

Analyst: Kelvin Li

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO. LTD. (招商局國際)

Sector	: Transportation	Chairman	: Dr. FU Yuning
HKSE Code	: 0144		
Market Price	: HK\$36.00 (15/04/2008)		
HSI	: 23,901.33 (15/04/2008)		
Shares Issued	: 2,406.34 million		
Market Cap.	: HK\$86,628.1million		
52 weeks High / Low	: HK\$55.75 / HK\$29.45		

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

	FY2007 HK\$ million	FY2006 HK\$ million	Change
From Continuing operations:			
• Turnover	6,258	3,961	+58.0%
• Operating profit	1,726	671	+157.2%
• Share of profits of associates	2,645	2,184	+21.1%
• Share of profits of jointly controlled entities	60	249	-75.9%
• Profit attributable to shareholders	3,366	2,371	+42.0%
From Discontinued operations(*):			
• Turnover	171	404	-57.7%
• Profit attributable to shareholders	179	169	+5.9%
• Total profit attributable to shareholders	3,545	2,540	+39.6%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS – Basic (from Continuing operations)	1.4198	1.0215	+39.0%
• EPS – Basic (from Discontinued operations)	0.0755	0.0728	+3.7%
• DPS – Interim	0.20	0.17	+17.6%
• DPS – Final	0.45	0.36	+25.0%
• DPS – Total	0.65	0.53	+22.6%

Remark: (*) The Group completed its sale of the entire 72% interest in China Merchants Holdings (Pacific) ("CMHP"), a Singapore-listed subsidiary engaged in toll road and property development businesses, on 11th July, 2007. The profit & loss items of CMHP are reclassified under "Discontinued Operations", while its assets and liabilities are presented as held for sale as at 31st December 2007.

- China Merchants reported a 39.6% y-o-y rise in net profit to HK\$3.5 billion for FY2007. Excluding the discontinued operations in China Merchants Holdings (Pacific) ("CMHP"), net profit from the Group's continuing operations increased 42.0% y-o-y to HK\$3.37 billion in FY07, largely in line with market expectation of HK\$3.33 billion.
- Along with share of turnover of associates and jointly controlled entities, the Group's consolidated turnover from the Continuing Operations grew a solid 39.0% y-o-y to HK\$24.0 billion in FY07, mainly driven the Group's container manufacturing business. Operating profit surged 157.2% to HK\$1.7 billion, amid good cost control efforts. As a result, the Group's operating profit margin was held steady at 18.4% in FY07, compared with 18.0% a year earlier. EPS (from Continuing Operations) for FY07 was HK\$1.4198. A final DPS of HK\$0.45 was proposed, bringing the full-year payout to HK\$0.65 (FY06: HK\$0.53) or a payout ratio of 43.5% (FY06: 48.4%).

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Business Highlights

- Breakdown of turnover from Continuing operations by consolidated business segments (including share of turnover of associates & jointly controlled entities):-

	FY2007		FY2006		Change
	HK\$ million	%	HK\$ million	%	
Ports operations	9,921	41.3%	7,853	45.4%	+26.3%
Ports-related operations	14,095	58.6%	9,401	54.4%	+49.9%
Property investment	27	0.1%	29	0.2%	-6.9%
Total	24,043	100.0%	17,283	100.0%	+39.1%

- Operating profit by business segments of the Continuing operations (including share of profit from associates & jointly controlled entities):

	FY2007		FY2006		Change
	HK\$ million	%	HK\$ million	%	
Ports operations	3,398	76.7%	2,339	75.4%	+45.3%
Ports-related operations	1,029	23.2%	813	26.2%	+26.6%
Property investment	149	3.4%	62	2.0%	+140.3%
Others	-	0.0%	8	0.3%	-100.0%
Unallocated income less expenses	(145)	(3.3%)	(118)	(3.8%)	+22.9%
Total	4,431	100.0%	3,104	100.0%	+42.8%

- Consolidated turnover from the **ports operations** rose 26.3% y-o-y to HK\$9.9 billion, driven by a 17% y-o-y rise in container throughput. The Group's ports in the Mainland handled 40.11 million TEUs, up 20% y-o-y, while ports in HK reported a tepid rise of 4% y-o-y to 7 million TEUs in FY07. Operating profit (including associates and jointly controlled entities) from the segment rose 45.3% y-o-y to HK\$3.4 billion, accounting for 76.7% (FY06: 75.4%) of the Group's total.
- Consolidation turnover from the **ports-related operations** surged a robust 49.9% y-o-y in FY07 to HK\$14.1 billion. The Group's container manufacturing arm, China Int'l Marine Containers ("CIMC"), sold 2.11 million TEUs last year, up 34% y-o-y. The segment generated an operating profit of HK\$1.0 billion, up 26.6% from FY06 and representing 23.2% (FY06: 26.2%) of the Group's total.
- The Group offloaded its **toll road** business via the sale of entire interest in CMHP for HK\$2.95 billion in July 2007 and booked a disposal gain of HK\$77 million.

Outlook & Prospect

- Extending footsteps in Vietnam** China Merchants said it has earmarked a capital expenditure of HK\$4.5 billion this year (FY07: HK\$7.9 billion), which would be allocated to port investment and setup in Ningbo, Qingdao, Shenzhen as well as Vietnam.
- Enhancing bulk cargo business** Besides investment in Zhanjiang Port (a large bulk cargo port), the Group has also raised its interest in Shenzhen Haixing Port (a general and bulk cargo terminal) and Mawan Project (a multi-purpose port), in order to diversify and further strengthen its port portfolio.
- Pricing contracts in Renminbi** China Merchants revealed that it will price its contracts in RMB starting from 2008 in order to minimize the risk of currency mismatch on its revenue Vs costs.
- Offloading non-core assets** The Group will continue its strategy to offload non-core assets. In Feb 08, the Group sold its 13% stake in Western Harbour Tunnel as well as the management business in WHT and Cross Harbour Tunnel.
- Bottom line to be affected by the slowing global economies** China Merchants has been transforming into a diversified port operator via overseas expansion and development in dry bulk terminals. The slow down of the U.S. economy would unavoidably curb the business growth of the Group. Nonetheless, for a pure diversified port operation counter, we see valuation of 22x FY08E P/E is not too unreasonable. Accordingly, we are "Neutral" on the counter.

Recommendation: Neutral



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