acquisitions, restructuring and integration, the Company designs, constructs and operates logistic infrastructure projects, toll roads and applies supply-chain management techniques and information technology to provide high-end and value-added logistic services to customers. Shenzhen Investment Holdings Company Limited, the controlling shareholder of the Company, is a corporation wholly-owned by Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission and holds approximately 43.89% of the issued share capital of the Company.

Figure-9:Subsidiaries and Major Investments of the Company



Source: the Company.

Table-2:Major Events in the Past Five Years of the Company

Date	Event
Nov-2014	Completed the placement of 176,000,000 shares; net proceeds of the placement of HK$1.9 billion was mainly for the logistic business of the Company.
Feb-2014	The share consolidation of every ten (10) issued and unissued shares of par value HK$0.10 each in the share capital of the Company into one (1) share of par value HK$1.00
Sep-2012	Mr. Gao Lei was appointed as Chairman
Apr-2012	The Company successfully issued a five-year US$300,000,000 senior note with a coupon rate of 4.375% per annum with overwhelming market response
Jan-2012	Completion of the acquisition of 24% equity interest in Shenzhen Airlines Company Limited
Dec-2010	Full conversion of HK$1,727,500,000 convertible bond into 2,214,743,589 shares in the Company by Shenzhen Investment Holdings Company Limited
Jun-2010	The Company adopted the Chinese name "深圳國際控股有限公司" as secondary name
Mar-2010	The Company established a new corporate brand
Jun-2009	Acquisition of 45% equity interest in Shenzhen Airport-Heao Expressway (Jihe Expressway Eastern Section) Company Limited
May-2009	Entrusting Shenzhen Expressway to construct Longhua Extension of Shenzhen Longda Expressway

Source: the Company.

Business Analysis

The Company mainly engages in logistics business and toll road business as well as investment in Shenzhen Airlines (49% of equity interest). The Company currently owns 5 well-equipped logistic parks in major cities of China, including Shenzhen, Nanjing and Yantai. Total GFA of existing logistics parks of the Company is 1.05 million sqm. In addition, The Company has signed investment agreements in relation to new logistics projects which spread across 8 major logistic gateway cities. During FY14, revenue from logistic business increasing by 16% to HK$1,192 million as compared to the previous year. Currently, The Company holds or controls a total of 17 expressway projects with total mileage of toll roads by toll amounting to approximately 165 kilometers, 268 kilometers and 92 kilometers in the Shenzhen region, other regions in Guangdong Province and other provinces in China, respectively. Toll revenue from the toll road business recorded a yoy increase of 3% to HK$4,551 million in FY14. Meanwhile, Shenzhen Airlines Company Limited (“Shenzhen Airlines”), an associate in which the Company holds a 49% equity interest, recorded a revenue of RMB22,891 million (HK$28,794 million), representing an increase of 6% as compared to the previous year.

Logistics Business

The Company currently owns 5 well-equipped logistics parks in major cities of China, including Shenzhen, Nanjing and Yantai. Total GFA of existing logistics parks of the Company is 1.05 million sqm. The logistic center and the exhibition center with a total operating area of 125,000 square meters at South China Logistic Park, which were newly built in August 2013, contributed full year revenue to the Company in 2014. While retaining the traditional logistic business, South China Logistic Park has been promoting the synergistic development by gradually integrating its existing business with other industries, laying a foundation for the overall transformation and upgrade of the park. “Longhua Luxury Cars Mall” and “The Outlets-8th”, the two pilot projects, have moved into the exhibition center and the newly-built logistic center, and have commenced operation in May 2014 and early 2015 respectively. By capitalizing on its existing logistic infrastructure facilities, the Company has also explored supply chain management, value chain integration and modern value-added logistic services by fully utilizing its competitive advantages in resources and capital in a transformation from a traditional logistic business. In 2014, by carrying out marketing initiatives, controlling costs, promoting operating efficiency and optimizing customer structure, the results of the logistic service business recorded a double-digit growth.

Table-3: Logistics Park of the Company

Logistic Park	Principal Business	GFA (000' sqm)
South China Logistic Park	Provides logistic centres, empty container depots,cross-border customs transfer and access, and cross-border express customs clearance services	399
Western Logistic Park	Provides logistic centres	420
Huatongyuan Logistic Centre	Provides distribution outlets, warehouses and office rental services	133
Nanjing Chemical Industrial Park Logistic Centre	Provides warehousing, customs declaration and transport services for hazardous and non-hazardous chemical products	48
Shandong Booming Total Logistic Park	Provides logistic centres, transport, distribution and other services	50
Total Area		**1,050**

Source: the Company.

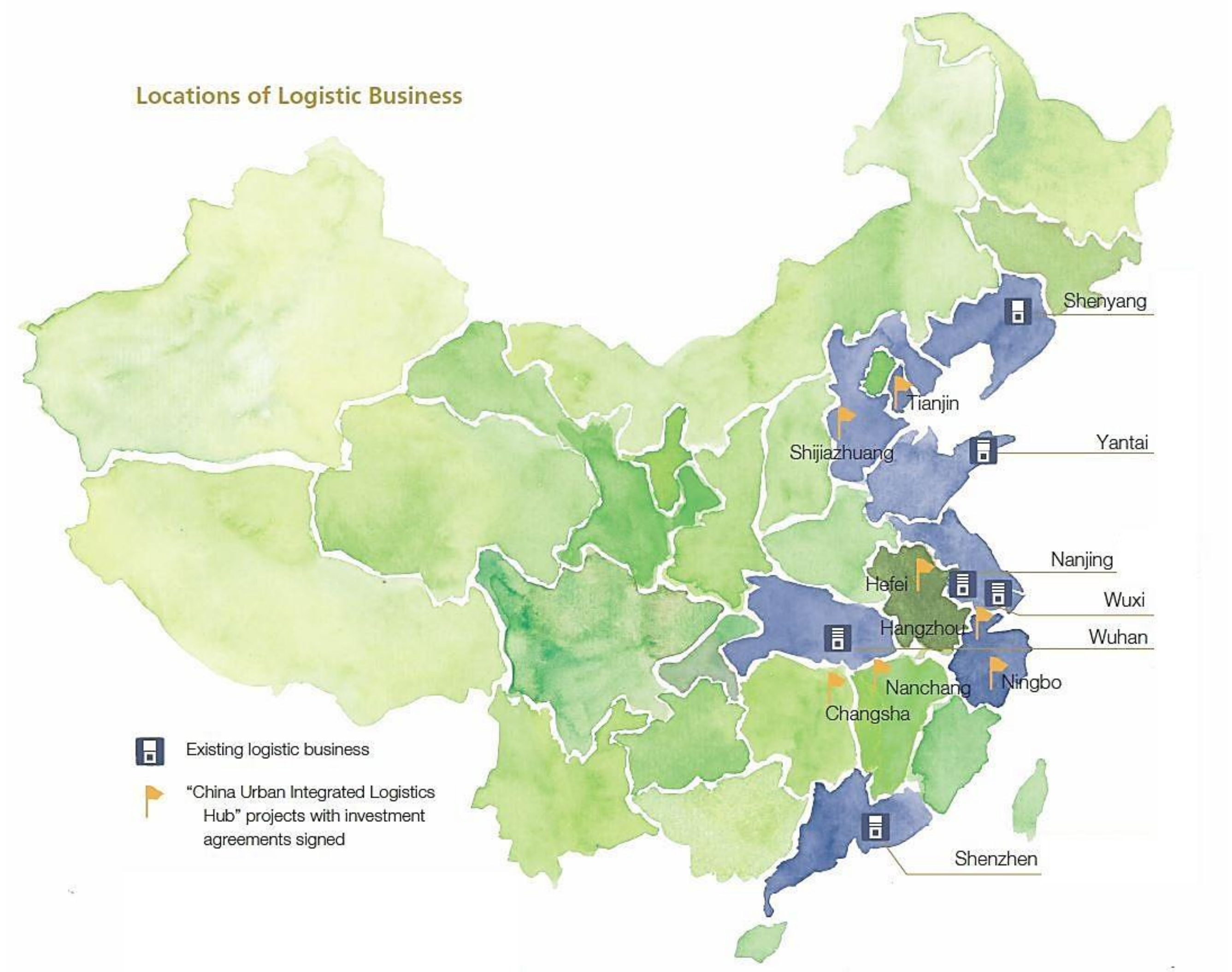
The Company calls its newly developing logistics projects "China Urban Integrated Logistics Hubs". The Company has signed investment agreements in relation to the "China Urban Integrated Logistics Hub" projects which spread across 10 major logistic gateway cities, including Shenyang, Wuxi, Wuhan, Tianjin, Shijiazhuang, Changsha, Nanchang and Hefei, etc. The "China Urban Integrated Logistics Hub" engages in inter-city highway transport logistic centers with full-spectrum functions including warehousing, transfer, distribution, e-commence, trade exhibition and logistic information centre and provide commercial and financing value-added services. Total plan site area is 3.14 million sqm.

Table-4: Details of the "China Urban Integrated Logistics Hub" projects

Project Name	Location
Shenyang Integrated Logistic Hub	Yuhong District of Shenyang
Tianjin Integrated Logistic Hub	Tianjin Binhai New Area
Wuxi Integrated Logistic Hub	Huishan District of Wuxi
Wuhan Integrated Logistic Hub	Dongxihu District of Wuhan
Shijiazhuang Integrated Logistic Hub	Zhengding District of Shijiazhuang
Changsha Integrated Logistic Hub	Changsha Jinxia Economic Development Zone
Nanchang Integrated Logistic Hub	Nanchang Economic and Technical Development Zone
Hefei Integrated Logistic Hub	Anhui Hefei Commercial and Logistics Development Zone of Feidong County, Hefei City
ningbo Integrated Logistic Hub	Ningbo
Hangzhou Integrated Logistic Hub	Hangzhou

Source: the Company.

Figure-10: Locations of Logistics Projects of the Company



Source: the Company.

In 1H15, revenue from the logistics business increased by 41% to HK$776 million (2014: HK$552 million) yoy. The high growth was mainly attributable to the increased customer demand for value-added logistic services, increase in business volume of the logistic parks, as well as the increase in loading and unloading volume of the port business during the period. Profit attributable to shareholders increased by 6% to HK$135 million (2014: HK$128 million) as compared to the corresponding period of the previous year.

Toll Road Business

The Company's toll road operations span mainly across the Shenzhen region as well as other regions in Guangdong province and other provinces in China. The Company holds or controls a total of 17 expressway projects with total mileage of toll roads by toll amounting to approximately 165 kilometers, 268 kilometers and 92 kilometers in the Shenzhen region, other regions in Guangdong Province and other provinces in China, respectively. The Company operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway"), in which the Company holds a 50.9% equity interest. Shenzhen Expressway's H shares and A shares are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively. In addition, the Company directly holds a 89.9% equity interest in Longda Expressway and a 45.0% equity interest in Wuhuang Expressway (with the remaining 55.0% equity interest owned by Shenzhen Expressway).

Table-5: the Company's Toll Roads

Toll roads	Interest held by the Company	Concession period	Length by toll (km)	Average daily traffic volume in 2014 (thousands vehicles)
Shenzhen Region:				
Longda Expressway	90%	2005.10-2027.10	28	140
Meiguan Expressway	100%	1995.05-2027.03	5	85
Jihe East	100%	1997.10-2027.03	24	190
Jihe West	100%	1999.05-2027.03	22	150
Yanpai Expressway	100%	2006.05-2027.03	16	57
Yanba Expressway	100%	Section A: 2001.04-2026.04	29	36
		Section B: 2003.06-2028.07		
		Section C: 2010.03-2035.03		
Nanguang Expressway	100%	2008.01-2033.01	31	87
Shuiguan Expressway	40%	2002.02-2025.12	20	169
Shuiguan Extension	40%	2005.10-2025.12	6	62
Other regions in Guangdong Province:				
Qinglian Expressway	76%	2009.07-2034.07	216	33
Yangmao Expressway	25%	2004.11-2027.07	80	35
Guangwu Project	30%	2004.12-2027.11	38	32
Jiangzhong Project	25%	2005.11-2027.08	40	101
Guangzhou Western Second Ring	25%	2006.12-2030.12	40	46
Other provinces in China:				
Wuhuang Expressway	100%	1997.09-2022.09	70	39
Changsha Ring Road	51%	1999.11-2029.10	35	16
Nanjing Third Bridge	25%	2005.10-2030.10	16	28

Source: the Company.

A section of Meiguan Expressway with a mileage of approximately 13.8 kilometers became toll-free from 1 April 2014. The Company also transferred the related assets in accordance with the terms of the adjustment agreement signed with the government. The relevant government authorities in Shenzhen agreed to make cash compensation, including approximately RMB1,598 million for the then present value of future income of the toll free section and approximately RMB1,102 million for other related costs and expenses (preliminary figure, part of it is subject to the audited figures of the relevant government authorities or the actual amount incurred). Up to 29 September 2015, the Company has received total compensation amounting to RMB2,800 million. It is expected that the remaining of approx. RMB60 million will be received by 31 December 2016.

In 1H15, revenue of the Company's toll road business decreased by 20% yoy to HK$2,154 million (2014: HK$2,706 million). Most of the Company's toll road projects reported stable growth in toll revenue and traffic volume for the Period. Nevertheless, as a result of the toll adjustment of Meiguan Expressway with effect from April 2014 and the rather substantial impact of road network diversion on certain toll road projects, the Company's toll revenue for the period decreased by 5% to HK$2,097 million (2014: HK$2,202 million). The entrusted construction management service projects, which reported considerable revenue and profit contribution in 2014, were specific projects by nature with related works completed and most revenue and profit have been recognized in 2014. As a result, the Company recorded a substantial decrease of approximately HK$448 million and HK$91.49 million yoy respectively, in revenue and profit contributions from entrusted construction management services during the period. Consequently, total revenue of the Company's toll road business for the period decreased by 20% to HK$2,154 million (2014: HK$2,706 million), profit before finance costs and tax decreased by 15% to HK$1,271 million (2014: HK$1,490 million) and net profit decreased by 12% to HK$504 million (2014: HK$570 million), respectively, as compared to the corresponding period of the previous year.

Other Investments

Other investments of the Company mainly include investments in Shenzhen Airlines and CSG (China South Glass Holdings ltd). The Company owns 49% of interest in Shenzhen Airlines, the fourth largest airline company in China in terms of scale. In 1H15, average airfares of Shenzhen Airlines declined by 6% yoy as a result of the substantial reduction in fuel surcharges and total revenue of Shenzhen Airlines for the Period recorded a yoy increase of 4% to RMB11,295 million (HK$14,082 million) (1H14: RMB10,812 million (HK$13,566 million)). However, aviation oil costs decreased by approximately 30% yoy, coupled with the year-on-year decrease in foreign exchange loss for Shenzhen Airlines given stable Renminbi exchange rate in 1H15, Shenzhen Airlines recorded a net profit of RMB560 million (HK$698 million) (1H14: RMB9.91 million (HK$12.43 million)). During the Period, Shenzhen Airlines contributed a profit of approximately HK$302 million to the Company. On the other hand, as at 30 June 2015, listed equity investments stated at market price represent 3.37% (31 December 2014: 5.59%) equity interest in CSG. During 1H15, the Company disposed of 46 million shares in CSG and recorded a gain of approximately HKD689 million (2014 interim: Nil).

Future Development

The Company will accelerate the "China Urban Integrated Logistics Hub" projects and the transformation and upgrades of the existing logistic parks. The construction work for Phase 1 of the "Shenzhen International Shenyang Integrated Logistic Hub" project with a site area of 240,000 square meters was progressing as scheduled and close to completion, and is expected to put into operation by the end of 2015. The "China Urban Integrated Logistics Hub" projects in Wuxi, Wuhan and Shijiazhuang are expected to enter into construction stage in the third and fourth quarter of 2015 and commence operation in 2016. It is expected that the Company will acquire land use rights for project sites in Nanchang, Changsha, Shijiazhuang and Guiyang in the second half of 2015 and construction work for the relevant projects will commence. In the second half of 2015 and 2016, the key tasks of the Company will include endeavors to invest in Zhengzhou, Guiyang, Chongqing, Chengdu, Guangzhou, Xi'an and Yantai for the "China Urban Integrated Logistics Hub" projects, and to acquire land use rights for the Liguang land parcels in Longhua New Area in Shenzhen and commence preparatory work for project construction. The Liguang land parcels will be developed into a logistic park with a gross floor area of 250,000 square meters to serve as a local node in Shenzhen of the "China Urban Integrated Logistics Hub".

Table-6: Progress of the "China Urban Integrated Logistics Hub" projects

Project Name	Progress	Planned Site Area (000' sqm)
Shenyang Integrated Logistic Hub	Phrase 1 to be completed by end of 2015	700
Tianjin Integrated Logistic Hub	Target completion by 2017	295
Wuxi Integrated Logistic Hub	Target completion by 2016	346
Wuhan Integrated Logistic Hub	Target completion by 2016	126
Shijiazhuang Integrated Logistic Hub	Target completion by 2016	333
Changsha Integrated Logistic Hub	Target completion by 2017	346
Nanchang Integrated Logistic Hub	Target completion by 2017	267
Hefei Integrated Logistic Hub	Target completion by 2018	137
ningbo Integrated Logistic Hub	Target completion by 2018	190
Hangzhou Integrated Logistic Hub	Target completion by 2018	400
Total Planned Site Area		3,140

Source: the Company.

For the Meilin Checkpoint urban renewal project, the Company has entered into the land transfer agreements with the government. According to the latest development plans of the Shenzhen Municipal Government in respect of the

Longhua New Area in Shenzhen, the planned use of the sites held by the Company on which Huatongyuan Logistic Centre is located and to the west of the Meilin toll station will be modified. In the second half of 2014, the Company established a project company to effect the land acquisition and related works, and entered into an agreement with Shenzhen Longhua New Area Administrative Committee in September 2014 to record agreement on certain arrangements in relation to the timing of entering into of the relevant land transfer agreement and payment of land premium for the Meilin Checkpoint land parcels. The agreement and the transactions contemplated thereunder have been approved by the shareholders of the Company at a special general meeting held on 7 November 2014. The Company has paid the first instalment of 30% of the land premium of RMB1,070 million, thereby the Company successfully acquired the land use rights in the Meilin Checkpoint land parcels. The Meilin Checkpoint urban renewal project is adjacent to the Futian District in downtown Shenzhen as a functional development area in the city center and a key development zone of the city. It is situated at a geographically advantageous location with good investment value and appreciation potential. The Meilin Checkpoint land parcels have been re-designated as a comprehensive development project with a total gross floor area of approximately 486,000 square meters, comprising properties for residential, commercial, office, business apartments and public and ancillary uses, etc. The overall project is still under design and we think the Company will transfer part of the interest of the project to real estate development companies.

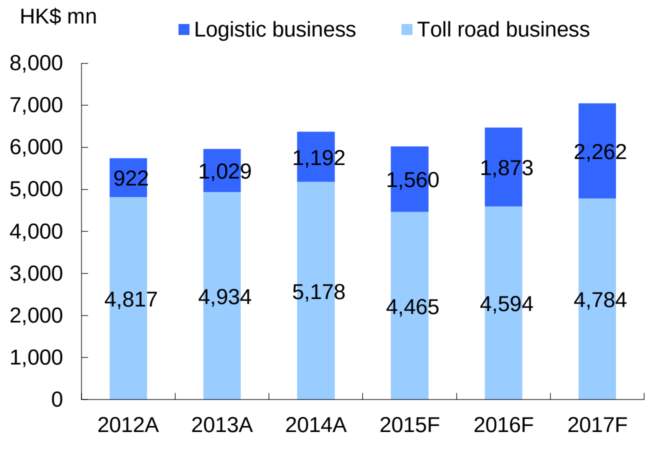
FINANCIAL ANALYSIS

Revenue

The Company's revenue mainly includes: 1) revenue from logistics, including rental revenue from logistics parks and revenue from logistics service, 2) toll road income. Revenue from logistics parks rental is mainly based on the occupancy rate, rental rates and operating area. Revenue from logistics services is mostly generated from providing ancillary service within the logistics parks. The Company operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway"), in which the Company holds a 50.9% equity interest.

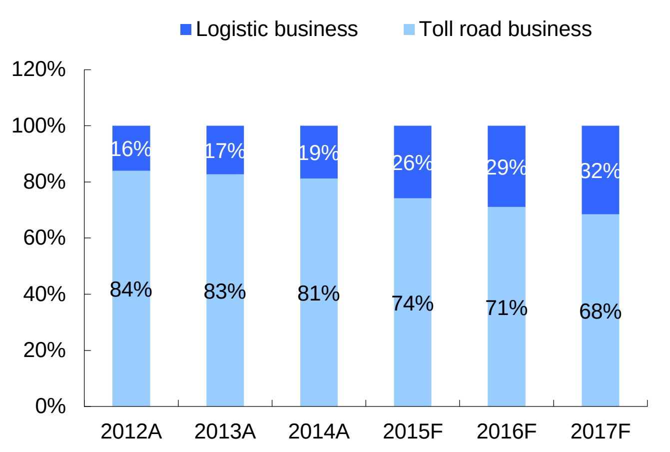
Total revenue recorded 3.9% and 6.8% yoy increase in 2013 and 2014, and we expect it will grow by -5.4%, 7.3% and 8.9% in 2015-2017, representing a CAGR of 8.1% during 2015-2017. The total revenue during 2012 /2013 /2014 recorded HK$5,740 /5,963 /6,370 million, respectively, and the increase was mainly contributed by the logistics business. For 2015 /2016 /2017, we expect the revenue growth will still be supported by the logistics business, reaching HK$6,025 /6,467 /7,046 million, respectively, representing a CAGR of 8.1% during 2015-2017.

Figure-11:Revenue Breakdown of Shenzhen Intl



Source: the Company, Guotai Junan International.

Figure-12: Revenue Breakdown in Percentage of Shenzhen Intl

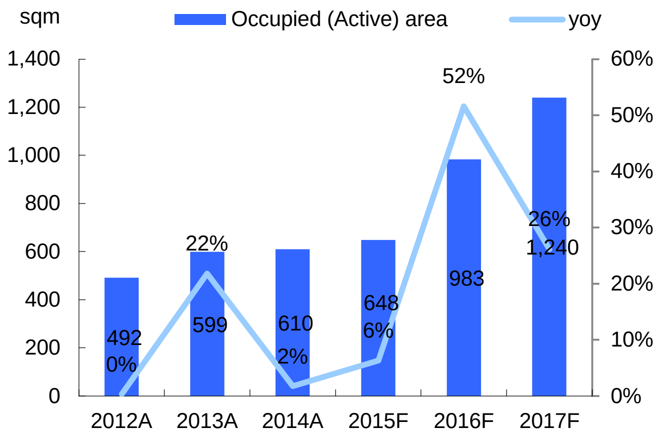


Source: the Company, Guotai Junan International.

Logistics Business

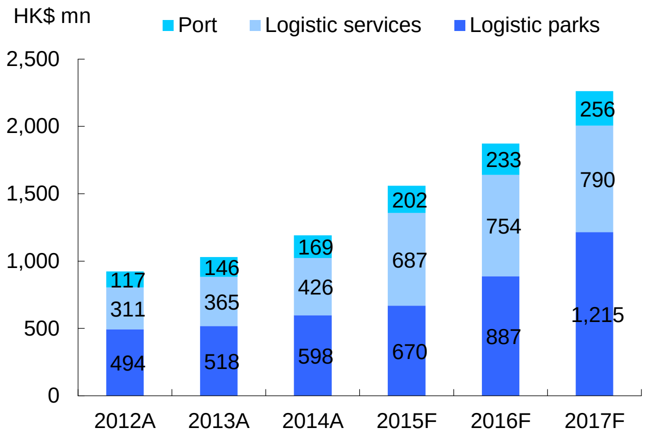
Revenue from logistics business recorded 11.6% and 15.8% yoy increase in 2013 and 2014. Logistics business of the Company mainly involves in warehousing as well as other value-added services, such as customs clearance and cross border cargo transfer. The Company currently owns 5 well-equipped logistic parks in major cities of China, including Shenzhen, Nanjing and Yantai. Total GFA of existing logistics parks of the Company is 1.05 million sqm. Operating area of South China Logistics Park reached 322 thousand sqm in 2013 due to an upgrade, compared to 197 thousand sqm in 2012; average occupancy rate of Company's logistics parks was 94.0% /92.0% /95.6% in 2012 /2013 /2014 and total occupied area significantly increased in 2013. Also due to the lag effect of the upgrade of South China Logistics Park, revenue from logistics parks grew by 8.0%/3.8%/15.4% yoy in 2012 /2013 /2014. Boosted by the increased rental income and expanding logistics service, revenue from logistics business revenue during 2012 /2013 /2014 recorded HK$922 /1,029 /1,192 million, respectively.

Figure-13:Occupied (Active) Area of Logistics Parks of Shenzhen Intl



Source: the Company, Guotai Junan International.

Figure-14: Revenue Breakdown of Logistics Business of Shenzhen Intl



Source: the Company, Guotai Junan International.

We expect revenue from logistics business will grow by 30.8%, 20.1% and 20.7% in 2015-2017, representing a CAGR of 20.4% during 2015-2017. The Company's newly developing logistics projects are called "China Urban Integrated Logistics Hub". The Company has signed investment agreements in relation to the "China Urban Integrated Logistics Hub" projects which spread across 10 major logistic gateway cities, including Shenyang, Wuxi, Wuhan, Tianjin, Shijiazhuang, Changsha, Nanchang and Hefei, etc. The "China Urban Integrated Logistics Hub" engages in inter-city highway transport logistic centers with full-spectrum functions including warehousing, transfer, distribution, e-commence, trade exhibition and logistic information center and provide commercial and financing value-added services. Total plan site are is 3.14 million sqm. The progress of newly logistics parks is affected by multiple factors and we conservatively estimate that phrase one of Shenyang Integrated Logistic Hub (240 thousand sqm) will be completed in the end of 2015 and part of Wuxi Integrated Logistic Hub, Wuhan Integrated Logistic Hub and Shijiazhuang Integrated Logistic Hub will be completed by the end of 2016. Also considering the occupancy rate, we estimate that average occupied (active) area of Company's logistics parks will be 648 thousand sqm/983 thousand sqm/1,240 thousand sqm in 2015 /2016 /2017, representing a CAGR of 38.3%. The ASP will be lower in the initial stage of new logistics parks. Therefore, we expect revenue from logistics parks to be HK$669.8 /886.5 /1,215.4 million in 2015 /2016 /2017, representing a CAGR of 34.7%. Revenue from logistics service is depended on logistics parks. Revenue from logistics service was HK$311.0 /365.3 /425.7 million in 2012 /2013 /2014, representing a CAGR of 17.0%. We expect it to be HK$687.3 /753.5 /790.0 million in 2015 /2016 /2017. Overall, we expect revenue from logistics business to be HK$1,559.6 /1,872.9 /2,261.5 million in 2015 /2016 /2017.

Table-7: Revenue breakdown of Logistics Business of the Company

HK$ million	2012A	2013A	2014A	2015F	2016F	2017F
South China Logistic Park	168.4	198.9	239.7	254.3	284.8	310.4
Western Logistic Park	90.4	90.3	94.6	110.8	118.7	125.9
Huatongyuan Logistic Centre	104.2	117.1	128.9	133.2	0.0	0.0
Nanjing Chemical Industrial Park Logistic Centre	47.0	50.5	67.8	75.2	82.0	89.4
Shandong Booming Total Logistic Park	84.2	61.2	66.5	67.9	69.3	70.0
Shenyang Integrated Logistic Hub	0.0	0.0	0.0	28.4	230.7	283.9
Wuxi Integrated Logistic Hub	0.0	0.0	0.0	0.0	51.1	168.3
Wuhan Integrated Logistic Hub	0.0	0.0	0.0	0.0	21.8	48.8
Shijiazhuang Integrated Logistic Hub	0.0	0.0	0.0	0.0	28.0	118.7
Logistics Parks Total	**494.2**	**517.9**	**597.5**	**669.8**	**886.5**	**1,215.4**
Logistic services	311.0	365.3	425.7	687.3	753.5	790.0
Ports	116.9	146.0	168.7	202.5	232.9	256.2
Revenue from logistics business	**922.1**	**1,029.2**	**1,191.9**	**1,559.6**	**1,872.9**	**2,261.5**

Source: the Company, Guotai Junan International.

Toll Road Business

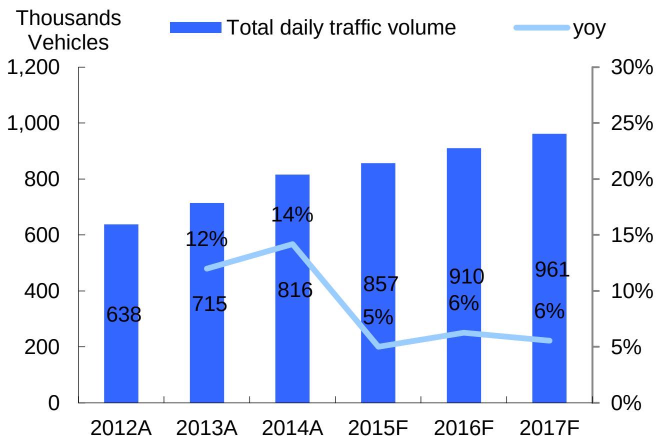
Revenue from toll road business recorded 2.4% and 5.0% yoy increase in 2013 and 2014. The Company's toll road operations span mainly across the Shenzhen region as well as other regions in Guangdong Province and other provinces in China; the Company operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway"), in which the Company holds a 50.9% equity interest. Revenue from toll road business of the Company mainly includes toll revenue and revenue from the entrusted construction management. According to Shenzhen Expressway and the Company's disclosure, toll revenue was HK$4,428.9 /4,551.3 million, increased by 6.5%/2.8% yoy in 2013 /2014. The operating performance of each expressway project of the Company was influenced in varying degrees by the conditions of surrounding road network, changes in surrounding competitive or synergistic road network, renovation work of connected or parallel roads, and construction or maintenance work of each individual project. Conclusively, the high growth in 2013 was mainly due to the high growth of Qinglian Expressway, which suffered from diversion effect starting in 2015. Meanwhile, the low growth of toll revenue in 2014 was mainly due to the disposal of Meiguan Expressway. On the other hand, revenue from entrusted management service is receipt of management fee and/or bonus according to the calculation method as agreed with the entrusting party through the provision of services relating to construction management and toll highway operation management; it also engaged in the construction and development of local roads by tapping into BT mode. As a result, as affected by the changes of various factors including the scale of each project, progress of construction during the current period, contractual terms, audit results of relevant government department and settlement of works, the related services income and costs recognized may have a higher level of fluctuation. Revenue from entrusted management service was HK$314.0 /610.6 in 2013 /2014. Overall, revenue from toll road business was HK$4,933.6 /5,178.3 million in 2013 /2014.

Table-8:Average Daily Traffic Volume of Toll Roads of the Company

Thousands of Vehicles	2012A	2013A	2014A	2015F	2016F	2017F
Meiguan Expressway	125	130	85	72	76	81
Jihe East	129	150	190	207	221	237
Jihe West	106	123	150	171	185	198
Yanba Expressway	29	31	36	35	36	36
Yanpai Expressway	47	50	57	53	52	50
Nanguang Expressway	59	76	87	96	105	110
Qinglian Expressway	22	28	33	34	35	37
Wuhuang Expressway	40	39	39	40	40	41
Longda Expressway	82	88	140	150	160	172
Total daily traffic volume	**638**	**715**	**816**	**857**	**910**	**961**
yoy		**12.0%**	**14.2%**	**5.0%**	**6.2%**	**5.6%**

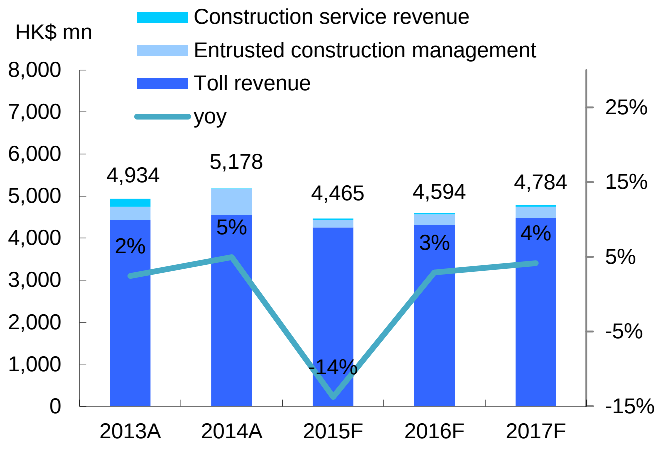
Source: the Company, Guotai Junan International.

Figure-15:Total Daily Traffic Volume of the Company's Toll Roads



Source: the Company, Guotai Junan International.

Figure-16: Revenue Breakdown of Toll Road Business of the Company



Source: the Company, Guotai Junan International.

We expect revenue from toll road business will grow by -13.8%, 2.9% and 4.1% in 2015-2017, representing a CAGR of 3.5% during 2015-2017. Toll road business of the Company has entered into stable stage. Due to diversion effect, revenue from Yanba Expressway, Yanpai Expressway and Qinglian Expressway are expected to decline in 2015 and slightly pick up in 2016 and 2017 due to organic growth. Due to the disposal of major part of Meigian Expressway in April 2014, toll revenue of Meiguan Expressway will also decline in 2015. On the other hand, economy growth in China is expected to slow down, which will affect the overall performance of toll roads. Conclusively, we expect toll revenue of the Company to be HK$4,248.5 /4,309.1 /4,471.0 million in 2015 /2016 /2017, representing a CAGR of 2.6%. Meanwhile, as major entrusted construction projects and BT projects has completed, revenue from entrusted management service is expected to be HK$186.5 /252.9 / 278.2 million in 2015 /2016 /2017. Overall, we expect revenue from toll road business will grow at a CAGR of 3.5% during 2015-2017.

Table-9: Revenue Breakdown of Toll Road Business of the Company

HK$ million	2013A	2014A	2015F	2016F	2017F
Meiguan Expressway	384.8	196.8	122.0	123.7	128.5
Jihe East	636.6	768.2	753.4	755.2	775.8
Jihe West	502.0	603.1	634.9	662.5	701.8
Yanba Expressway	212.7	234.7	217.8	219.0	225.6
Yanpai Expressway	259.1	278.0	205.7	190.8	181.4
Nanguang Expressway	377.1	399.5	395.4	424.5	441.2
Qinglian Expressway	933.2	1016.4	852.7	839.5	881.8
Wuhuang Expressway	498.2	423.9	389.1	366.1	353.0
Longda Expressway	625.2	630.7	677.6	727.9	782.0
Toll revenue	**4,428.9**	**4,551.3**	**4,248.5**	**4,309.1**	**4,471.0**
Entrusted construction management	314.0	610.6	186.5	252.9	278.2
Construction service revenue	190.7	16.4	30.0	32.0	35.0
Total	**4,933.6**	**5,178.3**	**4,464.9**	**4,594.0**	**4,784.2**
yoy	**2.4%**	**5.0%**	**-13.8%**	**2.9%**	**4.1%**

Source: the Company, Guotai Junan International.

Cost of Sales, Expenses and Gross Margin

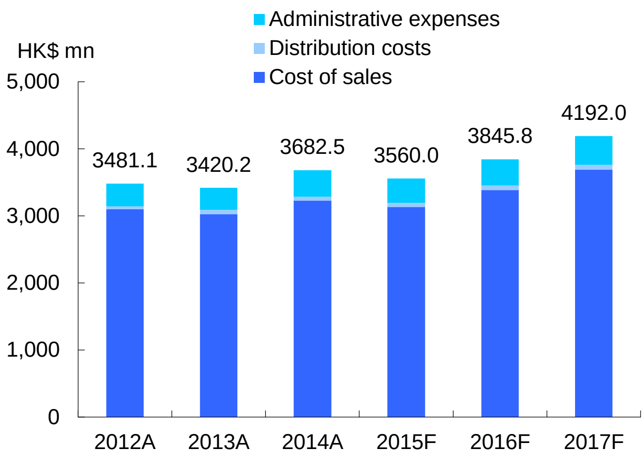
Cost of sales and expense of the Company were HK$3,481.1 /3,420.2 /3,682.5 million in 2012 /2013 /2014; we expect it to be HK$3,560.0 /3,845.8 /4,192.0 million in 2015 /2016 /2017. Employee benefit expenses were HK$508.8 /587.0 /635.2 million in 2012 /2013 /2014. The Company's logistics business will significantly expand in the next few years and the employee benefit expense will increase accordingly. We expect it to be HK$831.2 /998.2 /1,205.3 million in 2015 /2016 /2017. On the other hand, mainly due to the disposal of major part of Meiguan Expressway, depreciation and amortization cost is expected to slightly decline. Overall, we expect the cost of sales and expense, including cost of sales, distribution costs and administrative expenses, to be HK$3,560.0 /3,845.8 /4,192.0 million in 2015 /2015 /2017. As a result, we expect gross margin to be 48.0% /47.6% /47.6% in 2015 /2016 /2017 and it remains stable in general.

Table-10: Breakdown of Costs and Expenses of the Company

HK$ million	2012A	2013A	2014A	2015F	2016F	2017F
Employee benefit expenses	508.8	587.0	635.2	831.2	998.2	1,205.3
Construction cost under Service Concession	411.4	190.7	16.4	30.0	32.0	35.0
Provision for maintenance/resurfacing obligations	6.3	28.7	30.6	20.9	15.6	11.9
Depreciation and amortization	1,157.2	1,375.9	1,420.8	1,281.7	1,290.4	1,298.9
Transportation expenses and contractors' cost	309.3	332.9	282.9	267.6	287.2	312.9
Rental charges	29.6	32.8	34.0	35.0	36.0	37.1
Other tax expenses	192.2	194.4	216.8	205.1	220.1	239.8
Commission, management fee and maintenance expenses for toll roads	179.1	276.9	338.3	320.0	343.5	374.2
Entrusted construction management service cost	0.0	23.9	161.6	49.3	66.9	73.6
Auditors' remuneration	10.1	9.9	11.4	11.8	12.1	12.5
Legal and consultancy fees	24.0	26.4	25.4	26.1	26.9	27.7
Others	653.0	340.6	509.0	481.4	516.7	563.0
Total	**3,481.1**	**3,420.2**	**3,682.5**	**3,560.0**	**3,845.8**	**4,192.0**
Including:						
Cost of sales	**3,101.7**	**3,025.3**	**3,228.5**	**3,135.1**	**3,386.7**	**3,691.6**
Distribution costs	**42.6**	**64.2**	**57.1**	**61.0**	**65.9**	**71.9**
Administrative expenses	**336.8**	**330.7**	**396.9**	**363.9**	**393.1**	**428.5**

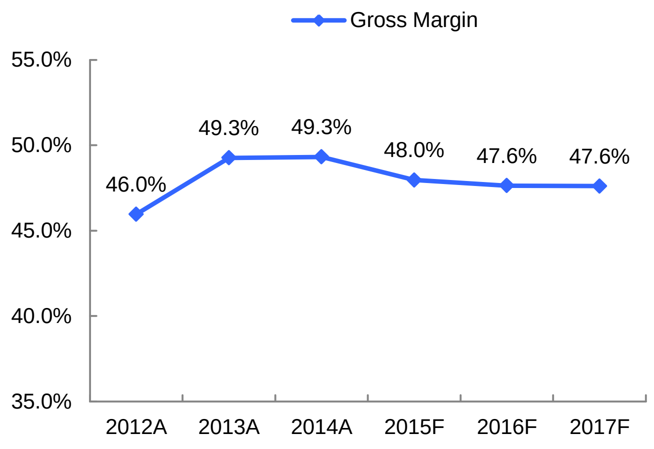
Source: the Company, Guotai Junan International.

Figure-17:Cost of Sales and Expenses of the Company



Source: the Company, Guotai Junan International.

Figure-18: Gross Margin of the Company



Source: the Company, Guotai Junan International.

Share of Profit from Associates

Share of profit from associates was HK$1,275.7 /759.4 /726.5 million in 2012 /2013 /2014 and we expect it to be HK$800.2 /848.0 /971.5 in 2015 /2016 /2017. Share of The Company's investment in associates includes 49% interest of Shenzhen Airline and other associates which are mainly toll road Companies. Shenzhen Airlines is a material associate to the Company; Shenzhen Airlines is a private company and there is no quoted market price available for its shares. Shenzhen Airlines is the fourth largest airline company in China in terms of scale. Share of profit from Shenzhen Airlines was HK$1,118.8 /538.5 /455.1 million in 2012 /2013 /2014. According to Bloomberg, eps of listed airlines companies of China is expected to averagely grow by 153% /8% /15% in 2015 /2016 /2017. Also considering the rapid development and population growth of the city of Shenzhen, where Shenzhen Airlines base airport locates, we estimate shares of profit from Shenzhen Airlines to be HK$800.2 /848.0 /971.5 million in 2015 /2016 /2017 and we expect shares of associates to be HK$1,104.1 /1,176.2 /1,322.7 million in 2015 /2016 /2017.

Table-11: Share of Profit from Associates

HK$ million	2012A	2013A	2014A	2015F	2016F	2017F
Shares of profit from Shenzhen Airlines	1,118.8	538.5	455.1	800.2	848.0	971.5
Shares of profit from other associates	156.8	221.0	271.3	303.9	328.2	351.2
Total	**1,275.7**	**759.4**	**726.5**	**1,104.1**	**1,176.2**	**1,322.7**

Source: the Company, Guotai Junan International.

Table-12: Airline Peers in China

		EPS				
		2013A	2014A	2015F	2016F	2017F
1055 HK	CHINA SOUTHERN AIRLINES CO-H	0.25	0.23	0.80	0.89	1.03
	yoy		-10.2%	250.9%	11.8%	15.5%
670 HK	CHINA EASTERN AIRLINES CO-H	0.25	0.34	0.65	0.69	0.89
	yoy		34.7%	89.8%	7.4%	28.7%
753 HK	AIR CHINA LTD-H	0.33	0.39	0.85	0.89	0.91
	yoy		16.7%	117.0%	5.2%	1.6%
	Average yoy		13.7%	152.6%	8.2%	15.3%

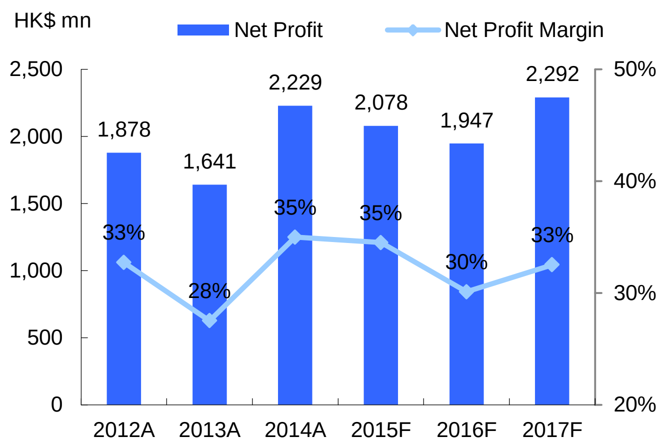
Source: Bloomberg.

Net Profit

Net profit attributable to shareholders was HK$1,878 /1,641 /2,229 million in 2102 /2013 /2014 and we expect it to grow by -6.8% /-6.3% /17.7% in 2015 /2016 /2017 and to be HK$2,078 /1,947 /2,292 million in 2015 /2016 /2017, representing a CAGR of 5.0% in 2015-2017. Gain on disposal of Meiguan Expressway has boosted net profit in 2014. Meanwhile, other income in 1H15 was HK$683 million, mainly due to the disposal of shares in CSG. We think the A share market has entered in to fluctuate status and the Company will not sell more CSG shares in the short term. On the other hand, new logistics parks in Shenyang will fully operate in 2016 and new logistics parks in Wuxi, Wuhan and Shijiazhuang will fully operate in 2017. Income from toll road business is expected to remain stable. Overall, we expect net profit to grow by -6.8% /-6.3% /17.7% in 2015 /2016 /2017 and to be HK$2,078 /1,947 /2,292 million in 2015 /2016 /2017, representing a CAGR of 5.0% in 2015-2017. EPS is expected to be HK$1.083 /0.988 /1.132 in 2015 /2016 /2017.

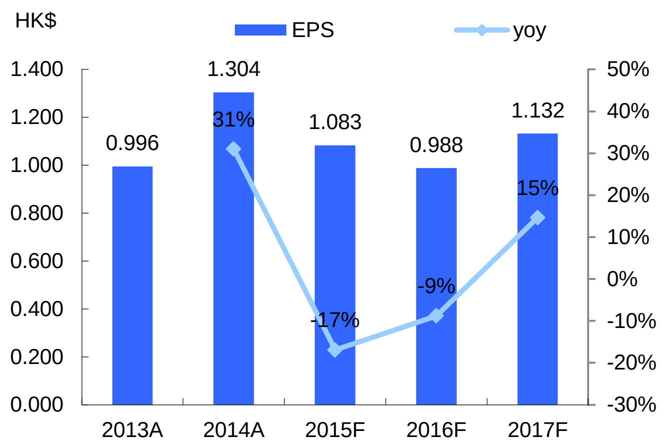
Excluding the non-recurring items, the adjusted net profit was HK$1,660 /HK$1,761 million in 2013 /2014 and we expect it to grow by 1.5% /5.4% /15.2% in 2015 /2016 /2017, representing a CAGR of 7.2% in 2014-2017. As the other incomes have created a significant fluctuation for net profit, we deduct the non-recurring items from net profit to derive the adjusted net profit to reflect the operation of the Company. Adjusted net profit is expected to grow by 1.5% /5.4% /15.2% in 2015 /2016 /2017 and to be HK$1,788 /HK$1,883 /HK$2,170 million in 2015 /2016 /2017, representing a CAGR of 7.2% in 2014-2017.

Figure-19: Net Profit and Net Profit Margin



Source: the Company, Guotai Junan International.

Figure-20: EPS of Shenzhen Intl



Source: the Company, Guotai Junan International.

Dividends

Benefitting from the stable income and cash flow from toll road business, dividend payout ratio was 32.6% /37.8% /38.6% in 2012 /2013 /2014. We expect the payout ratio to maintain at around 38% and dividend per share is expected to be HK$0.408 /0.372 /0.427 in 2015 /2016 /2017.

MAJOR RISKS

We think major risks associated with Shenzhen Intl include: 1) economy growth of China unexpectedly slows down and demand for logistics parks and expressways declined; 2) expressways projects are exposed to certain policy risks, including adjustment of toll period and toll rates by the authorities without reasonable compensations.

VALUATION AND RATING

We set Shenzhen Intl's initial investment rating at "Buy" and target price at HK$14.80, which is equivalent to 13.7x 2015 PER. Revenue from logistics business is expect to account for 26% of total revenue and revenue from toll road business is expect to account for the remaining 74% in 2015. However, the growth potential of the Company is mainly from Logistics business and we expect revenue from logistics will account for 32% of total revenue in 2017. Excluding the non-recurring items, the adjusted net profit is expected to grow by 1.5% /5.4% /15.2% in 2015 /2016 /2017, representing a CAGR of 7.2% in 2014-2017. Currently the Company is trading at 11.4x 2015 PER, which is a discount to its logistics peers and expressway peers in both Hong Kong and China. Moreover, land of the Company in Meilin Checkpoint and Qianhai will bring additional profit to the Company after 2017. Overall, we initial investment rating of "Buy" and set the target price to HK$14.80, which represents 13.7x /15.0x /13.1x FY15 /16 /17 PER and 1.5x /1.5x /1.4x FY15 /16 /17 PBR.

Table-13: Peer Group of Logistics Sector

				Market Cap	PE				PB				ROE (%)	D/Y (%)	EV/EBITDA
Company	Stock Code	Currency	Last price	mn HKD	14A	15F	16F	17F	14A	15F	16F	17F	15F	15F	15F
HK - Listed Logistics Companies															
Sinotrans Limited-H	598 HK	HKD	4.51	20,775.2	12.8	11.3	10.4	9.1	1.2	1.2	1.1	1.0	10.5	2.6	7.8
Kerry Logistics Network Ltd	636 HK	HKD	11.56	19,586.0	11.8	16.7	15.7	14.5	1.3	1.2	1.2	1.1	7.6	1.3	10.0
Shenzhen Intl Holdings	152 HK	HKD	12.30	23,357.9	9.5	11.8	10.9	9.6	1.3	1.2	1.1	1.0	11.2	3.2	11.0
Guangdong Yueyun Transport-H	3399 HK	HKD	5.20	3,257.6	12.9	9.1	7.1	5.9	1.6	1.1	0.8	0.7	11.5	n.a.	n.a.
Changan Minsheng Apll Logi-H	1292 HK	HKD	7.56	1,225.2	4.4	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asr Logistics Holdings Ltd	1803 HK	HKD	0.72	580.9	43.9	n.a.	n.a.	n.a.	10.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				11,463.8	15.9	12.2	11.0	9.8	2.7	1.2	1.0	0.9	10.2	2.4	9.6
Weighted Average				19,965.2	11.5	12.9	11.9	10.7	1.4	1.2	1.1	1.0	9.9	2.4	9.7
China - Listed Logistics Companies															
Sinotrans Air Transport-A	600270 CH	CNY	25.29	27,966.0	37.1	22.3	19.0	15.2	3.5	3.4	3.0	2.6	15.7	1.7	n.a.
Jiangsu Aucksun Co Ltd -A	002245 CH	CNY	7.23	8,596.6	39.0	n.a.	n.a.	n.a.	4.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Europol Intelligent Networ-A	002711 CH	CNY	31.61	12,740.0	80.9	57.5	47.9	39.5	8.4	5.4	4.8	4.2	10.5	n.a.	n.a.
Jiangsu Xinning Modern Log-A	300013 CH	CNY	21.90	7,964.5	547.5	n.a.	n.a.	n.a.	11.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiangsu Feiliks Internatio-A	300240 CH	CNY	15.90	4,732.2	119.3	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shenzhen Huapengfei Modern-A	300350 CH	CNY	35.48	12,845.8	197.1	n.a.	n.a.	n.a.	14.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiamen Xiangyu Co Ltd-A	600057 CH	CNY	12.65	16,008.7	39.5	26.7	19.6	16.0	3.5	3.1	2.7	2.4	12.0	n.a.	n.a.
Simple Average				12,979.1	151.5	35.5	28.8	23.6	7.2	4.0	3.5	3.1	12.7	1.7	n.a.
Weighted Average				16,789.9	115.5	31.5	25.7	20.9	6.6	3.8	3.4	2.9	13.5	1.7	n.a.
Other Area - Listed Logistics Companies															
United Parcel Service-Cl B	UPS US	USD	102.86	714,414.7	31.1	19.5	17.7	16.0	43.5	23.8	23.5	12.7	178.5	2.8	10.4
Fedex Corp	FDX US	USD	150.73	329,863.7	19.9	16.9	14.1	12.3	2.8	2.6	2.5	2.2	16.0	0.5	6.7
Xpo Logistics Inc	XPO US	USD	27.38	20,234.0	n.a.	n.a.	53.2	28.6	1.3	1.1	1.0	0.9	(5.7)	0.0	18.2
Deutsche Post Ag-Reg	DPW GR	EUR	25.75	276,658.0	15.1	15.3	13.4	12.2	3.3	3.0	2.6	2.4	20.0	3.4	7.7
Norbert Dentressangle	GND FP	EUR	190.30	16,604.4	24.6	15.7	14.1	12.5	2.8	2.5	2.2	2.0	16.5	1.1	7.9
Cj Korea Express Corp	000120 KS	KRW	199,000	31,343.7	79.3	54.1	32.1	25.9	2.0	1.6	1.6	1.5	3.4	0.0	17.3
Seino Holdings Co Ltd	9076 JP	JPY	1,322.00	17,972.7	17.0	20.1	14.9	13.6	0.8	0.7	0.7	0.7	3.8	0.9	5.4
Kamigumi Co Ltd	9364 JP	JPY	984.00	17,671.8	16.6	16.6	15.7	15.1	0.9	0.8	0.8	0.8	5.2	1.1	6.9
Mitsubishi Logistics Corp	9301 JP	JPY	1,576.00	18,149.4	32.4	34.0	28.2	26.9	1.2	1.1	1.0	1.0	3.4	0.8	12.1
Sumitomo Warehouse Co Ltd	9303 JP	JPY	586.00	7,516.2	16.8	14.6	13.9	13.1	0.7	0.7	0.6	0.6	4.7	2.0	10.0
Simple Average				145,042.8	28.1	23.0	21.7	17.6	5.9	3.8	3.7	2.5	24.6	1.3	10.3
Weighted Average				481,531.4	25.6	18.7	16.9	14.9	22.8	13.0	12.7	7.3	95.7	2.2	9.2

Source: Bloomberg.

Table-14: Peer Group of Toll Road Sector

Company	Stock Code	Currency	Last price	Market Cap mn HKD	PE 14A	PE 15A	PE 16A	PE 17A	PB 14A	PB 15A	PB 16A	PB 17A	ROE(%) 15F	D/Y(%) 15F	EV/EBITDA 15F
HK - Listed Expressway Companies															
Anhui Expressway Co Ltd-H	995 HK	HKD	6.65	20,630.8	10.3	10.0	9.8	9.6	1.1	1.1	1.0	1.0	11.4	4.5	9.7
Shenzhen Expressway Co-H	548 HK	HKD	5.75	15,465.6	4.6	8.7	9.4	9.0	0.9	0.8	0.8	0.7	9.8	4.8	7.8
Jiangsu Express Co Ltd-H	177 HK	HKD	9.86	51,332.6	15.3	13.9	13.5	12.6	2.0	1.9	1.8	1.8	14.1	5.4	10.4
Yuexiu Transport Infrastruct	1052 HK	HKD	5.12	8,566.6	11.2	10.0	9.8	9.6	0.8	0.8	0.8	0.8	8.2	5.5	10.0
Hopewell Highway Infrastruct	737 HK	HKD	3.94	12,141.9	17.4	17.9	16.6	15.0	1.3	1.3	1.5	1.5	7.7	5.2	8.5
Zhejiang Expressway Co-H	576 HK	HKD	9.36	40,651.6	13.7	12.5	11.8	11.0	1.9	1.8	1.7	1.6	15.2	4.7	5.4
Sichuan Expressway Co-H	107 HK	HKD	2.71	15,051.5	6.7	7.3	7.3	7.1	0.6	0.6	0.5	0.5	7.7	3.3	11.1
Simple Average				23,405.8	11.3	11.5	11.2	10.5	1.2	1.2	1.2	1.1	10.6	4.8	9.0
Weighted Average				32,957.4	12.4	12.1	11.7	11.0	1.5	1.5	1.4	1.3	12.3	4.9	8.7
China - Listed Expressway Companies															
Shenzhen Expressway Co Ltd-A	600548 CH	CNY	6.38	15,465.5	6.4	10.1	12.5	13.2	1.2	1.1	1.1	0.8	11.2	4.3	7.0
Jiangsu Expressway Co Ltd-A	600377 CH	CNY	8.43	51,332.2	16.5	14.0	13.8	12.7	2.1	2.0	1.9	1.8	14.4	5.6	10.0
Anhui Expressway Co Ltd-A	600012 CH	CNY	12.19	20,630.7	23.7	21.7	21.5	21.0	2.6	2.5	2.3	2.2	11.7	2.0	9.7
Shandong Hi-Speed Co Ltd -A	600350 CH	CNY	6.97	40,952.9	13.0	12.6	11.1	9.8	1.6	1.5	1.3	1.2	11.6	2.2	5.5
Sichuan Expressway Co-A	601107 CH	CNY	4.78	15,051.4	15.0	15.7	15.7	15.2	1.2	1.2	1.1	1.1	7.7	1.5	11.1
Henan Zhongyuan Expressway-A	600020 CH	CNY	5.74	15,753.9	14.5	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fujian Expressway Developm-A	600033 CH	CNY	4.04	13,540.4	18.5	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hubei Chutian Expressway-A	600035 CH	CNY	4.96	8,803.6	25.9	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	10.7	n.a.	n.a.
Simple Average				22,691.3	16.7	14.8	14.9	14.4	1.7	1.6	1.5	1.4	11.2	3.1	8.7
Weighted Average				31,468.6	16.0	14.5	14.2	13.4	1.8	1.7	1.6	1.5	12.1	3.5	8.5

Source: Bloomberg.

Our DCF model suggests that Shenzhen Intl's NAV should be HK$18.48 per share. Our estimation is based on the free cash flow to equity. Key parameters are shown in the table below. Based on our DCF model estimation, the FY15 NAV of Shenzhen Intl is HK$18.48 per share. Our target price represents approximately 20.0% discount to our NAV estimates. Due to the relatively high fix assets investment of the Company's business, we think this discount ratio is fair.

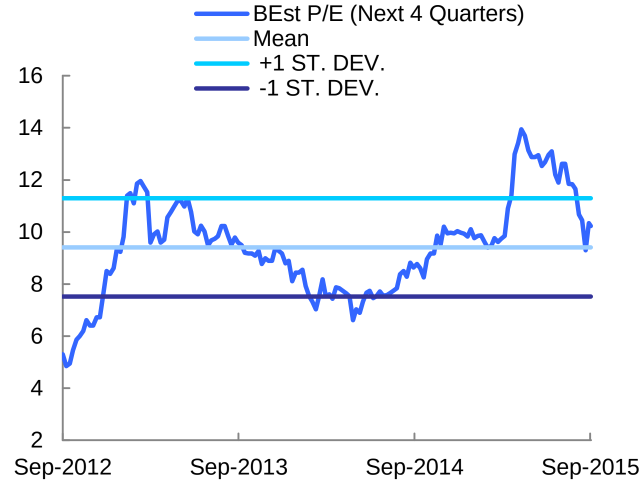
Table-15: DCF Valuation

WACC Calculation		DCF Calculation (HK$ mn)	g=2%
Risk-free rate	1.80%	PV of FCFE (million HKD)	35,943
Equity risk premium	12.07%	NAV per share (HKD)	18.48
Beta	1.0	Our TP (HKD)	14.80
Cost of equity	13.6%	Our TP discount to NAV	20%
Cost of debt	5.5%		
Effective tax rate (long-term)	25.0%		
After tax cost of debt	4.1%		
Equity Ratio	50.0%		
WACC	8.9%		

Sensitivity analysis for NAV		Perpetual growth rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.9%	20.28	21.83	23.65	25.80	28.39
	8.4%	18.08	19.37	20.86	22.60	24.68
	8.9%	16.15	17.24	**18.48**	19.92	21.60
	9.4%	14.46	15.39	16.43	17.63	19.02
	9.9%	12.97	13.76	14.65	15.66	16.81

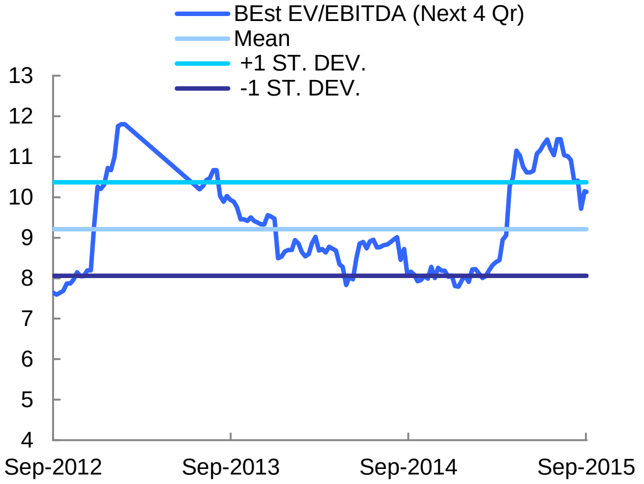
Source: Bloomberg, the Company, Guotai Junan International.

Figure-21: Forward PE (Next 4 Quarters)



Source: Bloomberg.

Figure-22: Forward EV/EBITDA (Next 4 Quarters)



Source: Bloomberg.

APPENDIXES

Financial Statements and Ratios

Income Statement

Year end Dec (HK$ m)	2013A	2014A	2015F	2016F	2017F
-Logistics operations	1,029	1,192	1,560	1,873	2,262
-Toll Road	4,934	5,178	4,465	4,594	4,784
Revenue	5,963	6,370	6,025	6,467	7,046
Cost of sales	(3,025)	(3,228)	(3,135)	(3,387)	(3,692)
Gross profit	2,937	3,142	2,889	3,080	3,354
Other income and loss	42	2,124	571	201	298
Distribution costs	(64)	(57)	(61)	(66)	(72)
Administrative expenses	(331)	(397)	(364)	(393)	(429)
Operating profit	2,584	4,812	3,036	2,822	3,152
Net finance costs	(739)	(770)	(707)	(751)	(772)
Share of results of JCEs	792	714	1,122	1,196	1,344
Profit before taxation	2,637	4,756	3,451	3,267	3,724
Taxation	(531)	(1,069)	(658)	(585)	(666)
Non-controlling interests	(465)	(1,458)	(714)	(735)	(765)
Net profit attributable to shareholders	1,641	2,229	2,078	1,947	2,292
Basic EPS (HK$)	0.996	1.304	1.083	0.988	1.132
YoY (%)	(13.2)	31.0	(16.9)	(8.8)	14.6
DPS (HK$)	0.374	0.455	0.408	0.372	0.427

Cash Flow Statement

Year end Dec (HK$ m)	2013A	2014A	2015F	2016F	2017F
Profit before taxation	2,637	4,756	3,451	3,267	3,724
Depreciation and amortization	1,376	1,421	1,282	1,290	1,299
JCEs and associates	(792)	(714)	(1,122)	(1,196)	(1,344)
Other gain/loss, net	768	(1,207)	(13)	705	715
Cash flow before working capital changes	3,989	4,256	3,597	4,066	4,394
Change in working capital	(280)	(499)	783	(94)	(98)
Tax & interest paid	(1,374)	(1,346)	(1,576)	(1,493)	(1,571)
Net cash flow from operating activities	2,336	2,410	2,804	2,479	2,724
CapEx	(1,341)	(1,325)	(2,498)	(2,397)	(1,914)
Interest received	81	88	125	126	128
Others	836	1,311	1,390	1,375	509
Net cash flow from investing activities	(425)	74	(983)	(896)	(1,277)
Change in loans	(1,229)	(1,375)	(350)	(160)	(57)
Dividends paid	(776)	(435)	(415)	(794)	(744)
Others	176	1,537	(342)	(587)	(502)
Net cash flow from financing activities	(1,828)	(273)	(1,107)	(1,541)	(1,303)
Beginning cash balance	4,866	4,950	7,161	7,875	7,917
Effects of changes in exchange rates	2	0	0	0	0
Change in cash and cash equivalent	82	2,211	714	42	145
Ending cash balance	4,950	7,161	7,875	7,917	8,061

Balance Sheet

Year end Dec (HK$ m)	2013A	2014A	2015F	2016F	2017F
Property, plant and equipment	4,404	4,086	4,428	4,732	4,991
Investment in JCEs	5,842	6,160	6,861	7,608	8,447
Intangible assets	23,618	21,066	20,173	19,321	18,506
Other non-current assets	1,345	3,692	4,170	4,578	5,323
Non-current assets	35,209	35,004	35,632	36,239	37,267
Cash and cash equivalents	4,950	7,161	7,875	7,917	8,061
Trade and other receivables	1,340	2,762	1,939	2,082	2,268
Inventories	447	674	1,173	1,689	2,126
Other current assets	1,278	1,762	1,775	1,788	1,801
Current assets	8,014	12,359	12,762	13,476	14,257
Short-term borrowings	2,297	2,392	2,190	2,241	2,196
Trade and other payables	1,918	2,249	2,238	2,306	2,408
Other current liabilities	340	872	874	890	916
Current liabilities	4,555	5,513	5,302	5,437	5,521
Long-term borrowings	15,025	13,355	13,207	12,996	12,984
Other non-current liabilities	1,735	1,766	1,650	1,556	1,461
Non-current liabilities	16,760	15,121	14,857	14,553	14,446
Non-controlling interests	7,918	9,026	9,439	9,891	10,324
Share capital	5,100	7,523	7,606	7,685	7,766
Reserves	8,890	10,180	11,189	12,148	13,467
Shareholders' equity	13,990	17,702	18,795	19,833	21,233
Total Equity	21,908	26,728	28,234	29,724	31,558
BPS(HK$)	8.442	9.357	9.664	9.929	10.357
YoY (%)	9.3	10.8	3.3	2.7	4.3

Financial Ratio

	2013A	2014A	2015F	2016F	2017F
Operating margin (%)	43.3	75.5	50.4	43.6	44.7
Net income margin (%)	27.5	35.0	34.5	30.1	32.5
ROA (%)	3.8	4.9	4.3	4.0	4.5
ROE (%)	12.3	14.1	11.4	10.1	11.2
Fixed asset turnover (x)	1.4	1.5	1.4	1.4	1.4
Current ratio (x)	1.8	2.2	2.4	2.5	2.6
Quick ratio (x)	1.7	2.1	2.2	2.2	2.2
Total debt / EBITDA (x)	4.4	2.5	3.6	3.7	3.4
Net gearing ratio (%)	56.5	32.1	26.6	24.6	22.6
Interest coverage ratio (x)	3.2	4.9	3.3	3.1	3.5

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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(1) The Analyst's associate serves as director in the listed corporation mentioned in this Research Report.
(2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
(3) Except for China All Access (Holdings) Limited (00633), Guangshen Railway Company Limited-H shares (00525), SMI Holdings Group Limited (00198), Guotai Junan International Holdings Limited (01788), China Fire Safety Enterprise Group Limited (00445) and Binhai Investment Company Limited (02886), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
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