Credit Rating Report for Zhejiang Expressway Co., Ltd.'s 2019-1 Medium-term Notes

Ratings:
Long-term credit rating of the issuer: AAA
Credit rating of this medium-term notes (MTN): AAA
Rating Outlook: Stable
Scale of this MTN: CNY 1.4 billion
Maturity of this MTN: 5 years
Debt servicing method: Annual interest payment, repayment of principal at maturity.
Use of proceeds: CNY1 billion for the acquisition of entire share capital of Zhejiang Shenjiahuhang Expressway Co. Ltd, and CNY400 million to supplement the working capital of the expressways operated and managed by the Company and its subsidiaries.
Ratings Assigned Date: February 26, 2019
Financial data

Item	2015	2016	2017	September 2018
Cash assets (CNY100mn)	295.32	277.53	281.16	358.72
Total assets (CNY 100mn)	741.43	740.22	739.10	784.89
Owners' equity (CNY 100mn)	222.72	244.58	294.96	310.92
Short-term liabilities (CNY 100mn)	89.84	181.32	137.35	147.82
Long-term liabilities (CNY 100mn)	106.20	67.00	112.26	118.68
Total liabilities (CNY 100mn)	196.04	248.32	249.61	266.50
Revenue (CNY 100mn)	139.69	117.90	111.14	79.83
Total profit (CNY 100mn)	54.59	50.08	51.95	39.58
EBITDA (CNY 100mn)	73.17	69.94	72.11	--
Net cash flow from operating activities (CNY 100mln)	89.29	-18.06	-78.21	43.47
Operating profit margin (%)	39.65	45.38	45.06	48.04
ROE (%)	18.13	15.60	13.56	--
Debt-to-asset ratio (%)	69.96	66.96	60.09	60.39
Total debt capitalization ratio (%)	46.81	50.38	45.84	46.15
Current ratio (%)	130.09	119.63	159.33	162.63
Operating cash coverage ratio (%)	21.79	-4.25	-23.89	--
Total liabilities / EBITDA (x)	2.68	3.55	3.46	--
EBITDA-to-interest cover (x)	11.50	10.42	11.79	--

Note: 1. The financial data from January to September 2018 has not been audited; 2. Borrowed funds, derivative financial liabilities, and financial assets sold for repurchase in current liabilities, and short-term financing bonds in other current liabilities have been included in short-term liabilities.

Analysts
Wen Zhong, Xu Dilong
Email: lianhe@lhratings.com
Tel: 010-85679696
Fax: 010-85679228
Address: 17/F PICC Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
Website: www.lhratings.com

Rationale

Zhejiang Expressway Co., Ltd. (hereinafter referred to as the "Company") is the only company engaged in highway investment and operations and securities business of Zhejiang province listed on the Hong Kong Stock Exchange. China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as Lianhe Ratings) rating on the Company reflects the continuous growth of the Company's highway operating mileage, excellent expressway asset quality with continuously increased toll revenue, strong overall profitability, and the fact that Zheshang Securities was successfully listed on the Shanghai Stock Exchange in June 2017. At the same time, Lianhe Ratings also noted the negative impact incurred by the following factors on its credit rating: the continued sluggishness of the securities sector, the increasing debt, and net cash flow from operating activities turning from positive to negative.

With investment and operations of expressways as the core business, the Company intends to further increase the operating mileage through mergers and acquisitions to promote the continued growth of this business segment; In addition, the Company strategically positions finance as its core business and will continue to focus on developing financial and securities related businesses in the future. As the Company's operating scale and profitability are expected to continue to expand, Lianhe Ratings' rating outlook for the Company is stable.

As cash inflows and EBITDA from the Company's operating activities have a high degree of protection for this MTN, Lianhe Ratings concludes that the risk of a default on this MTN repayment is extremely low, based on a comprehensive assessment of the issuer's long-term credit history and its ability to repay debts associated with this MTN.

Strengths

1. The Company is the only company engaged in highway investment and operations and securities business of Zhejiang province listed on the Hong Kong Stock Exchange. Zhejiang is one of the most developed provinces in China with significant geographical advantage in the eastern part of China, an advantage which provides a strong guarantee for the steady and sustained growth of the Company's toll revenue.
2. The quality of the Company's highway assets is excellent. In recent years, it has successively acquired Hanghui Expressway and Huihang Expressway, which further improved its expressway network.
3. The Company's core expressway business has developed steadily in recent years, and toll revenues have continued to grow with strong profitability.
4. Zheshang Securities was successfully listed on the Shanghai Stock Exchange, and the securities business will have huge development potential in the future.
5. The cash inflows and EBITDA from the Company's operating activities have a high degree of protection for this MTN.

Concerns

1. The securities market has continued to be sluggish, which poses certain challenges to the stability of the Company's securities business operations.
2. In recent years, the Company's debt has continued to grow with relatively high proportion of short-term debt.
3. Due to the continued downturn in the securities market, deposits in its securities client accounts have flowed out. The Company's net cash flow from operations has turned negative in recent years.