

China Transport Infrastructure Sector

Energy prices reshaping transport demand

Equities

China
Transportation Services

Good time to revisit high-yield transport infrastructure companies

We believe the market is overlooking the investment opportunities for China's transport infrastructure companies that could benefit from higher global energy prices: 1) rising air travel cost could divert passenger volumes to railways and toll roads; 2) railway freight volume could benefit from improving domestic coal demand given inverted import coal prices and solid coal chemical demand growth; 3) more importantly, we believe high-quality A-share companies with strong assets and attractive dividend yields are becoming increasingly attractive amid rising global inflation, macro slowdown pressure and the potential continued appreciation of the yuan. We expect Daqin Railway ([double upgrade to Buy](#)) and Beijing-Shanghai HSR to be among the major beneficiaries of this theme.

HSR and toll roads to benefit from increased demand for domestic travel

Given higher travel costs and international flight cancellations, [we expect some of China's outbound travel demand to shift back to domestic destinations in 2026](#). We anticipate high-speed rail (HSR) and toll roads to be major beneficiaries: 1) with stable fares, HSR could become more attractive to price-sensitive travellers as airfares rise due to increased fuel surcharges; 2) rising NEV penetration and improving charging infrastructure could encourage more travellers to drive. We expect HSR to benefit more than toll roads, as toll roads have a more diverse volume mix (such as trucks and commercial passenger vehicles). We expect railways' passenger volume growth to be at 5-7% YoY in 2026, exceeding the government's target of 3.5%.

Global energy shortage could lead to higher-than-expected rail freight volume

China's rail freight volume rose only 3% YoY in 2024 and 2% in 2025, reflecting weak coal demand, which made up 55% of total rail freight volume. In 2026, we expect rail freight volume to rise to 3.2%, driven by improving demand for domestically produced coal, due to rising prices of imported coal amid higher shipping and insurance costs as well as production constraints in Indonesia, and steady growth in coal-based chemical demand. The UBS Basic Materials team expects China's 2026 coal consumption demand to rise 2% YoY, higher than -1% in 2025. Daqin Railway, the backbone of China's West-to-East and North-to-South coal transportation and arguably one of the most important and efficient rail freight lines, could be a key beneficiary.

Stock picks: Double upgrade for Daqin; reiterate Buy on BJ-SH HSR

Global inflation and macroeconomic pressure could emerge if energy prices remain higher for longer. Under such circumstances, we believe high-yield companies with non-fungible assets would be particularly attractive. A-share companies could be more compelling in our view as the yuan likely continues to appreciate. [We upgrade Daqin from Sell to Buy, driven by its potential earnings turnaround and attractive yield](#), and increase our price target from Rmb4.80 to Rmb6.30. We expect Daqin's DPS to increase 7% YoY in 2026 and 9% in 2027, with a one-year forward dividend yield of 4.6%. We also reiterate our Buy rating on BJ-SH HSR.

Figure 1: China's transport infrastructure to benefit from rising energy prices

Name	Ticker	Mkt cap (US\$ bn)	Rating		Price (LC)	Price target (LC)	Upside	120-D share price change	DPS (Rmb)		Dividend yield	
			New	Old					2026E	2027E	2026E	2027E
Daqin Railway	601006.SS	15.6	Buy	Sell	5.27	6.30	20%	-8%	0.23	0.26	4.4%	4.9%
BJ-SH HSR	601816.SS	35.0	Buy	Buy	4.87	6.70	38%	-7%	0.15	0.16	3.0%	3.7%
Ji	0177.HK	6.9	Neutral	Neutral	10.69	10.10	-6%	7%	0.50	0.51	5.4%	5.5%
ZJ	0576.HK	5.6	Neutral	Neutral	7.36	7.50	2%	-3%	0.35	0.35	5.4%	5.5%

Source: Refinitiv, UBS estimates. Note: Prices and data are as of 6 May 2026.

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Higher energy prices could spur shift in preferred transport modes

Considering higher energy prices amid the Middle East conflict, we expect Chinese consumers' preferred travel modes to shift in the near future as follows:

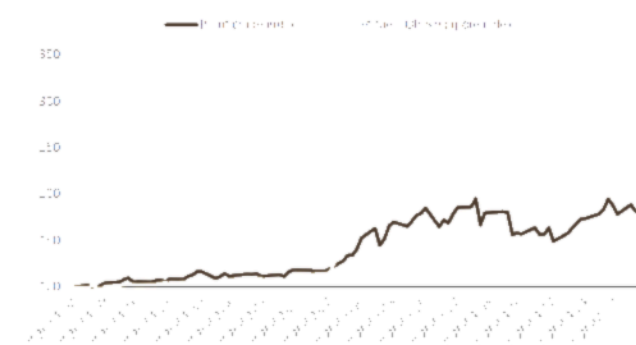
- Domestic travel growth to accelerate, while outbound travel decelerates;
- Railways and toll roads to gain shares of domestic passenger volumes.

Some outbound travel could shift towards domestic destinations

We expect volume growth of China's domestic travel to accelerate sequentially in 2026 if the global energy shortage persists, mainly due to: 1) higher oil prices driving rising travel costs and increasing uncertainty in outbound travel; and 2) rising jet-fuel prices which have prompted airlines to cut capacity on lower-margin international routes, resulting in slower outbound travel growth. We also believe domestic travel could become more attractive due to lower travel costs in China as a result of:

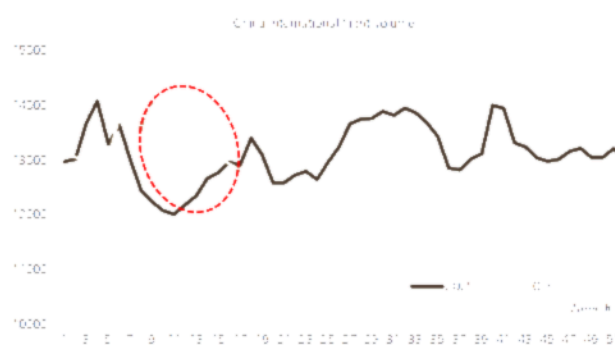
- Relatively ample domestic oil supply and government support could result in milder increases in gasoline and jet fuel prices in China;
- Rising NEV penetration, supported by competitive product offerings and improving charging infrastructure, which could make growth in the number of road trips more resilient than in other markets.

Figure 2: Crude oil and jet fuel prices rose as a result of the Middle East conflict



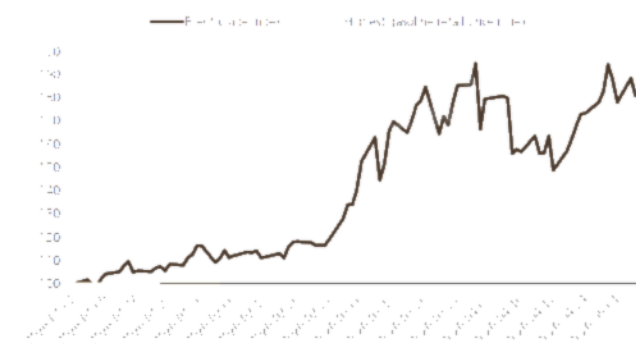
Source: Wind. Note: The index is rebased to 100 based on prices as of 2 January 2020. FOB = Free on Board

Figure 3: China's international flight volumes declined as the Middle East conflict evolved



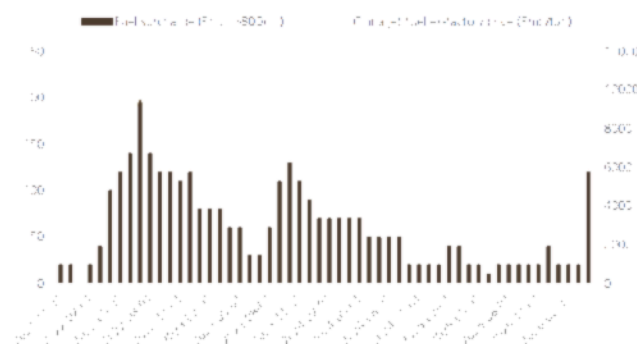
Source: Flight Master

Figure 4: Government support led to a much milder increase in China's gasoline prices than crude prices...



Source: Wind. Note: Rebased to 100 based on prices as of 2 Jan 2020.

Figure 5: ...and lower increases in domestic flight fuel surcharges than jet fuel price increases

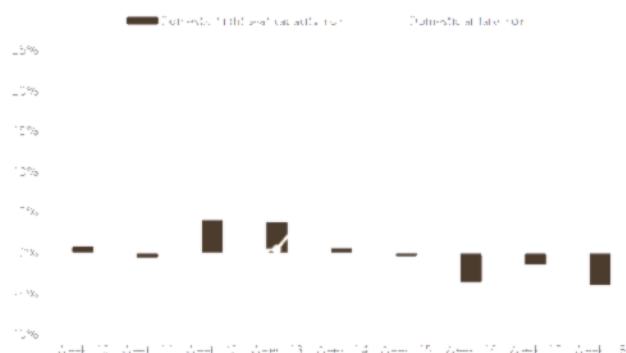


Source: Wind, Civil Aviation Administration of China (CAAC)

HSR and expressways could gain market share

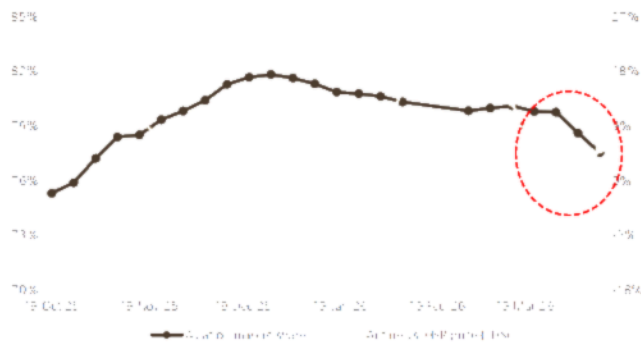
Among different transportation modes, we believe railways (especially HSR) and the driving segment could benefit more from the challenges aviation is facing. Despite government support to limit oil price increases, jet fuel prices in China still increased 73% YoY in April, and the Civil Aviation Administration of China (CAAC) raised fuel surcharges from Rmb10/Rmb20 to Rmb60/Rmb120 per passenger for domestic flights within/over 800km from 5 April. This led to 17% YoY and 22% MoM increases in airfares in April, as well as a drop in aviation's share of passenger volumes on some key routes. On top of this, airlines are also controlling domestic flight volumes to maintain healthy fare levels.

Figure 6: Since April, China's domestic airfare growth has surged while flight volumes have fallen



Source: Flight Master

Figure 7: Aviation's market share dropped with a wider pricing premium over HSR



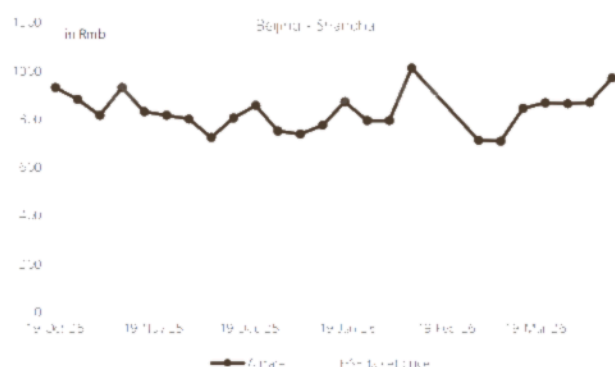
Source: Flight Master; Note: the data is 4-week rolling average

We expect higher airfares to drive behavioural changes among China's travellers, especially in the price-sensitive segments: 1) short-haul trips could outperform long-haul trips; and 2) lower-cost transportation could be incrementally preferred. We expect HSR and toll roads to benefit from these trends.

HSR

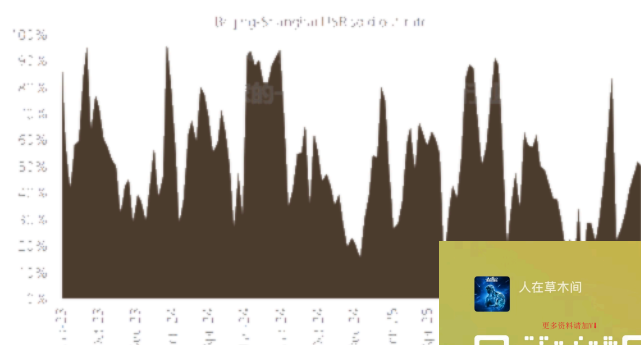
China's HSR system uses electricity, which is mainly generated by thermal, hydro, wind, solar and nuclear sources, and is not dependent on oil. As a result, we do not expect meaningful cost pressure on HSR operators. In addition, HSR's ticket prices are highly regulated, with limited scope for adjustments, and are therefore unlikely to increase markedly. We expect the price gap between airfares and HSR fares to widen should airfares continue to rise, which could divert passenger volumes from aviation to HSR, against a backdrop of slowing macro growth and fragile consumer sentiment. According to UBS Evidence Lab's China Railway Traffic Monitor ([> Access Dataset](#)), the sold-out rates for Beijing-Shanghai HSR improved meaningfully in the first two weeks of April compared with in March, following the implementation of higher fuel surcharges.

Figure 8: HSR fares are much more stable than airfares



Source: Flight Master

Figure 9: Beijing-Shanghai HSR sold-out rate improved MoM in April



Source: UBS Evidence Lab ([> Access Dataset](#))

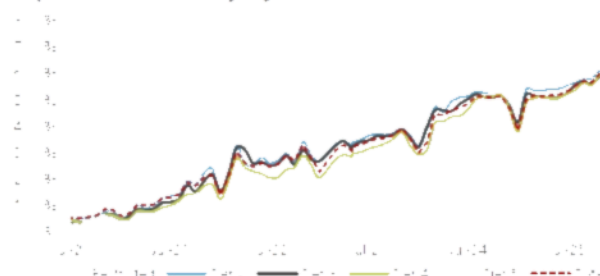


Toll roads

With potentially shorter travel distances, we believe road trips could become an increasingly popular form of travel, despite rising gasoline prices, mainly due to the rapid development of EVs in China. EV penetration in China reached around 40-50% in 2025, and is still rising: 1) According to the UBS China Auto team, the total cost of EV ownership has declined compared with a couple of years ago. LFP battery prices are below Rmb500/kWh, about half that of the early-2022 level. 2) Charging speeds continue to improve, and the number of charging piles is rising (as well as the number of piles per EV). Our auto team estimates the cost of a BEV versus a same-segment ICE vehicle is broadly equivalent to about two years of additional costs due to higher oil prices.

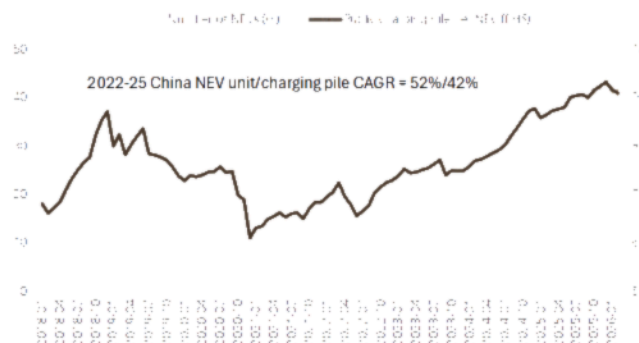
Figure 10: China's EV penetration has continued rising in recent years

EV penetration in China by city tier



Source: ThinkerCar, UBS. Note: 'Restricted' refers to cities with number plate restrictions (namely Beijing, Guangzhou, Shanghai, Shenzhen, Hangzhou, Tianjin and Guiyang); tier-2/3/4 comprise 13/29/67 cities.

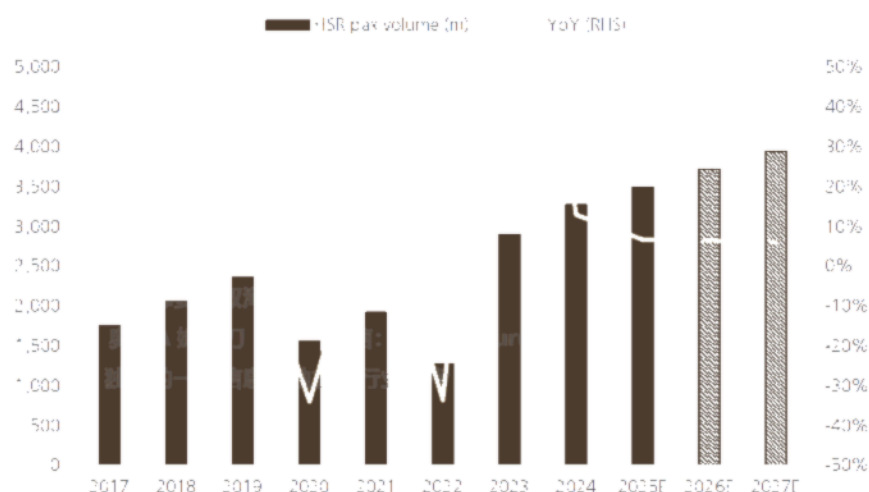
Figure 11: Number of charging piles per NEV keeps rising



Source: Wind, Ministry of Public Security, UBS

We believe HSR is likely to benefit more from higher energy prices than toll roads, mainly as HSR is a purely passenger transportation business, while trucks account for around 50% of toll-road traffic in China. Given these tailwinds, we estimate China's HSR passenger volume to grow 6.5% YoY in 2026E, representing only a mild slowdown from around 7% by our estimates in 2025.

Figure 12: China's HSR passenger volume could grow 6.5% YoY in 2026E, only a mild slowdown from 7% in 2025

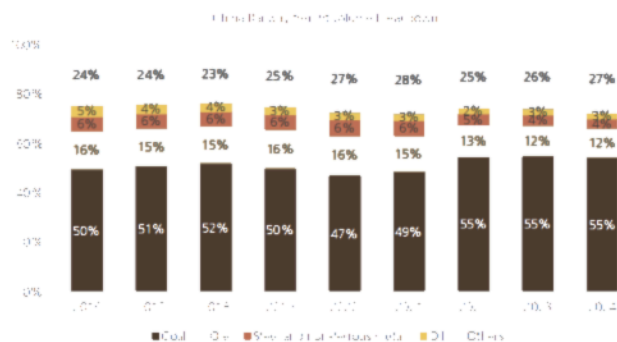


Source: Ministry of Transport, UBS estimates

Rail freight volume growth to marginally improve on potentially solid coal demand

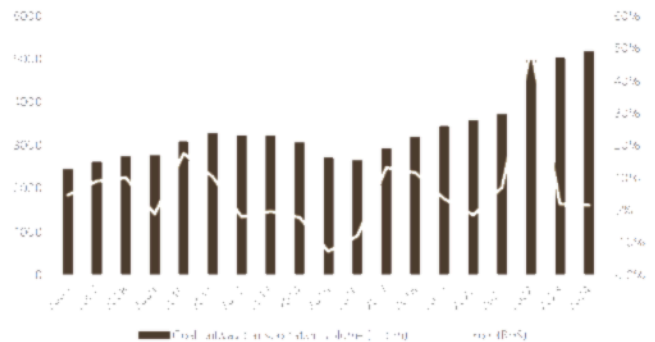
Besides the railway's passenger segment, we expect China's railway freight transportation to benefit from the global energy tightness, which could drive stronger-than-expected domestic transportation volumes of coal. Coal accounted for 55% of China's railway freight volumes in 2024. In 2023-24, due to weak macro and energy demand, rising renewable energy installations and coal mine capacity cuts, China's coal-related railway volumes increased only 2% YoY.

Figure 13: Coal accounted for over 50% of China's national railway freight volumes



Source: National Bureau of Statistics

Figure 14: Coal-related national railway volumes rose only 2% YoY in 2023-24



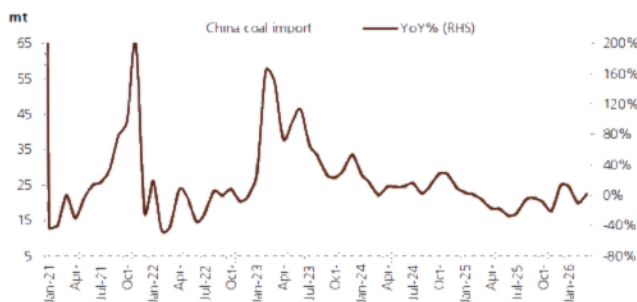
Source: National Bureau of Statistics

However, we expect coal's railway freight volume growth to improve in 2026, mainly due to:

- Domestic thermal coal could become incrementally more favoured than imported coal, given lower relative prices and reduced supply from Indonesia. While imported coal has historically been priced at a discount to domestically produced coal, this trend has reversed in 2026, driven by: 1) a rally in seaborne coal prices following higher oil and gas prices amid the Middle East supply disruptions, with higher shipping and insurance costs; and 2) cuts to coal production in Indonesia.
- Coal-based chemical demand could remain robust and see potential upside, as higher oil and gas prices improve the economics of coal-based chemicals.

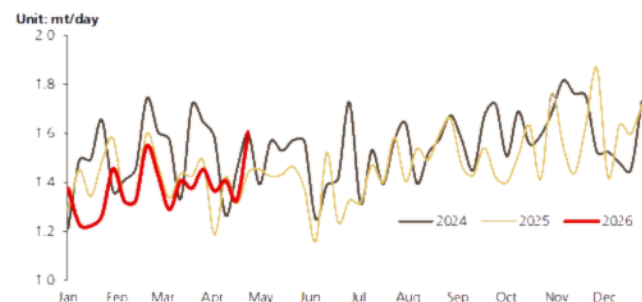
The UBS Basic Materials team forecasts China's total coal consumption demand to rise 2% YoY in 2026, reversing the negative growth in 2025, mainly driven by demand rebounding for coal from power generation and continued solid growth for coal-based chemicals.

Figure 15: Negative growth of China's coal imports in February and March 2026...



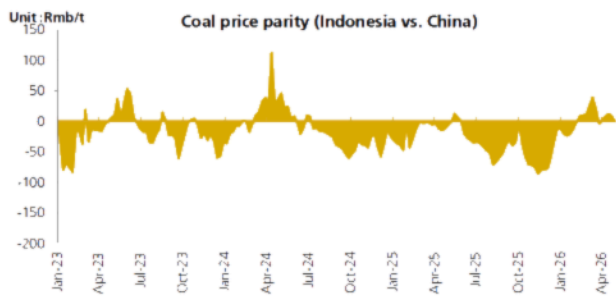
Source: China Customs

Figure 16: ...due to production cuts in Indonesia...



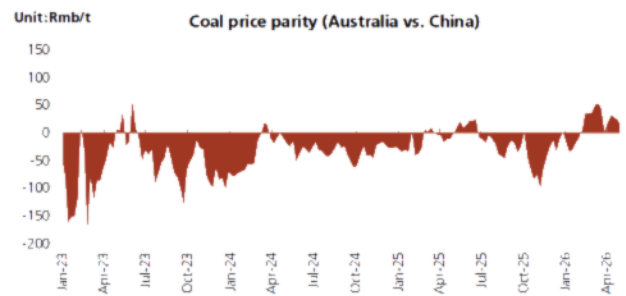
Source: UBS Evidence Lab, includes content supplied by S&P Global Market Intelligence (Maritime & Trade); Copyright © S&P Global Market Intelligence (Maritime & Trade), 2026. All rights reserved.

Figure 17: ...and growing import parity from Indonesia...



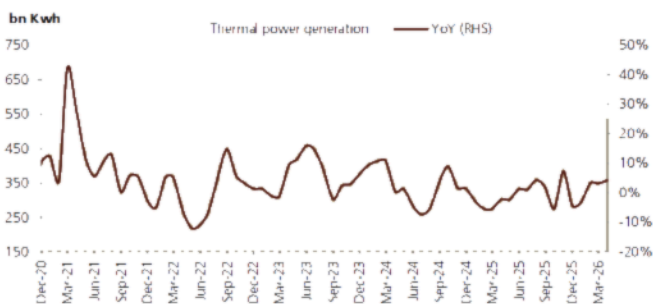
Source: Sxcoal, Wind

Figure 18: ...as well as from Australia



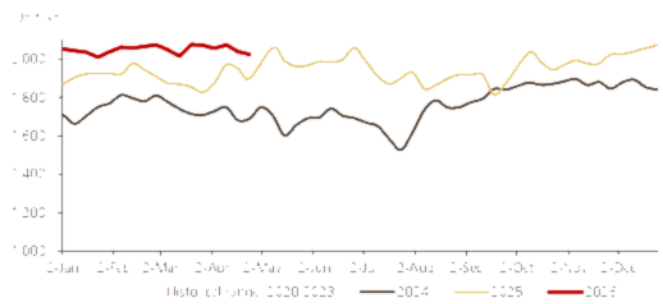
Source: Sxcoal, Wind

Figure 19: China's thermal power generation growth has improved in 2026



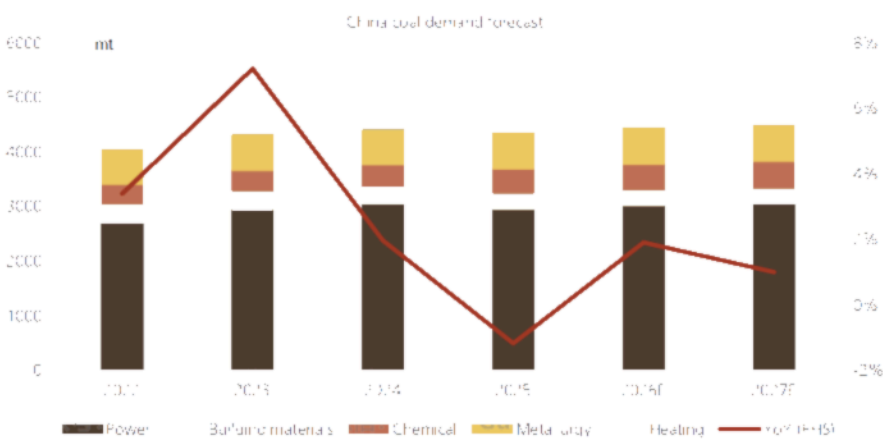
Source: Wind

Figure 20: Methanol production continued to rise and remained at a high level



Source: Wind

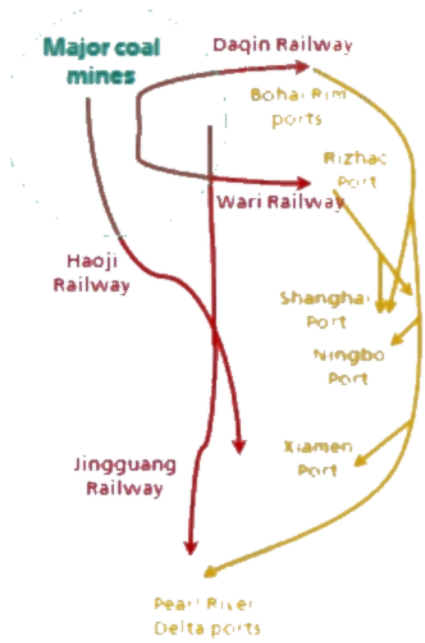
Figure 21: UBS expects China's coal demand to rise 2% YoY in 2026, from -1.2% in 2025



Source: Sxcoal, Wind, UBS estimates

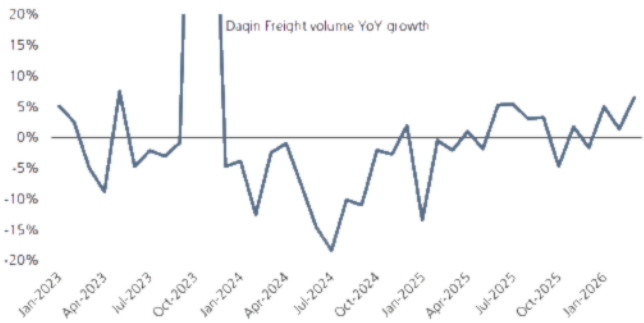
Notably, southern China relies more on imported coal than other regions in China. Given production cuts in Indonesia and a widened import price parity, southern China may source more coal from northern China, potentially supporting freight volumes for related railways and ports. Railways and sea transportation are the major methods for West-to-East and North-to-South coal transportation. Daqin Railway's data shows its mainline freight volume growth turned positive for three consecutive months in Q126, and Qinhuangdao Port's coal throughput also returned to positive growth in Q126.

Figure 22: Major routes for West-to-East and North-to-South coal transportation



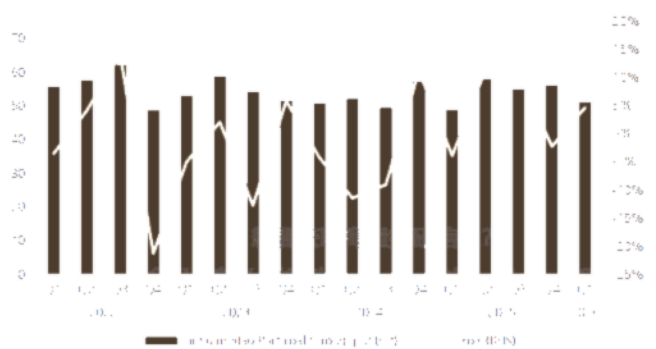
Source: UBS. Note: Red lines are railway transportation and yellow lines are water transportation.

Figure 23: Growth of Daqin Railway's mainline freight volume (mainly coal) has started to improve



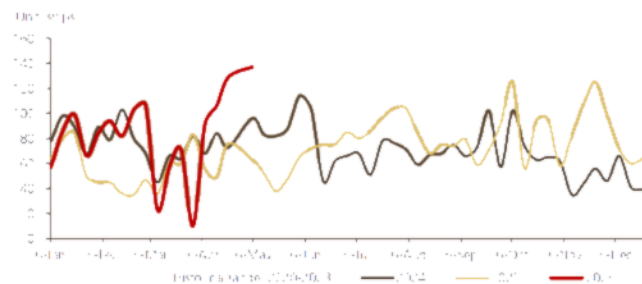
Source: Company data

Figure 24: Qinhuangdao Port's coal throughput returned to positive growth in Q126



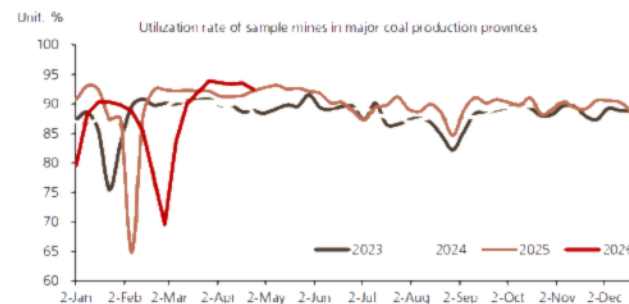
Source: Company data

Figure 25: Number of ships anchored at northern China ports surged from April



Source: Wind

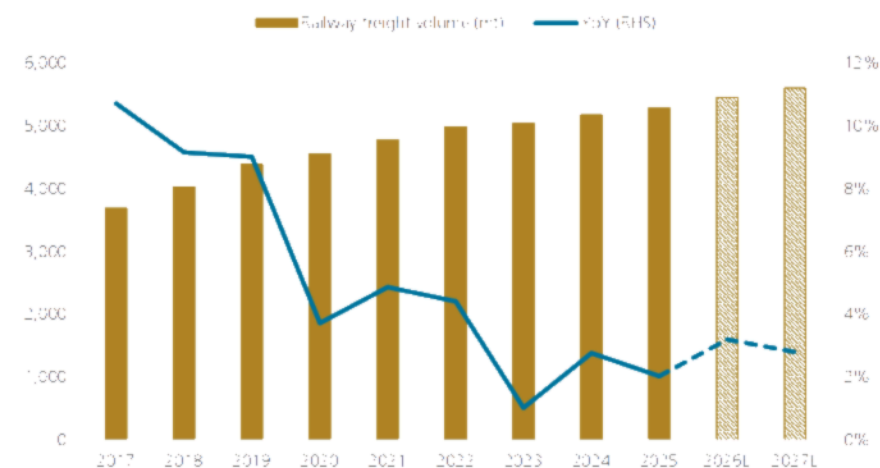
Figure 26: Utilisation rates of sample mines in major coal production provinces rose YoY in April



Source: Sxcoal

Given potential improvements in domestic coal consumption and rising demand for North-to-South coal transportation, we expect China's railway freight volume to exceed the 2% YoY growth in 2025 as well as the government's target of 1.5%, landing at 3% YoY. We think investors are overlooking this potential growth. Within our transportation infrastructure coverage, we expect Daqin Railway to be among the key beneficiaries.

Figure 27: China's railway freight volume growth in 2026 is likely to be higher than in 2025 and the government's target



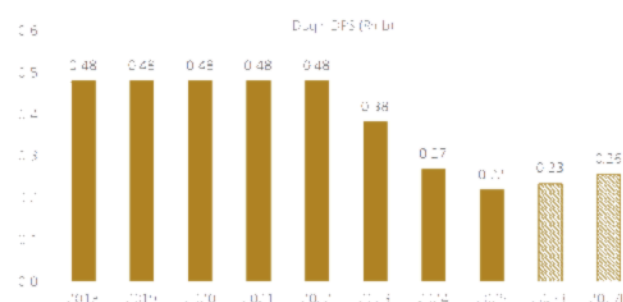
Source: Ministry of Transport, UBS estimates

Stock picks: Double upgrade for Daqin; reiterate Buy on BJ-SH HSR

Daqin Railway (601006.SS, Buy)

We upgrade Daqin Railway from Sell to Buy, mainly because: 1) A potential rebound in demand for domestically produced coal could support a turnaround in the company's freight volume and earnings growth in 2026-27E. 2) At the same time, the company's operating cash flow could also improve, increasing its free cash flow in 2026-27E. We estimate the company's free cash flow to support a 70% dividend payout ratio, up from average of 63% in 2023-25, translating into DPS of Rmb0.23 in 2026E and Rmb0.26 in 2027E, higher than Rmb0.22 in 2025. 3) The company's one-year forward dividend yield has rebounded to 4.6%, above its three-year average. In addition, its yield premium over China's 10-year treasury yield has also surpassed the five-year average. As a defensive company, we believe Daqin is now attractive considering the rising global inflation pressure, an appreciating yuan and low treasury yields.

Figure 28: We expect Daqin's DPS to be Rmb0.23 in 2026 and Rmb0.26 in 2027, higher than in 2025



Source: Company data, UBS estimates

Figure 29: Daqin's yield premium over China 10-year treasury has recovered to above the five-year average

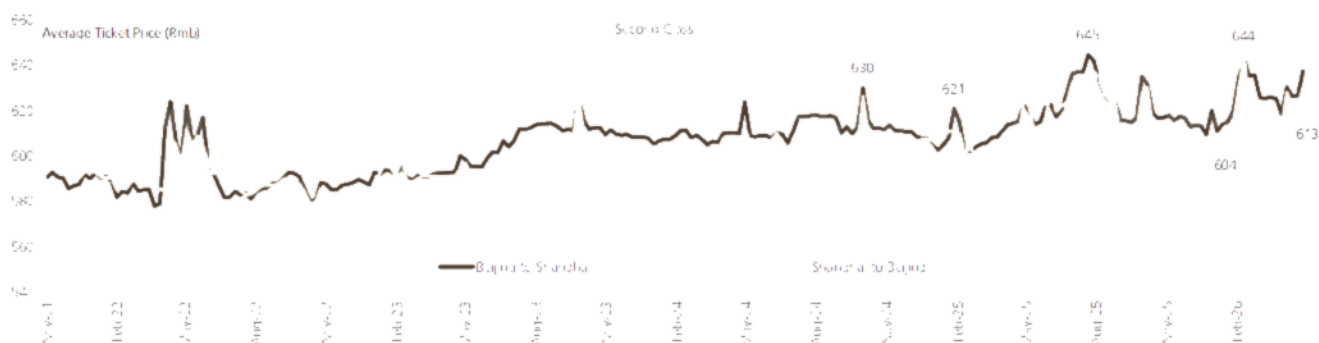


Source: Wind, UBS

Beijing-Shanghai HSR (601816.SS, Buy)

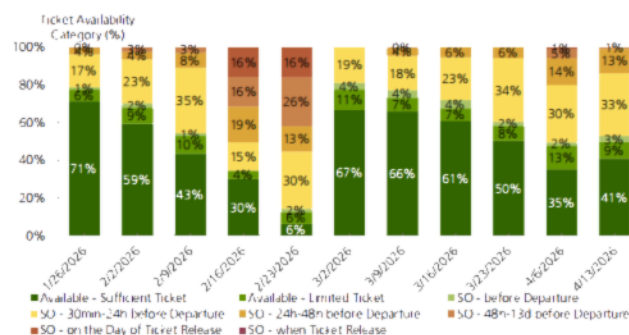
As one of the busiest high-speed rail routes in China, we expect the company to be a key beneficiary of volume diversion from aviation to railways and toll roads. Data from UBS Evidence Lab's China Railway Traffic Monitor shows the average daily HSR service number and second-class fares on the Beijing-Shanghai route both rose 2% YTD. The sold-out rate in April also picked up sharply, following a meaningful rise in airlines' fuel surcharges. If jet fuel prices continue to rise, we think domestic airfares' fuel surcharges are likely to increase as well, which could drive more price-sensitive passengers to choose relatively less expensive transportation modes. We expect continued growth in nationwide passenger traffic to bolster the company's cross-network service revenue, supporting load factors and fares on mainline routes.

Figure 30: The average second-class fare is up 2% MTD, versus a 3% YoY rise in March...



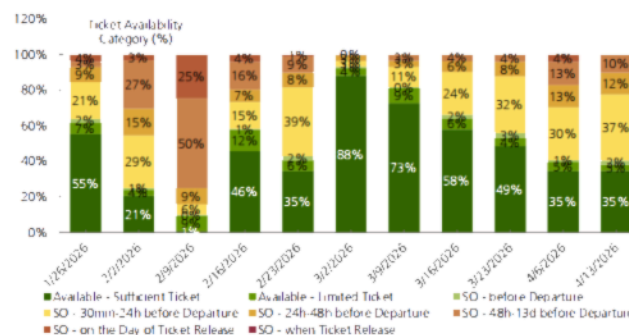
Source: UBS Evidence Lab (> [Access Dataset](#)) Note: Latest service numbers as of 19 Apr 2026

Figure 31: Sold-out rates on the Beijing-Shanghai HSR (second class)



Source: UBS Evidence Lab ([Access Dataset](#)). Notes: SO refers to sold-out services with no tickets available for sale. Latest service numbers as of 19 April 2026.

Figure 32: Sold-out rates on the Shanghai-Beijing HSR (second class)



Source: UBS Evidence Lab ([Access Dataset](#)). Notes: SO refers to sold-out services with no tickets available for sale. Latest service numbers as of 19 April 2026.

Jiangsu Expressway (0177.HK, Neutral)

We believe Jiangsu Expressway (JSE) could also benefit from a potential increase in the number of travellers making road trips, boosting its traffic volume and revenue from toll fees. Guidance is for mid-single-digit YoY growth in traffic volume for 2026. However, we think the actual benefit could be relatively mild given trucks have accounted for around 50% of its vehicle traffic in recent years. In addition, JSE could see rising capex due to a new toll road expansion cycle. Compared with Rmb9bn spent in 2025, the company guides for a capex budget of around Rmb11.7bn for 2026. The rise in capex could weigh on its potential dividend payout growth, in our view.

Zhejiang Expressway (0576.HK, Neutral)

Guidance is for flattish toll revenue for 2026, reflecting the impact of expansion-related construction. For the company, we believe the benefits of potential traffic diversion from aviation could be relatively mild as well given some of its traffic is contributed by trucks. Compared with Rmb4.1bn in 2025, its capex budget guidance for 2026 is around Rmb5bn, with Rmb2.8bn allocated to expressway expansion. DPS could be at least Rmb0.41 for the next three years (versus Rmb0.395 in 2025) if the A-share listing is completed in 2026.

***UBS Evidence Lab** is a sell-side team of experts that work across numerous specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.

China Railway Traffic Monitor ([Access Dataset](#))

This report leverages the following UBS Evidence Lab asset: China Railway Traffic Monitor UBS Evidence Lab collects time series data on passenger train departures, ticket price and ticket availability from the official China railway ticket booking website to provide a comprehensive view on train traffic volume and a unique view on train traffic utilization for target railway routes. Each data harvest is tested for accuracy and completeness using a proprietary set of data quality checks. The data cleansing process includes redundant record removal, data normalization, unit conversions, and taxonomy verification. Passenger train traffic data is collected daily for key departure points - in case of larger cities with multiple railway terminals, the data is collected for each station and then merged into a city level measure. Daily train counts can be also aggregated into weekly or monthly statistics. High Speed passenger train traffic data is collected daily for target routes. The data is collected for each high speed railway route and aggregated into weekly statistics.

Valuation Method and Risk Statement

Main downside risks faced by the China transport infrastructure sector are: 1) continued economic sluggishness; 2) slower-than-expected growth in peak season passenger traffic, and weak freight flows; 3) bad weather affecting travel; 4) earthquakes, air accidents, epidemics and other disasters; and 5) slower global economic growth which may weigh on global trade and port container volume.

Daqin Railway: We derive our price target based on a dividend yield method. The main downside risks include: 1) weaker-than-expected domestic coal consumption; and 2) the government allowing the construction of other major freight railways, which could directly compete with Daqin.

Beijing-Shanghai HSR: Our price target for Beijing-Shanghai HSR is based on a DCF methodology. Downside risks for Beijing-Shanghai HSR include: 1) lower-than-expected China railway services growth; 2) a slower-than-expected recovery in passenger volume for the Beijing-Shanghai HSR line; and 3) a slower-than-expected ramp-up for Jingfu Anhui Company.

Jiangsu Expressway: We derive our price target by using a DCF-based valuation methodology. We believe the main risks are a slowdown in truck traffic and further policy risk. The company is also exposed to diversification risk, as it invests in the property sector.

Zhejiang Expressway: Our price target is based on a SOTP valuation method. Major risks include traffic diversion from the opening of new parallel expressways (e.g., Hangshaotai Expressway) and uncertainties in the A-share market affecting the securities business.