

20 Feb, 2025

Hans Group Holdings | 00554.HK

An investment target owning a franchised bus operator (Citybus)

STOCK RATING

NR

TARGET PRICE

HK\$ -

Hans (00554.HK), acquired 54.44% stake in BTHL for a consideration of HKD 2.7bn, increasing its ownership to 70%. BTHL specializes in i) providing public bus and travel-related services in Hong Kong under the brand of Citybus (incl. NWFB), and ii) the provision of advertising business and it is the exclusive advertising agency for the bus body of the Citybus' franchised bus fleet.

Anticipated turnaround and dividend distribution: At the end of 2024, the application for fare adjustments on Citybus Urban and New Territories routes was approved, the fare adjustment rate was 7.5% and the new fare was effective on 5 Jan 2025. Given the relatively inelastic demand for bus services, we believe that a moderate fare adjustment will not bring a significant adverse impact on demand. The adjustment is expected to facilitate a financial turnaround for both Citybus and the Group. Assuming that a net profit is achieved by Citybus, the Group will consider the potential for dividend distributions. If the Group adopts a 95% payout ratio as its peer, over HKD 60mn will be distributed to shareholders as a dividend for every HKD 100mn in net profit. Based on Hans (00554.HK) market capitalization of approximately HKD 1bn, this could yield a dividend return of 6% - 7%.

Economies of scale and synergies: The merger between Citybus and NWFB is expected to realize economies of scale through i) route optimization, ii) improved operational efficiency, and iii) cost savings.

- **Route Optimization:** The merger facilitates route optimization, which can reduce road congestion, shorten travel times, minimize empty mileage and scheduling errors, lower fuel consumption, and enhance resource utilization.
- **Improved operational efficiency:** Administrative work can be reduced, and resource allocation will be unrestricted, helping to decrease empty mileage and lower fuel costs.
- **Cost savings:** Citybus and NWFB can share facilities, including bus stops, bus shelters, staff lounges, station master's rooms, and restrooms. They can also share parts inventories and independent storage facilities, which will help reduce operational costs and overall inventory levels.
- **Fuel and hydrogen supply:** The Group's current customers and partners include fuel and hydrogen suppliers, allowing it to supply fuel and hydrogen to Citybus and potentially reduce fuel costs by approximately 3% - 5%. Additionally, the utilization rate of the Group's terminal storage business is expected to increase by 2% - 3%.

COMPANY REPORT

H F NGO, Brian, CFA

SENIOR ANALYST

brianngo@westbullsec.com.hk

+852 3896 2965

 2701 – 2703, 27/F, Infinitus Plaza, 199 Des Voeux Rd
 Central, Sheung Wan, HK

Hans Group Holdings (00554.HK)

Stock Rating (Previous Rating) NR

Target Price (Previous TP) HK\$ -

Current Price HK\$ 0.226

52-Week Range HK\$ 0.170 – 0.430

Market cap. (HKD, bn) HK\$ 1.0

HKD, mn	21 (A)	22 (A)	23 (A)
Revenue	1,974.8	694.9	948.5
Gross Profit	106.8	93.6	89.2
Gross Margin	5.4%	13.5%	9.4%
Profit Attr.	(16.0)	0.2	(35.1)
ROE	-1.2%	0.1%	-2.7%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-4.2%	-5.4%	-14.7%	29.9%
Relative to HSI	-21.4%	-22.1%	-45.3%	-12.1%

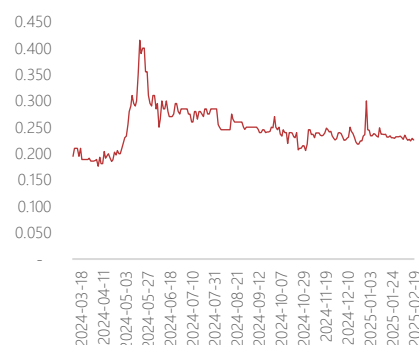


Table of Contents

BUSINESS OVERVIEW	3
ACQUISITION OF BTHL	3
BTSL	4
ADVERTISING INCOME	
10	
EXISTING BUSINESS	11
INDUSTRY OVERVIEW	12
OVERVIEW OF THE FRANCHISED BUS INDUSTRY IN HONG KONG	12
INVESTMENT THESIS	18
ANTICIPATED TURNAROUND AND DIVIDEND DISTRIBUTION	18
COMPARISON WITH THE PEER	19
ECONOMIES OF SCALE AND SYNERGIES	
20	
PEERS COMPARISON	22
RISK FACTORS	22
FINANCIAL STATEMENT	23

Business Overview

Acquisition of BTHL

Glorify, a wholly-owned subsidiary of Hans (00554.HK), acquired 54.44% stake in BTHL for a consideration of HKD 2.7bn, increasing its ownership to 70%. The valuation of BTHL was approximately HKD 5.0bn. The payment structure includes an upfront payment of HKD 500mn in cash and HKD 222mn in shares to the seller upon completion. Deferred payments of HKD 250mn, HKD 600mn, HKD 550mn and HKD 600mn were scheduled for disbursement in Feb 2025, Jul 2025, Jul 2027, and Jul 2027, respectively, with an annual interest rate of 2.5%.

■ BTHL

BTHL purchased all the issued BTSL Shares for a total consideration of HKD 3.2bn in Aug 2020.

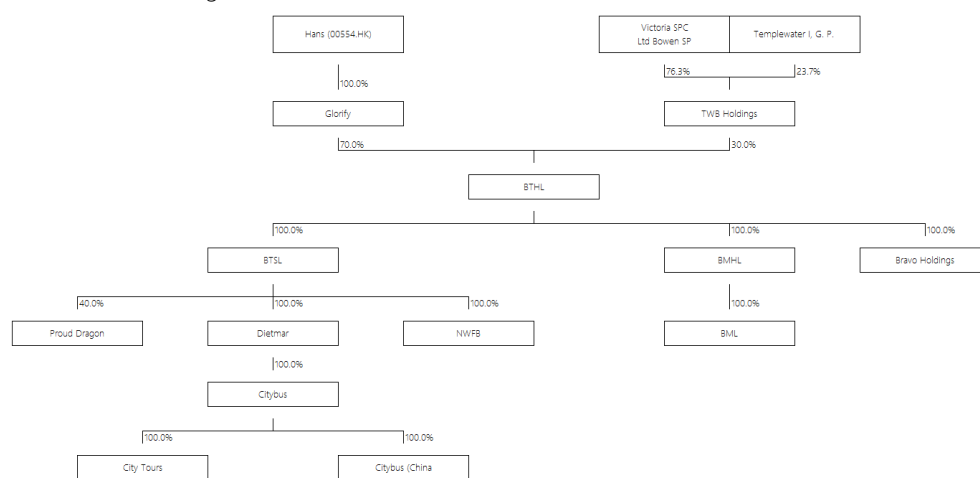
■ BTSL

BTSL, a wholly-owned subsidiary of BTHL, specializes in providing public bus and travel-related services in Hong Kong. Citybus (incl. NWFB), owned by BTSL, operated bus services in Hong Kong through the public bus franchises granted under the PBSO.

■ BML

BML, a wholly-owned subsidiary of BTHL, is principally engaged in advertising business. It was the exclusive advertising agency for the bus body exterior and interior of the Citybus' franchised bus fleet for ten years until 2033. BML also provides advertising sales agency services at certain railway lines and buses operated by the railway operator, and BML is responsible for the operation, sales and marketing of this advertising media.

Exhibit: Shareholding structure of BTHL



Source: Company data, West Bull Securities

■ Related-party transactions with Templewater

Templewater I, G.P. is entirely owned by Templewater Holdings Limited, an alternative investment firm founded by Investec Bank plc and Mr. Zhang Kun, Cliff. Both entities hold a 50% equity interest in Templewater Holdings Limited.

➤ Hydrogen Advisory and Consultancy Agreement

BTSL entered into the agreement with Templewater HK, an operating entity of Templewater in Hong Kong, to record the terms on which Templewater HK has provided advisory services to BTSL Group with effect from 1 Jan 2024. The agreement was related to the transition into the next generation of vehicles powered by hydrogen or other green/renewable fuel sources, as well as business developments and acquisitions. The agreement is for an initial term of 3 years. At the expiry of the initial three-year term, i) if TWB holds 5% or more of BTHL, the agreement shall be automatically renewed for 24 months; or ii) if TWB holds less than 5% of BTHL, the term may be renewed for 24 months at the option of BTSL.

The consultancy fee payable by BTSL shall be HKD 20mn per year and a discretionary bonus of HKD 5mn each year.

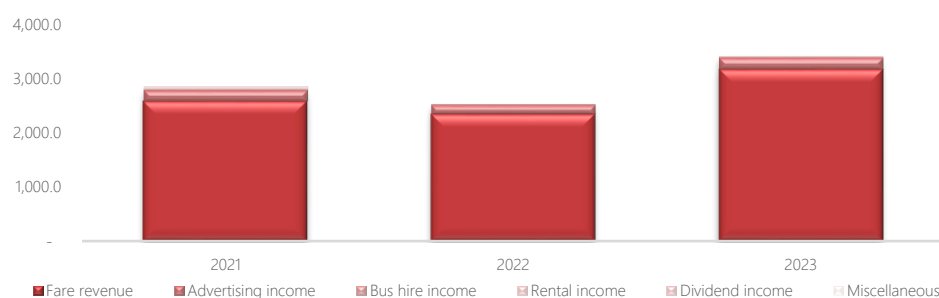
➤ Master Framework Agreement for Battery-electric Buses

Citybus conducted an open tender in 2023 to select bus suppliers, and Wisdom (HK) was one of the successful bidders and entered into the agreement. Citybus shall have the right to purchase up to 50 units of battery-electric double-decker buses at <USD 450k before 2025. Wisdom (HK) is a subsidiary of Wisdom Group, and Templewater holds 58.63% of the total issued shares of Wisdom Group.

BTSL

BTSL specializes in the provision of franchised bus services and non-franchised bus services, and it is the primary income source of BTHL.

Exhibit: Breakdown of total revenue of BTHL by business segments



Source: Company data, West Bull Securities

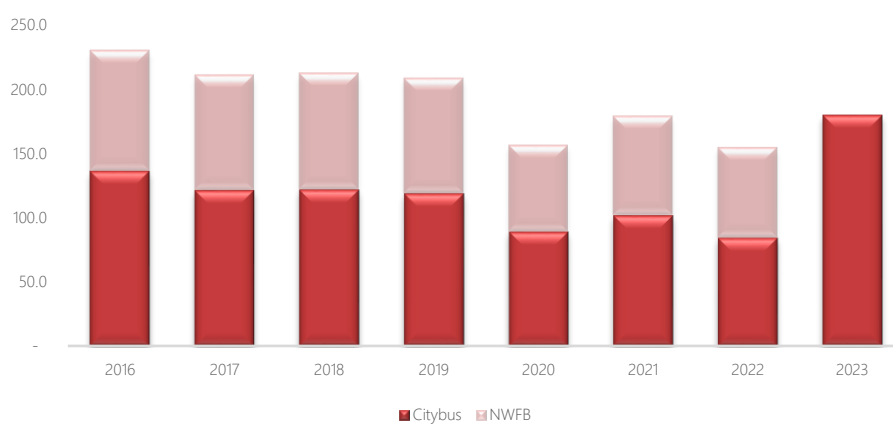
■ Franchised bus services

BTSL operated three franchised networks, including the CTB (F1) Franchise and the CTB (F2) Franchise under its "Citybus" brand before 1 Jul 2023, and the NWFB Franchise under its "NWFB" brand. With effect from 1 Jul 2023, the CTB (F1) Franchise and the NWFB Franchise were merged, which covers Hong Kong Island, Kowloon, the New Territories and cross-harbour bus networks. The CTB (F2) Franchise was also renewed, and it continues to cover the Airport and North Lantau bus networks. Both the Merged Franchise and the CTB (F2) 2023 Franchise were granted for a period of ten years to 2033.

As at the end of 2023, Citybus operated 1,495 licensed buses and 233 bus routes, including 98 Hong Kong Island routes, 28 Kowloon and the New Territories routes, 76 cross-harbour routes and 31 North Lantau routes.

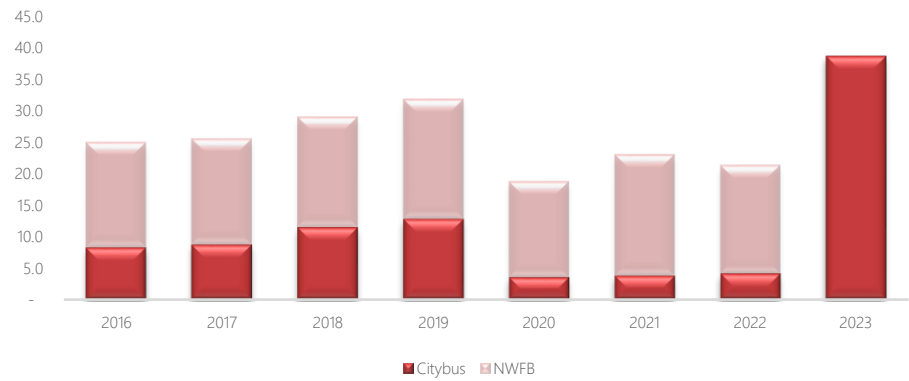
BTSL generated HKD 3.0bn fare revenue in 2023, increasing YoY 35.1% and accounting for 87.3% of total revenue. The total number of passenger journeys of Citybus (including NWFB) climbed YoY 23.0% to 338.9mn, of which the number of passenger journeys of Hong Kong Island routes, Kowloon and the New Territories routes, cross-harbour routes and North Lantau routes climbed YoY 16.2%, 81.2%, 9.7% and 73.4% respectively.

Exhibit: Number of passenger journeys of Citybus - Hong Kong Island routes (mn)



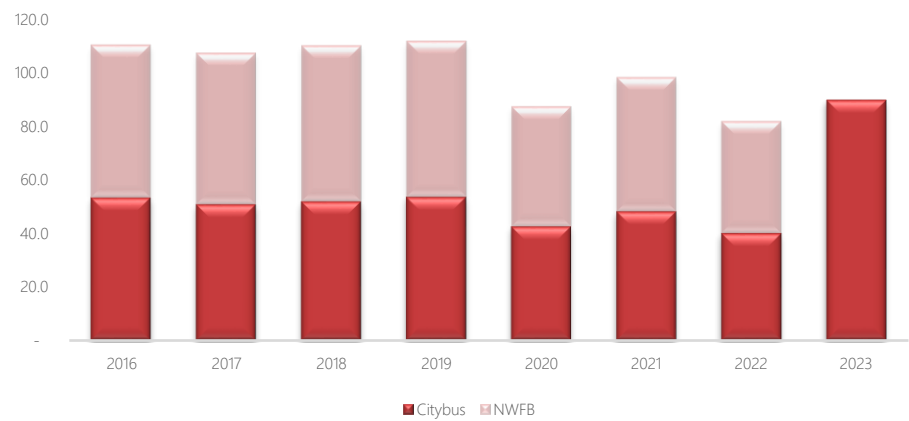
Source: Transport Department, West Bull Securities

Exhibit: Number of passenger journeys of Citybus - Kowloon and the New Territories routes (mn)



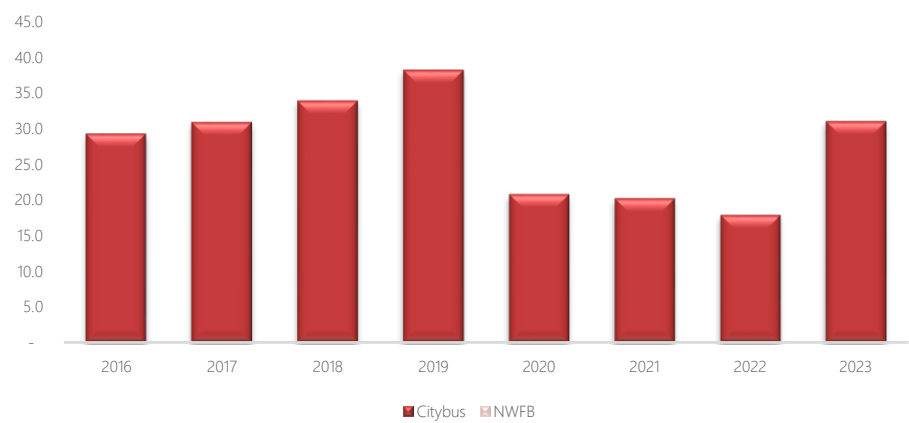
Source: Transport Department, West Bull Securities

Exhibit: Number of passenger journeys of Citybus - cross-harbour routes (mn)



Source: Transport Department, West Bull Securities

Exhibit: Number of passenger journeys of Citybus - North Lantau routes (mn)



Source: Transport Department, West Bull Securities

➤ New bus routes

Citybus obtains the operating rights of new bus routes primarily through i) the route tendering process and ii) the direct award process under the RPP. According to the Route Planning Guidelines, the Transport Department will consider prevailing public transport policies, competition induced and the impact of any such new service on the traffic condition on major roads and busy corridors, with priority to serve areas that are beyond the catchment area of existing railways or railway feeders.

Route tendering

Operators of new routes are selected by the Transport Department through a tendering process. The Transport Department will typically invite existing public bus operators to apply for the operation right of such new route packages. It generally takes 3 weeks from receipt of a tender invitation to submission of a tender for a new route package, and it may take a few months to more than a year from submission of the tender to launch services on the new routes.

Direct award process under RPP

Under the PBSO, franchised bus operators are required to submit a five-year Forward Planning Programme (FPP) to the Transport Department annually. New route proposals under RPP are typically submitted in June every year. It generally takes 4 months from the preparation of route proposals to putting them forward under the RPP.

Bus route rationalization

Bus route rationalization includes the adjustment of service frequency, route cancellation or amalgamation and route truncation. Citybus primarily adopts operational data analysis (including fare collection data and route utilization etc.), automated passenger counting systems, GPS tracking and vehicle telematics (to analyze route performance and to identify congestion or delays and the changes in demand), Citybus Mobile App (to monitor passenger demand and to identify popular routes) and passenger feedback to monitor and gather data for formulating bus route rationalisation proposals.

➤ Fleet replacement and expansion

According to the Transport Department, a franchised bus is required to retire from service in 18 years, and the average age of the bus fleet of Citybus was around 8 years. Franchised bus operators cascade or dispose and expand their fleets in certain circumstances. One-off registration of the bus in the Transport Department is required to give the vehicle a registration mark and put it into the appropriate class of vehicle. Vehicle licences of buses are also required for the registered buses to be operated on the road, the licenses are normally renewed annually. And the backup vehicles are generally buses with issues identified or used for i) replacing licensed buses that are undergoing maintenance, repairs, or experiencing technical issues, ii) meeting the demand for new routes, and iii) satisfying the increase in demand.

➤ Garages, depots and other maintenance facilities

Citybus has garages and depots in Chai Wan and Wong Chuk Hang on Hong Kong Island, Lai Chi Kok in Kowloon and Siu Ho Wan in North Lantau, they are leased from the Government to the Target Group on a short-term tenancy.

Exhibit: Garages and depots of Citybus

Depots	Functions	Commencement of operations since
Chong Fu Road Garage	Serving the Urban and New Territories bus networks and performing annual overhaul services for the whole operation	2002
Chai Wan Garage	Serving the Urban and New Territories bus networks and performing annual overhaul services for the whole operation	2004
Wong Chuk Hang Bus Garage	Serving the Urban and New Territories bus networks	1984
West Kowloon Depot	Serving the Urban and New Territories bus networks	2013
Siu Ho Wan Garage, North Lantau	Serving the Airport and North Lantau bus networks	1999

Source: Company data, West Bull Securities

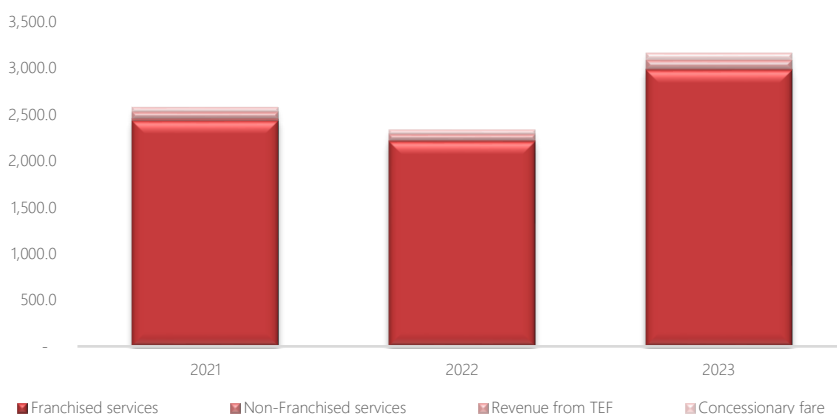
■ Non-franchised bus services

Non-franchised buses provide tailor-made services to specific individuals or groups of passengers, such as employees' services, residents' services, student services and other commercial private hire services. BTHL provides non-franchised employees and residents bus services, primarily serving a residential estate in Sha Tin, a broadcasting company in Tseung Kwan O and an international health & beauty retailer headquartered in Sha Tin, and it also provides shuttle services for the Hong Kong Marathon.

■ Fare revenue

BTHL generated HKD 3.2bn revenue from the provision of franchised bus services, non-franchised bus services, revenue from TEF and concessionary fare in 2023, representing a YoY 35.1% increase and accounting for 87.3% of total revenue. Of which i) revenue from TEF is the paying toll exempted from using Government tolled tunnels and roads. A Franchised Bus Toll Exemption Fund is the reverse set-up for each franchise, the balance in the Toll Exemption Fund would be released as revenue from the Toll Exemption Fund to mitigate the extent of the fare increase, ii) concessionary fare is a) the reimbursement of the discount amount for elderly passengers aged 65 or above under the ECFS by refunding vehicle licence fees and rentals received, b) the reimbursement of the actual applicable fare under the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities.

Exhibit: Breakdown of fare revenue by income source

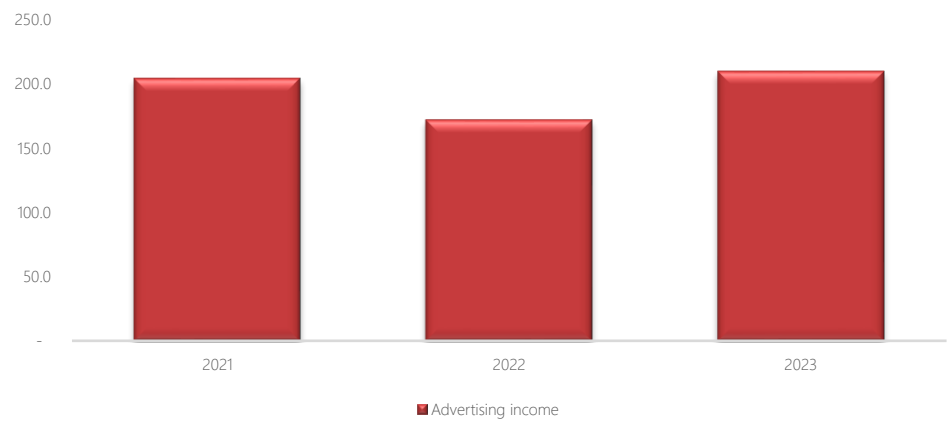


Source: Company data, West Bull Securities

Advertising income

Advertising income mainly represents i) income from the Advertising Partner for the use of bus shelters in providing advertising services; ii) the provision of advertising services on interior and exterior surfaces of bus bodies through BML; and iii) the production and installation income from advertisements. BML won a ten-year bus body advertising contract to act as the exclusive advertising agency of the bus body (exterior) and bus interior advertising of Citybus' bus fleet for ten years commencing from 2023. BML specializes in providing innovative advertising solutions for customers' brand-building activities and campaigns, including the development of advertising campaign plans (e.g. determining the optimal bus routes for the advertising campaign, and identifying the suitable bus exteriors and interiors for advertising), production and implementation.

Exhibit: Advertising income of BTHL



Source: Company data, West Bull Securities

Existing business

Before the acquisition of BTHL, Hans (00554.HK) primarily provides integrated facilities of jetties, storage tanks, warehousing and logistic services in south China for petroleum and liquid chemicals products, offering value-added services (terminal storage business), trading business (trading of oil and petrochemical products) and other business (leasing of a filling station business).

■ Terminal storage business

The Group owns and operates a liquid product terminal, namely Dongzhou Petrochemical Terminal with a total land and coastal site area of over 830,000 m². It is located in Lisha Island, Humen Harbour district, Shatian County, Dongguan City, Guangdong Province, the PRC. It was built with berths ranging from 500 to 100,000 dwt and is installed with 94 oil and petrochemical tanks with a total storage capacity of approximately 260,000 m³, out of which 180,000 m³ are for gasoline, diesel and similar petroleum products commonly available in trading and consumption markets. Storage tanks with a capacity of 80,000 m³ were built for petrochemical products. The Group has engaged in discussions about proposing the construction of LNG storage tanks and related facilities in the vacant land of approximately 150,000 m².

The terminal earns storage income by i) leasing its storage tanks, ii) providing services in moving cargoes in and out from the terminal, and iii) providing ancillary services such as tank cleaning.

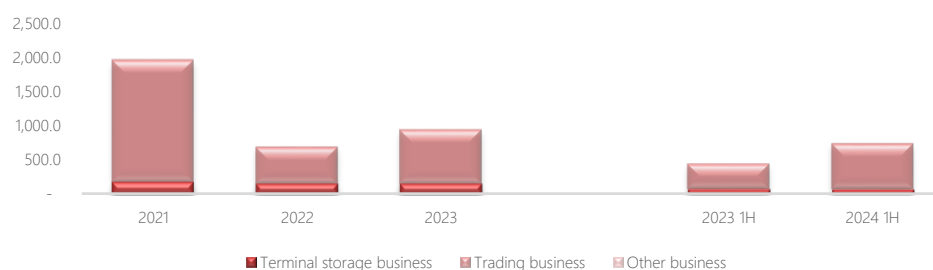
■ Trading business

The Group engages in the trading of oil and petrochemical products, and it has business relationships with major energy companies such as CNOOC, Sinopec and Sinochem Group.

■ Other business

The Group owns a filling station which is situated in Zengcheng District, Guangzhou City, the PRC with a site area of approximately 12,500 m². Since August 2021, the Group has leased out this filling station to an independent third party for rental income.

Exhibit: Breakdown of total revenue by business segments



Source: Company data, West Bull Securities

Industry Overview

Overview of the franchised bus industry in Hong Kong

■ Types of public bus operators

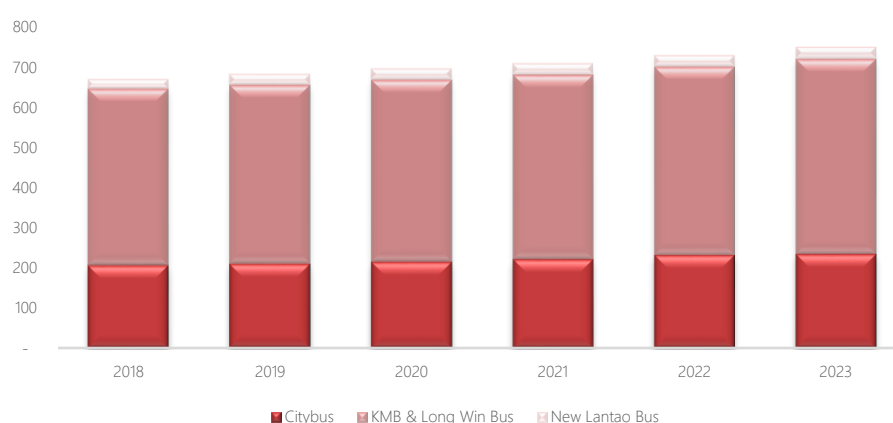
Public buses can be divided into franchised buses and non-franchised buses, the former primarily serves the areas that are not easily accessible by railways and acts as feeders to the railway system. There are 4 franchised public bus operators in Hong Kong, namely Citybus (owned by Hans (00665.HK), focusing on the Hong Kong Island routes and cross-harbour routes), New Lantau Bus (owned by Kwoon Chung Bus (00306.HK), focusing in the airport and North Lantau routes), Kowloon Motor Bus (KMB) and Long Win Bus (owned by Transport International (00062.HK), focusing in Kowloon and the New Territories routes, cross-harbour routes).

The role of non-franchised buses is to supplement mass carriers such as railways and franchised buses, providing tailor-made services to specific groups, including i) tourist services, ii) hotel services, iii) school services, iv) employee services, v) international passenger service, vi) residents' services, vii) multiple transport service and viii) contract hire services.

■ Number of routes operated by the public bus operators

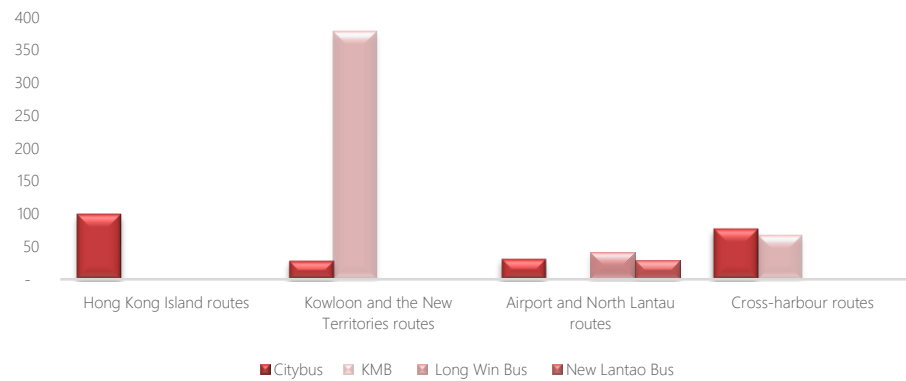
The number of routes operated by public bus operators surged from 670 in 2018 to 750 in 2023, of which the number of routes operated by Citybus (incl. NWFB) soared from 205 to 233.

Exhibit: Number of routes operated by the public bus operators



Source: Transport Department, West Bull Securities

Exhibit: Breakdown of the bus routes by areas

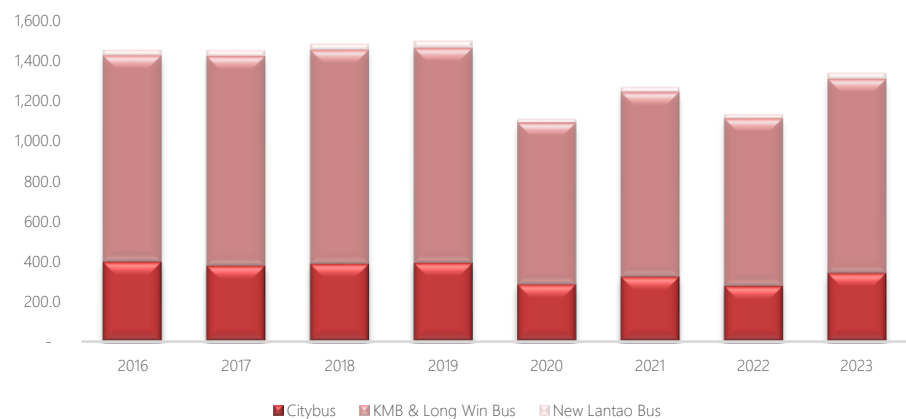


Source: Transport Department, West Bull Securities

■ Number of franchised bus passengers

The number of franchised bus passengers increased from 1.45bn in 2016 to 1.49bn in 2019. However, affected by the pandemic, the number of franchised bus passengers dropped 36.9% YoY to 1.11bn in 2020. Although the number of passengers rebounded to 1.34bn in 2023, the number of passengers in all areas was still below the pre-pandemic level. The market share of Citybus (incl. NWFB) decreased from 27.3% in 2016 to 25.3% in 2023.

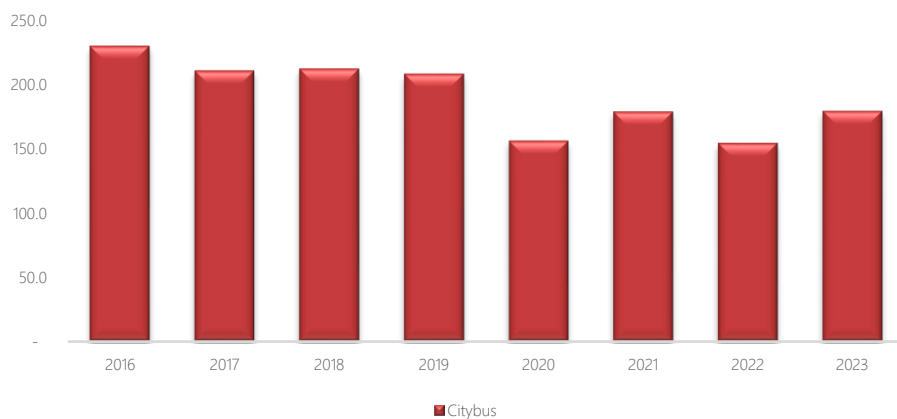
Exhibit: Number of franchised bus passengers (mn)



Source: Transport Department, West Bull Securities

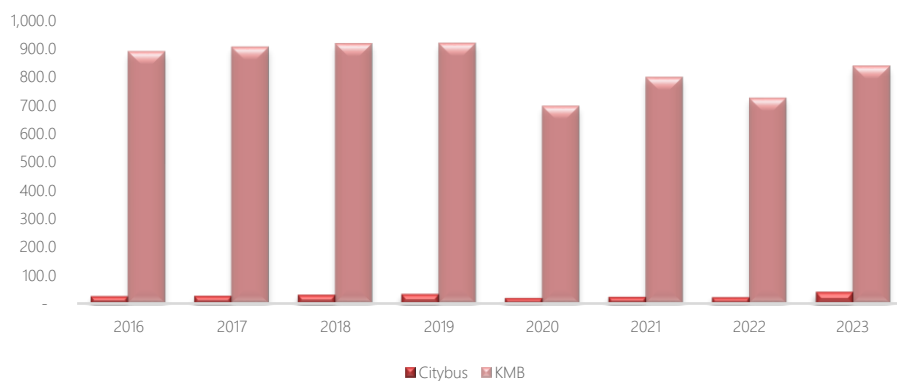
Breaking down by areas, Citybus is the sole operator of the Hong Kong Island routes in Hong Kong, the number of passengers was 179.4mn in 2023, rebounding to the pre-pandemic level. KWB is the primary operator of the Kowloon and the New Territories routes, the number of passengers was 837.8mn in 2023, but the market share of Citybus also rebounded to 4.4%. The market of cross-harbour routes was shared by Citybus and KMB, the total number of passengers was 175.7mn in 2023.

Exhibit: Number of franchised bus passengers of the Hong Kong Island routes (mn)



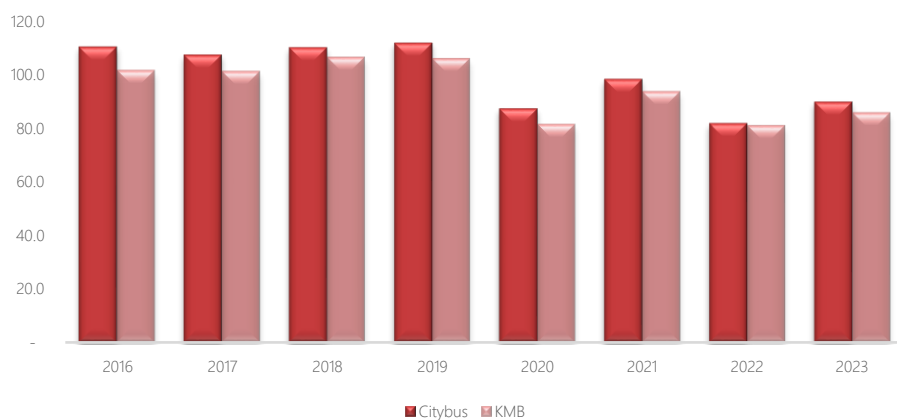
Source: Transport Department, West Bull Securities

Exhibit: Number of franchised bus passengers of the Kowloon and the New Territories routes (mn)



Source: Transport Department, West Bull Securities

Exhibit: Number of franchised bus passengers of the cross-harbour routes (mn)



Source: Transport Department, West Bull Securities

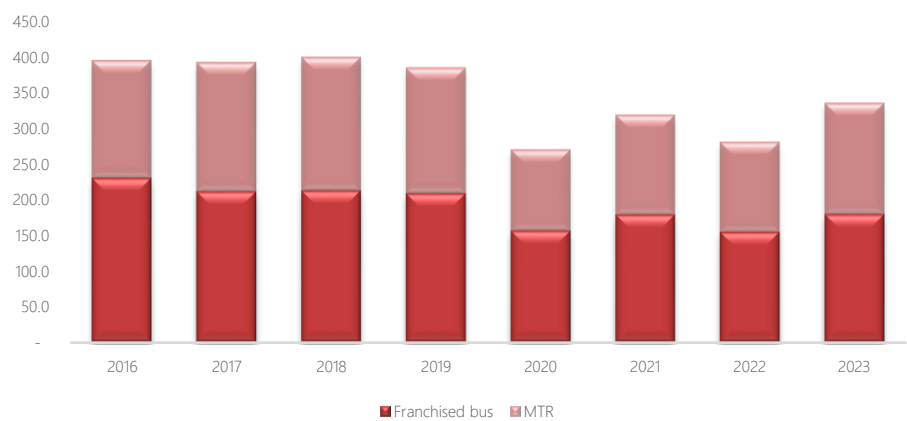
Exhibit: Number of franchised bus passengers of other routes (mn)



Source: Transport Department, West Bull Securities

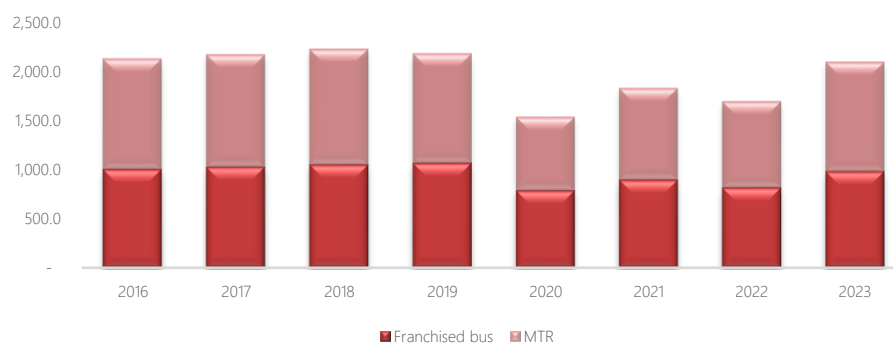
Despite a drop due to the social movement in 2019 & 2020, the market share of the railways was maintained at a >50% level. However, when analyzing data specific to the Hong Kong Island routes and cross-harbour routes, there has been a marked decline in the share of franchised bus passenger trips since 2020. Notably, the proportion of franchised bus trips on Hong Kong Island decreased from 57.7% in 2020 to 53.4% in 2023, while the share for cross-harbour routes dropped from 37.4% in 2020 to 30.1% in 2023.

Exhibit: Number of franchised bus & railway passengers of the Hong Kong Island routes (mn)



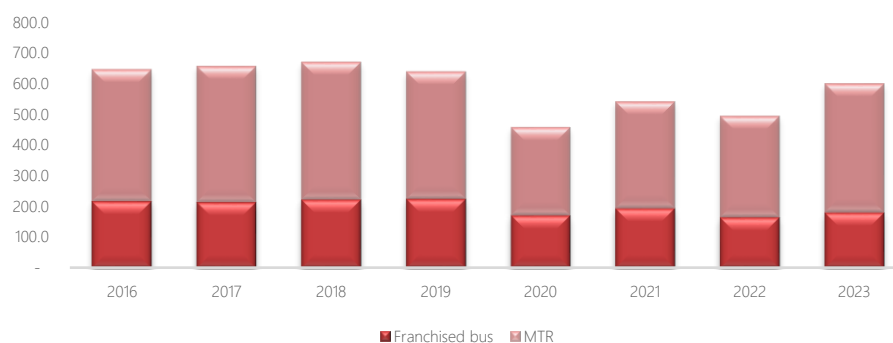
Source: Transport Department, West Bull Securities

Exhibit: Number of franchised bus & railway passengers of the Kowloon and the New Territories routes (mn)



Source: Transport Department, West Bull Securities

Exhibit: Number of franchised bus & railway passengers of the cross-harbour routes (mn)



Source: Transport Department, West Bull Securities

■ Fare adjustment

The applications for fare adjustment of franchised bus operators were approved and effective on 5 Jan 2025. The fare adjustment on the Citybus Urban and New Territories routes was 7.5%, translating to an average fare adjustment of only HKD 0.6, based on the current average fare of HKD 8.1 per journey.

Exhibit: Fare adjustment of franchised bus since 2020

	Citybus	KMB	Long Win Bus	New Lantau Bus
2025	Urban & New Territories: 7.5%	4.3%		6.5%
2023	HK Island & cross-harbour: 4.9%	3.9%	4.2%	7.0%
	Airport & North Lantau: 4.2%			
2022	HK Island & cross-harbour & NWFB: 3.2%			
2021	HK Island & cross-harbour & NWFB: 8.5%	5.8%		9.8%

Source: Legislative Council, Websites of franchised bus operators, West Bull Securities

■ Size of the franchised bus industry

According to the Transport Department, the size of the franchised bus industry was HKD 10.6bn in 2023, and the market share of Transport International (00062.HK) and BTHL was 68.3% and 27.9% respectively.

Exhibit: Size of the franchised bus industry (HKD, mn)



Source: Transport Department, West Bull Securities

Investment Thesis

Anticipated turnaround and dividend distribution

■ Citybus as the Group's primary revenue stream

In 2023, BTHL reported a total revenue of HKD 3.49bn, representing 78.6% of the Group's total revenue on a consolidated basis. Additionally, BTHL contributed over 80% of the Group's operating cash flow, positioning it as the largest source of both revenue and cash flow for Hans (00554.HK).

■ Fare Adjustment

At the end of 2024, the application for fare adjustments on Citybus Urban and New Territories routes was approved, the fare adjustment rate was 7.5% and the new fare was effective on 5 Jan 2025. Fares for airport and North Lantau routes will remain unchanged. As of the end of 2023, Urban and New Territories routes accounted for approximately 86.7% of Citybus's operational routes, contributing around 90.9% to the total annual passengers. Given the relatively inelastic demand for bus services, we believe that a moderate fare adjustment will not bring a significant adverse impact on demand. Assuming other factors remain unchanged, this adjustment is expected to facilitate a financial turnaround for both Citybus and the Group.

■ Dividend distribution

Assuming that a net profit is achieved by Citybus, the Group will consider the potential for dividend distributions. However, the dividend payout ratio is yet to be confirmed. If the Group adopts a 95% payout ratio as its peer, Transport International (00062.HK), over HKD 60mn will be distributed to shareholders as a dividend for every HKD 100mn in net profit (or HKD 70mn in net profit attributable to owners). Based on Hans (00554.HK) market capitalization of approximately HKD 1bn, this could yield a dividend return of 6% - 7%. However, several uncertainties must be considered, i) if dividend distributions are based on the overall performance of the Group instead of specifically on BTHL, the resultant dividends may be lower than projected, ii) the Group's dividend payout ratio could be below industry peers, particularly given its higher operating expenses ratio, iii) the Group's substantial debt obligations necessitate the maintenance of adequate cash reserves for sustainability.

Comparison with the peer

Exhibit: Comparison between BTHL and Transport International (00062.HK)

HKD, mn	2021		2022		2023	
	BTHL	Transport Intl	BTHL	Transport Intl	BTHL	Transport Intl
Revenue	2,838.6	7,202.0	2,538.4	6,607.2	3,399.5	7,884.8
Operating expenses	(3,155.6)	(7,197.4)	(3,154.6)	(7,274.4)	(3,373.6)	(7,738.3)
Operating profit	(150.9)	258.6	(205.3)	38.6	116.7	214.6
Operating profit margin	-5.3%	3.6%	-8.1%	0.6%	3.4%	2.7%
Financial costs	(95.4)	(14.4)	(80.9)	(37.6)	(180.2)	(110.1)
Tax	25.7	(27.0)	79.7	98.1	(10.2)	(29.5)
Net profit	(220.6)	245.0	(206.6)	549.0	(73.6)	401.7
Adjusted EBITDA	139.4	1,136.6	104.2	1,083.1	303.2	1,436.3
Operating expense ratio						
Staff costs	60.6%	56.3%	65.8%	61.5%	52.6%	52.6%
Fuel & oil	7.2%	11.3%	12.1%	11.5%	13.2%	13.4%
Repairs and maintenance	5.8%	3.0%	6.5%	3.2%	6.4%	2.9%
Depreciation	17.5%	14.1%	18.5%	16.9%	9.6%	14.4%
Tolls and Franchised Bus	8.6%	3.8%	8.2%	4.1%	6.3%	3.2%
Toll Exemption Fund						
Other operating expenses	7.1%	11.4%	9.3%	12.9%	8.4%	11.7%

Source: Transport International (00062.HK), Company data, West Bull Securities

In 2022, the franchised bus industry experienced challenges due to the pandemic and the initiation of the Shatin to Central Link project, resulting in YoY declines in revenue and profit for KMB, NWFB, and Citybus. However, in 2023, with the pandemic under control and passenger volumes rebounding, the financial performance of the industry significantly improved, contributing to a narrowing of BTHL's net loss. In the latter half of the year, WFB and Citybus officially merged, leading to the integration of their resources.

In comparison to Transport International, Citybus operates on a leasing model, and the increased borrowing for the acquisition of Citybus has resulted in a higher debt ratio and hence interest expenses, exerting pressure on profit margins. As a result, the Group's operating and financial costs are higher than those of Transport International. The Group currently has no plans for additional equity financing and anticipates improving its debt profile through cash inflows generated from operations while preparing for a full acquisition of Citybus.

Citybus incurs relatively high maintenance costs, primarily due to its inclusion of i) maintenance expenses for buses, tires, depots, stations, and offices, and ii) R&D costs associated with new energy systems, bus safety systems, and driver training programs. In contrast, Transport International's costs are limited to parts expenses. Furthermore, in 2023, Citybus's depreciation expenses saw a significant reduction, largely due to its previously shorter depreciation periods. Following the merger, the depreciation period for buses was standardized to a longer duration of 18 years.

Economies of scale and synergies

■ Merger with NWFB enhances economies of scale

The merger between Citybus and NWFB is expected to realize economies of scale through i) route optimization, ii) improved operational efficiency, and iii) cost savings.

➤ Route Optimization

Prior to the merger, there were overlapping routes between Citybus and WFB, resulting in the underutilization of resources. The merger facilitates route optimization, which can reduce road congestion, shorten travel times, minimize empty mileage and scheduling errors, lower fuel consumption, and enhance resource utilization. Additionally, before the merger, NWFB had to apply to the Transport Department to lease Citybus resources for special demands, which created administrative burdens. Post-merger, these administrative tasks will be streamlined, enhancing efficiency.

➤ Improved operational efficiency

Before the merger, the sharing of resources such as depots between Citybus and NWFB involved complex administrative and approval processes, along with limitations in deploying buses and staff. Post-merger, administrative work can be reduced, and resource allocation will be unrestricted, helping to decrease empty mileage and lower fuel costs.

➤ Cost savings

Following the merger, Citybus and NWFB will be able to share facilities, including bus stops, bus shelters, staff lounges, station master's rooms, and restrooms. They can also share parts inventories and independent storage facilities, which will help reduce operational costs and overall inventory levels.

■ Synergies between existing operations and Citybus

➤ Fuel supply

The Group's current customers and partners include fuel suppliers, allowing it to supply fuel to Citybus and potentially reduce fuel costs by approximately 3% - 5%. Additionally, the utilization rate of the Group's terminal storage business is expected to increase by 2% - 3%.

➤ New Energy Technology and Supply

The Group has invested in the construction of Hong Kong's first hydrogen refuelling station in West Kowloon, which is currently operated by Citybus to provide refuelling services for the first hydrogen-powered bus. Furthermore, some of the Group's current customers and partners are hydrogen suppliers, which may benefit future pricing and stability in hydrogen supply.

Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
00062.HK	Transport Intl	4142.5	10.3	-	0.2	0.5	7884.8	-	2.4
00306.HK	Kwoon Chung Bus	739.0	22.4	-	0.4	0.3	2095.4	21.8	1.7
	<i>Average</i>	<i>2,440.7</i>	<i>16.4</i>	<i>-</i>	<i>0.3</i>	<i>0.4</i>	<i>4,990.1</i>	<i>21.8</i>	<i>2.1</i>
00554.HK	Hans Group	957.2	-	-	0.8	0.7	948.5	9.4	(4.4)

Source: Bloomberg, West Bull Securities

Risk factors

- Citybus's dividend payout ratio is lower than peers
- A net profit cannot be achieved by Citybus
- The economies of scale between NWFB and Citybus are not significant
- Limited synergies have been realized between the Group's existing business and Citybus
- A decrease in the government subsidies for franchised bus operators

Financial Statement

PnL				Balance Sheet			
(HKD, mn)	2021 (A)	2022 (A)	2023 (A)	(HKD, mn)	2021 (A)	2022 (A)	2023 (A)
Revenue	1,974.8	694.9	948.5	PPE	487.3	414.3	373.4
YoY growth		-64.8%	36.5%	Others	1,096.5	1,005.6	934.0
COGS	(1,867.9)	(601.2)	(859.3)	Non-current assets	1,583.8	1,419.9	1,307.4
Gross profit	106.8	93.6	89.2	Inventories	144.3	120.9	184.7
Other income	26.2	47.4	8.9	Trade receivables	440.5	273.7	90.1
Operating expenses	(86.3)	(85.7)	(95.6)	Cash & cash equivalents	63.1	162.3	374.9
Operating profit	46.8	55.4	2.5	Others	55.0	-	-
Finance expenses	(54.9)	(51.9)	(31.7)	Current assets	702.9	556.8	649.6
JV & Ass.	-	-	-	Total assets	2,286.7	1,976.7	1,957.0
Profit before tax	(8.2)	3.4	(29.2)	LT borrowings	562.1	420.6	427.3
Tax	(5.4)	(1.8)	(3.8)	Others	23.6	27.6	23.2
Net profit	(13.5)	1.7	(33.1)	Non-current liabilities	585.7	448.2	450.5
				Trade payables	53.7	73.5	57.1
				ST borrowings	206.1	164.2	136.7
				Others	88.9	83.8	79.7
				Current liabilities	348.7	321.5	273.5
				Total liabilities	934.4	769.7	723.9
				Non-controlling interests	20.2	20.0	21.4
				Controlling interests	1,332.1	1,187.0	1,211.7
				Total equities	1,352.4	1,207.0	1,233.1

Cash Flow				Financial Ratio			
(HKD, mn)	2021 (A)	2022 (A)	2023 (A)		2021 (A)	2022 (A)	2023 (A)
Profit before tax	(8.2)	3.4	(29.2)	Gross margin	5.4%	13.5%	9.4%
Finance expenses	54.9	51.9	31.7	Operating margin	2.4%	8.0%	0.3%
Finance income	(5.2)	(4.9)	(5.9)	Net profit margin	-0.7%	0.2%	-3.5%
D&A	62.0	44.6	44.3	Return on Equity	-1.2%	0.1%	-2.7%
Others	7.3	(27.2)	3.6	Return on Asset	-0.6%	0.1%	-1.7%
Change in working capital	27.8	221.3	94.7	Current ratio	201.6%	173.2%	237.6%
CFO	143.9	294.1	145.0	Quick ratio	160.2%	135.6%	170.0%
				Cash ratio	18.1%	50.5%	137.1%
CAPEX	(4.8)	(5.3)	(7.6)	Debt-to-Equity ratio	56.8%	48.5%	45.7%
Others	(256.8)	(0.5)	127.6	Net Debt-to-Equity ratio	52.1%	35.0%	15.3%
CFI	(261.6)	(5.9)	120.0				
Shares issuance	-	-	-				
Net borrowings	(44.6)	(123.5)	(14.3)				
Interest paid	(53.2)	(49.8)	(30.8)				
Dividend paid	-	-	-				
Others	(8.3)	(11.0)	(6.6)				
CFF	(106.0)	(184.3)	(51.7)				
FCFE	144.5	215.0	153.9				
FCFF	277.1	362.8	203.0				

Source: Company data, West Bull Securities

West Bull Securities is a dedicated small/mid cap stock brokerage house. Find our research on: Alphasense, FactSet, Capital IQ, Refinitiv, Wind, Choice, Hibor, 同花順 and 發現報告.

Ratings of West Bull Securities:

STRONG BUY	: absolute upside of >50% over the next 12 months
BUY	: absolute upside of >10% over the next 12 months
HOLD	: absolute return of -10% to +10% over the next 12 months
SELL	: absolute downside of >10% over the next 12 months
STRONG SELL	: absolute downside of >50% over the next 12 months

Investors should assume that West Bull Securities is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of West Bull Securities Limited ('West Bull Securities') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by West Bull Securities Securities or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of West Bull Securities as of the date of this report only and are subject to change without notice. Neither West Bull Securities nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. West Bull Securities and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of West Bull Securities located in such recipient's home jurisdiction.

Copyright© West Bull Securities Limited. All rights reserved.