

MTR CORPORATION LIMITED (地鐵公司)

Sector	: Transportation	Chairman	: Raymond CH'IEN Kuo-fung
HKSE Code	: 0066	Chief Executive Officer	: CHOW Chung-kong
Market Price	: HK\$28.9 (11/03/2008)		
HIS	: 22,995.35 (11/03/2008)		
Shares Issued	: 5,611.192 million		
Market Cap	: HK\$161,882.8 million		
52-week Hi / Lo	: HK\$36.00 / HK\$18.00		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	Change
	HK\$ million	HK\$ million	
• Turnover	10,690	9,541	12.0%
• Operating expenses	-4,778	-4,340	10.1%
• EBITDA	5,912	5,201	13.7%
• Profit on property developments	8,304	5,817	42.8%
• Operating profit before depreciation	14,216	11,018	29.0%
• Depreciation	-2,739	-2,674	2.4%
• Interest & finance charges	-1,316	-1,398	-5.9%
• Change in fair value of investment properties	8,011	2,178	267.8%
• Profit attributable to shareholders	15,180	7,759	95.6%
• Underlying profit (excluding investment property revaluation and related deferred tax)	8,571	5,962	43.8%
• EPS – Basic	2.72	1.41	92.9%
• Final DPS	0.31	0.28	10.7%
• Total DPS	0.45	0.42	7.1%
Total passenger boarding (in millions)			
Domestic Service (full-year)	915.80	866.80	5.7%
Cross-boundary Service (post-merger)	8.24	-	N.A.
Airport Express (full-year)	10.18	9.58	6.3%
Light Rail (post-merger)	11.10	-	N.A.
Average number of passengers (in thousands)			
Domestic Service (weekday)			
Pre-merger	2,595.0	2,513.0	3.3%
Post-merger	3,544.0	-	N.A.
Cross-boundary Service (daily) (post-merger)	274.8	-	N.A.
Airport Express (daily) (full-year)	27.9	26.2	6.5%
Light Rail (weekday) (post-merger)	380.0	-	N.A.
EBITDA margin	55.3%	54.5%	0.8%

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- MTR Corporation (“MTRC”) reported a 95.6% y-o-y jump in net profit to HK\$15.18 billion for the year ended 31st Dec 2007 on impressive performance in rail and property businesses.
- Profit on property developments increased 42.8% to HK\$8.304 billion. Excluding investment property revaluations and related deferred tax, underlying net profit increased by 43.8% to HK\$8.571 billion.
- Turnover increased by 12% to HK\$10.69 billion. Fare revenue rose 9.1% to HK\$7.115 billion, whilst non-fare revenue (including station commercial revenues, rail related businesses, property development, property rental and management and other businesses) increased 18.5% to HK\$3.575 billion.

- **Revenue breakdown:**

	FY2007		FY2006		Change
	HK\$ million	% HK\$ million	HK\$ million	%	
Railway operations	7,115	66.56%	6,523	68.37%	9.08%
Station commercial & other businesses	1,741	16.29%	1,542	16.16%	12.91%
Property ownership & management	1,834	17.16%	1,476	15.47%	24.25%
Total	10,690	100.00%	9,541	100.00%	

- MTRC’s overall share of the franchised public transport market increased from 25.0% in 2006 to 25.3% in the period before the Rail Merger. After the Rail Merger on 2nd Dec 2007, including all rail and bus passenger services, its market share increased further to 41.6%.
 - Station commercial and other businesses registered a 12.91% revenue growth to HK\$1.741 billion. Excluding Rail Merger impact from 2nd Dec 2007 to 31st Dec 2007, there was 4.8% growth in revenue. After the merger, revenue from advertising grew 11% to HK\$593 million; revenue from station commercial business grew 28% to HK\$499 million; revenue from telecommunications fell 10% to HK\$233 million, due to the negative impact from 2G rate reduction and 3G cannibalization; and revenue from consultancy services declined 3% to HK\$193 million due to project delay.
 - Property ownership and management revenue increased 24.25% to HK\$1.834 billion, underpinned by the buoyant local property market in 2007. The office and retail rental markets continued to enjoy good growth with limited supply in the office market, and strong retail market driven by consumer and tourist spending.
- Operating expenses was up 10.10% to HK\$4.778 billion. Excluding Rail Merger impact from 2nd Dec 2007 to 31st Dec 2007, the operating expenses was up only 4.4%. EBITDA went up 13.7% to HK\$5,912 billion, with EBITDA margin improving to 55.30% from 54.51% in FY2006.
- Profit from property developments increased 42.8% to HK\$8.304 billion, mainly on sales of residential flats from Le Point at Tiu Keng Leng Station and to a lesser extent from Harbour Green at Olympic Station. Deferred income also contributed HK\$1.224 billion, being profit recognition mainly from the newly opened Elements in Kowloon Station, and from Coastal Skyline and Caribbean Coast in Tung Chung.
- Depreciation charge increased by 2.4% y-o-y to HK\$2.739 billion.



- As of 31st Dec 2007, total debt of MTRC increased to HK\$34.05 billion (31st Dec 2006: HK\$28.15 billion). With shareholders' funds at HK\$91.037 billion, total net debt/equity ratio rose to 48.5% from 36.3% in FY2006.
- Both basic and diluted EPS jumped by 92.9% to HK\$2.72. A final DPS of HK\$0.31 was proposed, taking the full-year DPS to HK\$0.45, an increase of 7.1% y-o-y. Payout ratio was 16.54%, lower than 29.79% in FY2006.

Outlook & Prospect

- **Push for MTR fare cuts as revenue rises:** The latest Transport Department figures showed there was a sudden surge in harbour crossing MTR passengers in Dec 2007 to 31.63 million, up about 16.9% from 27.52 million passenger trips in Dec 2006. Commuters made an extra 4 million harbour crossings on the MTR in Dec 07, boosting the corporation's fare revenue by more than HK\$31 million in a single month. If this trend continues, MTRC will get an extra HK\$372 million by end of FY2008.
- **New line expansions** The West Island Line and South Island Line expansions have been confirmed. Details of an expanded interchange station at Admiralty station have also been released and it is believed that this will help enlarge MTRC's catchment area for long-distance travellers. Shatin-Central link gets go-ahead with the HKSAR Government funding HK\$37 billion to construct 17 km link and will be leased to MTR for HK\$91.8 billion over a 50-year period. MTRC also unveiled HK\$4.2 billion plans to extend the Kwun Tong lines to serve the Hung Hom areas, which MTR will benefit from property development rights along the line.
- **Shenzhen Metro Line 4 project** Management of MTRC said a planned property development component to the Shenzhen Metro Line 4 project (about RMB 6 billion) failed to receive approval from the National Development and Reform Commission. This implied that MTRC needed other forms of funding for this project going forwards.
- **Another land tendering in process** MTRC has just opened the invitation process to developers on the Che Kung Temple site in Shatin. The site will have residential GFA of 0.965 million sq. ft. and is expected to be completed in 2012. According to press reports, given the estimated investment amount of HK\$6 billion, MTRC may consider: 1) paying half of the land premium, 2) providing interest-free loans to developers. These are not new arrangements and, in exchange, MTRC is expected to get a much higher participation rate in the project.
- **Continue to profit from property development projects** Profit from property development contributes over 50% of MTRC's operating profit in FY2007. With the Che Kung Temple development site, the West Island Line, South Island Line expansions, the Shatin-Central Line, the extension of Kwun Tong lines to Hung Hum now all being confirmed to go ahead, MTRC should continue to benefit from property development profits in the medium term. In addition, MTRC will also benefit from the full year impact of Elements Phase 2, as well as expanded investment property and management portfolio from the Rail Merger.

Recommendation: Long Term Buy



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