



Canggang Railway Limited [2169.HK]

Neutral

Issue Particulars

Industry sector	Railway
Listing category	Main
Major Shareholders	Jinghai BVI(65.8%)
Total new shares issued (mn)	250
Issue price (HK\$)	0.85-1.10
Total share offer size (HK\$m)	213-275
Shares offered for Placement (mn)	225
Shares offered for IPO (mn)	25
FY19 profit (RMB'000)	70,194
FY19 P/E(x)	10.5-13.5
Market cap. of shares (HK\$m)	850-1,100
Total outstanding shares (new + existing shares)(mn)	1,000
NAV per share(HK\$)	0.77-0.83
Nominal Value (HK\$)	0.01
Board Lot (shares)	4,000
Sponsors	Innovax Capital

Time Table

IPO open	12-Oct-2020
IPO close	15-Oct-2020
Results announcement date	22-Oct-2020
Cheques refunded	22-Oct-2020
Dealing of shares	23-Oct-2020

Financial Data

FYE 31 Dec(RMB'000)	FY18	FY19	5MFY20
Revenue	386,889	376,904	151,831
Operating expenses	(257,925)	(260,558)	(101,592)
Other income	2,387	2,742	1,726
Operating profit	131,351	119,088	51,965
Profit before taxation	109,298	94,251	40,829
Income tax	(27,791)	(24,755)	(10,817)
Profit for the period	81,507	69,496	30,012
Profit attributable to shareholders	81,706	70,194	29,431

Clawback Structure

Over subscription for IPO (x)	% of IPO for the total share offer
15-50	30%
50-100	40%
Over 100	50%

Business

Canggang Railway Limited is an established and expanding local railway operator based in Hebei Province providing eastbound and westbound rail freight transportation services and other ancillary services, including loading and unloading, road freight transportation, operation, repair and maintenance of Special Service Lines, railway roadbed and other railway facility construction and certain other businesses.

According to the Frost & Sullivan Report, the company ranked first among all local freight railway operators in Hebei Province and fourth among all local freight railway operators in China in terms of revenue in 2019. The company operate one railway, the Canggang Railway Line (滄港線), which is strategically located, effectively connecting the Shuo-Huang Railway Line (朔黃線) and the Han-Huang Railway Line (邯黃線) with the Bohai New Area in Cangzhou (滄州渤海新區), a national economic and technological development area encompassing Port Huanghua (黃驊港).

Revenue mainly comes from Rail freight transportation which accounts for 68.8% of 2019 revenue. Ancillary businesses such as Loading and unloading and Road freight transportation account for 17.4% and 8.6% of total revenue. Coal has been the major cargo category we transported through railway account for 67.3% of the total amount of cargo they transported through railway. FY19 revenue dropped slightly 2.6% while net profit dropped 14.1%. Profit decline was mainly due to regulatory changes which impacted ability to transport coal directly to Port Huanghua. Therefore, loading and unloading business was impacted.

For recent development, net profit for the five months ended May 31, 2020 increased by approximately 19.5% YoY. Such increase outpaced the growth of our revenue of 1.1% during the five months ended May 31, 2020 as compared to the corresponding period in 2019 which was primarily driven by government policies and Supplier A's internal guidelines in connection with the COVID-19 outbreak which reduced staff cost and cargo logistics expenses during that period. Due to the disruption to the PRC economy caused by the COVID-19 outbreak, trade receivables were subject to such potential delay.

In conclusion, company revenue primarily depends on one railway and coal transportation demand. Risk is quite concentrated. Revenue growth was slow. And regulatory changes led to profit decline. Moreover, debt level is high. Gearing ratio is 108% while debt to equity ratio is 101.4% as of 2019. Since company outlook is not attractive, we rate neutral.

Use Of Proceeds

• construct two new branch railway lines	63.3%
• fund technical upgrades	20.2%
• repaying a bank loan	3.1%
• settle amounts payable in connection with our purchase of the land use rights	11.9%
• working capital and general corporate purposes	1.5%

Analyst: Tracy Chan Lok Yee
tracy.ly.chan@kgi.com

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