



中裕燃气控股有限公司

Zhongyu Gas Holdings Limited

(Stock Code : 3633.HK)

Annual Results Presentation



Gas Distribution



**Gas Pipeline
Construction &
Connection**



**CNG/LNG Vehicle
Filling Station**



**Sales of Stoves
and Other
Services**

A leading player in clean energy in China
with clear vision to achieve sustainable organic and M&A growth

Stock Info

Stock code	: 3633.HK
Issued shares (as at 26-03-2019)	: 2,537,211,557
Share price (as at 26-03-2019)	: HK\$7.18
Market cap (as at 26-03-2019)	: 18.1Billion
Historical PE (as at 26-03-2019)	: 29.3x
Net assets value per share	: HK\$1.78

FY2018 Results Updates

HK\$ mn	FY17	FY18	Change
Turnover	5,048	7,627	+51.1%
Gross profit	1,289	2,222	+72.4%
Profit attributable to owners of the Company	558	621	+11.2%
Adjusted net profit*	443	1,001	+125.9%
Basic EPS (HK cents)	22.10	24.52	+11.0%
Dividend per share (HK cents)	5.0	7.0	+40.0%
Gross margin	25.5%	29.1%	+3.6p.p.
Net profit margin	11.1%	8.1%	-3.0p.p.
Adjusted net profit margin	22.6%	28.6%	+6.0p.p.

*excluding the net foreign exchange gain/loss and share option expenses

About Zhongyu

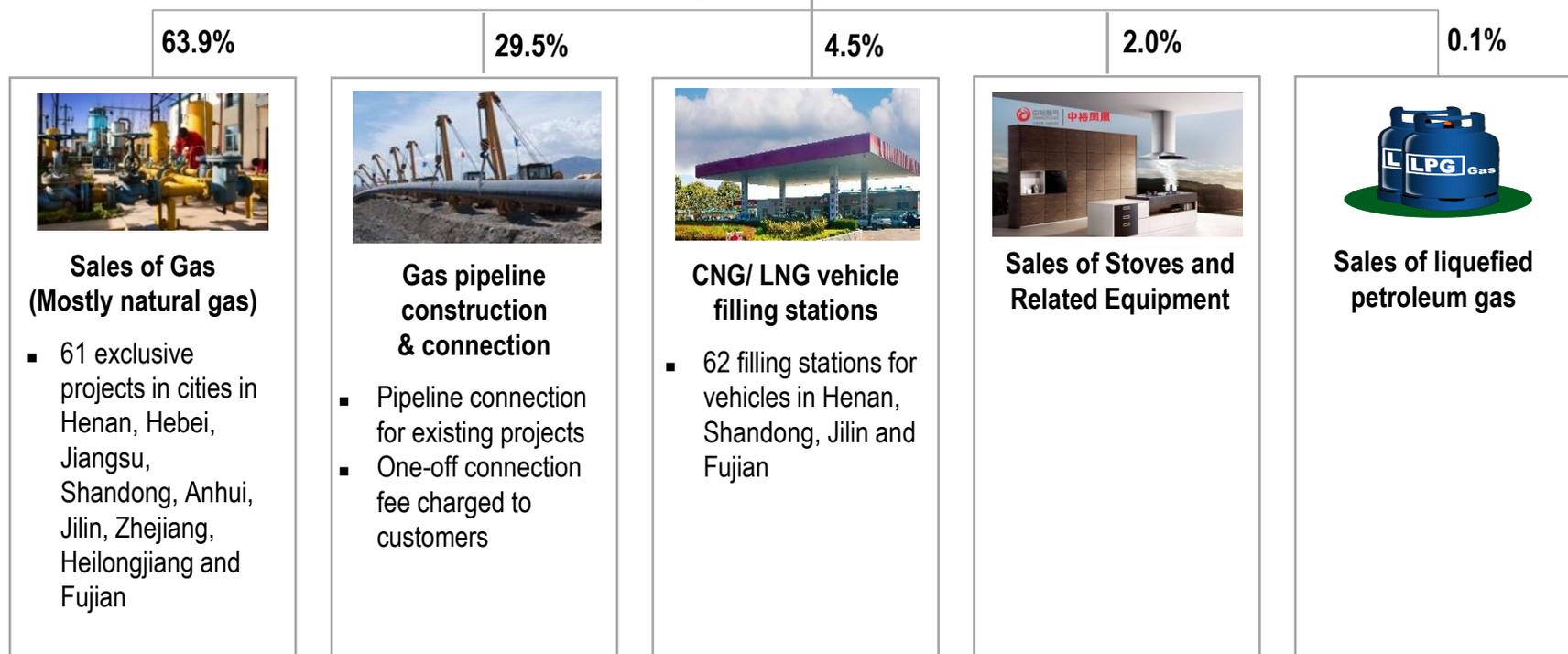
- **A fast-growing piped natural gas operator with exclusive rights riding on the robust demand for clean energy in the PRC**
- **Core businesses:**
 1. Sales of natural gas
 2. Gas pipeline construction and connection
 3. CNG/LNG vehicle filling station
 4. Sales of stoves and other services
- **Core advantages:**
 1. Deeply-rooted in provinces such as in Henan, Hebei, Shandong and Jiangsu which have heavy demand for natural gas
 2. Dual growth strategy: fast expansion with organic growth and M&As
 3. Beneficiary of favorable government policies and the implementation of the “coal-to-gas” conversion
 4. Stable operating cash inflow
 5. Experienced management team
 6. Stable and reliable gas supply

Investment Highlights

- **Favorable policies** to promote use of clean energy
- **Rapid growing demand** in operational areas
- **Continuous growth in piped gas businesses (2018)**
 1. Sales of piped natural gas increased by **43.3%**
 2. Turnover from gas pipeline construction increased by **82.3%**



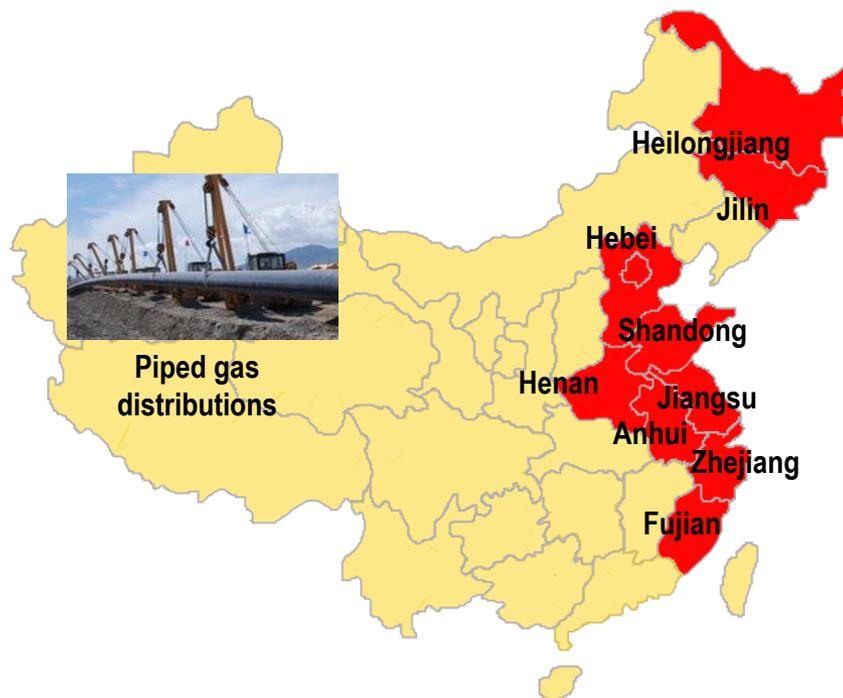
% of turnover for the year ended 31 December 2018



Growth drivers

1. “Coal-to-gas” conversion projects among residential, industrial and commercial users, driven by the PRC environmental policies
2. M&As to penetrate into other regions: two new projects with exclusive rights added in 2019

1. Deepen penetration in covered areas and acquire new users in “Coal-to-gas” projects
2. Further penetration of own retail brand in the residential user base of approx. 2.9 million households



No. of operating locations	
Henan Province	24
Hebei Province	19
Jiangsu Province	6
Shandong Province	4
Jilin Province	2
Fujian Province	1
Heilongjiang Province	1
Zhejiang Province	2
Anhui Province	2
Total	61

Customer coverage

Numbers of Connected Users	As at 31 Dec 17	As at 31 Dec 18	Change
Residential Users	2,159,526	2,878,103	+33.3%
Industrial Users	1,646	2,135	+29.7%
Commercial Users	8,256	10,386	+25.8%



2018 Business Review

Turnover

+51.1% yoy

to HK\$7.63bn

EBITDA

+62.9% yoy

to HK\$2.05bn

Sales volume of gas

+21.7% yoy

to 1.62bn m³

Acquired 100% interest of
Gaoyuan Gas (Mengzhou)
& Gaoyuan Gas (Wen
County)

A constituent of Hang Seng
Composite Index Series
(Mid-Cap) and Hang Seng
Stock Connect Series

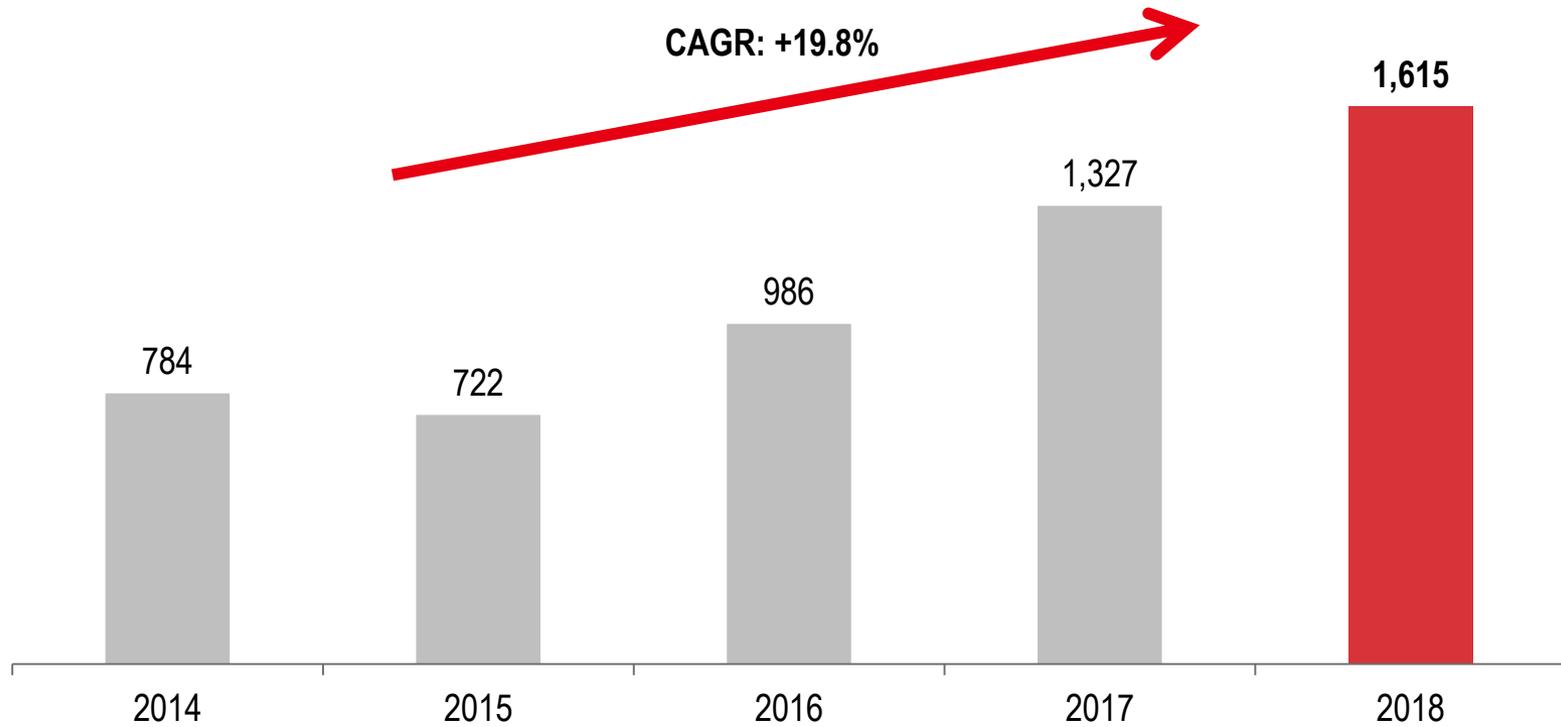


An eligible Southbound
stock for trading through
Shanghai and Shenzhen
Stock Connect



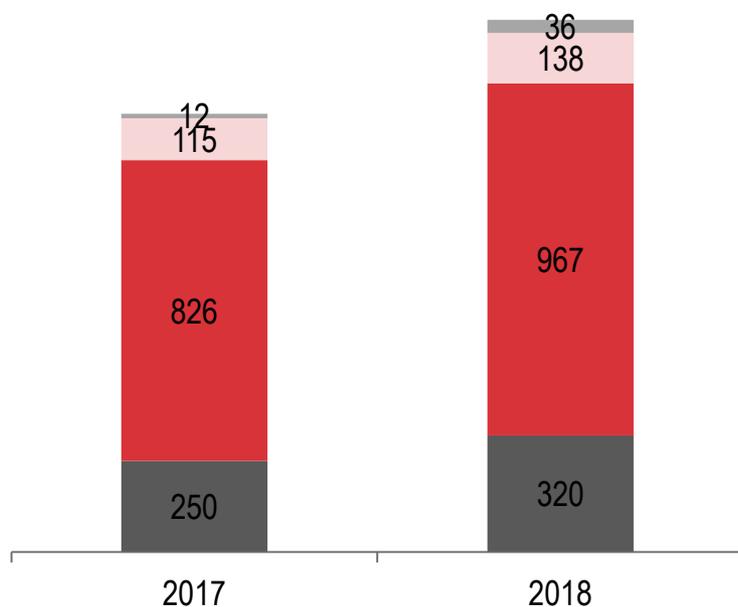
5-year CAGR for sales volume of piped gas: 19.8%

mn m³



Sales volume of piped gas to industrial customers increased by 17.2% yoy

mn m³



■ Residential ■ Industrial ■ Commercial ■ Wholesale

Growth in sales volume of piped gas (by type of customers)

	Change
Wholesale	+206.4%
Commercial	+19.8%
Industrial	+17.2%
Residential	+27.8%
Total	+21.5%

No. of new connection

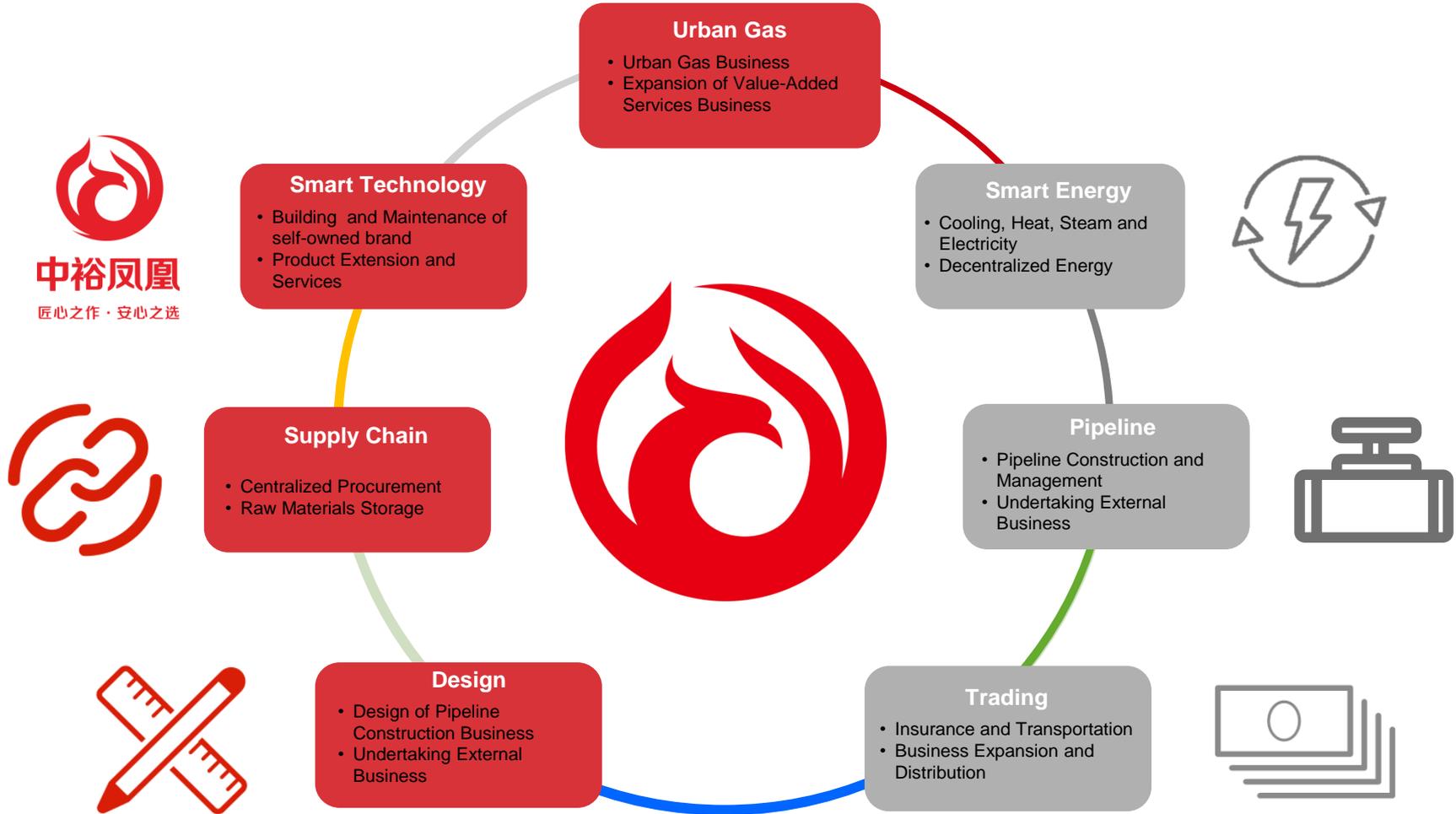
	FY2017	FY2018	Change
Residential households	365,178	668,577	+83.1%
- “Coal-to-gas” projects	111,126	445,324	+300.7%
- Non “Coal-to-gas” projects	254,052	223,253	-12.1%
Industrial	475	489	+2.9%
Commercial	2,200	2,130	-3.2%

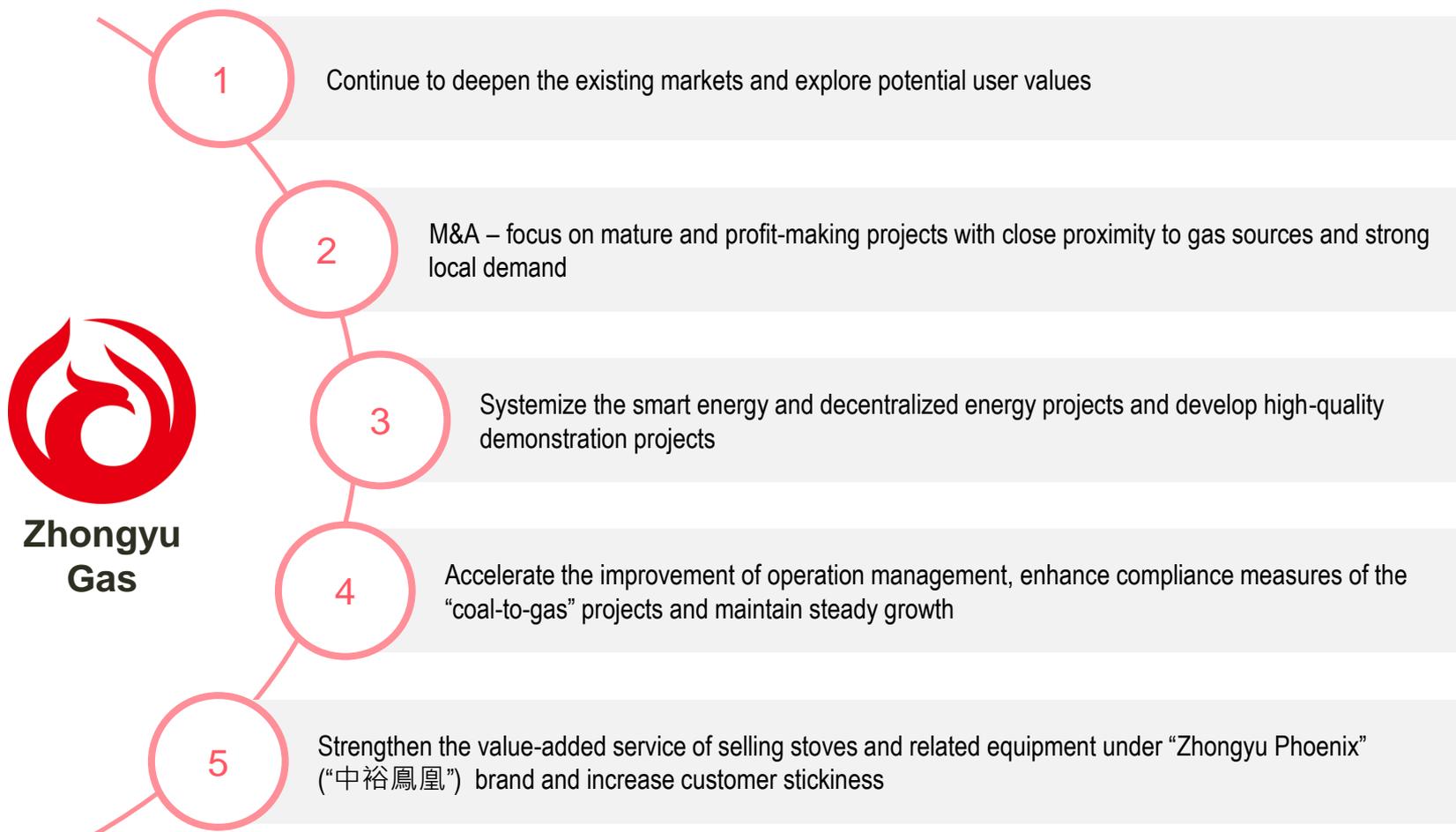
Accumulated number of connected piped gas customers

Numbers of Connected Users	FY2017	FY2018	Change
<i>Residential Users</i>	2,159,526	2,878,103	+33.3%
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<i>Commercial Users</i>	8,256	10,386	+25.8%



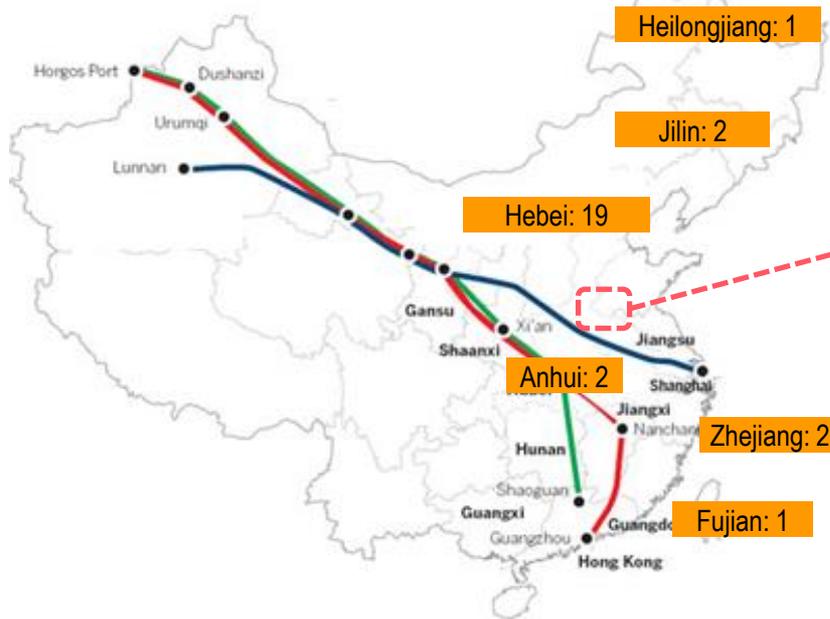
Development Strategies





Zhongyu Gas aims to become the most valuable integrated energy service provider in China and a first-tier player in the energy industry

Stable and reliable gas supply & proximity to West-East gas pipelines to accelerate construction and reduce costs

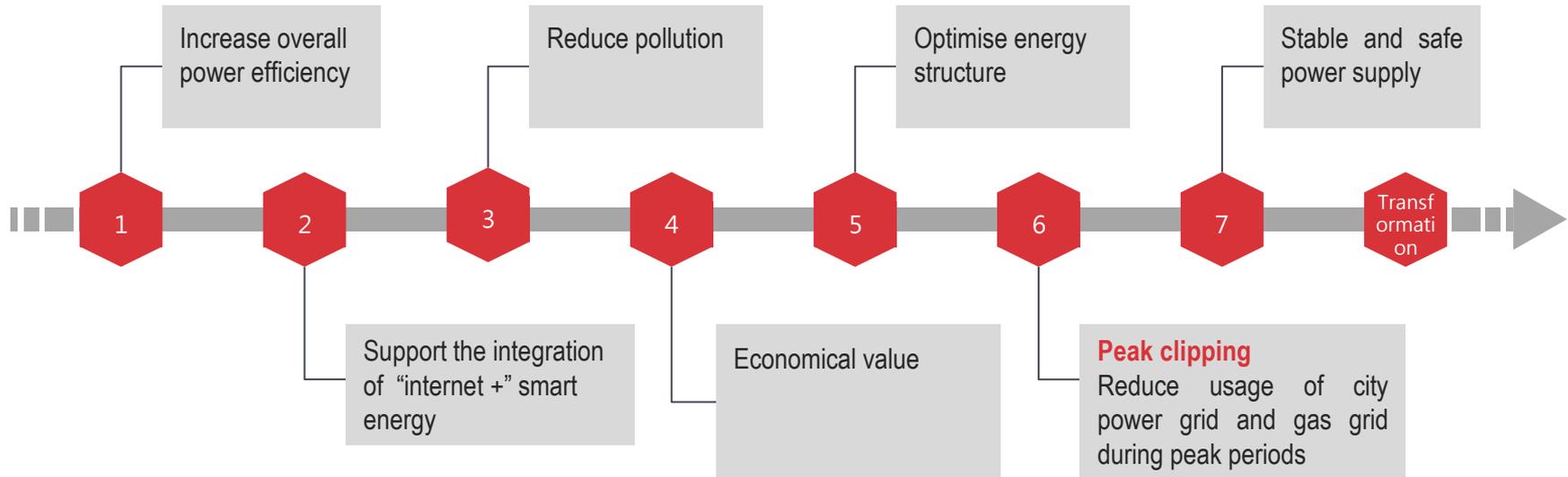


- W2E 1st line – primary line
- W2E 2nd line – primary line
- W2E 3rd line – primary line
- Pingtai connection line (W2E)
- Jining connection line

● Zhongyu's Gas Distribution Projects (No. of projects)

Strive to Becoming the Most Competitive Service Providers for Integrated Energy

Benefits of Decentralized Energy



Target Customers



Industrial users with high consumption



Industrial parks with high consumption



Luxury hospitals and hotels



Data centers

Project overview

Status	Project	Scale
In planning	Decentralized Energy Project in the Urban-rural Integration Demonstration Zone, Luohe City, Henan	<ul style="list-style-type: none"> • Five power stations and one special power station • Total capacity of 55.8mW • Support cooling, heating, electricity and domestic hot water for a total area of 173 sq. km
In construction	Decentralized Energy Project in the Maternal and Child Health Hospital, Xinmi City, Henan	<ul style="list-style-type: none"> • One 526kW decentralized power station • Support cooling, heating, domestic hot water and partial electricity supply for a total area of over 50,000 sq. meters
Will commence operation soon	Urban Charging Pile Project of Luohe City, Henan	<ul style="list-style-type: none"> • 24 units of 120kW pile with constant current of 167A • Able to fill a car in 40 - 90 minutes • Target customers: Hongyun public electric buses (宏运集团电动公交车)





- Natural gas as the foundation fuel
- Vertical expansion to up and downstream industries
- Horizontal expansion to peripheral industries

Business Scope



Upstream gas equipment and products

End user applications and related products and services

Extended products and utility service



Company expects promising growth in the value-added service





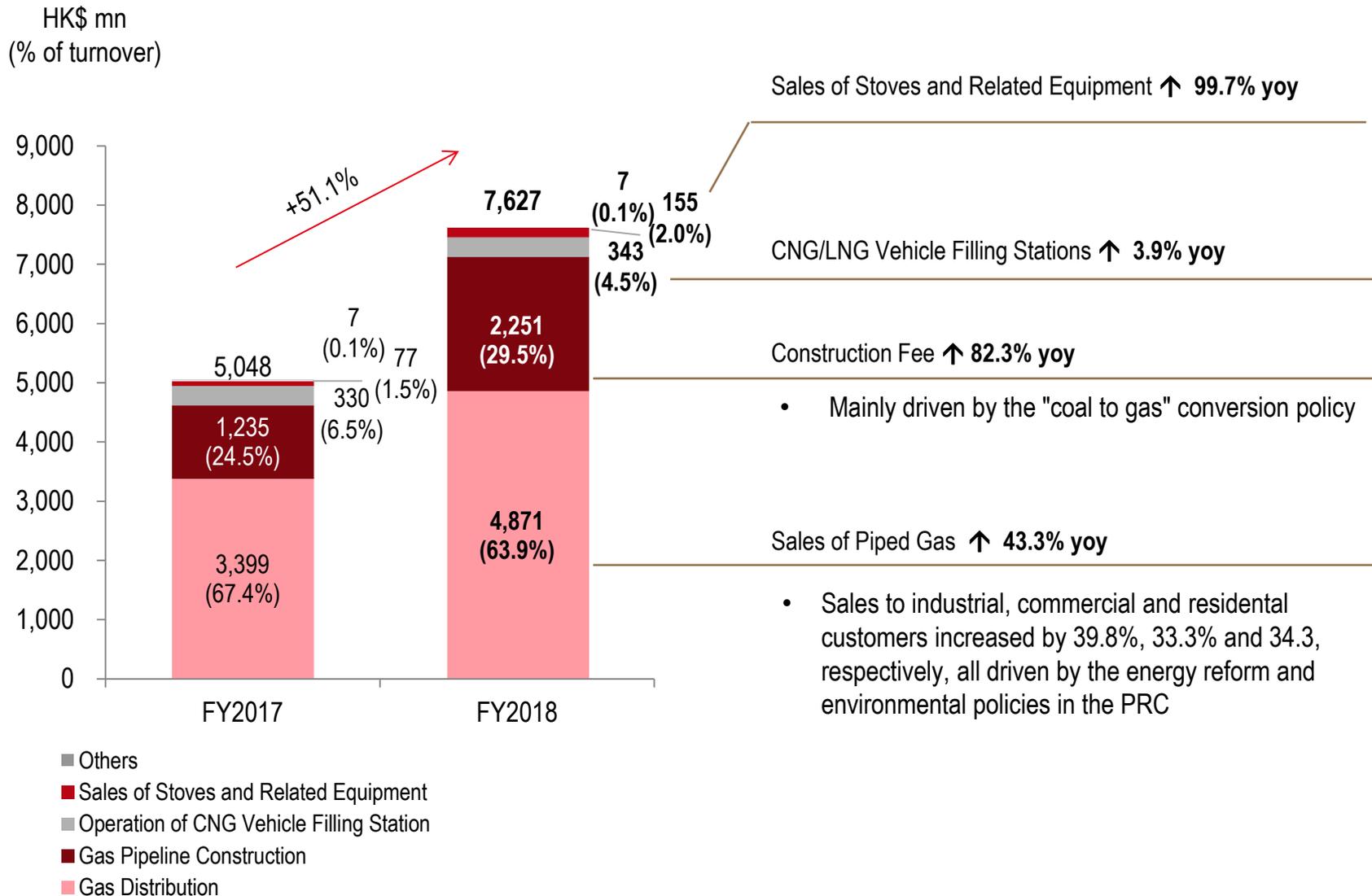
2018 Annual Results

HK\$ '000	For the year ended 31 Dec		
	FY2017	FY2018	change
Turnover	5,048,100	7,627,088	+51.1%
Gross profit	1,289,102	2,221,873	+72.4%
EBITDA*	1,257,947	2,048,801	+62.9%
Profit Attributable to Owners of the Company	557,959	620,684	+11.2%
Adjusted profit attributable to owners of the Company**	443,212	1,001,436	+125.9%
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Gross Profit Margin	25.5%	29.1%	+3.6p.p.
EBITDA Margin	24.9%	26.9%	+2.0p.p.
Net Profit Margin	11.1%	8.1%	-3.0p.p.
Adjusted Net Profit Margin **	8.8%	13.1%	+4.3p.p.
<hr/>			
Weighted Average Number of Ordinary Shares ('000)	2,525,008	2,530,877	--
Basic Earnings Per Share (HK cents)	22.10	24.52	+11.0%
Proposed Final Dividend per share (HK cents)	5.0	7.0	+40.0%
Payout ratio	23%	29%	+6p.p.

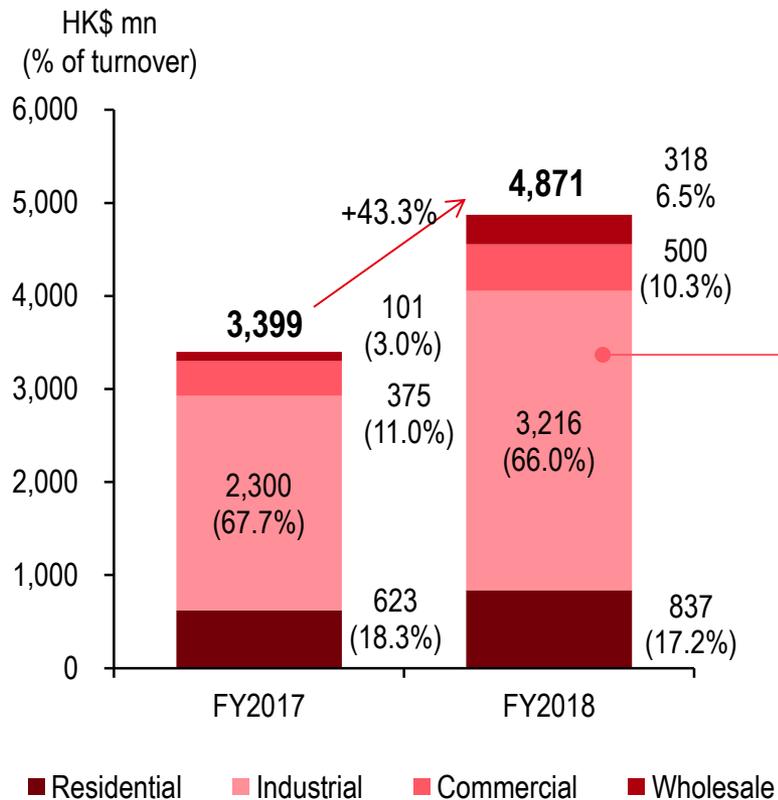
*including the share option expenses

**excluding the net foreign exchange gain/loss and share option expenses

Turnover Breakdown by Business Segments



Sales of gas by customer



Driven by the "coal to gas" policy :

- Sales of industrial customer increased by 39.8% yoy
- Sales of commercial customer increased by 33.3% yoy
- Sales of residential customer increased by 34.3% yoy

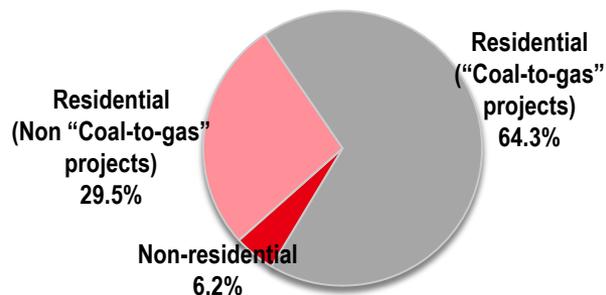
Pre-tax ASP of natural gas

RMB per m ³	FY2017	FY2018	Change
Residential	2.13	2.20	+3.3%
Industrial	2.38	2.77	+16.4%
Commercial	2.81	3.05	+8.5%
Wholesale	1.89	2.25	+19.0%
Average cost (excluding tax)	2.11	2.46	+16.6%

Unit of piped natural gas sold

mn m ³	FY2017	FY2018	Change
Residential	250	320	+27.8%
Industrial	826	967	+17.2%
Commercial	115	138	+19.8%
Wholesale	12	36	+206.4%
Total	1,203	1,461	+21.5%

Turnover for gas pipeline construction breakdown



Turnover of HK\$2,251mn for 2018 (↑82.3%yoy)

Connection Fee

Customer Tariffs (pre-tax) (RMB)	FY2017	FY2018	Change
Residential households			
- "Coal-to-gas" projects	2,656	2,745	+3.9%
- Non "Coal-to-gas" projects	2,558	2,510	-1.9%
Non-residential	Case by case		

No. of New Connection

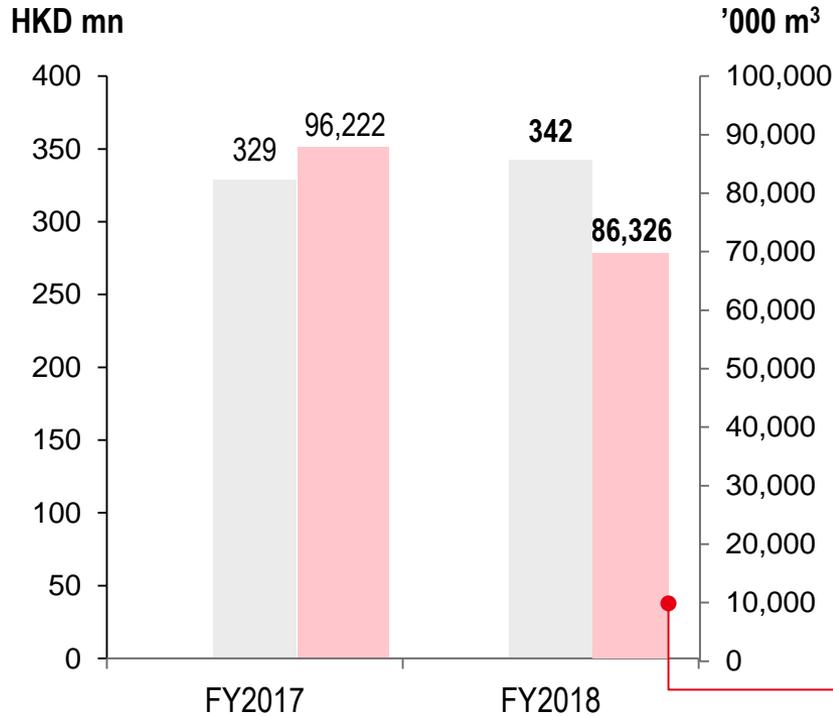
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- "Coal-to-gas" projects	111,126	445,324	+300.7%
- Non "Coal-to-gas" projects	254,052	223,253	-12.1%
Industrial	475	489	+2.9%
Commercial	2,200	2,130	-3.2%

Penetration

	FY2017	FY2018	Change
Connectable Urban Population ('000)*	11,885	15,527	+30.6%
Household Penetration Rate*	63.6%	64.9%	+1.3p.p.
Total Existing Intermediate & Main Pipelines (km)	12,342	14,928	+21.0%

* Organic growth in the number of residential households in the operation regions, together with further market penetration and promotions of gas use

Turnover increased moderately by 3.9% yoy



The decrease in sales volume was due to:

- More competitive market, detour of LNG heavy trucks and increased ASP during the gas shortage in winter months, etc.

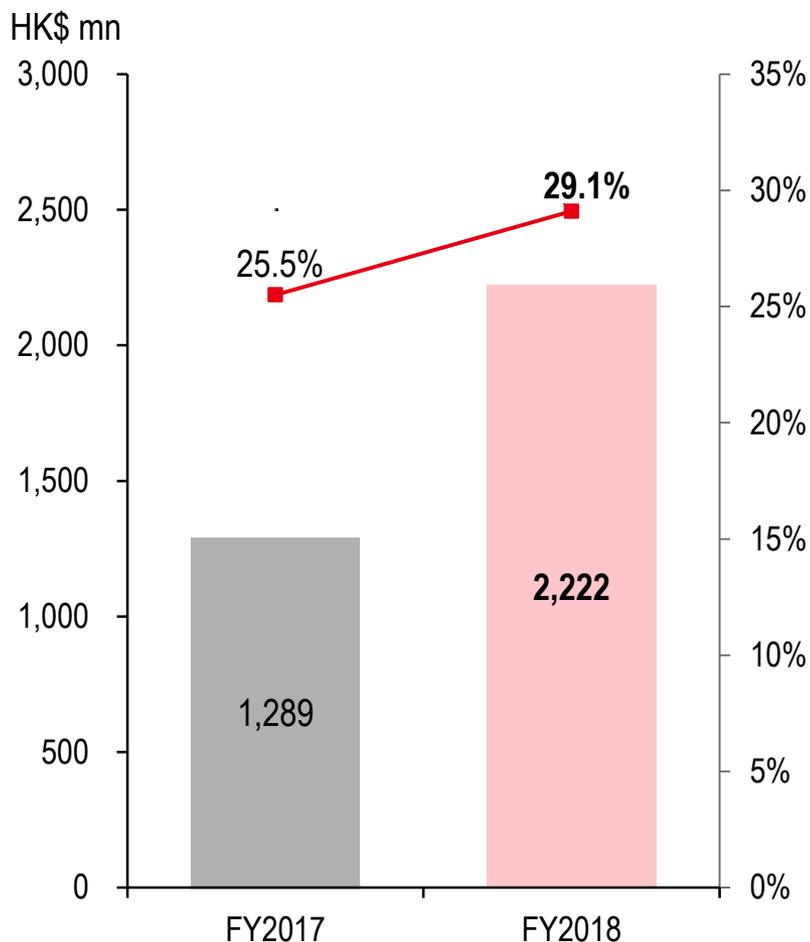
Average Selling Price

RMB per m³	FY2017	FY2018	Change
CNG/LNG Filling Stations	2.97	3.35	+12.8%

No. of CNG/LNG vehicle filling stations

Unit	FY2017	FY2018	Change
CNG/LNG Vehicle Filling Stations	63	62	-1

Gross Profit and Gross Profit Margin



Gross Margins of Major Business Segments

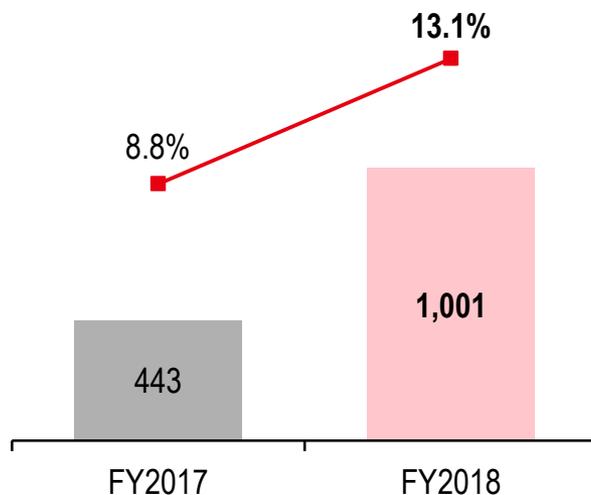
	FY2017	FY2018	Change
Sales of Piped Natural Gas	12.0%	8.1%	-3.9p.p.
Gas Pipeline Construction & Connection	69.7%	77.3%	+7.6p.p.
Operation of CNG/LNG Vehicle Filling Stations	4.1%	9.3%	+5.2p.p.

- The gross profit margin for the sales of piped natural gas reduced as a result of limited supply of natural gas and hence increased average cost
- The gross profit margin for the gas pipeline construction increased was mainly due to cost reduction after integration and improvement of design, material procurement and construction processes
- The gross profit margin for the operation of CNG/LNG vehicle filling stations increased due to increased ASP and good performance in northern China

Adjusted Net Profit and Margin

HK\$ mn	FY2017	FY2018	Change
Adjusted Net Profit *	443.2	1,001.4	+125.9%

HK\$ mn



The increase in adjusted net profit was mainly due to:

- A significant gain in turnover
- Turnover of the gas pipeline construction and connection business from industrial customers increased significantly

Key Expenses

% of Turnover	FY2017	FY2018	Change
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Selling and Distribution Costs	2.2%	1.9%	-0.3p.p.
General Administrative Expenses	6.2%	4.9%	-1.3p.p.
Finance Costs	4.8%	3.6%	-1.2p.p.

*excluding the net foreign exchange gain/loss and share option expenses

Financial Positions

HK\$ '000	As of 31 Dec 2017	As of 31 Dec 2018	Change
Property, Plant and Equipment	7,124,176	8,880,175	+24.6%
Total Assets	11,800,731	16,281,354	+38.0%
Bank Balances and Cash	464,347	1,595,157	+243.5%
Borrowings and Obligations under Finance Lease	5,705,741	8,477,473	+48.6%
Shareholder's Equity	3,173,952	3,938,519	+24.1%
Net Gearing Ratio*	1.41	1.52	+0.11
Interest Coverage Ratio [#]	5.22	6.79	+1.57
Current Ratio	0.5	0.6	+0.1

*Net Gearing Ratio= Net debt / equity value

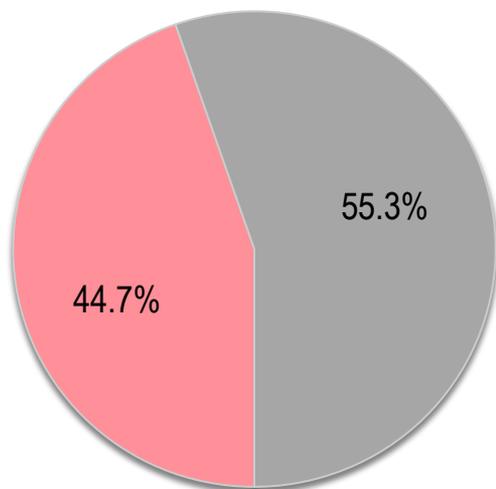
[#]Interest Coverage Ratio = EBITDA / financing costs

Operating Cash Flows, Inventory, Receivable And Payable Turnover Days

	FY2017	FY2018	Change
Inventory Turnover Days	20 days	22 days	+2 days
Average Trade Receivable Turnover Days	37 days	56 days	+19 days
Average Trade Payable Turnover Days	63 days	65 days	+2 days

- As of 31 December 2018, total borrowings and obligation under finance lease were HK\$ 8.48 billion
- The Group's financing cost were approximately 4.8% and majority of total debt carried interest at floating rates

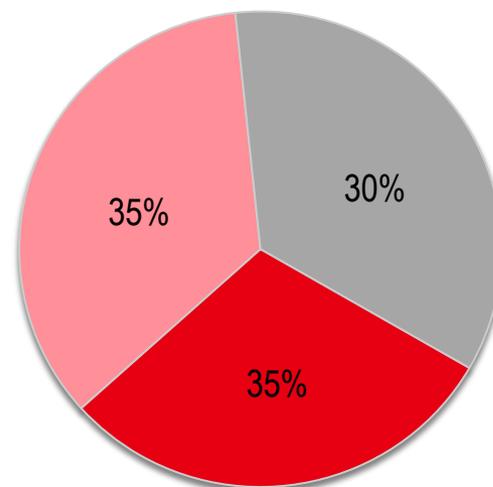
Majority of total borrowings and obligation under finance lease were evenly distributed into long and short-term debts
(as of 31 December 2018)



■ Short-term debt

■ Long-term debt

Debt has evenly distributed into RMB, HKD and USD, reducing foreign exchange risk
(as of 31 December 2018)



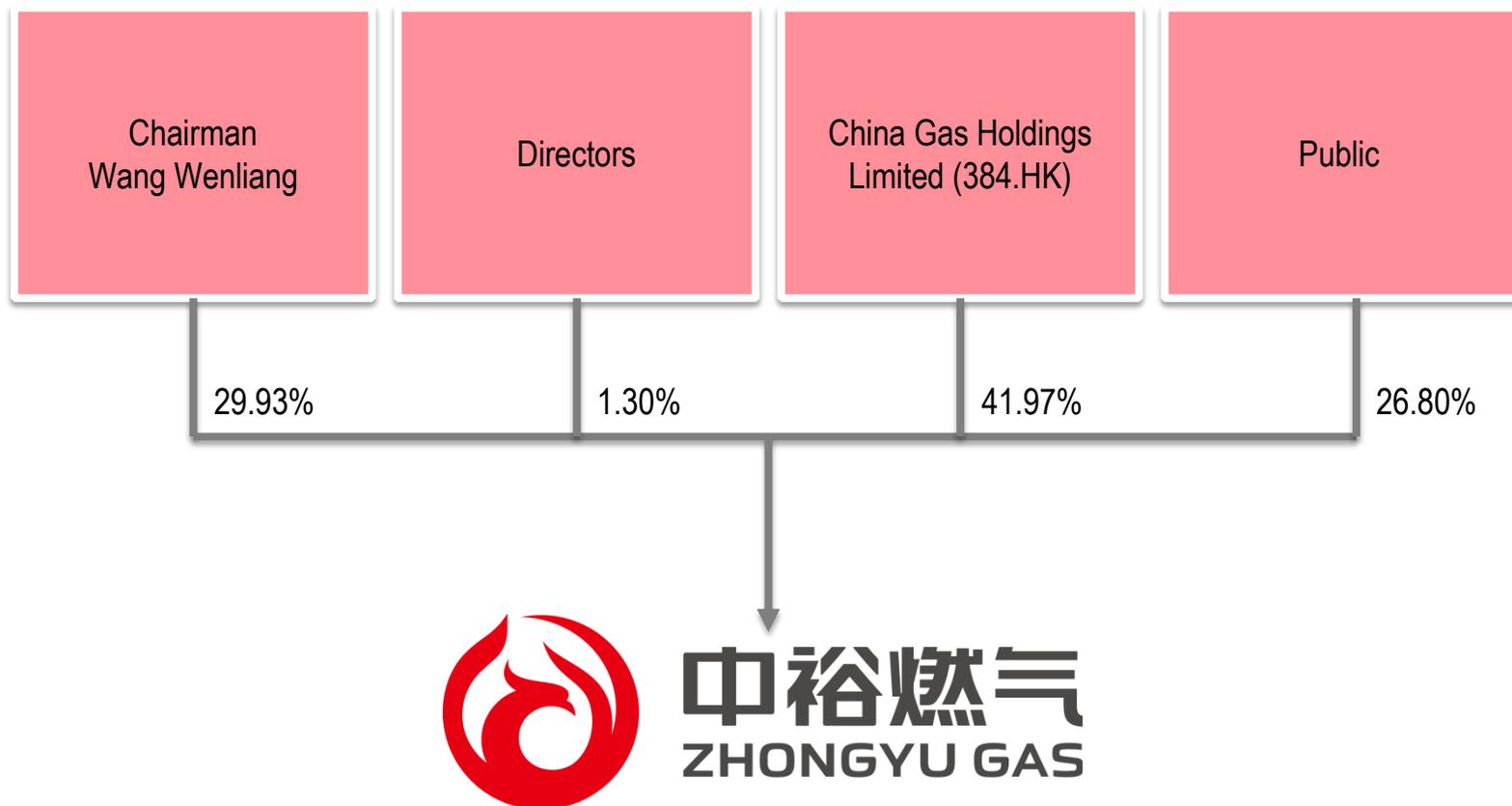
■ RMB

■ HKD

■ USD



Appendix



Number of issued shares (as at 26 March 2019): 2,537,211,557 shares



Mr. Wang Wenliang
王文亮 先生

Chairman and
Executive Director

- Overall strategic development, making and implementation of strategic plans
- Over 20 years of experience in energy, aluminum, property industries.



Mr. Lui Siu Keung
吕小强 先生

Chief Executive Officer
and Executive Director

- Responsible for the general business operations and management as well as the financial, financing and investor relations activities
- Over 20 years experience in corporate finance, accounting and auditing. Associate member of the Hong Kong Institute of Certified Public Accountants



Mr. Lu Zhaoheng
鲁肇衡 先生

Executive Director

- Planning, design and consultation regarding natural gas projects
- Over 30 years experience in NG industry, a leading member in the City Planning Design Institute of Henan Province



Mr. Li Yan
黎岩 先生

Executive Director

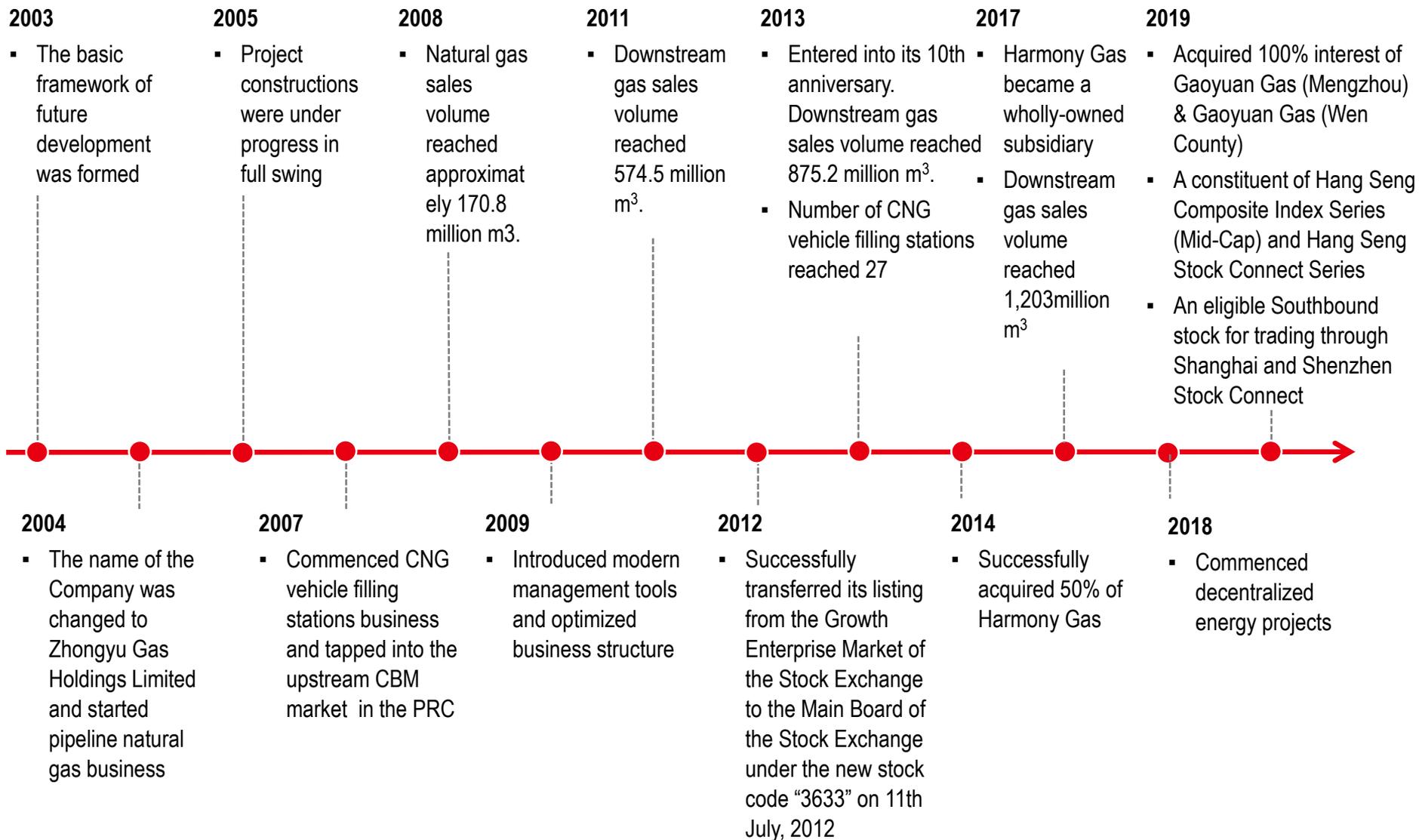
- Appointed as Executive Director at February 2019
- Joined the Group in 2003 and currently serves as its executive vice president, senior economist in China with over 30 years of experience in accounting, finance and economics



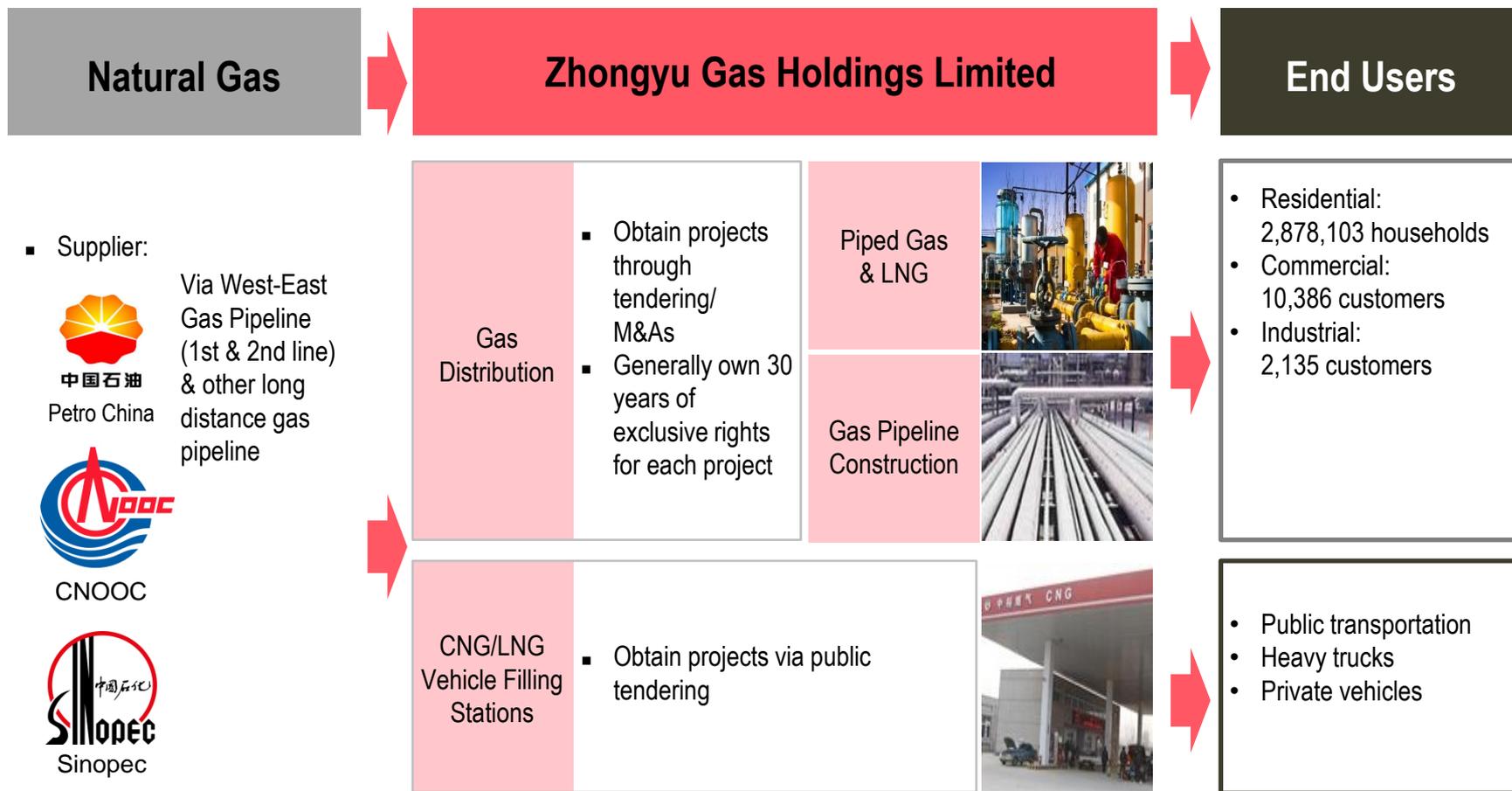
Mr. Jia Kun
贾琨 先生

Executive Director

- Appointed as Executive Director at February 2019
- Joined the Company in 2003 and currently serves as its vice president
- Over 8 years of judicial experience and 19 years of legal, risk management and administrative management experience



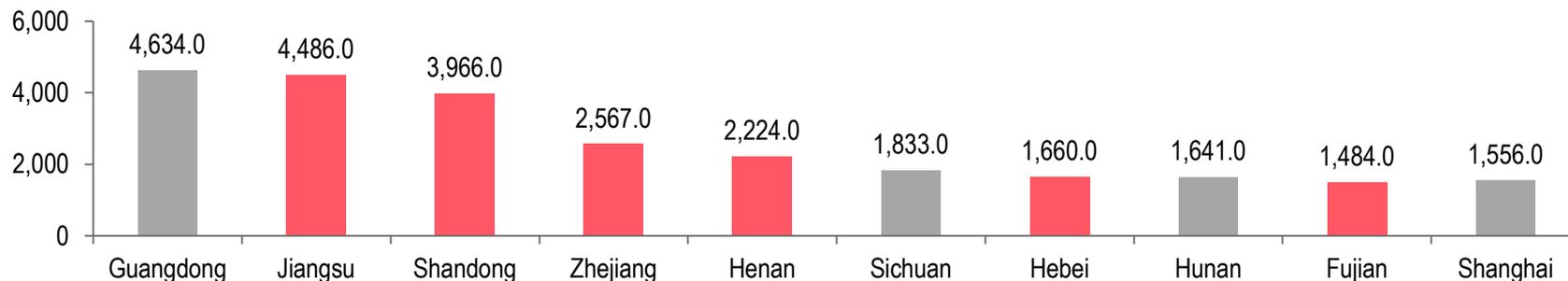
Straight-forward business and pricing model for visible profitability



Top 10 Provinces with the Highest Industrial Output in 1H2018

- Zhongyu has strong presence in 6 of the top 10 provinces

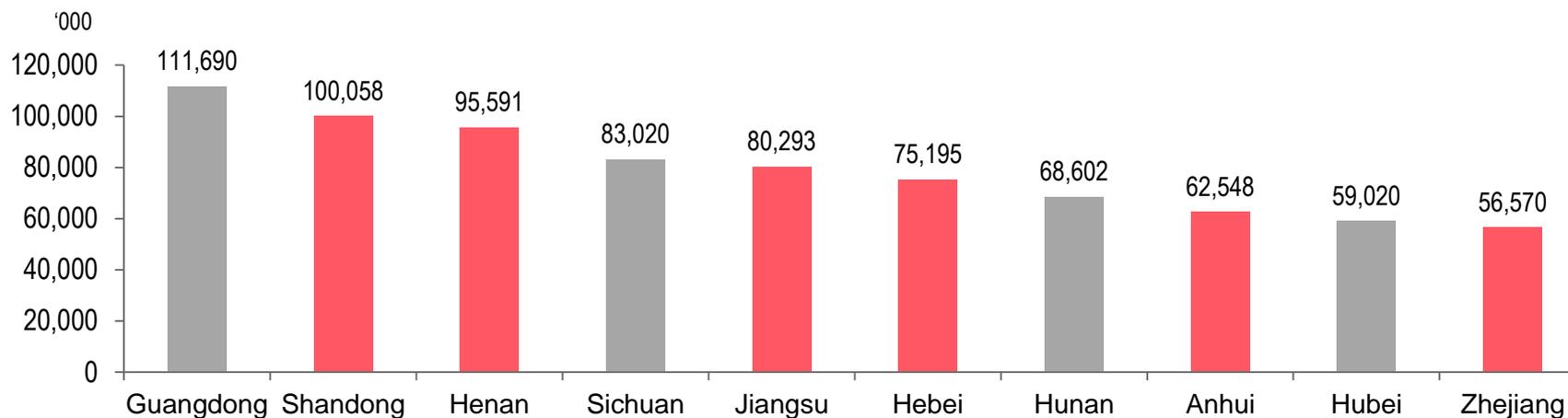
RMB bn



Source: National Bureau of Statistics of China

Population Distribution in 2017

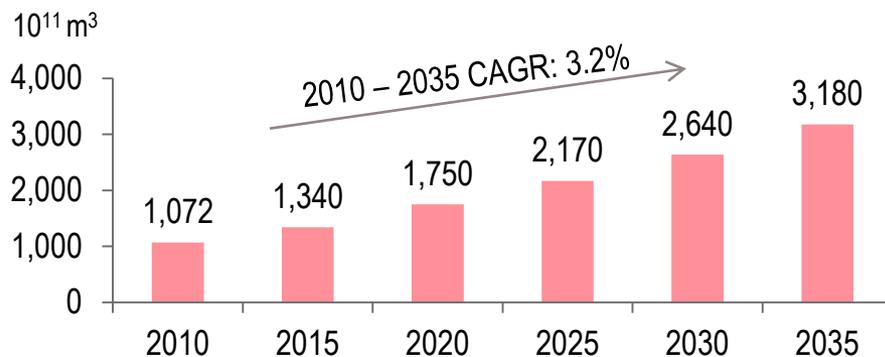
- Pipeline network also connected to 6 of the top 10 most populated province



Source: National Bureau of Statistics of China

- In **China's 13th Five-year Plan**: Energy
 - Clean energy and energy conservation continue to be the key investment areas to tackle smog and air pollution problem
 - Natural gas consumption target: 360 billion m³ per annum by 2020
 - Gas penetration in urban cities target: 57.0% by 2020
- In the “**Action Plan of Energy in China 2014 – 2020**”, the PRC aimed to increase the proportion of natural gas among other energy consumption from less than 6% in 2014 to 10% in 2020 and 15% by 2030

IEA Prediction on China Natural Gas Output Trend



- According to **the National Development and Reform Commission (NDRC)** and **National Energy Administration (NEA)**, the China government also has a clear target on the network expansion of natural gas pipeline to increase the accessibility of natural gas across the nation, extending the pipeline to 104,000 km by 2020 and 123,000 km by 2025.

Thank you

Disclaimer

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