

Road King Infrastructure

FY02 results review

Year to	Revenue (HKDm)	EBITDA (HKDm)	Reported net profit (HKDm)	EPS (HKD)	HSBC net profit (HKDm)	HSBC EPS (HKD)	HSBC EPS growth (%)	PE (HSBC) (x)	Yield (%)	EVI/EBITDA (x)	EVI/IC (x)	ROIC (%)	REP (x)
12/2002a	748	451	278	0.55	278	0.55	36.7	6.6	6.7	7.0	0.7	8.6	0.6
12/2003f	806	445	315	0.63	315	0.63	15.6	5.9	7.4	8.1	0.7	7.6	0.7
12/2004f	833	473	378	0.74	378	0.74	17.8	5.0	8.7	6.5	0.6	7.6	0.5
12/2005f	810	490	400	0.78	400	0.78	5.4	4.8	9.2	6.2	0.6	7.8	0.5

- ▶ **FY02 earnings up 38%, 7% below our forecast and consensus**
- ▶ **End of preferred dividend payments and Baodin project are major earnings growth catalysts, high yield will also be maintained**
- ▶ **FY03-04f earnings raised by 5% and target price by 7% to HK\$4.40 – remains an Add**

Road King Infrastructure (RKI) reported net profit of HK\$278m for FY02, up 38% (number is after a HK\$35m preferential dividend). Toll revenue rose 2% to HK\$748m, against 10% growth in traffic. The net profit was 7% below our forecast and the consensus estimate. The main variance came from the recognition of a HK\$25m one-off bad-debt allowance for the minimum income undertaking (MIU) for the Luochong Road.

Lower preferred dividends starting 2003

Under the terms of the issue, all of the 7.5%-preferred shares will be converted into common shares by 2003 (the fifth year after issue in 1998). RKI said the preferred dividend payment would fall by 50% this year, the last year of payment. Therefore, we have upgraded our earnings forecasts by 5% pa to HK\$315m for 2003 and to HK\$378m for 2004.

Baodin-Tianjin Expressway acquisition

The company revealed that it would sign a preliminary agreement to acquire 40% of the 105km-Baodin-Tianjin Expressway in Hebei province in the near future. The official agreement is expected to be signed in 2H03. The investment cost is likely to be below the original estimate of RMB1bn.

According to management, average daily traffic on the road is likely see double-digit growth over the two years following the acquisition. As RKI is likely to enjoy preferential revenue sharing in the first few years, we believe announcement of the deal will prompt upward revisions in earnings forecasts for FY03 and FY04.

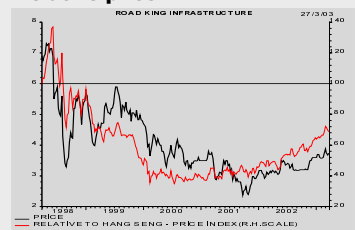
RKI will pay for the stake through a mixture of debt (HK\$350m) and cash. Given its cash rich

Red Alert

Stock rel to market **Add** Changed from N/A

Sector rel to market **Neutral**

Relative price



Source: Thomson Financial Datastream

Red Alert Company

Country	Hong Kong SAR
Sector	Transport
Bloomberg	1098 HK
Reuters	1098.HK
Mkt cap (HKDm)	1,898
Mkt cap (USDm)	243
Free float (%)	25.91
Daily t/over (12M av) (USDm)	0.12

Price

	1M	3M	12M
Absolute	3.90	3.60	3.17
Absolute (%)	-3.85	4.17	18.11
Relative (%)	-1.01	10.89	46.27

Relative to Index level	Hang Seng Index
	8872.316

Current (HKD)	Target (HKD)
3.75	4.40

Disclaimer & disclosures

This report must be read with the disclaimer & disclosures on p3 that form part of it.

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Research team

Analyst	
Sylvia Kwong	HK (852) 2996 6676

sylvia.kwong@hsbc.com.hk

balance sheet, we estimate that even after paying for the stake gearing would remain a healthy 16%.

Attractive valuation, high yield

RKI is trading at just 6x FY03f earnings and a whopping 49% discount to our estimated NAV of HK\$7.27. In addition to these low levels, the yield should remain an attractive 7% or so as management indicated that the dividend payout would be at least held at current levels. RKI's yield of 7% is the highest among the Hong Kong-listed infrastructure companies.

We believe the acquisition of a 40% stake in the Baodin-Tianjin Expressway will act as a catalyst for earnings upgrades as when it is completed, given the traffic growth prospects and the profit sharing terms. To reflect RKI's small liquidity, we our target price at HK\$4.40 (up from HK\$4.10), based on a PE of 7x FY03f and a 40% discount to NAV. We maintain an Add.

Peer group comparison

		Enterprise measures					Equity measures				
		EV/ Sales	EV/ EBITDA	EV/ EBIT	EV/ IC	HSBC REP	PE	PEG	Price to Book	PCE	
Road King Infrastructure	12/2002a	4.2	7.0	7.3	0.7	0.6	6.6	-0.5	0.4	5.7	
1098.HK	Add	12/2003f	4.5	8.1	8.5	0.7	0.7	5.9	0.3	0.4	5.7
		12/2004f	3.7	6.5	6.8	0.6	0.5	5.0	0.4	0.4	4.7
		12/2005f	3.8	6.2	6.6	0.6	0.5	4.8	0.4	0.4	4.5
Anhui Expressway	12/2001a	3.9	5.3	7.0	0.7	0.9	8.0	0.2	0.6	5.3	
0995.HK	Reduce	12/2002f	4.0	5.8	6.7	0.8	0.9	8.0	0.3	0.7	6.6
		12/2003f	4.2	6.0	7.2	0.9	0.8	9.4	0.7	0.7	7.3
		12/2004f	3.9	5.7	6.7	0.7	0.8	7.2	0.7	0.6	6.7
Jiangsu Expressway	12/2002a	5.7	7.8	10.2	1.1	1.7	14.4	1.1	1.0	9.9	
0177.HK	Add	12/2003f	5.8	7.9	10.0	1.3	1.7	14.3	1.5	1.1	10.2
		12/2004f	5.2	6.9	8.7	1.3	1.5	11.8	0.7	1.1	8.7
		12/2005f	4.6	6.2	7.7	2.4	1.3	10.3	0.7	1.0	7.8
Shenzhen Expressway	12/2001a	9.7	9.6	11.7	1.1	1.2	9.0	0.5	0.8	7.5	
0548.HK	Add	12/2002f	8.0	8.6	10.9	0.9	1.2	9.7	-3.0	0.7	
		12/2003f	12.5	13.2	16.7	1.0	1.5	4.8	0.3	0.7	12.9
		12/2004f	13.3	14.1	17.7	1.7	1.7	13.5	-0.5	0.7	11.0
Zhejiang Expressway	12/2001a	7.8	9.4	10.9	1.2	1.4	11.6	0.5	1.0	9.2	
0576.HK	Reduce	12/2002f	8.9	11.2	13.1	1.6	1.4	15.5	0.6	1.4	12.2
		12/2003f	9.1	10.7	12.2	1.8	1.4	15.6	1.0	1.6	12.5
		12/2004f	8.0	9.4	10.7	1.8	1.3	14.4	1.4	1.5	11.5

Year to	12/2002a	12/2003f	12/2004f	12/2005f	Year to	12/2002a	12/2003f	12/2004f	12/2005f
Per share data (HKD)					Ratios (%)				
Reported EPS	0.55	0.63	0.74	0.78	Revenue/IC (x)	0.2	0.2	0.2	0.1
HSBC EPS	0.55	0.63	0.74	0.78	NOPLAT margin	53.5	47.2	49.4	52.0
CEPS	0.62	0.66	0.79	0.83	ROIC	8.6	7.6	7.6	7.8
DPS	0.24	0.28	0.33	0.34	ROE	6.4	7.0	8.0	8.1
NAV	8.67	9.02	9.44	9.87	ROA	6.7	6.4	6.8	7.1
P&L summary (HKDm)					ROCE	6.9	6.5	7.0	7.3
Revenue	748	806	833	810	ROIC/Cost of capital	1.1	1.0	1.0	1.1
EBITDA	451	445	473	490	Cost of capital	8.2	7.3	7.3	7.3
EBIT	437	423	448	465	EBITDA margin	60.3	55.2	56.8	60.5
Net interest	-63	-46	-28	-14	EBIT margin	58.4	52.5	53.8	57.4
PBT	349	377	420	451	PAT margin	42.7	42.1	46.3	50.4
HSBC PBT	374	377	420	451	HSBC net profit margin	40.6	39.0	45.4	49.3
Taxation	-29	-38	-34	-42	Net debt/equity	2.0	15.6	10.4	4.8
Reported net profit	278	315	378	400	Net debt/EBITDA	19.3	161.6	106.1	49.2
HSBC Net profit	303	315	378	400	Growth (%)				
NOPLAT	400	381	412	421	Revenue	2.0	7.8	3.4	-2.7
Cash flow summary (HKDm)					EBITDA	-10.0	-1.4	6.3	3.7
Op free cash flow	-52	369	397	414	EBIT	-10.1	-3.1	5.8	3.8
HSBC cash flow	368	378	424	456	PBT	17.2	8.0	11.4	7.3
Capital expenditure	-483	-56	-56	-56	HSBC Net profit	3.2	3.7	20.3	5.7
Cash earnings	317	336	403	425	HSBC NOPLAT	1.7	-4.8	8.2	2.4
Change in net debt	186	-631	217	260	HSBC EPS	36.7	15.6	17.8	5.4
Balance sheet summary (HKDm)					Valuation (x)				
Intangible fixed assets	-	-	-	-	PE	6.6	5.9	5.0	4.8
Tangible fixed assets	570	605	636	667	PNAV	0.4	0.4	0.4	0.4
Cash	1,094	812	474	735	PCE	5.7	5.7	4.7	4.5
Current assets	1,617	1,365	1,057	1,347	Yield (%)	6.7	7.4	8.7	9.2
Operating liabilities	203	213	223	233	EV/Revenue	4.2	4.5	3.7	3.8
Gross debt	1,269	1,619	1,065	1,065	EV/EBITDA	7.0	8.1	6.5	6.2
Net cash (debt)	-87	-718	-502	-241	EV/IC	0.7	0.7	0.6	0.6
Shareholders funds	4,501	4,681	4,893	5,116	ROIC/Cost of capital	1.1	1.0	1.0	1.1
Invested capital (avg)	4,632	5,029	5,432	5,411	HSBC REP	0.6	0.7	0.5	0.5

HSBC Securities (Asia) Limited does not have an interest in the companies being discussed in this report.

Recommendation structure

Stock (vs market)

(Outperform >15%) Buy

(Outperform <15%) Add

(Market neutral) Hold

(Underperform <15%) Reduce

(Underperform >15%) Sell

Our recommendations are based on stock performance relative to the market on a 6-12 months view. The target price is the level the stock should currently trade at if the market accepted the analysts' view of the stock and, therefore, abstracts from the need to take a view on the market or sector. In addition, a secondary recommendation is applied of stock relative to sector where there is a meaningful sector.

HSBC Securities (Asia)

Limited

Level 16, 1 Queen's Road

Central

Hong Kong SAR

Telephone: +852 2843 9111

Telex: 75100 CAPEL HX

Fax: +852 2596 0200

Website: www.equities.hsbc.com

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