



**ENN 新奥**

ENN Energy Holdings Limited  
(Stock code: 2688)

# 2016 Annual Results

## Company Presentation

March 2017





### **Disclaimer**

**The information provided to you in this presentation does not constitute or form part of any offer for subscription or sale of, or solicitation of any offer to subscribe for or sale of any securities of ENN Energy Holdings Limited (the "Company") nor shall it form the basis of, nor can it be relied on in connection with, any contract or commitment whatsoever**

### **Confidentiality**

**The information provided to you in this presentation is given on a confidential basis and must not be passed to, or their contents disclosed to, any other person and no copy shall be taken thereof**

# CONTENTS

- ▶ **1. Results Highlights**
- 2. Financial Review**
- 3. Operation Review**
- 4. Appendix**

# Results Highlights

	2016	2015	Change
Total Natural Gas Sales Volume ('000 m <sup>3</sup> )	14,329,168	11,285,899	+27.0%
Natural Gas Sales Volume Excluding Energy Trading Business ('000 m <sup>3</sup> )	11,292,390	10,054,378	+12.3%
Natural Gas Residential New Connection (households)	1,820,837	1,707,020	+6.7%
Natural Gas Newly Installed Daily Capacity for C/I Customers (m <sup>3</sup> )	12,574,005	8,160,660	+54.1%
No. of City-gas Projects	160	152	+8
Revenue (RMB million)	34,103	32,063	+6.4%
Gross Profit (RMB million)	7,350	6,866	+7.0%
Profit attributable to owners of the Company (RMB million)	2,151	2,036	+5.6%
Recurring profit (RMB million) <sup>1</sup>	3,212	2,739	+17.3%
EPS – Basic (RMB)	1.99	1.88	+5.9%

**Notes:**

1. Stripping off one-off items of RMB1,061 million in 2016 and RMB703 million in 2015 in other gains and losses and share option amortisation expenses

# Results Highlights

	2016	2015	Change
<b>Gas Infrastructure</b>			
Length of intermediate & main pipelines (km)	32,921	29,936	10.0%
Natural gas processing stations	166	157	9
Combined daily capacity of natural gas processing stations (m <sup>3</sup> )	84,910,000	80,198,000	5.9%
CNG refuelling stations	320	306	14
LNG refuelling stations	277	270	7
<b>No. of New Natural Gas Connection</b>			
Residential households	1,820,837	1,707,020	6.7%
C/I customers (sites)	11,821	9,054	2,767
Installed designed daily capacity for C/I customers (m <sup>3</sup> )	12,574,005	8,160,660	54.1%
<b>Accumulated No. of Connected Piped Gas (Incl. Natural Gas) Customers</b>			
Residential households	14,146,873	12,326,036	14.8%
C/I customers (sites)	68,679	56,858	11,821
Installed designed daily capacity for C/I customers (m <sup>3</sup> )	71,182,166	58,608,161	21.5%

# CONTENTS

1. Results Highlights

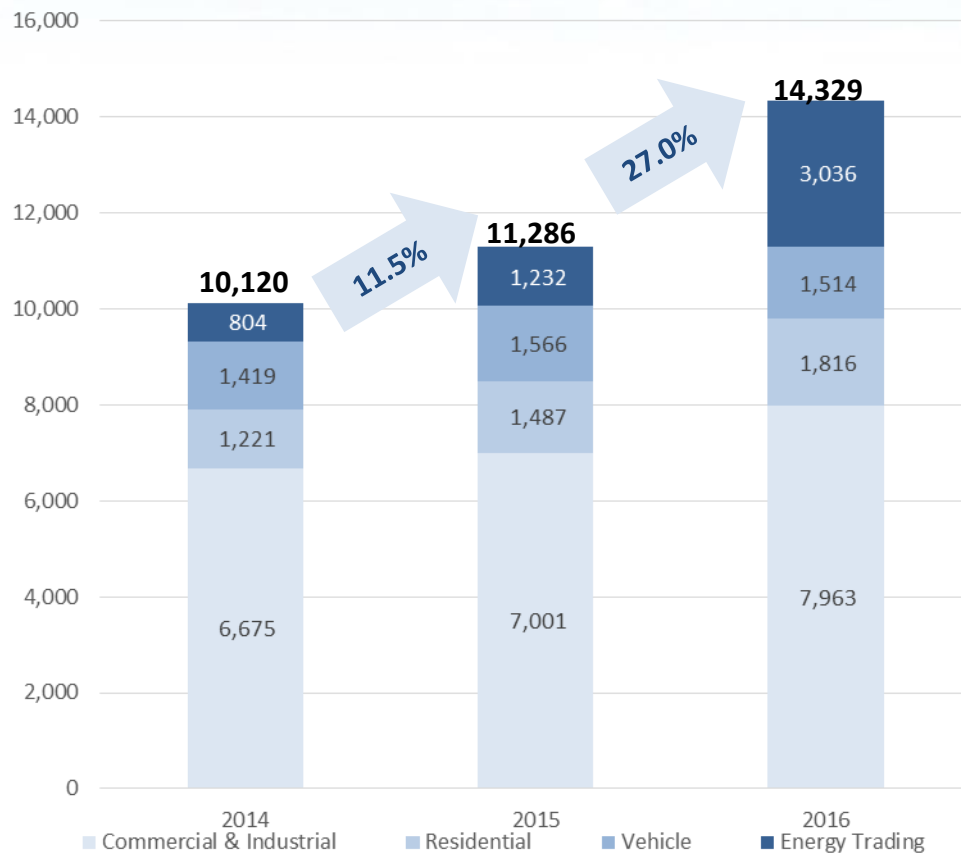
▶ 2. Financial Review

3. Operation Review

4. Appendix

# Strong Volume Growth

Natural Gas Sales Volume (million m<sup>3</sup>)



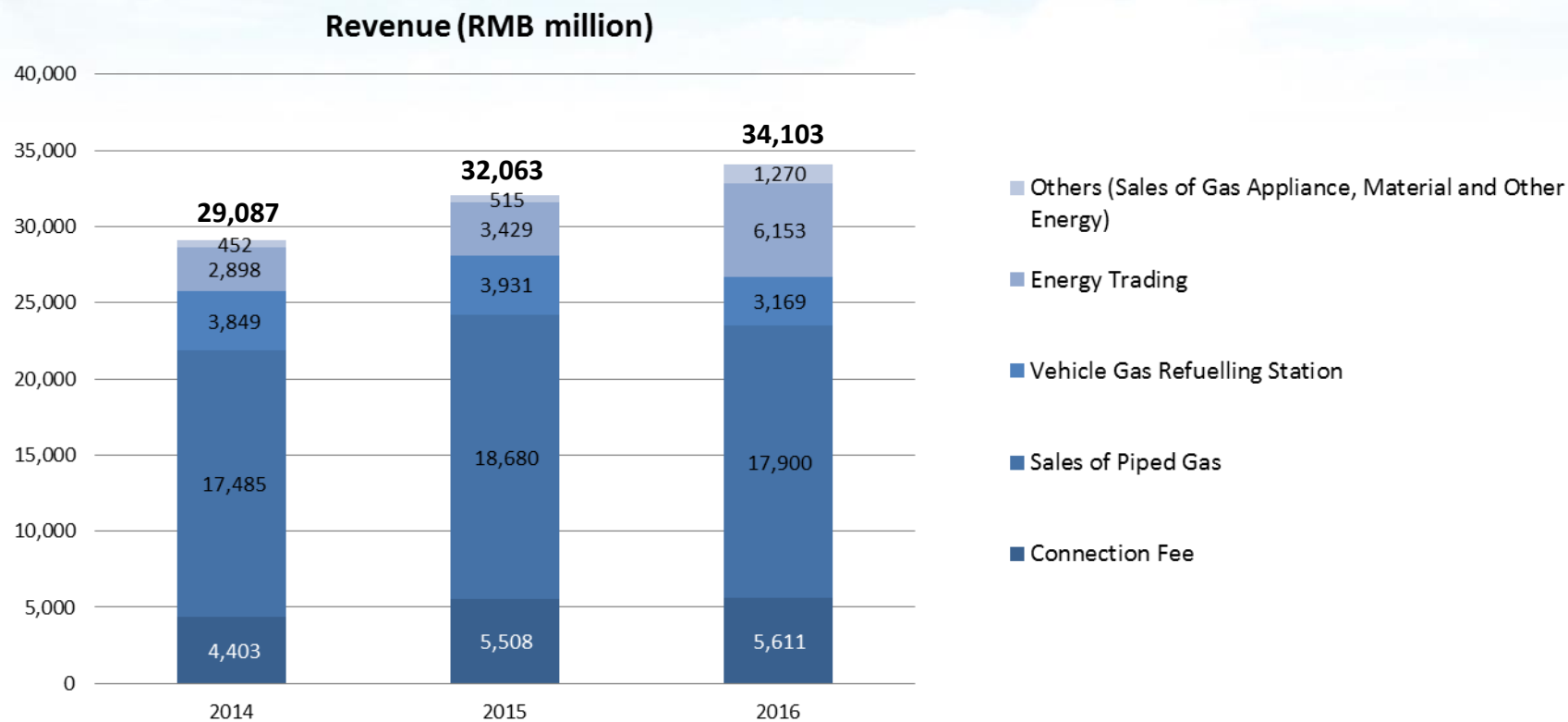
Gas Sales Volume Segment Breakdown

(million m <sup>3</sup> )	2016	2015	Yoy change
Residential	1,816	1,487	22%
Commercial & Industrial	7,963	7,001	14%
Vehicle	1,514	1,566	-3%
Energy Trading	3,036	1,232	147%

ASP & Procurement Cost Breakdown

(RMB m <sup>3</sup> )	2016	2015	Yoy change
Residential	2.64	2.65	-0.01
Commercial & Industrial	2.99	3.65	-0.66
CNG Station	3.70	4.38	-0.68
LNG Station	3.10	3.80	-0.70
Average ASP (Inclu. Tax)	2.99	3.58	-0.59
Average Cost (Inclu. Tax)	2.17	2.71	-0.54
Dollar Margin (After Tax)	0.73	0.77	-0.04

# Healthy Revenue Breakdown

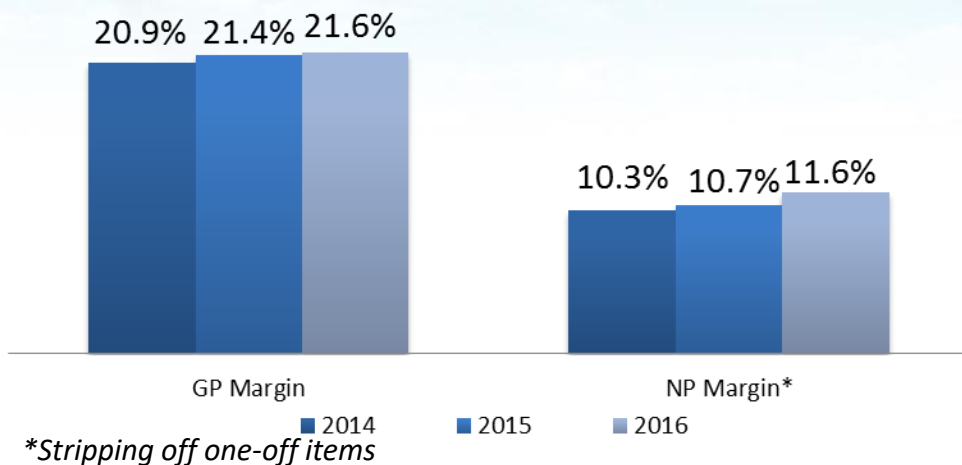


Total revenue including joint ventures and associates amounted to RMB50,298 million



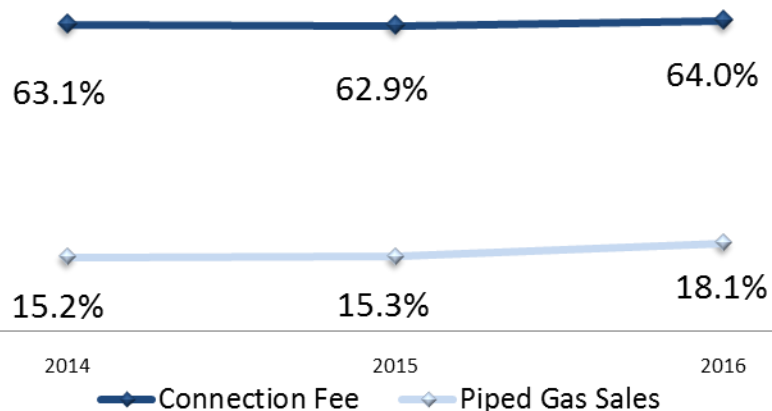
# Sustainable Margin

## Overall Margin



- Gross profit margin increased by 0.2ppt. Stripping off one-off items, net profit margin increased by 0.9ppt.
- The increases in gross profit margin and net profit margin were both due to natural gas price cut.

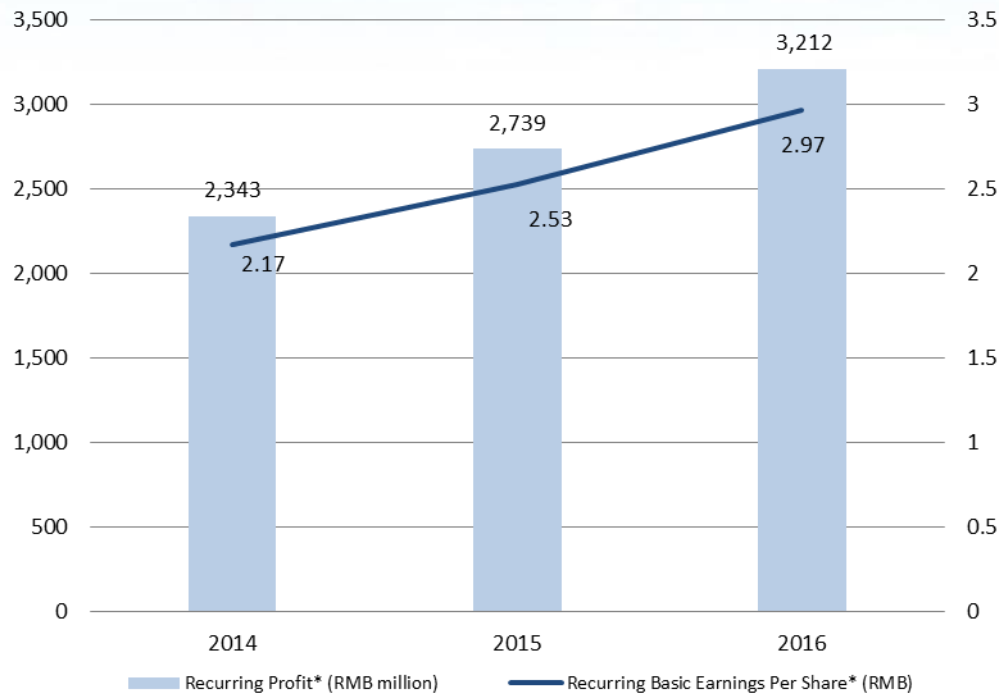
## Connection & Piped Gas Sales GP Margin



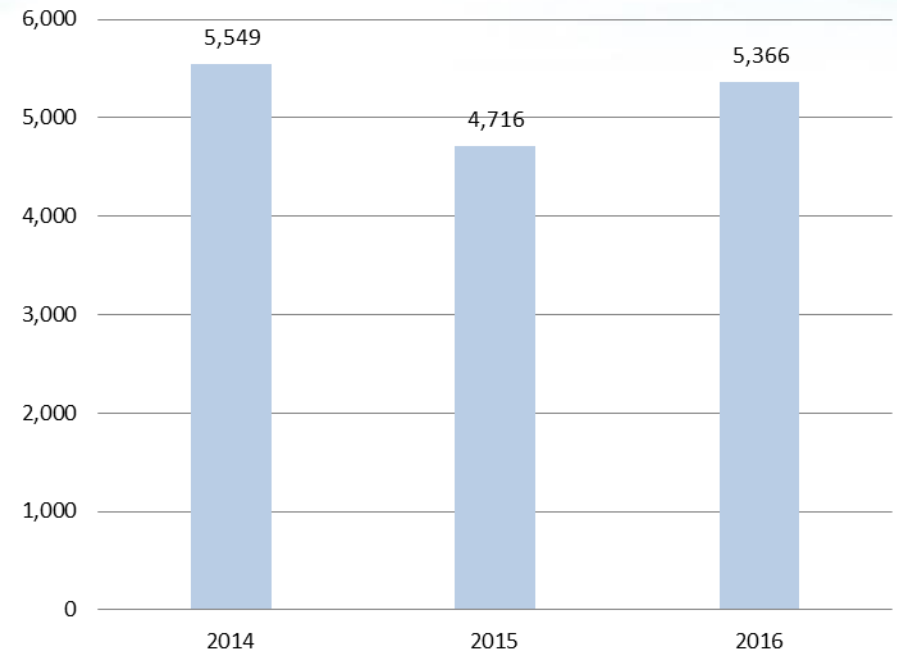
- Gross profit margin of connection fee increased mainly due to centralised procurement and construction management platform and contribution of deferred connection income
- Gross profit margin of piped gas sales increased mainly due to lower base effect caused by gas price cut

# Improving Profitability and Operating Cashflow

Recurring Profit\*



Operating Cash Flow\* (RMB million)

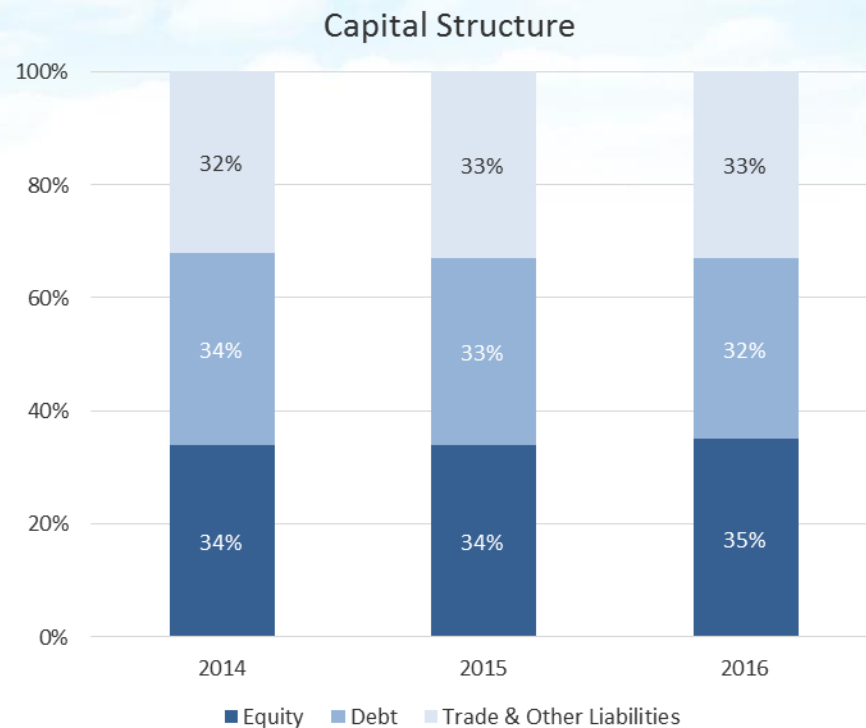
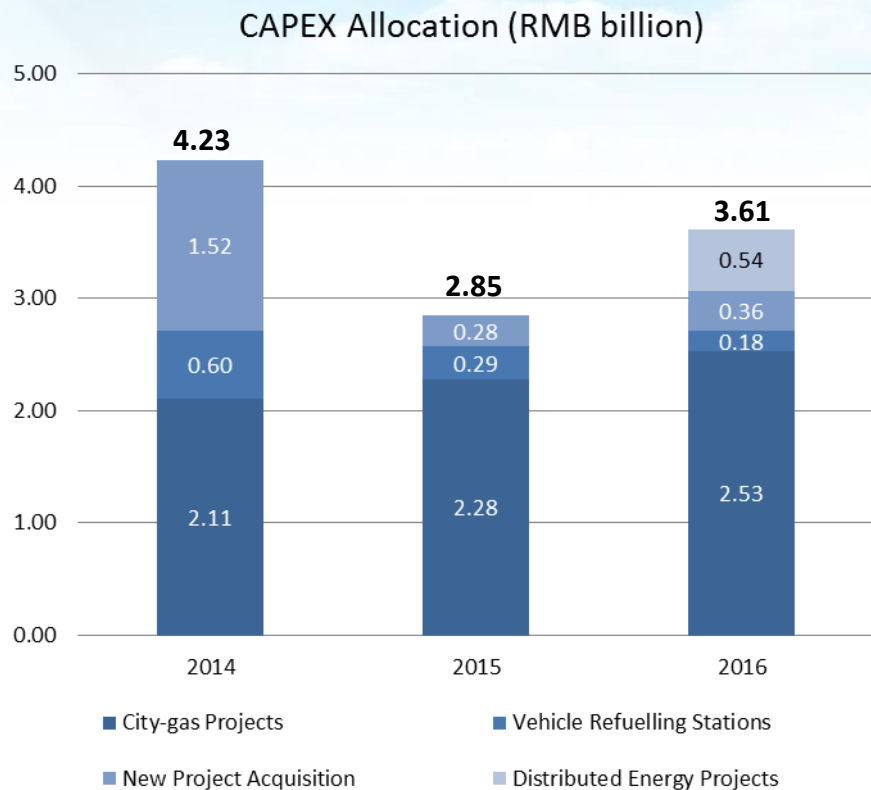


\*After stripping off one-off items of RMB1,061 million, RMB703 million and RMB625 million in 2016, 2015 and 2014 respectively

\*Including net cash from operating activities and deferred income

**Total profit including joint ventures and associates amounted to RMB4,165 million**

# Disciplined CAPEX and Healthy Capital Structure



Rating agency

S&P

Moody's

Fitch

Credit Rating

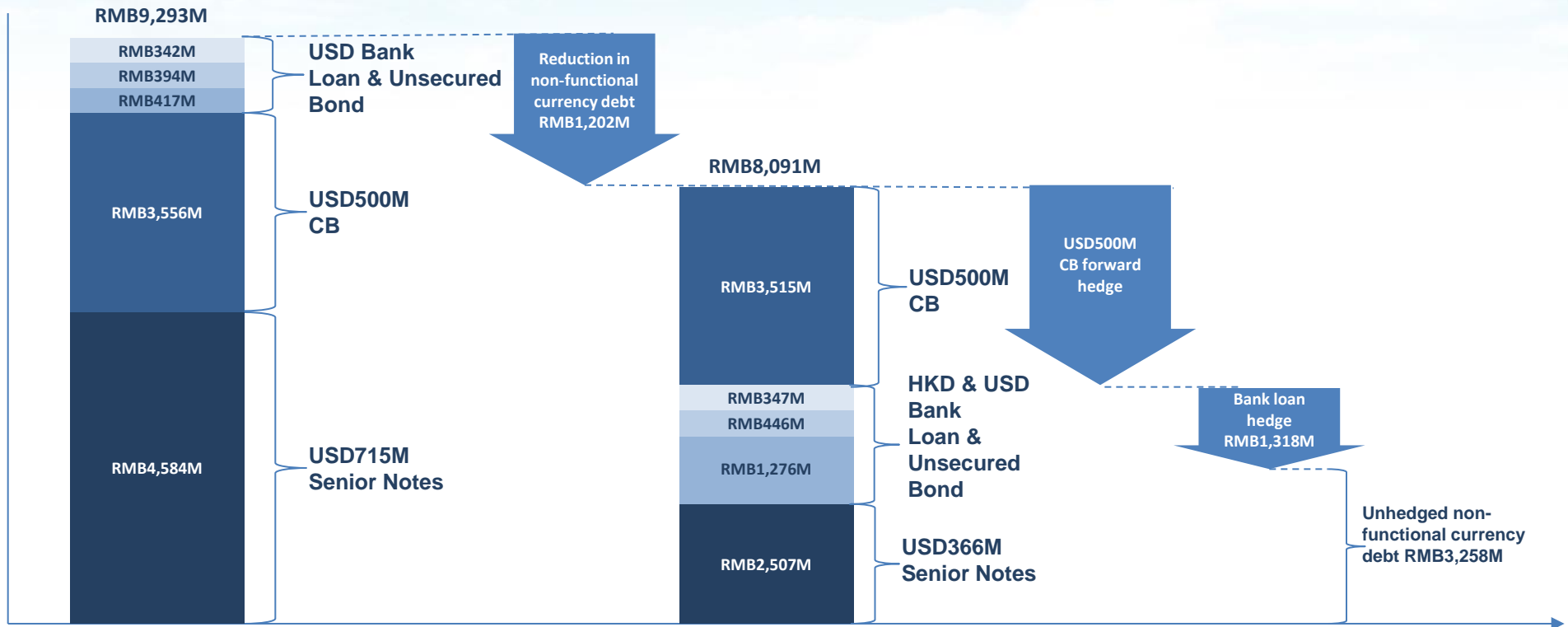
BBB

Baa3

BBB

# Decreasing FX Exposure

## RMB Carrying Amount of Non-functional Currency Debt



2015 year end  
RMB9,293M non-functional currency debt FX exposure

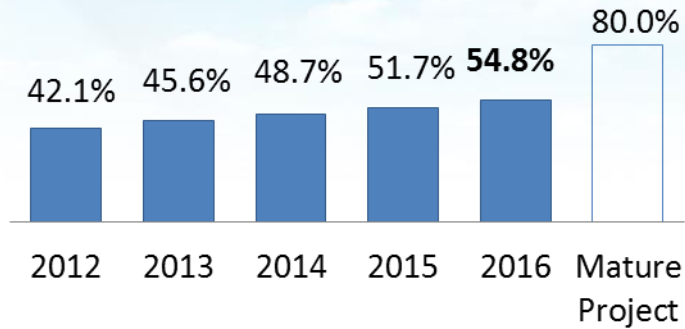
2016 greatly reduced unhedged non-functional currency debt FX exposure to RMB3,258M

# CONTENTS

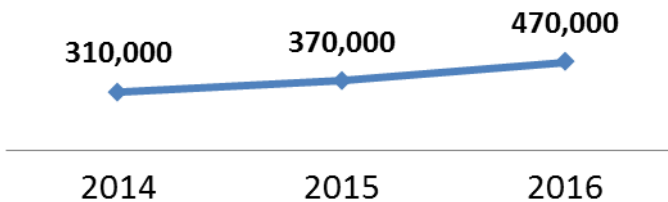
1. Results Highlights
2. Financial Review
- ▶ 3. Operation Review
4. Appendix

# Further Strengthen Existing Core Businesses

Residential Gas Penetration Rate



No. of Space Heaters



Gas for cooking & bathing:  
**180m<sup>3</sup>/year**



Gas for individual heating:  
**>1,000m<sup>3</sup>/year**  
**↑ 5 folds**



## Deepen penetration rate of residential users

- Newly started residential GFA increased by 8.7%, providing solid foundation for new buildings connection in 2017
- Government targets to increase urbanised population to 60% in 2020 from 57% in 2016, bringing in additional connectable population and new buildings
- Develop old buildings



## Increase residential gas sales volume

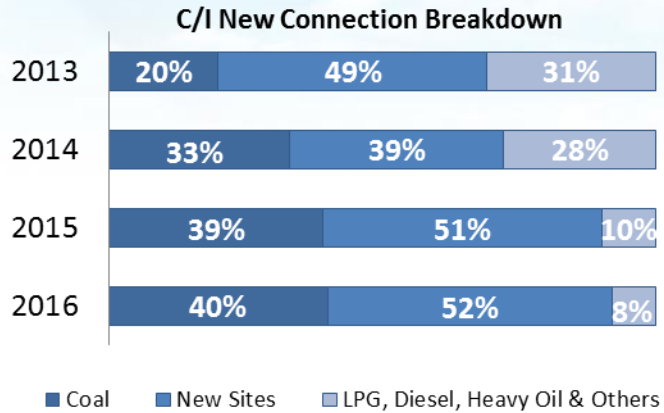
- Residential gas consumption is less affected by economic cycle
- Improving living standards create higher demand for space heaters
- The Group actively promoted space heaters. Accumulated number of connected space heaters reached 470,000 in 2016



## Set up more tier-pricing mechanism

- NDRC proposed to establish tier pricing mechanism for residential gas usage in all city-gas projects
- 111 projects already set up tier pricing mechanism, accounting for 92% of total residential gas sales volume

# Further Strengthen Existing Core Businesses



## ➤ Actively develop coal-to-gas users

- Government required to phase out all small coal-fired boilers in prefecture-level cities in 2017
- Prohibited coal burning areas in all prefecture-level cities connected to natural gas by 2020
- Provide boiler modification and energy saving solutions to increase combustion efficiency and lower overall production cost
- Newly connected coal-to-gas users amounted to 5 million m<sup>3</sup>/day in 2016

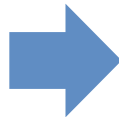
## ➤ Optimize customer base by connecting more commercial users with higher affordability

- Tertiary industry's GDP recorded 7.8% yoy growth, higher than national GDP growth of 6.7%, representing 51.6% of the total GDP
- Newly connected commercial users amounted to 4 million m<sup>3</sup>/day in 2016

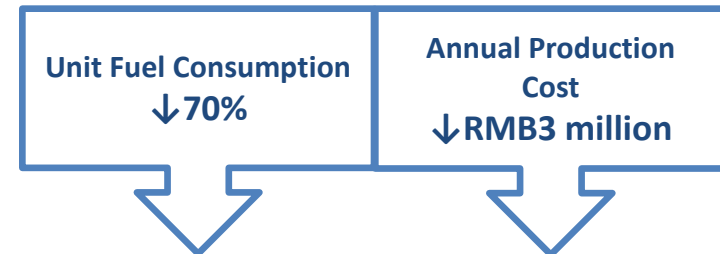
### Case study: economic benefits of industrial coal-to-gas conversion using energy saving solutions



Coal-fired Kiln for Aluminum Melting



Conversion to Natural Gas + Fuel System Upgrade



# Further Strengthen Existing Core Businesses

- **Favorable policy to promote vehicle gas consumption**
  - Government targets to achieve 50-60bcm of natural gas as transportation fuel by 2020
  - 12,000 vehicle refuelling stations to be constructed by 2020, nearly double the current number
  - National Standard VI gasoline and diesel to be applied in 28 cities by September 2017
  - Market consensus estimated oil price to increase from US\$55/barrel in 2017 to US\$65/barrel in 2020
- **Increase utilisation of vehicle gas refuelling stations**
  - Develop light duty trucks, mobile hailing service cars, refuse cars, etc to broaden customer base of CNG business
  - Implement cross-regional joint marketing through Smart Card program
  - Strategic alliance with other operators to improve refuelling network
- **Enhance profitability of vehicle gas refuelling stations**
  - Conduct value-added services to create additional revenue stream
  - Incentive scheme to enhance profitability



ENN Energy's Strategic Partners



E Vehicle E Station Supermarket

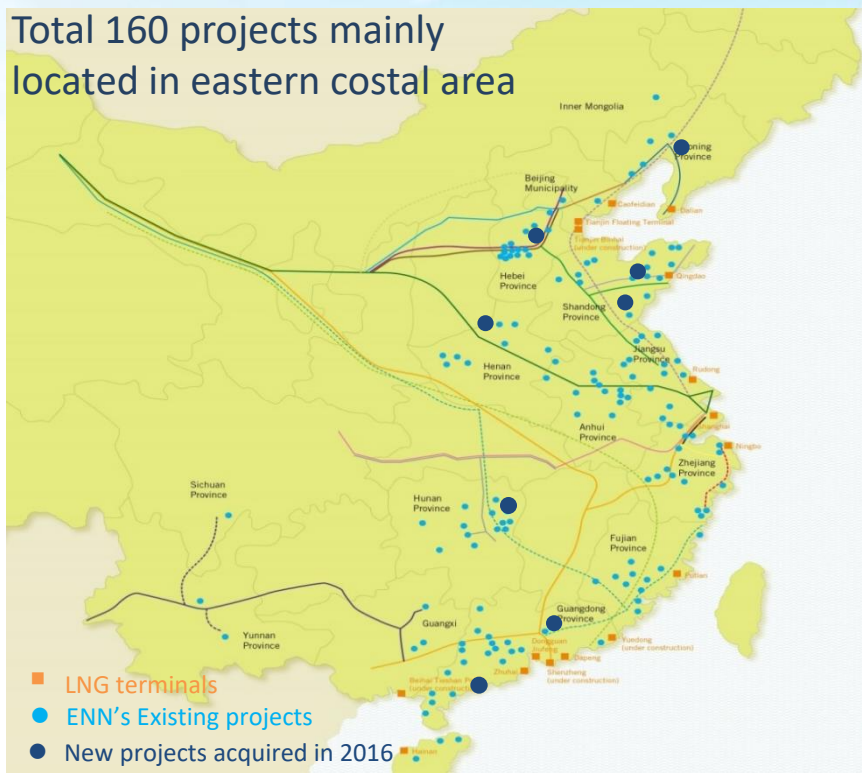


Potential CNG Customers



# Premier Project Locations and Disciplined Growth

Total 160 projects mainly located in eastern costal area



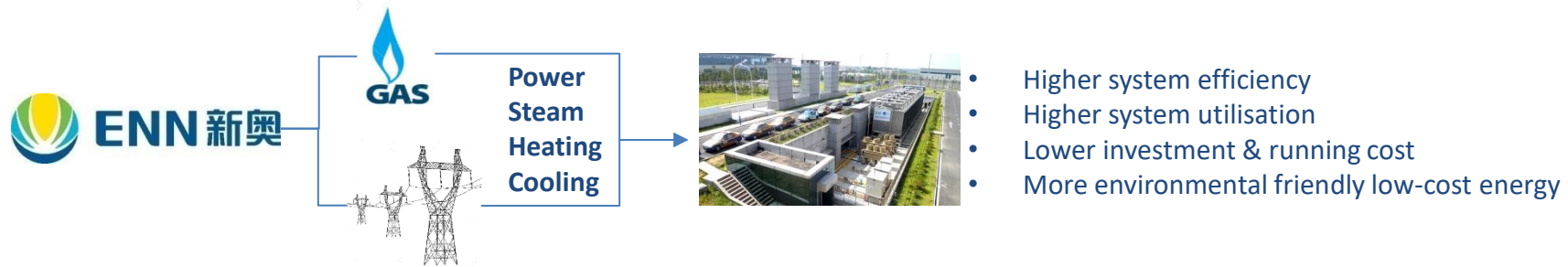
	2016	2015
Number of project cities	160	152
Connectable urban population coverage ('000)	77,420	71,536
Connectable households coverage ('000)	25,807	23,854
Piped gas (incl. natural gas) penetration rate	54.8%	51.7%

Province	New Projects in 2016	Connectable Population
Hebei	Dingzhou (定州市)	360,000
Guangdong	Wuchuan (吳川市)	300,000
Shandong	Changle County (昌樂縣)	240,000
Hunan	Yanling County (炎陵縣)	80,000
Henan	Gongyi Private Technology and Innovation Park (鞏義市民營科技創業園)	N/A
Guangdong	Shenzhen Bao'an (Longchuan) Industrial Park (深圳寶安(龍川)產業轉移工業園)	N/A
Liaoning	Yingkou Industrial Park (營口工業園區)	N/A
Shandong	Rizhao Haiyou Economic Development Zone (日照海右經濟開發區)	N/A
<b>Additional population coverage:</b>		<b>980,000</b>

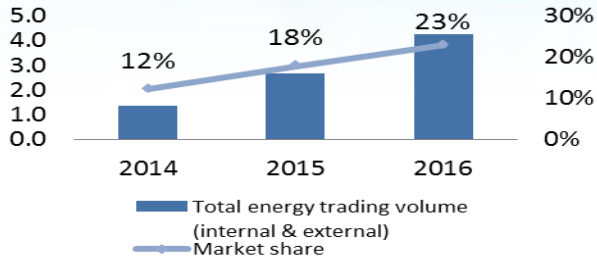
# Evolving into an Integrated Energy Supplier

## ➤ Actively develop distributed energy projects

- Government promoted distributed energy projects in industrial parks, commercial complexes, airports, transportation hubs, data storage centers, hospitals, etc.
- Public utility companies were encouraged to enter electricity sales market
- 12 distributed energy projects in operation, 10 projects under construction and 10 new projects signed in 2016
- Pilot project in Yunnan started electricity sales in 2016
- Provided integrated energy solutions with cost advantage
- Utilised existing city-gas pipelines to provide central heating services with limited capex and to promote sales of integrated energy



# Expand into synergistic businesses



Largest LNG truck fleet in China



Overseas long-term LNG supply



National Dispatch Center



Gratle products

## Utilise existing resources to develop energy trading

- Asset-light model to enhance profit
- Fully utilise the Group's LNG truck fleet and advanced dispatch system
- Diversify the Group's gas sources and expand distribution network
- Stronger bargaining power after full liberalisation of natural gas pricing
- Total trading volume accounted for 23% market share

## Leverage large customer base to develop value-added services

- Capitalize on over 14 million connected residential households
- Sales of gas appliance contributed RM100 million gross profit in 2016, increased by 82% yoy

# Commitment on Sustainable Development



## Environmental Protection

- Promote paperless office work
- Replace diesel trucks with LNG trucks
- Pollutant emission by professional recycle suppliers
- Mitigate impact on biodiversity



## Workplace & Operation Safety

- Set up three-tier HSE system
- Safety management system with advanced information technology
- Regular safety training & inspection



## Employee Development & Care

- Diversified training courses by ENN Night School and online e-learning platforms
- Leisure activities for employees and family members and healthcare programs for employees



## Contribution to Society

- Charity donation of RMB240 million from 2005-2016
- Voluntary activities focusing on environmental protection and social harmony

# CONTENTS

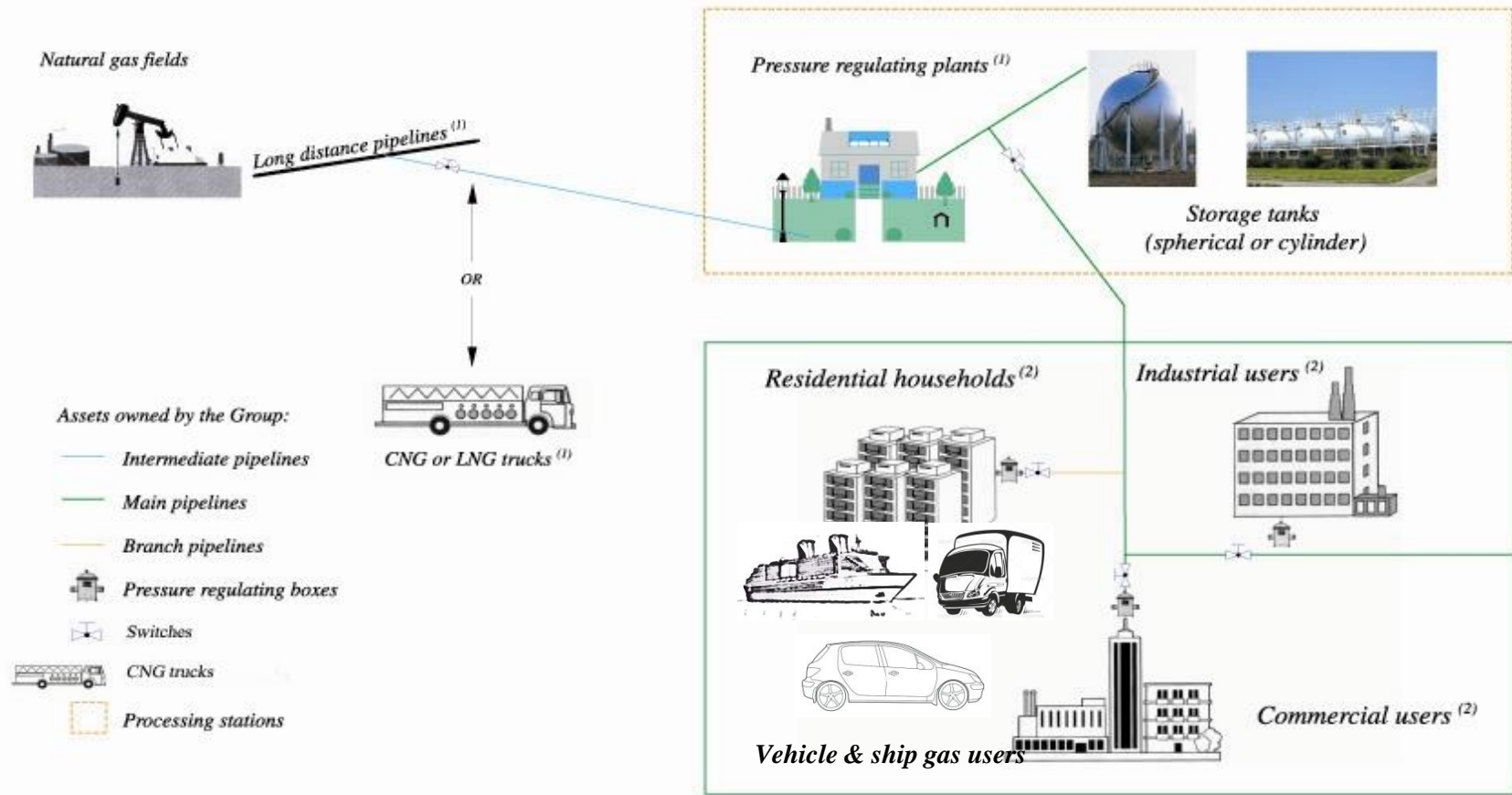
1. Results Highlights
2. Financial Review
3. Operation Review
- ▶ 4. Appendix

# Latest Benchmark City-gate Price

Province	From 1 April 2015	From 20 November 2015	Province	From 1 April 2015	From 20 November 2015
Unit: RMB/m <sup>3</sup> (Incl. 13% VAT)			Henan	2.71	2.01
Beijing	2.70	2.00	Hubei	2.66	1.96
Tianjin	2.70	2.00	Hunan	2.66	1.96
Hebei	2.68	1.98	Guangdong	2.88	2.18
Shanxi	2.61	1.91	Guangxi	2.71	2.01
Inner Mongolia	2.04	1.34	Hainan	2.34	1.64
Liaoning	2.68	1.98	Chongqing	2.34	1.64
Jiling	2.46	1.76	Sichuan	2.35	1.65
Heilongjiang	2.46	1.76	Guizhou	2.41	1.71
Shanghai	2.88	2.18	Yunnan	2.41	1.71
Jiangsu	2.86	2.16	Shaanxi	2.04	1.34
Zhejiang	2.87	2.17	Gansu	2.13	1.43
Anhui	2.79	2.09	Ningxia	2.21	1.51
Jiangxi	2.66	1.96	Qinhai	1.97	1.27
Shandong	2.68	1.98	Xinjiang	1.85	1.15

Source: NDRC

# Gas Delivery Process

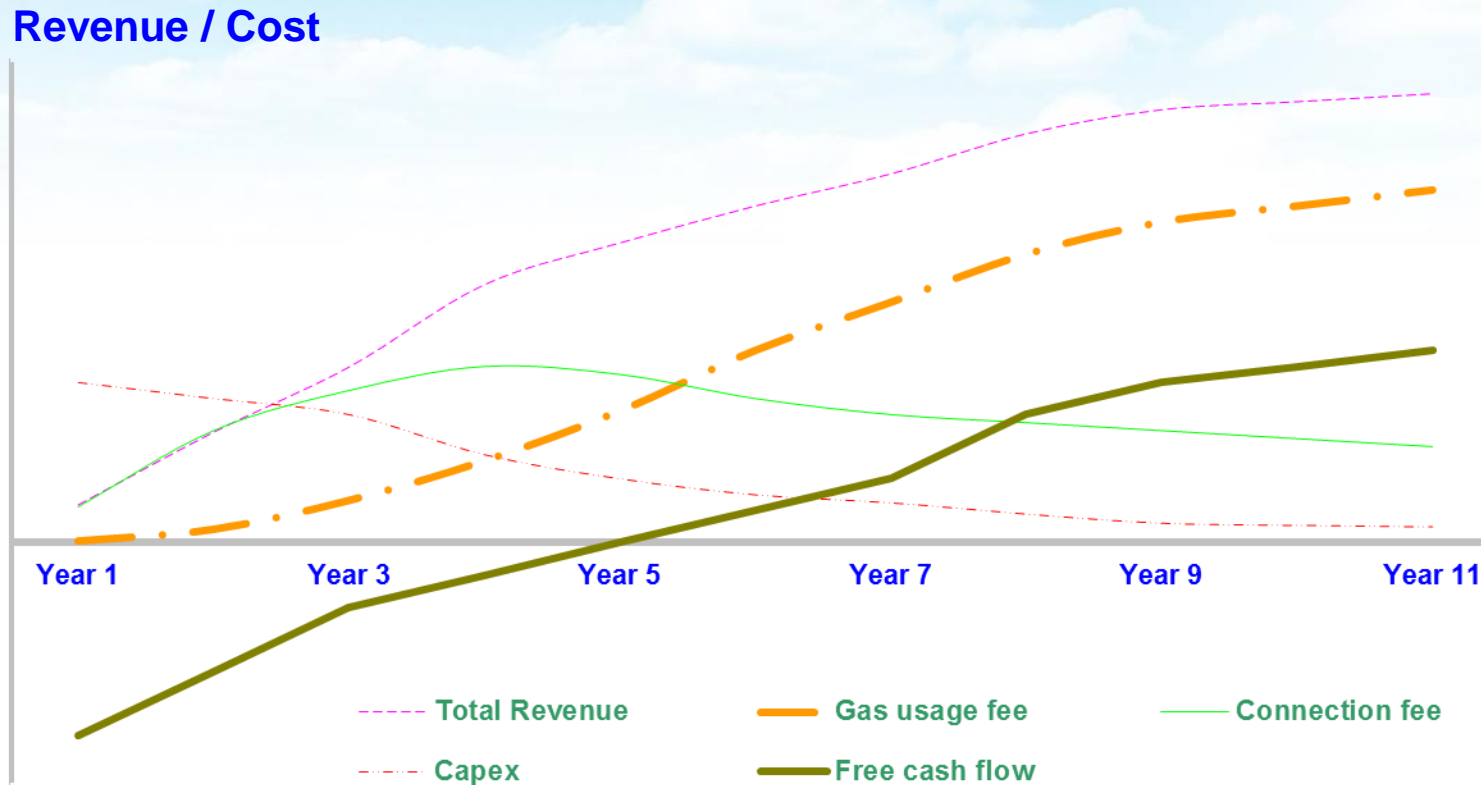


**Notes:**

(1) Gas delivery using either intermediate pipelines or CNG or LNG trucks.

(2) Customers' pipelines and metres which are not owned by the Group are within the customers' premises and are not highlighted in this diagram.

# Simplified Model for a Typical City-gas Project



- Connection fee dominates in early years when the project companies are signing up new customers
- Gas usage increases as projects mature, becoming the major source of recurrent income
- Prior to the completion of the whole pipeline network in cities, revenue will be generated as soon as gas supply becomes available in certain districts. Each connection contract normally takes 6-12 months to complete
- In general, gas projects would generate positive free cash flow after 5 years operation



**For Investor Relations Contact:**

**Mr. Tien Chau / Ms. Hedy Shen / Ms. Grace Wei**

**Tel: +852 2528 5666 / +86 316 2599928 Fax: +852 2865 7204**

**Email: [zhoutianbai@enn.cn](mailto:zhoutianbai@enn.cn) / [yihui.shen@ennenergy.com](mailto:yihui.shen@ennenergy.com) / [weiliping@enn.cn](mailto:weiliping@enn.cn)**

**Website: [www.ennenergy.com](http://www.ennenergy.com)**