

## Zhejiang Expressway

FY14 delivered a strong earnings beat

- FY14 profit 16% ahead:** FY14 NPAT came in at Rmb2.35B, up 23% Y/Y, 16% ahead of our expectation (and Bloomberg consensus). The earnings beat was achieved by solid growth in both the tollroad operation (profit +13% Y/Y) and the securities business (profit +87% Y/Y), in addition to solid OP margin expansion (+3.5ppts above our estimate). Maintain OW; we expect a number of catalysts to materialize in the coming year including listing of the securities business.
- Op-CF, DPS, and gearing:** Worth highlighting that Op-CF nearly tripled Y/Y to Rmb3.7B in FY14 (13% above our projection), equating to 1.6x of the company's NPAT. Full-year DPS came in at Rmb32.5cents/share, in line with our estimate. As of end-2014, ZJE stayed in net cash, while its net cash position widened by cRmb1B oya, allowing potential for asset injection.
- 4Q14 NPAT surged by 41% Y/Y, a substantial acceleration from 9M14's 17% rise.** Key highlights:
  - Stellar securities business offset the softer toll income growth:** Toll income growth eased to 4% (vs. 9M14's 7% rise), largely reflecting the slower economic activities in the final quarter. On the other hand, securities business emerged as the key driver as top-line growth came in at 92% Y/Y in 4Q14 (vs. 9M14's 27% increase) amidst the revival of the trading activities in A-share market as well as its continued expansion into non-brokerage businesses.
  - Margin further expanded while Op-CF remained strong:** Op margin expanded substantially by 6.3ppts Y/Y in 4Q14, driven by a 3.3ppts increase in GP margin and a surge in securities investment gains. Op-CF came in at Rmb1.1B vs. a net outflow of Rmb0.7B oya.
- A successful listing can help unlock value for the brokerage business.** We value Zheshang Securities at investment cost, while we noticed its A-share listed peers trade on average at 4.0x P/B on FY15E. Its concession terms for the SH-HZ-NB Exy may also be extended upon passage of the amendments to the National Tollroad Regulations.

## Overweight

0576.HK, 576 HK

Price: HK\$8.99

Price Target: HK\$9.00

### China

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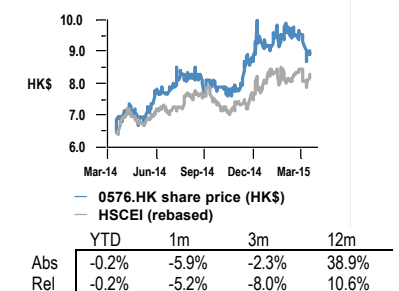
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#### Price Performance



#### Zhejiang Expressway (Reuters: 0576.HK, Bloomberg: 576 HK)

Rmb in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Total Revenue (Rmb mn)	6,927	7,851	8,166	8,492	8,786
Net Profit (Rmb mn)	1,649	1,907	2,031	2,155	2,264
EPS (Rmb)	0.38	0.44	0.47	0.50	0.52
DPS (Rmb)	0.30	0.31	0.33	0.35	0.37
Revenue growth (%)	2.2%	13.3%	4.0%	4.0%	3.5%
EPS growth (%)	(8.6%)	15.6%	6.5%	6.1%	5.1%
ROE	10.4%	11.9%	12.4%	12.7%	12.8%
P/E (x)	19.1	16.5	15.5	14.6	13.9
P/BV (x)	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	6.0	5.3	6.5	6.3	6.1
Dividend Yield	4.1%	4.3%	4.6%	4.8%	5.1%

Source: Company data, Bloomberg, J.P. Morgan estimates.

#### Company Data

Shares O/S (mn)	4,343
Market Cap (HK\$ mn)	39,045
Market Cap (\$ mn)	5,030
Price (HK\$)	8.99
Date Of Price	18 Mar 15
Free Float(%)	-
3M - Avg daily vol (mn)	5.45
3M - Avg daily val (HK\$ mn)	51.30
3M - Avg daily val (\$ mn)	6.6
HSCEI	1,1837.78
Exchange Rate	7.76
Price Target End Date	31-Dec-15
Price Target (HK\$)	9.00

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p><b>Key catalysts for the stock price:</b></p> <ul style="list-style-type: none"> <li>• Successful listing of ZJE's securities business (i.e., Zheshang Securities) in the A-share market.</li> <li>• Concession extension granted by the government to compensate for the expansion work done on SH-HZ-NB expressway during 2000-2007.</li> </ul>	<p><b>Upside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Stronger-than-expected toll revenue recovery</li> <li>• Faster-than-expected breakthrough into new business areas.</li> </ul>	<p><b>Downside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Weaker-than-expected security trading volume in China</li> <li>• Weaker-than-expected toll revenue recovery</li> </ul>
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Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (LC)	7,851	8,166	8,492	8,786
Revenue growth (%)	4.0%	4.0%	3.5%	2.5%
EBITDA (LC)	4,008	4,144	4,287	4,416
EBITDA margin (%)	51.0%	50.7%	50.5%	50.3%
Tax rate (%)	25.5%	25.5%	25.4%	25.4%
Net profit (LC)	1,907	2,031	2,155	2,264
EPS (LC)	0.44	0.47	0.50	0.52
EPS growth (%)	6.5%	6.1%	5.1%	3.7%
DPS (LC)	0.31	0.33	0.35	0.37
BVPS (LC)	3.68	3.84	4.00	4.17
Operating cash flow (LC mn)	980	3,237	3,457	3,554
Free cash flow (LC mn)	714	3,146	3,328	3,406
Interest cover (X)	NM	NM	NM	NM
Net margin (%)	24.3%	24.9%	25.4%	25.8%
Sales/assets (X)	0.2	0.3	0.3	0.3
Debt/equity (%)	9.4%	1.5%	0.5%	0.2%
Net debt/equity (%)	NM	NM	NM	NM
ROE (%)	11.9%	12.4%	12.7%	12.8%
Key model assumptions	FY13A	FY14E	FY15E	FY16E
Revenue growth (%)	4.0%	4.0%	3.5%	2.5%
Gross profit margin (%)	36.9%	37.0%	36.0%	36.2%

Source: Company data and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY14E	FY15E	FY14E	FY15E
Sensitivity to				
1ppt chg in revenue growth	1%	1%	1%	1%
1ppt chg in GPM	2%	2%	2%	2%

Source: J.P. Morgan estimates.

Comparative metrics	CMP	Mkt Cap	P/E		EV/EBITDA		P/BV		YTD
			FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	
	LC	\$Mn							Stock perf.
Zhejiang Expressway	9.0	5,033	14.6	13.9	6.6	6.4	1.8	1.7	-0.2
Jiangsu Expressway	9.99	6,351	13.8	13.2	9.4	9.1	1.9	1.8	7.9
Shenzhen Expressway	5.6	2,659	9.5	8.8	9.0	8.9	0.8	0.7	8.3
Anhui Expressway	5.3	1,633	8.6	9.5	6.7	6.5	0.9	0.8	1.5
Hopewell Highway Infra	3.7	1,470	15.2	13.5	5.0	4.6	1.3	1.4	-4.9
Yuexiu Transport	5.14	1,108	9.0	7.7	7.4	6.1	0.7	0.7	8.7

Source: Bloomberg, J.P. Morgan estimates. Prices are as of Mar.18, 2015.

#### Valuation and price target basis

We use SOTP valuation methodology to derive our Dec-15 PT of HK\$9.0 including: 1) Tollroad NAV of HK\$6.3/shr using DCF valuation methodology (a WACC of 9% entirely driven by cost of equity); 2) NAV for securities business (i.e., Zheshang Securities) at HK\$1.4/shr using 1.0x target P/B (representing investment costs); and 3) Net cash value of HK\$1.4/shr as of end-2015E.

#### Details of SOTP valuation

	Valuation methodology	NAV/shr (HK\$/shr)
Tollroad operations	DCF	6.3
Securities business - Zheshang	1.0x P/B	1.4
Net cash (excl. Zheshang)	Fair value	1.4
<b>Group NAV</b>		<b>HKD 9.0</b>

Source: Bloomberg, Company data and J.P. Morgan estimates.

#### JPMe vs. consensus, change in estimates

EPS	FY15E	FY16E
JPMe old	0.50	0.52
JPMe new	0.50	0.52
% chg	0%	0%
Consensus	0.51	0.53

Source: Bloomberg, J.P. Morgan estimates.

## FY14 result review

Table 1: Zhejiang Exy—FY14 result review

<i>Rmb MMs (HK GAAP)</i>	FY14A	FY13A	Y/Y chg%	FY14E	% Diff
<b>Gross revenue</b>	<b>9,344</b>	<b>8,093</b>	<b>15%</b>	<b>8,413</b>	<b>11%</b>
Less: Revenue tax	(293)	(242)		(249)	
<b>Net Revenue</b>	<b>9,051</b>	<b>7,851</b>	<b>15%</b>	<b>8,163</b>	<b>11%</b>
Operating costs	(5,576)	(4,956)		(5,146)	
<b>Gross profit</b>	<b>3,475</b>	<b>2,896</b>	<b>20%</b>	<b>3,018</b>	<b>15%</b>
<i>GPM%</i>	<i>38.4%</i>	<i>36.9%</i>		<i>37.0%</i>	
<b>Other operating expenses</b>	<b>(189)</b>	<b>(155)</b>	<b>22%</b>	<b>(143)</b>	<b>32%</b>
Admin expenses	(86)	(85)		(84)	
Other expenses	(103)	(70)		(59)	
<b>Other gains/losses (net)</b>	<b>470</b>	<b>245</b>	<b>92%</b>	<b>233</b>	<b>102%</b>
Other income (excl. interest income)	191	145		133	
Securities investment gains	278	100		100	
<b>EBIT</b>	<b>3,756</b>	<b>2,985</b>	<b>26%</b>	<b>3,108</b>	<b>21%</b>
<i>EBIT margin%</i>	<i>41.5%</i>	<i>38.0%</i>		<i>38.1%</i>	
<b>Net finance expenses</b>	<b>(19)</b>	<b>1</b>		<b>55</b>	
Interest income	59	96		104	
Interest expenses	(78)	(95)		(49)	
<b>Share of profit of associates &amp; JCEs</b>	<b>32</b>	<b>(14)</b>		<b>(1)</b>	
Share of profits of associates	65	22		23	
Share of profits of JCEs	(33)	(36)		(24)	
<b>Earnings before taxes</b>	<b>3,768</b>	<b>2,972</b>	<b>27%</b>	<b>3,162</b>	<b>19%</b>
Income tax expenses	(918)	(757)		(805)	
<b>Net profit</b>	<b>2,850</b>	<b>2,215</b>	<b>29%</b>	<b>2,357</b>	<b>21%</b>
Minority interest	(501)	(308)		(327)	
<b>Net profit attributable to shareholders</b>	<b>2,349</b>	<b>1,907</b>	<b>23%</b>	<b>2,030</b>	<b>16%</b>
<i>Net margin</i>				<i>24.9%</i>	
<b>Dividend</b>	<b>1,412</b>	<b>1,346</b>		<b>1,433</b>	
<b>Op-CF</b>	<b>3,670</b>	<b>980</b>	<b>274%</b>	<b>3,236</b>	<b>13%</b>
<b>Per share (Rmb/share)</b>					
<b>EPS (Rmb/share)</b>	<b>0.54</b>	<b>0.44</b>		<b>0.47</b>	
<b>DPS (Rmb/share)</b>	<b>0.33</b>	<b>0.31</b>		<b>0.33</b>	
<b>Margins</b>					
GP margin	38.4%	36.9%		37.0%	
EBIT margin	41.5%	38.0%		38.1%	
Net margin	26.0%	24.3%		24.9%	
<b>Expenses as % of gross revenue</b>					
Revenue taxes	3.1%	3.0%		3.0%	
Admin expenses	0.9%	1.0%		1.0%	
Other expenses	1.1%	0.9%		0.7%	
<b>Other ratios</b>					
Effective tax rate (%)	24.4%	25.5%		25.5%	
MI as % of NP	17.6%	13.9%		13.9%	
Dividend payout ratio (%)	60.1%	70.6%		70.6%	
EBIT/interest coverage	48.0x	31.4x		63.8x	
Op-CF/NPAT (x)	1.6x	0.5x		1.6x	

Source: Company data, J.P. Morgan research.

Table 2: Zhejiang Exy—2H14 and 4Q14 result review

Rmb MMs (HK GAAP)	2H14	2H13	Y/Y chg%	H/H chg%	4Q14	4Q13	Y/Y chg%	Q/Q chg%
<b>Net Revenue</b>	4,929	4,204	17%	20%	2,580	2,144	20%	10%
Operating costs	(2,996)	(2,672)			(1,553)	(1,360)		
<b>Gross profit</b>	1,934	1,532	26%	25%	1,027	783	31%	13%
GPM%	39.2%	36.4%			39.8%	36.5%		
<b>Other operating expenses</b>	(129)	(97)	32%	114%	(83)	(66)	25%	79%
Admin expenses	(52)	(49)			(33)	(30)		
Other expenses	(77)	(49)			(49)	(36)		
<b>Other gains/losses (net)</b>	277	107	159%	43%	162	68	137%	41%
Other income (excl. interest income)	86	87			48	55		
Securities investment gains	191	20			114	13		
<b>EBIT</b>	2,081	1,542	35%	24%	1,106	786	41%	13%
EBIT margin%	42.2%	36.7%			42.9%	36.6%		
<b>Net finance expenses</b>	(14)	(2)			(9)	0		
Interest income	25	50			12	27		
Interest expenses	(38)	(52)			(21)	(27)		
<b>Share of profit of associates &amp; JCEs</b>	22	(5)			7	(1)		
Share of profits of associates	40	17			16	13		
Share of profits of JCEs	(18)	(22)			(9)	(15)		
<b>Earnings before taxes</b>	2,090	1,534	36%	25%	1,104	785	41%	12%
Income tax expenses	(487)	(383)			(239)	(206)		
<b>Net profit</b>	1,603	1,152	39%	29%	865	578	50%	17%
Minority interest	(318)	(177)			(177)	(92)		
<b>Net profit attributable to shareholders</b>	1,285	975	32%	21%	688	486	41%	15%
<i>Net margin</i>								
<b>Dividend</b>	1,151	1,086						
<b>Op-CF</b>	2,268	(70)			1,078	(696)	-255%	-9%
<b>Per share (Rmb/share)</b>								
<b>EPS (Rmb/share)</b>	0.30	0.22			0.16	0.11		
<b>DPS (Rmb/share)</b>	0.27	0.25						
<b>Margins</b>								
GP margin	39.2%	36.4%			39.8%	36.5%		
EBIT margin	42.2%	36.7%			42.9%	36.6%		
Net margin	26.1%	23.2%			26.7%	22.7%		
<b>Expenses as % of gross revenue</b>								
Revenue taxes	3.3%	3.0%			n.a.	n.a.		
Admin expenses	1.0%	1.1%			1.3%	1.4%		
Other expenses	1.5%	1.1%			1.9%	1.7%		
<b>Other ratios</b>								
Effective tax rate (%)	23.3%	24.9%			21.7%	26.3%		
MI as % of NP	19.8%	15.3%			20.5%	15.9%		
Dividend payout ratio (%)	89.6%	111.3%			0.0%	0.0%		
EBIT/interest coverage	54.3x	29.6x			52.9x	29.3x		
Op-CF/NPAT (x)	1.8x	-0.1x			1.6x	-1.4x		

Source: Company data, J.P. Morgan research.

## Segmental analysis

Table 3: Zhejiang Exy—Result review by segment

Rmb MMs (HK GAAP)	FY14A	FY13A	Y/Y chg%	FY14E	% Diff	2H14	2H13	Y/Y chg%	H/H chg%
<b>Total revenue (net)</b>	<b>9,056</b>	<b>7,856</b>	<b>15%</b>	<b>8,163</b>	<b>11%</b>	<b>4,934</b>	<b>4,209</b>	<b>17%</b>	<b>20%</b>
<b>Tollroad operation</b>	<b>4,259</b>	<b>4,020</b>	<b>6%</b>	<b>4,223</b>	<b>1%</b>	<b>2,218</b>	<b>2,098</b>	<b>6%</b>	<b>9%</b>
Shanghai-Hangzhou-Ningbo Exy	3,111	3,122	0%	3,122	0%	1,615	1,620	0%	8%
Shangsans Exy	987	770	28%	962	3%	517	411	26%	10%
Jinhua section, Ningbo-Jinhua Exy	309	267	16%	284	9%	164	141	17%	14%
Less: Revenue taxes	(148)	(138)	7%	(145)	2%	(78)	(73)	7%	11%
<b>Tollroad related services</b>	<b>2,378</b>	<b>2,185</b>	<b>9%</b>	<b>2,289</b>	<b>4%</b>	<b>1,176</b>	<b>1,174</b>	<b>0%</b>	<b>-2%</b>
Service areas	2,216	2,063	7%	2,166	2%	1,078	1,100	-2%	-5%
Advertising	85	108	-21%	113	-25%	35	54	-34%	-29%
Road maintenance	86	22	288%	23	270%	66	22	199%	235%
Less: Revenue taxes	(10)	(8)	26%	(13)	-25%	(4)	(2)	99%	-43%
<b>Securities operation</b>	<b>2,418</b>	<b>1,651</b>	<b>46%</b>	<b>1,651</b>	<b>46%</b>	<b>1,540</b>	<b>936</b>	<b>64%</b>	<b>75%</b>
Commission	1,809	1,288	40%	1,474	23%	1,167	709	65%	82%
Interest income	739	454	63%	268	175%	457	277	65%	62%
Less: Revenue taxes	(130)	(91)	43%	(91)	43%	(84)	(50)	68%	83%
<b>Total net profit</b>	<b>2,850</b>	<b>2,215</b>	<b>29%</b>	<b>2,357</b>	<b>21%</b>	<b>1,603</b>	<b>1,152</b>	<b>39%</b>	<b>29%</b>
Tollroad operation	1,937	1,722	13%	1,851	5%	995	853	17%	6%
Tollroad related services	160	91	77%	96	67%	78	63	25%	-5%
Securities operation	753	403	87%	410	83%	530	236	125%	138%
<b>Net profit margin (%)</b>	<b>31.5%</b>	<b>28.2%</b>		<b>28.9%</b>		<b>32.5%</b>	<b>27.4%</b>		
Tollroad operation	45.5%	42.8%		43.8%		44.8%	40.7%		
Tollroad related services	6.7%	4.1%		4.2%		6.6%	5.3%		
Securities operation	31.1%	24.4%		24.9%		34.4%	25.2%		

Source: Company data, J.P. Morgan research.

Table 4: Zhejiang Exy—4Q14 result review by segment

Rmb MMs (HK GAAP)	4Q14	4Q13	Y/Y chg%	3Q14	3Q13	Y/Y chg%	9M14	9M13	Y/Y chg%
<b>Total revenue (net)</b>	<b>2,585</b>	<b>2,149</b>	<b>20%</b>	<b>2,349</b>	<b>2,060</b>	<b>14%</b>	<b>6,471</b>	<b>5,707</b>	<b>13%</b>
<b>Tollroad operation</b>	<b>1,084</b>	<b>1,041</b>	<b>4%</b>	<b>1,134</b>	<b>1,057</b>	<b>7%</b>	<b>3,175</b>	<b>2,978</b>	<b>7%</b>
Shanghai-Hangzhou-Ningbo Exy	786	796	-1%	829	824	1%	2,325	2,326	0%
Shangsans Exy	256	212	21%	260	198	31%	731	558	31%
Jinhua section, Ningbo-Jinhua Exy	81	70	15%	84	71	18%	229	196	16%
Less: Revenue taxes	(39)	(37)	6%	(39)	(36)	9%	(110)	(102)	8%
<b>Tollroad related services</b>	<b>572</b>	<b>625</b>	<b>-8%</b>	<b>604</b>	<b>550</b>	<b>10%</b>	<b>1,806</b>	<b>1,560</b>	<b>16%</b>
<b>Securities operation</b>	<b>928</b>	<b>483</b>	<b>92%</b>	<b>612</b>	<b>454</b>	<b>35%</b>	<b>1,490</b>	<b>1,169</b>	<b>27%</b>
Commission	703	351	101%	464	358	29%	1,105	937	18%
Interest income	276	156	76%	181	121	50%	463	298	56%
Less: Revenue taxes	(51)	(24)	108%	(33)	(26)	30%	(79)	(66)	19%

Source: Company data, J.P. Morgan research.

## Traffic volume analysis

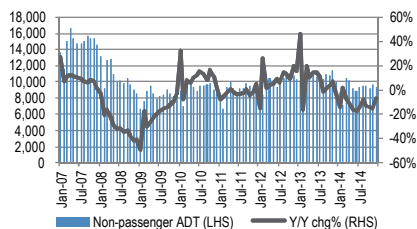
Table 5: ZJE—Traffic diversion analysis

<i>Rmb MMs</i>	FY14	4Q14	2H14	9M14	1H14	3Q14
Toll income for SH-HZ-HB Exy	3,111	786	1,615	2,325	1,496	829
Toll income for Shangsan Exy	987	256	517	731	471	260
<b>Subtotal</b>	<b>4,098</b>	<b>1,043</b>	<b>2,132</b>	<b>3,056</b>	<b>1,967</b>	<b>1,089</b>
<b>Traffic boost/(diversion) in value terms</b>						
Traffic diversion from Jiashao Exy on SH-HZ-NB Exy	(113)	(14)	(38)	(98)	(75)	(23)
Traffic boost from Jiashao Exy on Shangsan Exy	155	26	69	129	86	43
<b>Net impact on the road network</b>	<b>42</b>	<b>11</b>	<b>31</b>	<b>31</b>	<b>11</b>	<b>20</b>
Hangzhou Airport construction on SH-HZ-NB Exy	(58)	(20)	(40)	(38)	(18)	(20)
Qianjiang Road on SH-HZ-NB Exy	(10)	(4)	(8)	(6)	(3)	(4)
<b>Traffic boost/(diversion) in % terms</b>						
Traffic diversion from Jiashao on SH-HZ-NB Exy	-4%	-2%	-2%	-4%	-5%	-3%
Traffic boost from Jiashao Exy on Shangsan Exy	19%	11%	15%	21%	22%	20%
<b>Net impact on the road network</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>2%</b>
Hangzhou Airport construction on SH-HZ-NB Exy	-2%	-2%	-2%	-2%	-1%	-2%
Qianjiang Road on SH-HZ-NB Exy	0%	-1%	0%	0%	0%	0%

Source: Company data, J.P. Morgan research.

Figure 1: Non-passenger ADT—Shanghai-Hangzhou Expressway

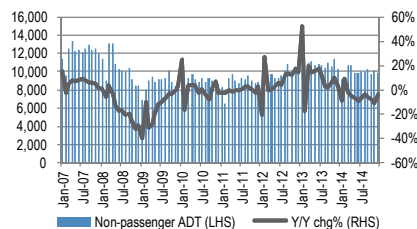
# of vehicles, %



Source: Company data, J.P. Morgan research.

Figure 2: Non-passenger ADT—Hangzhou-Ningbo Expressway

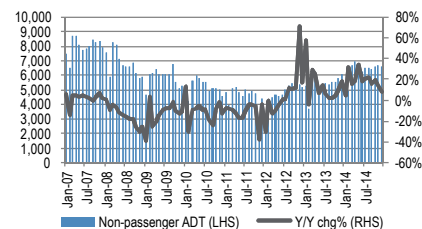
# of vehicles, %



Source: Company data, J.P. Morgan research.

Figure 3: Non-passenger ADT—Shangsan Expressway

# of vehicles, %



Source: Company data, J.P. Morgan research.

## Investment Thesis, Valuation and Risks

### Zhejiang Expressway (Overweight; Price Target: HK\$9.00)

#### Investment Thesis

ZJE's tollroad business, viewed as ex-growth in its life cycle, has recorded decent growth last year. Impact from the opening of Jiashao Exy has also turned out to be a mild positive, better than prior expectations. In recent years, Zheshang has also successfully expanded into non-brokerage businesses including investment banking, asset management and margin financing & securities lending.

We view ZJE as a key beneficiary of the impending passage of the amendments to the Tollroad Administrative Regulation (first proposed in May 2013), given: (1) Return profile of tollroad assets in China would be greatly enhanced with clarity offered on tariff adjustment and concession extension; and (2) ZJE may also receive concession extension up to 5 years for the additional capex incurred on expanding the SH-HZ-NB Exy done prior to 2007. We expect the draft to be approved in the upcoming NPC meeting.

#### **Valuation**

We use SOTP valuation methodology to derive our Dec-15 PT of HK\$9.0 including 1) Tollroad NAV of HK\$6.3/shr using DCF valuation methodology (a WACC of 9% entirely driven by cost of equity); 2) NAV for securities business (i.e. Zheshang Securities) at HK\$1.4/shr using 1.0x target P/B (representing investment costs); and 3) Net cash value of HK\$1.4/shr as of end-2015E.

#### **Risks to Rating and Price Target**

Downside risks to our rating and price target include traffic diversions, and weaker-than-expected trading liquidity in China.

## Zhejiang Expressway: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	6,927	7,851	8,166	8,492	8,786	EBIT	2,427	2,985	3,109	3,237	3,368
% change Y/Y	2.2%	13.3%	4.0%	4.0%	3.5%	Depr. & amortization	1,005	1,023	1,035	1,051	1,048
EBITDA	3,433	4,008	4,144	4,287	4,416	Change in working capital	(943)	(2,106)	(53)	32	37
% change Y/Y	(4.4%)	16.8%	3.4%	3.4%	3.0%	Other operating cash flow	(384)	156	224	220	205
EBITDA Margin	49.6%	51.0%	50.7%	50.5%	50.3%	Cash flow from operations	1,328	980	3,237	3,457	3,554
EBIT	2,427	2,985	3,109	3,237	3,368	Capex	(378)	(266)	(50)	(50)	(50)
% change Y/Y	(11.1%)	23.0%	4.2%	4.1%	4.1%	Other investing activities	1,270	382	104	115	134
EBIT Margin	35.0%	38.0%	38.1%	38.1%	38.3%	Cash flow from investing	892	116	54	65	84
Net Interest	42	1	55	106	130	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	2,461	2,972	3,164	3,355	3,526	Debt raised/(repaid)	(513)	(500)	(1,540)	(200)	(60)
% change Y/Y	(11.6%)	20.7%	6.5%	6.0%	5.1%	Dividends paid	(1,455)	(1,413)	(1,346)	(1,434)	(1,521)
Tax	(635)	(757)	(805)	(853)	(896)	Other financing activities	0	(768)	0	0	0
as % of EBT	25.8%	25.5%	25.5%	25.4%	25.4%	Cash flow from financing	(1,968)	(2,681)	(2,886)	(1,634)	(1,581)
Net income (reported)	1,649	1,907	2,031	2,155	2,264	Free cash flow	919	714	3,146	3,328	3,406
% change Y/Y	(8.6%)	15.6%	6.5%	6.1%	5.1%	Beginning cash	3,140	3,392	1,807	2,212	4,100
Shares outstanding	4,343	4,343	4,343	4,343	4,343	Ending cash	3,392	1,807	2,212	4,100	6,157
EPS (reported)	0.38	0.44	0.47	0.50	0.52	DPS	0.30	0.31	0.33	0.35	0.37
% change Y/Y	(8.6%)	15.6%	6.5%	6.1%	5.1%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	12,367	10,740	11,145	13,033	15,089	EBITDA margin	49.6%	51.0%	50.7%	50.5%	50.3%
Accounts receivable	64	101	105	109	112	Operating margin	35.0%	38.0%	38.1%	38.1%	38.3%
Inventories	27	74	78	82	86	Net margin	23.8%	24.3%	24.9%	25.4%	25.8%
Other current assets	1,627	4,275	4,293	4,310	4,327	SG&A/Sales	1.2%	1.1%	1.0%	1.0%	1.0%
Current assets	15,708	16,653	17,083	18,997	21,077	Sales growth	2.2%	13.3%	4.0%	4.0%	3.5%
LT investments	133	144	144	144	144	EBITDA growth	(4.4%)	16.8%	3.4%	3.4%	3.0%
Net fixed assets	1,634	1,762	1,613	1,448	1,280	Net profit growth	(8.6%)	15.6%	6.5%	6.1%	5.1%
Total Assets	31,485	32,089	31,534	32,460	33,569	EPS growth	(8.6%)	15.6%	6.5%	6.1%	5.1%
<b>Liabilities</b>											
Short-term loans	1,660	1,540	200	60	24	Interest coverage (x)	NM	NM	NM	NM	NM
Payables	409	422	448	471	495	Net debt to total capital	(104.5%)	(82.6%)	(110.2%)	(146.7%)	(192.7%)
Total current liabilities	10,915	11,915	10,547	10,465	10,489	Net debt to equity	(51.1%)	(45.2%)	(52.4%)	(59.5%)	(65.8%)
Long-term debt	680	300	100	40	16	Sales/assets	0.2	0.2	0.3	0.3	0.3
Other liabilities	269	206	206	206	206	Assets/equity	197.5%	198.6%	195.0%	188.0%	186.0%
Total Liabilities	11,864	12,420	10,853	10,710	10,710	ROE	10.4%	11.9%	12.4%	12.7%	12.8%
Shareholder's equity	16,044	15,973	16,657	17,378	18,122	ROCE	9.7%	12.3%	13.3%	14.0%	14.1%
BVPS	3.69	3.68	3.84	4.00	4.17						

Source: Company reports and J.P. Morgan estimates.

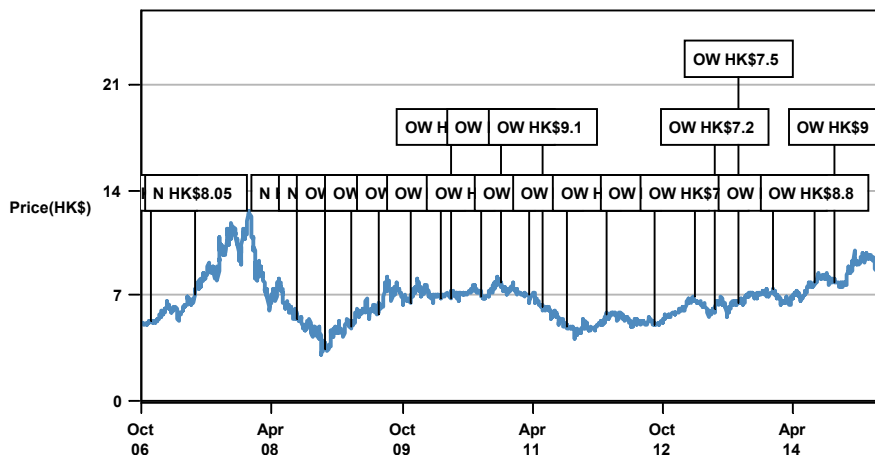


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Zhejiang Expressway (0576.HK, 576 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Initiated coverage Nov 14, 2006.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
14-Nov-06	N	5.34	5.80
16-May-07	N	7.04	8.05
16-Jul-08	N	5.51	6.30
13-Nov-08	N	3.42	5.30
26-Feb-09	OW	4.89	6.20
21-Jun-09	OW	5.75	6.80
04-Nov-09	OW	6.51	7.60
15-Mar-10	OW	6.85	7.50
20-Apr-10	OW	6.83	8.10
30-Aug-10	OW	6.95	8.50
21-Nov-10	OW	7.86	9.10
14-Mar-11	OW	7.03	8.90
11-May-11	OW	6.27	9.10
23-Aug-11	OW	4.95	9.40
06-Feb-12	OW	5.71	8.30
26-Aug-12	OW	5.13	7.10
05-Feb-13	OW	6.89	7.40
07-May-13	OW	6.09	7.20
10-Aug-13	OW	6.52	7.50
06-Jan-14	OW	7.42	8.10
29-Jun-14	OW	7.84	8.80
15-Sep-14	OW	7.88	9.00

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