Macquarie Int'l Infrastructure Fund

Superb yield in growing assets

(Bloomberg: MIIF SP)

BUY

LAST CLOSE: S$0.570
FAIR VALUE: S$0.655

Tuesday, 7 February 2012 | **Rationale for report: Initiate Coverage**

Financials

YE 31 Dec, SGD('000)	2010	2011F	2012F	2013F
Revenue	44,581	59,443	60,939	63,746
EBITDA	37,194	48,461	48,022	50,666
Adj. PATMI	32,515	48,181	48,022	50,666
Adj. EPS (S cents)	2.5	3.8	4.2	4.7
DPS (S cents)	3.0	5.5	5.5	5.5
PER (x)	22.8	14.2	12.7	11.7
Div Yield (%)	5.3	9.6	9.6	9.6

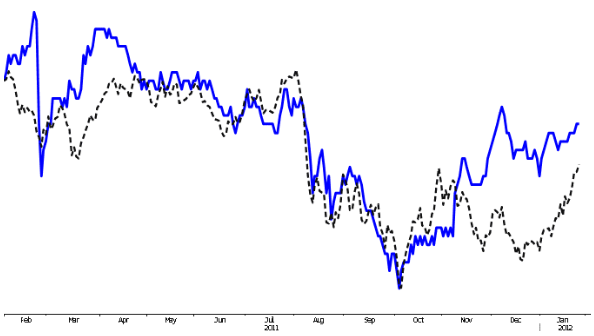
Key Operating Statistics

	2010	2011F	2012F	2013F
EBITDA Margin (%)	83.4	81.5	78.8	79.5
Net Margin (%)	72.9	81.1	78.8	79.5
Net Gearing (%)	cash	cash	4.2	4.4
NAV/Share (S cents)	82.6	82.6	84.3	85.8

Stock Data

Issued Shares (m)	1,197
Market Cap (SGD m)	678
Major Shareholders	Abu Dhabi Inv'mt Authority (10.4%) MIMAL (8.2%)
Free Float	81%
52 week lo / hi	$0.46 / $0.63

12-Month MIIF SP vs. FSSTI



Source: Bloomberg

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Infrastructure assets offer sustainable yield

We initiate coverage on Macquarie International Infrastructure Fund (MIIF) with a **BUY** and a fair value of **$0.655**. MIIF shares took a beating during the global financial crisis. Subsequent asset disposals and acquisitions have transformed the Fund into an Asian-focused, highly-transparent entity which the general market has yet to recognize. An infrastructure fund should trade at the lower end of the high-yield spectrum given its low business risk. **BUY**.

Potential catalysts

- Consistent half-yearly dividend of 2.75c boosting market confidence in MIIF's ability to sustain the distributions
- Yield-accretive asset acquisitions

INVESTMENT MERITS

- **9.6% dividend yield**: MIIF paid 2.75c for the first half of this year, which management deems sustainable based on the underlying businesses' ability to generate cash. Our model supports the continuation of a 5.5c total annual dividend
- **Potential dividend growth:** Each of the underlying businesses operates in high-growth Asia and are well-placed to generate increasing distributions to MIIF. We see the dividend rising from 5.5c today to 6.0c in 2014 (possibly earlier, but we'll view that as a bonus), and thereafter a dividend growth of 7% is sustainable
- **Clean balance sheet:** MIIF has zero debt at the fund level, and the overall leverage (debt to assets) of 51% is considered low for an infrastructure fund. Further, debts of the underlying businesses are non-recourse to the Fund
- **Positioned for Asian growth:** With assets refocused in Asia, the Fund stands to benefit from the growth in population and in consumer spending power in the region. MIIF's three assets are expected to generate increasing cash flow over time, which are paid as dividends to shareholders

KEY RISKS

- **Lack of potential yield-accretive asset purchases at fund level:** With MIIF trading at almost 10% yield, it is extremely difficult for management to acquire new assets on a yield-accretive basis, presenting a chicken-and-egg problem
- **Slowdown in China**: An economic downturn in China could reduce the utilization of the port and lead to slower-than-expected traffic growth rates for the expressway

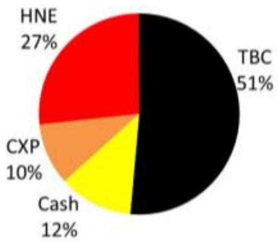
VALUATION

We value MIIF at **$0.655** per share using a sum-of-the-parts DCF valuation for each of the assets, less the present value of the fund-level expenses. What attracts us most is the sustainable 9.6% yield — the potential 15.0% capital gain is icing on the cake. Total upside from current price is 24.6%. **BUY.**

Macquarie International Infrastructure Fund Profile

Stable dividend yield assets with growth potential

Portfolio allocation



Source: Company

Macquarie International Infrastructure Fund (MIIF) is an owner and operator of private infrastructure businesses. It currently has investments in toll roads, ports, renewable energy, and communications and broadcast infrastructure businesses.

At the fund level…

- **Refocused into Asian infrastructure assets:** MIIF has divested its legacy investments in European assets and in funds, becoming a pure Asian infrastructure portfolio. This strategic shift refocuses the portfolio's geographical concentration into high-growth Asia, whilst simultaneously increasing transparency with better "look-through" earnings in all assets

- **Current dividend is sustainable, with growth prospects:** The current dividend of 5.5c can be supported by the core businesses at low growth in subscribers/volumes. Expected growth in these businesses will allow for gradual dividend increases

At the asset level…

Source: Company

- **Changshu Xinghua Port (CXP)** is a Class One (i.e. international vessels) multipurpose cargo port located within the Yangtze River Delta. Over the last 15 years, CXP has developed into one of the largest hubs for steel, logs and paper and pulp products

- **Hua Nan Expressway (HNE)** is a 31km dual-carriage urban toll expressway in provincial capital of Guangzhou. It is the main artery for north-south traffic in the province of Guangdong. Being the sole remaining tolled road running through the centre of Guangzhou, it offers the only uncongested route for land traffic through the city

- **Miaoli Wind Company (MWC)** owns and operates 25 wind turbines with a combined installed capacity of 49.8MW. However, due to lower-than-expected wind speeds, MWC has been written to zero value on MIIF's books and is currently not distributing dividends

- **Taiwan Broadband Communications (TBC)** is the third-largest cable TV operator in Taiwan, and is the sole licensee and provider in its five provinces. The basic CATV subscriber base enjoys a high penetration rate with steady growth, and dynamic growth sources are in the upmarket Digital TV and Broadband packages offered

Recent events and expected news flow

- **Share buybacks since Mar 2011** demonstrates management's conviction in the value of MIIF shares. Based on the rate of share buybacks to date, it is highly likely that management will exhaust the share buyback mandate for the current year. We expect a fresh mandate to be sought in the coming general meeting and for share buybacks to continue until the falls to a normal level or until MIIF's cash holdings have been fully utilized

- **The MIIF Factbook recently published has increased transparency** by revealing previously undisclosed information about the Fund's assets. Please refer to our focused sections on each asset for our analyses which incorporate the latest information

- **MIIF will release FY2011 figures on Feb 22,** but as its assets pay their distributions in Mar/Sep, most of the numbers are already in the bag. New information will be volumes/subscriber numbers and financial performance at the asset level

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Investment Thesis

Infrastructure assets offer sustainable yield

We initiate coverage on Macquarie International Infrastructure Fund (MIIF) with a **BUY** and a fair value of **$0.655**. MIIF shares took a beating during the global financial crisis. Subsequent asset disposals and acquisitions have transformed the Fund into an Asian-focused, highly-transparent entity. However, with only one 2.75c dividend paid this year, it appears that the market requires some convincing that this is a sustainable yield before bidding up the price.

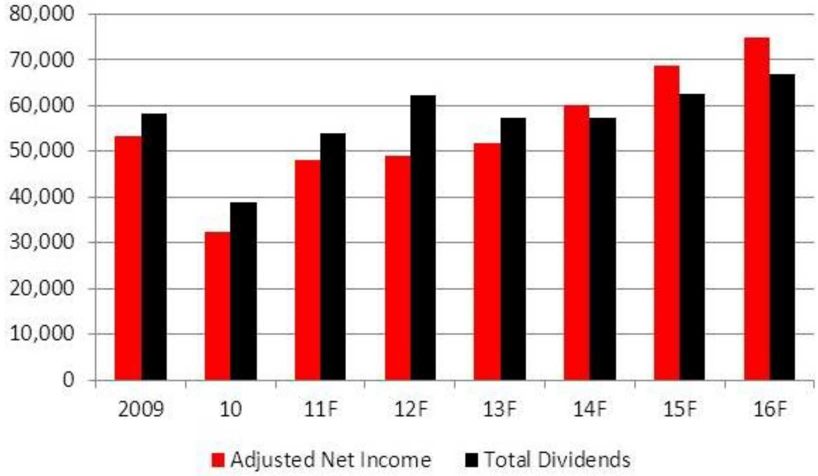
Our analysis demonstrates that MIIF's business assets can generate sufficient cash flows to continue paying this level of dividend. Given that conclusion, we believe that an infrastructure fund should trade at the lower end of the high-yield spectrum given its low business risk. **BUY** for the following reasons:

- **9.6% dividend yield at 5.5c per share**: Make no mistake—this is a yield play for good cash income every half-year. MIIF paid 2.75c for the first half of this year, which management deems sustainable based on the underlying businesses' ability to generate cash. The key item to watch is the Adjusted Net Income of the fund — at dividends of 5.5c for 2011F—13F, 6.0c for 2014F, and 7% growth thereafter, Adjusted PATMI approximates Total Dividends for the next 5 years.

Note: Management adjusts net income to better reflect the amount of cash that is distributable to shareholders.

Total Dividends fall in 2013F because of assumed share buybacks.

Healthy vital signs and healthier dividend growth (S$'000)



Sources: Company, AmFraser Research

- **Potential dividend growth to 6c in 2014, +7% yearly thereafter:** Each of the underlying businesses operate in high-growth Asia and are well-placed to generate increasing distributions to MIIF. We see the dividend rising from 5.5c today to 6c in 2014F, which as discussed is supported by Adjusted PATMI. Thereafter, our model indicates that a dividend growth of 7-10% p.a. is sustainable, even after factoring in cash outflows for share buybacks, and then still leaves a growing cash balance.

- **Clean balance sheet:** MIIF has zero debt at the fund level, and the overall leverage of 51% is considered low for an infrastructure fund. Although net debt to equity appears a little high at 102%, this is par for course for

	Net Debt	Equity	D+E	D/E	D/(D+E)
CXP	66.3	254.0	320.3	**0.26**	**0.21**
HNE	495.6	315.7	811.3	**1.57**	**0.61**
MWC	68.1	0.0	68.1	**na**	**1.00**
TBC	1023.2	1050.3	2073.5	**0.97**	**0.49**
Total	1653.1	1620.0	3273.1	**1.02**	**0.51**

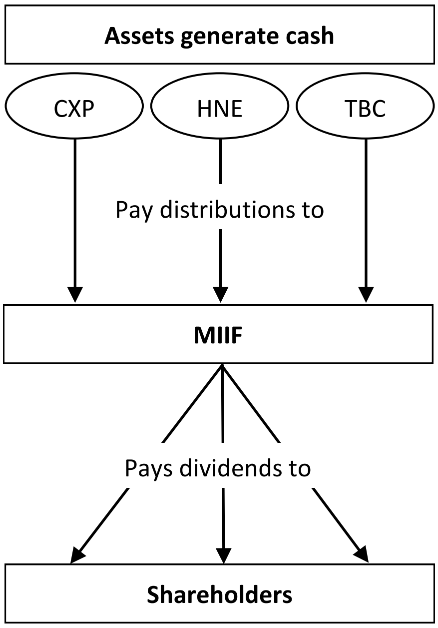
Sources: Company, AmFraser Research

infrastructure assets, which have a steady cash inflow with lower business risk than most other assets. Further, debts of the underlying businesses are non-recourse to the Fund, thus MIIF is not liable to the debtors in the unlikely case of default.

	Total Debt	2011F DSCR	Min. DSCR before lockup
CXP	RMB 360m	1.84	No lockup
HNE	RMB 2,533m	1.69	No lockup
MWC	NT$ 1,730m	1.15	1.15
TBC	NT$ 24,465m	1.85	1.20

Sources: Company, AmFraser Research

MIIF's business model in a nutshell

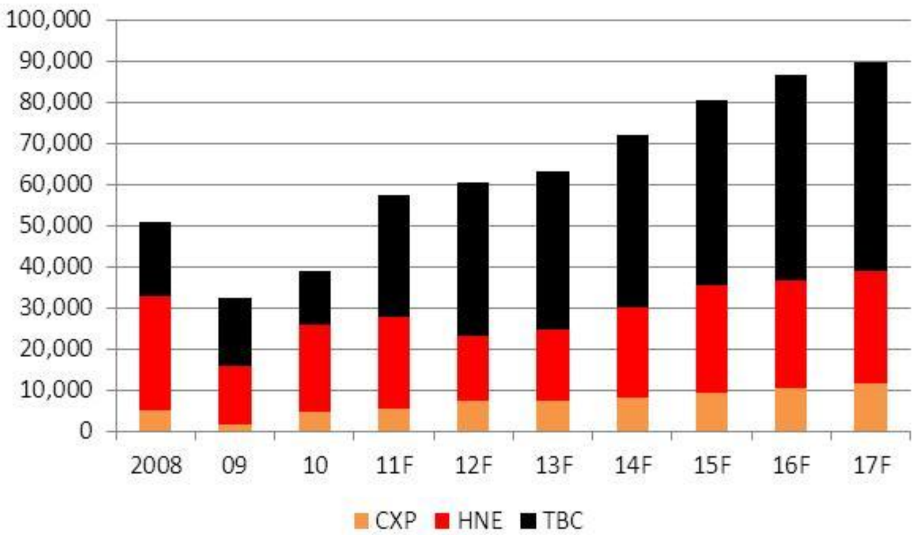


Source: AmFraser Research

With the exception of MWC, all of MIIF's assets have healthy gearing as judged by the Debt Service Coverage Ratio (DSCR), which includes interest and principal repayments.

- **Positioned for Asian growth:** With assets refocused in Asia, the Fund stands to benefit from the growth in population and in consumer spending power. Distributions from assets fell to a low of $32.4m in 2009 as management decided to use cash to pare down borrowings at the Fund level. Distributions have since recovered— 2011 saw total received distributions at $58.6m as of September, on the back of strong growth in all 3 assets.

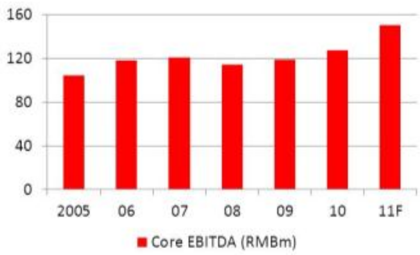
Total distributions from existing assets (SGD '000)



*Note: Diagram only reflects contributions from existing 3 assets. Investment income was received from other assets in prior years.

Sources: Company, AmFraser Research

Stable through crisis, now back on growth path



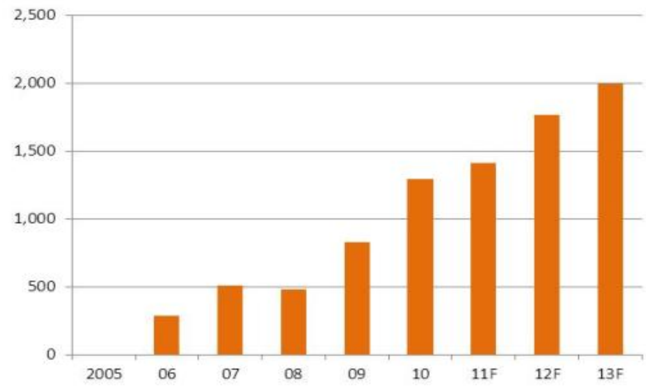
Source: Company

- **CXP driven by high growth in Yangtze River Delta area, demonstrated stable core EBITDA throughout crisis years:** CXP's distributions were reduced in 2009 as the result of a one-off litigation charge of RMB 25.6m. With CXP now slightly under-geared, all future cash flow will go to MIIF, and existing debt will be refinanced. In actual fact, the core EBITDA stayed relatively flat throughout the crisis years, and has already turned up on the back of very high growth in the Yangtze River Delta (which averaged 12.6% growth for 16 cities in the delta area in 2010, outpacing the Chinese national average).

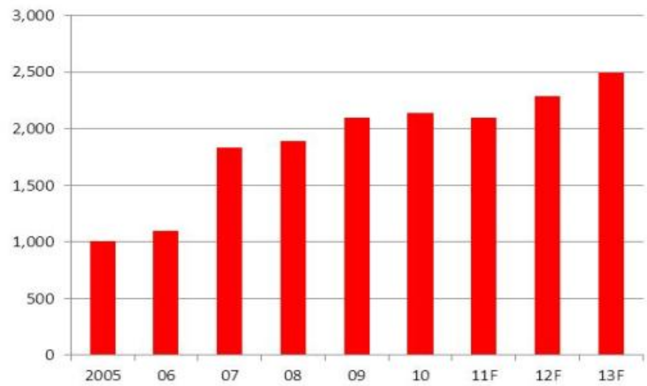
  Two major growth segments: CXP is enjoying strong growth in its two niche segments in logs and paper & pulp, with a 5-year CAGR of 48.9%

and 17.5% by volume respectively. With rising tariffs, revenue has grown even faster for these segments at 5-year CAGRs of 63.5% and 16.5%.

Fastest current growth in logs ('000 tons)



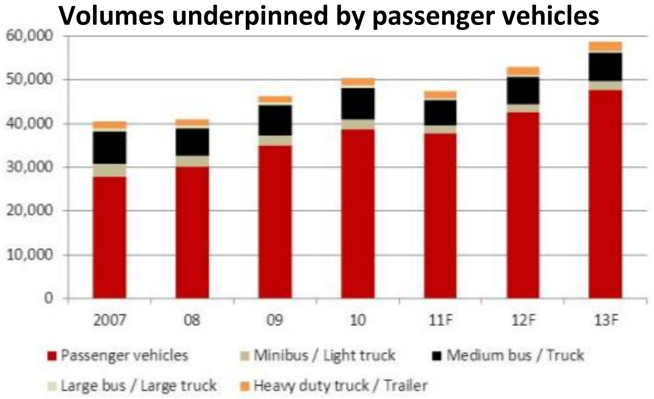
Paper & pulp growing almost as rapidly



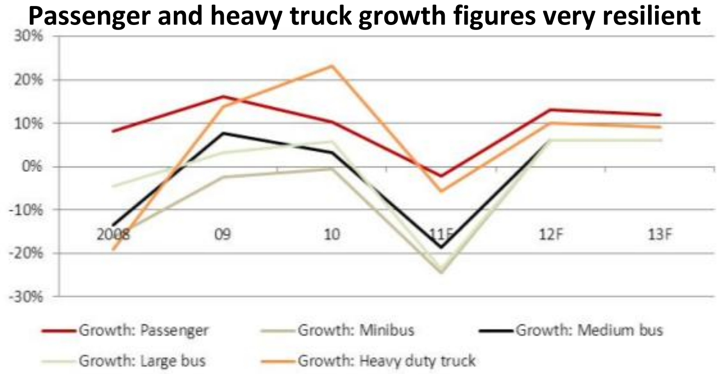
Sources: Company, AmFraser Research

- **HNE driven by increased car ownership backed by consumer wealth in Guangzhou:** GDP per capita in Guangzhou is growing at about 11-12%, average annual salary at 10%, and the number of cars per 100 households at a stunning 17%. Moreover, there are fewer than 25 cars per 100 households, so there is plenty of room to grow.

Volumes underpinned by passenger vehicles

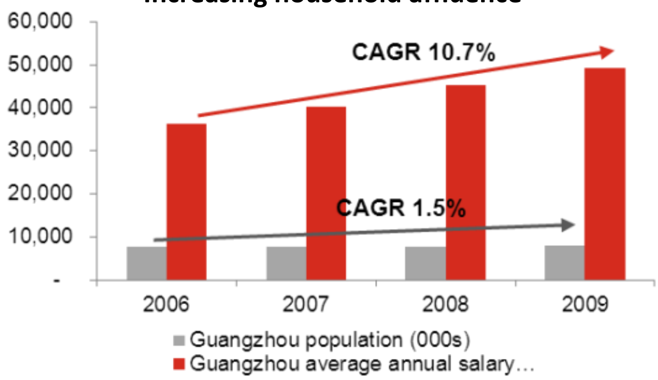


Passenger and heavy truck growth figures very resilient

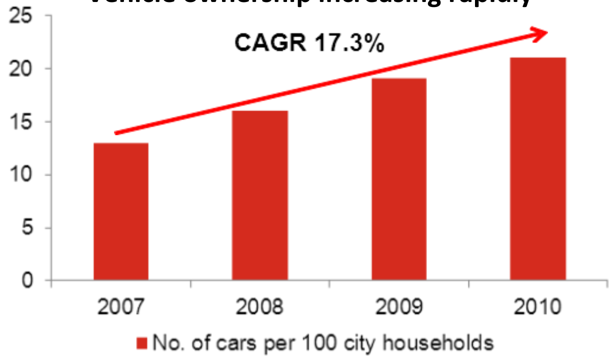


Sources: Company, AmFraser Research

Increasing household affluence



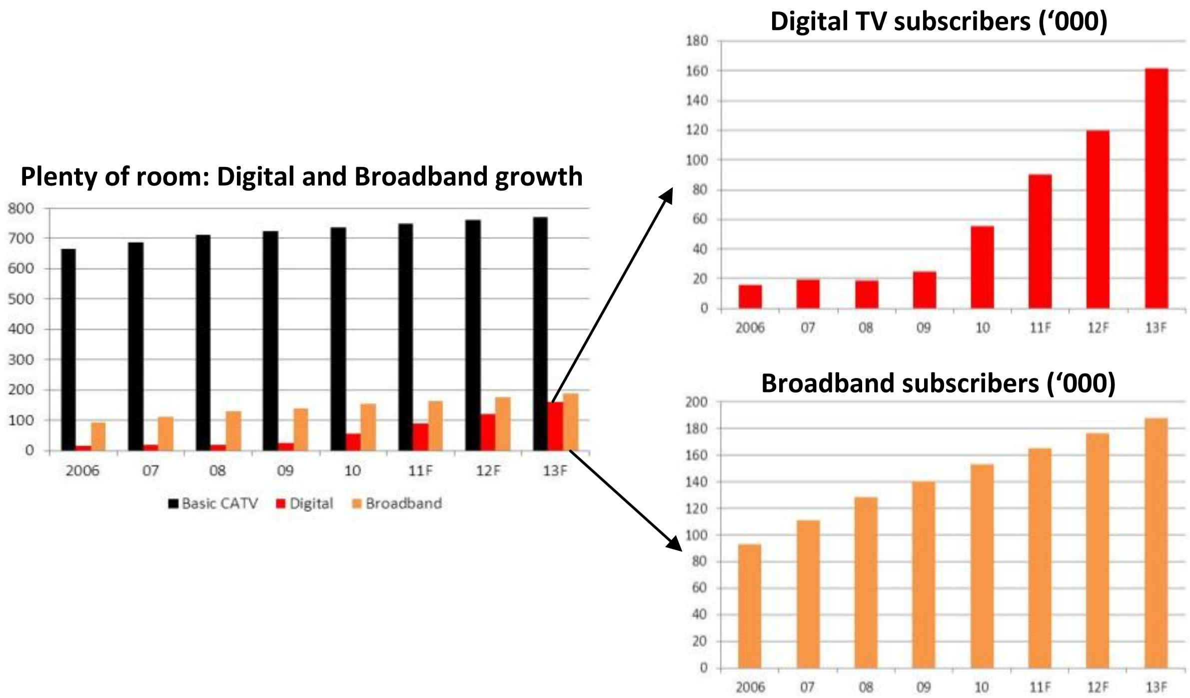
Vehicle ownership increasing rapidly



Source: Company

Also, the city government in Guangzhou is working towards transforming the city towards high-tech and service-oriented growth. Heavy industrial companies are increasingly being moved to suburban areas. This has driven up the vehicle traffic in heavy trucks and large buses, which are the most cost-efficient means of moving raw materials, finished goods, and labour.

- **TBC is a cash-cow with extremely fast-growing Digital TV and Broadband segments:** TBC has 750,000 Cable TV subscribers providing NT$5.8b of cash inflow per year. On top of that, its Digital TV segment is experiencing “dynamic growth”, with price plans uncapped by legislation, supported by tech-savvy Gen-Y demand for a wide choice in TV and movie channels.



Sources: Company, AmFraser Research

Further, Broadband leverages on the Cable network to provide internet connections which are faster than some of the ADSL competition, at lower prices as the basic infrastructure is already in place. These factors have together allowed TBC to grow at 3.8% a year at the topline, with this growth rate actually accelerating as Digital TV’s average revenue is growing even faster than subscribers as a result of affluent customers choosing more “premium packs” in their subscription plans. TBC’s Digital TV offers subscribers an unrivalled spread in quality channels:

New HD Channels:

First time in Taiwan:

International brands:

Source: Company

KEY RISKS

- **Lack of potential yield-accretive asset purchases at fund level:** With MIIF trading at almost 10% yield, it is extremely difficult for management to acquire new assets on a yield-accretive basis. This presents a bit of a chicken-and-egg problem — without new assets, it is difficult to grow the fund and the share price; simultaneously, the share price today implies such a high yield that we do not see any new acquisitions in the near future.

- **Slowdown in China**: An economic downturn in China could reduce the utilization of the port and also lead to slower-than-expected traffic rates for the expressway. However, the high discount rates (18-19%) we use in our valuation of these two assets addresses the growth assumptions and places much more value on the present proven volumes.

- **Global credit conditions:** A global credit crunch like in 2008 could lead to reduced distributions to conserve cash or pay down debt. This happened in 2008-09, both at fund and asset level. Unlike a REIT, MIIF is not obliged to pay dividends, thus there is no guarantee. However, with fund-level debt at zero and asset-level debt at healthy levels, we continue to see dividend distributions even if a 2008-style crisis repeats.

- **For CXP, key risk is competition:** Niche position could be compromised if other ports successfully diversify into logs and paper & pulp, especially if CXP's tariffs get high enough to attract new entrants into the market. We allow for this by forecasting lower tariffs, which somewhat mitigates the revenue growth in this segment from the high volume increase.

- **For HNE, key risk is government regulation:** We see a risk of government action to reduce the higher Phase I rates to the lower rates charged in Phase II of the expressway. Also, a repeat scenario could occur where the government restricts vehicular traffic — in 2007, medium to heavy vehicles were prohibited entry to the city between 7am-9am and 7pm-9pm, which would adversely impact toll revenue.

- **For TBC, key risk is substitution:** TBC is a cable TV monopoly in its areas, but still faces competition in the Broadband segment. Even for the basic cable TV, a future "disruptive technology" could emerge, and one conceivable source is internet-TV. For now, though, Taiwanese still prefer the high quality and quantity of content offered through cable TV.

VALUATION

We value MIIF at **$0.655** per share using a sum-of-the-parts DCF valuation for each of the assets, less the present value of the fund-level expenses. We use a discount range of 14-19% (which we think is conservatively high) for the assets to take into account the growth assumptions. For expenses, based on the logic that future expenses are more certain than future growth, we use the lowest 14% rate to arrive at a more conservative valuation. (See next page for the valuation table)

At the current price, what attracts us most is the sustainable 9.6% yield — we view the potential 15.0% capital gain as icing on the cake. The total upside from current price is 24.6%. **BUY.**

All figures SGD'000	TOTAL	2012	2013	2014	2015	2016	2017	…	2026	…	2044
CXP Distributions		7,337	7,259	7,979	9,133	10,334	11,486	…	29,460	…	231,474
HNE Distributions		15,954	17,528	22,223	26,332	26,491	27,537	…	321,765	…	-
TBC Distributions		37,075	38,436	41,792	45,161	49,931	50,747	…	121,371	…	294,666
Terminal Value TBC									-		3,086,009
PV(CXP)	**80,354**	6,218	5,213	4,856	4,711	4,517	4,255	…	2,460	…	983
PV(HNE)	**160,200**	13,407	12,378	13,188	13,131	11,101	9,697	…	23,677	…	-
PV(TBC+TV)	**550,155**	32,522	29,575	28,209	26,739	25,932	23,120	…	17,004	…	44,786
Fund level cash	**109,769**										
Base management fees		(10,545)	(10,596)	(10,357)	(10,246)	(10,077)	(10,581)	…	(16,414)	…	(39,502)
Performance fees		-	-	-	-	-	-	…	-	…	-
Directors' fees		(389)	(408)	(428)	(450)	(472)	(496)	…	(769)	…	(1,851)
Finance costs		-	-	-	-	-	-	…	-	…	-
Lending fees		(250)	(263)	(276)	(289)	(304)	(319)	…	(495)	…	(1,191)
Other operating expenses		(1,635)	(1,717)	(1,802)	(1,893)	(1,987)	(2,087)	…	(3,237)	…	(7,790)
Terminal Value Expenses											(587,233)
PV(Expenses)	**(114,232)**	(11,244)	(9,990)	(8,682)	(7,624)	(6,669)	(6,142)	…	(2,930)	…	(667)
PV(Terminal Value Expenses)	**(7,779)**										

SUM PV(Distributions) + Cash	**900,478**	
SUM PV(Expenses + TV)	**(122,011)**	
MIIF Value	**778,467**	
Number of Shares Outstanding ('000)	1,189,298	as of 25 Jan 2012
MIIF Value / Share (SGD)	**0.655**	
CXP Discount Rate	18%	
HNE Discount Rate	19%	
TBC Discount Rate	14%	
Expenses Discount Rate	14%	

Note: HNE and CXP distributions in 2026 and 2044 include final cash withdrawal from the assets at the end of their concessions.

Source: AmFraser Research

SWOT Analysis

STRENGTHS

- **Recession-resilient infrastructure assets:** cash flows generally depend on growing underlying populations and non-discretionary spending
- **Current assets all in Asia** where growth expectations for both population and spending power remain high for years
- **Assets face little competition** with most being natural monopolies or occupying niche positions, and no future competing entrants planned
- **Zero debt at fund level and low aggregate gearing** reduce overall risk to dividends

WEAKNESSES

- **Lack of pricing power** in highly-regulated infrastructure assets (applicable to HNE and Cable TV component of TBC)
- **Refinancing risk** in assets with large debt quanta

OPPORTUNITIES

- **Untapped $100m financing line** at the fund level allows for some new investments without a large equity issue

THREATS

- **Rising inflation** in China could lean politicians towards populism, putting toll roads tariffs at risk of being cut
- **Risk of competition** especially in ports— nearby ports could encroach into current niche space

Investment Strategy and Dividend Policy

INVESTMENT STRATEGY

MIIF's investment strategy is to acquire majority or substantial equity or equity-like interests in infrastructure businesses. This allows MIIF to exert significant influence or control over the business and, through an active management approach, to pursue revenue growth and margin improvements as well as to optimize business capital structures. MIIF has also targeted investments through which it has acquired minority positions where its partners have similar objectives to its own.

All of MIIF's current investments are located in Asia and MIIF is focusing on identifying attractive acquisition opportunities in the region.

Investment criteria:

- **Focus:** Infrastructure businesses with a dominant market position, sustainable and predictable cash flows over the long term, potential for long-term capital growth
- **Geographies:** East Asia (China, Taiwan, Hong Kong, Japan) and Southeast Asia (Singapore, Malaysia, Indonesia, Thailand, the Philippines)
- **Sectors:** Transportation infrastructure (toll roads, ports, airports), Utilities and Energy (water and wastewater treatment, energy distribution and storage, renewable power generation), Communications infrastructure
- **Business life stage:** Operational and management track record
- **Holding period:** Potential for long-term hold

DIVIDEND POLICY

MIIF intends to pay out as ordinary dividends the majority of normal distributions that it receives or expects to receive from its investments and not to retain significant cash balances in excess of prudent reserves. Prudent reserves are required to ensure that MIIF remains solvent and that, among other things, operating costs such as finance costs, audit fees, registry fees and hedging costs are adequately provided for.

MIIF declares and pays regular semi-annual cash dividends on all outstanding shares. Its assets pay distributions in March and September to the fund.

Investment portfolio	Frequency per annum	Distribution declaration date
CXP	1	September
HNE	1	September
TBC	2	March, September

Source: Company

Only one direction when you reach bottom (Dividends paid in calendar year)

Source: Company

Changshu Xinghua Port (CXP)

BUSINESS OVERVIEW

CXP is a Class One (catered to international vessels) multipurpose cargo port located within the Yangtze River Delta, a high-growth industrial region near Suzhou, Wuxi, and Changshu. Established in 1994 as a joint venture with the government, a 50-year concession to operate the port until 2044 was then granted. MIIF effectively owns 38% of CXP, with Pan-United Corp owning the majority 51.3% and the balance split between Petroships Investments and the Jiangsu Changshu Economic Development Group.

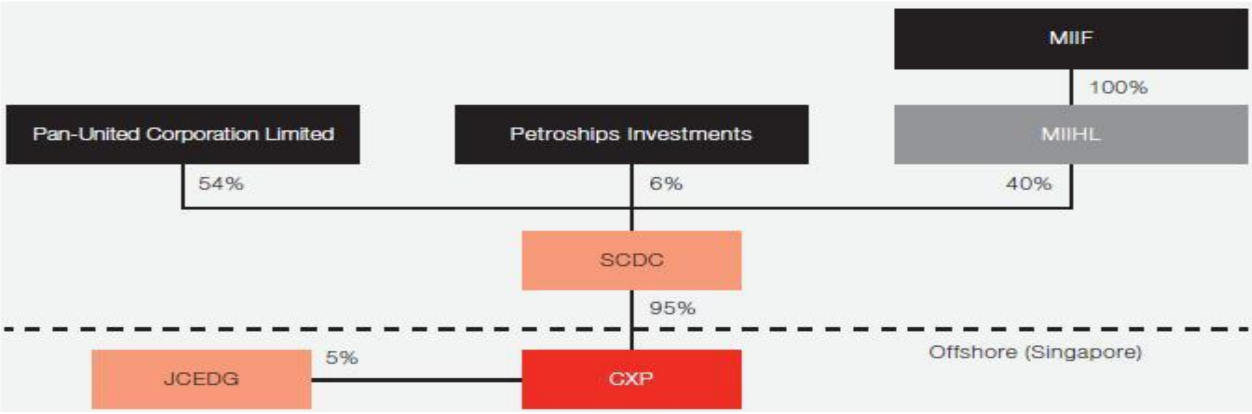
Pan-United Corp is the operator of the port; MIIF takes an advisory role in recommending improvements to operations.

Key operational features

Established	1994
Concession ends	2044
Water depth	13.3m
Vessel capacity	Up to 100,000 DWT vessels
Facilities	8 berths
	1,700m of berth
	2 gantry container cranes
	10 multi-use portal cranes
	14 warehouses with total built-up area of 107,300 sq m
	Yard storage totalling 608,147 sq m
Total land area	1 million square metres

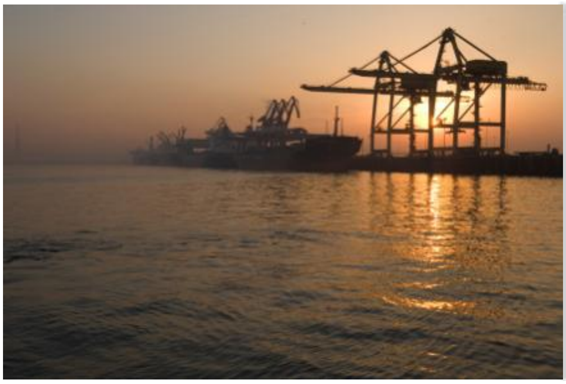
Source: Company

38% effective ownership by MIIF



Source: Company

Located in a high-growth region near Shanghai



Source: Company

KEY BUSINESS DRIVERS

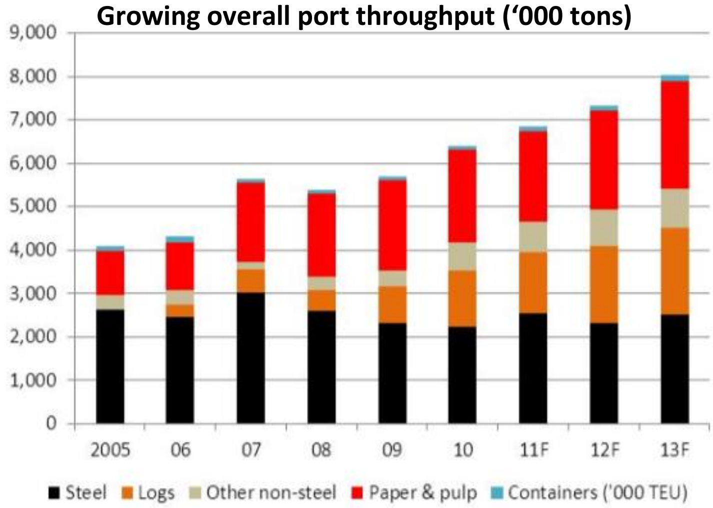
Source: Company

- **CXP's key asset is its huge land area:** CXP's key competitive advantage lies in its huge 1,000,000m^2 of land. Steel and logs are two products which do not lend themselves readily to multi-storey storage. The availability of land has allowed CXP to grow its logs business especially quickly.

- **Joint venture with Westerlund catapulting growth in paper & pulp:** CXP has a 25% stake in the Changshu Westerlund Warehousing (CWW) joint venture, formed with the leading global forestry product terminal operator Westerlund. According to management, CXP handled 18.8% of China's paper & pulp imports in 2010. China's per capita paper consumption lags behind developed countries, which will likely support future growth in this segment as the economy grows. In addition, the Chinese Government's plan to close high pollution pulp factories will support the import sector.

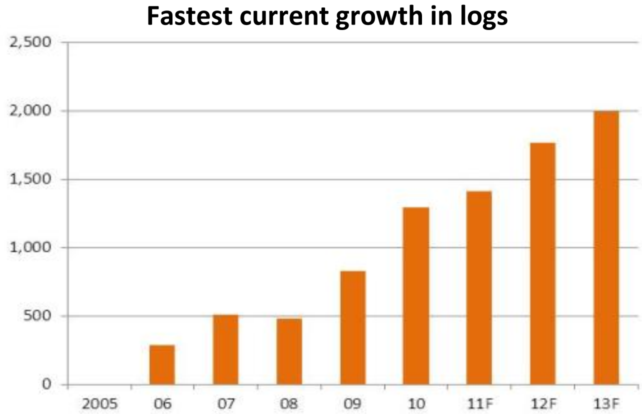
- **Long-term exclusive contracts cement CXP's niche position in pulp:** Westerlund accounts for 20-30% of China's pulp imports, and CWW's long term exclusive contracts with overseas carriers for import pulp have led to CXP dominating the pulp segment in the Yangtze River Delta with a market share of almost 80%. CXP is geographically close to the paper-making companies in the Jiangsu province, counting 5 of 7 major paper makers in this catchment area as their customers.

Growing overall port throughput ('000 tons)

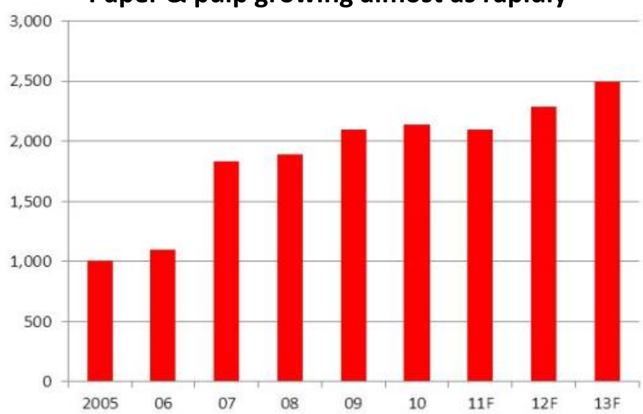


Sources: Company, AmFraser Research

Fastest current growth in logs



Paper & pulp growing almost as rapidly



Highest volume still steel, with paper & pulp and logs rapidly catching up

Volume (Tonnes or TEU)	2005	06	07	08	09	10	11F	12F	13F
Steel	2,629	2,444	3,028	2,601	2,316	2,217	2,527	2,325	2,511
Logs	0	288	511	484	831	1,298	1,415	1,768	1,998
Other non-steel	334	342	181	305	378	647	706	833	899
Paper & pulp	1,010	1,101	1,835	1,894	2,094	2,139	2,096	2,285	2,490
Containers ('000 TEU)	107	136	88	96	82	90	99	112	127

Sources: Company, AmFraser Research

Source: Company

Source: Company

Source: Company

- **Logs business driven by consumer purchasing power:** CXP began importing logs from Canada and New Zealand since 2006, with the segment really taking off in 2010 with a 56% growth in volume and an 86% growth in segment revenue. According to management, CXP accounted for 10.7% of China's total log imports in that year. This growth comes on the back of strongly increasing domestic consumption as well as the Chinese Government's strict policy to control deforestation. Management expects China's demand for raw wood materials as well as finished wood products to grow at 8-10% per year due to growing consumer purchasing power.

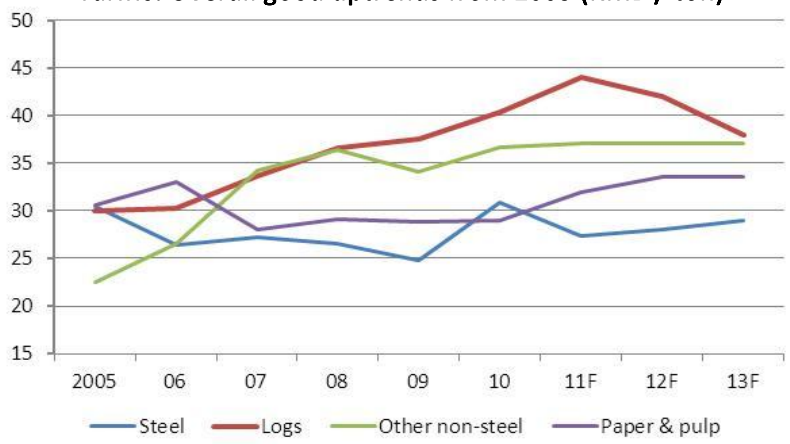
- **Strong growth in Logs segment from relationship with Pacific Forest Products:** CXP has developed a strong relationship with Pacific Forest Products with the abundant yard land area as a key selling point, such that New Zealand wood contributed 73.7% of the total log volumes in 2010. CXP's efforts in gathering together would-be customers of Pacific Forest Products has paid off and ensures its position along the value chain. Together, logs and paper & pulp form 50% of future revenues.

- **Steel remains as key revenue support:** Steel accounted for 49% of revenues in 2005, but that has since fallen sharply to 26% in 2010. Going forward, we see steel maintaining its share of revenues at about 21%, volumes growing at a 7-8% annually tracking real growth in the region.

- **Containers to remain small contributor:** CXP is heavily outcompeted in the container segment by specialized container terminals such as Taicang and Nanjing. Most of its container traffic are transhipment boxes on their way through to a specialized port. However, a rising tide lifts all boats, and the rapid growth in consumer spending is giving this segment an adrenaline boost. Near term expected growth ranges between 7% to 13%.

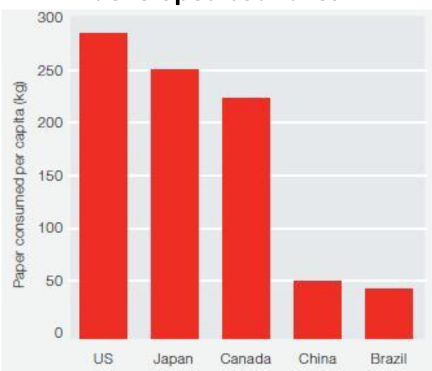
- **Tariffs in the right direction:** For competitive reasons, management has elected not to publish the tariff schedule. We calculated average tariffs each segment on an annual basis, and note that since 2005, all the tariffs have been heading up. The fastest growth has been in the Logs segment, which grew from an average of RMB 30/ton in 2005 to over RMB 40/ton today. We project a normalisation for logs tariffs in the near future due to potential competition, but revenue from this segment should continue to rise on strong volume growth.

Tariffs: Overall good uptrends from 2005 (RMB / ton)



Sources: Company, AmFraser Research

Paper consumption needs to quadruple to catch up with developed countries



Source: Company

- **Growth opportunities:** CXP aims to further its exposure to the North American log market (it currently already handles two log vessels from that region), as well as exploring options in non-steel products such as chemicals.

- **Riding Yangtze River Delta's real growth:** Stripping out inflation, China's real growth is about 4.5%—5% a year. However, that is an average figure for the whole country. At the highest-growth areas, of which the Yangtze River Delta is one, the real growth is about 5%—7% (Case in point: 2010 average nominal growth of 16 YRD cities was 12.6%). We believe that CXP is well-positioned in its niches to benefit.

KEY RISKS FOR CXP

Source: Company

- **Niche position could be compromised** if other ports successfully diversify into logs and paper & pulp, especially if CXP's tariffs get high enough to attract new entrants into the market. Also, the rapid growth of the logs segment would surely attract competition (the rapid tariff growth from RMB 33.7/ton to RMB 40.4/ton on top of rocketing volumes within 3 years must surely have been noticed by the neighbours!) — we allow for this by forecasting lower tariffs, which somewhat mitigates the revenue growth in this segment from the high volume increase.

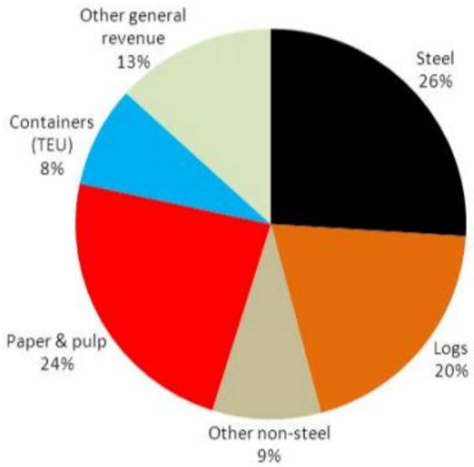
- **Wage inflation in China** is pushing up staff salaries and there is a shortage of good qualified port workers. Management is looking at outsourcing non-critical functions, redeploying staff to other areas of the business and restructuring. Fortunately, higher port utilization is expected to outweigh the effect of wage inflation, leading to a slow increase in the EBITDA margin.

- **A Chinese slowdown scenario** is possible, with the American and Euro debt crises perennially jockeying for world attention. While we do not see a real recession in China being likely, there have been signs of a slowdown, which could result in the port missing our volume forecasts and impacting the expected margins.

CXP FINANCIALS AND DISTRIBUTIONS

- **Well-diversified revenue between steel, logs, and paper & pulp:** In 2010, revenue was relatively well balanced between the three main pillars of CXP's operations. With the faster growth in logs and paper & pulp, we expect them to (very gradually) become more dominant at the top line. Even so, we are positive on this expected development as the demand for these raw materials is driven by consumer purchasing power, instead of the difference between domestic and world prices in the case of steel, thus lending greater stability to future earnings and cash flow.

The right kind of balance



Sources: Company, AmFraser Research

Revenue CAGR from 2005 to 2010 (%)

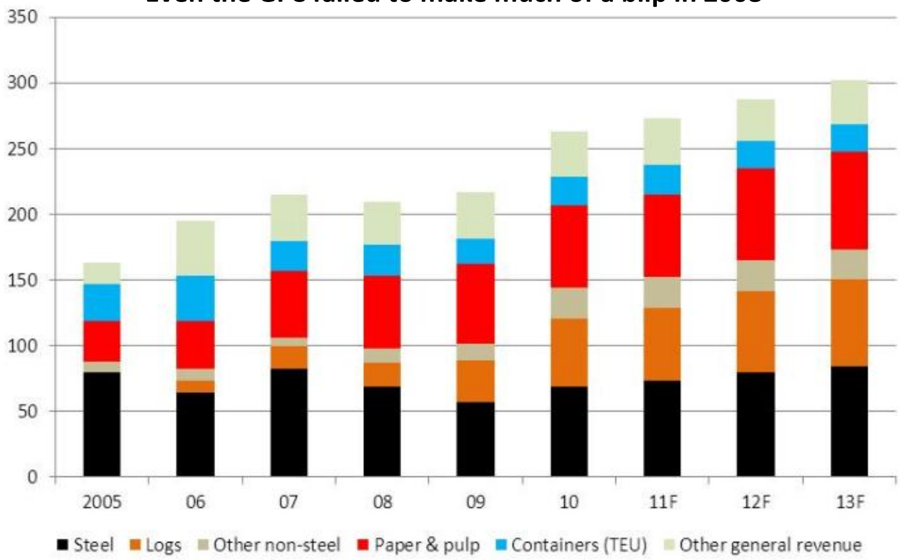
Logs*	56.7
Other non-steel	25.9
Others	16.2
Paper & pulp	14.9
Steel	-3.1
Containers	-5.1

* From 2006 to 2010

Source: AmFraser Research

- **Revenue to continue steady upward march:** From RMB 164m to RMB 264m between 2005 and 2010, CXP has seen its revenue grow at a CAGR of 10.0% overall, led by strong performance in Logs. Looking forward, we are projecting overall revenue growth of close to 7% a year. Our assumptions are for between 6% to 11% growth in the various segments, with a little growth in tariffs.

Even the GFC failed to make much of a blip in 2008

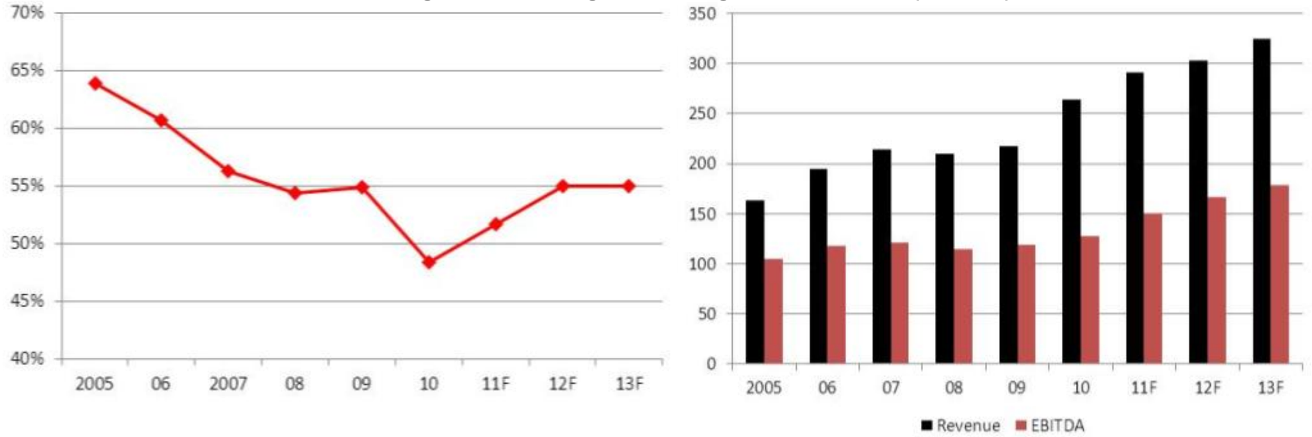


Sources: Company, AmFraser Research

Our growth assumptions	**2012-16**	**2017-21**	**2022 - 44**
Volumes: Steel	5%	7%	5%
Volumes: Logs	12%	7%	5%
Volumes: Non-steel	10%	7%	5%
Volumes: Paper & pulp	9%	7%	5%
Volumes: Containers	13%	11%	5%
Tariffs: Steel	29 / ton	1.4% growth p.a.	
Tariffs: Logs	40 / ton	1.7% growth p.a.	
Tariffs: Non-steel	37 / ton	2.0% growth p.a	
Tariffs: Paper & pulp	34 / ton	2.1% growth p.a.	
Tariffs: Containers	230 / TEU	1.0% growth p.a	

- **High EBITDA margins, assuming 55%:** The EBITDA margin has come down from the 64% high in 2005 due to the growing share of lower-margin export steel and logs compared to higher-margin import steel and containers. Staff costs have also been rising due to the increasing minimum wage, higher overtime rates, and contributions to social security/pension funds. We are conservatively only assuming 55% EBITDA margins going forward.

Stabilizing EBITDA margins and higher cash flows (RMBm)



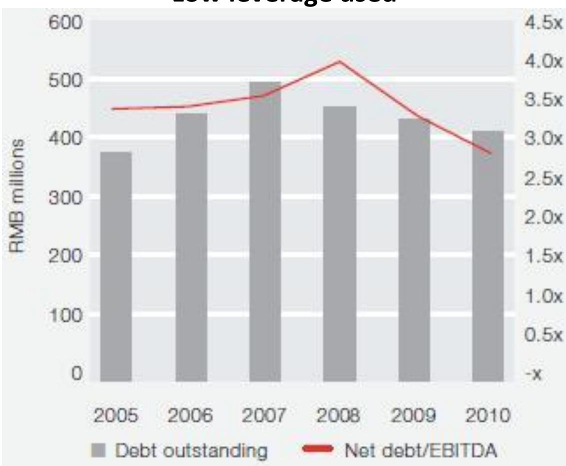
Sources: Company, AmFraser Research

Debt facility RMB m	Outstanding balance (as at 30 Sep 2011)	Maturity date
Facility A (Bullet)	180.0	July 2014
Facility B (Bullet)	180.0	April 2015 – April 2017

Source: Company

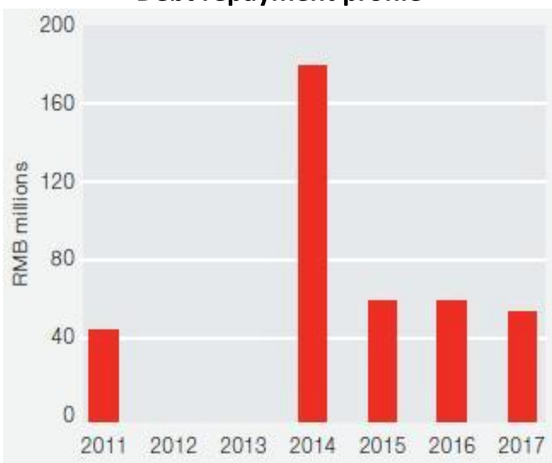
- **Low leverage of 2.8x Net Debt/EBITDA as of 2010:** CXP is relatively under -leveraged, with only RMB 360m of debt still outstanding as of Sep 2011, against EBITDA of RMB 150—167m for the next two years (2.4x, 2.2x Net Debt/EBITDA). We expect CXP to refinance its debts on maturity. There are no debt covenants, so CXP will not enter into distribution lock-up.

Low leverage used



Source: Company

Debt repayment profile



Source: Company

CXP FINANCIAL MODEL

Volume (Tonnes or TEU)	2005	06	07	08	09	10	11F	12F	13F
Steel	2,629	2,444	3,028	2,601	2,316	2,217	2,527	2,325	2,511
Logs	0	288	511	484	831	1,298	1,415	1,768	1,998
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Containers ('000 TEU)	107	136	88	96	82	90	99	112	127

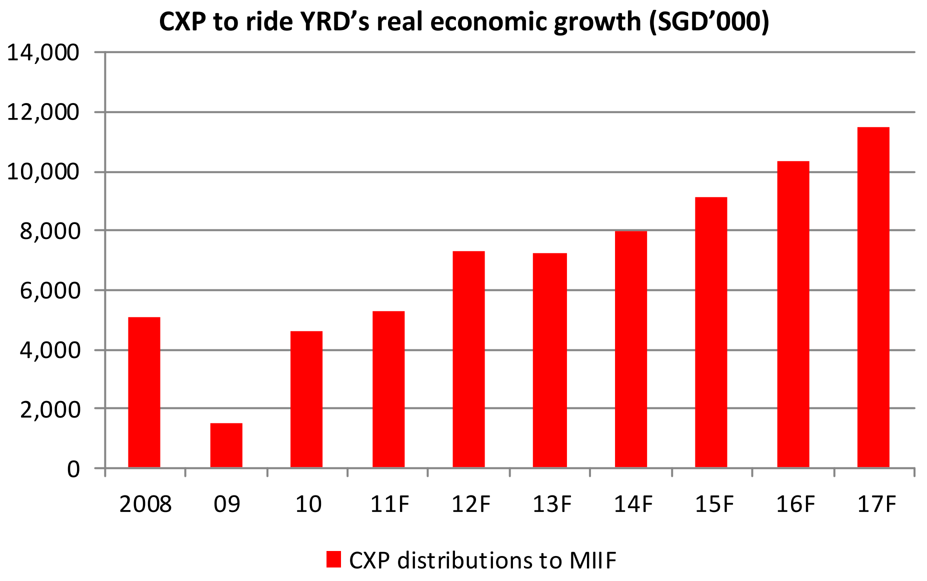
Tariff (RMB / Tonne or TEU)	2005	06	07	08	09	10	11F	12F	13F
Steel	30.5	26.4	27.2	26.6	24.8	30.9	27.3	28.0	29.0
Logs	30.0	30.2	33.7	36.6	37.5	40.4	44.0	42.0	38.0
Other non-steel	22.5	26.6	34.3	36.4	34.1	36.6	37.0	37.0	37.0
Paper & pulp	30.6	33.1	28.0	29.0	28.9	28.9	32.0	33.6	33.6
Containers ('000 TEU)	268.8	257.2	257.8	251.2	241.8	245.1	245.0	230.0	230.0

Revenue (RMB '000)	2005	06	07	08	09	10	11F	12F	13F
Steel	80.1	64.4	82.3	69.2	57.5	68.5	69.0	65.1	72.8
Logs	-	8.7	17.2	17.7	31.2	52.4	62.2	74.3	75.9
Other non-steel	7.5	9.1	6.2	11.1	12.9	23.7	26.1	30.8	33.3
Paper & pulp	30.9	36.4	51.4	55.0	60.5	61.9	67.0	76.7	83.6
Containers (TEU)	28.7	35.0	22.6	24.0	19.8	22.1	24.3	25.8	29.1
Other general revenue	16.5	41.3	35.0	32.6	35.3	35.0	42.0	45.6	49.4
Model Revenue (RMBm)	**163.7**	**194.9**	**214.7**	**209.6**	**217.2**	**263.6**	**290.6**	**303.2**	**324.2**
Core EBITDA (RMBm)	104.6	118.3	120.9	114.1	119.2	127.6	**150.3**	**166.8**	**178.3**
Depreciation and Amortisation	-19.0	-22.9	-27.4	-27.0	-27.7	-27.9	-27.9	-27.9	-27.9
One off litigation				-30.2					
Net Interest Expense	-4.0	-19.8	-25.8	-30.8	-25.5	-23.2	-23.0	-23.0	-23.0
Dividend Income from CWW	2.3	3.1	5.6	5.5	6.6	8.1	8.7	9.4	10.3
Other Income / (Expenses)	0.8	4.6	-0.2	-0.8	0.0	-0.3	-0.5	-0.5	-0.5
Income Tax	0.0	0.0	-5.1	-2.8	-6.6	-8.6	-12.9	-31.2	-34.3
Net Income (RMBm)	**83.0**	**83.3**	**68.0**	**28.0**	**66.0**	**75.7**	**94.6**	**93.6**	**102.9**

Cash Flow Statements	2005	06	07	08	09	10	11F	12F	13F
EBITDA	104.6	118.3	120.9	88.5	119.2	127.6	150.3	166.8	178.3
Net movement in working capital	8.1	-2.9	-6.4	20.0	1.6	13.1	0.0	0.0	0.0
Net movement in deferred income	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Net cash flows from operations	111.8	114.5	113.6	107.6	119.9	139.8	149.4	165.9	177.4
Capital expenditures	-160.9	-72.8	-28.2	-28.2	-10.7	-18.1	-20.0	-20.0	-20.0
Prior business tax adjustment	0	0	0	-4.6	0	0			
Corporate taxes paid	0	0	-4.1	-4.7	-4.7	-8.1	-12.9	-31.2	-34.3
Debt drawdown	130.5	127.5	310.0	20.0	0	0			
Dividend income from CWW	2.3	4.8	3.1	5.6	5.7	8.4	8.7	9.4	10.3
Net interest paid	-4.0	-19.8	-25.8	-30.8	-25.5	-23.2	-23.0	-23.0	-23.0
Debt principal paid	-33.1	-68.1	-257.2	-58.4	-21.7	-20.0	-45.0	0.0	0.0
Free cash to equity	**46.6**	**86.1**	**111.4**	**6.5**	**63.0**	**78.8**	**57.1**	**101.1**	**110.4**
Rounding adjustments		-0.1		0.1		-0.2			
Opening operating cash balance	24.8	25.1	36.4	64.5	3.0	38.0	50.6	35.3	41.8
Cash flow available for equity	71.4	111.1	147.8	71.1	66.0	116.6	107.7	136.4	152.2
(Dividend payment)/Equity injectior	**-46.3**	**-74.7**	**-83.3**	**-68.1**	**-28.0**	**-66.0**	**-72.4**	**-94.6**	**-93.6**
Closing operating cash balance	**25.1**	**36.4**	**64.5**	**3.0**	**38.0**	**50.6**	**35.3**	**41.8**	**58.6**

	2005	06	07	08	09	10	11F	12F	13F
Total Distributions (S$'000)			16,492	14,382	5,770	12,821	14,748	19,309	19,102
SGDCNY:			5.051	4.735	4.853	5.148	4.909	4.900	4.900
Distributions to MIIF (S$'000)			5,680	5,080	1,544	4,619	5,324	7,337	7,259

Sources: Company, AmFraser Research



Sources: Company, AmFraser Research

- **2009 distributions affected by litigation charge in 2008:** CXP's distributions are limited by law to the lesser of distributable earnings (retained earnings, or in its absence, net income of the previous year) and cash. In 2008, a litigation charge caused a provision of RMB 25.6m, affecting distributions for 2009.

- **CXP has too much cash, future payouts will be 100% of net income:** CXP is actually somewhat under-leveraged for an infrastructure asset, at <3x Net Debt / EBITDA. We therefore expect management to pay out as much as possible, i.e., all distributable earnings until the concession expires in 2044.

- **Our valuation for CXP is S$80.4m** based on the sum of the discounted cash flows from CXP to MIIF up to 2044. Management did not disclose the discount rates used, thus for CXP we use a high 18% to take into account the relatively high growth assumptions.

Hua Nan Expressway (HNE)

Source: Company

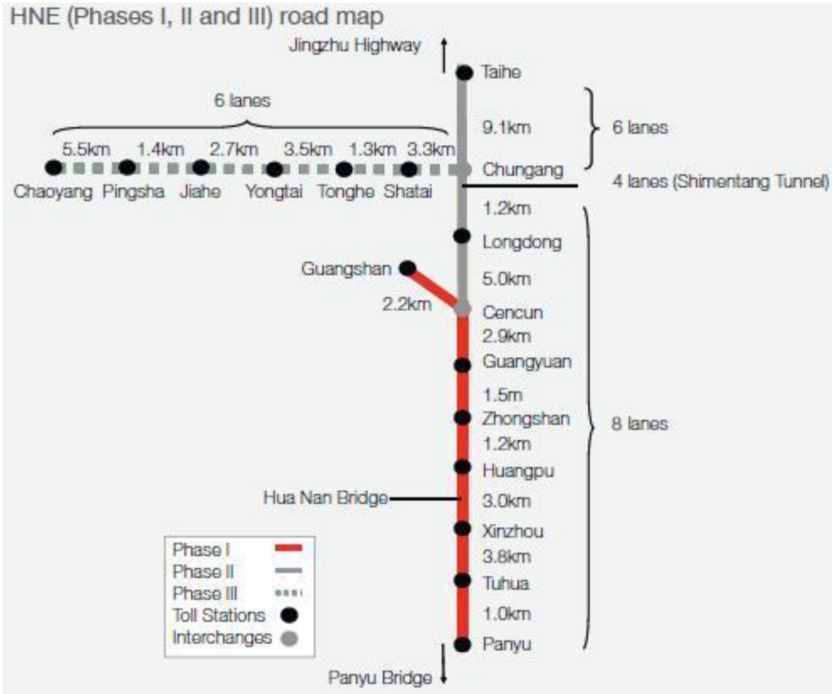
Source: Company

BUSINESS OVERVIEW

HNE is a 31km dual-carriage urban toll expressway in provincial capital of Guangzhou. It is the main artery for north-south traffic. Being the sole remaining tolled road running through the centre of Guangzhou, it offers the only uncongested route for land traffic through the city.

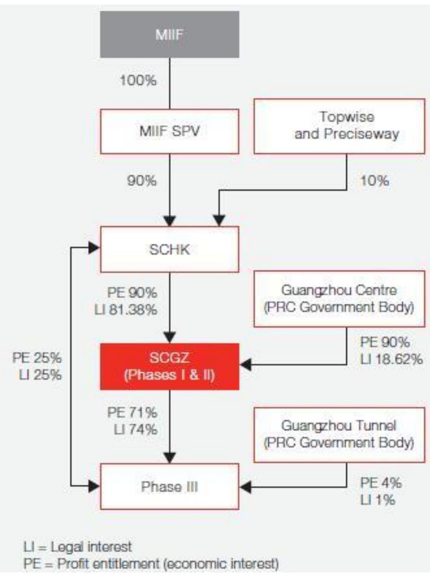
Phase I is a 15.6km stretch along the southern end of the concession, from the financial centre of Guangzhou. Phase II is a 15.3km stretch linking Phase I to the northern town of Taihe, with the narrowest section being a 4-lane mountain tunnel. Phase III runs east-west to Phase II, and its feeder traffic contributed to a 13.2% increase in traffic volumes in 2009. MIIF effectively owns 81% economic interest in HNE, but has no stake in Phase III.

MIIF's operating concession runs till Apr 2026, after which all of HNE's assets, less cash, will be returned to the Chinese government without compensation.



Source: Company

MIIF owns 81% of HNE



Source: Company

Key operational features

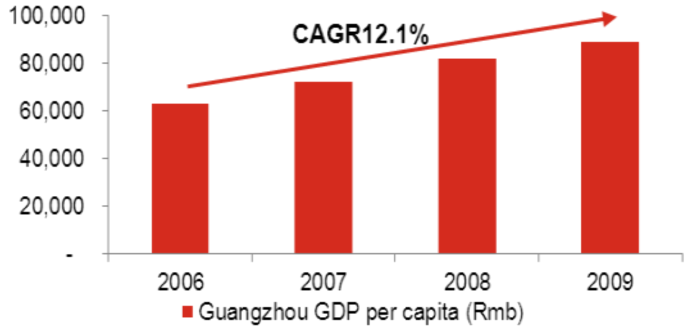
	Phase I	Phase II
Commencement of operations	September 1999	January 2004
Concession end date	April 2026	April 2026
Construction cost	RMB2.2 billion	RMB1.4 billion
Length	15.6 kilometres	15.3 kilometres
Interchanges	7	4
Number of lanes	8	6-8
Immediate destinations	▪ Panyu and Nansha ▪ New residential development in southern Guangzhou ▪ Pazhou International Exhibition Centre ▪ Local universities	▪ Baiyun and Tianhe districts ▪ Baiyun International Airport ▪ Mt Maofeng scenic region
Distant destinations	▪ Zhong Shan ▪ Zhu Hai ▪ Macau	▪ Shaoguan city ▪ Hunan province ▪ Beijing
Connecting key roads	▪ 7 local expressways and key urban arteries	▪ 2 intercity expressways

Source: Company

KEY BUSINESS DRIVERS

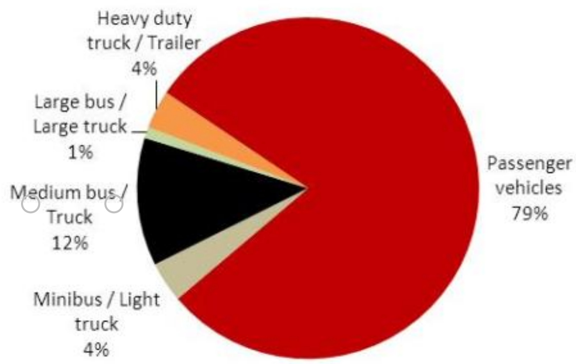
- **Vehicle volumes tied to economic growth:** The largest category of vehicles on HNE since its opening has been Passenger vehicles, the number of which is closely tied to economic growth, household affluence, and the propensity to spend on personal transport. And the numbers are encouraging—GDP per capita is growing at about 11-12%, average annual salary at 10%, and the number of cars per 100 households at a stunning 17%.

Guangzhou GDP per capita growth



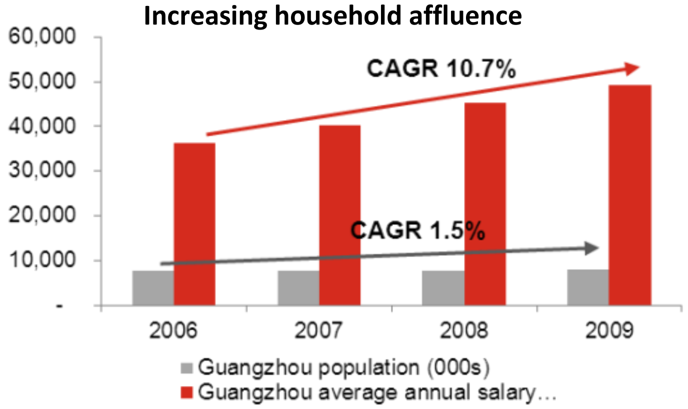
Source: Company

PacMan, anyone?

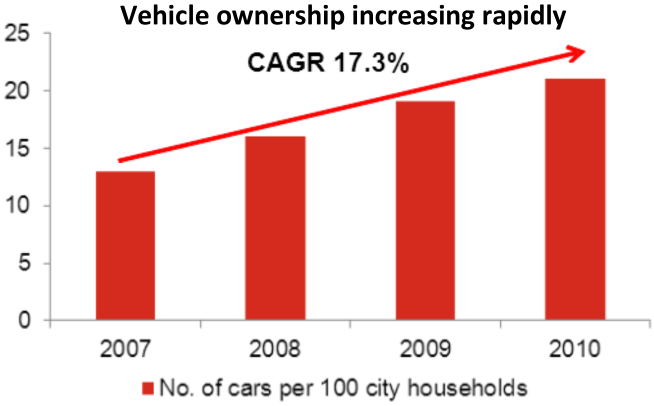


Source: AmFraser Research

Increasing household affluence



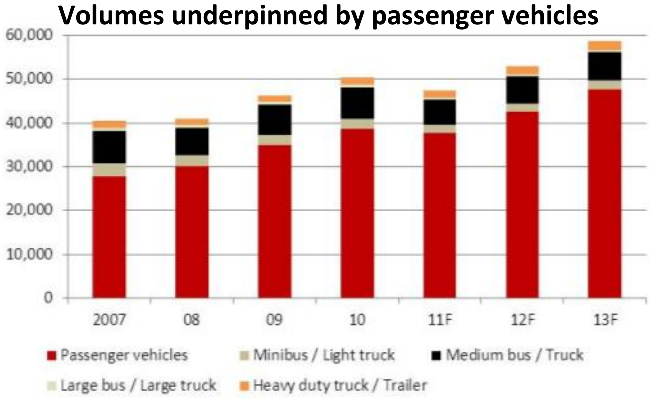
Vehicle ownership increasing rapidly



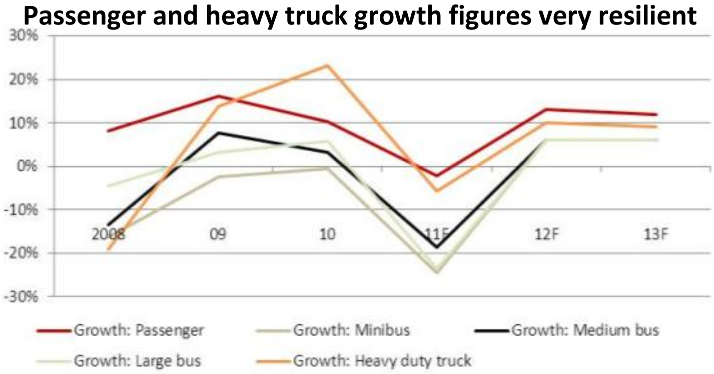
Source: Company

- **Passenger vehicles growing fastest, followed by heavy-duty trucks and large buses:** With the population getting richer rapidly, passenger vehicles are expected to enjoy a high growth rate of about 11% annually for the near future. Heavy-duty trucks / semi trailers / large buses are expected to grow almost as quickly at 8% due to the city authorities' policy of shifting heavy industry farther out from the city centre. The most

Volumes underpinned by passenger vehicles



Passenger and heavy truck growth figures very resilient



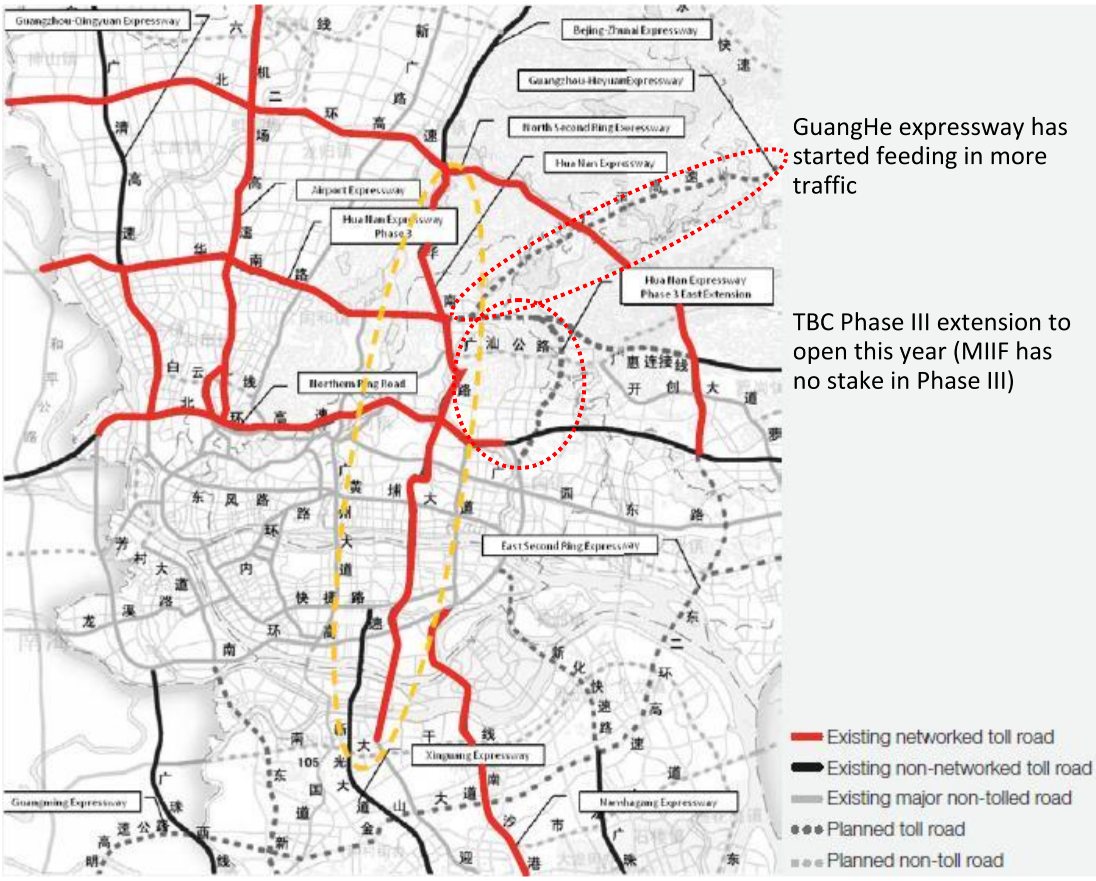
Sources: Company, AmFraser Research

economical transportation of materials, goods, and workers is via the largest vehicle classes, driving the expected growth in this segment.

- **De-tolling of Xinguang Expressway has removed the only competitor:** Xinguang Expressway runs parallel along 25% of HNE to the south. In Dec 2010, the local authorities de-tolled this expressway (which they control), which had a large negative impact for the middle 3 classes of vehicles. We note that the two important segments, passenger and heaviest vehicles, suffered only -2% and -6% growth in 2011. As a result, Xinguang Expressway has become congested, and we believe that this marks the bottom of vehicle volumes on HNE as there are no remaining alternatives.

- **Guangzhou Urban Master Plan involve no competing roads:** Under the Master Plan—which provides detailed plans for the construction of roads and toll expressways until 2020—there are no planned toll roads which would be in direct competition to HNE. We believe there will be no change to this conclusion because the HNE corridor is highly developed: Land acquisition will be prohibitively expensive, complicated, and compounded by rising construction costs, high inflation and high cost of debt. Further, with HNE unlikely to reach capacity up till 2026, it would not make sense to build a competing road at immense expense for low expected returns.

Two major new expressways to feed HNE from NE (already opened Dec 2011) and East (2012)



Sources: Company, AmFraser Research

KEY RISKS

Phase II rates likely to be the floor

		Toll rates (RMB/km)	
Class	Vehicle type	Phase I	Phase II
1	Passenger vehicles	0.75	0.60
2	Minibus/light truck	1.13	0.90
3	Medium bus/ truck	1.50	1.20
4	Large bus/truck	2.25	1.80
5	Heavy duty truck/ semi-trailer	2.63	2.10

Source: Company

- **We see a risk of lowered toll rates:** HNE's toll rates are set by the provincial government to allow a certain rate of return on investment for Phase I, and Phase II's rates were set at the standardized provincial rate. We do not see any upside revisions being likely as the process is a long and cumbersome one, and officials are already concerned about inflation and any price increases. On the downside, should a revision occur, we believe it would be to bring Phase I rates down to Phase II levels. We believe that any downward revisions would be accompanied by at least fair compensation.

- **Government restrictions on vehicular traffic:** From 2007, medium to heavy vehicles were prohibited entry to the city between 7am-9am and 7pm-9pm. There is always the possibility of other restrictions in future, especially with air quality concerns on the rise, which would adversely impact toll revenue.

- **Significant, but manageable, debt level:** HNE has RMB 2,533m of debt on the books to be repaid on an amortizing basis through 2022. The ability of HNE to distribute dividends after repaying each year's interest and principal depends in large part on assumed future vehicle growth—current free cash flow is just sufficient to repay the largest tranche in 2018-21. Hence, we are not too worried about the debt repayments, and with vehicle growth likely to continue, distributions should continue to grow.

Source: Company

HNE FINANCIALS AND DISTRIBUTIONS

Fastest-growing segment charged the least

		Toll rates (RMB/km)	
Class	Vehicle type	Phase I	Phase II
1	Passenger vehicles	0.75	0.60
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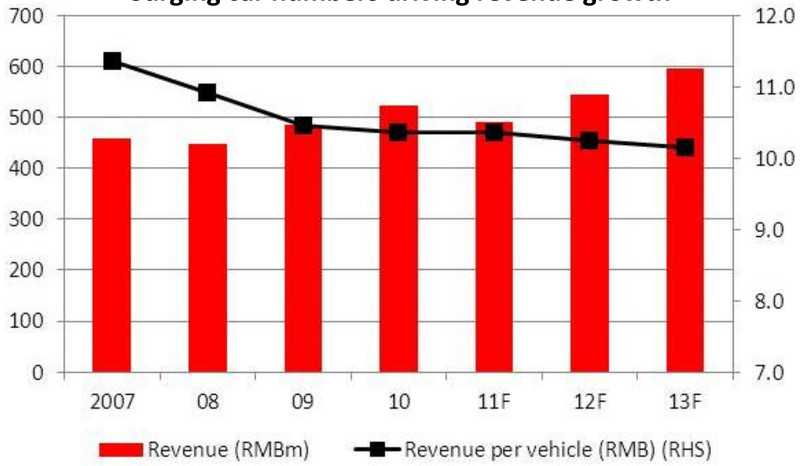
3	Medium bus/ truck	1.50	1.20
4	Large bus/truck	2.25	1.80
5	Heavy duty truck/ semi-trailer	2.63	2.10

Source: Company

- **Revenue hit by Xinguang detolling in 2011, now bottomed:** The detolling of Xinguang Expressway, by our estimate, had a -6% impact on revenue in 2011F. We expect 2012F to record significant improvement due to the opening of the Guangzhou-Heyuan (GuangHe) Expressway to the north-east in Dec 2011 which will bring feeder traffic into HNE.

  Revenue per vehicle has been falling since day one because of the tariff structure—passenger cars, which form the largest and fastest-growing group, pay less than one-third the tariff paid by a semi-trailer-class vehicle. With growth rates in passenger cars still outstripping the other classes, we expect this downward trend to continue. However, overall revenue is set to rise alongside growing total vehicle volumes.

Surging car numbers driving revenue growth

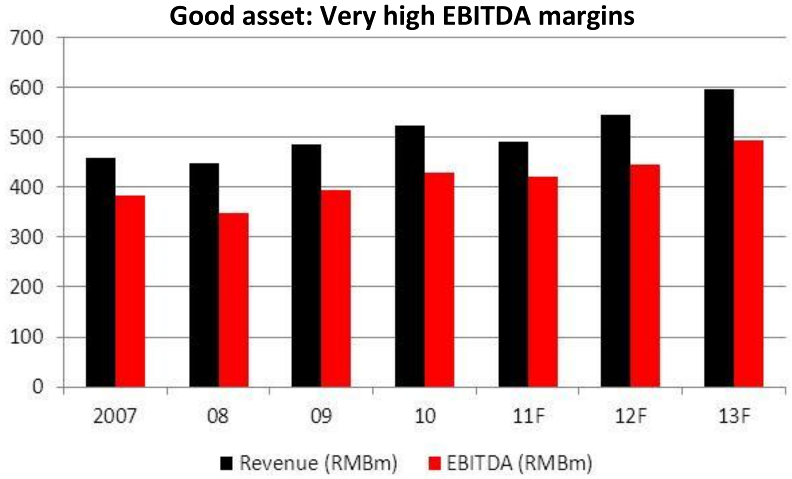


Source: Company, AmFraser Research

Source: Company

- **EBITDA margin of 80% to be maintained:** HNE's EBITDA margin has fluctuated between 78%-83% since 2007, making it an extremely cash-generative business. Though operating costs and maintenance costs are rising, the overall vehicular growth rate in excess of 7% helps to maintain this margin at above 80%.

Good asset: Very high EBITDA margins



Source: Company, AmFraser Research

Period	Approved tax rate	Tax rate for HNE
2008	18.0%	9.0%
2009	20.0%	10.0%
2010	22.0%	11.0%
2011	24.0%	24.0%
2012 onwards	25.0%	25.0%

Source: Company

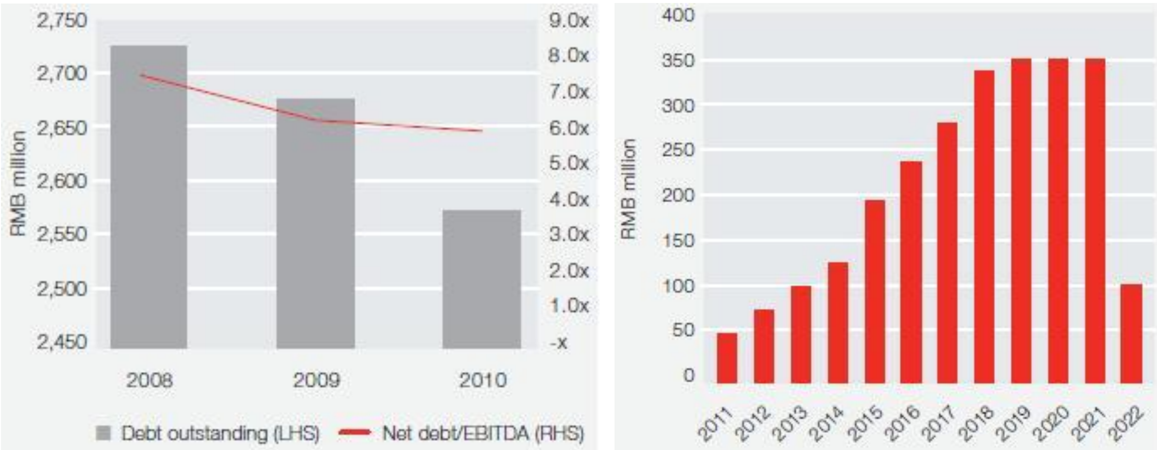
- **Tax concessions to end in 2011-12:** As a Foreign Investment Enterprise, HNE has enjoyed "2+3" tax exemptions (0% in first 2 years, 50% of statutory rate in next 3) since 2006. These tax exemptions ended in 2011, and going forward, the tax rate will be 25%.

  The doubled tax rate means that profits and cash flows in 2011 will take a double-hit on top of the revenue dip, which will impact distributions in FY12F.

- **Healthy debt level, amortizing payment profile sculpted to expected traffic volumes:** HNE currently has RMB2,533m of debt, equivalent to about 6.0x 2011F EBITDA. This is an acceptable level for an infrastructure asset, with interest coverage in excess of 2.5x since 2009. The repayment schedule has been renegotiated to match management's expectations of future vehicular volumes and revenues.

  In addition, the depreciation policy has been changed from straight-line to units-of-production (i.e. higher depreciation in future years when more traffic is carried) so that more cash can be distributed from current earnings. All these measures together maximize the cash that can be legally paid today (instead of being trapped in HNE) and help to maintain a steady distribution to MIIF.

Acceptably healthy



Source: Company

- **Distribution to fall next year, slowly grow from 2012F:** As HNE's distributions are based on the previous year's performance, the lower vehicle volumes and doubling of the effective tax will hit the distribution to MIIF in 2012F. We see the distribution falling about 29% from the $22.5m received this year to $16.0m. However, with the opening of GuangHe Expressway and on the back of still-strong economic fundamentals, 2012F should see higher traffic volumes. The marginal tax increase from 24% in 2011 to 25% in 2012 will be more than mitigated by the expected increased traffic, whereupon we expect distributions of $17.5m and $22.2m in 2013F-14F.

Bridge over calm waters

Source: Company

Volume ('000)	2008	09	10	11F	12F	13F
Passenger vehicles	30,110	34,936	38,550	37,657	42,552	47,658
Minibus / Light truck	2,490	2,427	2,414	1,824	1,933	2,049
Medium bus / Truck	6,370	6,864	7,086	5,759	6,105	6,471
Large bus / Large truck	599	618	654	499	529	561
Heavy duty truck / Trailer	1,304	1,485	1,828	1,722	1,894	2,064
TOTAL Volume ('000)	**40,873**	**46,330**	**50,532**	**47,461**	**53,013**	**58,804**

Operating Revenue (RMB m)	**446.7**	**484.4**	**523.4**	**517.2**	**543.7**	**597.1**
Operating tax	-13.9	-15.1	-16.2	-16.0	-16.9	-18.5
Operating cost	-71.9	-66.6	-67.2	-68.5	-69.9	-71.3
Routine maintenance	-11.6	-9.5	-11.4	-12.1	-12.8	-13.6
EBITDA	**349.3**	**393.2**	**428.6**	**420.5**	**444.1**	**493.7**
Depreciation	-83.4	-98.6	-110.7	-107.3	-120.6	-137.3
EBIT	**265.9**	**294.6**	**317.9**	**313.3**	**323.6**	**356.4**
FX gain/loss	25.6	0.0	0.0	0.0	0.0	0.0
Debt interest	-203.0	-157.0	-148.4	-174.3	-169.4	-162.4
Interest on cash balances	2.8	1.0	1.0	1.0	1.0	1.0
Other non-operating income/expense	-0.2	5.0	-1.6	-2.0	-2.0	-2.0
EBT	**91.1**	**143.6**	**168.9**	**137.9**	**153.2**	**193.0**
Corporate tax	-6.7	-15.1	-19.0	-33.1	-38.3	-48.3
Net profit	**84.4**	**128.5**	**149.9**	**104.8**	**114.9**	**144.8**

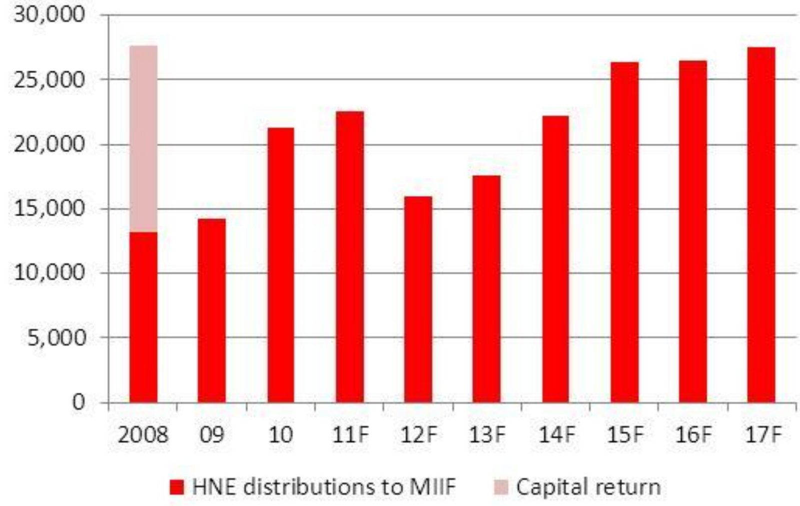
Cash flow statements (RMB m)	**2008**	**09**	**10**	**11F**	**12F**	**13F**
Operating revenue	**446.7**	**484.4**	**523.4**	**517.2**	**543.7**	**597.1**
Operating tax	-13.9	-15.1	-16.2	-16.0	-16.9	-18.5
Operating costs	-71.9	-66.6	-67.2	-68.5	-69.9	-71.3
Routine maintenance	-11.6	-9.5	-11.4	-12.1	-12.8	-13.6
Operating cash flows from Phases I & II	**349.3**	**393.2**	**428.6**	**420.5**	**444.1**	**493.7**
Working capital movement	8.4	12.2	-10.7	-1.0	0.0	0.0
Net cash flow from operations	**357.7**	**405.4**	**417.9**	**419.5**	**444.1**	**493.7**
Interest on cash balance	2.8	1.0	1.0	1.0	1.0	1.0
Corporate tax	-8.4	-11.6	-21.1	-33.1	-38.3	-48.3
Unpaid construction liability	-3.7	-11.4	-0.5	0.0	0.0	0.0
Capital expenditure	-16.6	-46.1	-45.3	-20.0	-21.0	-22.0
Cash flow before funding	**331.8**	**337.3**	**352.0**	**367.4**	**385.9**	**424.4**
Debt drawdown	2,919.0	0.0	0.0	0.0	0.0	0.0
Cash flow available for debt service	**3,250.8**	**337.3**	**352.0**	**367.4**	**385.9**	**424.4**
Debt interest	-202.2	-158.4	-148.4	-174.3	-169.4	-162.4
Debt repayment	-2,947.0	-63.8	-101.6	-43.0	-70.0	-100.0
Free cash flow to equity	**101.6**	**115.1**	**102.0**	**150.1**	**146.5**	**162.0**
Opening cash flow balance	178.6	91.0	107.6	72.6	86.4	128.0
Dividend from Phases I & II	-189.2	-98.5	-137.0	-136.3	-104.8	-114.9
Closing cash balance	91.0	107.6	72.6	86.4	128.0	175.2

Distribution received by MIIF (S$ '000)	**27,600**	**14,233**	**21,261**	**22,492**	**15,954**	**17,528**

Note: 2008 distributions included $14.4m return of capital

Sources: Company, AmFraser Research

Surfing the consumption story of Guangzhou (SGD'000)



Sources: Company, AmFraser Research

- **Somewhat lumpy distributions:** The doubling of the tax from 2010 to 2011 will reduce distributions by 23% in 2012F, translating into -29% for MIIF after withholding taxes and holding company expenses. However, after this dip, distributions will continue on their upward trajectory riding on the wave of increased consumer spending.

- **Our valuation for HNE is S$160.2m** based on the sum of the discounted cash flows from HNE to MIIF up to 2026. We feel that HNE is the riskiest of the three assets as its future distributions after debt payments depend strongly on the realization of assumed vehicle growth. Thus, we use the highest of the discount rate range at 19% for this asset.

Source: Company

Miaoli Wind Company (MWC)

BUSINESS OVERVIEW

MWC owns and operates 25 wind turbines with a combined installed capacity of 49.8MW. All output is sold to Taiwan Power Company (Taipower) under two long-term power purchase agreements (PPA). MIIF owns 100% of MWC.

MWC began operations in Mar 2006 with the final turbine commissioned in Aug 2006. 21 of the turbines are located at Dapong Wind Farm, the 4 others at Chunan Wind Farm.

Source: Company

Key operational features

Power purchase agreements	15 years (ending Feb / Apr 2021) with option to extend for 5 years provided no party objects
Capacity	49.8MW
Facilities	24 x 2 MW turbines, 1 x 1.8MW turbine
Operations and maintenance	12-year fixed fee contract with option to extend for 3 years. Denominated in Euros, hedged till 2013

Source: Company

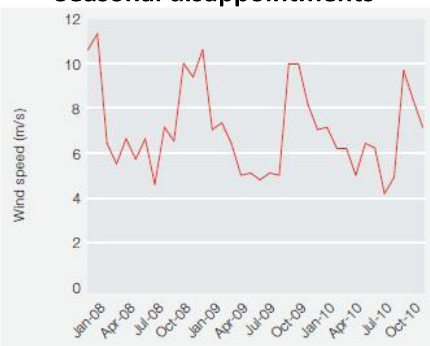
- **Standard operating model:** All electricity produced is sold to Taipower at NT$2.00 per kWh, with no minimum delivery obligation. Operation and maintenance (O&M) of the turbines is contracted to Solvent, a subsidiary of the turbine manufacturer Enercon. The O&M contract guarantees 97% turbine availability, with shortfall compensation.

- **Carried at zero equity:** Energy production is dependent on natural wind speeds at each turbine location, subject to significant seasonality (60% of annual production in the winter months of Oct—Feb). MIIF originally purchased MWC based on 36 years of wind history at a nearby location. Due to lower-than-expected wind speeds, MWC has been written to zero value on MIIF's books and is currently not distributing dividends.

- **Cash flow just sufficient to cover debt payments:** The debt service coverage ratio (DSCR) is less than 1.15x, thus MWC is in distribution lock-up. Our model indicates that this may remain the case up till 2018, hence the zero equity value on the existing business is justified.

- **Possible value in carbon credits:** MWC has applied for Voluntary Gold Standard carbon credits, now in the final stage of assessment. Our model indicates that even should MWC be successful in the same endeavour, the DSCR would still be less than 1.15x up till 2018. However, the incremental value of the carbon credits would help raise the sale value of MWC.

Seasonal disappointments



Source: Company

High debt consumes all free cash flow

Source: Company

MWC FINANCIALS AND DISTRIBUTIONS

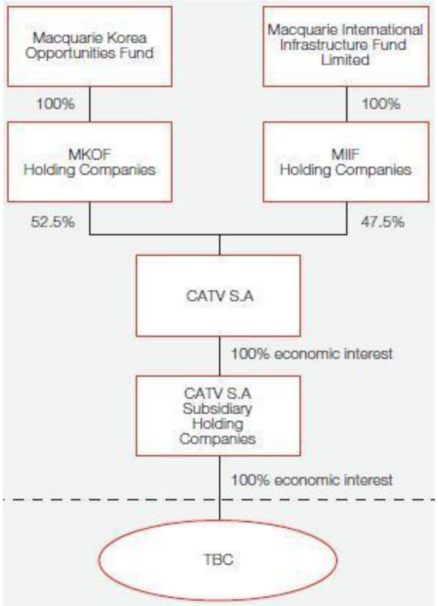
	2008	09	10	11F	12F	13F
Scada generation (millions)	143.9	134.0	126.9	135	135	135
Turbine availability	94.2%	91.2%	93.8%			
Revenue (NT$m)	**288.2**	**260.3**	**245.9**	**264.8**	**264.8**	**264.8**
Operating expenses	-73.0	-56.7	-57.0	(57.00)	(57.00)	(57.00)
Carbon credits sale receipts					25.0	25.0
EBITDA (NT$m)	**215.2**	**203.6**	**188.9**	**207.8**	**232.8**	**232.8**
Depreciation and Amortisation	-225.6	-133.5	-133.5	-133.5	-133.5	-133.5
Net Interest Expense	-140.5	-106.7	-103.0	-95.5	-83.9	-72.9
Shareholder loan interest	-8.1	-7.6	-6.9	-6.9	-6.9	-6.9
Other Income / (Expenses)	-153.4	97.8	-1.0	0.0	0.0	0.0
Income Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (NT$m)	**-312.4**	**53.6**	**-55.5**	**-28.1**	**8.5**	**19.5**

Cash Flow Statements	**2008**	**09**	**10**	**11F**	**12F**	**13F**
EBITDA	215.2	203.6	188.9	207.8	232.8	232.8
Net movement in working capital	-7.8	3.2	41.2	0.0	0.0	0.0
Net cash flows from operations	**207.4**	**206.8**	**230.1**	**207.8**	**232.8**	**232.8**
Capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0
Corporate taxes paid	0.0	0.0	0.0	0.0	0.0	0.0
Debt drawdown	46.8	0.0	0.0	40	380	
Net interest paid	-240.9	-100.0	-97.0	-95.5	-83.9	-72.9
Debt principal paid	0.0	-119.2	-125.5	-120.0	-590.0	-200.0
Free cash to equity	**13.3**	**-12.4**	**7.6**	**32.3**	**-61.1**	**-40.1**
Opening operating cash balance	131.9	136.1	123.6	170.3	202.6	141.5
Cash flow available for equity	145.2	123.6	131.3	202.6	141.5	101.3
(Dividend payment)/Equity injection	-9.1	0.0	39.0	0.0	0.0	0.0
Closing operating cash balance	**136.1**	**123.6**	**170.3**	**202.6**	**141.5**	**101.3**
Distributions received by MIIF (S$ '000)	397.8	0.0	-1,709.7	0.0	**0.0**	**0.0**

Source: Company

- **Negative free cash to equity for near future:** Unless wind speeds pick up significantly, MWC is likely to be in negative FCFE up till 2018. We hence assume no distributions to MIIF, and assign it a zero value. A sale of MWC would raise cash, but we expect the cash to be used for share buybacks instead of any special dividends.

Taiwan Broadband Communications (TBC)



Source: Company

BUSINESS OVERVIEW

TBC is the third-largest cable TV operator in Taiwan, and is the sole licensee and provider in its five provinces. Established in 1999, it is MIIF's only perpetuity business, with license-renewals every 9 years. MIF owns 47.5% of TBC, with another Macquarie fund holding the remainder 52.5%.

The basic Cable TV (CATV) subscriber base enjoys a high penetration rate (~70% by our estimation) with steady growth, and dynamic growth sources are in the upmarket Digital TV and Broadband packages offered.

The basic CATV package offers more than 100 channels, with Digital cable TV offering premium and HD content, interactive programmes, games and Digital Video Recorder (DVR). The Broadband internet service now offers up to 50 Mbps service, with the infrastructure able to provide speeds in excess of 120 Mbps.

Though wholly owned by Macquarie funds, TBC is managed by a team of true professionals— the Chairman was the former MD/CEO of TBC. The CEO was Head of Cable, Broadband and Fixed Line at StarHub, one of the three major telcos in Singapore. The President was the Head of Content and Marketing in StarHub. The COO was formerly COO at Asia Pacific Telecom Group and Senior IT Director of FarEasTone Telecom Co.

Source: Company

Key operational features

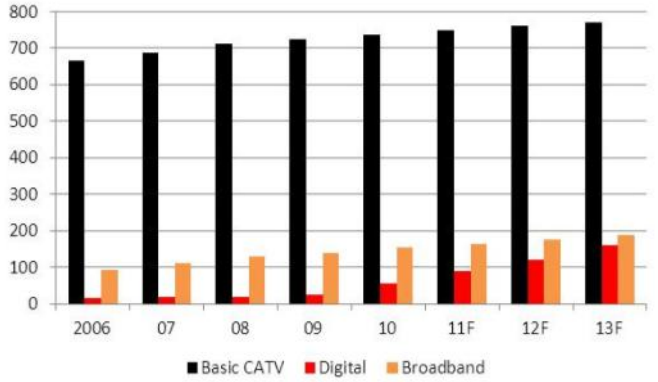
Established	1999
Homes passed	Over 1 million
Subscribers	Basic CATV: 747,126
(as of 30 Sep 2011)	Broadband: 162,421
	Digital TV: 79,864

Source: Company

KEY BUSINESS DRIVERS

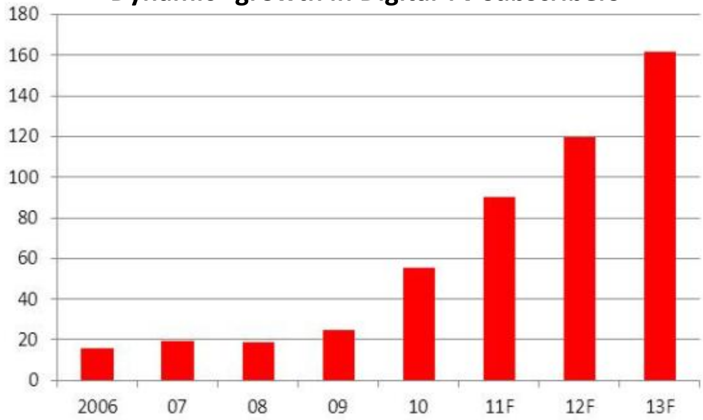
- **The best of both worlds—a growing cash cow:** TBC enjoys huge steady cash flows from its CATV subscriber base (~749,400 today by our estimate) to the tune of about NT$5,800m annually. Digital TV subscriber numbers are growing phenomenally, albeit from a low base. The kicker comes in the Broadband offer— subscriber numbers are growing at 4x that of basic CATV, and the growing revenue per subscriber (broadband now nearly at basic CATV price!) adds a further multiple to revenue.

Differences in height from CATV represent growth opportunities ('000 subscribers)

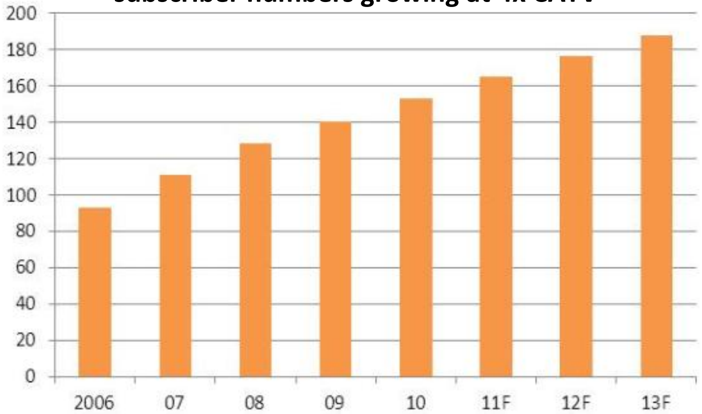


Sources: Company, AmFraser Research

"Dynamic" growth in Digital TV subscribers



From calf to cow: Broadband at the same price, with subscriber numbers growing at 4x CATV

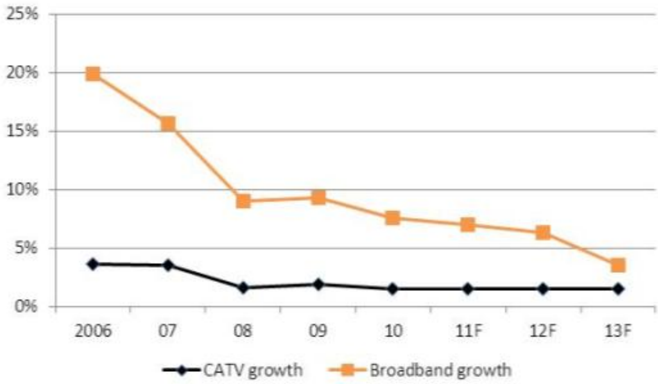


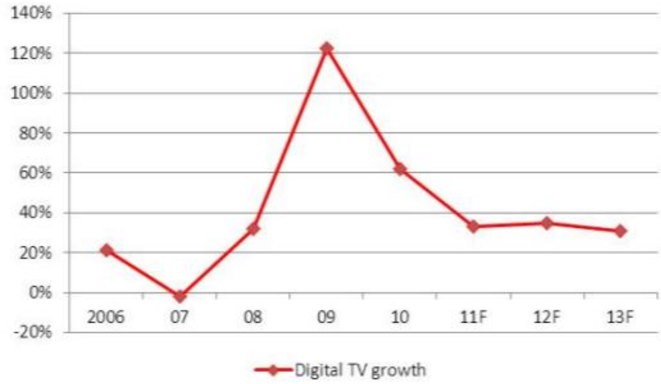
Subscribers ('000)	**2006**	**07**	**08**	**09**	**10**	**11F**	**12F**	**13F**
Basic CATV	664,785	688,860	712,895	724,628	738,072	749,000	760,090	771,344
Digital TV	16,009	19,373	18,958	25,012	55,619	90,000	119,700	161,595
Broadband	92,723	111,177	128,605	140,227	153,269	164,829	176,367	187,478
Digital TV penetration rate	2.4%	2.8%	2.7%	3.5%	7.5%	12.0%	15.7%	20.9%
Broadband penetration rate	13.9%	16.1%	18.0%	19.4%	20.8%	22.0%	23.2%	24.3%
CATV growth		3.6%	3.5%	1.6%	1.9%	1.5%	1.5%	1.5%
Digital growth		21.0%	-2.1%	31.9%	122.4%	61.8%	33.0%	35.0%
Broadband growth		19.9%	15.7%	9.0%	9.3%	7.5%	7.0%	6.3%
ARPU (NT$ / year)	**2006**	**07**	**08**	**09**	**10**	**11F**	**12F**	**13F**
Basic CATV		7,857	7,733	7,727	7,730	7,730	7,730	7,730
Digital			1,577	1,695	1,821	2,003	2,204	2,424
Broadband			6,734	7,166	7,196	7,196	7,196	7,196

Sources: Company, AmFraser Research

- **Strong, sustainable growth in all divisions:** For the next 5 years, we are projecting annual growth of 1.5% in the basic CATV segment, 4% in the broadband segment, and 30% growth in the Digital segment (from a small base). While the 1.5% for basic CATV appears small, on the huge subscriber base this works out to about 11,000 new subscribers annually, almost equal to the 11,500 new Broadband subscribers expected.

Small growth on a huge base… Huge growth on a small base





Sources: Company, AmFraser Research

- **What makes Digital TV so compelling?** First, cable TV is the dominant television medium in Taiwan, with penetration among the highest in the world. Cable TV channels enjoy 70% share of primetime viewing.

Popular TV channels in Taiwan

Source: Company

Through its upgraded MPEG-4 platform, TBC offers Taiwanese viewers many new channels, including HD and international names:

New HD Channels:

First time in Taiwan:

International brands:

Source: Company

Furthermore, TBC's MPEG-4 setup-box is able to up-convert SD video (480i) to HD output (1080i). Much like for Singaporean TV-viewers, it is a one-way street to HD-quality TV — there is no turning back:

From SD to HD quality:

Source: Company

Source: Company

- **Franchise areas have much higher population and household growth:** Our growth assumptions ride on the back of superior demographic trends—both population / household numbers are growing faster in TBC's franchise areas (1.2% / 2.6%) than Taiwan in general (0.4% / 1.7%). Since CATV subscription generally works on a per-household basis, our growth assumption of 1.5% is conservatively lower than the regional 2.6%.

- **"Hubbing" strategy being applied for organic growth:** TBC is applying a model that should be familiar to our Singaporean readers— "Hubbing". In addition to up-selling the Digital TV product to existing CATV subscribers, it is also bundling its CATV with Broadband services.

- **Digital TV and Broadband prices not rate-capped unlike CATV:** Taiwan's government has set a rate cap of NT$600/month for CATV services, but the restriction does not apply to DTV and Broadband. The price for the lowest plan already starts out higher than the CATV monthly rate, underpinning our expectations that Broadband is the up-and-coming cash cow for TBC. (Add price packages comparisons)

Clear sources of growth: Monthly charges for TBC's products (NT$)

Cable TV	Digital TV		Broadband (down/upload)	
600	Basic Package (BP)	250	8Mbps / 640K	800
	BP + 1 Premium Pack	500	12Mbps / 2Mbps	1,050
	BP + 2 Premium Packs	750	16 Mbps / 2 Mbps	1,600
	BP + 3 Premium Packs	1,000	30 Mbps / 2 Mbps	2,100

Source: Company

- **Professional management team of telecoms veterans:** TBC's Chairman Mr. Ben Way was the former MD/CEO of TBC. The CEO Mr. Thomas Ee was Head of Cable, Broadband and Fixed Line at StarHub, one of the three major telcos in Singapore. The President, Ms. Loke Kheng Tham, was the Head of Content and Marketing in StarHub. The COO, Mr. Jimmy Chen, was formerly COO at Asia Pacific Telecom Group and Senior IT Director of FarEasTone Telecom Co. We believe that this team of industry heavy-weights possesses the necessary experience to spearhead the growth.

Senior management all very experienced in comms and media, with two StarHub veterans at the helm

Thomas Ee

Chief Executive Officer

- Joined TBC in October 2007
- More than 12 years of experience in the communications and media industries
- Former Head of Cable, Broadband and Fixed Line at StarHub, a leading Singaporean quad-play operator
  - StarHub Executive Committee member for ten years – Thomas was the key driver for the world's first nationwide 100Mbps residential broadband service, which was launched in December 2006
- Prior to StarHub, Thomas was employed by Digital Equipment Corporation where he was responsible for the company's entire product line from personal computing products to super-computers

Loke Kheng Tham

President

- Joined TBC in January 2008
- More than 20 years of experience in the communications and media industries
- Former Head of Content and Marketing in StarHub
  - One of Loke Kheng's major contributions was the conceptualisation, development and execution of StarHub's well known "Hubbing" or quad-play go-to-market strategy
- Former Head of Channel 5, Singapore's English entertainment FTA channel
- In both 2006 and 2007, Singapore's main English daily, The Straits Times, placed Loke Kheng in third place on their "Power List for Media and Entertainment".

Dennis Wayne

Chief Financial Officer

- Joined TBC in 2000
- More than 20 years of experience in corporate finance; extensive experience in corporate financial management, financial and accounting systems and project finance
- Prior to TBC, Dennis had over 9 years experience in corporate financial management, which included being Finance Director at RhOne-Poulenc Rorer in Beijing

Source: Company

KEY RISKS

- **Threat of substitution:** TBC is a cable TV monopoly in its licensed areas, but still faces competition in the Broadband segment. Even for the basic cable TV, a future "disruptive technology" could emerge, and one conceivable source is internet-TV. For now, though, Taiwanese still prefer the high quality and quantity of content offered through cable TV.

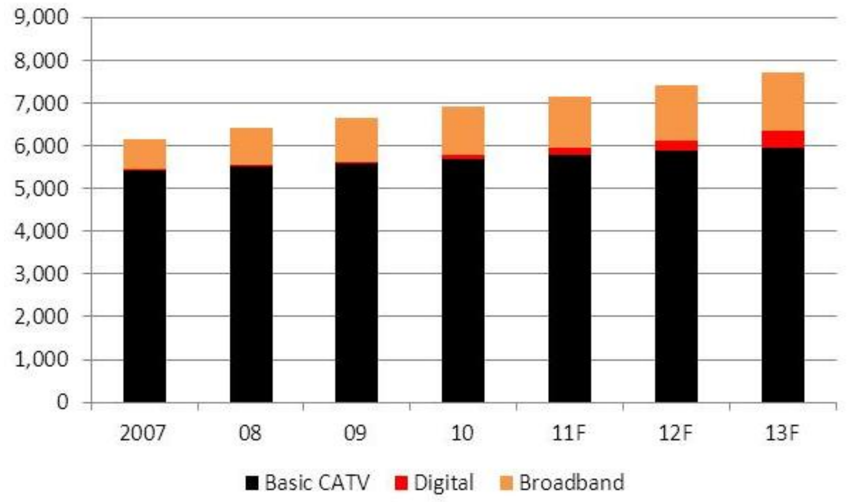
- **Audited financial statements, ironically, are not as helpful:** We had some difficulty reconciling the distributions received from MIIF in prior years to the actual distributions paid at the asset level, based on the published audited statements.

  As such, we would prefer to see statements that may be unaudited but which present a clearer picture from which to project future performance and distributions.

  In the meantime, we believe our distribution expectation to be erring on the conservative side: In 3Q2011 MIIF received $19m from TBC on a half-year basis. Annualizing that for 2012F, assuming no growth, MIIF should receive around $38m. Our projections are $37.0m/$38.4m in 2012F-13F.

TBC FINANCIALS AND DISTRIBUTIONS

- **Strong revenue growth:** Since 2007, TBC's revenue has grown 16.2% to about NT$7.2b this year by our estimate for a CAGR of 5.1%, a pretty impressive feat for a company of this size. Our conservative assumptions lead to future revenue growth of 3.5% - 4.6%, equivalent to an average of NT$300m per year.



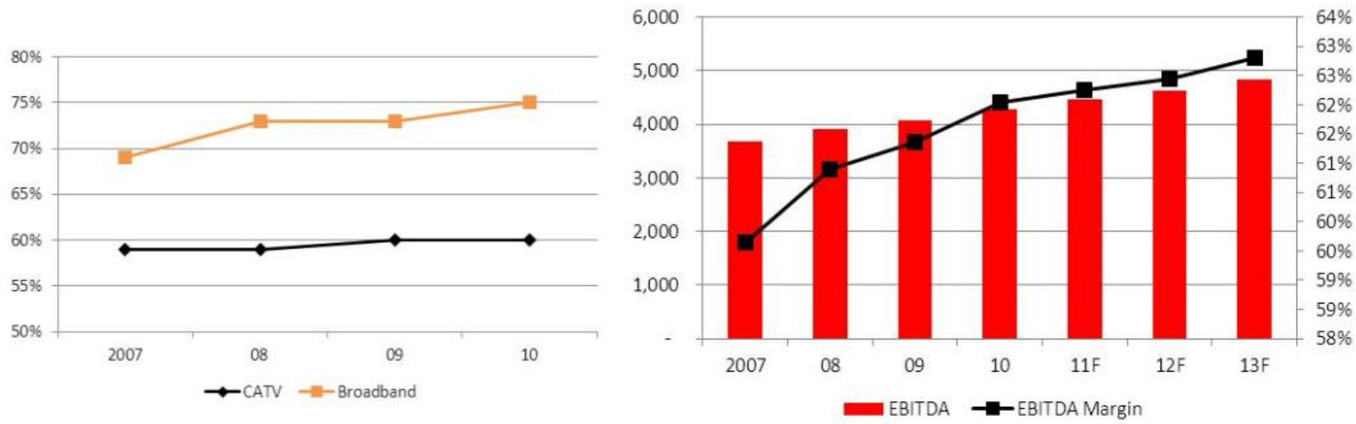
Sources: Company, AmFraser Research

Our growth assumptions	2011F	12F	13F	14F	15F	16F	17F	18F	19F	20F
Growth: CATV	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Growth: Digital	61.8%	33.0%	35.0%	31.0%	28.0%	24.0%	22.0%	19.0%	18.0%	9.0%
Growth: Broadband	7.5%	7.0%	6.3%	3.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Growth: CATV ARPU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth: Digital ARPU	10.0%	10.0%	10.0%	10.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Growth: Broadband ARPU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: AmFraser Research

- **Expanding EBITDA margin:** TBC's overall EBITDA margin has seen an impressive growth from 59.6% in 2007 to 62% in 2010, on the back of rising revenues, driven by margins above 60% in both CATV and Broadband segments. With the Broadband segment growing faster than the CATV base, we expect the EBITDA margin to continue its upward march.

High EBITDA margins in two steady-growth segments… Pulling up overall margins



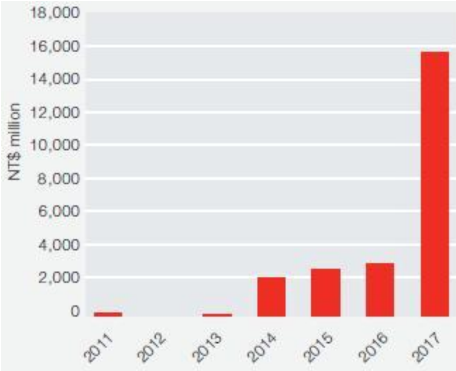
Sources: Company, AmFraser Research

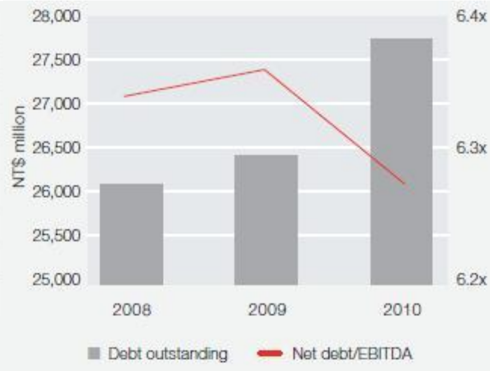
Operator	Country	Debt / EBITDA
Starhub	SG	0.9x
SingTel	SG	1.6x
Liberty Global	USA	4.7x
TeleNet	Belgium	4.8x
TBC	Taiwan	5.5x

Sources: Bloomberg, AmFraser Research

- **Leverage on the high side of the comfortable range:** TBC has debt of about NT$24,400m, which is about 5.5x 2011F EBITDA. While this is on the high side of the range with which we are comfortable for a cable operator, TBC's strong and growing cash flow is an important mitigating factor. Management expects to refinance the principal repayments for 2014-16 by late 2013, and to continue to refinance all debt.

Debt facility	Outstanding balance (as at 30 September 2011)	Distribution lock-up	Maturity date
Multiple Lenders, Onshore Senior (Bullet/Amortising), NT$ million	20,414.5	DSCR>1.20x	June 2017
Multiple Lenders, Subordinate Debt (Bullet), US$ million	135.0	DSCR>1.05x	December 2017





Source: Company

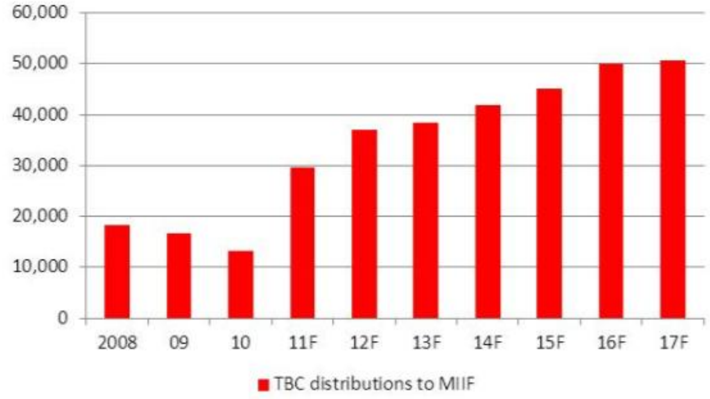
	2008	09	10	11F	12F	13F
Revenue (NT$m)	**6,408.4**	**6,646.1**	**6,909.6**	**7,156.3**	**7,408.5**	**7,703.4**
Operating expenses	-2,506.4	-2,568.0	-2,622.4	-2,701.1	-2,782.1	-2,865.6
EBITDA	**3,902.0**	**4,078.1**	**4,287.2**	**4,455.2**	**4,626.4**	**4,837.8**
Depreciation and amortisation	-770.7	-651.4	-665.4	-672.1	-678.8	-685.6
Net interest expense	-1,482.8	-1,609.5	-1,774.1	-1,523.5	-1,662.0	-1,662.0
Shareholder loan interest	-2,072.1	-1,938.9	-1,620.2	-1,750.0	-1,750.0	-1,750.0
Management fees to shareholders	-237.1	-243.2	-235.3	-250.0	-250.0	-250.0
Other income/(expenses)	-276.1	-838.2	-1,097.0	-1,000.0	-1,000.0	-1,000.0
Tax	-89.6	-453.9	-461.6	-478.1	-494.9	-514.6
Profit after tax	**-1,026.4**	**-1,657.0**	**-1,566.4**	**-1,218.4**	**-1,209.3**	**-1,024.4**

Cash flow statements (NT$m)	**2008**	**09**	**10**	**11F**	**12F**	**13F**
EBITDA	**3,902.0**	**4,078.1**	**4,287.2**	**4,455.2**	**4,626.4**	**4,837.8**
Net movement in working capital	-611.3	-428.0	47.1	0.0	0.0	0.0
Net cash flow from operations	**3,290.7**	**3,650.1**	**4,334.3**	**4,455.2**	**4,626.4**	**4,837.8**
Capital expenditures	-913.1	-803.1	-782.1	-800.0	-800.0	-800.0
Corporate taxes paid	-566.7	-512.6	-526.1	-478.1	-494.9	-514.6
Debt drawdown	1,330.0	1,150.0	28,291.9	400.0	0.0	
Borrowing costs		-28.8	-1,440.2	-25.0	-25.0	-25.0
Net interest paid	-1,887.9	-1,660.5	-1,406.8	-1,523.5	-1,662.0	-1,662.0
Debt principal paid	-303.3	-880.5	-26,435.2	-400.0		
Free cash to equity	**949.7**	**914.6**	**2,035.8**	**1,628.6**	**1,644.5**	**1,836.2**
Opening operating cash balance	1,255.2	1,346.8	547.8	775.9	624.9	450.0
Cash flow available to equity	**2,204.9**	**2,261.4**	**2,583.6**	**2,404.5**	**2,269.4**	**2,286.2**
(Distribution payment) / injection	-1,113.9	-1,896.8	-1,809.4	-1,779.6	-1,819.4	-1,886.2
FX movement	255.8	183.2	1.7	0.0	0.0	0.0
Closing operating cash balance	**1,346.8**	**547.8**	**775.9**	**624.9**	**450.0**	**400.0**

Distributions received by MIIF (SGD'000)	**18,232**	**16,610**	**13,093**	**29,668**	**37,075**	**38,436**

Sources: Company, AmFraser Research

Warning! Cash cow at work! (SGD'000)



Sources: Company, AmFraser Research

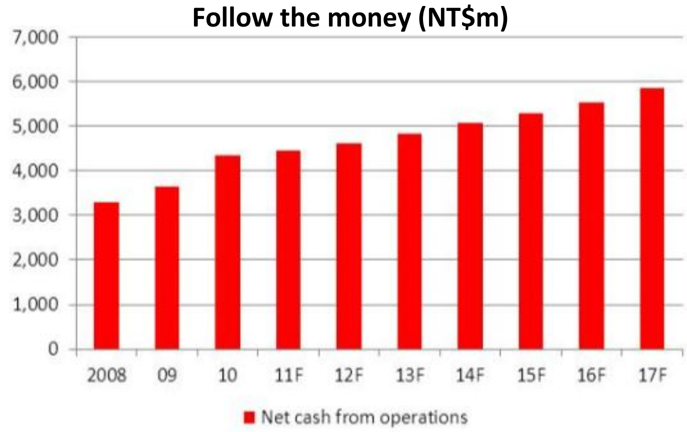
- **Increased stake in strongest asset:** MIIF increased its 20% stake in TBC to 47.5% in 2011, such that TBC now accounts for half of MIIF's portfolio. And well done, too, as TBC's cash-generating ability is a wonder to behold.

  Over the next 5 years, we see TBC generating an average of NT$2.04b per year in free cash flow to equity, or S$87.5m. Distributions to MIIF should increase from today's S$30m to S$37m in FY12F (full-year contribution of the full 47.5% stake), and grow at about 6.5% per year on average to 2017.

- **Negative earnings not a point of concern:** TBC's earnings appear to be negative, largely because of the "shareholder loan interest". Mark-to-market movements on interest rate / cross-currency swaps have also been significant in reducing profits. The presence of a growing income tax expense is the important clue to understanding that the onshore (Taiwan) operations are profitable.

  The true value of TBC is not in the reported earnings, but the extremely large cash flows that this business generates. Net cash from operations has consistently grown from NT$3.3b in 2008 to NT$4.3b in 2010, an impressive growth rate of 14.8% p.a.

Follow the money (NT$m)



Source: Company, AmFraser Research

- **We value TBC at S$550.2m**, using a 14% discount rate. This rate is lower than CXP and HNE as TBC is a large, stable company with moderate overall growth. At 14%, we believe the discount rate is still conservatively high for an infrastructure asset. The terminal value of TBC is driven by a nominal 4.1% growth, roughly divided into subscriber growth of 2.5% (assumed national household growth of 1.5% allows for maximum 3% terminal growth as TBC offers both TV and Broadband services) and ARPU growth of 1.6% (driven by Digital price growth).

Fund Background

HISTORY

MIIF was incorporated in Jan 2005 as a mutual fund company under the Bermuda Companies Act. Upon listing in May 2005, it owned interests in 8 assets including airports, communications, energy utilities, renewable energy, and other infrastructure assets in the USA, UK, Italy, Belgium, Denmark, Sweden, and Australia.

Since then, MIIF has been refocused as an owner and operator of private infrastructure businesses in Asia. It currently has investments in toll roads, ports, renewable energy, and communications and broadcast businesses.

MANAGEMENT

MIIF has appointed Macquarie Infrastructure Management (Asia) Pty Ltd (MIMAL) as its sole and exclusive manager pursuant to a management agreement. MIMAL is a member of the Macquarie Group, a diversified international provider of banking, finance, advisory and investment services headquartered in Sydney, Australia, with approximately 15,000 employees in 28 countries as at 30 September 2011.

MIMAL is part of the Macquarie Group's Infrastructure and Real Assets (MIRA) business, which, through special purpose management companies, has approximately A$95.7 billion of assets under management as of 30 September 2011. On behalf of retail and institutional investors MIRA invests in infrastructure assets and businesses, including toll roads, airports, communications infrastructure, electricity and gas transmission and distribution networks, water utilities, ports, rail and alternative energy. Macquarie has been managing infrastructure assets since 1994.

MIIF Board of Directors

Name	Designation	Experience
Heng Chiang Meng	Independent Chairman	ID of MIIF board since IPO, appointed Chairman in Jun 2011. Held key positions in Lim Kah Ngam Ltd, Far East Organization Group, First Capital Corporation Ltd, Keppel Land, Orchard Parade Holdings Ltd, MAS, etc. Was an MP over four terms from 1984 to 2001. Obtained BBA (Hons) degree from the University of Singapore in 1970.
Michael David Hamer	Independent Director	ID of MIIF board since IPO. Previously worked for JP Morgan and Centre Solutions. Previously ID and Chairman of Macquarie Media Int'l Ltd. Also President and CEO of Camford Atlantic Ltd, a Bermudian company providing risk management, investment and financial advice. Holds a Bachelor of Science (Hons) from University of Melbourne, a Master of Science in Mathematics and a PhD in Mathematics and Economics from the University of Oxford.
Lee Suet Fern	Independent Director	ID of MIIF board since Dec 2007. Senior Director of Stamford Law Corporation, focusing on mergers and acquisitions, equity and debt capital markets. Currently ID of two Fortune-100 companies, Sanofi-Aventis and AXA Group, and ID of Rickmers Trust Management Pte Ltd. Previously ID at SembCorp Industries, China Aviation Oil Singapore Corp. Obtained double first in Law from Cambridge University.
Robert Andrew Mulderig	Independent Director	ID of MIIF board since IPO. Former member of board of governors of Bermuda Stock Exchange. Was Chairman and CEO of Mutual Risk Management Ltd for 20 years. Previously ID and Chairman of Macquarie Infrastructure Group. Currently Chairman of financial services company Woodmont Trust Company Ltd and Chairman of Bermudian Bank of N.T. Butterfield and Son Ltd. Attended Colombia University and the Fordham University School of Law.
Francis Pui-Chuen Kwok	Executive Director	Joined Macquarie Group in 1997, member of investment committees or boards for a number of Macquarie-managed funds. Previously global COO of Macquarie Infrastructure and Real Assets. Formerly CFO of MAp and Macquarie Airports Group. Received Bachelor of Economics (Hons) and Bachelor of Law (Hons) degree from University of Sydney.

Source: Company

MIMAL Directors

Name	Designation	Experience
John Stuart Hugh Roberts	Chairman	Joined Macquarie Group in 1991. Executive Chairman of Macquarie Funds Group, on all investment committees or boards of directors in MIRA to provide oversight and strategic direction. Previous roles include Head of Europe, Joint Head of Macquarie Capital Advisers and Global Head of Macquarie Capital Funds. Holds a Bachelor of Laws from University of Canterbury.
Francis Pui-Chuen Kwok	Director	Joined Macquarie Group in 1997, member of investment committees or boards for a number of Macquarie-managed funds. Previously global COO of Macquarie Infrastructure and Real Assets. Formerly CFO of MAp and Macquarie Airports Group. Received Bachelor of Economics (Hons) and Bachelor of Law (Hons) degree from University of Sydney.
John Lawson Stuart	CEO	Joined Macquarie's funds business in London in 2004, based in Asia since 2008. Sits on controlling boards of HNE, CXP, TBC and MWC. Also Chairman of HNE. Spent 13 years with ExxonMobil, setting up its marine fuels and lubricants business in Europe and integrating the global marine business of Mobil and Exxon.

Source: Company

FEES

Under the terms of the management agreement, MIIF will compensate MIMAL through base fees and performance fees. The base fee is calculated as 1.5% per annum of MIIF's Net Investment Value, payable quarterly in arrears.

The Net Investment Value is the average market capitalization over the last 15 trading days, plus total external borrowings, plus firm commitments to invest in future investments, less cash or cash equivalents at the end of each quarter.

The performance fee is 20% of the excess over the benchmark return, which has been set at 8% per year. Any shortfall from this benchmark return is carried forward as a deficit to future returns. Intuitively, this is a high-water mark that management must exceed before performance fees can be paid. Since performance fees were last paid in 2007 when shares were trading above $1.00, this performance fee is largely theoretical for now and we do not expect it to be paid in the near future.

Source: Company

Financial Model

YE 31 Dec

INCOME STATEMENTS SGD'000	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Changshu Xinghua Port	*1,544*	*4,619*	*5,324*	*7,337*	*7,259*
Hua Nan Expressway	*14,233*	*21,261*	*22,492*	*15,954*	*17,528*
Taiwan Broadcasting Communications	*16,610*	*13,093*	*29,668*	*37,075*	*38,436*
Miaoli Wind	*0*	*0*	-	-	-
Interest Income	*105*	*1,600*	*768*	*73*	*23*
Others incl. divested assets as of Dec 2011	*31,278*	*4,008*	*1,191*	*500*	*500*
Revenue	***63,770***	***44,581***	***59,443***	***60,939***	***63,746***
Base management fees	(4,182)	(4,495)	(7,929)	(10,644)	(10,693)
Directors' fees	(422)	(395)	(370)	(389)	(408)
Lending fees	(587)	(279)	(1,126)	(250)	(263)
Net income on an adjusted basis	**56,300**	**37,194**	**48,461**	**48,022**	**50,666**
Transaction costs	(3,010)	(4,679)	(280)	-	-
Adjusted PATMI	**53,290**	**32,515**	**48,181**	**48,022**	**50,666**

*MIIF statements are adjusted by the fund managers to display only fund-level cash revenues and expenses, to better represent the earnings from which dividends are paid.

EBITDA Margin	89.3%	83.4%	81.5%	78.8%	79.5%
Adj. EPS (S cents)	4.11	2.51	3.84	4.23	4.72
Book Value per Share (S cents)	84.31	82.58	82.63	84.27	85.85

BALANCE SHEETS SGD'000	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Cash and cash equivalents	175,599	485,380	109,769	36,206	34,794
Trade and other receivables	2,570	13,456	11,400	11,687	12,225
Inventory	0	0	-	-	-
Financial assets at fair value through profit or loss	929,627	581,123	880,712	880,712	880,712
Other current assets	144	1,211	193	193	193
Other longterm assets	94,344	88,739	81,341	74,341	67,341
Total Assets	**1,202,284**	**1,169,909**	**1,083,415**	**1,003,138**	**995,266**
Trade Payables	17,121	12,140	13,034	17,496	17,578
Borrowings: Non-Current	79,936	74,300	67,951	67,951	67,951
Other Current Liabilities	152	158	789	789	789
Other Longterm Liabilities	5,122	5,578	6,239	6,239	6,239
Share Capital	1,246,616	1,246,616	1,188,320	1,117,758	1,116,553
Other Equity	(152,466)	(174,899)	(199,453)	(213,630)	(220,379)
Total Liabilities and Equity	**1,202,284**	**1,169,909**	**1,083,415**	**1,003,138**	**995,266**

CASHFLOW STATEMENTS SGD'000	2009	2010	2011F	2012F	2013F
Adjusted PATMI	53,290	32,515	48,181	48,022	50,666
Adjustments	5,284	3,074	7,646	7,000	7,000
Change in working capital	(1,218)	(15,893)	4,043	4,175	(457)
Other cash from operations	0	0	-	-	-
	0	0	-	-	-
Income tax paid	(661)	(695)	(986)	-	-
Net Cash from Operations	**56,695**	**19,001**	**58,884**	**59,198**	**57,209**
(Purchase)/Disposal of business assets	167,175	335,288	(317,476)	-	-
Other CFI	0	0	-	-	-
(Dividends paid)	(58,401)	(38,934)	(53,937)	(62,199)	(57,415)
Debt raised / (repaid)	(25,343)	(5,578)	(4,782)	-	-
Equity Raised / (Bought Back)	0	0	(58,296)	(70,562)	(1,206)
Other Cash from Financing	(948)	(27)	534	-	-
Beginning Cash	**31,221**	**170,469**	**480,277**	**105,201**	**31,638**
Foreign Exchange Effect	70	58		-	-
End Cash	**170,469**	**480,277**	**105,201**	**31,638**	**30,226**

*Ending cash differs from balance sheet cash due to fixed deposits, overdrafts, restricted balances and other items

KEY RATIOS	2009	2010	2011F	2012F	2013F
Profitability (%)					
EBITDA Margin	88.3	83.4	81.5	78.8	79.5
Net Margin	83.6	72.9	81.1	78.8	79.5
ROE	4.9	3.0	4.9	5.3	5.7
ROA	4.4	2.8	4.4	4.8	5.1
Growth (% Y-o-Y)					
Revenue	(53.0)	(30.1)	33.3	2.5	4.6
EBITDA	(51.6)	(33.9)	30.3	(0.9)	5.5
Net Income	(53.0)	(39.0)	48.2	(0.3)	5.5
Financial Structure (%)					
Networth Ratio	91.0	91.6	91.3	90.1	90.0
Debt/Equity	7.8	7.5	7.5	8.2	8.3
Net Gearing	(8.2)	(37.8)	(3.6)	4.2	4.4
Market Valuation (x)					
Price / Adj. Earnings	13.9	22.8	14.2	12.7	11.7
Price / Book	0.7	0.7	0.7	0.7	0.7
Price / Sales	11.6	16.6	11.5	10.0	9.3
EV / EBITDA	11.5	9.0	13.3	13.5	12.5

AmFraser Research recommendations are based on a Total Return rating system, defined as follows:

BUY: >15% total return over the next 12 months

HOLD: -15% to +15% total return over the next 12 months

SELL: <-15% total return over the next 12 months

Total Return includes share price appreciation (depreciation) + dividends

Lau Wei Chong

for **AmFraser Securities Pte Ltd**