Shenzhen Energy Group Co., Ltd.'s 2019-2 Green Bonds

Ratings:

Long-term credit rating of the issuer: AAA
Credit rating for the green bonds: AAA
Rating outlook: Stable

Bond offering overview:

Issue size (current tranche): CNY 1.150 billion
Maturity (current tranche): 5 + 5 years
Debt servicing method: annual interest payment; the Company has the option to adjust the coupon rate and a put option is available to investors at the end of the fifth year; the remaining principal will be paid in a lump sum at the end of the 10th year
Purpose of fund-raising: Proceeds will be used to fund the Company's future project operations

Date of rating: May 15, 2019

Item	2016	2017	2018
Cash assets (CNY 100mn)	43.80	29.36	37.50
Total assets (CNY 100mn)	608.62	772.31	850.74
Owners' equity (CNY 100mn)	248.28	247.23	274.84
Short-term liabilities (CNY 100mn)	105.95	138.28	109.11
Long-term liabilities (CNY 100mn)	167.32	266.42	334.14
Total liabilities (CNY 100mn)	273.27	404.70	443.25
Revenue (CNY 100mn)	113.18	155.46	185.27
Total profit (CNY 100mn)	20.42	13.07	12.15
EBITDA (CNY 100mn)	45.75	46.59	55.73
Net cash flow from operating activities (CNY 100mn)	27.53	28.27	41.79
Operating profit margin (%)	27.71	23.04	22.00
ROE (%)	5.67	3.42	2.61
Debt-to-asset ratio (%)	59.21	67.99	67.69
Total debt capitalization ratio (%)	52.40	62.08	61.73
Current ratio (%)	73.35	71.88	93.04
Operating cash flow-to-current liabilities ratio (%)	15.42	11.57	18.56
Total liabilities/EBITDA (x)	5.97	8.69	7.95
EBITDA-to-interest cover (x)	4.23	2.71	2.71

Notes: 1. Monetary funds with restrictions have been deducted in the calculation of cash assets;
2. Offering of the perpetual bond "18 Shen Neng Y1" is included in owner's equity.

Analysts

YANG Dong, WANG Yufei, JIANG Zhichao
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

Shenzhen Energy Group Co., Ltd. (hereinafter referred to as the "Company" or "Shenzhen Energy") is a large electricity corporation directly affiliated with the Shenzhen Municipal State-owned Assets Supervision and Administration Commission, and the major electrical energy supplier in Shenzhen. China Lianhe Credit Rating Co., Ltd.'s ("Lianhe Ratings") ratings on Shenzhen Energy reflect the latter's overall competitive advantages in terms of installed capacity, power plant distribution and asset scale. On the other hand, Lianhe Ratings also notices that thermal power makes up the majority of power generation of the Company, and that high fuel prices have an adverse impact on the Company's profitability.

The offering of the green bonds only has a limited impact on the Company's overall debt level, while both EBITDA and operating cash inflow provide relatively high coverage for the current tranche of green bonds, but the bond issuer is exposed to a certain degree of liquidity risk.

Going forward, the Company will continue to develop businesses revolving around electrical energy as its core business segment, and its assets and revenues are expected to scale up further, along with advances in clean energy projects. Its power plant distribution will be optimized, leading to further consolidation of economies of scale, as well as the Company's leading position in the sector and the regional market.

Based on a comprehensive assessment of the bond issuer's long-term credit history and its ability to repay debts associated with the bond tranche, Lianhe Ratings concludes that the risk of a default on bond repayment is extremely low, and the current tranche of the green bonds demonstrate an extremely high level of safety.

Strengths

1. As a large electricity corporation directly affiliated with the Shenzhen Municipal State-owned Assets Supervision and Administration

Commission, and a major electrical energy supplier in Shenzhen, Shenzhen Energy occupies an important position in the electricity markets in Shenzhen and the Pearl River Delta region.
2. Its installed capacity has grown consistently. The Company has leveraged new energy projects to branch out into the other provinces and foreign markets, and its overall competitiveness is expected to improve further.
3. EBITDA and operating cash inflow provide relatively high coverage for the green bonds.

Concerns

1. The Company requires considerable external funding due to the high volume of planned capital expenditure programs.
2. In recent years, the Company witnessed a continuous decline of gross margin in the power segment, resulting from a rise in bidding-based electricity sales proportion of the total sales volume and a strong rebound in fuel prices following implementation of the electricity system reform.
3. Successive shutdown of the No. 1 and 2 units at Shajiao-B power plant will translate into a decrease in the Company's overall installed capacity, which will adversely affect the Company's income and earnings.
4. Given the large amounts of debts maturing in 2020, the Company is exposed to a certain degree of liquidity risk.