

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

Sector	: Conglomerate	Chairman	: Dr. Fu Yuning
HKSE Code	: 0144		
Market Price	: HK\$45.35 (19/09/2007)		
HSI	: 25,554.64 (19/09/2007)		
Shares Issued	: 2,395.65 million		
Market Cap.	: HK\$108,642 .6million		
52 weeks High / Low	: HK\$47.25 / HK\$22.00		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2007
Interim Results Highlights

	1H2007 HK\$ million	1H2006 HK\$ million	Change
From Continuing operations:			
• Turnover	2,863	1,694	+69.0%
• Operating profit	722	295	+144.7%
• Share of profits of associates	1,198	1,023	+17.1%
• Share of profits of jointly controlled entities	39	103	-62.1%
• Profit attributable to shareholders	1,418	1,106	+28.2%
From Discontinued operations*			
• Turnover	171	165	+3.6%
• Profit attributable to shareholders	102	99	+3.0%
• Total profit attributable to shareholders	1,520	1,205	+26.1%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS – Basic (from Continuing operations)	0.6070	0.4863	+24.8%
• <i>EPS – Basic (from Discontinued operations)</i>	<i>0.3600</i>	<i>0.3300</i>	<i>+9.1%</i>
• DPS – Interim	0.2000	0.1700	+17.6%

Remark: (*) The Group completed its sale of the entire interest (a 72% stake) 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 30th June, 2007.

- China Merchants reported a 26.1% y-o-y rise in net profit to HK\$1.52 billion for the six months ended 30th June 2007. Excluding the discontinued operations in China Merchants Holdings (Pacific) ("CMHP"), net profit from the Group's continuing operations increased 28.2% y-o-y to HK\$1.42 billion in 1H07, thanks to robust growth in the port and the container manufacturing businesses.
- Along with share of turnover of associates and jointly controlled entities, the Group's consolidated turnover from the Continuing Operations grew a solid 47.1% y-o-y to HK\$11.7 billion in 1H07, mainly driven by a 64.4% y-o-y jump in revenue from the Group's container manufacturing business. Operating profit surged 144.7% to HK\$722 million, as costs were held contained during the first half. As a result, the Group's operating margin improved to 25.2% in 1H07 from 17.4% in 1H06.
- EPS (from Continuing Operations) for 1H07 was HK\$0.6070. An interim dividend of HK\$0.20 was proposed, representing a payout ratio of 31.5% (1H06: 32.1%).

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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):-

	1H2007		1H2006		Change
	HK\$ million	%	HK\$ million	%	
Ports operations	5,053	43.1%	3,889	48.9%	+29.9%
Ports-related operations	6,664	56.8%	4,053	50.9%	+64.4%
Other operations – property	12	0.1%	14	0.2%	-14.3%
Total	11,729	100.0%	7,956	100.0%	+47.4%

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

	1H2007		1H2006		Change
	HK\$ million	%	HK\$ million	%	
Ports operations	1,536	78.4%	1,077	75.8%	+42.6%
Ports-related operations	451	23.0%	350	24.6%	+28.9%
Other operations – property	56	2.9%	33	2.3%	+69.7%
Others	-	0.0%	7	0.5%	-100.0%
Unallocated income less expenses	(84)	(4.3%)	(46)	(3.2%)	+82.6%
Total	1,959	100.0%	1,421	100.0%	+37.9%

- Consolidated turnover from the **ports operations** rose 29.9% y-o-y to HK\$5.1 billion, driven by a 20% y-o-y rise in container throughput from the ports that the Group held interests as well as full-period contribution from the Shekou Container Terminal in western Shenzhen. The Group's ports in the Mainland handled 18.82 million TEUs, up 23% y-o-y, while ports in HK reported a tepid rise of 4% y-o-y to 3.34 million TEUs in 1H07. Profit (including associates and jointly controlled entities) from the segment rose 42.6% y-o-y to HK\$1.5 billion, accounting for 78.4% (1H06: 75.8%) of the Group's total.
- Consolidation turnover from the **ports-related operations** jumped a sharp 64.4% y-o-y in 1H07 to HK\$6.7 billion. The Group's container manufacturing arm, China Int'l Marine Containers ("CIMC"), sold 1.02 million TEUs in 1H07, up a robust 32% y-o-y. During 1H2007, demand for dry bulk cargo containers and reefers was strong, with sales up 31% and 102% y-o-y respectively. Profit from the segment increased 28.9% y-o-y to HK\$451 million, accounted for 23.0% (1H06: 28.9%) of the total.
- Profit from **toll road** business, operated via the Singapore-listed subsidiary CMHP, amounted to HK\$102 million during 1H07. The Group completed the sale of its entire interest in CMHP for HK\$2.95 billion in July and expects to book a disposal gain in the final results for FY07.

Outlook & Prospect

- Extending footsteps in Bohai Rim** The Group has formed a joint venture, of which it holds a 49% stake, with Tianjin Port (Group) Corp to invest and develop a logistics processing area in Dongjiang port zone of Tianjin port. In addition, the Group said it would team up with Zhanjiang Municipal government to form a Zhanjiang Port investment joint venture with registered capital of 3.6 billion yuan (US\$479.1 million). Along with the China Merchants Qingdao Terminal project, the Group is extending its business horizons beyond the Pearl River Delta and the Yangtze River Delta, which should help diversify its port portfolio and strengthen its presence in the Mainland's key port districts.
- Developing bulk cargo business** The Group announced to acquire a 45% stake in Zhanjiang Port JV for RMB1.62 billion. It marks the Group's first move in bulk cargo terminal business, as strong demand for resources/energy related cargo handling would provide a tremendous growth potential.
- Valuation** China Merchants has been transforming its business model to become a diversified port operator [its rival COSCO Pacific (HKEx: 1199) is following the same move]. Despite the counter is trading at valuation of 33x FY07E P/E, we see the bright growth potential in its ports operations justify its valuation and accordingly, we recommend a "Hold" on the counter.

Recommendation: HOLD



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