

Main Board H-share Listing - Research

廣東南粵物流股份有限公司

Guangdong Nan Yue Logistics Company Limited [Stock Code: 3399]

Sponsor : China Everbright Capital Limited
Joint Lead Managers and Joint Bookrunners : China Everbright Capital (HK) Limited
Kim Eng Securities (Hong Kong) Limited

Sector : Transportation

Business : Provision of integrated logistics services and expressway-related services

<p>Total share offer: <u>138,000,000</u> H shares (33.04% of the enlarged share capital)</p> <p>Public Offer: 13,800,000 H shares (10%) Placing: 124,200,000 H shares (90%)</p> <p>Greenshoe: 18,818,182 H shares</p>	<p><u>Business of Nan Yue Logistics ("the Group")</u></p> <p>The Group is engaged in the provision of integrated logistics services and expressway-related services. Based in Guangdong province, the Group's operations could be categorized into three major areas: (i) planning, procurement and logistics management of construction materials for expressway and infrastructure projects, (ii) provision of related auxiliary services like gas stations, convenience stores, restaurants, car maintenance and outdoor advertisement in its expressway service zones, and (iii) provision of transportation intelligence services. Besides, the Group owns the operating and toll collection right of Tai Ping Interchange for the period from 28th December 1999 to 1st July 2027.</p> <p>Guangdong Provincial Communication Group Company (GCGC), the parent of the Group, is a leading road and expressway transportation conglomerate in Guangdong province. As at the end of 2004, expressways invested and operated by GCGC amounted to over 2,100 km, representing over 80% of the total length of expressways in Guangdong province.</p>
<p>Price: HK\$3.31 – HK\$3.55 per H share Market Cap.: HK\$456.8 million – HK\$489.9 million</p> <p>FY2004 P/E: 11.3x – 12.1x</p> <p>Adjusted NTA per H share: RMB2.34 - RMB2.40</p> <p>Staffing: 2,132 (as of 10th October 2005)</p>	
<p>HK Public Offer period: 14th October 2005 – 19th October 2005 noon</p> <p>Receiving bank: Bank of China (Hong Kong)</p> <p>Share registrar: Computershare Hong Kong Investor Service Limited</p> <p>Listing date: 26th October 2005</p>	

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

Guangdong Provincial Communication Group Company (GCGC)	66.96%
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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$392.8 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.43 each, which is the mid-point of the indicative price range)

	HK\$ million
For the operation and expansion of cross-border coaching services	135.7
For financing the expansion of material logistics services	93.8
For partial settlement of an existing loan maturing in February 2006	57.7
For enlarging the registered capital of Guangdong Top-E for the expansion and development of expressway service zones	52.9
For developing the Group's information system platform and communication network	22.1
For financing the expansion of transportation intelligence services	15.0
For general working capital	15.6

Financial Highlights

	Year ended 31 st December			5 months ended 31 st May 2005
	2002 RMB '000	2003 RMB '000	2004 RMB '000	RMB '000
Turnover	1,237,503	1,327,061	3,347,423	1,268,230
Gross profit/(loss)	185,651	260,084	361,169	166,949
Net profit	51,064	70,525	94,192	52,024
EPS – basic	RMB0.16	RMB0.21	RMB0.30	RMB0.18

Strengths/Opportunities

- ✓ Expressway related business has been the key profit driver of the Group. Gross profit from expressway service zones, which provide auxiliary services such as gas stations, convenience stores... etc, grew a sharp 142% y-o-y during the first 5 months of 2005, accounting for one-third of the Group's total, which should help support the overall profit growth of the Group in 2005.
- ✓ The Group currently operates 29 pairs of service zones along major expressways in Guangdong province. The total length of expressways in the province is expected to grow from about 2,500 km as at the end of 2004 to 5,000 km by 2010, while a total of 100 pairs of service zones are expected to be established by then. It would provide the Group with strong potential to develop its expressway service zones business.

Weaknesses/Threats

- × The material logistics service segment has been one of the Group's core businesses and a key source of income. However, due to price fluctuation of material prices, the profit margin of the segment swung sharply during the past years, which may in turn add volatility to the Group's bottom line in the future.
- × Expressway and related counters have been good proxies for economic growth in the Mainland. Priced at some 11-12x FY2004 P/E, valuation of Nan Yue is at a discount to those of its sector peers. However, due to the riskier nature of Nan Yue's operations, we still prefer those traditional expressway plays like Shenzhen Expressway (HKEx: 0548) and Hopewell Infrastructure (HKEx: 0737).

Recommendation: Unappealing