



February 27, 2014
Equity Focus
Rating: Unrated

Share price (HK\$)	1.86
Est. share price return	N/A
Est. dividend yield	N/A
Est. total return	N/A
Previous Rating & TP	N/A
Previous Report Date	N/A

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Key Data

52Wk H/L(HK\$)	1.95 / 0.70
Issued shares (mn)	954
Market cap (HK\$ mn)	1,774
3-mth avg daily turnover (HK\$ mn)	7.7
Major shareholder(s) (%):	
Mr. Cao Wei (CEO of CCRT) and spouse*	28.24
Beijing Infrastructure Investment (BII)	24.50

*The percentage of interest of Mr. Cao is 50.44% after including interest of concert parties
Source(s): Company, Bloomberg, ABCI Securities

H114 Revenue breakdown (%)

Design and implementation of system	44.33
Maintenance of system	29.51
Sales of application solution software	5.72
Sales of hardware and spare parts	20.43

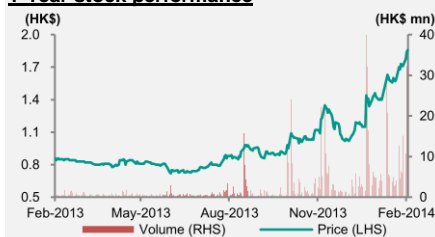
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	32.86	30.03
3-mth	51.22	60.95
6-mth	113.79	106.81

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CCRT (1522 HK)

Earnings growth to resume in 2014-15

- CCRT's interim (six months ended 31, Dec 2013) net income was up 3.13% YoY. Order flow is expected to increase in 2014 and earnings growth will regain momentum in 2014-15 upon completion of the new subway lines
- BII, CCRT's second large shareholder indirectly holding a 24.50% stake, signed a MOU to increase its shares in CCRT. We believe BII would seek equity financing to lower its gearing through CCRT
- The success of integrated Rail-Property Development Model in Beijing will serve as a role model for other cities. We estimate domestic urban rail investment to grow at 37.97% CAGR over 2013E-15E, which will benefit CCRT in long run as the Group seeks for geographical diversification

Resuming growth in 2014-15. CCRT, an urban rail communication system provider in Beijing, announced its interim results (six months ended 31, Dec 2013). Revenue and net income was up 9.47% YoY and 3.13% YoY. Although its earnings growth lagged behind our estimated CAPEX growth for urban rail transport industry in China (19.58% on average for 2013E), the Group expected order flow would increase in 2014 and earnings growth would resume in 2014E-15E upon completion of the new subway lines.

BII may raise stakes in CCRT. Beijing Infrastructure Investment (BII), the Group's second large shareholder indirectly holding a 24.50% stake, is the developer of urban rail in Beijing. Its total assets as of end-Sep 2013 was RMB 303.43bn, of which RMB 34.32bn were fixed assets and RMB 198.89bn were properties under development. The profitability of BII was better than China Railway Corporation (CRC), thanks to the property development business of BII which helped offset the losses in railway operation. However, BII's net gearing surged from 48.48% in FY09 to 152.28% in 9M13, higher than CRC's 131.39% for the same period. We believe BII will seek equity financing in order to lower its gearing. CCRT announced that a MOU had been established, in which the Group intended to allot and issue shares to BII HK, a wholly owned subsidiary of BII. We believe BII will become CCRT's largest shareholder and seek financing via this arm in the equity market.

Insight from Beijing. Beijing is one of the major cities that has been actively developing the urban rail transport system. We estimate that total investment on urban rail construction in Beijing in 2013 was RMB 39.87bn, or 14.24% of the total investment in urban rail transport in China for 2013. The success of integrated Rail-Property Development Model in Beijing will serve as a role model for urban rail development in China. According to the construction pipeline in major cities, we estimate that the urban rail investment in China to grow at 37.97% CAGR over 2013E-15E. Rapid growth in urban rail development will benefit CCRT in the long run as this leading railway system provider seeks for geographical diversification.

Risk factors: 1) China's prudent monetary stance may affect capital inflow and delay construction; 2) Heavy debt burden of BII may limit growth in infrastructure investment; 3) Changes in willingness to grant loans by creditors; 4) Potential earnings dilution; 5) Potential change of management and major shareholders structure

Results and Valuation

FY ended Jun 30	2010A	2011A	2012A	2013A
Revenue (HKD mn)	24	72	190	254
Chg (% yoy)		194.62	163.89	33.59
Net Income (HKD mn)	5	40	81	59
Chg (% yoy)		717.91	99.44	(26.67)
EPS (HKD)			0.128	0.074
P/E (x)				25.26
BVPS (HKD)			0.425	0.506
P/B (x)				3.67
DPS (HKD)			0.025	-
Yield (%)				-
ROAE (%)		126.98	41.99	14.34
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing = Net debt / Total equity

Source(s): Bloomberg, Company, ABCI Securities

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The profitability of BII is better than that of CRC, thanks to the Rail-Property Development Model. The net income margin of BII was 16.10% in FY12 and 10.14% in 9M13, which was higher than that of CRC at 0.02% and -0.24% in FY12 and 9M13, respectively.

Exhibit 1: Financial summary of BII

Year end Dec 31 (RMB mn)	FY09	FY10	FY11	FY12	9M12	9M13
Revenue	855	2,286	5,699	6,204	2,780	3,502
Urban Rail Operation	129	226	2,993	3,321		
Properties Development	418	1,892	1,411	998		
Trading Business	342	316	1,653	1,429		
Others	(34)	(149)	(358)	456		
Interest cost	19	114	340	531	157	217
Depreciation and amortization	24	36	90	111	82	83
Net income	210	592	842	999	196	355
EBIT	358	1,047	1,438	1,751	188	554
EBITDA	382	1,083	1,528	1,862	270	637
Total assets	140,663	190,048	227,546	280,765	261,309	303,429
Cash and equivalent	5,326	11,563	13,489	17,558	11,244	10,733
Fixed assets	103,404	138,553	171,133	213,336	198,019	233,209
Of which: working in progress	84,535	119,848	150,666	178,929	177,566	198,891
Total liabilities	67,805	107,564	135,419	183,603	166,972	198,625
Short term debts	13,607	37,359	4,249	12,235	8,590	9,925
Long term debts	27,041	30,218	95,806	124,096	122,368	149,669
Total equity	72,857	82,484	92,127	97,162	94,338	104,804
<i>Net income margin (%)</i>	<i>24.58</i>	<i>25.91</i>	<i>14.77</i>	<i>16.10</i>	<i>7.05</i>	<i>10.14</i>
<i>Debt / Equity (%)</i>	<i>55.79</i>	<i>81.93</i>	<i>108.61</i>	<i>140.31</i>	<i>138.82</i>	<i>152.28</i>
<i>Net debt / Equity (%)</i>	<i>48.48</i>	<i>67.91</i>	<i>93.96</i>	<i>122.24</i>	<i>126.90</i>	<i>142.04</i>
<i>EBITDA / Interest cost (X)</i>	<i>19.97</i>	<i>9.51</i>	<i>4.49</i>	<i>3.51</i>	<i>1.72</i>	<i>2.94</i>

Source(s): Beijing Infrastructure Investment Company, ABCI Securities

Exhibit 2: Financial summary of CRC

Year end Dec 31 (RMB mn)	FY09	FY10	FY11	FY12	9M12	9M13
Revenue	535,296	665,123	796,258	938,569	677,536	734,640
Freight revenue	223,202	265,120	289,506	300,001	221,078	244,781
Passenger revenue	109,047	134,491	160,697	177,131	136,733	160,844
Other transportation revenue	46,025	49,469	53,758	53,381	40,092	46,482
Others	157,022	216,043	292,297	408,056	279,633	282,533
Interest cost	15,292	25,030	36,935	45,630	24,850	28,301
Depreciation and amortization	54,600	70,475	85,605	92,277	68,495	78,512
Net income	2,743	15	31	196	(8,541)	(1,731)
EBIT	21,788	30,474	43,449	52,069	20,651	31,139
EBITDA	76,388	100,949	129,054	144,346	89,146	109,651
Total assets	2,456,639	3,293,738	3,979,637	4,487,700	4,304,416	4,846,925
Cash and equivalent	59,806	95,291	200,146	168,086	201,596	203,735
Fixed assets	2,199,557	2,937,442	3,479,008	3,945,233	3,731,856	4,214,946
Of which: working in progress	842,230	1,278,203	1,345,935	1,407,890	1,521,184	1,558,344
Total liabilities	1,303,386	1,891,801	2,412,675	2,792,562	2,660,660	3,064,163
Short term debts	88,206	130,893	118,102	69,643	61,426	62,325
Long term debts	854,816	1,310,560	1,825,622	2,212,686	2,115,442	2,483,806
Total equity	1,153,253	1,401,937	1,566,962	1,695,138	1,643,756	1,782,762
<i>Net income margin (%)</i>	<i>0.51</i>	<i>0.01</i>	<i>0.01</i>	<i>0.02</i>	<i>(1.26)</i>	<i>(0.24)</i>
<i>Debt / Equity (%)</i>	<i>81.77</i>	<i>102.82</i>	<i>124.04</i>	<i>134.64</i>	<i>132.43</i>	<i>142.82</i>
<i>Net debt / Equity (%)</i>	<i>76.58</i>	<i>96.02</i>	<i>111.27</i>	<i>124.72</i>	<i>120.17</i>	<i>131.39</i>
<i>EBITDA / Interest cost (X)</i>	<i>5.00</i>	<i>4.03</i>	<i>3.49</i>	<i>3.16</i>	<i>3.59</i>	<i>3.87</i>

Source(s): China Railway Corporation, ABCI Securities

According to the construction pipeline of Beijing urban rail transport system, we estimate that 185.06km of new track will be in operation by 2015, and another 232km of new track will be in operation by 2020. The total length of urban rail track would increase from ~450km at end-2013 to ~860km by 2020. We also expect demand for auxiliary information system will increase in the future. It benefits the Group in the long run.

Exhibit 3: Major construction pipeline of Beijing urban rail transport system

Subway line under constructed	Project Start	Expected Completion	Total Investment (RMB mn)	Length (km)
Line No. 14 (Eastbound)	2010	2014	12,640	15.80
Line No. 14 (Central)	2011	2015	15,600	19.50
Line No. 6 (Phase 2)	2012	2014	5,169	11.60
Line No. 6 (Phase 3 - Westbound)	2013	2015	7,120	8.90
Line No. 7	2009	2014	15,000	23.67
Line No. 15 (Phase 2)	2010	2014	8,160	10.20
Changping Line (Phase 2)	2012	2015	8,480	10.60
Fangshan Line (Westbound)	2014	2015	1,760	2.20
Mentougou Line (S1 Line)	2014	2015	8,160	10.20
Yanfang Line (Main Line)	2014	2015	9,100	14.40
Xijiao Line	2012	2015	4,550	9.10
Line No. 8 (Phase 2)	2007	2013	2,400	10.50
Line No. 8 (Phase 3)	2013	2016	17,259	17.30
Line No. 16	2013	2016	36,000	49.80
Line No. 3	2008	2014	22,200	37.00
Line No. 12	2013	2017	21,600	27.00
Line NO. 17	2014	2017	39,760	49.70
New airport express	2015	2018	29,600	37.00
Line No. 8 (Phase 3 Southbound)	2015	2020	4,000	5.00
R1 Line	2015	2020	44,000	55.00
R2 Line	2015	2020	39,200	49.00
Pinggu Line	2015	2020	41,600	52.00
S6 Line	2015	2020	27,200	34.00
Total			420,558	559.47

Source(s): Media, Beijing Infrastructure Investment Company, ABCI Securities

Exhibit 4: Results summary of CCRT

Year End June 30	1H13 (Jul 12 – Dec 12)	2H13 (Jan 13 – Jun 13)	1H14 (Jul 13 – Dec 13)	YoY	HoH
Revenue (HKD mn)	138	116	148	7.09	27.78
Design and implementation of system	73	22	66	(9.63)	192.92
Maintenance of system	14	50	44	208.59	(12.39)
Sales of application solution software	1	10	8	767.04	(15.48)
Sales of hardware and spare parts	50	34	30	(40.07)	(9.86)
Gross Profit (HKD mn)	49	49	73	49.20	50.25
Design and implementation of system	40	(2)	32	(19.14)	(1,943.72)
Maintenance of system	11	43	33	204.48	(22.48)
Sales of application solution software	(3)	6	(3)	(7.69)	(148.18)
Sales of hardware and spare parts	2	1	11	523.30	769.03
GPM (%)	35.58	42.16	49.58	13.99ppt	7.41ppt
Design and implementation of system	54.74	(7.78)	48.98	(5.76ppt)	56.76ppt
Maintenance of system	77.43	86.35	76.40	(1.03ppt)	(9.95ppt)
Sales of application solution software	(335.31)	62.62	(35.70)	299.61ppt	(98.31ppt)
Sales of hardware and spare parts	3.46	3.74	36.01	32.55ppt	32.28ppt
SG&A (HKD mn)	19	15	41	117.87	163.73
SG&A-to-revenue (%)	13.47	13.28	27.41	13.94ppt	14.13ppt
Net income (HKD mn)	23	36	24	3.13	(32.14)
Net income margin (%)	16.94	30.73	16.32	(0.63ppt)	(14.41ppt)
Operating cash flow (HKD mn)	51	(15)	3	N/A	N/A
OCF / Net income (%)	218.30	(43.34)	13.62	(204.68ppt)	56.96ppt
Total assets (HKD mn)	545	692	735	34.93	6.22
Current assets (HKD mn)	481	559	596	23.87	6.67
Cash	234	207	208	(11.22)	0.25
Trade and bill receivables	151	202	174	15.25	(14.10)
Inventories	32	10	9	(70.95)	(6.30)
Other current assets	65	140	206	217.68	47.03
Non-current assets (HKD mn)	63	133	139	119.04	4.33
Fixed-assets	1	2	3	151.50	51.15
Intangible assets	35	70	69	93.91	(1.68)
Goodwill	-	57	57	N/A	0.65
Other non-current assets	27	4	10	(64.17)	138.80
Total liabilities (HKD mn)	200	203	215	7.48	5.76
Current liabilities (HKD mn)	200	198	210	5.05	5.98
Debt	-	-	-	N/A	N/A
Trade and bill payables	155	121	117	(24.44)	(3.09)
Other current liabilities	45	77	93	107.81	20.22
Non-current liabilities (HKD mn)	-	5	5	N/A	(2.90)
Debt	-	-	-	N/A	N/A
Other non-current liabilities	-	5	5	N/A	(2.90)
Total equity (HKD mn)	345	489	520	50.83	6.41
Common equity	345	483	513	48.61	6.14
Minority	-	6	8	N/A	27.72

Source(s): Company, ABCI Securities

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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