招商證券(香港) CHINA MERCHANTS SECURITIES (HK)

Company Report

Anhui Expressway Company Limited

Neutral
(Maintain)

Poor performance is not ended

We expect Anhui Expressway Company Limited (AE or the Company) will achieve a flat revenue growth of 3% in FY2009 because of the economy slowdown in Anhui and neighboring areas. Our target price for the Company is HK$3.36, and rated it as Neutral.

FY2008: Poor Performance As a result of the frost disaster in the first quarter of FY2008 and economy slowdown, AE recorded toll revenue of about Rmb1,655m in FY2008, slightly fall 1.9% y-o-y.

Flat toll revenue growth is to continue in FY2009 Economy slowdown affected the freight vehicles turnover as evidenced by the recent dramatic fall of freight transports. We estimate the toll revenue of the related lines will grow by 1.75% in FY2009, the growth rate which translated into the total revenue growth of Rmb46m.

Hening and Gaojie projects are to be completed in FY2009, and new project is on board. We expect those projects under construction will continually affect AE's Revenue negatively. Widening and reconstruction project on Hening and Gaojie are expected to be completed by the end of FY2009. New project on Ningxuanhang is to commence in FY2009. Board of Meeting approved proposal of issuance of bond with warrant in an amount up to Rmb1.8b.

Traffic diversion risk exists, but we expect limited impacts on the Company's toll revenue. Traffic diversion caused by the opening of Chengji railway between Nanjing and Hefei is to be felt in upcoming years. However, we expect that the negative effect on Company's revenue is limited in short term because: (1) low price advantage of expressway. (2) express-railway network not mature.

Financial Estimates

	2006	2007	2008E	2009E	2010E
Revenue(Rmbbm)	1,605	1,634	1,614	1,660	1,759
Revenue growth	7%	2%	-1%	3%	6%
Net profit(Rmbbm)	931	471	649	652	660
Net profit growth	38%	-49%	38%	0%	1%
EPS(yuan)	0.56	0.28	0.39	0.39	0.40
EPS growth	36%	-49%	38%	0%	1%
PE(@HK$3.08)	5.5	11	7.89	7.89	7.7

Source: Company annual report, China Merchants Securities (HK) estimates

Target Price：HK$ 3.36

Current Price：HK$3.08

25 Feb 2009

Bloomberg：995 HK
Reuters：00995. HK

Stock Data

Share issued(m)	1658.6
Total market cap(HK$bn)	5.11
52-week range(HK$)	7.38/2.44
Average daily turnover (HK$m)	4.17
Major shareholders	
Anhui Expressway Holding	31.37%
Huajian Centre	20.92%
Free float	47.81%
Industry	Infrastructure

Related Research

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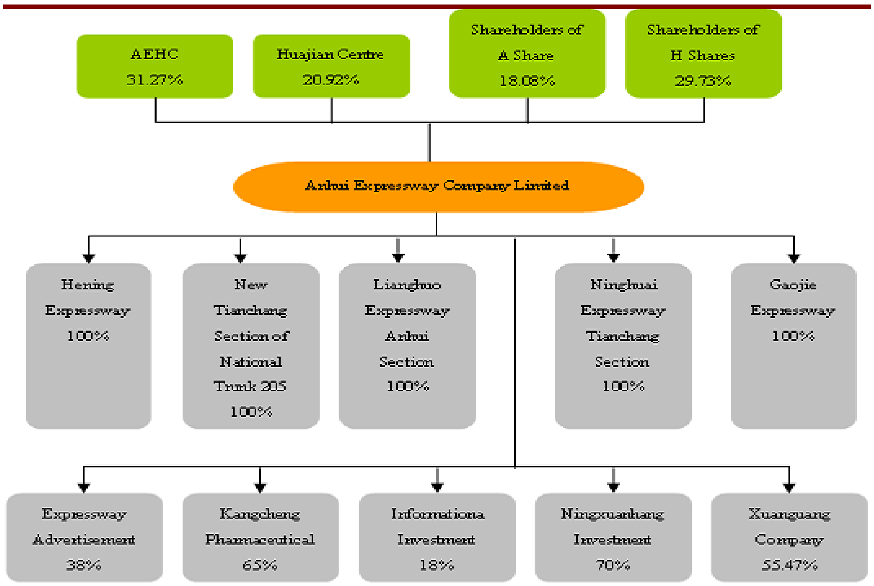
Stock Performance

Source：Bloomberg

FY2008: Poor Performance

As the toll revenue arising from the major revenue contributing expressways, e.g. Hening and Gaojie Expressway were broadly affected by the frost disaster in the first quarter and poor regional economy growth through the year of FY2008, AE recorded toll revenue of about Rmb1,655m in FY2008, slightly declined 1.9% y-o-y. Thanks to the Rmb60m tax refunded received by the third quarter, we still expect the company could achieve net profit of Rmb649m in FY2008E, which translate into Rmb0.39 per share.

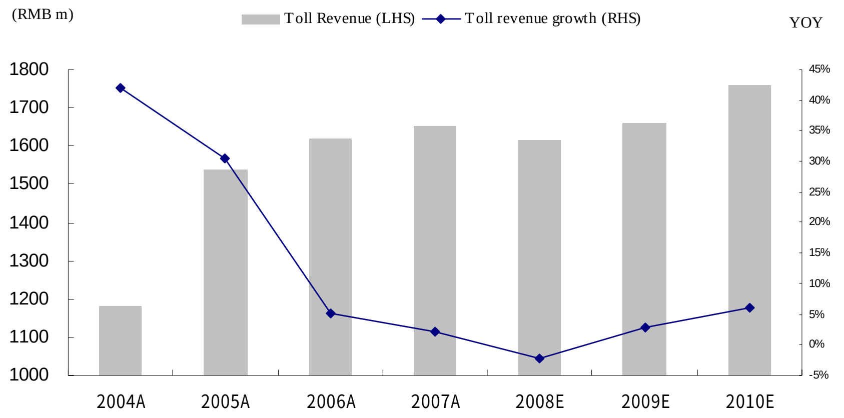
Updated company structure ended 31 Dec 2008.



Source: Company Annual report, China Merchant Securities (HK)

Flat toll revenue growth is expected to continue in FY2009. We compared the Company's monthly toll revenue record and traffic turnover growth with those of before, and find the growths are moderating. For example, the toll revenue growth of Hening fell 9.87% y-o-y and 10.32% y-o-y in October and November 2008, and the traffic turnover growth were -1.17% and 0.72% respectively. We do see the sliding economic growth exert negative impact on the Company's performance.

Per our macro econ team, China's economy slowdown has not even half way yet, we expect China's poor economic growth will continue affect on AE's growth in FY2009.



Hening and Gaojie projects are to be completed in FY2009, and new project is on board. We expect those projects under construction will continually affect AE's Revenue negatively. There are two projects currently under construction and one new building project to be started in FY2009 including, the 4 to 8 widening project on Hening, the new reconstruction project of Gaojie and also the new expressway project, Ningxuanhang Expressway which has been approved to start constructing in FY2009. The Company estimates that the project of Hening and Gaojie, which with total investment amount of Rmb2.9b, are about to be completed in the last quarter of FY2009. We believe the negative effects on the toll revenue of these two routeways would be ended accordingly, and they will both enjoy a 8-10% revenue growth in FY2010.

According to AE's announcement, the Ningxuanhang project is with total investment amount of Rmb7b, executed by Anhui Ningxuanhang Expressway Investment Company Limited (ANE), which was jointly set up by the Company and the Xuancheng City Traffic Construction Investment Company Limited. The project will cost Rmb3.13b in FY2009, and AE is the biggest shareholder owning 70% share of ANE and then will invest about Rmb5b in this new project in near years. Regarding the financing issue for the huge capex arisen from the three mentioned projects, the Company has decided it will issue bond with warrant in an amount no more than Rmb1.8b and use its own capital to fund the project.

Traffic diversion risk Traffic diversion caused by the opening of Chengji railway between Nanjing and Hefei is to be felt gradually in upcoming years. However, we expect that the negative effect to Company's revenue is limited in coming two years as the Company's expressway enjoys low price advantage and the railway network may still take time to complete.

Valuation: We estimate that the EPS would be 0.39, 0.40 in FY2009 and

FY2010 respectively. We rated the Company as “Neutral”, with target price of HK$3.36.

Financial Estimates

	2006	2007	2008E	2009E	2010E
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Net profit growth	38%	-49%	38%	0%	1%
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EPS growth	36%	-49%	38%	0%	1%
PE(@HK$3.08)	5.5	11	7.89	7.89	7.7

Source: Company annual report, China Merchants Securities (HK) estimates

P&L Forecast (Rmbm)

	2006	2007	2008E	2009E	2010E
Revenue	1,605	1,634	1,614	1,660	1,759
Operating EBITDA	1,392	1,435	1,243	1,340	1,428
Operating EBIT	1,126	1,185	1,039	1,052	1,116
Interest income	3	4	3	3	3
Interest expense	(94)	(1)	(73)	(73)	(73)
Other items	0	0	0	0	0
Profit before tax	1,035	1,188	969	982	1,046
Taxation	(91)	(552)	(264)	(266)	(269)
Minorities and other	(12)	(165)	(56)	(63)	(117)
Profit	931	471	649	653	660

Source: Company annual report, China Merchants Securities (HK) estimates

Balance Sheet Forecast (Rmbm)

	2006	2007	2008E	2009E	2010E
Cash & equivalent	400	407	404	405	405
Debtors-trade	16	15	16	15	17
Inventories-trade	3	3	3	3	3
Other current assets	0	23	23	23	23
Fixed assets	6,689	7,316	7,670	7,872	8,001
Intangible assets	579	578	551	592	720
Other term assets	24	25	26	26	26
Total assets	7,711	8,367	8,693	8,936	9,195
Short-term debt	1,261	1,390	1,500	1,694	1,703
Creditors-trade	497	575	690	607	614

Other current liabilities	9	208	208	208	208
Long-term debt/CBs	0	0	0	0	0
Other long-term liabilities	482	557	335	399	443
Minorities/Other equity	65	219	339	314	366
Shareholder Fund	5,396	5,418	5,621	5,714	5,861
Total liabilities & equity	7,710	8,367	8,693	8,936	9,195

Source: Company annual report, China Merchants Securities (HK) estimates

Cash Flow Forecasts (Rmbm)

	2006	2007	2008E	2009E	2010E
Operating EBIT	931	471	649	652	660
Depreciation/amort	220	413	345	445	571
Working capital-trade	95	(60)	63	83	131
Other operating items	(9)	(6)	(7)	(8)	(9)
Operating cashflow	1,059	818	1,050	1,172	1,353
Net interest/taxes/other	(92)	(52)	(44)	(63)	(52)
Cashflow	966	766	1,006	1,109	1,301
Capital expenditure	(689)	(316)	(907)	(1,199)	(1,145)
Acq/inv/disposals	(303)	(443)	0	0	0
Free Cashflow	(26)	7	99	(226)	156

Source: Company annual report, China Merchants Securities (HK) estimates

RATING DEFINITION & DISCLAIMER

RATING	DEFINITION
BUY	Expected to outperform the market index by >20% over the next twelve months
OUTPERFORM	Expected to outperform the market index by 10-20% over the next twelve months
NEUTRAL	Expected to outperform or underperform the market index by <10% over the next twelve months
UNDERPERFORM	Expected to underperform the market index by 10 - 20% over the next twelve months
SELL	Expected to underperform the market index by >20% over the next twelve months

DISCLAIMER

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