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HONG KONG RESEARCH
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Main Board Listing – Research

天津港發展控股有限公司
Tianjin Port Development Holdings Limited [Stock Code: 3382]

Sponsor	:	CLSA Equity Capital Markets Limited
Global Coordinator	:	CLSA Limited
Joint Bookrunners and Lead Managers	:	CLSA Limited, ABN AMRO Rothschild

Sector : Transportation
Business : Operator of containerised and non-containerised cargo terminals at the port of Tianjin

Total share offer: 578,000,000 shares
(34% of the enlarged share capital)

Public Offer:	*57,800,000* shares	(10%)
Reserved:	*61,200,000* shares*	(10.6%)
Placing:	*459,000,000* shares	(79.4%)
Greenshoe:	*86,700,000* shares	(15%)

Price: HK$1.55 – HK$1.88 per share

Market Cap.: HK$2,635 million – HK$3,196 million

Pro Forma FY2006E P/E: 13.96x – 16.94x

Adjusted NTA per share: HK$1.332 – HK$1.441

Staffing: 3,269

Book opens: 8th May 2006
Book closes: 17th May 2006

HK Public Offer period:
12th May 2006 – 17th May 2006

Receiving bank: HSBC, The Bank of East Asia

Share registrar: Tricor Investor Services Limited

Listing date: 24th May 2006

Business of Tianjin Port Development

The Company, a spin-off from Tianjin Development Holdings (*stock code*: 0882), is a leading operator of containerised and non-containerised cargo terminals at the port of Tianjin. It is the only operator at the port of Tianjin with a designated grain-handling terminal and specialised fruit and vegetable refrigeration warehouse.

The Company operates 2 terminals and a total of 13 berths, including 6 container-handing berths and 7 non-containerised cargo-handling berths. It provides port services including the loading and unloading of containerised and non-containerised cargoes from shipping vessels, the stacking and warehousing of containers and cargoes, as well as various ancillary services such as container repair and maintenance, container transportation and shipping agency services. Its major customers include COSCO Container Lines, CSCL (*stock code*: 2866) and Sinotrans (*stock code*: 0598).

The Port of Tianjin is strategically located at the locus of Bohai Bay and serves a vast hinterland covering north, northwest and central China. The port of Tianjin was the 9th largest port in the world and the largest port in north China as measured by total throughput for the year 2004.

Remark (*): Registered shareholders of Tianjin Development on 8th May 2006 are entitled to subscribe for 1 Reserved Share for every whole multiple of 15.8434 Tianjin Development shares held by them.

Major Shareholders after Listing *(Assuming the over-allotment option is not exercised)*

Tianjin Development	66%
Hutchison Whampoa** (*stock code*: 0013)	3%
	69%

Remark (**): Hutchison Whampoa has agreed to subscribe for 51,000,000 shares, equivalent to 8.8% of the shares offered or 3% of the enlarged share capital.

Use of Proceeds

Net proceeds from the offer are estimated to be HK$930 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK$1.715 each, being the mid-point of the indicative price range)

	HK$ million
Contribution to the registered capital of the new container-handling joint venture to be formed with 2 international ports operators	577
To complete acquisition from Tianjin Port Group of the land use rights, berths and railways that are used to operate the Company's existing terminals	353

Financial Highlights

	Year ended 31st December		
	2003	**2004**	**2005**
	HK$'000	**HK$'000**	**HK$'000**
Turnover	723,926	799,837	898,223
Gross profit	320,120	343,976	422,037
Operating profit	88,185	99,952	173,910
Net profit	**69,678**	**77,465**	**147,275**
Owner's equity	1,224,381	1,301,846	1,426,325

Strengths/Opportunities

- ✓ The port of Tianjin stands to benefit from recent PRC government policy. In its 11th Five Year Plan, the PRC government designated the port of Tianjin as the principal gateway to the hinterland of north and northwest China. The 11th Five Year Plan also emphasised acceleration of the development of the Tianjin-Binhai Coastal Area, which encompasses the port of Tianjin, as a key element of advancing the regional economy.

- ✓ The Company's container throughput increased from 1.49 million TEUs in FY2003 to 2.05 million TEUs in FY2005, representing a CAGR of 17.3%. For non-containerised cargoes, throughput grew at a CAGR of 9.7% over the same period, with a total of 18.3 million tonnes of cargoes being handled in FY2005.

- ✓ The Company is currently at the approval stage of an investment in a new container-handling facility at the Beigangchi area of the port of Tianjin that will be formed by way of a joint venture with 2 international port operators. The new facility, which will comprise 4 container-handling berths and a container stacking yard in excess of 700,000 square metres, could contribute 1.26 million TEUs of new capacity from late FY2008, nearly two-third of the Company's existing capacity.

- ✓ Priced at 13.96x to 16.94x FY2006 P/E, valuation of the counter is comparable to that of Dalian Port (*stock code*: 2880), which priced its IPO in late April 06 at 17.9x. Dalian Port has surged some 60% since its trading debut .

Weaknesses/Threats

- × Owing to environmental concerns, all coal-handling businesses are to be relocated to the Nanjiang area of the port of Tianjin. The Company expects to cease its coal-handling operations by the end of 2006, after which it will no longer be engaged in such business. As coal handling accounted for approximately half of its non-containerised cargo-handling business, its cessation may result in an overall reduction in its non-containerised handling volume in FY2007. To lessen the impact, the Company plans to divert its focus to steel-related cargo businesses after FY2006.

- × The PRC ports industry is highly regulated. One of the key areas in which regulation affects ports operators is with respect to fees and charges. Currently, the Ministry of Communications is responsible for setting ports fees and charges (other than fees and charges for domestic non-containerised cargo handling which have recently been liberalised). As such, ports operators have limited room to compete with each other on the basis of price and instead must rely on service levels and efficiency.

Recommendation: Trading Buy

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