



Taiwan High Speed Rail (2633.TW/2633 TT)

Sales hit a record high

Not rated

Price as of September 20 (NT\$)	30.15
12M target price (NT\$)	N/A
Previous target price (NT\$)	N/A
Unchanged / Revised up (down) (%)	N/A
Upside/downside (%)	N/A

Key message

January-August sales came in at NT\$32.8bn, up an impressive 48.7% YoY and 4.1% above the pre-pandemic peak in January-August 2019.

Trading data

Mkt cap (NT\$bn/US\$mn)	169.7 / 5,309
Outstanding shares (mn)	5,628
Foreign ownership (mn)	601
3M avg. daily trading (mn)	2.85
52-week trading range (NT\$)	27.35 –33.30

Performance	3M	6M	12M
Absolute (%)	-7	2.2	4.1
Relative (%)	-3.2	-5	-9.5

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2021	0.24	0.09	0.15	0.16
2022	0.10	0.05	0.23	0.29
2023	0.38	0.29	N.A.	N.A.

Share price chart



Source: TEJ

Event

January-August sales came in at NT\$32.8bn, up an impressive 48.7% YoY and 4.1% above the pre-pandemic peak in January-August 2019.

Impact

YTD sales above pre-pandemic level. January-August sales totaled NT\$32.8bn, up an impressive 48.7% YoY and 4.1% above the pre-pandemic level in January-August 2019. Significant sales growth was due to explosive demand for post-pandemic travel. In 1H23, daily ridership averaged 170-180k trips, 13.7k train services were provided per quarter, and the loading factor was 69-70%, all higher than pre-pandemic levels in the same period of 2019. September and November are slow months, but the Moon Festival and National Day holiday in September and October, coupled with the traditional peak month of December, will sustain monthly sales during the September to December period at NT\$4.0-4.2bn. Thus, the market expects sales growth of nearly 38% YoY in 2023 to NT\$49.3bn.

2024F sales growth of 3-5%. Although 2023 sales will likely hit a record high, sales are expected to grow 3-5% in 2024 due to the following: (1) primary ridership comes from business travel, home-bound trips, tourism, and commuting. With the economy picking up YoY in 2024F, business and home-bound travel will grow. In addition, the company has been increasing promotional programs to spur tourism. All this will boost daily average ridership by 3-5% YoY next year; (2) although the first set of carriages of the 12 sets ordered will not be delivered until the end of 2026, the company will increase capacity by 3-5% per year in 2024-26 via the addition of non-reserved carriages during peak hours, increasing train services on a non-regular basis, more seasonal train services, increasing long-term train services, and postponing/increasing train schedules, as well as adding three-shift maintenance groups.

Operating profit to rise on economies of scale. In 1H23, sales and net profit were a respective NT\$24.5bn and NT\$3.75bn, up 56% and 349% YoY, for EPS of NT\$0.67. On continued sales growth in 2H23F, 2023F consolidated sales will grow 32-33% YoY. The effect of economies of scale will boost operating margin to 43-44%. Despite the amount earmarked for the Equalization Fund will be higher HoH in 2H23, 2023F net profit will hit NT\$8.3-8.4bn, for EPS of NT\$1.20-1.30.

Valuation & Action

Business has returned to the pre-pandemic peak YTD. 2024F sales will grow 3-5%. Shares are trading at 23-25x 2023F EPS, versus the historical band of 14-35x.

Risks

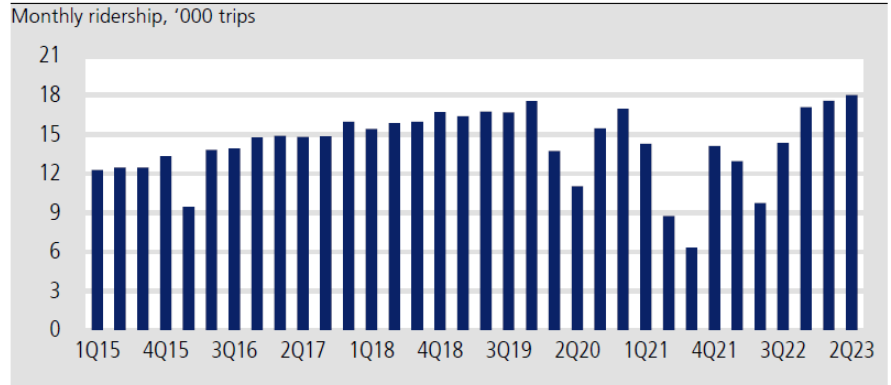
Ridership recovery is slower than expected.

Key financials and valuations

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Revenue (NT\$mn)	45,415	47,507	39,137	30,228	37,133
Gross profit (NT\$mn)	20,334	21,745	13,042	4,526	11,243
Operating profit (NT\$mn)	19,145	20,512	11,807	3,318	9,920
Net profit (NT\$mn)	10,696	8,007	5,843	3,611	3,769
EPS (NT\$)	1.90	1.42	1.04	0.64	0.67
Cash DPS (NT\$)	1.12	1.21	1.05	0.76	0.67
EPS growth (%)	100.3	(25.1)	(27.0)	(38.2)	4.4
PE (x)	15.9	21.2	29.0	47.0	45.0
PB (x)	2.4	2.4	2.4	2.5	2.5
EV/EBITDA (x)	15.5	14.5	19.6	28.3	20.2
Net debt to equity (%)	492.5	467.6	484.1	482.5	454.9
Dividend yield (%)	3.7	4.0	3.5	2.5	2.2
Return on average equity (%)	16.2	11.4	8.3	5.2	5.6

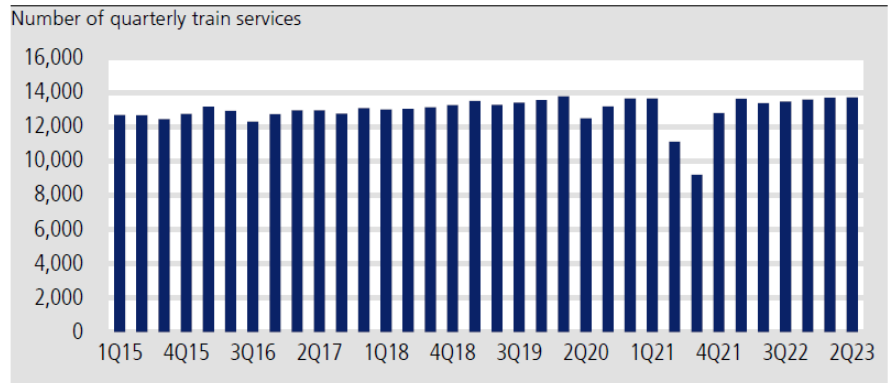
Source: Company data, KGI Research estimates

Figure 1: YTD daily average ridership above 2019 peak



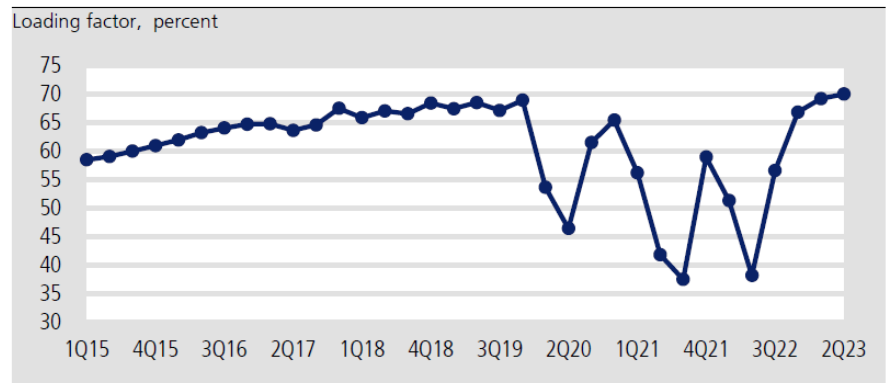
Source: Company data

Figure 2: YTD train services exceed pre-pandemic levels



Source: KGI Research

Figure 3: YTD loading factor higher than pre-pandemic levels



Source: KGI Research

Figure 4: Breakdown of financials

NT\$m	2019		2022		1H23	
	Actual	YoY (%)	Actual	YoY (%)	Actual	YoY (%)
Sales	47,507	4.6	37,133	22.8	24,457	56.2
Gross profit	21,745	6.9	11,243	148.4	10,985	257.1
Operating income	20,512	7.1	9,920	199.0	10,226	313.7
Net income	8,007	(25.1)	3,769	4.4	3,754	349.1
EPS (NT\$)	1.42	(25.3)	0.67	4.7	0.67	346.7
Gross margin (%)	45.8	1.0 ppts	30.3	15.3 ppts	44.9	25.3 ppts
OP margin (%)	43.2	1.0 ppts	26.7	15.7 ppts	41.8	26.0 ppts
Net margin (%)	16.9	(6.7)ppts	10.2	(1.8)ppts	15.3	10.0 ppts

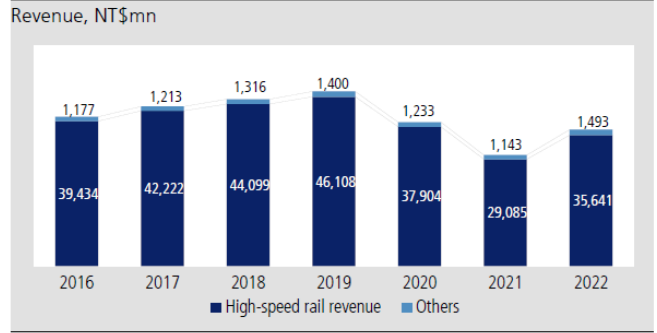
Source: Bloomberg; KGI Research

Figure 5: Company profile

Taiwan High Speed Rail (THSR) was established in 1998, with operating concession until 2068. Paid-in capital is NT\$56.05bn. Main business, started in January 2007, is passenger transport on high-speed railway in western Taiwan that has 12 stations at Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan and Zuoying, connecting major cities in Taiwan's western corridor. It repaid a syndicated loan ahead of schedule in 2017 and 2018 after financial restructuring in 2015, with financial structure improving continually. In 2022, passenger transport contributed 96% of revenue and other businesses (rental & merchandise) 4%.

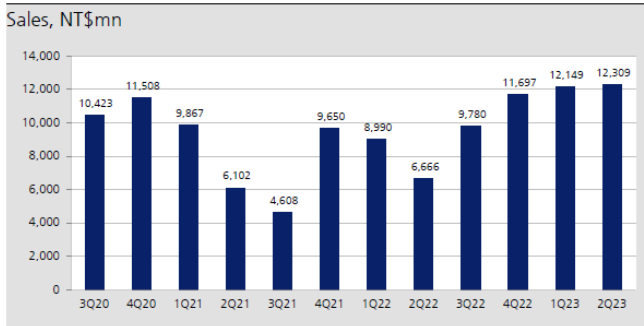
Source: Company data; KGI Research

Figure 6: Passenger transport is over 96% of revenue



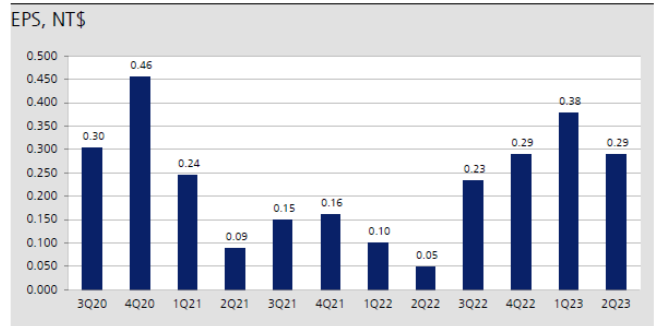
Source: Company data; KGI Research

Figure 7: Sales



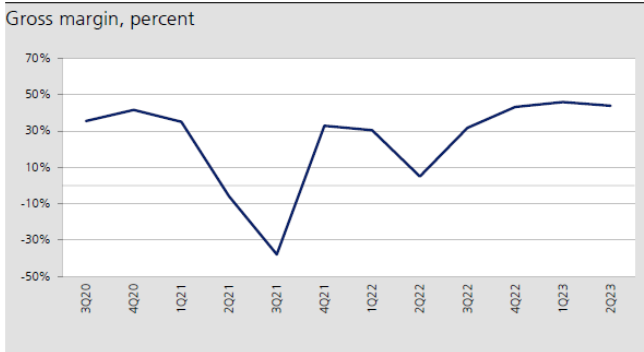
Source: KGI Research

Figure 8: EPS



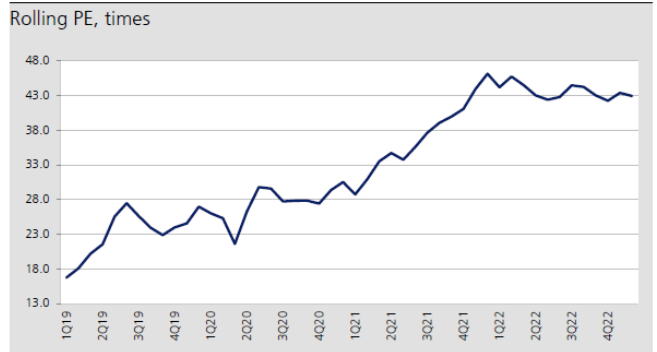
Source: KGI Research

Figure 9: Gross margin



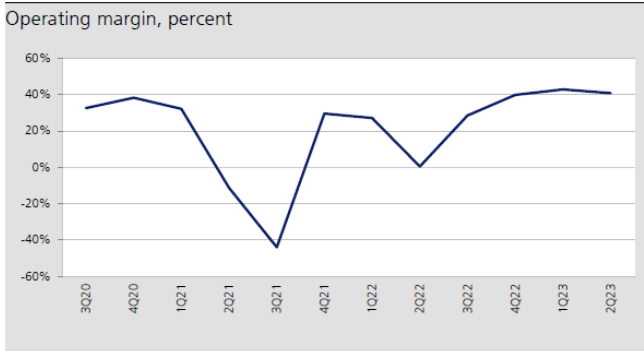
Source: KGI Research

Figure 10: Rolling PE



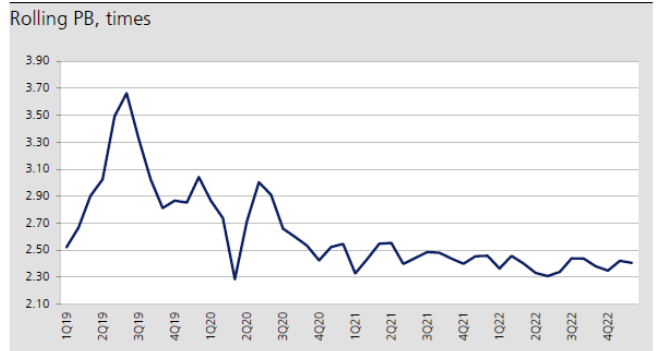
Source: KGI Research

Figure 11: Operating margin



Source: KGI Research

Figure 12: Rolling PB



Source: KGI Research

Income statement

	Quarterly								Annually		
	Sep-21A	Dec-21A	Mar-22A	Jun-22A	Sep-22A	Dec-22A	Mar-23A	Jun-23A	Dec-20A	Dec-21A	Dec-22A
Income statement (NT\$mn)											
Revenue	4,608	9,650	8,990	6,666	9,780	11,697	12,149	12,309	39,137	30,228	37,133
Cost of goods sold	(6,353)	(6,480)	(6,250)	(6,330)	(6,674)	(6,637)	(6,568)	(6,904)	(26,095)	(25,702)	(25,890)
Gross profit	(1,745)	3,170	2,740	336	3,107	5,061	5,581	5,405	13,042	4,526	11,243
Operating expenses	(279)	(314)	(302)	(302)	(318)	(401)	(375)	(385)	(1,235)	(1,208)	(1,323)
Operating profit	(2,024)	2,856	2,438	33	2,789	4,660	5,206	5,020	11,807	3,318	9,920
Depreciation of fixed assets	(54)	(55)	(56)	(55)	(56)	(57)	(57)	(57)	(212)	(219)	(223)
Amortisation of intangible assets	(3,509)	(3,521)	(3,294)	(3,362)	(3,375)	(3,382)	(3,310)	(3,347)	(13,963)	(14,040)	(13,413)
EBITDA	1,540	6,432	5,788	3,450	6,219	8,099	8,573	8,424	25,982	17,577	23,556
Interest income	26	39	37	42	45	80	103	97	135	95	205
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	21	89	-	4	9	7	-	9	262	120	20
Non-operating income	47	128	37	46	54	87	103	106	397	215	225
Interest expense	(1,457)	(1,457)	(1,427)	(1,530)	(1,593)	(1,682)	(1,667)	(1,706)	(5,919)	(5,757)	(6,232)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	4,417	(407)	(347)	1,616	110	(1,026)	(1,007)	(1,439)	(865)	6,490	352
Non-operating expenses	2,960	(1,864)	(1,774)	86	(1,484)	(2,708)	(2,674)	(3,145)	(6,784)	732	(5,879)
Pre-tax profit	983	1,120	702	166	1,359	2,039	2,635	1,981	5,419	4,266	4,266
Current taxation	(145)	(215)	(144)	112	(51)	(413)	(509)	(353)	424	(655)	(496)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	838	905	558	278	1,308	1,626	2,127	1,627	5,843	3,611	3,769
Extraordinary items	(0)	(0)	(0)	0	0	(0)	0	0	-	(0)	(0)
Net profit	838	905	558	278	1,308	1,626	2,127	1,627	5,843	3,611	3,769
EPS (NT\$)	0.15	0.16	0.10	0.05	0.23	0.29	0.38	0.29	1.04	0.64	0.67
Margins (%)											
Gross profit margin	(37.9)	32.9	30.5	5.0	31.8	43.3	45.9	43.9	33.3	15.0	30.3
Operating margin	(43.9)	29.6	27.1	0.5	28.5	39.8	42.9	40.8	30.2	11.0	26.7
EBITDA margin	33.4	66.6	64.4	51.8	63.6	69.2	70.6	68.4	66.4	58.1	63.4
Pretax profit margin	21.3	11.6	7.8	2.5	13.9	17.4	21.7	16.1	13.8	14.1	11.5
Net profit margin	18.2	9.4	6.2	4.2	13.4	13.9	17.5	13.2	14.9	11.9	10.2
Sequential growth (%)											
Revenue growth	(24.5)	109.4	(6.8)	(25.9)	46.7	19.6	3.9	1.3			
Gross profit growth	387.1		(13.6)	(87.7)	825.3	62.9	10.3	(3.2)			
Operating profit growth	194.2		(14.6)	(98.6)	8241.5	67.1	11.7	(3.6)			
EBITDA growth	(46.5)	317.8	(10.0)	(40.4)	80.3	30.2	5.8	(1.7)			
Pretax profit growth	(1.6)	13.9	(37.4)	(76.4)	719.2	50.0	29.3	(24.8)			
Net profit growth	69.9	8.0	(38.4)	(50.2)	370.7	24.3	30.8	(23.5)			
YoY growth (%)											
Revenue growth	(55.8)	(16.1)	(8.9)	9.2	112.2	21.2	35.1	84.7	(17.6)	(22.8)	22.8
Gross profit growth	(147.2)	(33.7)	(20.8)			59.6	103.7	1509.8	(40.0)	(65.3)	148.4
Operating profit growth	(159.6)	(35.2)	(23.2)			63.1	113.5	14914.6	(42.4)	(71.9)	199.0
EBITDA growth	(77.8)	(19.2)	(14.0)	19.9	304.0	25.9	48.1	144.2	(24.7)	(32.4)	34.0
Pretax profit growth	(38.9)	(54.0)	(39.7)	(83.4)	38.2	82.0	275.6	1093.7	(30.3)	(21.3)	0.0
Net profit growth	(51.0)	(64.7)	(59.4)	(43.7)	56.1	79.5	281.1	485.7	(27.0)	(38.2)	4.4

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Total assets	433,057	443,060	427,567	427,907	400,540
Current assets	22,797	42,710	38,621	49,974	32,137
Cash & ST securities	7,275	16,602	15,870	21,619	16,559
Inventory	2,029	2,056	2,069	2,346	2,426
Accounts receivable	506	333	218	666	414
Other current assets	12,987	23,719	20,464	25,343	12,738
Non-current assets	410,261	400,349	388,946	377,933	368,403
LT investments	-	-	-	-	-
Net fixed assets	98	125	110	109	129
Other assets	410,162	400,224	388,836	377,824	368,275
Total liabilities	363,644	371,982	357,480	360,129	333,250
Current liabilities	13,814	13,279	7,067	30,026	28,950
Accounts payable	274	256	275	533	404
Interest bearing ST liabilities	8,866	842	599	23,048	22,393
Other current liabilities	4,674	12,180	6,193	6,445	6,153
Non-current liabilities	349,830	358,703	350,413	330,103	304,300
Long-term debt	339,930	347,804	339,340	325,570	300,246
Other L-T liabilities	9,900	10,452	10,551	4,139	3,815
Total equity	69,413	71,077	70,087	67,778	67,290
Share capital	56,283	56,283	56,283	56,283	56,283
Retained earnings reserve	11,557	12,152	10,360	7,470	6,622
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Growth					
Revenue growth	4.6%	4.6%	(17.6%)	(22.8%)	22.8%
Operating profit growth	7.8%	7.1%	(42.4%)	(71.9%)	199.0%
EBITDA growth	4.0%	4.8%	(24.7%)	(32.4%)	34.0%
Net profit growth	100.3%	(25.1%)	(27.0%)	(38.2%)	4.4%
EPS growth	100.3%	(25.1%)	(27.0%)	(38.2%)	4.4%
Profitability					
Gross profit margin	44.8%	45.8%	33.3%	15.0%	30.3%
Operating margin	42.2%	43.2%	30.2%	11.0%	26.7%
EBITDA margin	72.5%	72.6%	66.4%	58.1%	63.4%
Net profit margin	23.6%	16.9%	14.9%	11.9%	10.2%
Return on average assets	2.5%	1.8%	1.3%	0.8%	0.9%
Return on average equity	16.2%	11.4%	8.3%	5.2%	5.6%
Stability					
Gross debt to equity	502.5%	490.5%	485.0%	514.4%	479.5%
Net debt to equity	492.5%	467.6%	484.1%	482.5%	454.9%
Interest coverage (x)	2.1	2.2	1.9	1.7	1.7
Interest & ST debt coverage (x)	0.0	0.2	(0.1)	(0.1)	(0.1)
Cash flow interest coverage(x)	4.0	4.4	(0.3)	4.7	1.6
Cash flow/int. & ST debt (x)	1.7	3.9	(0.2)	0.9	0.3
Current ratio (x)	1.7	3.2	5.5	1.7	1.1
Quick ratio (x)	1.5	3.1	5.2	1.6	1.0
Net debt (NT\$m)	341,848	332,375	339,287	326,998	306,080
Per share data					
EPS (NT\$)	1.90	1.42	1.04	0.64	0.67
CFPS (NT\$)	4.66	5.07	(0.27)	4.78	1.75
BVPS (NT\$)	12.33	12.63	12.45	12.04	11.96
Adj BVPS (NT\$)	12.33	12.63	12.45	12.04	11.96
SPS (NT\$)	8.07	8.44	6.95	5.37	6.60
EBITDA/share (NT\$)	5.85	6.13	4.62	3.12	4.19
Cash DPS (NT\$)	1.12	1.21	1.05	0.76	0.67
Activity					
Sales / avg assets	0.10	0.11	0.09	0.07	0.09
Days receivable	4.1	2.6	2.0	8.0	4.1
Days inventory	29.5	29.1	29.0	33.3	34.2
Days payable	4.0	3.6	3.9	7.6	5.7
Cash cycle	29.6	28.1	27.2	33.8	32.6

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Revenue	45,415	47,507	39,137	30,228	37,133
Cost of goods sold	(25,081)	(25,763)	(26,095)	(25,702)	(25,890)
Gross profit	20,334	21,745	13,042	4,526	11,243
Operating expenses	(1,189)	(1,233)	(1,235)	(1,208)	(1,323)
Operating profit	19,145	20,512	11,807	3,318	9,920
Non-operating income	134	179	397	215	225
Interest income	107	163	135	95	205
Investment income	-	-	-	-	-
Other non-op income	27	16	262	120	20
Non-operating expenses	(11,967)	(12,916)	(6,784)	732	(5,879)
Interest expense	(6,618)	(6,455)	(5,919)	(5,757)	(6,232)
Investment loss	-	-	-	-	-
Other non-op expenses	(5,348)	(6,461)	(865)	6,490	352
Pre-tax profit	7,312	7,775	5,419	4,266	4,266
Current taxation	3,385	232	424	(655)	(496)
Minorities	-	-	-	-	-
Extraordinary items	-	0	(0)	(0)	(0)
Net profit	10,696	8,007	5,843	3,611	3,769
EBITDA	32,921	34,513	25,982	17,577	23,556
EPS (NT\$)	1.90	1.42	1.04	0.64	0.67

Cash flow

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Operations cash flow	26,217	28,546	(1,532)	26,876	9,827
Net profit	10,696	8,007	5,843	3,611	3,769
Depreciation & amortisation	13,776	14,001	14,176	14,259	13,636
Decrease in working capital	(235)	106	143	(454)	40
Other operating cash flow	1,979	6,432	(21,693)	9,460	(7,618)
Investing cash flow	(4,356)	(12,761)	821	(8,826)	7,467
Sale of ST investment	-	-	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(26)	(67)	(30)	(36)	(47)
Others investing cashflow	(4,330)	(12,694)	851	(8,790)	7,514
Free cash flow	27,781	21,365	13,055	2,537	8,983
Financing cash flow	(22,101)	(6,462)	(14,909)	2,918	(22,349)
Increase in short term debt	105	(80)	(9)	(40)	(11)
Increase in long term loans	(18,000)	-	(8,000)	(6,000)	(25,000)
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(4,221)	(6,304)	(6,811)	(5,910)	(4,266)
Other financing cashflow	15	(79)	(90)	14,868	6,928
Forex effects	(0)	0	(0)	(0)	(6)
Total cash generated	(240)	9,324	(15,620)	20,968	(5,061)

ROIC

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
1 - COGS/revenue					
- Operating exp./revenue	2.6%	2.6%	3.2%	4.0%	3.6%
= Operating margin	42.2%	43.2%	30.2%	11.0%	26.7%
1 / (Working capital/revenue	0.2	0.3	0.4	0.7	0.2
+ Net PPE/revenue	0.0	0.0	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.1	0.1	0.1
= Capital turnover	3.5	3.0	2.1	1.3	3.3
Operating margin	42.2%	43.2%	30.2%	11.0%	26.7%
x Capital turnover	3.5	3.0	2.1	1.3	3.3
x (1 - tax rate)	146.3%	103.0%	107.8%	84.7%	88.4%
= After-tax ROIC	218.8%	132.8%	68.9%	11.9%	78.1%

Source: Company data, KGI Research estimates

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