

## Company Report: ENN Energy (02688 HK)

公司报告: 新奥能源 (02688 HK)

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# Gas Sales Not Impacted, Maintain "Accumulate"

天然气销售未受影响, 维持“收集”评级

- **ENN's sale of gas in 2020 was only slightly impacted by the COVID-19 pandemic.** The Company's sale of gas resumed fast growth speed in the 3<sup>rd</sup> quarter of 2020.
- **Maintain gas sales assumptions of the Company unchanged.** We expect the Company's total retail sales of natural gas to increase by about 10% in 2020 and to increase by 10%-15% in 2021.
- **Maintain gas dollar margin assumptions unchanged.** Gas dollar margin of the Company improved slightly in 2020 due to lower gas procurement costs. We expect natural gas supply status in China to be stable in 2021.
- **Maintain connection business assumptions unchanged.** The resumption of connection business in the 2<sup>nd</sup> half of 2020 was in line with our expectation, so we maintain connection service assumptions unchanged.
- **Revise up the TP of the Company to HK\$126.50, and maintain "Accumulate".**
- **新奥 2020 年的天然气销售只受到新冠疫情的轻微影响。** 公司的天然气销售在 2020 年三季度恢复了快速增长。
- **维持公司销气量假设不变。** 我们预计公司 2020 年的零售天然气销量将增长 10% 左右, 在 2021 年增长 10%-15%。
- **维持销气价差假设不变。** 由于更低的天然气采购成本, 公司销气价差在 2020 年小幅改善。我们预计 2021 年中国的天然气供应状况将保持稳定。
- **维持接驳业务假设不变。** 接驳业务在 2020 年下半年的恢复状况与我们的预期一致, 因此我们维持接驳业务假设不变。
- **上调公司目标价至 126.50 港元, 维持“收集”评级。**

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$126.50**

Revised from 原目标价:

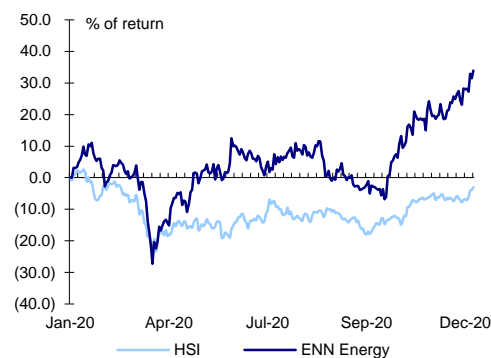
HK\$95.80

Share price 股价:

HK\$115.200

## 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 %	10.3	37.1	33.6
Rel. % to HS Index 相对恒指变动 %	6.6	50.0	51.4
Avg. Share price(HK\$) 平均股价 (港元)	6.2	5.5	4.4

Source: Bloomberg, Guotai Junan International.

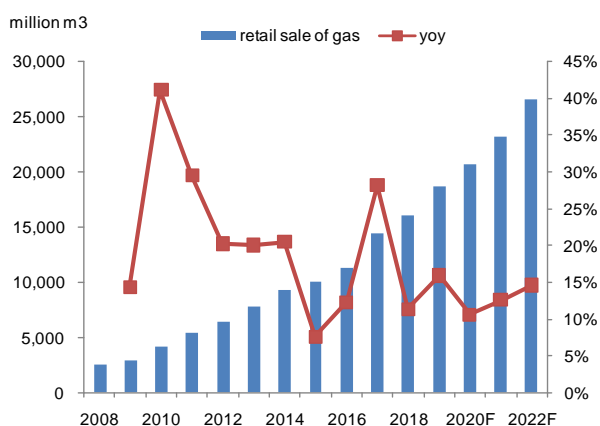
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	60,698	2,818	2.560	(1.2)	39.5	23.239	4.4	1.040	1.0	14.7
2019A	70,183	5,670	5.049	97.2	20.4	27.622	3.7	1.190	1.2	24.0
2020F	79,541	6,186	5.508	9.1	17.7	31.662	3.1	1.928	2.0	22.2
2021F	88,882	6,687	5.955	8.1	16.4	36.037	2.7	2.084	2.1	20.9
2022F	100,092	7,434	6.619	11.2	14.7	40.894	2.4	2.317	2.4	20.3
Shares in issue (m) 总股数 (m)				1,123.0	Major shareholder 大股东				Mr Wang 30.1%	
Market cap. (HK\$ m) 市值 (HK\$ m)				129,369.6	Free float (%) 自由流通比率 (%)				69.9%	
3 month average vol. 3 个月平均成交股数 ('000)				2,188.0	FY21 Net gearing (%) FY21 净负债/股东资金 (%)				20.0	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				117.300 / 60.450	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)				139.6	

Source: the Company, Guotai Junan International.

**ENN's sales of gas was only slightly impacted by the COVID-19 pandemic in 2020.** In the 1<sup>st</sup> half of 2020, total retail sales of gas of the Company only increased by 4.0% yoy to 10.16 billion m<sup>3</sup>, which was a much slower growth speed, mainly due to the lockdown during the COVID-19 pandemic period. However, China's industrial production and exports had resumed fast since the 3<sup>rd</sup> quarter, because the pandemic was successfully contained in China while it has remained out of control in other countries. China's export growth speed was faster than our estimation as part of production capacity had shifted to China due to the pandemic. As a result, the Company's sales of gas also resumed fast growth speed in the 3<sup>rd</sup> quarter. According to the Company, gas consumed by industrial and commercial customers increased by 21.2% yoy to 4.035 billion m<sup>3</sup> in the 3<sup>rd</sup> quarter; gas consumed by residential customers increased by 14.0% yoy to 0.562 billion m<sup>3</sup>, but gas consumed by gas refilling station decreased by 8.7% yoy to 0.273 billion m<sup>3</sup>. Total retail sale of natural gas in the first 3 quarters increased by 8.2% yoy to 15.032 billion m<sup>3</sup> and total sale of gas increased by 9.0% to 20.77 billion m<sup>3</sup>.

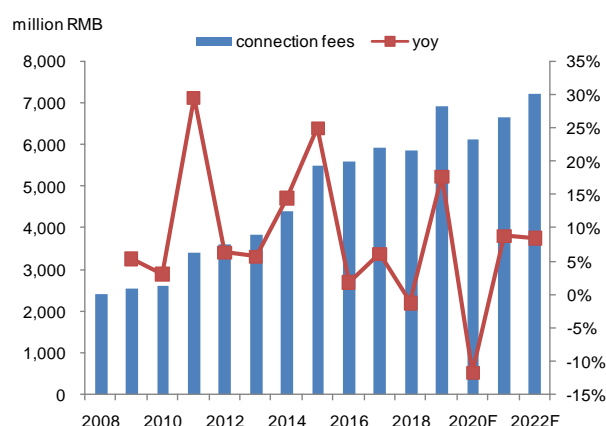
**Maintain gas sales assumptions of the Company unchanged.** We expect the Company' total retail sales of natural gas to increase by about 10% in 2020 and to increase by 10%-15% in 2021. The negative impact of the COVID-19 pandemic to the Company has been limited and natural gas consumed by industrial customers has fully resumed since June. In the 3<sup>rd</sup> quarter, gas consumed by industrial and commercial customers recorded a very fast growth speed, which reflected that industrial production had fully resumed to normal. The management of the Company is confident that total sales of gas is expected to record double-digit growth in 2020. We believe that ENN's sales of natural gas will continue to benefit from a favorable policy environment 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. Natural gas currently only accounts for around 8% of total energy consumption in China, which is much lower than the 2020 10% target and the 15%-20% target 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. The adverse impact of the COVID-19 pandemic to China's natural gas diminished gradually since the 2<sup>nd</sup> half of 2020 and ENN Energy was less impacted. We expect China's natural gas consumption growth speed to resume gradually in 2021 and to maintain a fast growth speed in the next 5 years. We maintain gas sales assumptions of the Company unchanged.

**Figure-1: Total Retail Sales of Gas**



Source: the Company, Guotai Junan International.

**Figure-2: Connection Fees of ENN Energy**



Source: the Company, Guotai Junan International.

**Maintain gas dollar margin assumptions unchanged.** Gas dollar margin of the Company improved slightly in 1H20 and is expected to remain stable in 2H20. The improvement in gas dollar margin was mainly attributed to lower gas procurement costs. The setup of National Petroleum and Natural Gas Pipe Network Group has been very helpful to reduce gas transporting costs, and thus lead to lower gas procurement costs. Besides, gas distribution companies are also able to choose among several gas resources and pick up gas suppliers with lower gas price. The Company imported about 1.08 million tons of LNG in the 1<sup>st</sup> half of 2020 and part of this LNG was sold through its pipeline. There is a supply glut in global LNG market and the price of LNG remained at low level in 2020. As a result, the Company's average procurement costs of gas declined slightly. We expect natural gas supply status to be stable in 2H20 and procurement costs of natural gas of the Company are expected to be stable. Hence, we maintain gas dollar margin assumptions unchanged. We expect gas dollar margin of gas distribution companies to be more stable under the new price mechanism.

**Maintain connection service assumptions unchanged.** The Company plans to connect about 2.5 million new residential customers in 2020. However, the Company only connected about 1.02 million new residential customers in 1H20, which was 20.4% lower comparing the same period last year. The normal connection activities of the Company were severely impacted by the outbreak of COVID-19, especially in the 1<sup>st</sup> quarter of 2020. The connection activities of the Company resumed gradually from April as the COVID-19 pandemic was successfully taken under control by the Chinese government. In the 3<sup>rd</sup> quarter, the Company newly added 0.585 million residential customers and recorded a growth speed of 45.2% yoy. The Company is expected to continue to add more customers as the current gas penetration rate remains low and more gas projects are being acquired. Besides, "coal to gas" projects stimulated by local governments will continue to bring more customers. The Company still holds great growth potential for industrial customers in its existing areas of operation. Hence, we have revised down connection service assumptions to reflect the negative impact from the COVID-19 pandemic in the 1<sup>st</sup> half of 2020. The resumption of connection business was in the 2<sup>nd</sup> half of 2020 was in line with our expectation, so we maintain connection service assumptions unchanged.

**Revise up TP to HK\$126.50, and maintain "Accumulate".** ENN Energy is one of the largest gas distributors in China and operates gas distribution business across China. We expect the Company to continue to acquire new gas distribution projects and expand into new areas. We expect total sales of piped gas of the Company to benefit from the restructuring of the energy structure in China and continue to maintain fast growth over the next few years. Gas sales growth of the Company was only slightly impacted by the COVID-19 pandemic in 2020; the management is confident to record double-digit growth in 2020. The domestic COVID-19 outbreak has been successfully contained by the Chinese government and gas consumed by industrial customers has resumed to normal levels since June. As a result, we have maintained gas sales assumptions unchanged. We also maintain gas dollar margin unchanged and expect gas dollar margin of the Company to remain stable in 2021. We maintain connection service assumptions unchanged as the resumption of connection business was in the 2<sup>nd</sup> half of 2020 and was in line with our expectation. The Company is determined to be an integrated energy supplier that also supplies electricity, air conditioning services and heating services, possessing synergistic effects with its gas distribution business. The Company has already operated several integrated energy projects, and this business is expected to maintain fast growth in 2020. As a result, we have revised up our target price of the Company to HK\$126.50 due to higher PE valuation level, which represents 19.4x FY20PE and 18.0x FY21PE, and maintain "Accumulate".

**Table-1: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				19A	20F	21F	22F	19A	20F	21F	22F	20F
Large Cap. Gas Distributors												
Hong Kong & China Gas	3 HK	HK\$	11.84	28.7	33.4	28.6	27.0	3.1	3.2	3.1	3.1	9.5
Kunlun Energy Co Ltd	135 HK	HK\$	7.14	9.4	9.2	8.4	7.6	1.1	1.0	0.9	0.9	11.1
Beijing Enterprises Hldgs	392 HK	HK\$	25.60	4.0	4.3	3.9	3.7	0.4	0.4	0.4	0.3	9.7
China Gas Holdings Ltd	384 HK	HK\$	30.75	18.9	17.5	14.8	12.7	4.5	4.1	3.4	2.8	24.5
Enn Energy Holdings Ltd	2688 HK	HK\$	115.20	20.1	17.7	15.2	13.4	4.5	3.6	3.1	2.7	21.1
China Resources Gas Group Lt	1193 HK	HK\$	42.10	18.1	19.0	16.6	14.9	3.5	2.9	2.6	2.4	16.5
Towngas China Co Ltd	1083 HK	HK\$	3.45	7.5	7.2	6.4	5.8	0.5	0.5	0.5	0.5	7.0
Simple Average				15.3	15.5	13.4	12.1	2.5	2.2	2.0	1.8	14.2
Weighted Average				16.7	15.7	13.6	11.9	3.5	3.0	2.6	2.2	19.0
Small Cap. Gas Distributors												
China Oil And Gas Group Ltd	603 HK	HK\$	0.44	6.6	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.
China Tian Lun Gas Holdings	1600 HK	HK\$	7.21	7.9	6.9	6.0	5.5	1.7	1.3	1.1	1.0	20.5
Zhongyu Gas Holdings Ltd	3633 HK	HK\$	7.03	41.5	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	n.a.	n.a.
Binhai Investment Company Lt	2886 HK	HK\$	1.15	16.7	5.0	4.1	3.7	1.4	0.9	0.7	0.6	20.5
Tianjin Jinran Public Util-H	1265 HK	HK\$	0.47	207.1	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.
Chinese People Holdings Co	681 HK	HK\$	0.05	2.2	2.1	n.a.	n.a.	0.2	0.2	n.a.	n.a.	8.0
Simple Average				47.0	4.7	5.1	4.6	1.4	0.8	0.9	0.8	16.3
Weighted Average				31.0	5.1	4.3	3.9	1.9	0.9	0.8	0.7	20.0
A-share Gas Distributors												
Guanghui Energy Co Ltd-A	600256 CH	CNY	2.70	11.4	12.9	9.0	9.3	1.1	1.1	1.0	0.9	8.5
Shenergy Company Limited-A	600642 CH	CNY	5.20	10.8	10.0	9.8	9.8	0.9	n.a.	n.a.	n.a.	n.a.
Shenzhen Gas Corp Ltd-A	601139 CH	CNY	7.16	19.4	15.4	13.5	12.3	1.9	1.8	1.6	1.5	11.6
Shaan Xi Provincial Natura-A	002267 CH	CNY	6.32	15.7	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.
Changchun Gas Co Ltd -A	600333 CH	CNY	7.88	394.0	n.a.	n.a.	n.a.	2.3	n.a.	n.a.	n.a.	n.a.
Sichuan Datong Gas Develop-A	000593 CH	CNY	5.98	52.0	n.a.	n.a.	n.a.	2.2	n.a.	n.a.	n.a.	n.a.
Simple Average				83.9	12.7	10.8	10.5	1.6	1.4	1.3	1.2	10.0
Weighted Average				52.9	13.1	11.9	11.3	1.5	1.8	1.6	1.5	11.6

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	60,698	70,183	79,541	88,882	100,092
COGS	(51,188)	(58,918)	(66,593)	(74,789)	(84,477)
Gross profit	9,510	11,265	12,948	14,093	15,615
Distribution and Selling expenses	(790)	(976)	(1,034)	(1,155)	(1,301)
Administrative expenses	(2,673)	(3,099)	(3,102)	(3,378)	(3,503)
other gains and losses	(685)	1,505	1,140	1,084	1,073
Operating Profit	5,362	8,695	9,952	10,644	11,884
Share of results of associates	275	326	359	394	434
Share of results of JV	601	547	591	638	689
Finance costs	(637)	(727)	(719)	(803)	(920)
Profit Before Tax	5,601	8,841	10,182	10,873	12,087
Income Tax	(1,783)	(1,980)	(2,546)	(2,718)	(3,022)
profit After Tax	3,818	6,861	7,637	8,155	9,065
Non-controlling Interest	(1,000)	(1,191)	(1,451)	(1,468)	(1,632)
Shareholders' Profit / Loss	2,818	5,670	6,186	6,687	7,434
Basic EPS	2.560	5.049	5.508	5.955	6.619

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Profit before tax	5,601	8,841	10,182	10,873	12,087
Results from JV & associates	(876)	(873)	(949)	(1,032)	(1,123)
Income tax	(1,783)	(1,980)	(2,546)	(2,718)	(3,022)
Adjust for depre.&amort.	1,052	1,272	1,579	1,867	2,158
Change in WC	(9,338)	1,319	(1,107)	(322)	210
Others	637	727	719	803	920
Cash from Operating Activities	(4,707)	9,306	7,879	9,471	11,230
Dividend from JV & associate	208	197	213	231	250
Purchase of PPE	(6,001)	(8,100)	(8,205)	(8,645)	(9,083)
Investment in JV & associate	(1,235)	(480)	(473)	(506)	(541)
Others	371	384	397	411	425
Cash from Investing Activities	(6,657)	(8,000)	(8,068)	(8,509)	(8,948)
Proceeds from issuance of bonds	125	48	254	838	1,089
Net cash flow from borrowings	8,462	(379)	(2,142)	362	719
Interest paid	(637)	(727)	(719)	(803)	(920)
Dividend paid	(1,983)	(2,083)	(3,144)	(3,398)	(3,744)
Others	5,348	1,285	6,520	1,730	1,537
Cash from Financing Activities	11,315	(1,856)	770	(1,272)	(1,318)
Net Changes in Cash	(49)	(550)	581	(310)	964
Cash at Beg of Year	7,972	7,923	7,373	7,954	7,644
Foreign exchange rate changes	0	0	0	0	0
Cash at End of Year	7,923	7,373	7,954	7,644	8,608

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
PPE	31,073	37,955	44,885	51,972	59,210
Prepaid lease payments	1,401	0	0	0	0
Intangible assets	5,285	6,554	6,548	6,558	6,584
Interests in associates	3,049	3,308	3,473	3,647	3,829
Interests in joint ventures	3,620	3,841	4,148	4,480	4,839
Deferred tax assets	1,159	1,292	1,421	1,563	1,720
Others	6,788	8,780	4,683	4,047	3,512
Total Non-current Assets	52,375	61,730	65,159	72,268	79,693
Cash & Cash Equivalents	7,923	7,373	7,954	7,644	8,608
Inventories	1,331	1,169	1,511	1,600	1,802
Trade and other receivables	8,560	7,492	8,750	9,333	10,009
Others	2,378	2,363	1,121	1,189	1,260
Total Current Assets	21,539	19,515	19,705	20,141	22,062
Total Assets	73,914	81,245	84,864	92,408	101,755
Trade and other payables	7,103	7,635	8,113	8,444	9,509
Amounts due to customers	0	0	0	0	0
Amounts due to JV	1,693	785	864	950	1,045
Taxation payables	782	962	1,039	1,122	1,212
Bank loans within one year	8,621	7,495	5,338	5,363	5,679
Others	3,885	1,798	1,674	1,743	1,816
Total Current Liabilities	33,017	31,288	30,398	31,393	33,307
Bank loans after one year	2,101	2,848	2,863	3,200	3,603
Corporate bond	2,491	4,633	4,992	5,939	7,144
Convertible bonds	0	0	0	0	1
Deferred tax liabilities	1,001	1,820	1,966	2,123	2,293
Deferred income	520	650	683	717	752
Total Non-current Liabilities	15,343	18,937	18,911	20,546	22,525
Total Liabilities	48,360	50,225	49,308	51,939	55,832
Total Shareholders' Equity	21,385	25,868	29,889	34,235	39,066
Minority Interest	4,169	5,152	5,667	6,234	6,857
Total Equity	25,554	31,020	35,556	40,469	45,923

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Gross margin	15.7%	16.1%	16.3%	15.9%	15.6%
Net margin	1.6%	1.7%	1.8%	1.7%	1.6%
ROE	14.7%	24.0%	22.2%	20.9%	20.3%
ROA	5.2%	8.4%	9.0%	8.8%	8.9%
Free CF	-12,107	553	-980	129	1,407
Net gearing	24.7%	29.4%	17.5%	20.0%	20.0%

### 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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