

中裕燃气控股有限公司

Zhongyu Gas Holdings Limited

(Stock Code: 3633.HK)

2019 Interim Results Presentation

August 2019



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 22-08-2019) | : 2,538,217,357 |
| Share price (as at 22-08-2019) | : HK\$8.2 |
| Market cap (as at 22-08-2019) | : 20.8 Billion |
| Historical PE (as at 22-08-2019) | : 33.4x |
| Net assets value per share | : HK\$1.97 |

1H2019 Results

| HK\$ mn | 1H2018 | 1H2019 | Change |
|--|--------|--------------|----------------|
| Turnover | 3,699 | 4,322 | +16.8% |
| Gross profit | 1,183 | 1,139 | -3.7% |
| Profit attributable to owners of the Company | 420 | 507 | +20.8% |
| Basic EPS (HK cents) | 16.63 | 19.99 | +20.2% |
| Gross margin | 32.0% | 26.4% | -5.6p.p |
| Net profit margin | 11.4% | 11.7% | +0.3p.p |

About Zhongyu

- **A fast-growing piped natural gas operator with exclusive rights riding on the robust demand for clean energy in the PRC**
- **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**
 - Sales of piped natural gas increased by **25.4%** in 1H2019
- **Continuous growth in business areas with exclusivity**
- **Systemize the smart energy and decentralized energy projects**
- Aims to become the most valuable **integrated energy service provider**



% of turnover for the six month ended 30 June 2019

66.7%



Sales of Gas (Mostly natural gas)

- 65 exclusive projects in cities in Henan, Hebei, Jiangsu, Shandon, Anhui, Jilin, Zhejiang, Heilongjiang and Fujian

23.5%



Gas pipeline construction & connection

- Pipeline connection for existing projects
- One-off connection fee charged to customers

5.8%

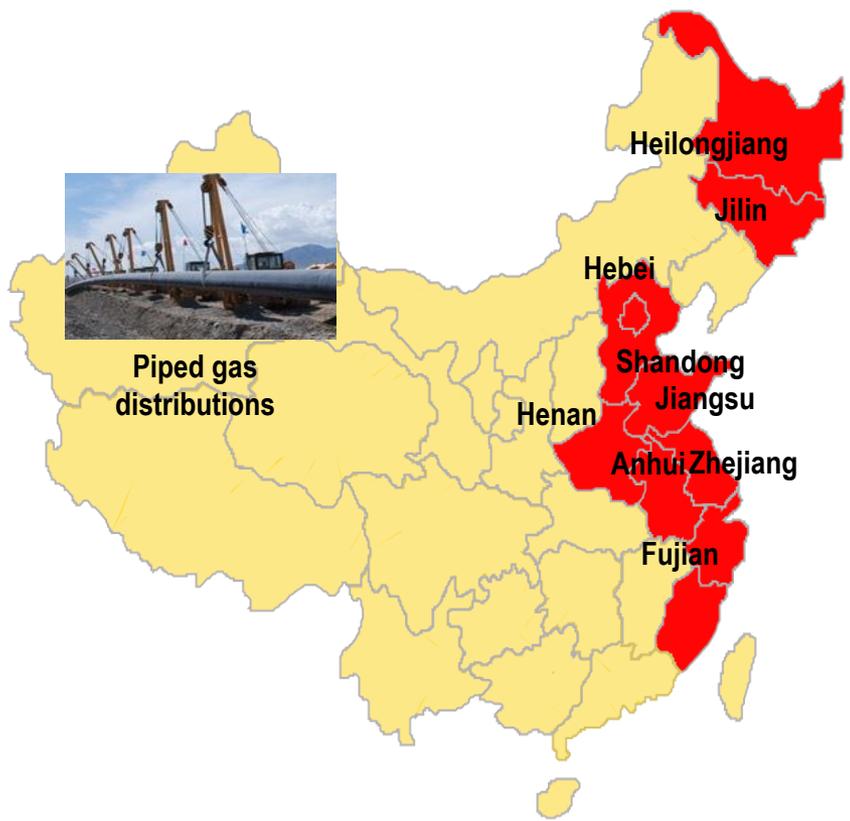


Sales of Stoves and Related Equipment

4.0%



- CNG/LNG vehicle filling stations
- Sales of liquefied petroleum gas



| | No. of operating locations |
|-----------------------|----------------------------|
| Henan Province | 26 |
| Hebei Province | 21 |
| Jiangsu Province | 6 |
| Shandong Province | 4 |
| Jilin Province | 2 |
| Fujian Province | 1 |
| Heilongjiang Province | 1 |
| Zhejiang Province | 2 |
| Anhui Province | 2 |
| Total | 65 |

In the first half of 2019, four additional natural gas projects were acquired in Henan and Hebei provinces, with an estimated annual natural gas consumption of **130 million cubic meters.**



2019 Interim Business Review

Turnover

+16.8% yoy

to HK\$4.32bn

Net Profit*

+20.8% yoy

to HK\$507mn

Sales volume of gas

+25.4% yoy

to 912mn m³

Length of existing
pipelines

+43.3% yoy

to 18,796km

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



恒生指數
HANG SENG INDEXES

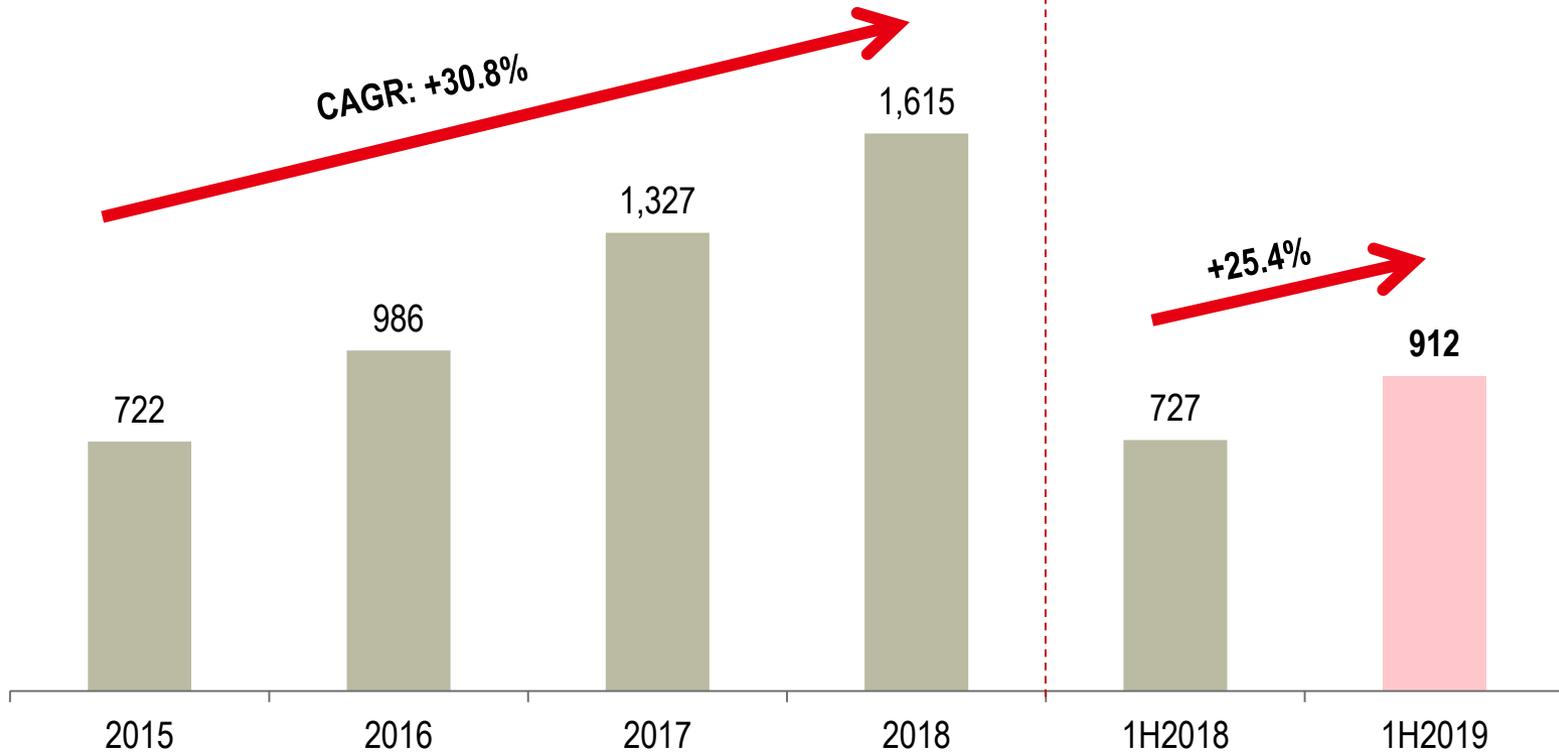
An eligible Southbound
stock for trading through
Shanghai and Shenzhen
Stock Connect

滬港通 深港通
SHANGHAI CONNECT SHENZHEN CONNECT

*Profit attributable to owners of the company

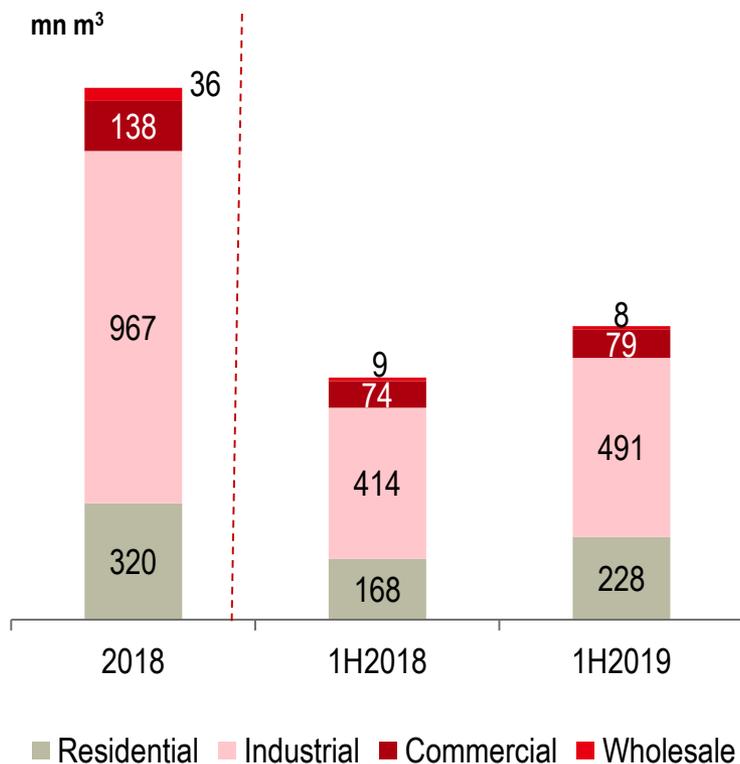
4-year CAGR for sales volume of piped gas: 30.8%

mn m³



Sales volume of piped gas to industrial customers increased by 18.6% yoy

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



| | Change |
|--------------|---------------|
| Residential | +36.3% |
| Industrial | +18.6% |
| Commercial | +6.5% |
| Wholesale | -11.8% |
| Total | +21.4% |

Pre-tax ASP and Average Cost of Gas

| RMB / m ³ | FY2018 | 1H2018 | 1H2019 | Change |
|--|--------|--------|-------------|---------------|
| ASP: | | | | |
| Residential | 2.20 | 2.17 | 2.33 | +7.4% |
| Industrial | 2.77 | 2.76 | 3.03 | +9.8% |
| Commercial | 3.05 | 3.07 | 3.31 | +7.8% |
| Wholesale | 2.25 | 2.03 | 2.70 | +33.0% |
| CNG/LNG Vehicle Filling Stations | 3.35 | 3.36 | 3.45 | +2.7% |
| Average Purchase Cost of Natural Gas* | 2.27 | 2.17 | 2.39 | +10.1% |
| Sales Margin (ex-tax) | 0.47 | 0.51 | 0.49 | -3.9% |

* The amounts do not include the average distribution costs of natural gas, which were RMB0.23 per m³ in 1H2019, RMB0.22 per m³ in 1H2018 and RMB0.19 per m³ in FY2018

No. of new connection

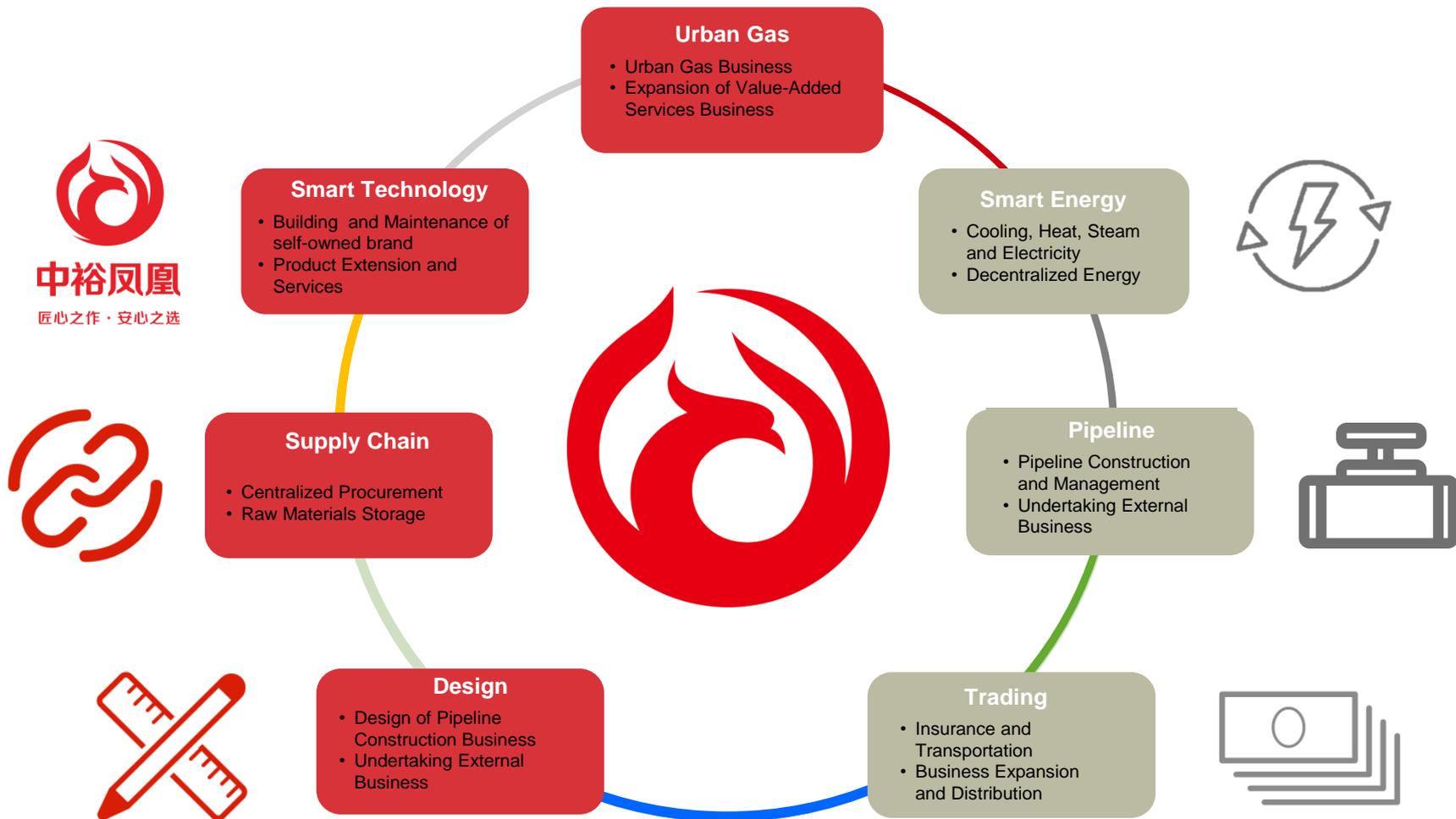
| | FY2018 | 1H2018 | 1H2019 | Change |
|-------------------------------|---------|---------|----------------|--------|
| Residential Households | 668,577 | 350,276 | 278,641 | -20.5% |
| Industrial | 489 | 159 | 151 | -5.0% |
| Commercial | 2,130 | 792 | 936 | +18.2% |

Accumulated number of connected piped gas customers

| Numbers of Connected Users | FY2018 | 1H2018 | 1H2019 | Change |
|----------------------------|-----------|-----------|------------------|--------|
| Residential Users | 2,878,103 | 2,509,802 | 3,264,628 | +30.1% |
| Industrial Users | 2,135 | 1,805 | 2,673 | +48.1% |
| Commercial Users | 10,386 | 9,048 | 11,948 | +32.1% |



Development Strategies





1

Deepen penetration in the regions (such as Henan, Hebei and Shandong provinces) with core advantage and strong presence

2

Be selective in potential M&As of profit-making projects to accelerate its growth, esp. in eastern and central China, Guangdong province and southwest regions that are in great potential with strong industrial gas demand and close to major gas pipelines for stable gas supply

3

Upgrade the value-added services of selling stoves and related equipment by adding higher margin products and expanding the reach to its current 3.3million residential users

4

Systemize the smart energy and decentralized energy projects and develop high-quality demonstration projects

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

Servicing industrial and commercial users: 14,621

Major Downstream Segments

Mechanic



Glass



Chemical



Refractory



Forging



Ceramics



Quality Corporate Customers

Hotel



Complex



School



Hospital





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

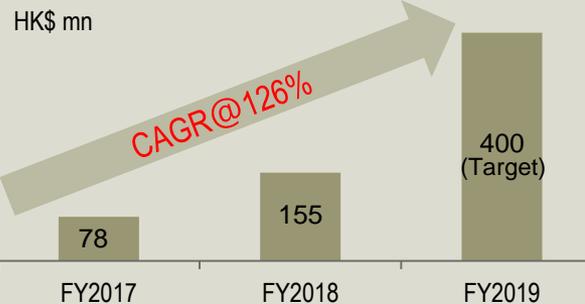


Business Scope

Upstream gas equipment and products

End user applications and related products and services

Extended products and utility service

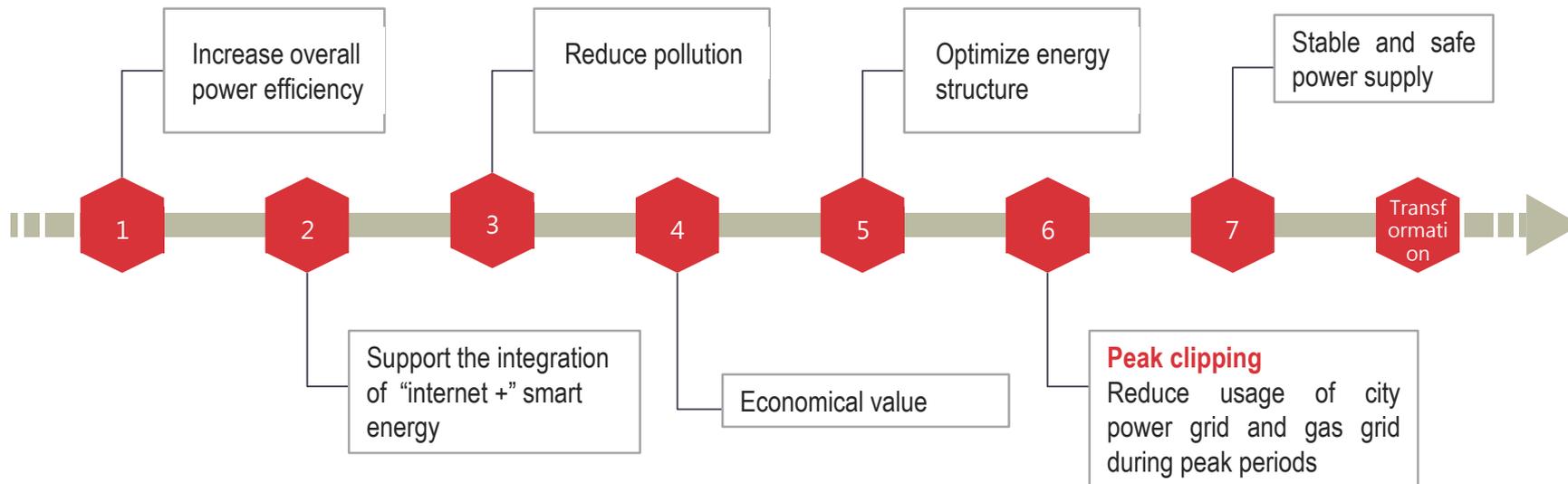


Company expects promising growth in the value-added service



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

Achievements in first half of 2019:

Decentralized energy projects:

- 1** in operation
- 2** new energy supply agreements
- 12** new projects

Technical consulting project:

- 2** large SOE projects
- 8** technical consulting contracts
- 21** feasibility studies

Charging pile project:

- 1** new project developed
- 5** new charging stations
- 56** total piles

Incremental distribution network project:

- 1** construction started
- 1** new project developed



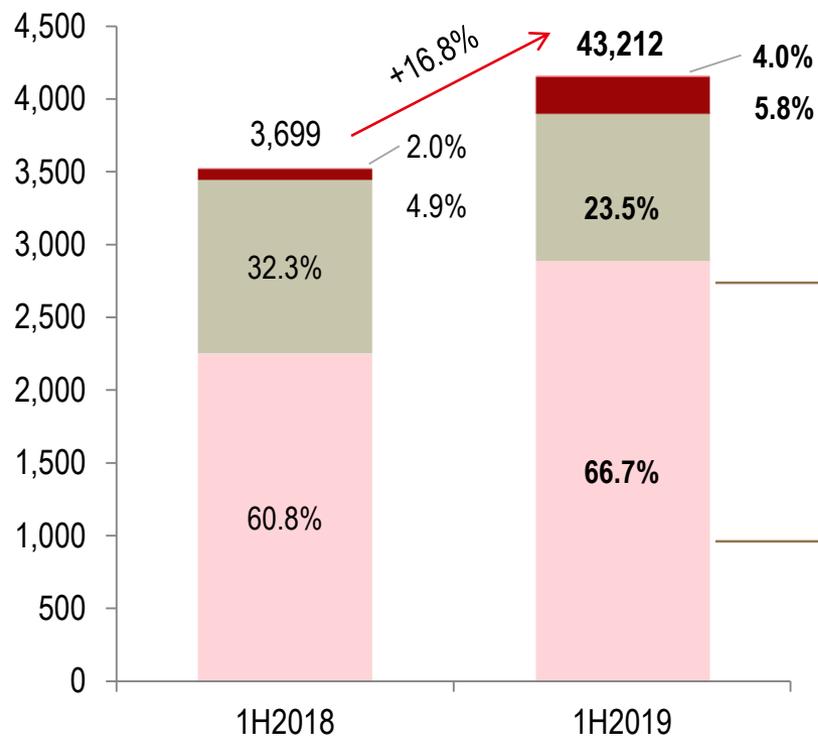


2019 Interim Results

| HK\$ '000 | For the year ended 31 December 2018 | For the six months ended 30 June | | |
|--|--|----------------------------------|------------------|----------|
| | | 2018 | 2019 | change |
| Turnover | 7,627,088 | 3,699,210 | 4,321,868 | +16.8% |
| Gross Profit | 2,221,873 | 1,183,015 | 1,139,398 | -3.7% |
| EBITDA* | 2,048,801 | 1,094,590 | 1,060,551 | -1.4% |
| Profit Attributable to Owners of the Company | 620,684 | 419,980 | 507,293 | +20.8% |
| Adjusted profit attributable to owners of the Company* | 1,001,436 | 511,972 | 517,169 | +1.0% |
| Gross Profit Margin | 29.1% | 32.0% | 26.4% | -5.6p.p. |
| EBITDA Margin | 26.9% | 29.6% | 25.0% | -4.6p.p. |
| Net Profit Margin | 8.1% | 11.4% | 11.7% | +0.3p.p. |
| Adjusted Net Profit Margin * | 13.1% | 13.8% | 12.0% | -1.8p.p. |
| Weighted Average Number of Ordinary Shares ('000) | 2,530,877 | 2,525,00 | 2,537,328 | +0.5% |
| Basic Earnings Per Share (HK cents) | 24.52 | 16.63 | 19.99 | +20.2% |
| Proposed Dividend per share (HK cents) | 7.0 | -- | 2.0 | -- |
| Payout ratio | 29% | -- | 10.0% | -- |

*excluding the net foreign exchange gain/loss

HK\$ mn
(% of turnover)



- Others
- Sales of Stoves and Related Equipment
- Gas Pipeline Construction
- Gas Distribution

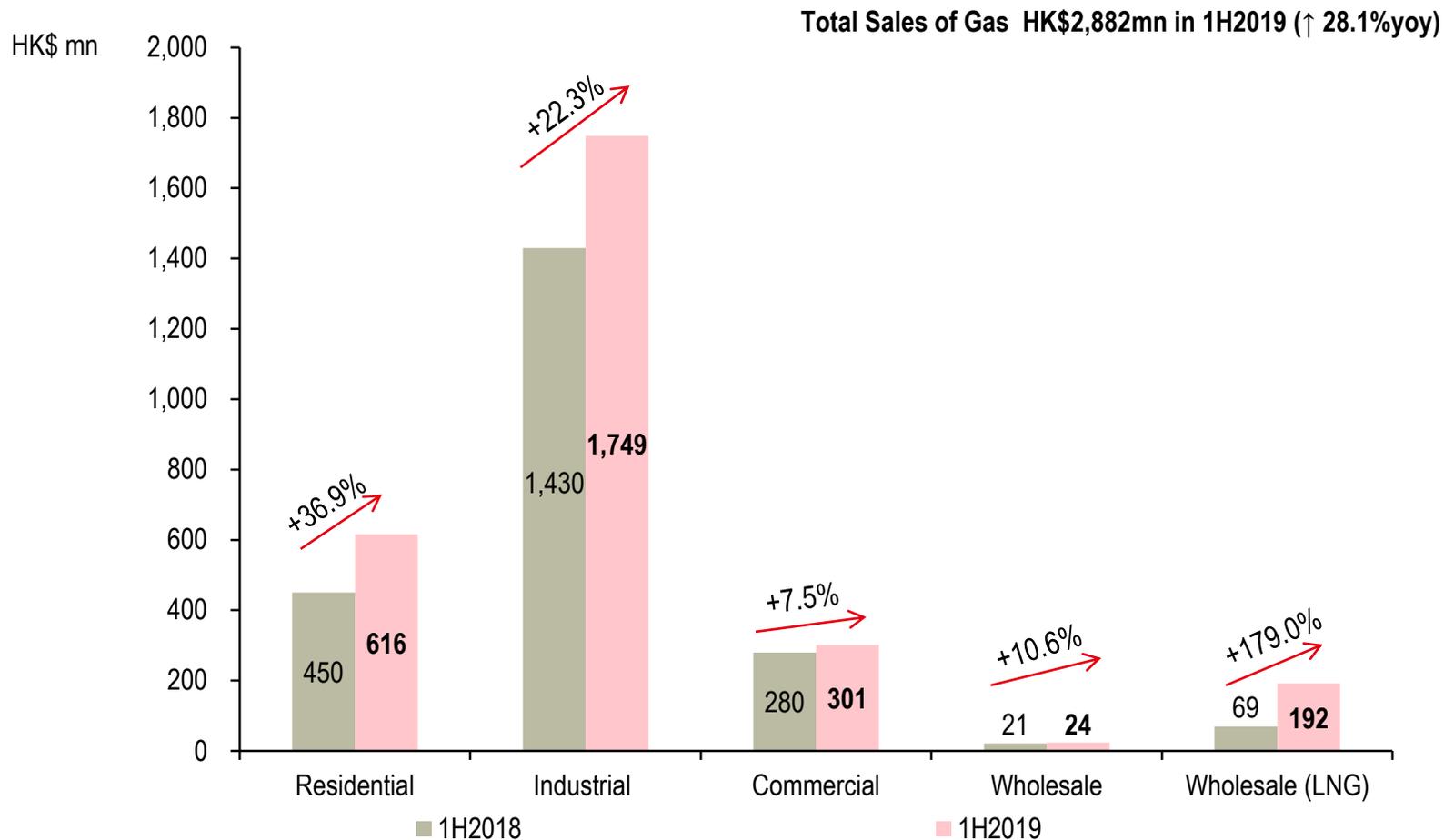
Sales of Stoves and Related Equipment **↑ 231.9% yoy**

Construction Fee **↓ 14.9% yoy**

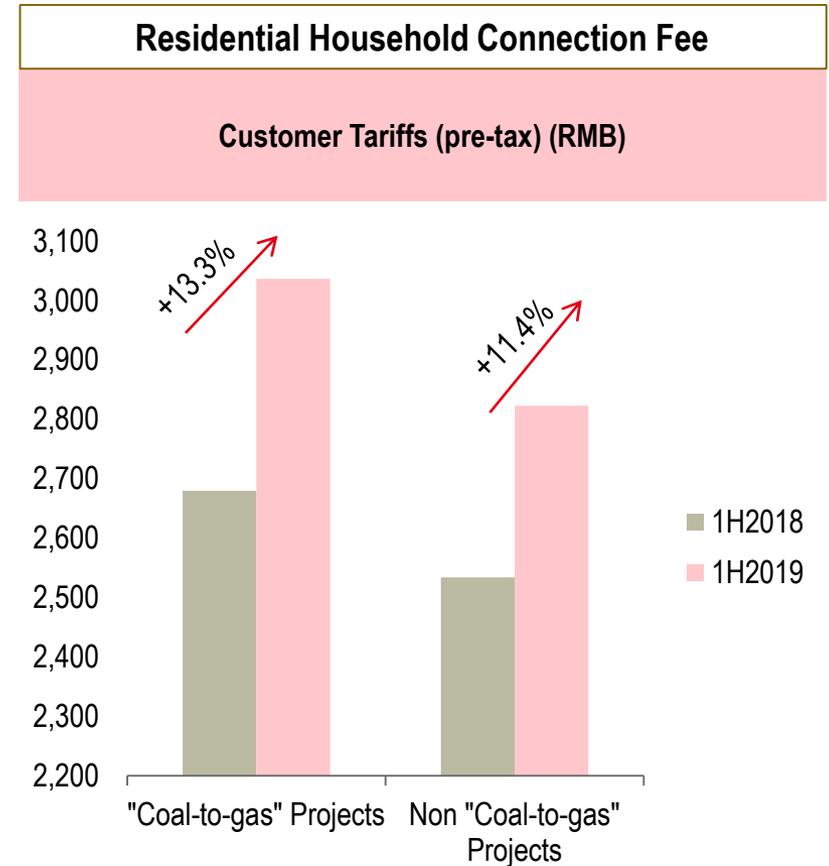
- Mainly driven by the "coal to gas" conversion policy

Sales of Piped Gas **↑ 28.1% yoy**

- In 1H2019, the Group connected 151 new industrial customers. The average selling price of natural gas for industrial customers increased by 9.8% to RMB3.03 per m³
- The growth in sales of gas to residential households was supported by the implementation of the "coal-to-gas" conversion policy in the Group's existing project cities in the PRC

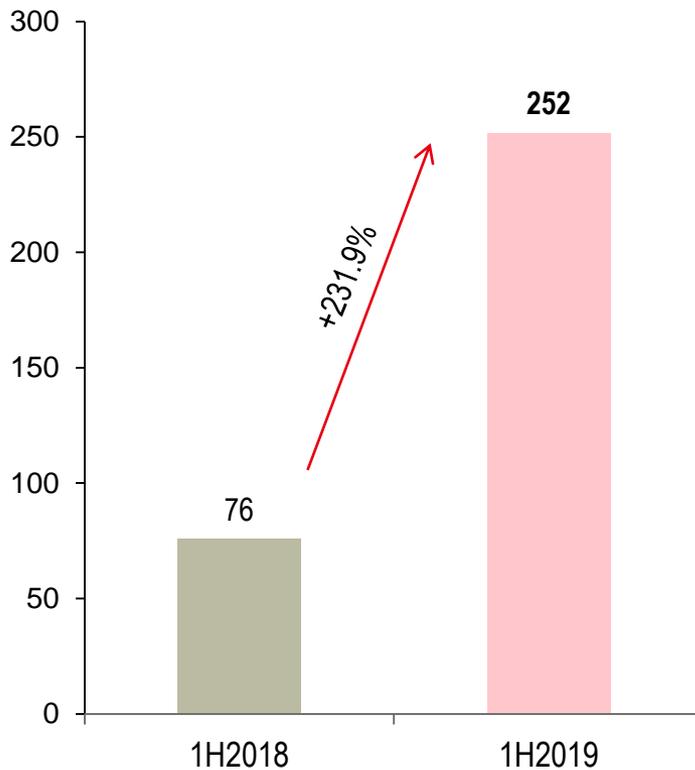


| No. of New Connection | | | |
|--|---------|----------------|--------|
| | 1H2018 | 1H2019 | Change |
| Residential Households | 350,276 | 278,641 | -20.5% |
| - "Coal-to-gas" Projects | 246,189 | 155,818 | -36.7% |
| - Non "Coal-to-gas" Projects | 104,087 | 122,823 | +18.0% |
| Industrial | 159 | 151 | -5.0% |
| Commercial | 792 | 936 | +18.2% |
| Total Existing Intermediate & Main Pipelines (km) | 13,118 | 18,796 | +43.3% |



Sales of Stoves and Other Services

HK\$ mn



The increase is mainly driven by:

- Placed greater efforts in value-added services like:
 - Sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware
 - Sales of gas water heaters and wall hung boilers, to residential customers under its own brand name, “中裕鳳凰” (Zhongyu Phoenix).
- Increasing number of connected residential customers and brand recognition built in recent years

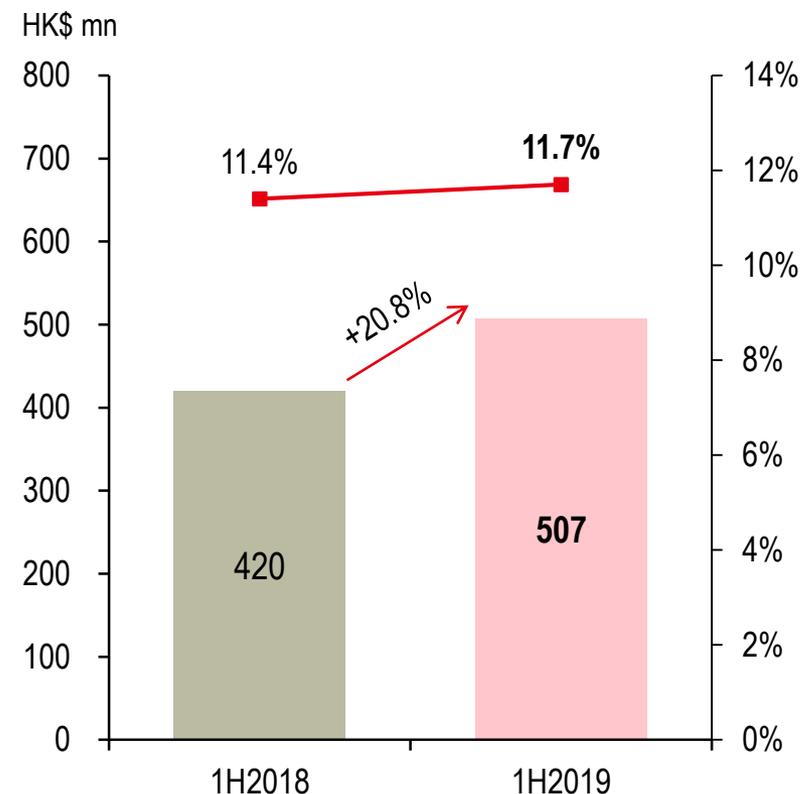
Gross Margins of Major Business Segments

| | 1H2018 | 1H2019 | Change |
|--|--------------|--------------|-----------------|
| Sales of Piped Natural Gas | 10.1% | 9.2% | -0.9p.p. |
| Gas Pipeline Construction & Connection | 76.9% | 77.5% | +0.6p.p. |
| Sales of Stoves & Other Services | 53.0% | 38.4% | -14.6p.p. |
| Total Gross Profit Margin | 32.0% | 26.4% | -5.6p.p. |

Key Expenses

| % of Turnover | 1H2018 | 1H2019 | Change |
|---------------------------------|--------|--------|----------|
| Selling and Distribution Costs | 1.8% | 1.6% | -0.2p.p. |
| General Administrative Expenses | 4.7% | 4.8% | +0.1p.p. |
| Finance Costs | 3.3% | 2.6% | -0.7p.p. |

Net Profit* and Margin



*Profit attributable to owners of the company

The change in the overall gross profit margin was mainly due to the strategic change in business composition.

Financial Positions

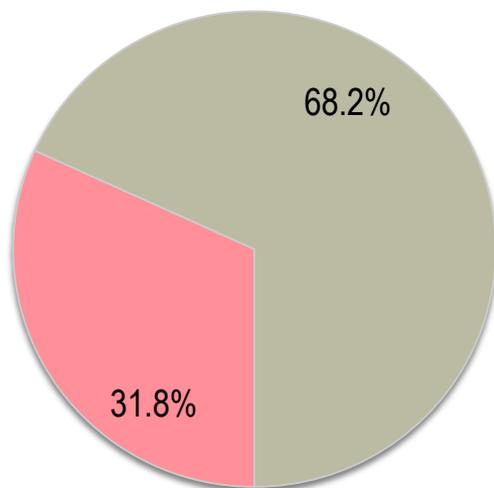
| HK\$ '000 | As of 31 Dec 2018 | As of 30 Jun 2019 | Change |
|--|-------------------|-------------------|--------|
| Property, Plant and Equipment | 8,880,175 | 9,685,630 | +9.1% |
| Total Assets | 16,281,354 | 19,617,931 | +20.5% |
| Bank Balances and Cash | 1,595,157 | 2,423,606 | +51.9% |
| Borrowings and Obligations under Finance Lease | 8,477,473 | 11,429,849 | +34.8% |
| Shareholder's Equity | 3,938,519 | 4,388,317 | +11.4% |

Operating Cash Flows, Inventory, Receivable And Payable Turnover Days

| | 1H2018 | 1H2019 | Change |
|--|--------|--------|--------|
| Inventory Turnover Days | 23 | 25 | +2 |
| Average Trade Receivable Turnover Days | 51 | 78 | +27 |
| Average Trade Payable Turnover Days | 60 | 72 | +12 |

- As of 30 June 2019, total borrowings and obligation under finance lease were HK\$ 11.4 billion
- The Group's financing cost were approximately 2.6% and majority of total debt carried interest at floating rates

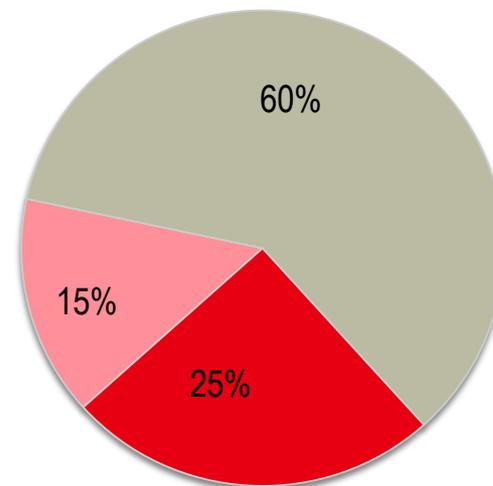
Majority of total borrowings and obligation under finance lease were evenly distributed into long and short-term debts
(as of 30 June 2019)



Short-term debt

Long-term debt

Debt has evenly distributed into RMB, HKD and USD, reducing foreign exchange risk
(as of 30 June 2019)



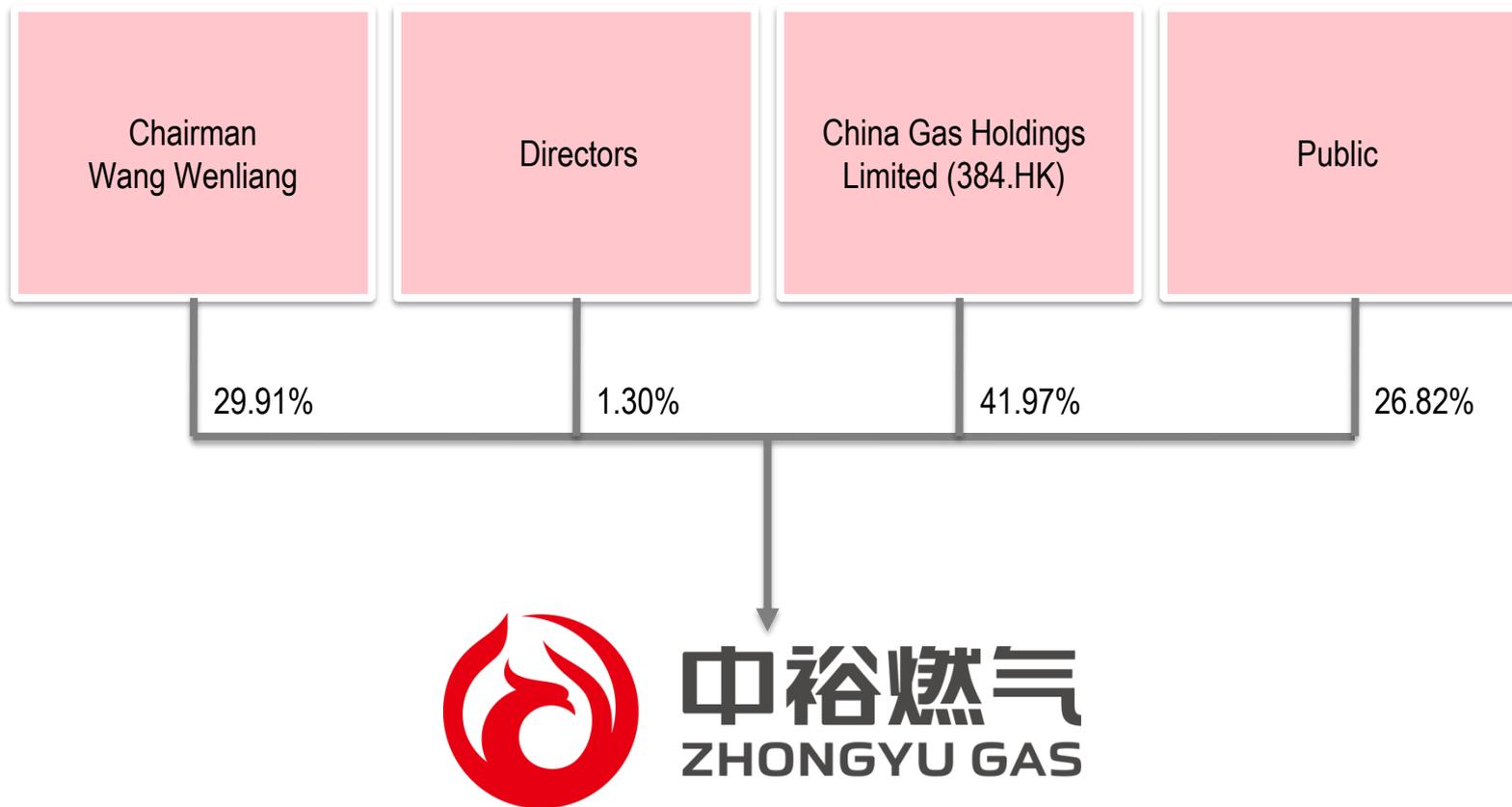
RMB

HKD

USD



Appendix



Number of issued shares (as at 31 July 2019): 2,538,217,357 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

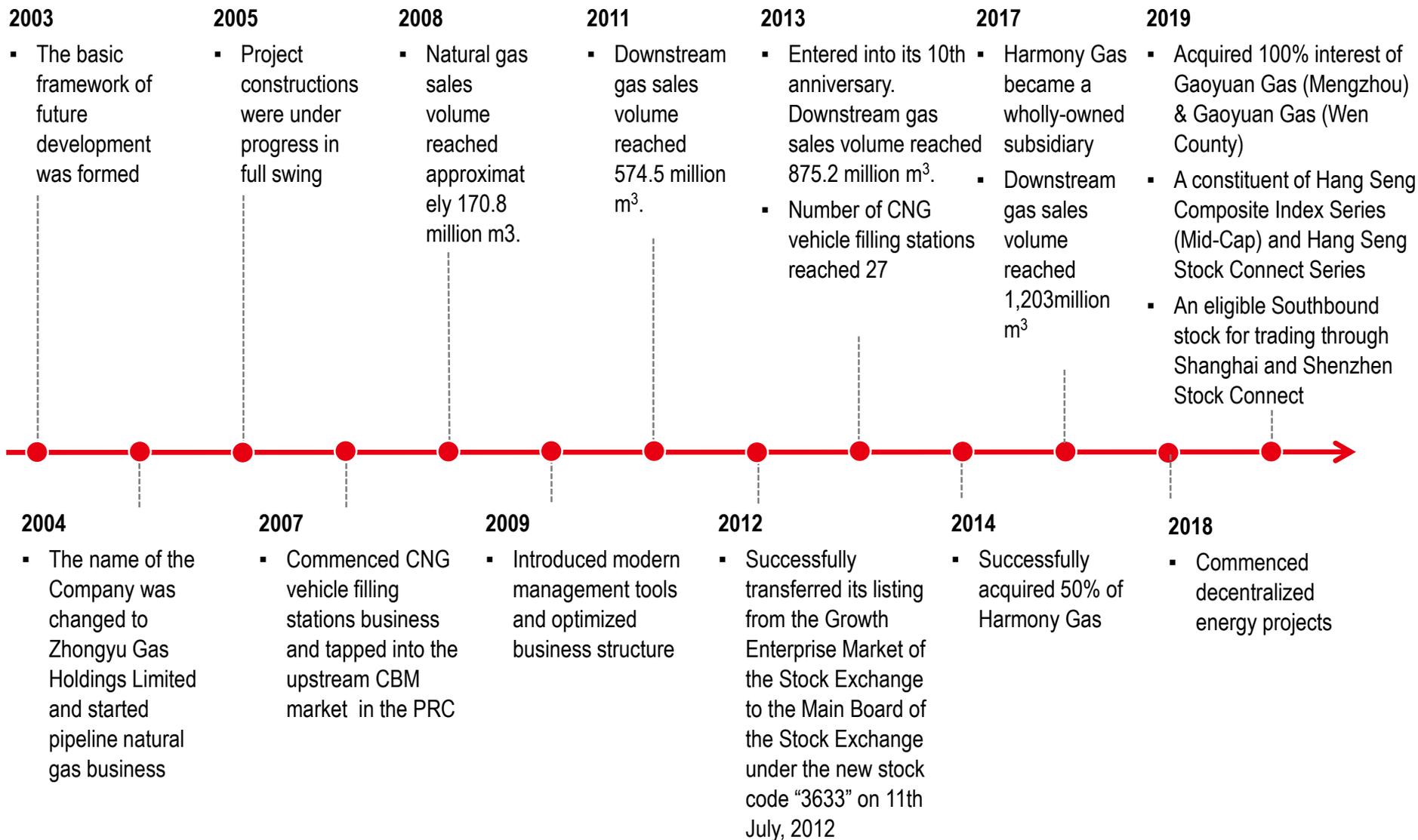
- Appointed as Executive Director at February 2019
- Joined the Group in 2003 and currently serves as its executive vice president, senior economist in China with over 30 years of experience in accounting, finance and economics



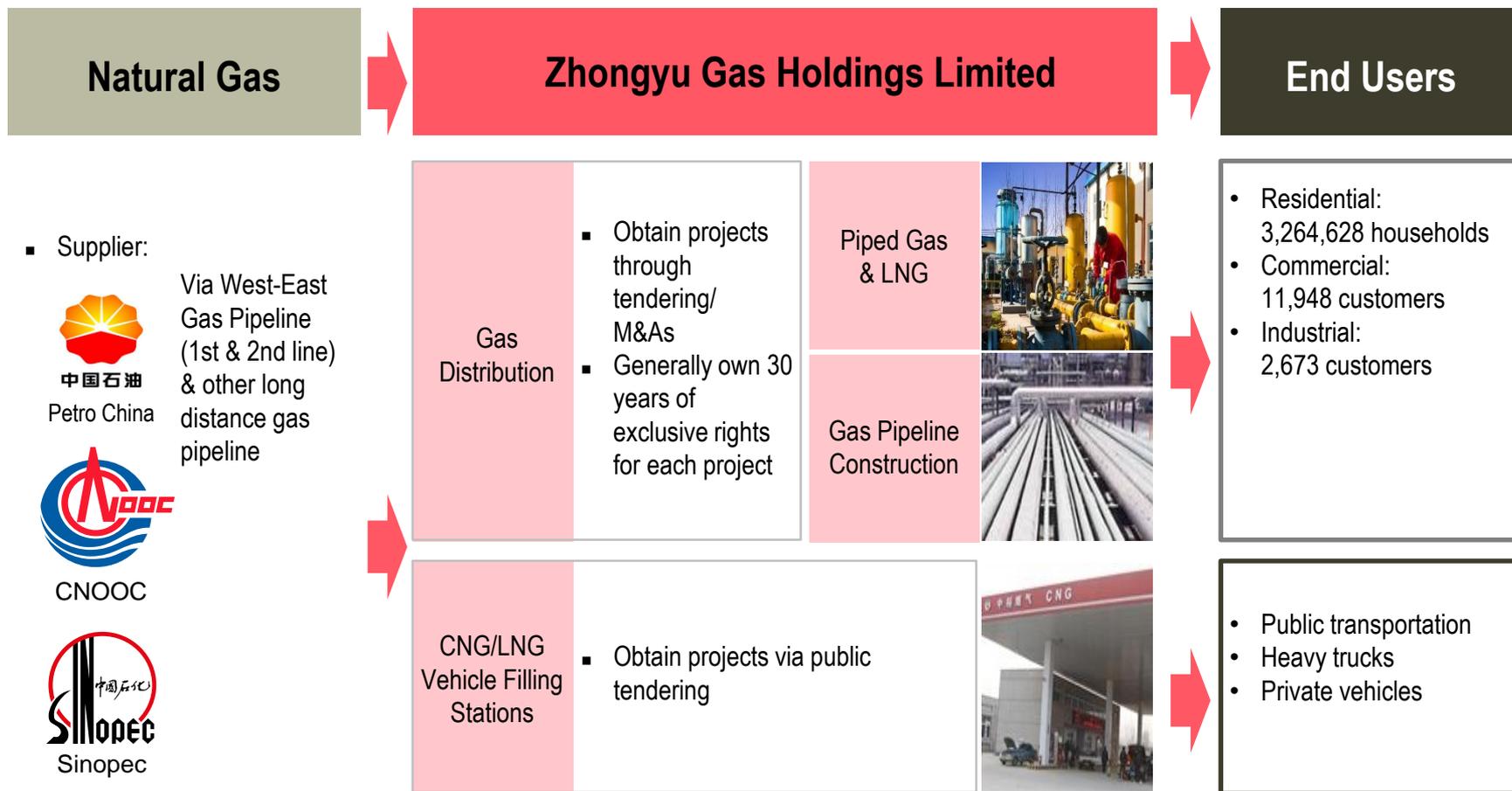
Mr. Jia Kun
贾琨 先生

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



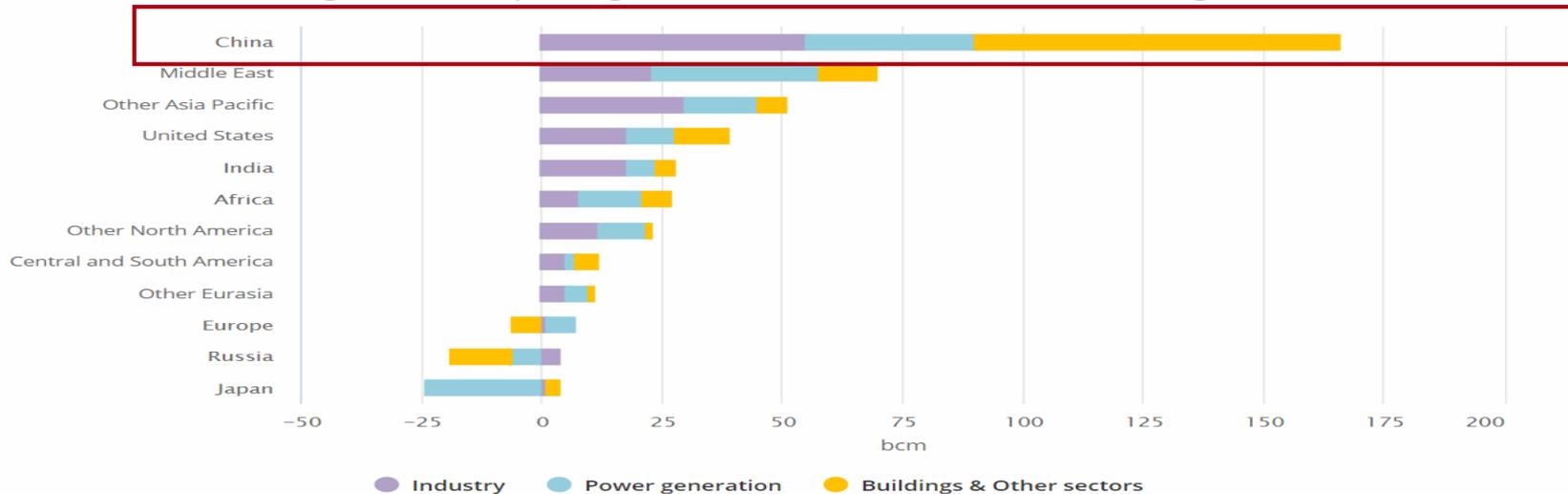
Straight-forward business and pricing model for visible profitability



- 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 World Natural Gas Consumption Growth

World natural gas consumption growth for selected countries and regions, 2018-24



IEA. All rights reserved.

- According to **the International Energy Agency (IEA)**, natural gas demand in China is expected to rise by more than 10% over the next five years, reaching more than 4.3 trillion cubic meters in 2024. China is expected to account for more than 40% of global gas demand growth to 2024, propelled by the government's goal of improving air quality by shifting away from coal.

Thank you

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