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Xiamen International Port (3378): Sonyu For Growth

Quam (IA) Limited
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Xiamen International Port (XIP) posted moderate growth in 2007 interim earnings. Same as 1H06, management did not recommend any interim dividend for the reported period

Investment Highlights - 2007 Interim Results

Revenue: RMB1053.9M, +38.5% YOY
Cost of services: RMB735.9M, +60.4%
Operating expenses: RMB77.3M, -7.6% YOY
Operating profit: RMB256.2M, +5.7%
Net profit: RMB171.7M, +17.2% YOY

Results Summary

Income Statement (for the six months ended 30 June 2007)

(RMB Million)	1H07	1H06	1H07/ 1H06
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Revenue (excluded inter-segment):

Container	362.5	309.0	17.3%
Bulk/general cargo	84.4	80.1	5.4%
Ancillary value-added	214.9	190.8	12.7%
Building materials	157.1	128.1	22.6%
Trading of industrial products	235.0	52.8	344.6%

TOTAL	1053.9	760.9	38.5%

Operating profit:			
Container	193.2	158.3	22.0%
Bulk/general cargo	19.5	20.7	-5.6%
Ancillary value-added	29.4	54.6	-46.2%
Building materials	11.4	8.4	35.0%
Trading of industrial products	2.8	0.5	435.6%
TOTAL	256.2	242.5	5.7%

Profit from Associates	1.8	2.8	-34.8%
Finance costs - net	4.0	6.1	-34.4%
Profit Before Tax	262.0	251.4	4.2%

Income tax	(18.6)	(45.3)	-59.0%
Minority	(71.7)	(59.6)	20.3%
Net Profit	171.7	146.5	17.2%

Operating Profit Margin:			
Container	53.3%	51.2%	
Bulk/general cargo	23.1%	25.8%	
Ancillary value-added	13.7%	28.6%	
Building materials	7.3%	6.6%	
Trading of industrial products	1.2%	1.0%	
Total	24.3%	31.9%	
Net profit	16.3%	19.3%	

Business Review

For 1H07, XIP recorded revenue of RMB1053.9M, jumped 38.5% YOY, boosted by faster revenue growth from container handling and 344.6% increase in trading business of industrial products. Employee benefit expenses and depreciation & amortization expenses in 1H07 surged 35.5% & 18.8% YOY respectively, mainly due to the commencement of new Hairun terminal (berth no. 4 & 5, Haicang port area) in 2H06 and business expansion.

The company expands its revenue stream to trading of industrial products including steel & chemical products. Due to robust growth in this business with thin margin, XIP's overall operating margin in 1H07 was largely dragged 7.6% point lower compared with 1H06. But given its thin margin, trading of industrial products business is unlikely to contribute significant earnings to the company.

Operating profit was partially offset by 46.2% slump in earnings from ancillary value-added port services. XIP did not explain any reasons for earnings drop, but stated it is allocating more resources to develop its sea-rail transshipment and bonded logistics businesses.

Thanks to the increase in staff allowance deductible and the start of income tax exemption benefit, income tax expense dropped 59% YOY in 1H07. Coupled with a moderate 5.7% growth in operating profit, the company's net profit in 2H06 was 171.7M, up 17.2% YOY.

Container handling

XIP's 15 container berths in aggregate handled an equity-attributed throughput of 1.3M TEU in 1H07, up 10.6% YOY, a slowdown growth compared with 2005 & 2006, might be due to the commencement of its parent's Songyu container terminal Phase 1 on 20 April 2007. While average handling fee increased 6% YOY to \$278.9/TEU in 1H07, but was 3.6% lower compared with 2H06.

	1H07	1H07	YOY Changes		FY05
			2H06	1H06	
<i>Attributed container throughput ('000 TEU):</i>					
Haitian, Hairun & Dongdu branch	975.4	10.7%	21.4%	18.7%	3.8%
XICT	324.3	10.3%	5.2%	9.8%	47.9%
TOTAL	1299.6	10.6%	17.0%	16.3%	12.8%
<i>Attributed bulk/general cargo throughput ('000 tonnes):</i>					
Dongdu branch	2116.5	2.2%	2.4%	13.2%	9.4%
XICT	62.8	16.4%	-50.5%	-43.0%	-30.2%
TOTAL	2179.3	2.6%	0.6%	10.5%	6.9%

Average handling fee received:

	1H07	2H06	1H06	2H05	1H05	2004
Container handling (RMB/TEU)	278.9	289.2	263.0	280.9	281.0	283.0
Bulk/general cargo (RMB/tonne)	38.7	45.3	37.7	38.1	36.3	38.5

Financials

As at 30 June 2007, XIP had cash & cash equivalents of RMB570M (end-06: RMB595). Total borrowings increased to RMB679M (end-06: RMB597M), so that debt to equity ratio slightly increased to still a healthy 16.2% (end-06: 14.5%). CAPEX commitments amounted to RMB291M, mainly for construction of berth No. 1, 4, & 6 in Haicang port area.

Forecast & Valuation

Riding on foreign trade in Fujian and Xiamen, XIP should continue to enjoy a moderate growth in container throughput. While the company is going to expand its container port capacity for growth. XIP stated that the 51%-owned Haicang port berth no. 1 will commence trial operation in near term.

According to company announcement (dated 20 April 2007), XIP entered into a memorandum

of understanding with its parent company Xiamen Port Holding for the proposed acquisition of equity interest in Xiamen Songyu. Xiamen Songyu, a JV equally owned by Xiamen Port Holding and a member of A.P. Moller-Maersk Group, is formed for the construction and operation of phase 1 of Songyu container terminal in Xiamen with annual designed container capacity of 1.8M TEU. Total registered capital of the project is RMB1680M. Phase 1 of Songyu container terminal has commenced a trial operation on 20 April 2007 for a period of 6 months to one year. Adding Haicang port berth no. 1 and 50% of Songyu, XIP could increase its annual designed capacity by 43.7%.

According to interim results, XIP's FY07E net profit could be RMB335.4M, up 19.4% YOY. Assuming that XIP will purchase 50% stake of Songyu Phase I at its registered capital (i.e. RMB840) by internal cash & debt borrowing, if the acquisition will be completed by mid 2008, partially offsetting by higher finance costs, XIP's FY08E & FY09E net profit are expected to be RMB368M & RMB449.5M respectively.

At HK\$2.73, the company is trading at FY08E & FY09E prospective P/E of undemanding 20.2x & 16.6x respectively. Quam maintain XIP's rating as **ACCUMULATE & MEDIUM RISK**. Major risks include increasing competition from nearby Quanzhou container port from 2008 onwards. Since the proposed acquisition of Songyu Phase I project is still subject to finalizing, investors are advised to accumulate the shares on weakness for higher value.

Key financial data

Price: HK\$2.73 (at 25 September 2007)

12-mth H/L: HK\$3.36/HK\$1.66

O/S shares: 2726.2M

Market cap: HK\$7.44B

FY07E EPS: HK \$0.123

FY07E DPS: HK \$0.0738

FY07E P/E: 22.2x

FY07E Yield: 2.9%

Reported BV per share: \$1.23 (30 June 2007)

Historic P/B: 2.2x

Major shareholder: Xiamen Port Holding Group Company Limited (61.12%)

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