

## Company Report: Beijing Enterprises Holdings (00392 HK)

公司报告: 北京控股 (00392 HK)

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# All Business Resumed as Normal, Maintain "Accumulate"

所有业务恢复正常, 维持“收集”评级

- The 2020 annual results of the Company were lower than market consensus and our estimations, mainly due to negative impact from the COVID-19 pandemic. Total revenue of the Company increased 0.9% yoy to HK\$68.41 billion, but net profit attributable to shareholders decreased 34.4% yoy to HK\$5.29 billion.
- We expect total sales of natural gas of the Company to increase by 0%-5% in 2021. We believe that the Company's sales of natural gas will continue to benefit from favorable policy environments and its growing city-gas projects, which remain unchanged.
- We expect gas dollar margin of the Company to be stable in 2021. We expect natural gas supply situation to be sufficient in 2021 and gas procurement cost of natural gas to be stable.
- We expect water business to resume fast growth speed in 2021, and beer business is also expected to resume normal growth speed.
- Revise up the TP to HK\$28.54, and maintain "Accumulate".
- 由于新冠病毒疫情的负面影响, 公司 2020 年年度业绩低于市场一致预期和我们的估计。公司收入同比增长 0.9% 至港币 684.1 亿元, 股东净利同比减少 34.4% 至港币 52.9 亿元。
- 我们预计公司的天然气销量在 2021 年增长 0%-5%。我们相信公司的天然气销售将继续受益于优惠的政策环境和不断增长的燃气项目, 这些保持不变。
- 我们预计公司的销气价差在 2021 年保持稳定。我们预计 2021 年天然气的供应充足且天然气的采购成本稳定。
- 我们预计 2021 年水务业务将恢复快速增长, 且啤酒业务预计将恢复正常增速。
- 上调目标价至 28.54 港元, 维持“收集”评级。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$28.54**

Revised from 原目标价:

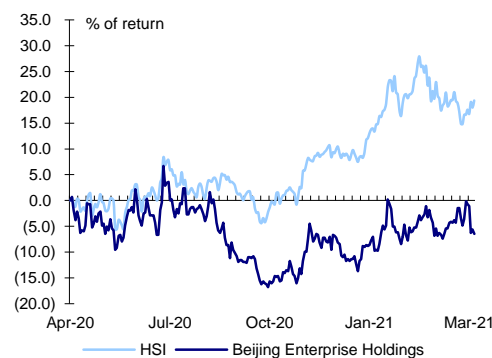
HK\$27.50

Share price 股价:

HK\$25.950

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	1.0	3.4	(6.5)
Rel. % to HS Index 相对恒指变动 %	0.2	(0.7)	(25.9)
Avg. share price (HK\$) 平均股价 (港元)	26.6	26.4	26.0

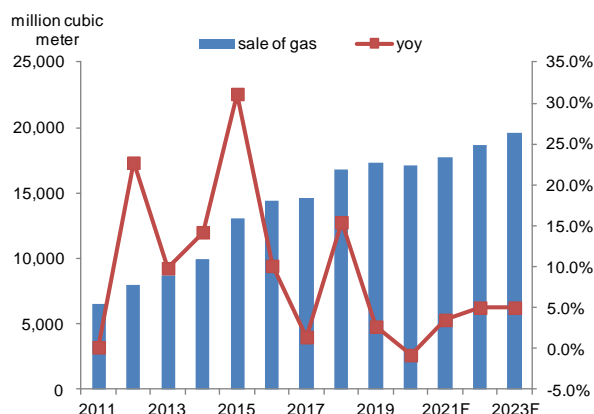
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$ Cent)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2019A	67,783	8,055	6.382	6.3	4.1	59.650	0.4	1.140	4.4	11.1
2020A	68,407	5,287	4.189	(34.4)	6.2	67.269	0.4	1.140	4.4	6.6
2021F	74,403	6,684	5.296	26.4	4.9	71.612	0.4	0.953	3.7	7.6
2022F	78,525	7,225	5.724	8.1	4.5	76.306	0.3	1.030	4.0	7.7
2023F	82,884	7,779	6.164	7.7	4.2	81.360	0.3	1.109	4.3	7.8
Shares in issue (m) 总股数 (m)				1,262.1	Major shareholder 大股东				BEH Group 54.5%	
Market cap. (HK\$ m) 市值 (HK\$ m)				32,751.5	Free float (%) 自由流通比率 (%)				45.5%	
3 month average vol. 3 个月平均成交股数 ('000)				2,916.5	FY21 Net gearing (%) FY21 净负债/股东资金 (%)				49.2%	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				30.800 / 23.100	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)				39.6	

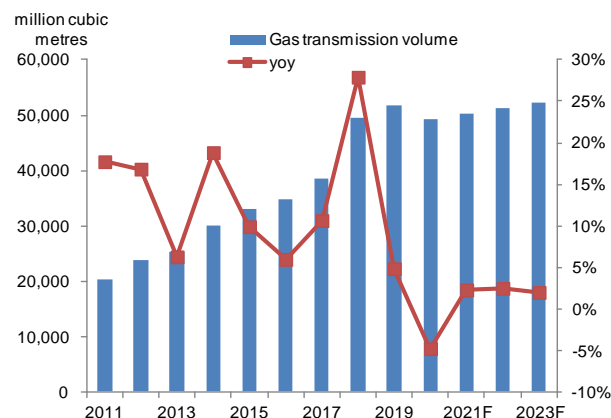
Source: the Company, Guotai Junan International.

**The 2020 annual results of Beijing Enterprises Holdings (the "Company") were lower than market consensus and our estimations, mainly due to negative impact from the COVID-19 pandemic.** Total revenue of the Company increased 0.9% yoy to HK\$68.41 billion, but net profit attributable to shareholders decreased 34.4% yoy to HK\$5.29 billion. Gas distribution business, beer business, water business and solid waste treatment business contributed HK\$5.22 billion, HK\$0.16 billion, HK\$1.72 billion and HK\$ -0.07 billion in operating profit, respectively, representing 74.3%, 2.3%, 24.5% and -1.1% of total operating profit. Total sales of piped gas decreased 0.8% yoy to 17.07 billion m<sup>3</sup> and gas transporting volume decreased by 4.9% yoy to 49.33 billion m<sup>3</sup>. Profit contributed by China Gas (00384 HK) increased by 3.9% to HK\$2.20 billion. The beer business was adversely impacted by the COVID-19 pandemic and contributed HK\$159 million profit. Water business was also adversely impacted and profit contributed by water business decreased by 15.1% to HK\$1.72 billion. Solid waste treatment business accomplished waste treatment volume of 4.81 million tons by its overseas subsidiary and 4.68 million tons domestically.

**We expect total sales of natural gas of the Company to increase by 0%-5% in 2021.** Sales of natural gas of the Company declined slightly in 2020 mainly due to a warm winter and less consumption demand from power-generating plants. The impact from the COVID-19 pandemic to the Company was limited due to its unique customer mix. Natural gas consumed by industrial and commercial customers only accounted less than 1% of the total. Gas consumed by power-generating plants, residential customers and heating centers accounted about 97% of the Company's total gas consumption. We expect the Company's gas sales to grow moderately in 2021. We believe that the Company's sales of natural gas will continue to benefit from favorable policy environments and its growing city-gas projects, which remain unchanged. The need to adjust energy consumption structure will drive natural gas consumption in the long term. Both the central government and local governments plan to develop natural gas into one of the major types of energy in China's modern clean energy system, and has maintained its target unchanged till now. On the other hand, environmental protection pressure will also drive natural gas consumption. All the favorable policies for natural gas consumption and the setting of targets by governments remain unchanged; we expect "coal-to-gas conversion" and similar policies to continue to strongly drive gas consumption in China. We expect China's natural gas consumption to resume growth speed in 2021. Although Beijing is a fully developed area, the Company still benefited from more consumption demand from the commercial sector and more "coal to gas" projects. We expect total sales of piped gas of the Company to remain steady and maintain moderate growth in 2021-2023 as gas fired cogeneration power plants are reaching full capacity and since there are more "coal to gas" projects. We expect total sales of natural gas of the Company to increase by 0%-5% in 2021. Total gas transporting volume of Petro China Beijing Pipeline Co. decreased by 5% in 2020, mainly due to the impact from the COVID-19 pandemic. Petro China Beijing Pipeline operates Shanxi-Beijing gas transmission lines, which connects the gas production region of Shanxi to Beijing, Shandong, Hebei and other provinces. We expect gas transporting volume to resume growth in 2021 due to strong consumption demand. The transporting pipelines have already reached designed capacity and is only expected to grow slightly in the future.

**Figure-1: Sales of Natural Gas of Beijing Enterprises**


Source: the Company, Guotai Junan International.

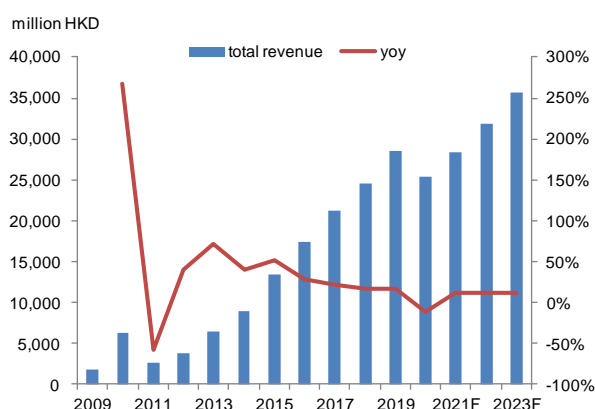
**Figure-2: Gas Transmission Volume of the JV**


Source: the Company, Guotai Junan International.

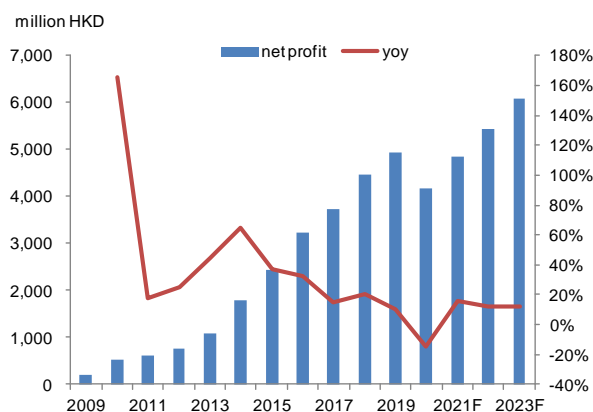
**We expect gas dollar margin of the Company to be stable in 2021.** We expect gas dollar margin of gas distribution companies to be more stable under the new price mechanism and will mainly be impacted by unexpected factors. Gas dollar margin of the Company declined slightly in 2020 mainly due to delayed impact of the adjustment of gas price by the Beijing government last year. We expect gas dollar margin of the Company to be stable in 2021. We expect the setup of National Petroleum and Natural Gas Pipe Network Group to be helpful in reducing gas transporting costs, and thus lead to lower gas procurement costs. The Company constructed LNG storage facility in Tangshan LNG terminal and plans to import LNG to

lower its gas procurement costs. We expect natural gas supply situation to be sufficient in 2021 and gas procurement cost of natural gas to be stable. We expect gas dollar margin of the Company to be stable in 2021.

**We expect net profit growth rate of water business to resume fast growth in 2021, and beer business is also expected to resume normal growth speed.** Total revenue of Beijing Enterprises Water Group in 2020 decreased by 10.0% yoy to HK\$25.36 billion, and net profit of water business of the Company decreased 15.2% yoy to HK\$4.18 billion. The decline in water business was mainly attributed to the COVID-19 pandemic, as revenue from the construction of water environment treatment projects dropped. We expect water business of the Company to resume growth in 2021 and to maintain double-digit growth in the next 3 years. Beer business was severely impacted by the COVID-19 pandemic and sales of beers decreased by 7.3% yoy. We expect the Company to continue to improve its product mix of beer business and the profitability of beer business is expected to improve in 2021. We expect profit contributed by beer business to grow moderately in 2021. The Company is expected to expand its domestic solid waste treatment capacity steadily. The operation of German EEW is expected to be stable and domestic solid waste business is expected to grow steadily in 2021. We expect net profit contributed by solid waste treatment business to record net profit without impact of asset impairment.

**Figure-3: Total Revenue of Beijing Enterprises Water**


Source: the Company, Guotai Junan International.

**Figure-4: Net Profit of Beijing Enterprises Water**


Source: the Company, Guotai Junan International.

**Revise up the TP to HK\$28.54, and maintain "Accumulate".** Beijing Enterprises Holdings is an integrated public utilities company and also engages in beer business. The company focuses on public utilities business, which mainly includes gas distribution business and municipal water operation. Gas business constituted the largest part of revenue and operating profit of the Company. We expect total sales of piped gas of the Company to maintain steady growth over the next 3 years, and gas dollar margin is also expected to remain at a steady level under the new pricing mechanism. We expect total sales of gas of the Company to grow moderately in 2021. Profit contributed by China Gas is also expected to grow at a fast speed due to faster natural gas sales and connection revenue. We expect profit contributed by water business of the Company to resume fast growth after the impact from the COVID-19 pandemic disappears in 2021, and expect it to resume double-digit growth in 2022-2023 as more capacity is put into operation. We expect product mix of beer business of to continue to improve in 2021, which will improve the profitability of beer business. Besides, solid waste treatment business of the Company is also expected to grow steadily in 2021. The profitability of the Company is expected to resume to normal levels after the COVID-19 pandemic, and we expect all the businesses to resume growth in 2021-2022. Besides, the PE valuation level of the Company is very attractive. Hence, we have revised up the TP of the Company to HK\$28.54, which is equivalent to 5.4x FY21 PE, and maintain "Accumulate".

**Table-1: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				20A	21F	22F	23F	20A	21F	22F	23F	21F
Gas Distributors												
Kunlun Energy Co Ltd	00135 HK	HK\$	4.36	5.5	4.3	6.0	5.3	0.6	0.6	0.5	0.5	11.9
Beijing Enterprises Hldgs	00392 HK	HK\$	25.95	6.2	4.1	3.7	3.5	0.4	0.4	0.3	0.3	9.5
China Gas Holdings Ltd	00384 HK	HK\$	23.10	13.1	11.0	9.6	8.5	3.0	2.5	2.1	1.8	23.9
Enn Energy Holdings Ltd	02688 HK	HK\$	77.90	12.4	10.2	9.0	7.9	2.4	2.1	1.8	1.5	21.4
China Resources Gas Group Lt	01193 HK	HK\$	41.65	18.0	16.0	14.6	13.1	2.7	2.5	2.3	2.0	16.3
Towngas China Co Ltd	01083 HK	HK\$	3.48	7.0	6.2	5.8	5.1	0.5	0.5	0.5	0.5	7.9
Simple Average				10.4	8.6	8.1	7.2	1.6	1.4	1.3	1.1	15.1
Weighted Average				12.6	10.6	9.7	8.6	2.3	2.0	1.7	1.5	18.6
Beer												
China Resources Enterprise	00291 HK	HK\$	35.15	48.1	26.8	21.1	17.5	4.5	4.1	3.6	3.2	14.7
Tsingtao Brewery Co Ltd-H	00168 HK	HK\$	43.75	23.9	19.3	16.9	15.5	2.4	2.2	2.0	2.0	12.0
Beijing Enterprises Hldgs	00392 HK	HK\$	25.95	6.2	4.1	3.7	3.5	0.4	0.4	0.3	0.3	9.5
San Miguel Brewery Hk Ltd	00236 HK	HK\$	0.74	14.8	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.
Simple Average				23.2	16.7	13.9	12.2	2.0	2.2	2.0	1.8	12.1
Weighted Average				34.2	21.0	17.1	14.7	3.2	2.9	2.6	2.4	13.1
Water Treatment												
Beijing Enterprises Water Gr	371 HK	HK\$	2.97	7.1	6.1	5.7	5.5	0.9	0.8	0.7	0.6	12.8
Guangdong Investment Ltd	270 HK	HK\$	15.74	22.8	18.2	17.0	17.7	2.3	2.3	2.2	2.0	12.6
China Everbright Intl Ltd	257 HK	HK\$	4.35	4.4	3.8	3.6	3.4	0.6	0.6	0.5	0.4	14.9
Tianjin Capital Environ-H	1065 HK	HK\$	2.37	5.3	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.
China Water Affairs Group	855 HK	HK\$	5.98	5.9	5.6	4.9	4.4	1.1	1.0	0.9	0.8	19.5
Ct Environmental Group Ltd	1363 HK	HK\$	0.34	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yunnan Water Investment -H	6839 HK	HK\$	1.44	6.8	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.
Kunming Dianchi Water Trea-H	3768 HK	HK\$	1.84	4.8	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.
Kangda International Environ	6136 HK	HK\$	0.77	3.1	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.
Simple Average				7.5	8.5	7.8	7.7	0.8	1.2	1.1	1.0	14.9
Weighted Average				18.8	15.5	14.5	14.9	1.9	2.0	1.9	1.7	12.6

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F
Total Revenue	67,783	68,407	74,403	78,525	82,884
COGS	(56,837)	(57,543)	(63,249)	(66,613)	(70,246)
Gross profit	10,946	10,865	11,154	11,912	12,637
G&A expenses	(6,913)	(6,752)	(7,366)	(7,774)	(8,205)
Operating Profit	4,033	4,113	3,788	4,138	4,432
Other Income and Expenses	747	(437)	(676)	(912)	(1,145)
Finance Costs	(2,195)	(1,998)	(2,013)	(2,078)	(2,140)
Profits from JV and Asso.	7,011	4,975	6,721	7,304	7,955
Profit Before Tax	9,596	6,653	7,820	8,453	9,101
Income Tax	(1,022)	(1,007)	(821)	(888)	(956)
profit After Tax	8,574	5,646	6,999	7,565	8,146
Non-controlling Interest	(519)	(360)	(315)	(340)	(367)
Shareholders' Profit / Loss	8,055	5,287	6,684	7,225	7,779
Basic EPS	6.382	4.189	5.296	5.724	6.164

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F
Profit before tax	9,596	6,653	7,820	8,453	9,101
Income tax	(1,046)	(1,007)	(821)	(888)	(956)
Financial costs	2,195	1,998	2,013	2,078	2,140
Adjust for depre.&amort.	3,923	3,477	3,692	3,998	4,312
Change in WC	(669)	242	(5,951)	518	549
Adjust of Profit from JV and Asso.	(7,011)	(2,992)	(4,039)	(4,389)	(4,778)
Others	(777)	(2,248)	(2,360)	(2,478)	(2,602)
Cash from Operating Activities	6,530	6,124	354	7,292	7,765
Capital expenditure	(4,257)	(8,335)	(8,752)	(9,189)	(9,649)
Investment in JV and associates	(1,216)	(3,802)	(3,069)	(3,222)	(3,383)
Disposal of assets	0	0	0	0	0
Others	(223)	181	168	157	146
Cash from Investing Activities	(753)	(11,956)	(11,652)	(12,255)	(12,886)
Issue of guaranteed notes	0	593	3,644	1,690	1,787
Net bank borrowings	2,892	4,042	(3,872)	120	(120)
Interest paid	(2,485)	(1,998)	(2,013)	(2,078)	(2,140)
Dividend paid	(1,737)	(1,439)	(1,203)	(1,300)	(1,400)
Others	0	11,597	4,964	7,603	8,127
Cash from Financing Activities	(1,330)	12,796	1,520	6,035	6,254
Net Changes in Cash	4,447	6,964	(9,778)	1,072	1,133
Cash at Beg of Year	17,909	22,159	29,122	19,345	20,416
Foreign exchange rate changes	(335)	0	0	0	0
Cash at End of Year	22,159	29,122	19,345	20,416	21,550

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F
PPE	51,899	55,911	59,665	64,356	69,193
Goodwill	16,332	16,762	16,427	16,098	15,776
Investment in JV and Asso.	57,573	61,375	64,443	67,666	71,049
Other receivables	938	1,889	1,927	1,965	2,005
Other investments	0	0	0	0	0
Others	12,308	13,599	14,009	14,435	14,877
Total Non-current Assets	148,177	158,008	162,192	170,332	178,804
Cash & Cash Equivalents	22,159	29,122	19,345	20,416	21,550
Inventories	5,189	5,144	5,580	5,889	6,216
Trade receivables	6,029	6,771	5,431	5,732	6,050
Other receivables	3,639	4,744	5,803	6,125	6,465
Others	528	917	702	727	755
Total Current Assets	37,629	46,797	36,862	38,890	41,036
Total Assets	185,806	204,804	199,054	209,223	219,841
Trade payables	4,508	4,700	3,720	3,926	4,144
Receipts in advance	0	0	8,184	8,638	9,117
Other payables	22,591	25,647	12,553	13,241	13,968
Bank borrowings	7,361	15,398	15,440	14,571	13,405
Others	0	0	0	0	0
Total Current Liabilities	39,048	50,528	39,898	40,376	40,634
Bank borrowings	25,765	21,771	17,857	18,846	19,892
Guaranteed notes	26,268	26,861	30,505	32,195	33,982
Other liabilities	1,823	1,954	2,052	2,155	2,262
Deferred tax liabilities	2,576	2,654	2,787	2,926	3,073
Others	2,626	3,002	3,152	3,309	3,475
Total Non-current Liabilities	59,743	56,851	56,353	59,431	62,684
Total Liabilities	98,791	107,379	96,251	99,807	103,318
Total Shareholders' Equity	75,282	84,897	90,378	96,302	102,681
Minority Interest	11,733	12,529	12,425	13,114	13,842
Total Equity	87,015	97,426	102,803	109,416	116,523

Financial Ratios					
Year end 31 Dec	2019A	2020A	2021F	2022F	2023F
Gross margin	16.1%	15.9%	15.0%	15.2%	15.2%
Net margin	11.9%	7.7%	9.0%	9.2%	9.4%
ROE	11.1%	6.6%	7.6%	7.7%	7.8%
ROA	4.6%	2.8%	3.5%	3.6%	3.7%
Free CF	1,056	-6,013	-11,466	-5,120	-5,267
Net gearing	49.5%	41.1%	49.2%	46.9%	44.5%

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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