

Investment Research Asia/Pacific

July 23, 1996

China Equity

Jason Cheung – Hong Kong 2848-5298/cheungj@ms.com

Guangshen Railway (0525.HK): Through Train to China . . .

NEUTRAL

12-Mth Price Target: HK\$3.30

- We are initiating coverage on Guangshen Railway (GSR), the sole railway operator between Guangzhou and Shenzhen in China, with a Neutral rating on the stock.
- Based on our 1996 EPS estimate, GSR trades at a 27% premium to the average H share P/E of 8.6. We believe this premium is justified given GSR's strong balance sheet and sound operating performance plus our projections of a high-quality future earnings stream.
- GSR should regain market share in 1997 as a result of its major expansion and modernization program plus the additional operational and pricing autonomy granted by the Ministry of Railways.
- Longer-term, the stock offers investors the opportunity to participate in the rapid economic growth projected for southern China. We estimate average 14.5% EPS CAGR for 1996-2000.
- We believe GSR should trade at the lower end of the average multiple for red chips (P/E of 14 based on 1997 consensus earnings). Our 12-month price target of HK\$3.30 (based on a prospective 1997 P/E of 12) represents upside potential of 13.8%.

Contents

Summary and Investment Conclusion	2
Business Positives.....	3
Business Concerns	4
Valuation.....	6
Company Background.....	8
Earnings Outlook.....	12

Tables

1. Guangshen Railway Company Limited: Market Share, 1995.....	3
2. Guangshen Railway Company Limited: Competitive Analysis - Train and Bus	4
3. Guangshen Railway Company Limited: Valuation Data for Comparables .	6
4. China Enterprises: Valuation Comparisons	7
5. Selected Red Chips: Valuation Comparisons	7
6. Guangshen Railway Company Limited: Operating Statistics, 1990-1995...	9
7. Breakdown of Inbound, Outbound and Pass-through Freight.....	11
8. Passenger Market Growth Projections (%), 1996E-2010E	12
9. Passenger Flow Estimates by Train Type.....	13
10. Passenger Transportation Price Estimates	13
11. Freight Transportation Estimates, 1995-2000E	14
12. Revenues from Other Business, 1995-2000E.....	14
13. Guangshen Railway Company Limited: Balance Sheet, 1994-1995	16
14. Guangshen Railway Company Limited: Capital Expenditure Schedule, 1995-2000E	16
15. Guangshen Railway Company Limited: Net Profit forecast, 1993-2000E	17
16. Guangshen Railway Company Limited: Cash Flow Forecast, 1993-2000E	18

Figures

1. Guangshen Railway Company Limited: Revenue Breakdown, 1996E.....	8
2. Guangshen Railway Company Limited: Service Territory	10
3. Guangshen Railway Company Limited: Cost Breakdown, Railroad Business, 1995	15

July 23, 1996

China Equity

Jason Cheung – Hong Kong 2848-5298 cheungj@ms.com

Guangshen Railway (0525.HK): Through Train to China . . .

NEUTRAL

12-Mth Price Target: HK\$3.30

Share Price	52-Wk Range	Year Ending	Net Inc. (Rmb Mil)	EPS (HK\$)	P/E	P/E Rel	P/CE	Div (HK\$)	Yield (%)
HK\$2.90	2.65-3.10	Dec 95	1,250	0.40	7.2	0.81	6.7	0.00	0.0
		Dec 96E	1,080	0.27	10.6	1.25	9.0	0.09	2.8
		Dec 97E	1,226	0.28	10.5	N/AV	8.6	0.09	2.9

All data are in Hong Kong dollars, except net income, which is in renminbi. Exchange rate used: HK\$1 = Rmb1.07. Market capitalization includes only that for listed H shares and ADSs.

Share Data

Shares Outstanding (Mil)	4,148.8
Market Capitalization (HK\$ Mil)	3,609
(US\$ Mil)	435
Major Shareholders	PRC State Government 67%
	Free Float 33%
1, 3, 12m Relative Performance (%)	-5, Nil, Nil
Local Market Index (HSCEI):	789.5
Exchange Rate (HK\$1/US\$1)	HK\$7.74

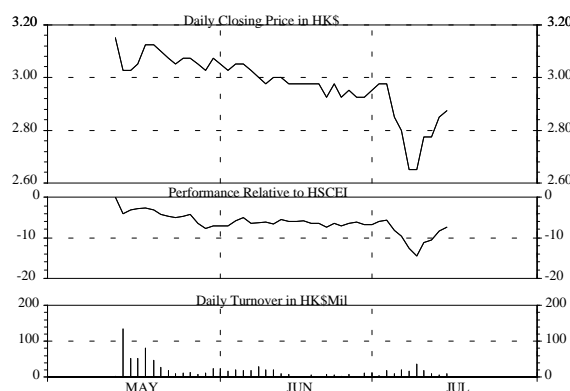
Key Ratios

Net Book Value/Share at 31/12/95	1.86
Debt/Equity at 31/12/95	0.628
Return on Equity, 1995	48.5
Return on Assets, 1995	42.9
4-Year Estimated EPS Growth (%)	14.5

American Depository Share Data

ADS Symbol	GSH
Ordinary Shares per ADS	50
Price as at July 18, 1996	18.80
52-Week Range	18.67 - 15.90
Market Capitalization (US\$ Mil)	393.2

Guangshen Railway Company Limited Stock Price Analysis



Source: Datastream

Year Ending Dec	EPS US\$	P/E x	Div US\$	Yield %	Rmb/ US\$1
1995	2.61	7.2	0.0	0.0	8.3
1996E	1.72	10.6	0.54	2.8	8.3
1997E	1.79	10.5	0.55	2.9	8.3

Summary and Investment Conclusion

We are initiating coverage on Guangshen Railway Company Limited (GSR), the sole railway operator between Guangzhou and Shenzhen in China, with a Neutral rating on the stock. Our 12-month price target is HK\$3.30, which implies potential upside of 13.8%. We believe that, given the company's strong balance sheet and excellent operating track record plus our projections of a high-quality future earnings stream, the stock is one of the premier H shares listed on the Hong Kong stock exchange.

The company is currently in a transition as it undertakes a major expansion and modernization program, with additional operational and pricing autonomy being granted by the Ministry of Railways (MOR). These favourable conditions should pave the way for Guangshen to regain market share lost to bus operators by 1997.

We expect net profit in 1996 to decline by 13.6% for the following reasons: (i) GSR's share of the passenger transportation market is likely to continue to decrease because of intensifying competition from bus traffic, with total rail passenger flow (through-train plus domestic) dropping an estimated 5.4% to 22.9 million this year. (ii) We expect GSR to adopt a low-price strategy to regain market share, keeping the average ticket price flat in 1996. (iii) We project a sharp increase in the income tax rate from only 1.5% in 1995 to above 15.5% in 1996 because of the removal of tax concessions.

For 1997, we expect revenue and net profit to increase 16.1% and 13.6%, respectively, on account of the following

factors: (i) GSR should regain passenger market share because of improved services. (ii) We expect GSR's total passenger flow to increase 9.8% to 25.1 million people, and the average ticket price to rise by 5.9%, mainly because of the expansion in high-speed train services, for which a higher price can be charged than for regular services. (iii) We project freight revenue will increase by 18.2%.

From a long-term investment standpoint, the stock offers the opportunity to participate in the rapid economic growth expected for southern China. We estimate that the four-year EPS CAGR (1996 to 2000) will average 14.5%.

At current prices, GSR is trading at a 25% premium to the average H share P/E of 8.6 times prospective 1996 earnings. We believe this premium is justified given GSR's strong balance sheet and sound operating performance plus our projections of a high-quality future earnings stream.

We believe that the stock price could reach HK\$3.30, or a P/E multiple of 12.0 times 1997 earnings estimates, which would still represent a discount to the average multiples for the US railroad sector of roughly 14 and for the low end of Hong Kong-listed red chip stocks of 14.0.

With dual listing, on the New York Stock Exchange and the Stock Exchange of Hong Kong, GSR is considered to be one of the top-ranking H shares in Hong Kong. Not only does it account for around 18% of the Hang Seng China Enterprises Index (HSCEI), but the size and the quality of its earnings stream also differentiate the company from its peers.

Business Positives

Key Infrastructure Play in Booming Southern China

GSR can be expected to capitalize on the fast-growing economy in the southern region of China, which has shown the strongest growth of all the provinces, at over 20% for the past three years. Also, per capita GDP in Guangdong Province is the second highest among major urban areas in China, and household income in Shenzhen is currently the highest of any region. According to an independent market survey by Frank, Small & Associates in 1995, GSR has a 75% share of the market for passengers traveling between Guangzhou and Shenzhen, and 62% of those between Hong Kong and Guangzhou (Table 1).

New Technology to Help Regain Market Share

GSR is undertaking a major expansion and modernization program, which should begin showing tangible benefits by 1997. Since 1991 the company has been laying the foundations for the provision of high-speed services, the rebuilding and remodeling of most of its facilities and all rail tracks and has significantly expanded passenger and freight handling capacity. Over the next one to two years, almost all GSR's passenger train services will be replaced with high-speed services. The railway line is expected to be fully electrified by the end of 1998, and we estimate the company will spend over Rmb300 million to purchase locomotive rolling stock. In addition, GSR is negotiating with the KCRC (Kowloon-Canton Railway) to expand the Hong Kong-Guangzhou through-train ticket sales network (previously, all ticket sales were handled through China Travel Services, which usually charged passengers a service fee of between 5% and 7.5%, or HK\$15 per ticket).

We believe that until Guangdong Province has an adequate road system – probably at least several years from now – the improvement in competitiveness should enable GSR to expand its market share. We estimate that by 1997 GSR will have regained the market share lost to bus operators and will achieve above-average growth in passenger volume in the next three years.

Table 1

Guangshen Railway Company Limited Market Share, 1995

Hong Kong to Guangzhou ('000)			Shenzhen to Guangzhou ('000)		
Mode	Passenger	%	Mode	Passenger	%
Train	2,060	61.5%	Train	17,093	74.9%
Bus	706	21.1%	Bus	3,066	13.4%
Plane	400	11.9%			
Private Car	123	3.7%	Private Car	2,650	11.6%
Boat	61	1.8%	Boat	3	0.0%
Total	3,350	100.0%	Total	22,813	100.0%

Source: Frank Small & Associates

Significant Autonomy Granted by MOR

GSR was granted significant autonomy regarding pricing, scheduling of train services and seating mix from April 1, 1996. The company now has full autonomy to price high-speed train services and to set prices at up to 125% of the regulated price for domestic passenger trains and up to 50% above the regulated price for freight. (Note: there are no price restrictions on the Hong Kong-Guangzhou through-train service.) The greater autonomy should help GSR enhance its price competitiveness and improve its train schedules to meet passenger demand.

Strong Recurring Cash Flow and Earnings Growth

GSR's net debt-to-equity ratio was 62% at the end of 1995, and the company has in the past generated a high level of cash earnings. We expect GSR to remain in a strong net cash position from 1996. We estimate CAGR in EPS of 14.5% for the next four years (1996-2000), mirroring the expected expansion in passenger and freight transportation volume.

Superior Management Team

The company has an excellent net profit and revenue growth track record despite having operated in a regulated market in the past. The management team is very experienced and in general is believed to be superior to the average for H share companies.

Business Concerns

Alternative Forms of Transportation and Falling Passenger Volumes

GSR is currently the sole provider of rail transportation along the Guangzhou-Shenzhen corridor, and we do not foresee any direct railway competitor in the region. In addition, there is limited commercial air and sea passenger transportation because of expensive fares and low affordability of domestic travelers (Table 2).

However, since the beginning of 1991, passenger volume growth has been on a downward trend, for three reasons.

First, since the Chinese government implemented the 16-point austerity program, the overall economy has cooled, in particular in southern China where economic growth has generally been above the national average.

Second, the decline in passenger growth reflects the inefficiencies created in the past as a result of high-level government control. Previously, the MOR was responsible for setting train schedules and prices, and this resulted in some trains running at only 5% of capacity while others were operating at over 100%.

Third, competition from other means of transportation such as ships and buses has intensified. As highway infrastructure in Guangdong Province improves, bus operators can be expected to take some market share from railway services. In general, bus services offer the added convenience of flexible pick-up and drop-off points such as hotels. However, the train service is more comfortable and safer and is more reliable than buses, which may be subject to heavy traffic congestion.

According to GSR's Hong Kong partner, KCRC, passenger flow in the first five months of 1996 fell 11% year over year. We estimate that Hong Kong-Guangzhou through-train passenger volume will experience a 12% decline this year. Nonetheless, management remains confident that it can meet the original profit forecast for 1996 stated in its IPO prospectus. We believe that any stock price weakness due to comments about increased competition and declining volumes should be considered as a good buying opportunity.

Table 2

Guangshen Railway Company Limited Competitive Analysis - Train and Bus

	HK-Guangzhou Train		#Bus	Guangzhou-Shenzhen Train		#Bus	Shenzhen Taxi
	High Speed	Regular		High Speed	Regular		
Travelling Time	1 Hr. 59 Mins.	2 Hrs 40 Mins	3-4 Hrs	1 Hr 8 Mins	1 Hr 59 Mins	2-3 Hrs	2 Hrs
Current Fares (HK\$)	220	200	150-200	95	65	60-80	300
Frequency							
Before 1997	2 Pairs	5 Pairs	*5 Pairs	2 Pairs	18 Pairs	N/A	N/A
Post 1997	5 Pairs	Nil	N/A	20 Pairs	5 Pairs	N/A	N/A

Note: One pair represents one-round trip between two points.

*Per bus operator, currently there are about 10 to 15 bus operators. #Assumes normal traffic flow.

N/A = Not Applicable

Sources: GSR and Morgan Stanley Research

Declining passenger flow and increasing competition from other forms of transportation are likely to be mitigated by the additional pricing and operational autonomy granted to GSR by the MOR from April 1, 1996. The introduction of a high-speed service and anticipated price reductions for the domestic through-train service may help the company regain market share. Furthermore, as incomes continue to rise in the southern region, rail transport is expected to remain the most convenient and safest choice for travelers.

GSR aims to improve its infrastructure and services to regain lost market share. These improvements are to include the full introduction of high-speed services in 1997, expansion of train services and a better seating mix to optimize profits. In addition, the company is also looking to reduce the prices of its high-speed service, which would, on the one hand, narrow the price differential between those fares and those for regular train services, and on the other hand, attract the price-sensitive domestic passenger back to using train services. We believe that GSR is poised to re-gain market share and to maintain this position for the next several years.

Lack of Future Investment Plans – Risk or Opportunity?

GSR is sitting on a huge amount of surplus cash after the May 1996 listing. At the IPO price of HK\$2.91 per share, GSR raised net proceeds of about HK\$3.4 billion. The company has historically been in a sound financial position,

with extremely low gearing of about 60% at the end of 1995. This includes Rmb1.1 billion of capital expenditure to finance its high-speed project. Excluding this outlay, the company's gearing would be less than 20%.

Looking ahead, the total capital expenditure needs in the coming three years should aggregate about Rmb3.0 billion. Together with the stable inflow of cash earnings from its operations, the company is expected to be holding huge net cash balances in the next few years. The next question is, therefore, what will the company do with this surplus cash? In theory, the substantial cash reserves should put GSR in a favorable position for securing development rights for sites in the proximity of its railway stations. Currently, the prime development rights of the Guangzhou East station are vested in the hands of GSR's parent company, but along the railway line, huge potential could be realized in terms of joint property developments. We expect this to remain the company's hidden value.

China Risk

As is usual for an investment in an emerging market stock, such risks as political, economic and management have to be considered. In particular, potential policy changes by MOR could affect the company since the state government still has substantial ownership. As one of the best quality H shares, in our opinion, with superior earnings stream and cash flow, GSR should offer investors relatively less risk but above-average returns.

Valuation

Deserves a Premium Rating to H Shares . . .

Since Guangshen Railway is the only railroad company listed in Hong Kong, finding close comparables, even in the Asia/Pacific region, is generally difficult. However, GSR is also listed in Hong Kong as an H share company, and so the average H share P/E multiple would be a relevant comparable valuation benchmark for GSR.

As we already stated, GSR is considered one of the premier companies in the H share sector, given the size of its market capitalization, top-quality cash earnings and strong balance sheet position. As such, we believe that GSR should deserve a premium rating to the average H share P/E multiple, which is currently at about 8.6 times 1996 estimated earnings (Tables 3 and 4). GSR stock is trading at attractive EV/EBITDA multiples of only 5.0 times for 1996 and 4.4 times for 1997 because of the huge cash earnings that are expected to be generated in the next few years.

. . . but a Discount to Red Chip and China Infrastructure Plays

Meaningful valuation comparisons with the company can also be found in the Hong Kong-listed red chips (Table 5). This particular group is trading on 1996 estimated P/E multiples of between 10 and 20 times. We expect GSR to trade at a discount to these companies.

Valuation Conclusion

We are initiating coverage on GSR stock with a 12-month price target of HK\$3.30 (based on a 1997 projected P/E multiple of 12.0), representing upside potential of 13.8%. Our rating on the stock is Neutral.

Table 3

Guangshen Railway Company Limited Valuation Data for Comparables

	P/E 1995A	P/E 1996E
H Shares	8.9	8.6
Red Chips/Transportation	20.0	11.6
US Railways	15.0	14.0
Guangshen Railway	7.2	10.9

E = Consensus Estimates except those covered by Morgan Stanley Research

Table 4

China Enterprises: Valuation Comparisons

Stock Name	Price	H Mkt Cap		EPS Growth		P/E		Yield		Performance
	Jul 18, 96			1995A	1996E	1995A	1996E	1995A	1996E	
1 Maanshan Iron&Steel	1.38	2,390	12.2%	(94.2)%	497.0 %	220.4	36.9	0.7%	1.0%	(39.2)%
2 Shanghai Petrochem	2.08	3,486	17.8%	44.5 %	1.6 %	6.8	6.7	5.9%	6.2%	31.3 %
3 Yizheng Chemical	1.67	1,670	8.5%	1.9 %	5.9 %	5.7	5.4	4.8%	5.6%	(29.8)%
4 Tsingtao Brewery	2.85	989	5.0%	(7.4)%	19.3 %	28.0	23.5	2.6%	2.8%	1.8 %
5 Luoyang Glass	1.39	348	1.8%	(21.6)%	(7.9)%	4.0	4.4	5.0%	7.2%	(61.9)%
6 Dongfang Electric	2.03	344	1.8%	(26.6)%	13.2 %	10.2	9.0	5.5%	5.9%	(28.4)%
7 Guangzhou Shipyard	1.88	273	1.4%	(43.7)%	31.9 %	9.8	7.5	8.0%	6.4%	(9.6)%
8 Tianjin Bohai	0.66	224	1.1%	(6.5)%	(8.3)%	5.9	6.4	8.5%	8.5%	(45.0)%
9 Beiren Printing	1.62	162	0.8%	(3.1)%	9.6 %	7.6	6.9	5.8%	6.2%	(22.1)%
10 Kunming Machinery	0.98	64	0.3%	(72.0)%	100.0 %	35.0	17.5	2.9%	3.4%	(50.5)%
11 Qingling Motors	2.65	1,325	6.8%	(70.0)%	133.3 %	31.5	13.5	1.8%	2.3%	28.0 %
12 Shanghai Hai Xing	0.56	605	3.1%	(93.5)%	5.3 %	39.4	37.5	6.7%	6.7%	(61.6)%
13 Zhenhai Refining & Ch	2.15	1,290	6.6%	2.8 %	13.6 %	8.1	8.1	2.6%	0.5%	(9.7)%
14 Chengdu Tele Cable	1.18	189	1.0%	(86.5)%	335.9 %	32.4	7.4	0.0%	5.1%	(57.9)%
15 Harbin Power Equip.	1.26	605	3.1%	(56.2)%	35.9 %	13.1	9.6	3.7%	4.0%	(51.2)%
16 Jilin Chemical	1.25	1,206	6.1%	66.9 %	12.0 %	5.4	4.8	3.9%	4.5%	(21.9)%
17 Northeast Electrical	1.46	362	1.8%	N/A	(13.0)%	6.8	7.8	4.2%	4.7%	(18.9)%
18 Jing Wei Textile	0.98	157	0.8%	N/A	(25.8)%	3.4	4.6	0.0%	4.8%	(24.0)%
19 Nanjiang Panda	1.31	317	1.6%	N/A	38.2 %	4.1	3.0	0.0%	12.1%	(38.5)%
20 Guangshen Railway	2.90	3,611	18.4%	N/A	(33.1)%	7.2	10.6	0.0%	2.8%	(0.3)%
Total Market	789.50	19,616	100.0%	(13.3)%	3.3 %	8.9	8.6	3.0%	4.0%	(14.4)%

E=Consensus Estimates, except for Maanshan Iron & Steel, Yizheng Chemical, Zhenhai Refining and Guangshen Railway, which are Morgan Stanley Research Estimates.
N/A=Not Available

Table 5

Selected Red Chips: Valuation Comparisons

			Share Price Jul 18, 96	Market Cap HK\$ Mil	P/E (X)			EPS Growth (%)			Yield (%)
					1995	1996E	1997E	1995	1996E	1997E	
	Industry										
Guangshen Railway	Railway	HK\$	2.90	7,987	7.2	10.6	10.5	N/A	-33.1%	4.0%	2.8%
CITIC Pacific	Conglomerate	HK\$	31.70	66,326	20.7	10.2	15.0	15.9%	103.3%	-31.8%	2.0%
Guangdong Investment	Conglomerate	HK\$	4.88	9,980	16.8	16.3	13.5	20.8%	3.4%	20.0%	2.1%
Guangzhou Investment	Conglomerate	HK\$	2.18	4,445	12.8	12.8	9.9	0.0%	0.0%	29.4%	2.8%
COSCO Pacific	Shipping	HK\$	5.25	6,752	12.5	13.8	10.9	4.7%	-9.5%	26.3%	3.0%
China Travel	Tourism	HK\$	1.85	3,431	18.5	14.2	11.6	-33.3%	30.0%	23.1%	2.2%
China Resource	Conglomerate	HK\$	6.50	5,962	25.0	20.3	15.5	44.4%	23.1%	31.3%	1.5%
China Merchant Hai Hong	Conglomerate	HK\$	2.30	1,710	15.3	12.1	11.0	7.1%	26.7%	10.5%	4.3%
Shanghai Industrial	Conglomerate	HK\$	11.00	5,676	N/A	15.5	14.8	N/A	N/A	4.4%	1.9%
Red Chips Weighted Average (Ex-Guangshen)				104,282	20.0	11.6	14.0	14.0%	72.5%	-17.1%	2.1%
Red Chips Weighted Average (Ex-CITIC, & Guangshen)				37,956	18.8	15.2	12.5	10.6%	23.6%	21.3%	2.3%

Source: Earnings estimates from IEBS and Nelsons, except those companies covered by Morgan Stanley Research.

Company Background

Principal Provider of Transportation in Booming Southern China

GSR operates the highly profitable rail service in the booming Pearl River Delta area and the only railway line between Guangzhou, the capital city of Guangdong Province, and the Shenzhen Special Administrative Region. The total length of the company's rail line is 645 kilometres.

Guangshen's passenger transportation service includes (1) through trains between Hong Kong and Guangzhou (jointly operated with KCRC), with limited service to other locations in Guangdong Province, (2) domestic trains, including Guangzhou-Shenzhen trains and domestic long-distance trains running to and from locations outside Guangshen's line.

Guangshen's freight transportation service covers (1) inbound freight, which is primarily southbound freight unloaded at stations along Guangshen's line or in Hong Kong, (2) outbound freight, which is primarily northbound freight loaded at stations along Guangshen's line or in Hong Kong, and (3) pass-through freight, which is freight both originating and terminating outside Guangshen's line but passing through certain sections of this line.

The company also provides value-added train services such as on-board sales of food, beverages and merchandise, and sales through railway station shops. In 1995, passenger revenue accounted for 48% of total revenue, while freight transportation represented 33%, and others, 19%. Our estimates for the revenue breakdown in 1996 are shown in Figure 1.

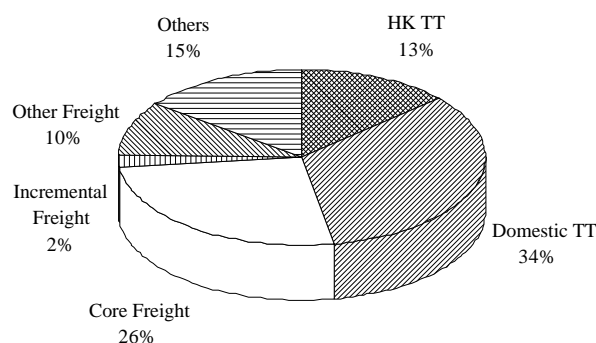
Main Business: Passenger and Freight Transportation

The company's primary business consists of passenger and freight transportation between the various cities in Guangdong Province, the profitable Hong Kong to

Guangzhou through-train, jointly operated with the KCRC of Hong Kong (GSR receives 81.2% of revenue and profits). In addition, the company also provides value-added services such as on-board and station sales of food, beverages and merchandise. Historical operating statistics for GSR are provided in Table 6. The territory that the company services is illustrated in Figure 2.

Figure 1

Guangshen Railway Company Limited Revenue Breakdown, 1996E



Source: Company Data

E = Morgan Stanley Research Estimates

TT = Through-Train

PRC's Railway System and Prospects

The PRC's railway network is among the world's largest and was ranked fourth globally in terms of total route length at the end of 1994. In China, railway transportation is the leading mode of passenger transportation, measured by passenger-kilometers traveled. It accounted for 42% of total passenger traffic in 1994, highway represented 49%, civil aviation, 7%, and waterway, 2%. Railway transportation also accounted for 37% of total freight traffic, measured by ton-kilometers moved, with waterways representing 47%, pipeline, 2%, and highway, 14%.

Looking ahead, the two key railway developments will be (1) the second north-south railway, the Beijing-Hong Kong rail line, which is expected to be operational by September 1996; and (2) the electrification of the Guangzhou-Beijing route, which is expected to be completed by the middle of 1997. In addition, during the current national Ninth Five-Year Plan (1996-2000), the MOR plans to modernize an additional two lines: the Beijing-Shanghai line and the

Beijing-Harbin line. A study of a top-speed service of 250 km/hour is currently being undertaken for the Beijing-Shanghai line. This compares with the existing highest speed of 160 km/hour for the Guangzhou-Shenzhen line, which is operated by GSR. Chinese officials estimate that the national railway line's existing capacity can satisfy only 60% of total demand, indicating bright prospects for railway operators in the coming years.

Table 6

Guangshen Railway Company Limited
Operating Statistics, 1990 to 1995

	1990	1991	1992	1993	1994	1995
Passenger Transportation						
Passenger Revenues (Rmb Mil)	402.0	496.3	609.6	820.1	1,147.9	1,117.0
Passengers (Mil)	19.2	23.0	29.3	30.3	28.3	24.2
Passenger-Kilometers (Mil)	2387	2870	3537	3558	3258	2689
Revenues per Passenger (Rmb)	20.9	21.6	20.8	27.1	40.6	46.2
Revenue per Passenger-Kilometer (Rmb)	0.17	0.17	0.17	0.23	0.35	0.42
% Change						
Passenger Revenues (Rmb Mil)	N/AV	23.5%	22.8%	34.5%	40.0%	-2.7%
Passengers (Mil)	N/AV	19.8%	27.4%	3.4%	-6.6%	-14.5%
Passenger-Kilometers (Mil)	N/AV	20.2%	23.2%	0.6%	-8.4%	-17.5%
Revenues per Passenger (Rmb)	N/AV	3.1%	-3.6%	30.1%	49.9%	13.8%
Revenue per Passenger-Kilometer (Rmb)	N/AV	2.7%	-0.3%	33.7%	52.9%	17.9%
Freight Transportation						
Freight Revenues (Rmb Mil)	327.7	408.0	447.7	546.6	639.4	772.0
Freight Tons (Mil)	21.5	23.9	26.3	27.8	28.6	28.1
Ton-Kilometer (Mil)	1651	1875	2099	2216	2247	2167
Revenues Per Ton (Rmb)	15.2	17.1	17.0	19.7	22.4	27.5
Revenues per Ton-Kilometer (Rmb)	0.20	0.22	0.21	0.25	0.28	0.36
% Change						
Freight Revenues (Rmb Mil)	N/AV	24.5%	9.7%	22.1%	17.0%	20.7%
Freight Tons (Mil)	N/AV	11.2%	10.0%	5.7%	2.9%	-1.7%
Ton-Kilometer (Mil)	N/AV	13.6%	11.9%	5.6%	1.4%	-3.6%
Revenues Per Ton (Rmb)	N/AV	12.0%	-0.3%	15.5%	13.7%	22.9%
Revenue per Ton-Kilometer (Rmb)	N/AV	9.6%	-2.0%	15.6%	15.4%	25.2%

Sources: Company Data, Morgan Stanley Research

N/AV = Not Available

Regulatory Environment

MOR, which is directly under the supervision of the State Council of China, is the governing body for all the national railways in China. The ministry is responsible for coordination of train routing and scheduling nationwide and for setting passenger fares and freight tariffs. Control over GSR has historically not been as tight as that over other regional railway operators, and the company has been granted some flexibility and autonomy by MOR in such areas as acquiring freight cars, scheduling services and determining seating mix. It can also charge passengers and freight transporters a “fixed premium” over standard prices.

From April 1, the company has been granted additional autonomy with increased flexibility over the setting of passenger fares and freight tariffs. This includes full autonomy to price high-speed services and to set prices up to 125% of the regulated price for domestic passenger trains and up to 50% above the regulated price for freight services. The increased autonomy should help the company to improve its price competitiveness and scheduling of services to meet passenger demand.

Passenger Transportation

Passenger transportation is the company’s largest source of revenue and profits, accounting for 48% of total revenue and 59% of total railroad revenue in 1995. By the end 1995, the company operated daily services for 36 pairs of passenger trains (one pair represents trains making one-round trip between two points). This comprises (i) 5 pairs between Hong Kong and Guangzhou, (ii) 20 pairs between Guangzhou and Shenzhen, and (iii) 11 pairs of domestic long-distance trains. The Hong Kong-Guangzhou through-train is the most profitable operation and consists of two pairs of high-speed services. The domestic through-train service, on the other hand, consists of only 2 pairs of high-speed trains daily.

Freight Transportation

By contrast, freight transportation accounted for 33% of total revenues and 41% of railroad revenues in 1995. Most of the company’s freight is received from or transferred to other rail lines. Inbound traffic, which is southbound freight to Hong Kong or Guangdong Province, accounted for 51.8% of total freight transport volume in 1995 (Table 7).

Outbound freight (i.e., from Hong Kong or Guangdong Province to the northern part of China) represented 38.3% of the total. Pass-through freight contributed the balance of 9.9% of total freight volume in 1995. The composition of freight in 1995 consisted mainly of construction material, accounting for over 35% and 15% of total inbound and total outbound freight volume, respectively, followed by food products, chemicals, energy products and manufactured goods.

Between 1991 and 1995, freight transportation volume increased from 23.9 million tons to 28.2 millions tonnes, representing compound annual growth of 4%. Since 1991, revenue per ton has increased at a compound annual rate of 13% because of stable growth in freight tariffs.

Table 7

Breakdown of Inbound, Outbound and Pass-through Freight

(Mil Tons)

	1993	%	1994	%	1995	%
Inbound	17.1	61.3%	16.2	56.6%	14.6	51.8%
Outbound	10.1	36.2%	10.6	37.1%	10.8	38.3%
Pass-through	0.7	2.5%	1.8	6.3%	2.8	9.9%
Total	27.9	100.0%	28.6	100.0%	28.2	100.0%

Source: Company Data

Other Business

GSR is also engaged in service businesses principally related to its transport operations. This includes value-added train services such as on-board sales of food, beverages and merchandise, and sales through railway station shops.

Earnings Outlook

Passenger Revenue Forecasts

We expect the company's passenger transportation service to be significantly enhanced following the full implementation of the high-speed program. The project commenced at the beginning of 1995 and should cost GSR an estimated Rmb4.8 billion. The company is implementing the construction of the first portion and the final portion of the rail line between Guangzhou and Shenzhen. In addition, the company is purchasing an additional 49 high-speed passenger coaches and 10 high-speed locomotives, which are expected to be delivered by the end of August.

By the end of 1997, the company plans to convert all of its Hong Kong-Guangzhou through-train services to high-speed ones, which would cut travel time by 41 minutes each

way. In addition, the company is expected to increase its high-speed service on the domestic route, and by the end of 1997, the company is slated to be running 25 pairs of high-speed trains daily.

We estimate that, after a sharp 12% decline in passenger volume in the Hong Kong-Guangzhou through-train and 5% decline in domestic volume in 1996, GSR will regain market share in 1997 following the implementation of its high-speed program and the improvement in services. We expect a strong overall pickup of 9.8% in total passenger volume in 1997, but only average growth thereafter (Tables 8 and 9). Prices, by contrast, should remain flat in 1996 (i.e., unchanged for the Hong Kong through-train and a 4% decline for domestic trains). We expect average train fares to increase by around 6-8% a year for the four years from 1997 (Table 10).

Table 8

Passenger Market Growth Projections (%), 1996E-2010E

	1996E	1997E	1998E	1999E	2000E	2000-2010E
Growth Rate Estimates by Frank Small & Associates						
Shenzhen - Guangzhou	8.30	8.70	8.90	8.70	8.50	7.7 - 7.9
HK - Guangzhou	7.20	7.20	7.90	7.60	7.50	6.8 - 7.0
Growth Rate Projections by Morgan Stanley Research						
Shenzhen - Guangzhou	(5.00)	10.00	10.00	8.70	8.50	7.7 - 7.9
HK - Guangzhou	(12.00)	8.00	7.70	7.60	7.50	6.8 - 7.0

Sources: Frank Small & Associates, Morgan Stanley Research

Table 9

Passenger Flow Estimates by Train Type, 1995-2000E

(Numbers)

	1995	1996E	1997E	1998E	1999E	2000E
Hong Kong Through-Train						
High-Speed	0.56	1.12	1.51	1.65	1.79	1.95
Regular	1.40	0.64	0.39	0.39	0.41	0.41
Through Train Total (Mil)	2.00	1.76	1.90	2.05	2.20	2.37
Growth Rate (%)	N/AV	-12.0%	8.0%	7.7%	7.6%	7.4%
Domestic Train						
High Speed	1.09	2.36	4.08	4.99	6.09	7.21
Regular Soft-Seat	3.24	1.83	0.75	0.72	0.72	0.72
Regular Hard-Seat	7.33	6.64	6.89	6.82	6.75	6.68
Others	10.58	10.30	11.51	13.04	14.13	15.29
Domestic Total (Mil)	22.2	21.1	23.2	25.6	27.7	29.9
Growth Rate (%)	N/AV	-5.0%	10.0%	10.0%	8.3%	8.0%
Total Passengers	24.2	22.9	25.1	27.6	29.9	32.3
Total Growth Rate (%)	N/AV	-5.4%	9.8%	9.8%	8.2%	8.0%

E = Morgan Stanley Research Estimates

Table 10

Passenger Transportation Price Estimates, 1995-2000E

(Rmb)

	1995	1996E	1997E	1998E	1999E	2000E
Hong Kong Through Train						
High Speed	223	223	228	239	251	264
Regular	200	200	204	212	221	229
Average	212	212	216	226	236	247
Growth Rate (%)	N/AV	0.0%	2.1%	4.5%	4.5%	4.5%
Domestic Train						
High Speed	91	82	87	93	100	106
Regular Soft-Seat	72	72	76	82	87	93
Regular Hard-Seat	48	48	50	54	58	62
Others	13.3	13.3	14.0	15.0	16.0	17.1
Average	56.1	53.8	56.9	60.9	65.2	69.7
Growth Rate (%)	N/AV	-4.0%	5.7%	7.0%	7.0%	7.0%
Total Average (Rmb):	47.7	47.5	50.3	53.4	57.6	62.1
Growth Rate (%)	N/AV	-0.3%	5.9%	6.2%	8.0%	7.8%

E = Morgan Stanley Research Estimates

Freight Revenue Forecasts

We estimate that core freight transportation volume should increase at an average of 5% in the next five years (Table 11). Prices, by contrast, have been low historically because of the government's centralized economic policy and should continue to increase by 7-8% a year over the same period. This would translate into a healthy 13% compound annual growth in core freight revenue. We expect incremental freight revenue to show a substantial increase during 1997, when the existing Guangzhou-Beijing line is

completely electrified, and the new Beijing-Hong Kong railway line is fully operational. In total, we estimate that total freight revenue should grow 12.9% in 1996 and increase a further 18.2% in 1997, maintaining a reasonable 10% annual growth rate until the end of the century.

Revenues from Other Business

We estimate that other business of the company will decline 28% in 1996 due to lower passenger volume and should grow at around 8% per annum from 1997 (Table 12).

Table 11

Freight Transportation Estimates, 1995-2000E

	1995	1996E	1997E	1998E	1999E	2000E
Core Freight:						
Average Distance (Km)	95.7	95.0	95.0	95.0	95.0	95.0
Total Carried (Mil Tons)	25.0	26.0	28.0	29.4	30.9	32.4
Growth Rate (%)	N/AV	4.0%	7.7%	5.0%	5.0%	5.0%
Average Price/Ton/Km:	0.22	0.24	0.26	0.28	0.30	0.32
Growth Rate (%)	N/AV	9.0%	8.0%	7.0%	7.0%	7.0%
Core Freight Revenue (Rmb Mil)	526	592	689	774	870	977
Growth Rate (%)	N/AV	12.6%	16.3%	12.4%	12.4%	12.4%
Incremental Freight:						
Guangmeishan	31.0	13.0	10.0	10.5	11.0	11.6
Beijing-Kowloon	0.0	12.0	55.0	60.5	66.6	73.2
Pingnan	0.0	25.0	25.0	26.3	27.6	28.9
Incremental Freight Revenue (Rmb Mil)	31.0	50.0	90.0	97.3	105.1	113.7
Growth Rate (%)	N/AV	61.3%	80.0%	8.1%	8.1%	8.2%
Warehouse and Others Revenues (Rmb Mil)	214.0	228.0	250.0	262.5	275.6	289.4
Growth Rate (%)	N/AV	6.5%	9.6%	5.0%	5.0%	5.0%
Total Freight Revenue (Rmb Mil)	771.1	870.3	1,028.9	1,133.7	1,250.3	1,380.1
Growth Rate (%)	N/AV	12.9%	18.2%	10.2%	10.3%	10.4%

Fiscal year ends in December Source: Company Data E = Morgan Stanley Research Estimates

Table 12

Revenues from Other Business, 1995-2000E

<i>(Rmb Millions)</i>						
	1995	1996E	1997E	1998E	1999E	2000E
On-Board Sales	102.0	67.5	74.2	81.5	88.2	95.2
Station Revenues	79.5	75.2	82.6	90.7	98.2	106.0
Others	261.6	197.9	217.4	238.8	258.5	279.0
Total:	443.1	340.7	374.2	411.0	444.9	480.2
Growth Rate	N/AV	-23.1%	9.8%	9.8%	8.2%	8.0%
Gross Profit						
On-Board Sales	56.8	37.7	41.2	45.2	48.9	52.8
Station Revenues	57.6	54.9	59.5	65.3	70.7	76.3
Others	69.0	39.6	41.3	45.4	49.1	53.0
Total:	183.4	132.2	141.9	155.9	168.8	182.2
Growth Rate	N/AV	-27.9%	7.4%	9.8%	8.2%	8.0%

Fiscal year ends in December

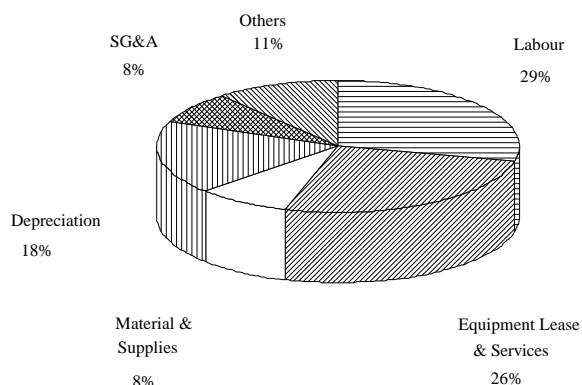
Source: Company Data E = Morgan Stanley Research Estimates N/AV = Not Available

Margin to Decrease Slightly

As a railway operator, GSR has historically enjoyed high margins, mainly because of its profitable Hong Kong through-train operation. The key cost component is labor, which accounted for 29% of total costs in 1995 (Figure 3). Other items included equipment lease & services (26%), depreciation (18%), material & supplies (8%), SG&A (8%) and others (11%). Looking ahead, we expect the company's operating margin to decline by 4.7% and 3.1% in 1996 and 1997, respectively, primarily because of increased labor cost and depreciation charges.

Figure 3

Guangshen Railway Company Limited Cost Breakdown, Railroad Business, 1995



Source: Company Data

Earnings Expectations for 1996

For 1996, we estimate net profit will fall 13.6%. We expect GSR to continue losing market share in 1996 with respect to passenger transportation because of intensified competition from bus operators. According to KCRC, the Hong Kong to Guangzhou through-train passenger volume declined by 11% in the first five months of 1996. Overall, we expect an average 12% decline in Hong Kong-Guangzhou through-train passenger flow and a drop of roughly 5% in domestic passenger volume this year. In

addition, GSR is expected to maintain a low-price policy to attract back price-sensitive domestic passengers in China and so regain market share.

Furthermore, the company's effective income tax rate should increase sharply to 15.5% in 1996 from 1.5% in 1995 because of the removal of preferential treatment granted by the PRC State Tax Bureau. (Note: The rate applicable to the company is 15%, except for certain other businesses which are subject to tax rates of 15% and 33%, depending mainly on the places of incorporation of these companies.) Looking forward, the company is still expected to enjoy a preferential rate of 15% because it is incorporated in the Shenzhen Special Economic Zone.

Earnings Prospects for 1997

Based on the recently introduced pricing and operational autonomy granted to GSR by MOR, we estimate that GSR will recapture market share for passenger transportation during 1997 because of improved services, i.e., new projects to provide faster services, improved train schedules and a better seating mix to optimize profits. As a result, we expect revenue and net profit to grow 16.1% and 13.6%, respectively, in 1997. This is based on the assumptions that (i) total passenger volume and ticket prices will increase 9.8% and 5.8%, respectively, and (ii) incremental freight revenue will jump 80% because of the opening of the Beijing-Guangzhou Railway service, which should lift overall freight revenue by 18.2%.

Longer Term Earnings Outlook

We expect an average 14.5% increase in EPS a year through the year 2000, mirroring the expected increase in passenger flow and freight volume in southern China. Due to insufficient information, we have not factored into our earnings model the anticipated rental income to be generated from leasing retail space in the Guangzhou East Station, which could be substantial in the next three years. This should remain a possible source of upside surprise for the company going forward.

Table 13

Guangshen Railway Company Limited
Balance Sheet, 1994-1995

(Rmb Millions)

	1994	1995
Issued Share Capital		
Reserves	2,503	2,742
Revaluation Surplus		
Shareholders' Funds	2,503	2,742
Preference Shares		
Minority Interests	24	30
Long Term Debt	940	940
Other Liabilities		
Capital Employed	3,467	3,713
Fixed Assets	3,145	3,784
Construction in Progress	989	1,366
Investments		
Associates	20	38
Current Assets		
Cash & Bank Balances	588	422
Accounts Receivable	68	42
Material & Supplies	20	20
Prepayment & Others	28	96
Due from Affiliates	8	68
Total Current Assets	712	648
Current Liabilities		
Short Term Loans	(321)	(388)
Accounts Payable	(163)	(180)
Accounts Payable for		
Construction of Fixed Assets	(497)	(493)
Other payables	(89)	(134)
Due to Affiliates	(114)	(310)
Due to Parent Company	(216)	(619)
Total Current Liabilities	(1,400)	(2,124)
Other Assets		
Total Assets	3,467	3,713

Fiscal year ends in December

Source: Company Data

Financial Position - Strong Recurring Cash Earnings

As a pure cash-flow business in China, the company has operated with a healthy balance sheet and strong financial position historically (Table 13). As a result of the ADR placement and Hong Kong H share IPO in May 1996, GSR generated net proceeds of about HK\$3.4 billion. This "windfall" has turned the company from having a net debt to equity ratio of 62% at the end of 1995 to being in a strong net cash position. We estimate that GSR will remain in a healthy and strong net cash position from 1996. A breakdown of the capital expenditure program and our projections for earnings and cash flow are provided in Tables 14-16.

Table 14

Guangshen Railway Company Limited
Capital Expenditure Schedule, 1995-1999E

(Rmb Millions)

	1995	1996E	1997E	1998E	1999E
High-Speed Project	582	658	108	--	--
Guangzhou East	170	--	--	--	--
Locomotive					
Rolling Stock	340	--	--	--	--
Electrification	20	350	213	--	--
Conveyer Belts	34	101	10	10	10
Contingency	80	80	80	80	80
General	20	20	20	20	20
Total:	1,149	1,246	1,209	431	110
% Change	-23.4%	8.4%	-3.0%	-64.4%	-74.5%

Fiscal year ends in December.

E = Morgan Stanley Research Estimates

Source: Company Data

Table 15

Guangshen Railway Company Limited
Net Profit Projections, 1993-2000E

<i>(Rmb Millions)</i>	1993	1994	1995	1996E	1997E	1998E	1999E	2000E
Railroad Business								
Passenger	820	1,148	1,117	1,052	1,223	1,426	1,667	1,939
Freight	547	639	772	870	1,029	1,134	1,250	1,380
Others	284	337	443	341	374	411	445	480
Turnover	1,651	2,124	2,332	2,263	2,626	2,971	3,362	3,800
% Chg	N/A	28.6%	9.8%	-3.0%	16.1%	13.1%	13.2%	13.0%
Operating Expenses								
Railroad Business:								
Labour	(97)	(186)	(200)	(211)	(243)	(269)	(292)	(332)
Equipment Lease & Services	(119)	(188)	(185)	(183)	(198)	(223)	(254)	(289)
Material & Supplies	(41)	(46)	(58)	(83)	(124)	(154)	(175)	(199)
Depreciation	(60)	(85)	(126)	(190)	(270)	(294)	(321)	(365)
SG&A	(34)	(50)	(54)	(52)	(63)	(74)	(85)	(96)
Others	(52)	(68)	(79)	(81)	(86)	(108)	(123)	(139)
Sub-Total	(403)	(623)	(703)	(800)	(984)	(1,121)	(1,249)	(1,421)
Other Business:								
Cost of Sales	(161)	(155)	(258)	(208)	(232)	(255)	(276)	(298)
SG&A	(58)	(88)	(85)	(65)	(72)	(79)	(85)	(92)
Sub-Total	(219)	(243)	(343)	(274)	(304)	(334)	(361)	(390)
Operating Profit								
Railroad	963	1,164	1,186	1,123	1,268	1,439	1,669	1,899
Operating Margin	70.5%	65.1%	62.8%	58.4%	56.3%	56.2%	57.2%	57.2%
Other Business	65	94	100	67	70	77	83	90
Operating Margin	23.0%	27.8%	22.6%	19.6%	18.8%	18.8%	18.8%	18.8%
Total Operating Profit	1,029	1,258	1,286	1,190	1,338	1,516	1,752	1,989
Total Operating Margin	62.3%	59.2%	55.2%	52.6%	51.0%	51.0%	52.1%	52.3%
Other Income, net	4	14	0	1	1	1	1	1
Net Interest	(8)	(4)	(19)	86	102	34	75	192
Associate Income	6	7	6	6	7	7	7	7
Profit Before Tax	1,030	1,274	1,274	1,283	1,448	1,558	1,835	2,189
Tax	(18)	(24)	(18)	(199)	(217)	(234)	(275)	(328)
Tax Rate	1.8%	1.9%	1.5%	15.5%	15.0%	15.0%	15.0%	15.0%
Minorities	(12)	(8)	(5)	(4)	(4)	(5)	(6)	(6)
Net Profit	1,000	1,242	1,250	1,080	1,226	1,319	1,554	1,854
% Change	N/AV	24.3%	0.6%	-13.6%	13.6%	7.6%	17.8%	19.2%
Undiluted EPS (WA) (Rmb)	N/AV	N/AV	0.43	0.29	0.30	0.32	0.37	0.45
Undiluted EPS (WA) (HK\$)	N/AV	N/AV	0.40	0.27	0.28	0.30	0.35	0.42
ADR: 50 Ordinary Shares = 1 ADR								
Undiluted EPS (WA) (US\$)	N/AV	N/AV	2.61	1.77	1.79	1.93	2.27	2.71
WA EPS Growth (%)	N/AV	N/AV	N/AV	-32.1%	1.2%	7.5%	17.8%	19.2%
Operating Margin (%)	62.3%	59.2%	55.2%	52.6%	51.0%	51.0%	52.1%	52.3%
Pre-Tax Margin (%)	62.4%	60.0%	54.6%	55.4%	55.1%	52.4%	54.6%	57.6%
Net Margin (%)	60.6%	58.5%	53.6%	47.7%	46.7%	44.4%	46.2%	48.8%
Stock Price	2.90							
EV	8,119	9,390	10,087	7,001	7,123	6,360	5,091	3,559
EBITDA	1,099	1,363	1,419	1,387	1,616	1,818	2,081	2,362
CE/Share (Actual)	N/AV	N/AV	0.46	0.34	0.36	0.39	0.45	0.53
P/E (Actual)	N/AV	N/AV	7.2	10.6	10.5	9.8	8.3	6.9
P/CE	N/AV	N/AV	6.7	9.0	8.6	8.0	6.9	5.8
EV/EBITDA	7.4	6.9	7.1	5.0	4.4	3.5	2.4	1.5
Four-Year CAGR (1996-2000)	EPS	14.5%		Sales	13.8%			
	Profit	14.5%		Net Cash	36.2%			

Fiscal year ends in December E = Morgan Stanley Research Estimates

3 Exchange Square
Hong Kong
Tel: (852) 2848-5200

20-3 Ebisu 4-chome
Shibuya-ku, Tokyo 150
Tel: (813) 5424-5000

Canary Wharf / 25 Cabot Square
London E14 4QA
Tel: (0171) 513-8000; 425-8000

1251 Avenue of the Americas
New York, New York 10020
Tel: (212) 703-4000

Table 16

Guangshen Railway Company Limited Cash Flow Forecast, 1993-2000E

(Rmb Millions)

	1993	1994	1995	1996E	1997E	1998E	1999E	2000E
Profit Before Tax	1,030	1,274	1,274	1,254	1,448	1,558	1,835	2,189
Associate Adjustments	(22)	(25)	(43)	(6)	(7)	(7)	(7)	(7)
Depreciation	60	85	126	190	270	294	321	365
Less Tax Paid	(18)	(24)	(18)	(201)	(217)	(234)	(275)	(319)
Net Cash Flow	1,050	1,311	1,339	1,237	1,494	1,612	1,874	2,228
Asset Sales								
Capital Expenditure	(1,103)	(1,501)	(1,149)	(1,246)	(1,209)	(431)	(110)	(110)
Investments	(16)	(2)	(18)	(10)	(10)	(10)	(10)	(10)
Chg. in Working Cap	(82)	129	(26)	(43)	(30)	(13)	(19)	(11)
Dividends Paid	(1,008)	(1,325)	(1,313)	(315)	(368)	(396)	(466)	(540)
New Shares Issued				3,441				
Other	1,298	118	464	-	-	-	-	-
Change in Net Debt	140	(1,271)	(704)	3,064	(122)	762	1,269	1,557
Net (Debt)/Cash at Start	163	303	(968)	(1,672)	1,392	1,270	2,032	3,301
Net (Debt)/Cash at End	303	(968)	(1,672)	1,392	1,270	2,032	3,301	4,858
Net Debt/Equity* (%)	Net Cash	38.7%	61.0%	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net Debt/Equity+Minorities (%)	Net Cash	38.3%	60.3%	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Fiscal year ends in December

Source: Company Data E = Morgan Stanley Research Estimates

Within the last three years, Morgan Stanley & Co. Incorporated and/or its affiliates managed or comanaged a public offering of the securities of CITIC Pacific, Guangshen Railway Company Limited and Shanghai Industrial Holdings.

Morgan Stanley & Co. Incorporated and/or its affiliates or its employees have or may have a position or holding in the securities, options on securities, or other related investments of issuers mentioned herein.

To our readers in the United Kingdom: This publication has been issued by Morgan Stanley Asia Limited and approved by Morgan Stanley & Co. International Limited, regulated by The Securities and Futures Authority. Morgan Stanley & Co. International Limited and/or its affiliates may be providing or may have provided significant advice or investment services, including investment banking for any company mentioned in this report. The investments discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. Private investors should obtain the advice of their Morgan Stanley & Co. International Limited representative about the investments concerned. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. Where an investment is denominated in a currency other than pounds sterling, changes in rates of exchange may have an adverse effect on the value, or price of, or income derived from the investment. Past performance is not necessarily a guide to future performance. Income from investments may fluctuate.

While Morgan Stanley Asia Limited has prepared this report, Morgan Stanley & Co. Incorporated is distributing the report in the US and accepts responsibility for its contents. Any US person receiving this report wishing to effect transactions in any security discussed herein should do so only with a representative of Morgan Stanley & Co. Incorporated.

This publication is disseminated in Singapore by Morgan Stanley Asia (Singapore) Pte Ltd.

Additional information on recommended securities is available on request.