



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Stock Code : 3633.HK)

Annual Results Presentation
March 2018



Gas Distribution



Gas Pipeline
Construction &
Connection



CNG/LNG Vehicle
Filling Station



Sales of Stoves
and Equipments

A proxy play to emerging clean energy in China with growth through M&As



Stock Info

Stock code	: 3633.HK
Issued shares (as at 17-04-2018)	: 2,525,007,684
Share price (as at 17-04-2018)	: HK\$7.39
Market cap (as at 17-04-2018)	: HK\$18.7Billion
Historical PE (as at 17-04-2018)	: 33.4x
Net assets value per share	: HK\$1.26

FY2017 Results Updates

HK\$ mn	FY16	FY17	Change
Turnover	3,723	5,048	+35.6%
Gross profit	1,008	1,289	+27.9%
Profit attributable to owners of the Company	206	558	+170.7%
Basic EPS (HK cents)	8.16	22.10	+170.8%
Final dividend per share (HK cents)	--	5	--
Gross margin	27.1%	25.5%	-1.6p.p.
Net profit margin	5.5%	11.1%	+5.6p.p.

About Zhongyu

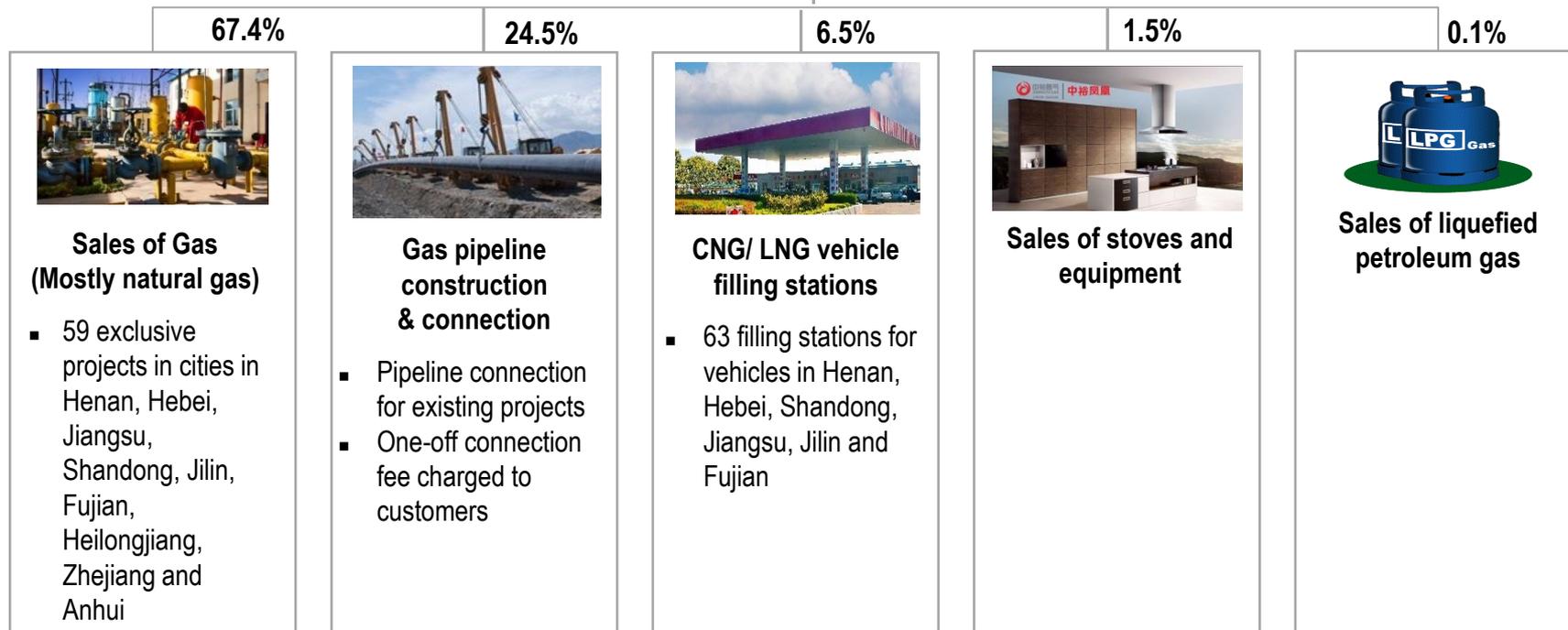
- **A piped natural gas operator riding on the robust demand for clean energy in the PRC with exclusive rights**
- **Core businesses:**
 1. Sales of natural gas
 2. Gas pipeline construction and connection
 3. CNG/LNG vehicle filling station
 4. Sales of stoves and related equipments
- **Core advantages:**
 1. Strong footholds in cities in Henan, Hebei, Shandong and Jiangsu which are in heavy demand for natural gas
 2. Dual growth strategy: aggressive 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

- **Completed acquisition of 100% equity interest of Harmony Gas**
- **Favorable policies** to promote use of clean energy
- **Rapid growing demand** in operational areas
 1. Unit of piped natural gas sold increased by 35.7%
 2. Gas sold to industrial customers increased by 48.3%
 3. New piped gas connections for 365,178 residential households, greatly surged by 40.4%



% of turnover for the year ended 31 December 2017

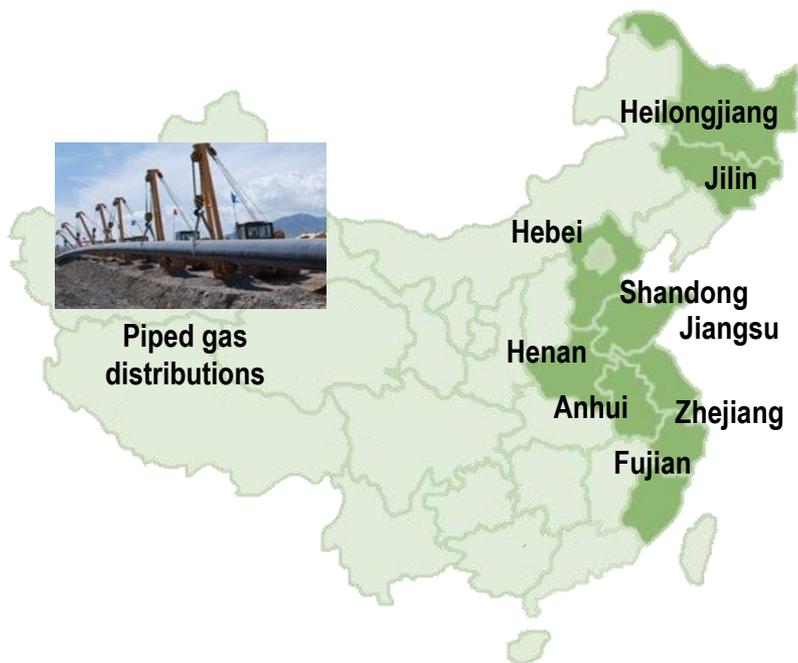


Growth drivers

- (1) “Coal-to-gas” conversion
- (2) Integration of Harmony Gas
- (3) M&As to penetrate into other regions

- (1) “Coal-to-gas” conversion
- (2) Further penetration into the covered 2.2m residential households

Strong Presence in Industrially Developed Provinces



No. of operating locations	
Henan Province	24
Hebei Province	18
Jiangsu Province	5
Shandong Province	4
Jilin Province	2
Fujian Province	1
Heilongjiang Province	1
Zhejiang Province	2
Anhui Province	2
Total	59

	As at 31 Dec 16	As at 31 Dec 17
Connectable Population ('000)	10,652	11,885
Penetration rate	60.6%	63.6%

Organic growth in the number of residential households in the operation regions

Customer Coverage

Numbers of Connected Users	As at 31 Dec 16	As at 31 Dec 17	Change
Residential Users	1,844,870	2,159,526	+17.1%
Industrial Users	1,171	1,646	+40.6%
Commercial Users	6,056	8,256	+36.3%

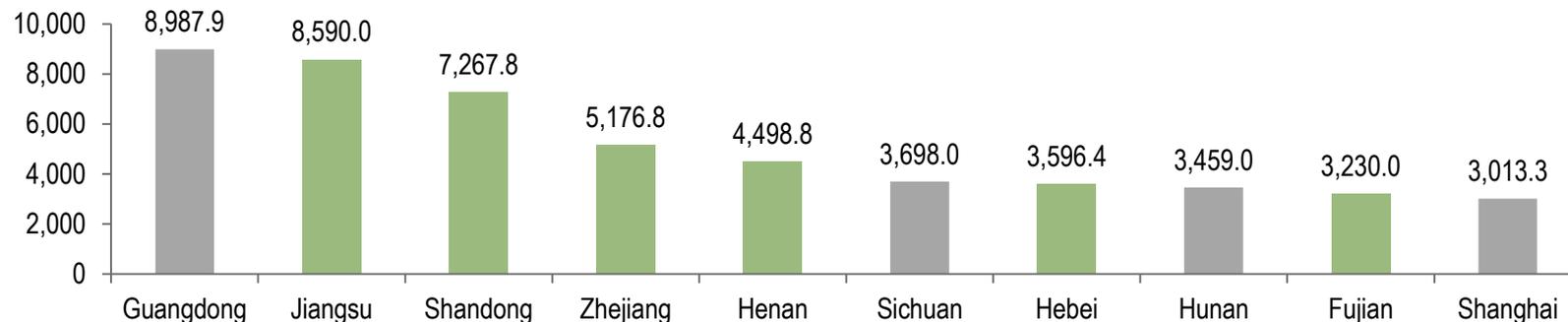
Core Markets with Strong Demand for Natural Gas



Top 10 Provinces with the Highest Industrial Output in 2017

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

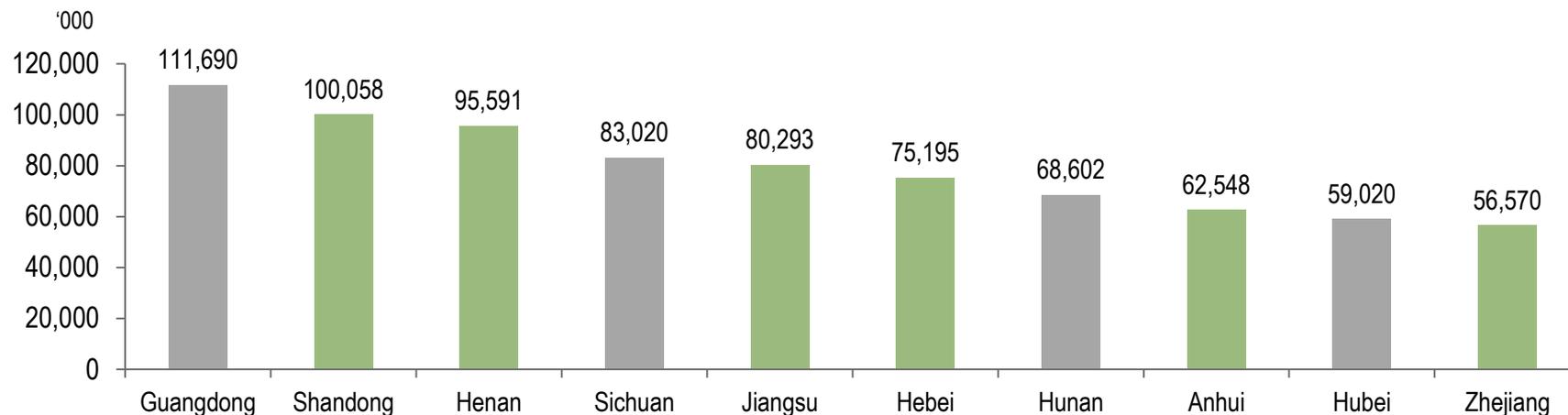
RMB bn



Source: National Bureau of Statistics of China

Population Distribution in 2017

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



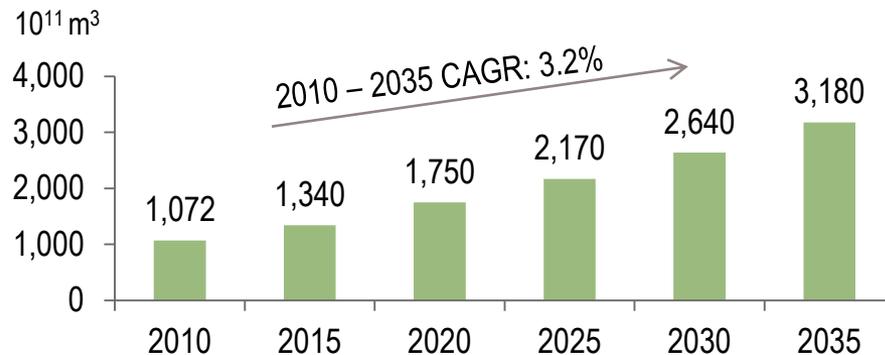
Source: National Bureau of Statistics of China

Favorable Government Policies for Clean Energy



- 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

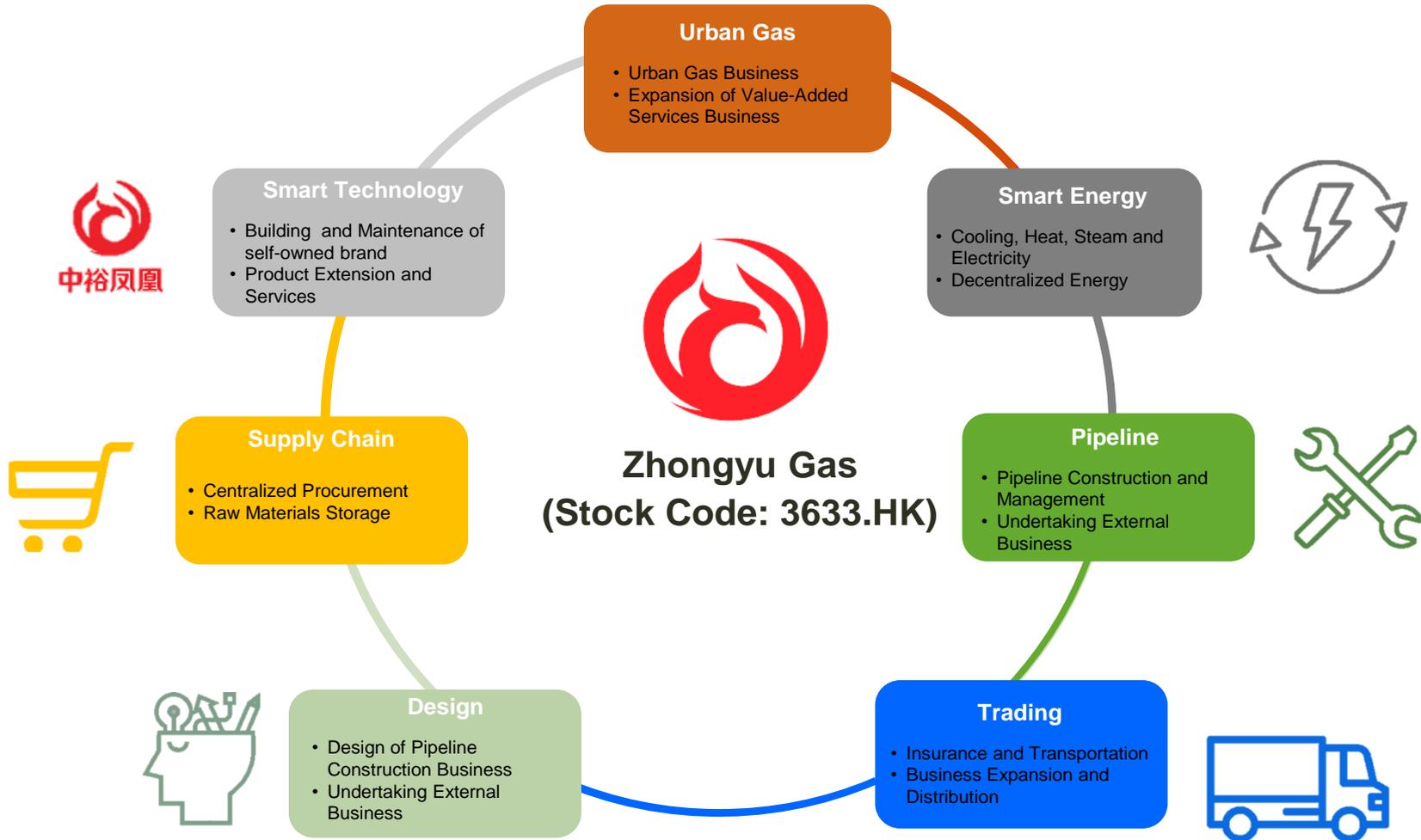


- According to **the National Development and Reform Commission (NDRC)** and **National Energy Administration (NEA)**, the China government also has a clear target on the network expansion of natural gas pipeline to increase the accessibility of natural gas across the nation, extending the pipeline to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



Development Strategies

Transforming into an Urban, Integrated Energy Service Provider





**Zhongyu
Gas**



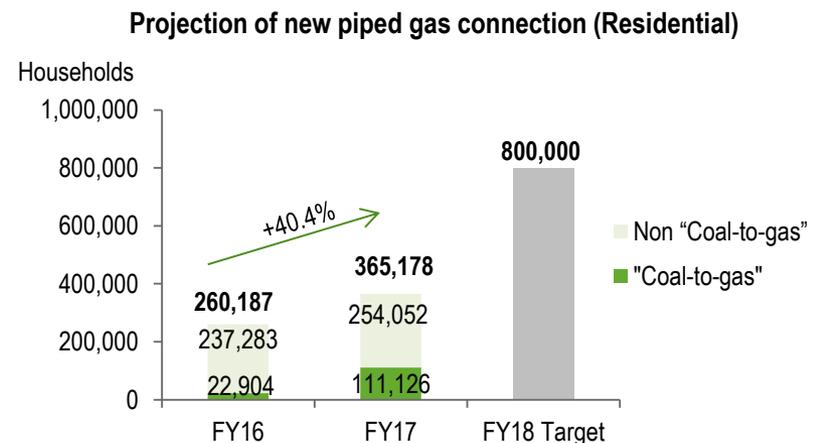
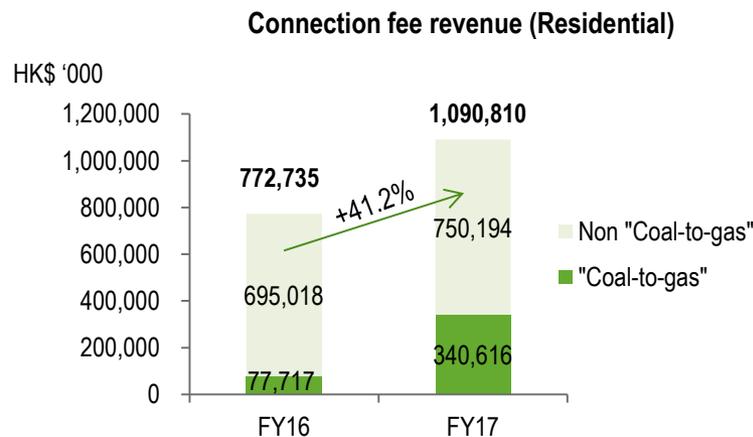
Zhongyu Gas aims to become the most valuable integrated energy service provider in China and a first-tier player in the energy industry

“Coal-to-gas” Conversion



- Policies by **the NDRC** to promote the use of natural gas:
 - Further reduction on the city-gas price for non-residential customers by RMB 0.1/m³ with effective on 1 Sep 2017
 - ✓ Directly reduce the cost of approximately RMB7 billion for downstream industries, such as electricity generation, centralizing heating, taxi, as well as the commercial and service sectors
 - ✓ Industry impact: currently, non residential usage accounts for approximately 80% of the domestic consumption, the total reduction on gas price is estimated to be approximately RMB16 billion or above
 - The total length of natural gas pipeline is expected to reach 104,000 km by 2020 and 123,000 km by 2025
- **The State Council** targets to convert 185K steam ton/hour of industrial coal-fired boilers by 2020, which is expected to boost natural gas demand by 38 billion m³
- According to the **Chinese National Energy Administration**, the natural gas production in the PRC is expected to rise by 8.5% over 2017 to a record high in 2018

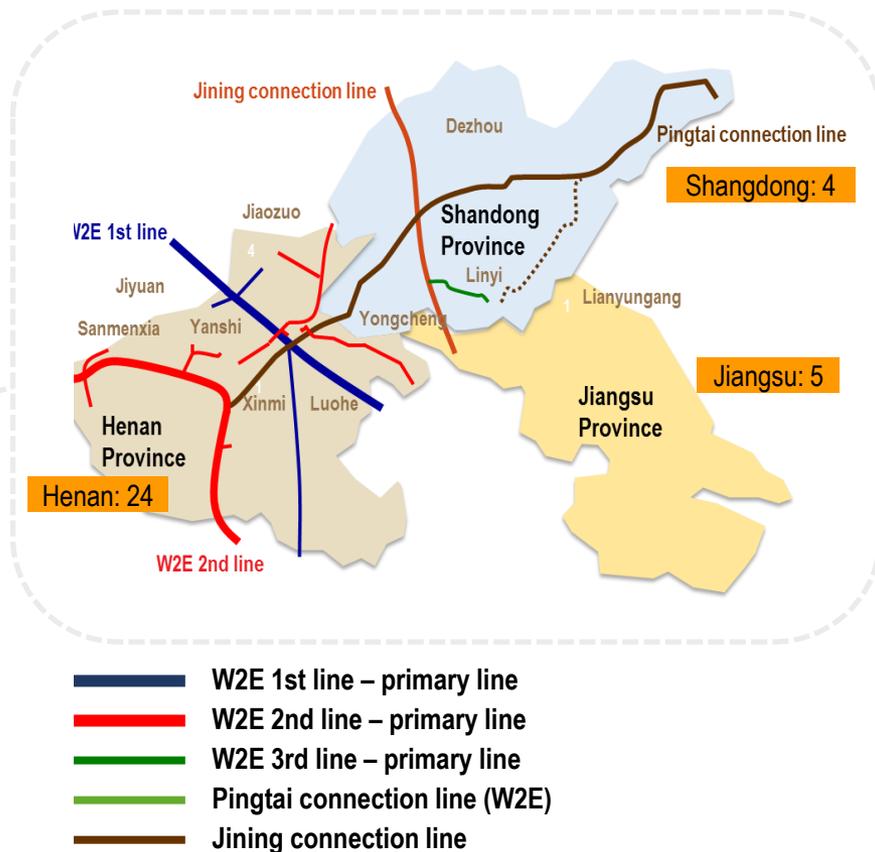
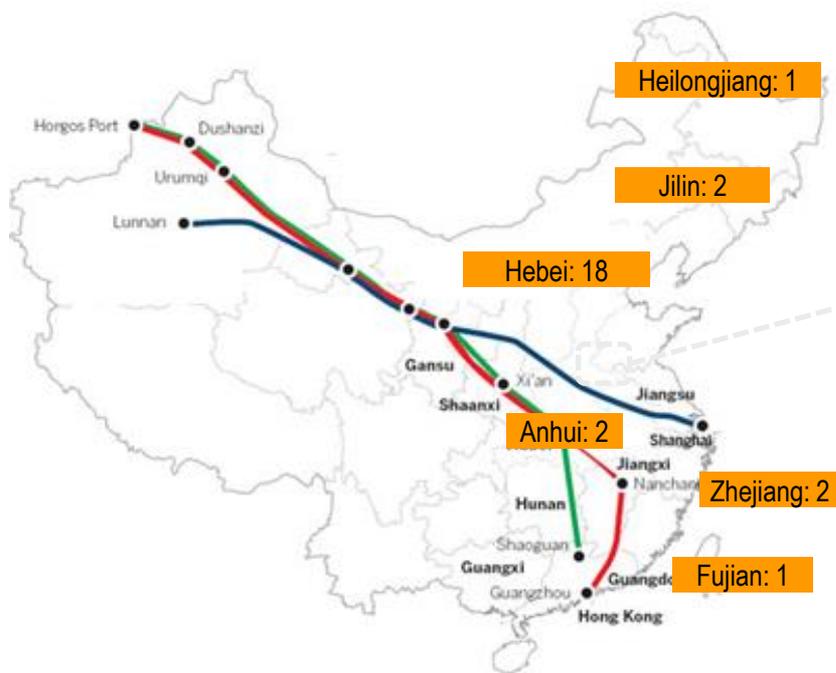
“Coal-to-gas” projects (residential): Zhongyu’s achievements in 2017 and targets for 2018



On-going Development of Greenfield Projects



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



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

CAPEX	2017	2018	2019	Total
Pipeline constructions	RMB 852m (Actual)	RMB871m	RMB473m	RMB2,196m

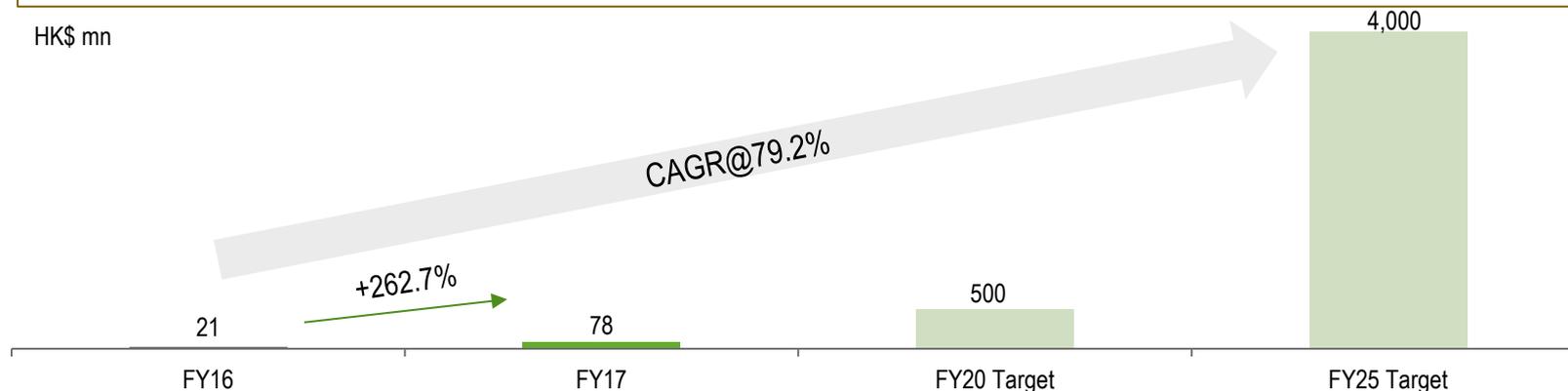
Value-added Service to Residential Customers



Since 2012, leveraging its widespread residential customer network of **around 2.6 million households with a expansion target of 300 thousands households per year**, the Group has been proactively cultivating its value-added services

Target sales of stoves and related equipment (2017 – 2025)

HK\$ mn



2017 – 2020 : Strategy Formulation

- Building of Zhongyu Phoenix (“中裕鳳凰”) brand
 - Existing scale: 5 branches and 38 subsidiaries
- Formation specialist team in Smart Technology
- Launching 5 value added services:
 1. Zhongyu Phoenix Stoves, Kitchenware and related equipment
 2. Home insurance
 3. Stainless steel bellows
 4. Stainless steel bellows
 5. Indoor repair and reconstruction services

2020 – 2025 : Development Plan

- Expanding business scope:
 - Including sales of gas appliances and stoves to industrial and commercial customers
- Broadening product range to become a one stop household ware provider :
 1. Kitchenware
 2. Toiletries
 3. Groceries
 4. Water purifier

Development of Smart Energy and Decentralized Energy



Strive to Becoming One of the Most Competitive Service Providers for Integrated Smart Energy

Development of renewable energy multi-generation system

Combined supply of heat, electricity and cooling

Decentralized renewable energy

Smart microgrid for energy

4 Benefits



Create synergies



Enrich customer experience in different energy use



Lower costs



Enhance general energy efficiency

Target Customers



Industrial Parks



New Towns



Public Facilities



Commercial Districts

Development of Smart Energy and Decentralized Energy (Con't)



Business Scope



Natural Gas



Electricity



Heat Supply



Steam and Hot Water



Cooling



Energy Saving



CHP



Photovoltaics



Response to Demand



ECMs



Estate Energy Monitoring System



Power Microgrid

New projects

COMBINED SUPPLY OF COOLING, HEATING AND POWER PROJECT

This project mainly aims at the combined supply of cooling, heat and electricity via natural gas in industrial parks

POWER GENERATION

Successfully obtained a wind power project in Gaoxin district of Henan. Developments include the low-voltage distribution network, new circuit for substation, and electricity supply proposal for key customers within the industrial park

DEVELOPMENT FOR RENEWABLE ENERGY ADAPTATION

Build a National Standard Internet and Smart Energy Demonstration Project.

This project aims to develop an energy supply form by an integration of photovoltaic power plant, smart grid, gas network and heating network



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2017 Annual Results

Financial Highlights

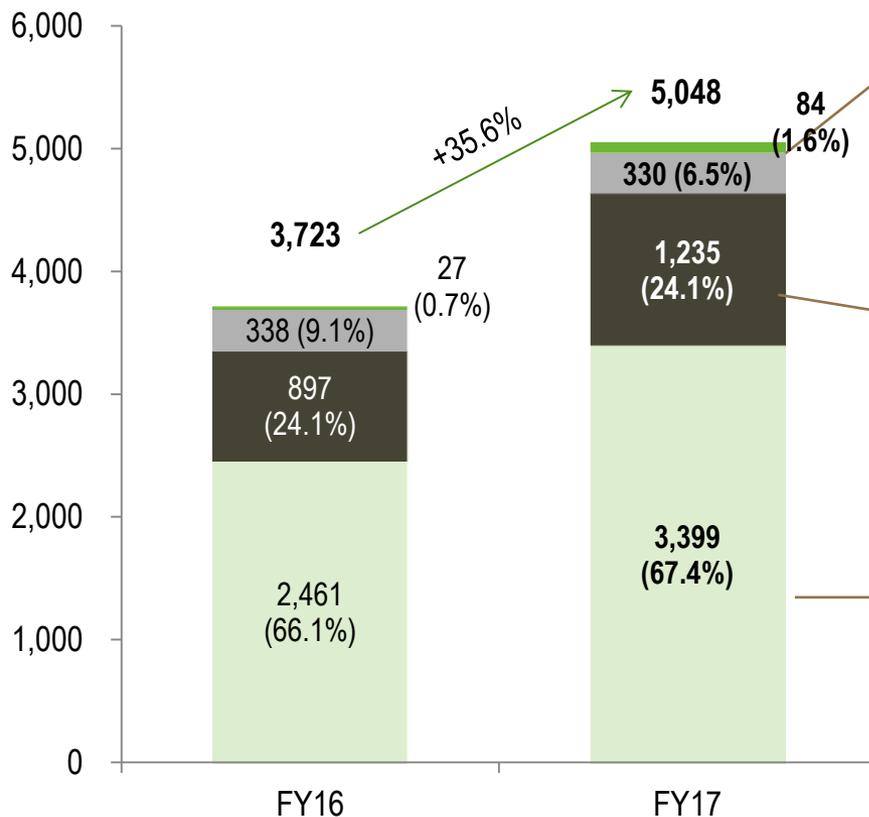


HK\$ '000	For the year ended 31 December		
	2016	2017	Change
Turnover	3,722,507	5,048,100	+35.6%
Gross profit	1,008,009	1,289,102	+27.9%
Profit Attributable to Owners of the Company	206,150	557,959	+170.7%
EBITDA	899,586	1,257,947	+39.8%
Gross Profit Margin	27.1%	25.5%	-1.6p.p.
EBITDA Margin	24.2%	24.9%	+0.7p.p.
Net Profit Margin	5.5%	11.1%	+5.6p.p.
Weighted Average Number of Ordinary Shares ('000)	2,525,008	2,525,008	--
Basic Earnings Per Share (HK cents)	8.16	22.10	+170.8%
Final Dividend Per Share (HK cents)	--	5.0	--
Payout Ratio	--	23%	--

Turnover Breakdown by Business Segments



HK\$ mn
(% of turnover)



■ Others
■ Operation of CNG Vehicle Filling Station
■ Gas Pipeline Construction
■ Gas Distribution

CNG/LNG Vehicle Filling Stations ↓ 2.4% yoy

- Unit of natural gas sold reduced by 2.9%

Construction Fee ↑ 37.7% yoy

- Sales from gas pipeline construction and connection achieved a yoy growth of 37.7%, majorly attributable to the impressive increase in the connection fee for “coal-to-gas” projects

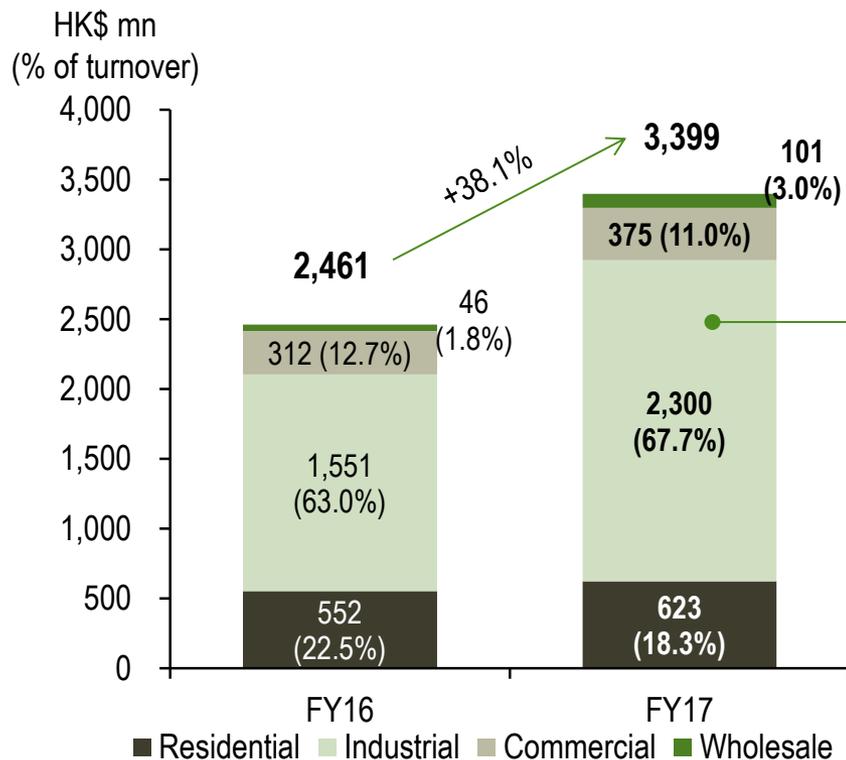
Sales of Gas ↑ 38.1% yoy

- Sales to industrial and commercial customers increased by 48.3% and 20.1% respectively driven by the implementation of the “coal-to-gas” conversion policy
- Sales to residential households increased by 12.9%, supported by urbanization in the Group’s existing project cities in the PRC

Turnover Analysis: Gas Distribution



Sales of gas by customer



Sales to industrial customers increased by **48.3%** due to:

- Aggressive implementation of “coal-to-gas” conversion
- Recovery of China economy, stimulating both domestic consumption and export

Pre-tax ASP of natural gas

RMB per m ³	FY16	FY17	Change
Residential	2.17	2.13	-1.8%
Industrial	2.35	2.38	+1.3%
Commercial	2.68	2.81	+4.9%
Wholesale	1.67	1.89	+13.2%
Weighted Average	2.40	2.57	+7.1%

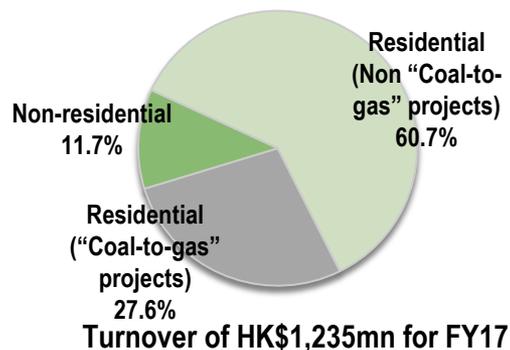
Unit of piped natural gas sold

mn m ³	FY16	FY17	Change
Residential	213	250	+17.5%
Industrial	552	826	+49.7%
Commercial	99	115	+16.4%
Wholesale	23	12	-49.4%
Total	887	1,203	+35.7%

Turnover Analysis: Gas Pipeline Construction and Connection



Turnover for gas pipeline construction breakdown



No. of New Connection

	FY16	FY17	Change
Residential	260,187	365,178	+40.4%
- "Coal-to-gas" projects	22,904	111,126	+385.2%
- Non "Coal-to-gas" projects	237,283	254,052	+7.1%
Industrial	368	475	+29.1%
Commercial	1,197	2,200	+83.8%

Connection Fee

Customer Tariffs (pre-tax) (RMB)	FY16	FY17	Change
Residential			
- "Coal-to-gas" projects	2,905	2,656	-8.6%
- Non "Coal-to-gas" projects	2,508	2,558	+2.0%
Non-residential	Case by case		

Penetration

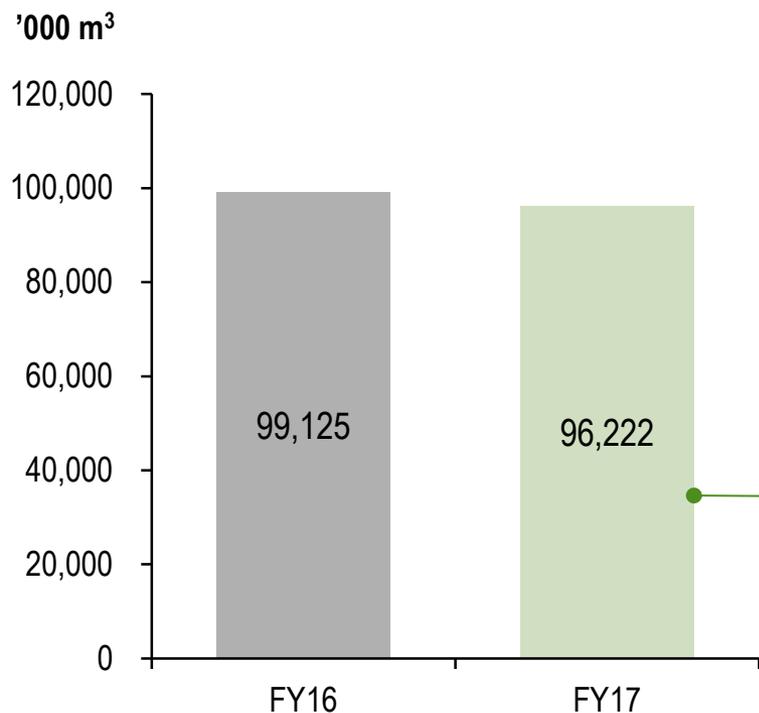
	FY16	FY17	Change
Connectable Population ('000)*	10,652	11,885	+11.6%
Household Penetration Rate*	60.6%	63.6%	+3.0p.p.
Total Existing Intermediate & Main Pipelines (km)	10,538	12,342	+17.1%

* Organic growth in the number of residential households in the operation regions

Turnover Analysis: CNG/LNG Vehicle Filling Stations



Sales Volume Slightly decreased by 2.9%yoy



Decrease in sales volume due to:

- Price of crude oil remained relatively low in 2017, discouraging the use of natural gas for vehicles

Average Selling Price

RMB per m ³	FY16	FY17	Change
CNG/LNG Filling Stations	2.92	2.97	+1.7%

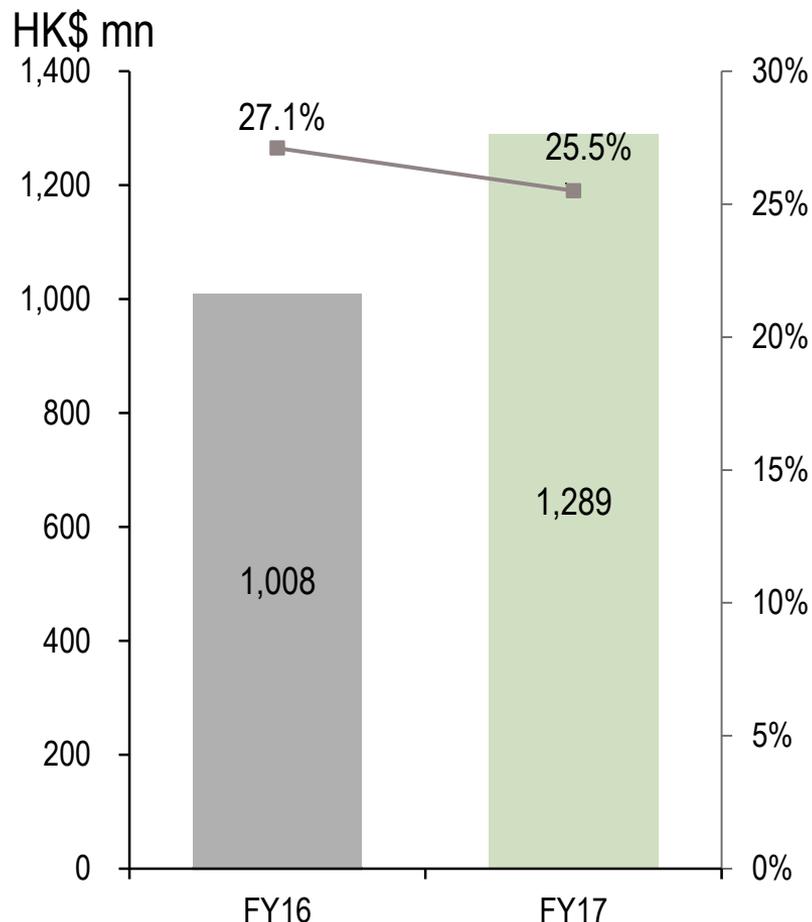
No. of CNG/LNG vehicle filling stations

Unit	FY16	FY17	Change
CNG/LNG Vehicle Filling Stations	60	63	+3

Gross Profit and Gross Profit Margin Analysis



Gross Profit and Gross Profit Margin



Gross Margins of Major Business Segments

	FY16	FY17	Change
Sales of Piped Natural Gas	17.3%	12.0%	-5.3p.p.
Gas Pipeline Construction & Connection	64.1%	69.7%	+5.6p.p.
Operation of CNG/LNG Vehicle Filling Stations	6.3%	4.1%	-2.2p.p.

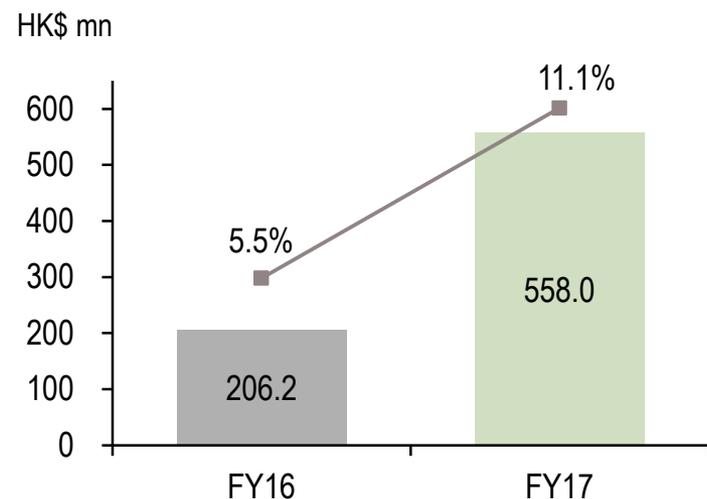
- Decrease in gross margin for piped natural gas and operation of CNG/ LNG vehicle filling stations due to limited supply of natural gas and hence increased average cost in the second half of 2017
- Increase in gross margin for gas pipeline construction & Connection due to cost reduction after integration and improvement of design, material procurement and construction processes.

Net Profit and Margin Analysis



Net Profit and Margin

HK\$ mn	FY16	FY17	Change
Profit attributable to owners of the Company	206.2	558.0	+170.7%



The increase in net profit was mainly due to:

- A significant gain in turnover
- The appreciation of Renminbi that led to a significant foreign exchange gain on the Group's bank borrowings denominated in United States dollars

Key Expenses

% of Turnover	FY16	FY17	Change
Selling and Distribution Costs	2.4%	2.2%	-0.2p.p.
Administrative Expenses	7.4%	6.2%	-1.2p.p.
Finance Costs	6.8%	4.8%	-2.0p.p.
Effective Tax Rate	64.9% of profit before tax	30.4% of profit before tax	-34.5p.p



Financial Positions

HK\$ '000	As of 31 Dec 2016	As of 31 Dec 2017	Change
Property, Plant and Equipment	5,625,852	7,124,176	+26.6%
Total Assets	9,623,663	11,800,731	+22.6%
Bank Balances and Cash and Pledged Bank Deposit	779,515	464,347	-40.4%
Borrowings and Obligations under Finance Lease	4,424,525	5,705,741	+29.0%
Shareholder's Equity	2,553,206	3,173,952	+24.3%
Net Gearing Ratio	1.30	1.41	+8.5%
Current Ratio	0.6	0.5	-16.7%

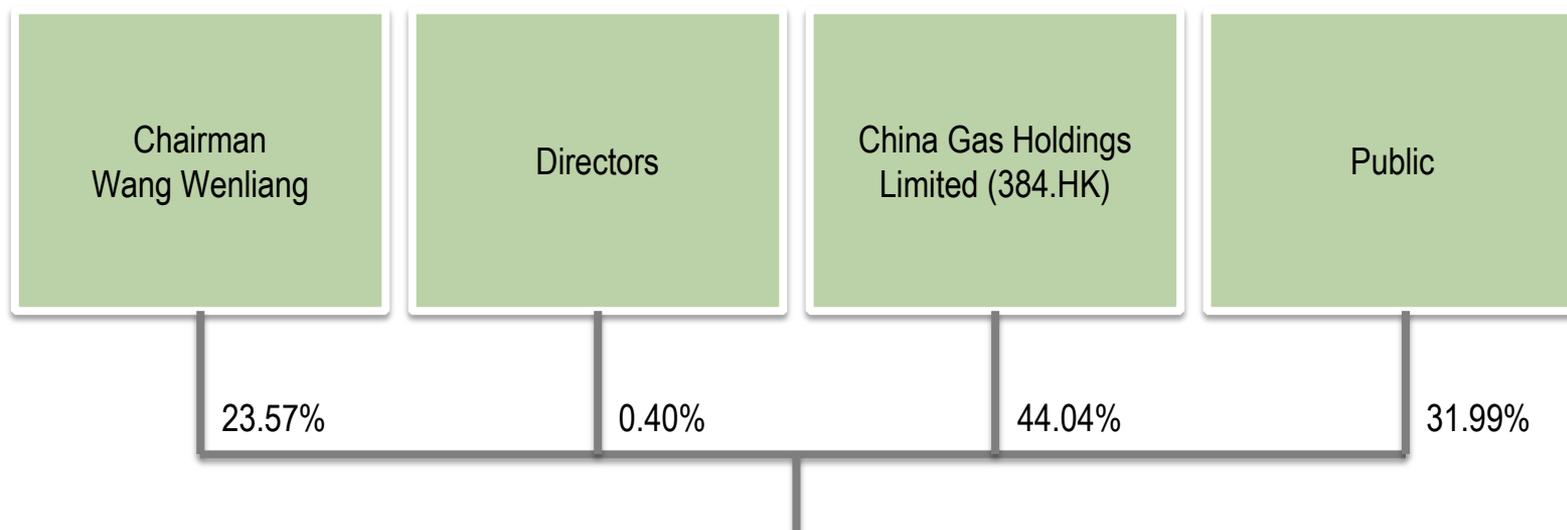
Operating Cash Flows, Inventory, Receivable And Payable Turnover Days

HK\$ '000	FY16	FY17	Change
Inventory Turnover Days	14 days	20 days	+6 days
Average Trade Receivable Turnover Days	33 days	37 days	+4 days
Average Trade Payable Turnover Days	79 days	63 days	-16 days

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Appendix

Shareholding Structure



Number of issued shares (as at 17 April 2018): 2,525,007,684 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

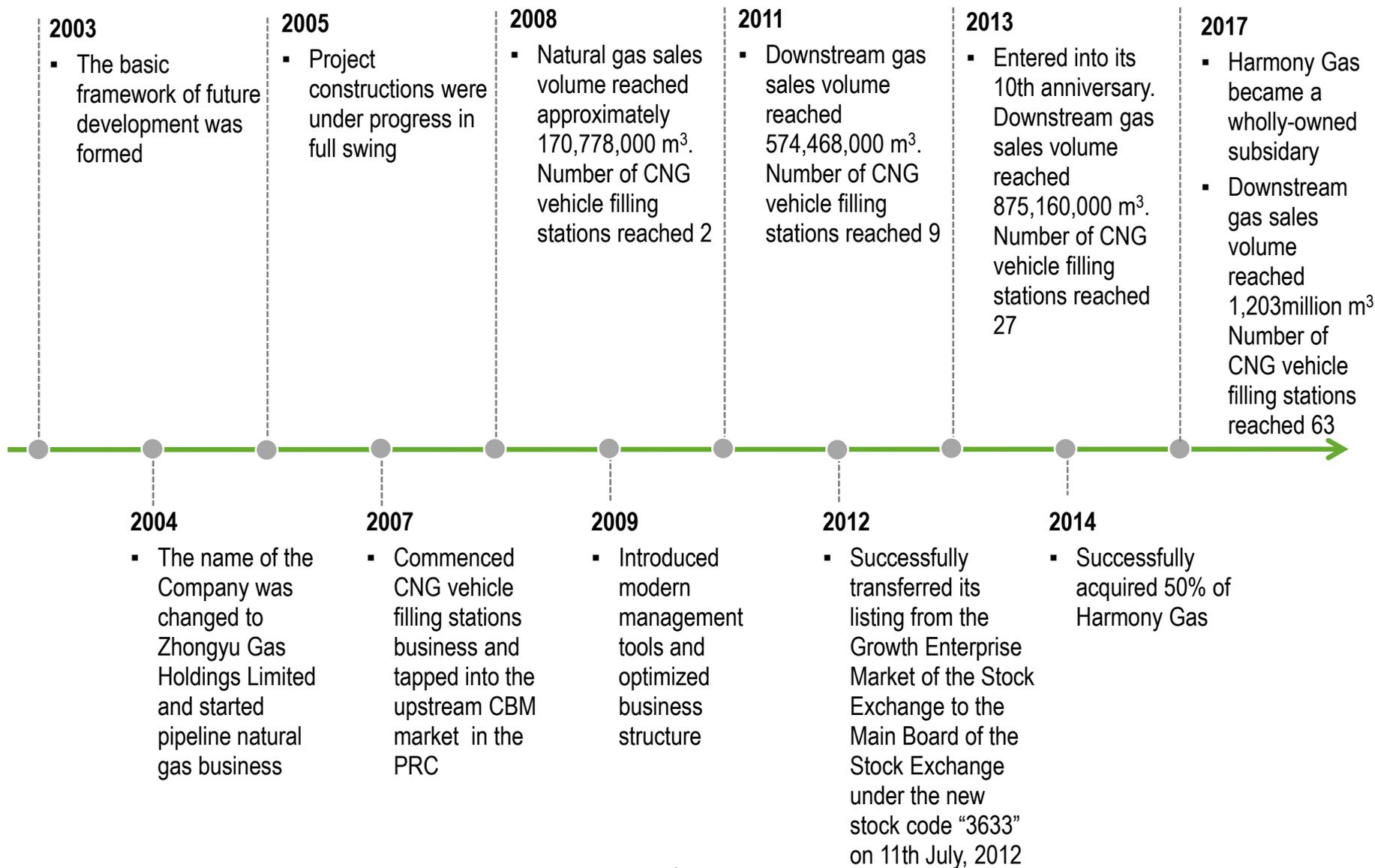
- Responsible for the general business operations and management as well as the financial, financing and investor relations activities
- Over 20 years experience in corporate finance, accounting and auditing. Associate member of the Hong Kong Institute of Certified Public Accountants



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

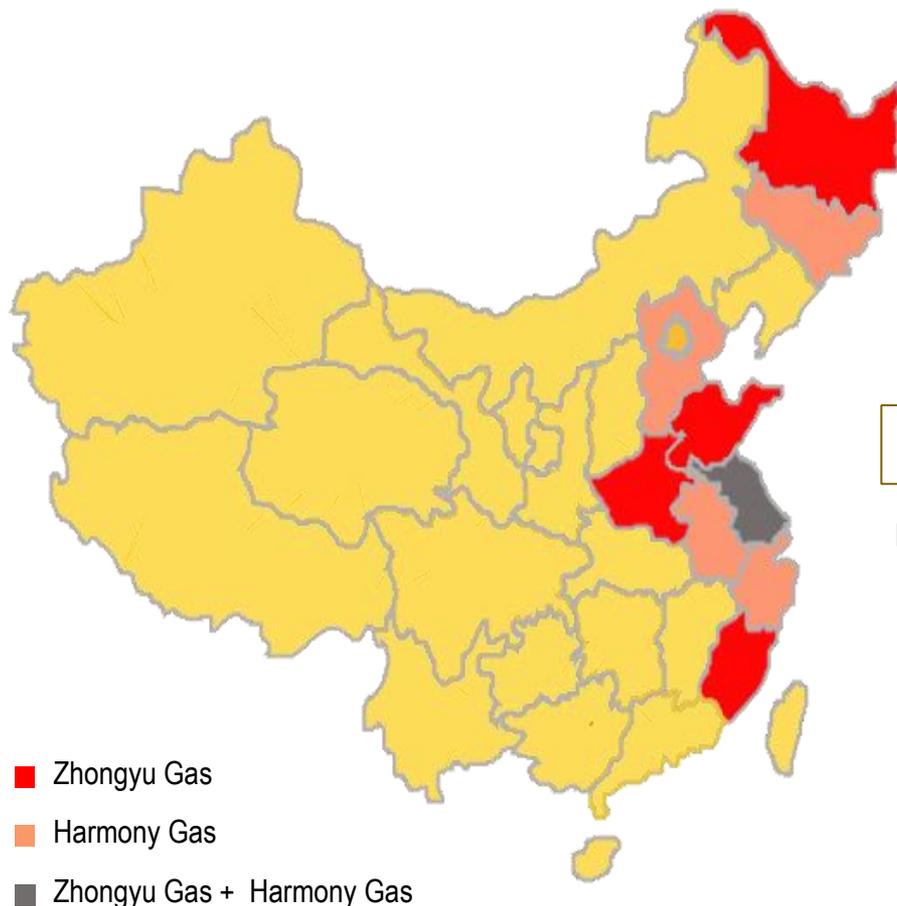


Completed Acquisition – Harmony Gas



Completed acquisition of 38.7% equity in Harmony Gas in July 2017 and Zhongyu Gas now owns 100% of Harmony Gas.

Broadened Coverage in the PRC



Before the acquisition

As of 31 Dec 2014, Zhongyu had a total of 30 operational locations in:

- 1) Henan Province
- 2) Shandong Province
- 3) Jiangsu Province
- 4) Fujian Province
- 5) Heilongjiang Province
- 6) Zhejiang Province

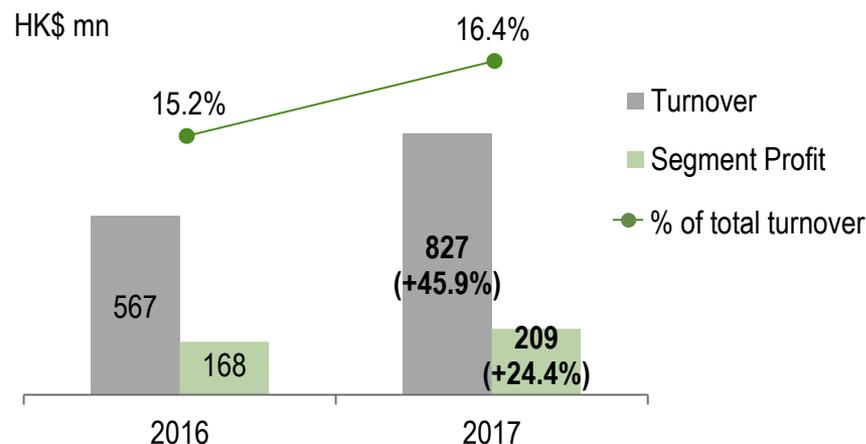


After the acquisition

Zhongyu's operation has been expanded to:

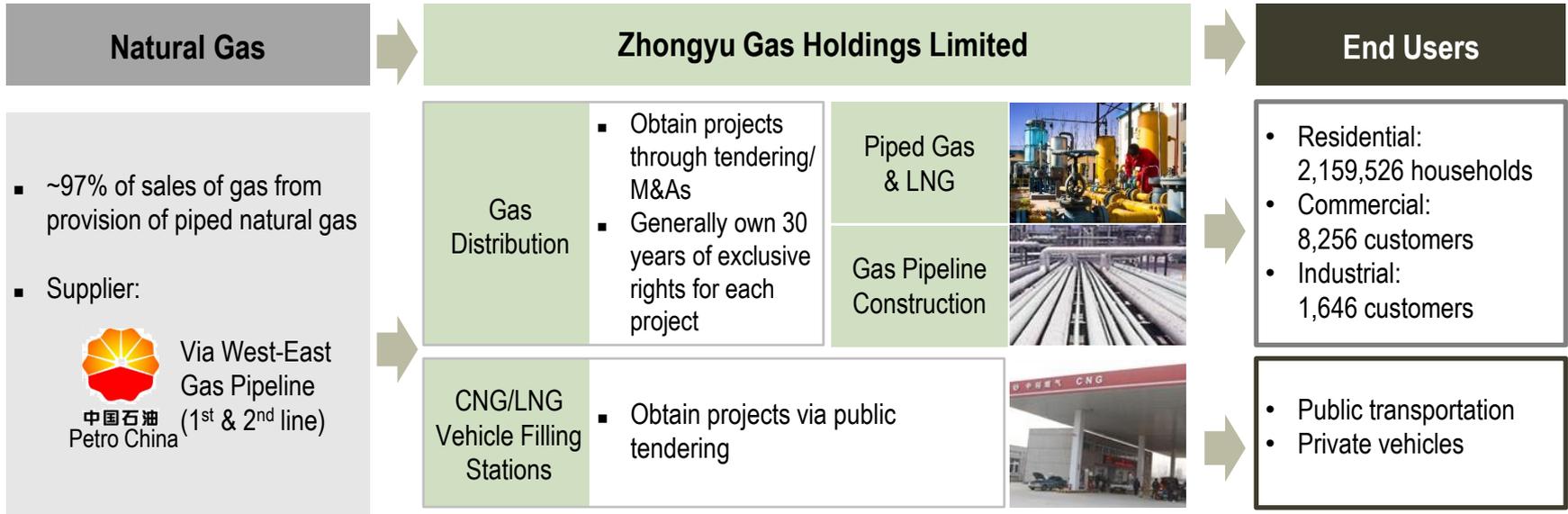
- 1) Uncovered areas in Jiangsu Province
- 2) Hebei Province
- 3) Anhui Province
- 4) Jilin Province
- 5) Beijing

Contribution of Harmony Gas

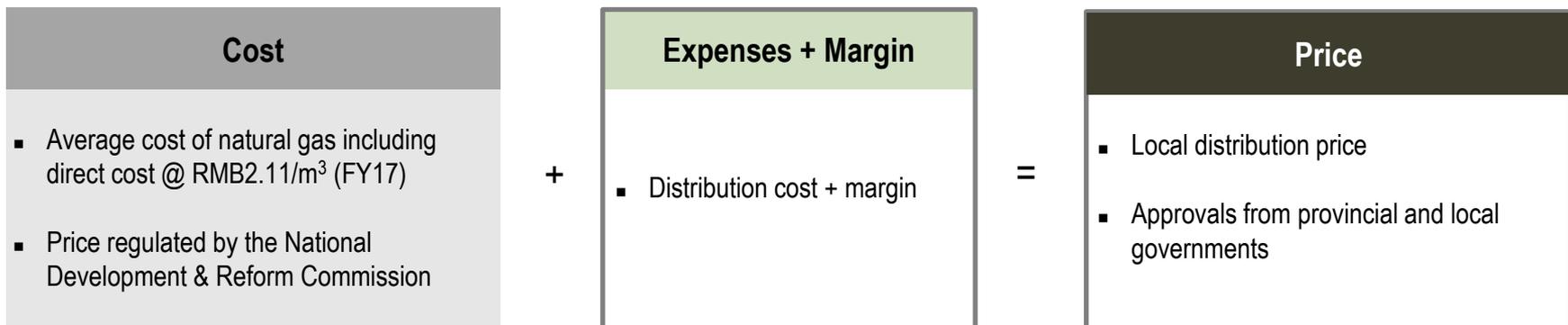




Straight-forward business and pricing model for visible profitability



Pricing model



Thank you

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