



Rating  
**Buy**

Asia  
China

Transportation  
Road / Rail

Company  
**Zhejiang  
Expressway Ltd**

Reuters 0576.HK	Bloomberg 576 HK	Exchange HKG	Ticker 0576
ADR Ticker ZHEXY	ISIN US98951A1007		

Date  
18 March 2015

## Results

Price at 18 Mar 2015 (HKD)	8.99
Price target - 12mth (HKD)	10.62
52-week range (HKD)	10.00 - 6.71
HANG SENG INDEX	23,901

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## 2014 result beats on better securities business; maintaining Buy

### 2014 net profit rose 23.2% yoy, beat our and market expectations

ZJE reported 2014 net profit of RMB2,349m, representing growth of 23.2% yoy, which is 6%/10% higher than our expectation/Bloomberg consensus. The reported final DPS was RMB0.265, indicating a payout ratio of 60% in 2014 (vs. 70.6% in 2013). Total revenue increased 15.3% yoy in 2014 to RMB9,051m (4.5% above our forecast) on the back of 6.0% yoy toll income growth and a 46.4% yoy surge in securities business. The securities business growth was mainly driven by an increase in the trading volume of the A-share stock market, despite the decline of Zheshang Securities' average brokerage commission rate (from 0.08% in 2013 to 0.067% in 2014). The commission income and interest income from the securities business rose 40.4% yoy and 62.8% yoy, respectively. Along with 1.8x more securities investment gains, and almost flat (+0.9% yoy) administrative expense, operating margin expanded by 2.9ppt to 42.1% in 2014. Finance costs were down 17.8% yoy to RMB78.2m. However, net margin only improved by 1.7ppt to 26.0% in 2014, mainly due to higher minority interests (from the securities business).

### Continued solid traffic outlook in 2015 and 2016

ZJE's consolidated toll revenue in January-February grew 7.6% yoy, which implied continued stable traffic growth. Going forward, we believe traffic will continue to be solid at ZJE, mainly driven by healthy passenger traffic growth. The opening of the Shanghai Disney Resort in 2016 could further support ZJE's traffic, in our view. We currently forecast ZJE's toll income to grow 7% yoy and 8% yoy in 2015 and 2016, respectively.

### Maintaining Buy

Based on current forecasts, ZJE is trading at 13.0x 2015E and 11.9x 2016E, with average forecast dividend yields of 5.4% and 5.9%, which looks attractive as a result of 9% EPS CAGR growth in 2014-16E. Potential asset injections from its parentco may further support its long-term outlook. Downside risks include 1) VAT reform, 2) lower-than-expected traffic flow, 3) potential tariff cuts, 4) worse-than-expected A-share market performance, and 5) the high dividend yield proving unsustainable.

### Stock data

Market cap (HKDm)	39,045
Market cap (USDm)	5,029
Shares outstanding (m)	4,343.1
Major shareholders	Zhejiang CIG (56%)
Free float (%)	33
Avg daily value traded (USDm)	6.6

Source: Deutsche Bank

### Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	7,851	8,665	9,194
Net Profit (CNYm)	1,907.5	2,220.6	2,420.3
DB EPS (CNY)	0.44	0.51	0.56
PER (x)	12.0	14.2	13.0
Yield (net) (%)	5.9	4.9	5.4

Source: Deutsche Bank

Figure 1: ZJE – 2014 result highlights

RMB m	2014	2013	yoy change
Revenue	9,051	7,851	15.3%
Toll income	4,259	4,020	6.0%
Zheshang Securities	2,418	1,651	46.4%
Operating margin	42.1%	39.2%	2.9%
Net Profit	2,349	1,907	23.2%

Source: Company data

Deutsche Bank AG/Hong Kong

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