

Main Board Listing- Research

合和公路基建有限公司

Hopewell Highway Infrastructure Limited [Stock Code: 0737]

Global Co-ordinator, Bookrunner & Sponsor : Citigroup

Joint Lead Managers : Citigroup

BOCI Asia Limited

Sector : Infrastructure

Business: Developing and operating infrastructure projects in the southern PRC

<p>Total share offer: <u>720,000,000</u> shares (25% of the enlarged share capital)</p> <p>Placement: 648,000,000 shares (90%) IPO: 72,000,000 shares (10%)</p> <p>Greenshoe: 108,000,000 shares</p>	<p><u>Business of Hopewell Highway Infrastructure</u></p> <p>The Company is principally engaged in initiating, promoting, developing and operating strategically important roads, tunnels, bridges and related infrastructure projects in Guangdong Province in the southern PRC, and in particular the Pearl River Delta region bordering Hong Kong.</p> <p>The Company currently has interests in 3 principal toll-expressway projects, The Guangzhou-Shenzhen Superhighway (廣州 - 深圳高速公路), The Guangzhou E-S-W Ring Road (廣州東南西環高速公路) and Phase 1 of the Western Delta Route (廣珠西線高速公路一期) (under construction). All of the Company's existing project interests are (or will be, in the case of Phase 1 West) held through Sino-foreign co-operative joint ventures.</p>
<p>Price: HK\$4.10-HK\$4.75 per share Market cap. : HK\$11,808 million-HK\$13,680 million</p> <p>Prospective FY2004 P/E: 16.87x-19.55x Estimated NAV per share: HK\$6.51-HK\$6.67</p> <p>Staffing: 32</p>	
<p>Book commences: 14th July 2003 Book closes: 30th July 2003</p> <p>IPO opens: 28th July 2003 IPO closes: 31st July 2003</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited Receiving bank: Bank of China (Hong Kong) The Bank of East Asia</p> <p>Listing date: 6th August 2003</p>	

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Hopewell (stock code: 0054)

75%

Note 1: Hopewell is subject to a 6-month lock-up period, and SHKP (stock code: 0016) will acquire 10% of the total IPO shares (i.e. 72 million shares) to become a strategic investor of the Company.

Note 2: Bank of China (Hong Kong) was granted an option to purchase from Hopewell up to 5% of the issued share capital of the Company (i.e. 144 million shares) with the exercise price at the IPO price, within 36 months after the Company's listing.

Use of Proceeds

Gross proceeds from the offer are estimated to be HK\$3,186 million (based on the mid-point of the price range at HK\$4.425 per share and assuming the over-allotment option is not exercised)

	HK\$ million
To invest in new toll roads, bridges, tunnels and related infrastructure projects	2,200
To repay shareholder's loans advanced by Hopewell	550
To repay outstanding banks loans from Bank of China (Hong Kong)	372
To serve as general working capital	Balance

Financial Highlights

	10 months ended 30 th April 2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Revenue				
GS Superhighway	789,569	846,933	789,668	721,755
ESW Ring Road	<u>71,614</u>	<u>71,517</u>	<u>70,125</u>	<u>47,852</u>
	<u>861,183</u>	<u>918,450</u>	<u>859,793</u>	<u>769,607</u>
Operating profit	<u>627,673</u>	<u>781,413</u>	<u>932,494</u>	<u>816,181</u>
Net profit	<u>433,699</u>	<u>532,429</u>	<u>600,622</u>	<u>518,949</u>
Dividend	-	2,200,000	-	-
Earnings per share	<u>HK\$0.20</u>	<u>HK\$0.25</u>	<u>HK\$0.28</u>	<u>HK\$0.24</u>

Key Statistics of the 3 highways

	GS Superhighway	Guangzhou E-S-W Ring Road	Phase 1 West
Route	Guangdan in Guangzhou to Huanggang border crossing in Shenzhen	Connecting Guangdan, Luntou, Chigang and Shabei in Guangzhou	Hainan interchange of Guangzhou E-S-W Ring Road to northern end of Bigui Road in Shunde
Classification	Expressway	Expressway	Expressway
Total length	122.8km	38km	14.7km
Number of lanes	Dual 3 lanes	Dual 3 lanes	Dual 3 lanes
Joint venture partner (s)	Guangdong Provincial Highway Construction Company	1. Guangzhou City Tongda Highway Company 2. Cheung Kong Infrastructure	Guangdong Provincial Highway Construction Company
Concession period	30 years from 1 st July 1997	30 years from 1 st January 2002	30 years from date of establishment (expected in 2003)
Status	Fully operational, collecting tolls	Fully operational, collecting tolls	Under construction since December 2001
Group's %	Profit share: First 10 years: 50% Next 10 years: 48% Final 10 years: 45%	Net cash flow: First 10 years: 45.0% Next 10 years: 37.5% Final 10 years: 32.5%	Net operating income: 50%

Strengths

- ✓ Hopewell Highway is a key toll-road operator in the Pearl River Delta region, which is one of the most prosperous areas in the PRC with a GDP CAGR of 21.6% during 1990-2001. The good locations of its expressways should provide support to its traffic growth.
- ✓ Competition is not severe along the Company's expressways. Although National Highway 107, which is a Class I highway, runs parallel to the GS Superhighway and connects Guangzhou and Shenzhen, it is an older highway with lower design speed, no access control as well as intersecting with local roads.
- ✓ The proposed Guangdong-HK-Macau Tunnel Bridge project should facilitate and boost cross-border traffic to the mutual benefit of Hong Kong and Guangdong Province. There is no guarantee that the project will go ahead soon but the SAR Government did show its support to the project. Having devoted significant efforts to the project and with SHK Properties being a strategic investor of the Company, we believe Hopewell Highway should have a high chance to take part in the project if it proceeds.
- ✓ The Company intends to recommend a dividend of not less than HK\$0.225 per share in FY2004, which translates to a dividend yield of 4.74% at the top-end price of HK\$4.75 each. The dividend yield of Hopewell Highway is comparable to other listed peers, which normally have a forecast dividend yield of around 4.5%. However, it is noted that the dividend payout for FY2004 is exceptionally high at some 93% on estimated net profit of not less than HK\$700 million (i.e. EPS of HK\$0.243). Going forward, the Company's target payout ratio will be something around 75%.

Weaknesses

- × All toll rates for the Company's toll expressways are subject to the regulation of the relevant government authorities. Any unforeseeable downward adjustment in toll rates will have substantial impacts on the Company's toll revenues and its profitability.
- × Being priced at HK\$4.10-HK\$4.75, valuation of Hopewell Highway is a bit rich with FY04E P/E of 16.87x-19.55x, when compared with Jiangsu Expressway (*stock code: 0177*)'s FY03E P/E of 17.24x and Zhejiang Expressway (*stock code: 0576*)'s FY03E P/E of 15.86x. Though being priced at premiums to other listed peers, Hopewell Highway's higher revenue per km (RMB8.56 million), versus Jiangsu's RMB1.28 million and Zhejiang's RMB2.41 million as well as its higher expected traffic growth should partly justify its higher valuation.

Recommendation: Subscribe