

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**

China Toll Road

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

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%

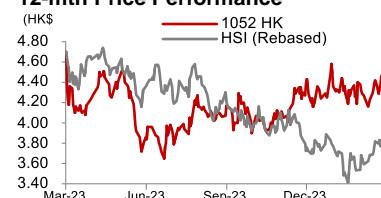
Source: HKEx

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



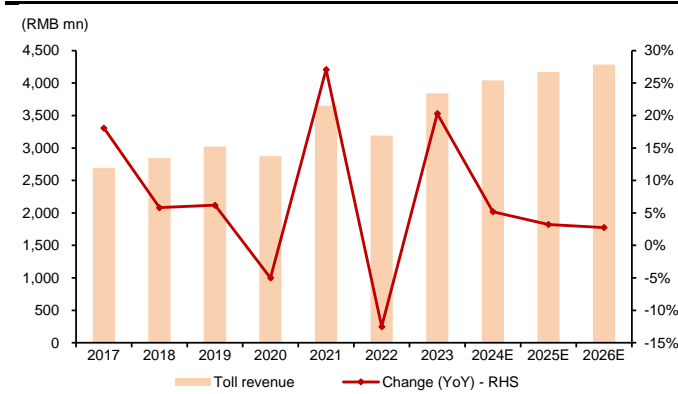
Source: Company data, CMBIGM

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	68.8%	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%

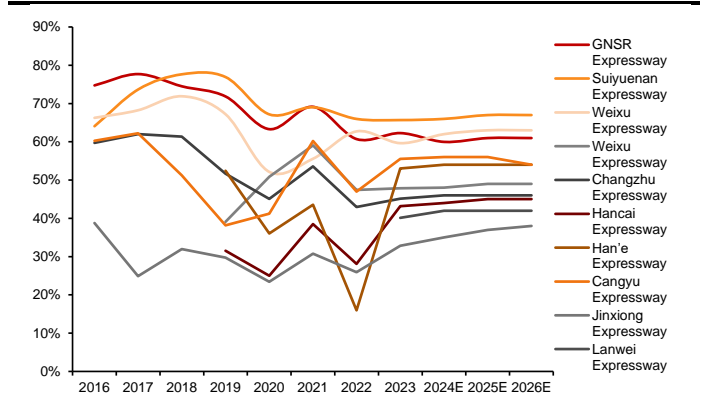
Source: Company data, CMBIGM estimates

Figure 4: Yuexiu Transport's toll revenue and growth



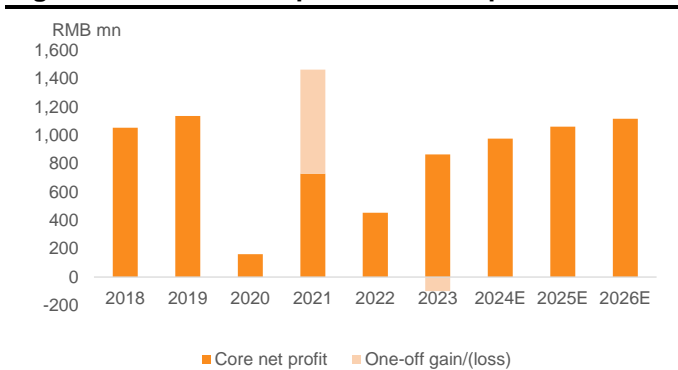
Source: Company data, CMBIGM estimates

Figure 5: Toll road projects' gross margin trend



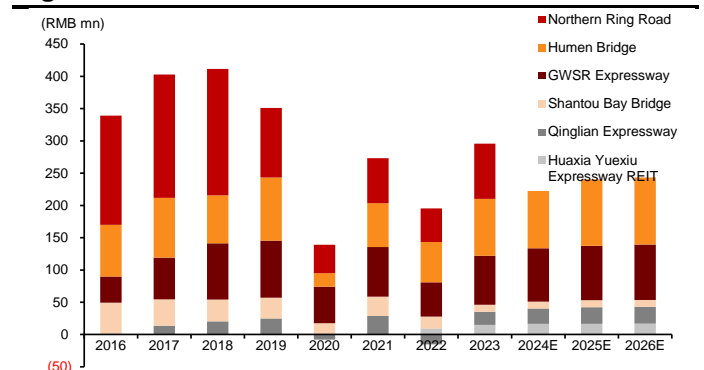
Source: Company data, CMBIGM

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
Daguangnan 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%
Daguangnan 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
Daguangnan 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%
Daguangnan 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
Daguangnan 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 incom	-	-	-	-	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%
Daguangnan 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 incom	-	-	-	-	-	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%
Daguangnan 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%

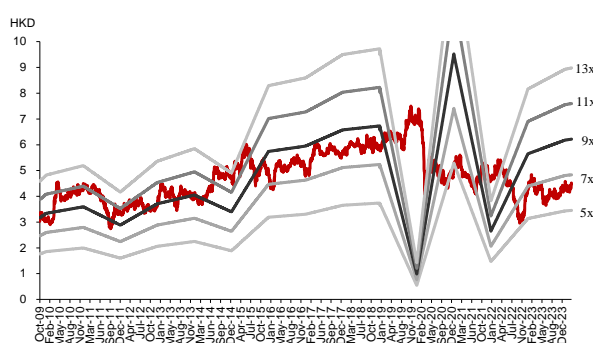
Source: CMBIGM estimates

Figure 12: DCF sensitivity

		LT debt/capital ratio				
		38.0%	43.0%	48.0%	53.0%	58.0%
3.3%	5.2	5.7	6.2	6.8	7.3	
2.8%	5.5	6.1	6.7	7.3	8.0	
After tax cost of debt	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	

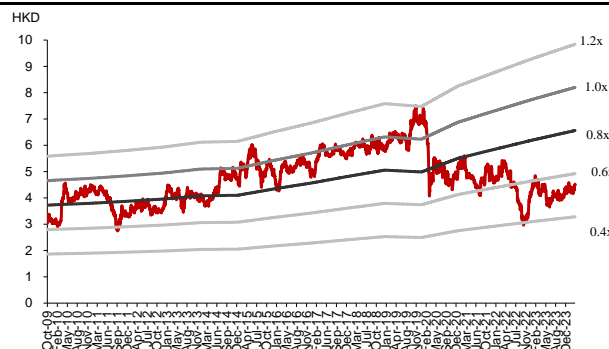
Source: CMBIGM estimates

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						
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.

Disclosures & Disclaimers

Analyst Certification

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

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

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

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

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

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

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

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

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

For recipients of this document in the United Kingdom

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

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

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