

# Road King Infrastructure Ltd

Asia

## Cruising on toll revenues

- ▶ **Diversified toll road operator in China**
- ▶ **Stability of cash flows underpins credit profile**
- ▶ **Strong balance sheet provides cushion for acquisitions**

### Business profile

Road King Infrastructure Limited (RKI; Baa2/BBB-) is a Hong Kong-based holding company that operates a portfolio of more than 20 toll roads in mainland China. RKI's primary shareholders are Wai Kee Holdings Limited (Wai Kee), which owns 45%, and Shenzhen Investment Limited (SIL), which owns 25%. RKI is listed on the Hong Kong Stock Exchange and as of 10 June 2004 had a market capitalisation of HKD3.3bn (USD420m).

### Solid operating track record in China

HSBC's CORAL assigns RKI a credit rating of BBB-/stable, in line with S&P. Our opinion reflects RKI's diversified business profile, mature operations and solid liquidity. Unlike many of its Chinese peers, RKI benefits from the strong market position of its portfolio. Frequent tariff and volume increases have created stable cash flows, which are further supported by a mature operating profile.

### Strong balance sheet underpins BBB- rating

RKI is exposed to various risks in its operating environment, mainly the significant regulatory uncertainties relating to the Chinese infrastructure sector, and acquisition strategies that could affect the quality of its asset profile. However, we do not expect RKI's credit profile to be materially disadvantaged going forward: risks relating to potentially acquisitive strategies are offset by the cushion provided by its moderate gearing and solid cash balance. We do not expect any change in Moody's Baa2 and S&P's BBB- ratings for the company over the near term.

### Credit Research

#### Company Report

Country	Hong Kong
Sector	Infrastructure
Bloomberg	ROADKG
Reuters	1098.HK

#### Company credit ratings

Moody's	BBB-/stable
S&P	Baa2/stable
Fitch	BBB-/stable

#### Country credit ratings

HSBC	AA-/negative
Moody's	A1/stable
S&P	A+/stable
Fitch	AA-/stable

#### Outstanding USD bond issues

Issue	Coupon	Maturity
RKI'11	6.25%	15/7/11

HSBC Fixed Income research is available online:

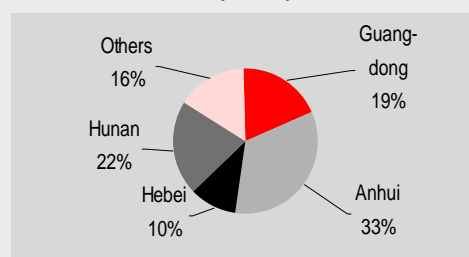
Internet	<a href="http://www.markets.hsbc.com">www.markets.hsbc.com</a>
Bloomberg	HSBR

#### Disclaimer & disclosures

This report must be read with the disclaimer, disclosures and analyst certifications on p16 that form part of it.

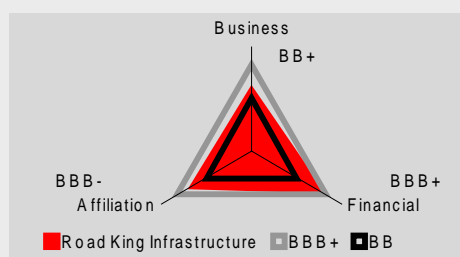
Issued by The Hongkong and Shanghai Banking Corporation Limited through its HSBC Fixed Income Research unit.  
MITA P290/09/2003

### Profit breakdown (FY03)



Source: RKI

### CORAL view: BBB-



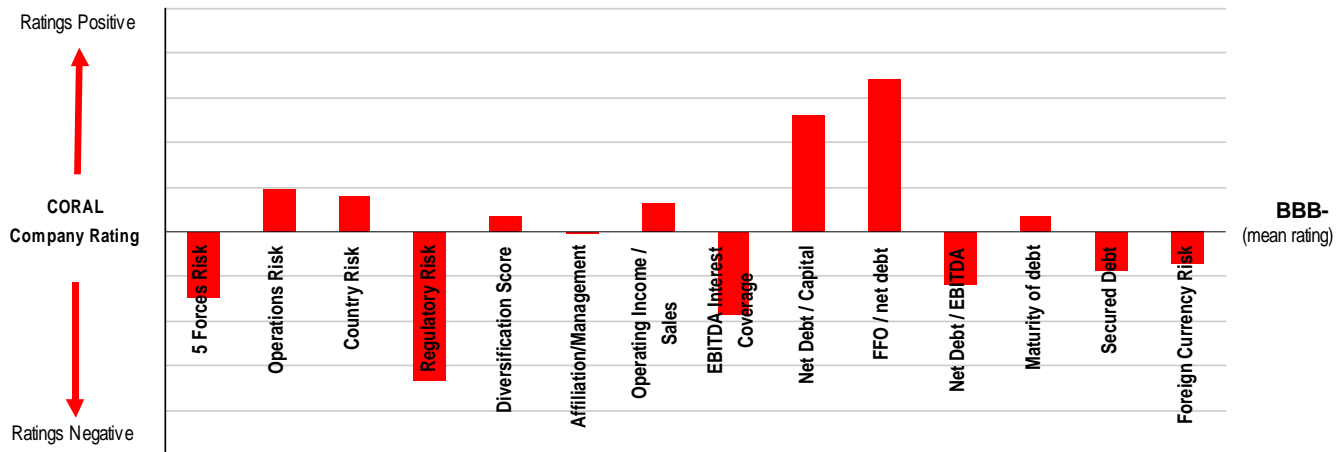
Source: HSBC

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# Credit strengths and weaknesses

## 1. CORAL diagnostic for RKI



Source: HSBC

S&P rates RKI at BBB-/stable. HSBC's CORAL also assigns RKI a credit profile of BBB-, reflecting its diversified business profile, mature operations and solid liquidity. Risks include regulatory uncertainties relating to Chinese infrastructure projects and affiliate risk posed by its weak parentage.

### Strengths

**Stable market position:** Of RKI's portfolio of 21 projects, many are core components of China's road transportation network. Four of these projects are expressways, which generate more than 38% of total toll revenues (in 2003). Many others are sections of important highways that form integral parts of provincial and inter-provincial networks. Its strong and stable market position enables the company to capitalise on both traffic growth and toll increases.

**High operating stability:** RKI has a solid track record with 10 years experience in the China toll roads business. Furthermore, most of RKI's projects have operating histories of more than four years, imparting stability to their operating profile. Their higher average life has also resulted in reducing dependence on minimum return guarantees, which constituted only 1.6% of RKI's FY03 revenues. The relatively stable cash flows associated with an 'infrastructure' sector like toll roads also imparts stability to operations.

**Diversified toll revenue:** RKI's exposure to a single business sector and single country is offset by its presence in 21 toll road projects in eight provinces in China. As a result, the company's revenues are well diversified, with limited reliance on individual projects. For instance, its largest contributor, Guangsan Expressway, produced less than 14% of total toll revenues in FY03. In terms of provinces, its largest contributor, Guangdong province (33% of its FY03 toll revenues), is one of the highest growth areas in mainland China. Stable operations, good traffic and revenue growth at almost all its projects, as well as low capex requirements, underpin RKI's earnings and cash flows.

## Credit strengths and weaknesses

**Moderate gearing and solid cash position imparts high financial flexibility:** RKI's moderate capital structure and solid cash balances have allowed it to achieve financial ratios that compare favourably with "A" rated medians of S&P. RKI's gearing (debt to capital) is a moderate 18%, and an even lower 11% net of cash balances. However, there is a significant possibility that RKI will apply surplus funds towards new investments. For example, the HKD900m investment in the Boading-Tianjin Project in 2003 was the main reason why the company's net debt increased to HKD583m at the end 2003 from HKD167m in the previous year.

### Risks

**High regulatory risks:** RKI is generally exposed to inherent risks related to operating transport projects in mainland China. For example, the Chinese government has recently stated that, minimum return guarantee arrangements, which previously were used to reduce potential start up losses on new toll roads, will not be extended to future projects. In addition, China's aggressive expansion plans for its national road network implies potential increases in competition as substitute routes are built. While RKI's low current reliance on minimum guarantees does reduce this specific concern, the overall uncertainty relating to the future of toll road regulation in China remains a risk. That said, these regulatory concerns are offset, to a certain extent, by RKI's close working relationship with local government authorities.

**Affiliate risks:** RKI is exposed to some degree of affiliate risks due to the relatively weaker profile of its shareholders, namely Wai Kee Holdings Limited (Wai Kee) and Shenzhen Investment Limited. Although we believe that shareholders' ability or willingness to support RKI is not strong, we do not expect RKI's credit profile to be compromised by any deterioration in shareholders' credit quality, mainly due to their limited representation on RKI's board.

**Average debt quality:** RKI's debt is only average in quality, mainly reflecting the high degree of foreign currency risk exposure. Indeed all of RKI's debt is denominated in foreign currencies, implying currency risk given that its revenues are almost entirely in RMB. Having said that, RKI's debt maturity profile did improve in 2003 to 4.5 years from 3.5 years. In addition, structural subordination risks for RKI creditors are modest, given the lack of debt at the project level.

# Business profile

## History

Road King Infrastructure Limited (RKI, Baa2/BBB-) was established in 1993 and listed on the Hong Kong stock exchange in 1996. As at 10 June, 2004, RKI's market capitalisation amounted to approximately HKD3.3bn (USD420m). RKI's core business is the investment, development, operation and management of toll roads and other infrastructure projects in China. At the end of 2003, RKI had investments in 21 toll roads and bridges in 8 provinces.

## Ownership

RKI was initially founded by Wai Kee Holdings Limited (Wai Kee) and AIG Asian Infrastructure Fund LP in 1993. Wai Kee remains RKI's largest shareholder, with a 45% stake (as of May 2004). In 2003, Shenzhen Investment Ltd (SIL) became the second largest investor in the company when it acquired 25% of RKI from UK-based Stagecoach Group PLC.

Wai Kee is a Hong Kong listed civil engineering company, whose core businesses include engineering, quarrying and biotechnology. Wai Kee is financially weaker than RKI, with an asset base of HKD2.6bn and profits of HKD124m in FY03. As such, RKI is a strategic asset for Wai Kee. Nonetheless, we do not expect much negative impact on RKI's credit profile, given that Wai Kee board representation is small, just three of the ten directors.

SIL, under controlling shareholder Shum Yip Holdings, is a trading and investment vehicle of the Shenzhen Municipal Government. SIL is engaged in property, logistics and transport services, manufacturing, infrastructure investments and cable television. SIL was incorporated in 1985 and listed in Hong Kong in 1997 with a current market capitalisation of HKD2.4bn. As Stagecoach was largely a passive investor we do not expect the transfer of shareholding to SIL to have a significant impact on RKI's credit profile. SIL has two directors on the RKI board.

While we believe shareholders' ability or willingness to support RKI is not strong, we do not think that RKI's credit profile will be compromised by its shareholders' credit quality.

## Organisational structure

RKI's organisational structure is set out in Figure 2. The company's core business is the management and operation of toll roads and bridges in eight provinces in China. These businesses are organised as joint ventures with various local partners. RKI generally owns sizeable stakes in these projects, typically 50-60%. We consider this positive, in that it allows the company to have a strong influence on the management of these projects. Note however that, despite majority ownership, RKI does not consolidate any of its JV projects, as it is not deemed to have absolute control of these entities. Instead RKI participates in a joint management process where RKI and its JV partners have equal control of the project board.

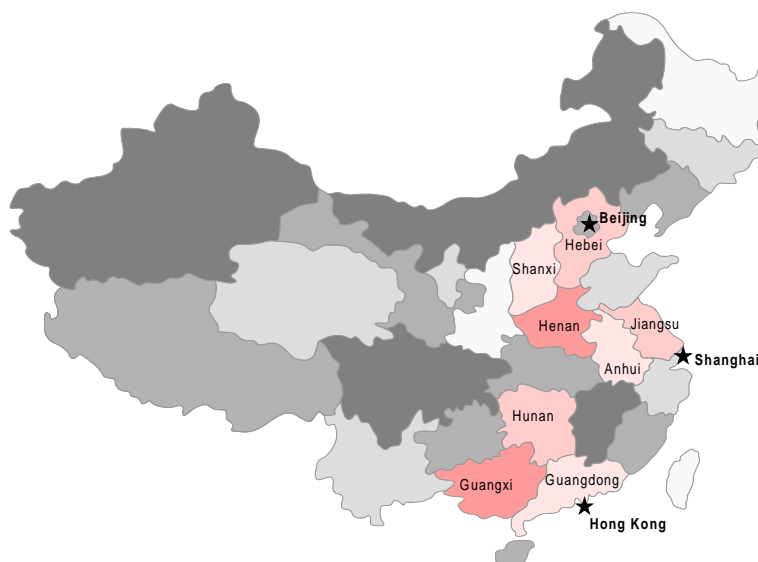
## Business profile

### 2. RKI's organisational structure (figures indicate shareholding)

Province	Project	Ownership of JV
Hebei	National Highway 307 Shijiazhuang-Jinzhou Highway	60%
	National Highway 309 Handan-Guantao Highway	70%
	Baoding-Tianjin Expressway	40%
Anhui	Provincial Highway 307 Bengbu Huaihe Bridge Highway	60%
	Provincial Highway 307 Bengbu Huaiyuan-Mengcheng Highway	60%
	National Highway 206 Hefei-Huainan Highway	60%
	Bengbu Chaoyanglu Huaihe Highway Bridge	60%
	Hefei-Yefi Highway	50%
Guangdong	Foshan Guangzhou-Sanshui Expressway	35%
	National Highway 324 Luoding-Chonghua Highway	61%
	Shenzhen Airport-Heao Expressway, Eastern Section	45%
Hunan	Changsha-Yiyang Expressway	43%
Shanxi	National Highway 108 Yuci Dongchangshou-Qixian Dongguan Highway	65%
	Taiyuan-Yuci Highway	65%
	National Highway 108 Yuci City Bypass	65%
	Provincial Highway 104 Taiyuan Ximing-Gujiao Highway	60%
Jiangsu	Provincial Highway 343 Suzhou-Shanghai Airport Highway	50%
	Provincial Highway 232 Changzhou-Caoqiao Highway	60%
Guangxi	Yulin City Ring Roads	70%
	Yulin-Gongguan Highway, Yulin Section	70%
Henan	National Highway 311 and Provincial Highway 01 Xuchang-Nanyang Highway	50%

Source RKI

### 3. RKI regional presence



Source: HSBC

## Business profile

RKI's investment in the JV projects is made at the point of acquisition via a combination of equity (approx. 33%) and shareholder loans (approx. 66%). Once the initial investment is made, the projects become self-financing entities with operating and maintenance costs as well as inter-company debt repayment funded from the project's cash flows. We believe the high degree of debt financing is beneficial from the point of view that it allows RKI to recoup the majority of its cash investment via loan repayments (which take priority over project dividend upstreaming). RKI's return on its investment meanwhile is gained from its equity holding in the project and therefore subsequent dividends received over the term of ownership. The JVs typically run for 20-30 years before the assets are returned to the government.

### Operations and regulation

RKI operates its various JV projects under a joint management structure with both partners having equal participation in the decision making process. Notwithstanding this RKI takes an active 'hands on' role in daily operations and toll road maintenance with field project managers and dedicated engineering teams present on each site.

RKI is generally exposed to inherent risks related to operating transport projects in China. However, unlike its peers in the Chinese toll road industry, RKI benefits from stability and diversity in its project profile, which is evident in the consistent increases in toll and traffic rates. We believe this is attributable to its 10 year operating track record in the China Toll road business, strong management control, good relationship with local government authorities and the sound quality of its portfolio.

For instance, of its 21 projects, many are core components of China's road transportation network. Four of these are expressways, which generate more than 38% of total toll revenues. Many others are sections of important highways that form integral parts of provincial and inter-provincial networks.

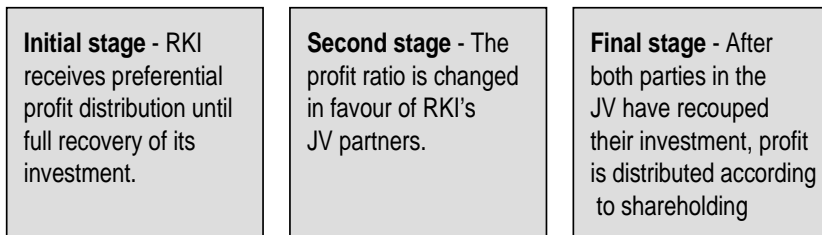
Most of RKI's projects have operating histories of more than four years, imparting stability to their operating profile. The higher average life has also resulted in reducing dependence on minimum return guarantees, which constituted only 1.6% of RKI's FY03 revenues. These guaranteed return arrangements have historically been extended to foreign investors in mainland projects. However, the Chinese government has recently stated that, although current guarantee arrangements will continue to be honoured, they will not extend such arrangements to future projects. In other words, while we view RKI's minimal dependence on such guarantees as positive, it means that future acquired projects may not benefit from this regulatory advantage.

The older average life of the projects also implies that RKI's earnings growth could stagnate. This is due to the way the JV agreements are structured, ie RKI generally only receives preferential income distribution in the early years (see Figure 4), hence as the projects move into the later stages of their lives income distribution diminishes.

**Business profile**

**4. Profit sharing arrangements**

There are three stages in the profit sharing arrangement between RKI and its JV partners. As a consequence income distribution to RKI falls as the projects mature



Source: RKI

**Toll rate increases**

Another factor that drives RKI's earnings growth is toll rates at its projects. Approval for toll increases rests mainly with provincial governments. In consideration of toll increases, the authorities take various factors into account including; affordability to users, prevailing rate of inflation, comparable tolls in the same region and returns for investors. RKI's ability to achieve toll increases is uncertain, given the lack of transparency in regulation in the toll road sector. Typically, RKI expects to see one rate increase per project every five years, although this varies from province to province.

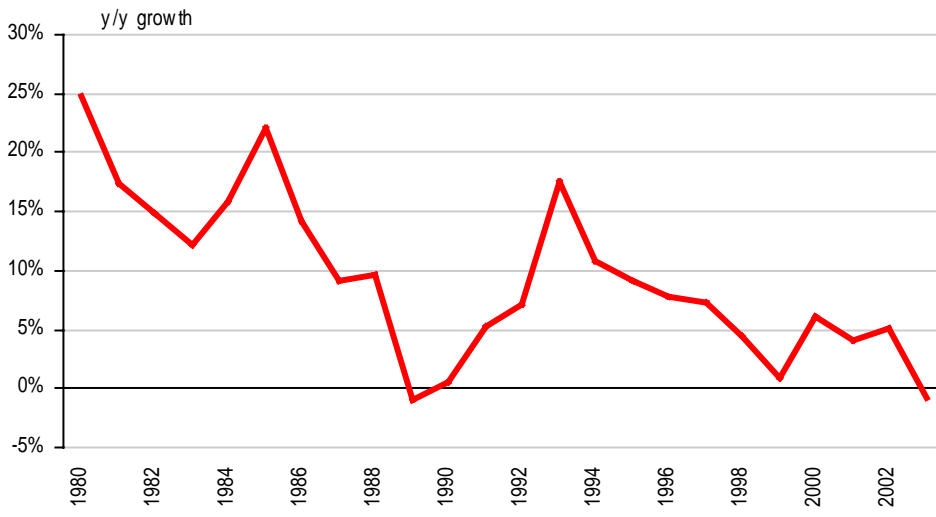
RKI achieved 22 individual toll rate increases on its various projects between 1996 and 2002, although this fell to only one in 2003.

**China infrastructure growth: opportunities and threats**

Underpinning the growth in RKI's revenues has been the increase in traffic volume in China over the past 20 years. As shown in figure 5, highway traffic volume (as measured by the number of persons carried on highways per year) has only seen negative growth in two of the past 25 years. Indeed one of these, 2003, was clearly the result of the "one-off" impact of the SARS outbreak. Although the pace of traffic growth has been noticeably declining, the average y/y growth in the past four years has remained above 3.5%. Clearly this, coupled with higher income levels in the country which in turn allows toll rate increases, has driven RKI's strong revenue growth over the past few years.

## Business profile

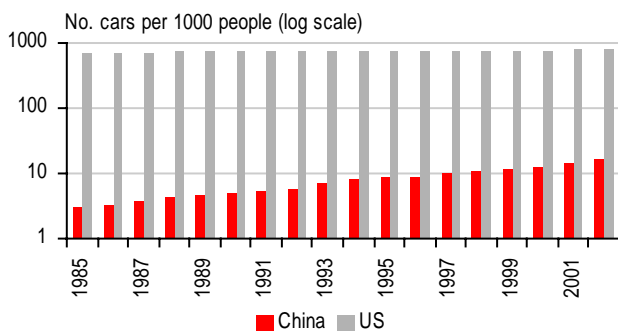
### 5. Growth in China highway passengers



Source: CEIC

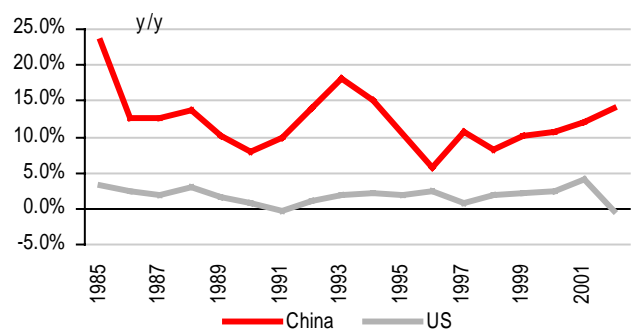
Going forward, sustained growth in Chinese traffic volumes will depend on the continued performance of the domestic economy and consequent increases in vehicle ownership. As figure 6 shows, the penetration of car ownership is extremely low, with the average number of cars per 1,000 people only 16 in 2002 compared to almost 800 in the US. Unsurprisingly, this low penetration has resulted in the number of cars in China growing at a significantly higher pace than in the US over the same period, see figure 6. Of course, there are numerous structural reasons why China is unlikely to ever achieve similar vehicle penetration as the US (eg, higher population density, lower disposable incomes, higher income disparity, etc), but over the near to medium term continued increases in vehicle ownership will almost certainly drive road traffic growth.

### 6. China/US vehicle penetration



Source: CEIC

### 7. China/US growth in total vehicles



Source: CEIC

## Business profile

While this provides obvious income benefits to toll road operators such as RKI, it also poses a significant challenge to the government's infrastructure planning authorities, tasked with reducing congestion and bottlenecks in the national road network. To this extent, the most likely outcome is further road development, either by expanding existing highways or constructing new roads.

This poses several risks to RKI. The construction of new roads increases substitution risk to its existing projects, and hence, will increase competition. One way for RKI to maintain its current market position is to invest in the new projects as they are allocated. Separately, the government may propose the upgrading of existing roads, potentially including projects currently operated by RKI. In the event of a major upgrade, this may require the JV partners to increase their investments to cover the necessary additional capital expenditure. Furthermore, the disruption caused by upgrades could reduce the revenue stream over a certain period.

However, we believe RKI management has the expertise to ensure new investments are justified and do not have a major impact on the company's overall credit profile. Indeed, this once again highlights the significant benefit of RKI's diversified project portfolio, which allows it to maintain overall cash flow stability, even in the event that some projects are disrupted.

### **Diversification and non-core operations**

We are concerned about RKI's 'non-core' diversification strategy, which in the past has been more opportunistic than synergistic with its core businesses. For instance, RKI acquired interests in China's medical enterprises (disposed in 2002) and Canada's Cha-Na-Ta Corp., the world's largest supplier of North American ginseng. Admittedly, the amounts invested in these businesses are small in relation to RKI's assets (<3%). On the other hand, given its strong cash balance, risks remain that RKI could invest in other such investments on an opportunistic basis. Indeed, management has stated that it may look at investments in the property sector in China, should opportunities arise. Nonetheless, we believe that exposure to such investments will remain a modest proportion of its balance sheet and that the main thrust of RKI's investment will remain on further road infrastructure projects in China.

# Financial profile

## Accounting issues

RKI follows the equity method of accounting for its various projects, even in cases where its ownership is more than 50%. This is because the JV projects are typically operated with both partners having equal say over management decisions, irrespective of their percentage ownership. Hence, RKI does not have absolute control of any of these entities. The accounting treatment, while correct, creates difficulty in comparing RKI's financial profile with its peers.

First, consolidated net revenues are understated to the extent that they only include that pertaining to RKI's non-core businesses (ie, medical products). Contributions from RKI's core toll road subsidiaries meanwhile are recognised below the operating level as 'percentage share of projects'. That said, project revenues and operating profits are disclosed separately in the accounts and so it is possible to get an idea of trends in the core profitability of the overall business.

The second difficulty arises from the fact that RKI's group liabilities are understated. This is because the balance sheets of the various joint ventures are not consolidated. Having said that, management states that there is no debt held at the JV level (except for debt owed to RKI itself).

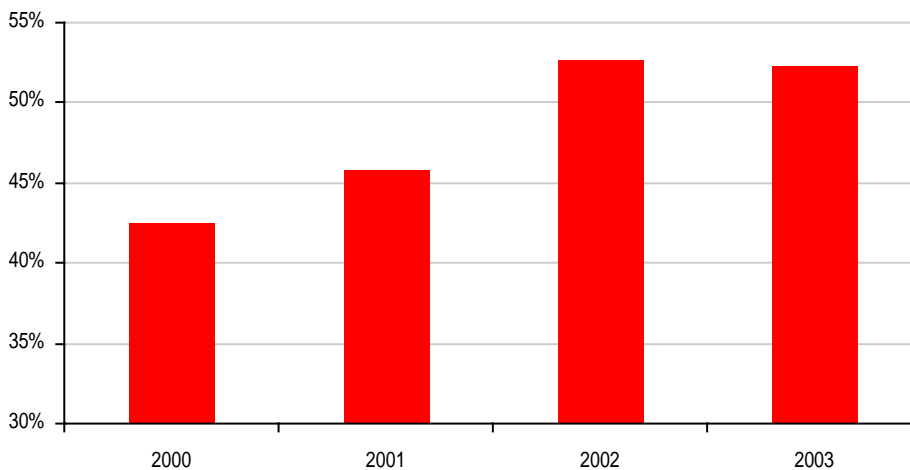
## Earnings and cash flow

RKI's FY03 financial performance was underpinned by good traffic growth and revenues at almost all its projects. Toll revenues increased by 9% in FY03 a significant improvement over FY02's 2%, which is a considerable achievement given the adverse impact of SARS during 2Q03. Its Foshan Guangsan Expressway and Jihe Expressways in Guangdong, and Changsha-Yiyang Expressway in Hunan, were the main contributors. Figure 10 details key financial ratios for RKI.

Figure 8 provides the estimated operating margin of the core business, based on RKI's share of revenues and operating profit from its joint ventures. As a general trend, the underlying profitability of the group has been improving over the past four years, which reflects both rising toll rates and high throughputs, and hence improving economies of scale. We expect margin growth to decelerate as the various projects move to their second stage where earnings distribution favours the JV partners over RKI.

## Financial profile

### 8. Operating Profit\* of JV's 2000-2003



Source: HSBC \*Calculated as the share of operating profit of JV's divided by Group and share of infrastructure JV revenue

Figure 9 lists brief details of RKI's cash flows over the past two years. RKI's cash from operations was more than adequate to cover its low capex requirements. This is on account of the fact that toll road projects are essentially self-financing and therefore capex only applies to that of the parent and consolidated subsidiaries (ie, the non-core businesses). Notwithstanding this, capex at the project level is likely to be reduced as the established operating history of these projects, which is more than four years, implies lower funding needs and relatively stable cash flows.

### 9. RKI's summary cash flows

	2003	2002
Profit before tax	366,303	348,838
Operating cash flows before working capital changes	(16,806)	(9,893)
Working capital changes	67,137	75,943
Net cash from operating activities	50,331	66,050
Net cash from investing activities	(346,793)	371,401
Net cash used in financing activities	(248,158)	(300,329)
Net increase in cash and cash equivalents	(544,620)	137,122
Cash and cash equivalents at 1 January	973,971	836,656
Cash and cash equivalents at 31 December	431,833	973,971

Source RKI

Note that a significant portion of RKI's cash flows from its joint ventures are classified under investment cash flows, as either 'dividends received' and 'repayments of loans' from these projects. To account for this fact, HSBC adjusts funds from operations to include both these items. Adjusted FFO interest coverage improved to 9.4x in FY03 from 5.8x in FY02, more than adequate for its rating category.

## Financial profile

### 10. RKI key financials

HKD (thousands)	2001	2002	2003	2003 (USD)	% y/y growth
Sales	245,501	163,740	119,344	15,301	-27%
Consolidated EBITDA	6,579	3,428	(221)	(28)	nm
Adjusted EBITDA* (includes dividends from associates & JVs)	146,591	156,140	129,234	16,568	-17%
Net Profit	240,794	312,808	318,328	40,811	2%
Reported Cash from operations	39,734	66,050	59,331	7,607	-10%
Capex	4,171	5,385	12,725	1,631	136%
Funds from operations	297,627	383,995	555,952	71,276	45%
Gross Interest Expense	111,290	80,615	65,933	8,453	-18%
Interest income	14,819	17,802	9,145	1,172	-49%
Net Interest	96,471	62,813	56,788	7,281	-10%
Long term debt	1,099,646	945,168	960,792	123,178	2%
Short term debt (including debt repayable within a year)	99,551	195,631	54,545	6,993	-72%
Total debt	1,199,197	1,140,799	1,015,337	130,171	-11%
Net debt	362,541	166,828	583,504	74,808	250%
Shareholders equity	4,287,509	4,439,964	4,715,134	604,504	6%
Total capitalisation	5,567,491	5,662,739	5,771,732	739,966	2%
Total assets	5,625,733	5,725,731	5,827,640	747,133	2%
Cash and cash equivalents	836,656	973,971	431,833	55,363	-56%
Core EBITDA margin (%)	2.7%	2.1%	-0.2%		
Adjusted EBITDA/Gross interest (x)	1.32	1.94	1.96		
Adjusted EBITDA/Net interest	1.52	2.49	2.28		
Funds from operations/Gross interest	3.67	5.76	9.43		
Funds from operations/Net interest	4.09	7.11	10.79		
Funds from operations/Total Debt (%)	25%	34%	55%		
Funds from operations/Net debt (%)	82%	230%	95%		
Total debt/Adjusted EBITDA (x)	8.18	7.31	7.86		
Net debt/Adjusted EBITDA (x)	2.47	1.07	4.52		
Long term debt/Capitalisation (%)	20%	17%	17%		
Total debt/Capitalisation (%)	22%	20%	18%		
Net debt/Net Capitalisation (%)	8%	4%	11%		
Total debt/Equity (%)	28%	26%	22%		
Net debt/equity	8%	4%	12%		

\*Adjusted EBITDA is measured as Consolidated EBITDA + Dividends from associates and JVs;

\*\*FFO is measured as cashflow from operations before working capital changes + dividends from associates + repayment of loans from JVs

Source HSBC

### Debt structure and gearing

RKI's capital structure as represented on the balance sheet appears moderate, underpinned by its adequate debt and solid cash levels. Total debt/capitalisation was a moderate 18% in FY03, while FFO to net debt has remained over 80% over the past three years (see figure 10). The debt level appears somewhat more significant when measured against adjusted EBITDA, (at 7.9x, and up from FY02's level of 7.3x). However to the extent we believe FFO

## Financial profile

is a better reflection of the actual cash flows from RKI's various projects than EBITDA, the high Debt/EBITDA is more an indication of the structure of RKI's financial statements, than the actual high level of debt.

RKI's equity method of accounting understates true liabilities to the company arising from its unconsolidated subsidiaries. Having said that, management has stated that there is zero debt at the JV level.

Net debt ratios are strong as the result of solid cash balances, although these did decline last year as a result of the acquisition of the 40% interest in the Baoding–Tianjin Expressway project. At end-FY03, RKI's cash balance was HKD432m compared to debt of HKD1bn, and although net gearing increased over the previous year, it remains very low at 11%. Investments could pressure liquidity further.

For example, in March 2004 the company signed a conditional agreement to purchase a 45% stake in the toll collection and operation rights of the Tangshan-Tianjin Expressway. This investment is subject to government approval and therefore not reflected in the company's financials.

The quality of RKI's debt is average, mainly reflecting the high secured-debt component and high foreign currency risk exposure. Debt as at end FY03 was almost fully secured, while all of RKI's debt is denominated in foreign currencies, implying currency risk given that its revenues are almost fully in RMB.

### Liquidity and financial flexibility

RKI maintains a strong liquidity position with a cash balance of HKD432m (at end 2003), which easily covers short-term debt obligations of HKD54.5m. A high level of maturity of its project profile implies low to moderate capital expenditure on these projects. For instance, the company's contractual commitments on existing projects as at end FY03 were estimated to amount to just HKD37m for the next five years.

## Peer comparison

### 11. Key financial indicators of Hong Kong peers

	RKI	CITPAC	Wharf
Ratings	Baa2/BBB-	Baa3/BBB-	Baa3/BBB
Core EBITDA margin (x)	-0.2%	8.9%	54%
Adjusted EBITDA/Gross interest (x)	2.0	5.9	11.4
Adjusted EBITDA/Net interest	2.3	7.3	15.1
Funds from operations/Gross interest*	9.4	6.4	6.3
Funds from operations/Net interest*	10.8	7.0	7.3
Funds from operations/Total Debt (%)*	55%	35%	24%
Funds from operations/Net debt (%)*	95%	48%	26%
Total debt/Adjusted EBITDA (x)	7.9	4.5	3.1
Net debt/adjusted EBITDA (x)	4.5	2.1	2.8
Total debt/Capitalisation (%)	18%	20%	27%
Net debt/Net Capitalisation (%)	11%	11%	25%
Total debt/Equity (%)	22%	25%	36%
Net debt/equity	12%	12%	33%

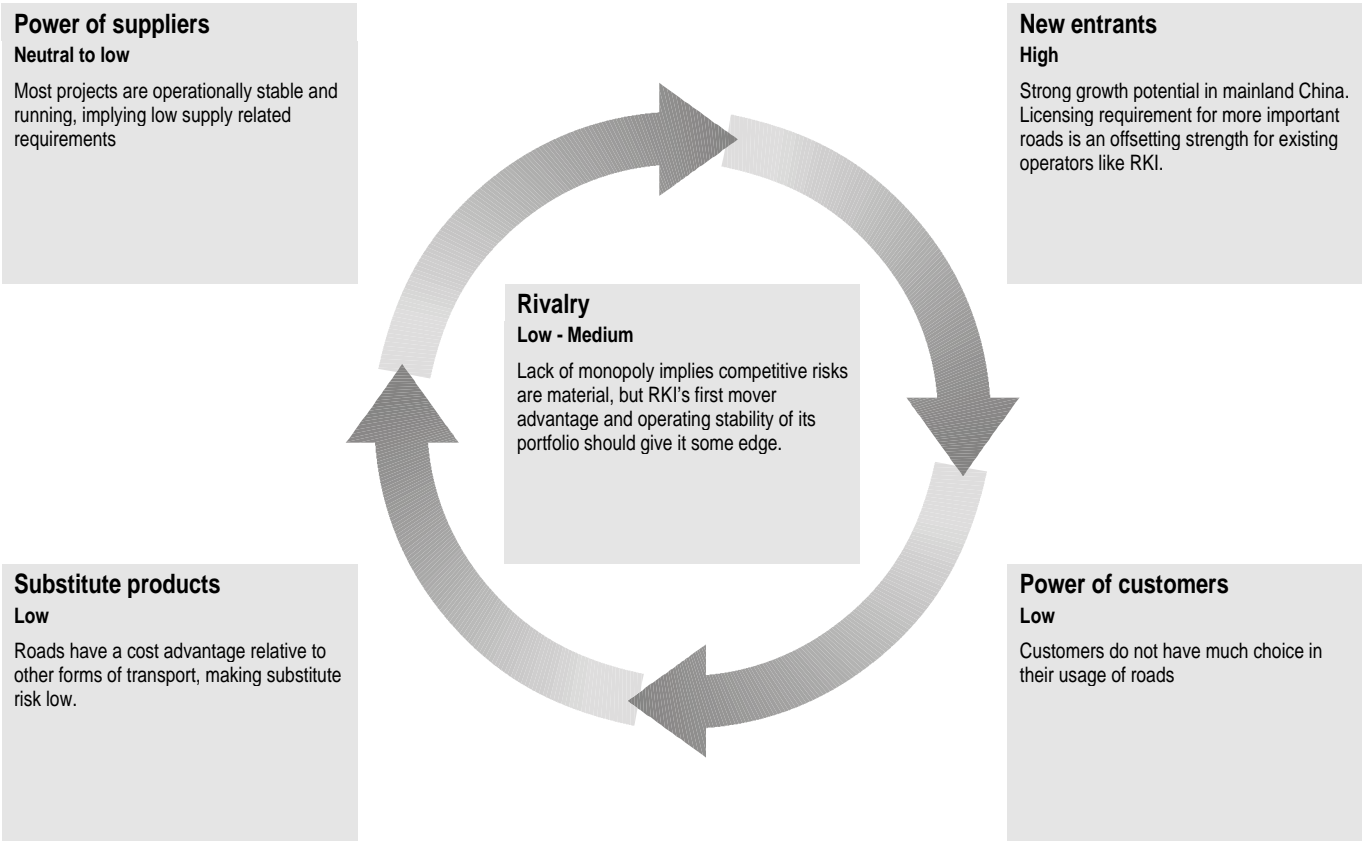
Source: HSBC \*CITPAC and Wharf based on 2002 FFO

As we stated previously, it is difficult to make direct financial comparisons between RKI and its Hong Kong peer group due to the different structure of the financial statements. For example, consolidated EBITDA margin, (see Figure 11), is significantly lower for RKI. However, as we already know, RKI's strong profitability in its core toll road operations is not consolidated.

RKI's gross gearing levels are comparable to slightly better than similarly rated peers in Hong Kong, namely CITIC Pacific and Wharf Holdings. Although EBITDA coverage of debt and interest under-performs its rivals, as we stated previously, FFO is a better reflection of RKI cashflows and to this extent, RKI's ratio outperform its peers.

# Competitive position

## Industry



## Company

### Strengths

- ▶ Diversified cash flows
- ▶ High level of operating stability
- ▶ Improved earnings and cash flows

### Weaknesses

- ▶ Weak affiliation profile implies shareholder support may not be forthcoming if required
- ▶ Significant exposure to foreign currency risks
- ▶ Borrowings mainly through secured debt

### Future opportunities for investment

- ▶ Solid cash balances provides significant opportunity to grow
- ▶ Growth opportunities in China's growing infrastructure sector
- ▶ Likely to remain in toll road sector in the China market for the foreseeable future

### Risks to performance

- ▶ Changes in regulatory environment in China could affect cash flow generating ability

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