

Singapore Company Focus

China Merchants Hldgs (Pacific)

Bloomberg: CMH SP | Reuters: CAEP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2015

BUY

Last Traded Price: S\$0.99 (STI : 3,023.65)

Price Target: S\$1.45 (47% upside)

Reason for Report: 3Q15 results

Potential Catalyst: Earnings execution

Where we differ: We have higher-than-consensus forecasts

Analyst

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Result Summary

FY Dec (HK\$m)	3Q 2015	3Q 2014	2Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	549	529	537	3.8	2.2
Gross Profit	335	310	316	8.0	6.0
Opg Profit	316	336	338	(5.7)	(6.4)
EBITDA	357	385	379	(7.3)	(6.0)
Net Profit	168	211	195	(20.2)	(13.7)
Other Data					
Gross Margin (%)	61.0	58.6	58.8		
Opg Margin (%)	57.7	63.5	63.0		
Net Margin (%)	30.7	39.9	36.3		

Financial Summary

FY Dec (HK\$m)	2014A	2015F	2016F	2017F
Revenue	2,019	2,271	2,762	3,033
Operating Profit	255	263	338	316
EBITDA	1,900	2,054	2,511	2,759
Net Pft (Pre Ex.)	675	714	853	1,004
EPS (S cts)	11.1	12.3	8.29	9.75
EPS Pre Ex. (S cts)	10.2	9.45	8.29	9.75
EPS Gth (%)	7	11	(33)	18
EPS Gth Pre Ex (%)	6	(7)	(12)	18
Net DPS (S cts)	7.24	5.83	6.86	7.35
BV Per Share (S cts)	96.0	108	110	113
PE (X)	8.9	8.0	11.9	10.1
PE Pre Ex. (X)	9.7	10.5	11.9	10.1
EV/EBITDA (X)	6.5	8.8	7.9	6.8
Net Div Yield (%)	7.3	5.9	6.9	7.4
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	0.4	0.6	0.5	0.4
ROAE (%)	11.6	8.4	7.5	8.6

At A Glance

Issued Capital (m shrs)	1,795
Mkt. Cap (S\$m/US\$m)	1,768 / 1,260
3m Avg. Daily Val (US\$m)	0.61

ICB Industry : Industrials

ICB Sector: Industrial Transportation

Principal Business: China Merchants Holdings (Pacific) currently operates eight toll roads in China, with a total length of 576km, in four different provinces (Zhejiang, Guangxi Zhuang Autonomous Region, Jiangxi and Guizhou) in the country.

Source: Company, DBS Bank, Bloomberg Finance L.P.

3Q core earnings in line

- **3Q earnings of HK\$168m largely in line, but fell 20% y-o-y due to the absence of some non-operating gains**
- **Long-term growth outlook intact, driven by recent toll road acquisitions**
- **We continue to like the company for its strong cash flow generation, acquisition-driven growth and attractive dividend yield**
- **Maintain BUY, TP S\$1.45**

Highlights

CMHP reported core 3Q earnings that were in line with our expectations. Revenue rose 4% y-o-y in 3Q to HK\$549m on higher revenue from Yongtaiwen E'way and contribution from Jiurui E'way. Gross profit rose a quicker 8% y-o-y to HK\$335m. However, due to significantly lower other income (-85% y-o-y to HK\$7m) from 1) absence of negative goodwill of HK\$22.8m in 3Q14, 2) lower deferred income and effective interest on other receivables recognised, and 3) forex losses in 3Q15 vs gains in 3Q14 as well as lower contributions from the Guiliu and Guihuang JVs, PBT fell by 7% y-o-y to HK\$357m. With higher non-controlling interest due to growth in profits from Yongtaiwen E'way, PATMI fell by 20% y-o-y to HK\$168m.

At the individual toll road level, Yongtaiwen E'way posted a better-than-expected profit growth of nearly 8% y-o-y to HK\$103m, while Beilun Port's contribution fell slightly by 3% y-o-y to HK\$30.6m. Jiurui E'way earnings rose 57% y-o-y to HK\$4.5 and there was lower contribution from both Guiliu (-4% y-o-y to HK\$38.4m) and Guihuang (-19% y-o-y to HK\$30.5m). Both JVs saw their revenues decline due to a change in road network, and adverse weather conditions, along with other road-specific factors.

Outlook

Acquisitions to drive bottom-line expansion. The recently completed Jiurui Expressway acquisition and acquisitions of three toll roads in Guangxi Zhuang Autonomous Region should propel the Group's top and bottom lines in the medium to long term. We project CMHP's core earnings to grow by nearly 50% from HK\$675m in 2014 to HK\$1,004m by 2017F, driven by contribution from these recent acquisitions.

Valuation:

Our 12-month target price of S\$1.45 is based on DCF valuation with WACC of 9.8%, and offers >45% upside. We see the stock re-rating as it delivers earnings growth.

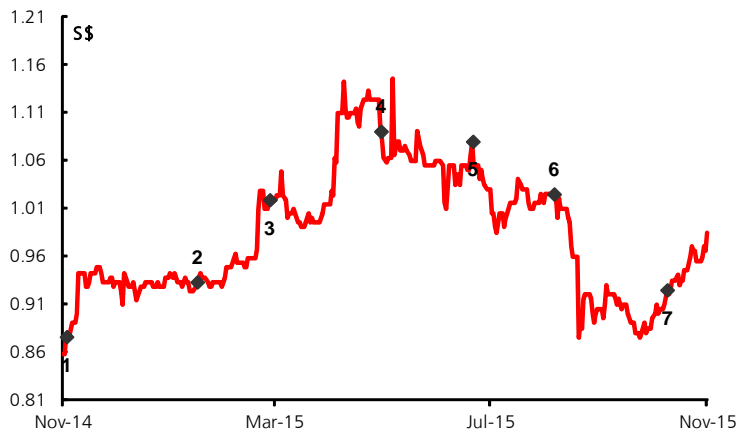
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Key Risks:

Exposed to China’s growth. CMHP's core earnings are derived entirely from its toll road operations in China, which leaves it vulnerable to China's country risks. As the group's functional currency is the Rmb, EPS in S\$ terms is subject to SGD-Rmb volatility.

Regulatory changes could affect earnings. Any downward revision in tariff rates would hurt the group's bottom line and cash flows.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	07 Nov 14	0.88	1.36	BUY
2:	20 Jan 15	0.93	1.36	BUY
3:	02 Mar 15	1.02	1.35	BUY
4:	04 May 15	1.09	1.35	BUY
5:	25 Jun 15	1.08	1.54	BUY
6:	10 Aug 15	1.03	1.45	BUY
7:	13 Oct 15	0.93	1.45	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

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

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

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

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

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

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

Share price appreciation + dividends

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