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HONG KONG RESEARCH
1st April 2015

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Beijing Enterprises Holdings Limited (北京控股有限公司)

Sector	:	Utility	Chairman	:	Mr. Wang Dong
HKSE Code	:	00392			
Market Price	:	HK$61.05 (01/04/2015)	Executive Directors	:	Mr. Hou Zibo
HSI	:	25,082.75 (01/04/2015)			Mr. Zhou Si
Shares Issued	:	1,284.35 million			
Market Cap.	:	HK$78,410 million			
52-week Hi / Lo	:	HK$76.45 / HK$56.65			

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014

Final Results Highlights

	2014 HK$ million	2013 HK$ million	*y-o-y Change*
• Revenue	47,936	42,361	*13.2%*
• Gross profit	8,576	8,337	*2.9%*
• Operating profit	3,331	3,698	*(9.9%)*
• Share of profits of JV and associates	3,812	2,737	*39.3%*
• **Profit attributable to shareholders**	**4,832**	**4,184**	***15.5%***
• Earnings per share – Basic (HK$)	3.78	3.61	*4.7%*
• Final dividend per share (HK$)	0.62	0.60	*3.3%*
• Total dividend per share (HK$)	0.90	0.85	*5.9%*

- Beijing Enterprises Holdings Limited ("BEH" or the "Group") reported a 15.5% year-on-year rise in **profit attributable to shareholders** to HK$4.83 billion for the year ended 31st December 2014, mainly attributable to the solid growth in its piped gas operation (+26.5% year-on-year). The results were in-line with market expectations.
- **Revenue** grew 13.2% from a year ago, mainly driven by solid growth in its piped gas operation (+28.9% year-on-year). **Gross margin** slightly declined from 19.7% in 2013 to 17.9% in 2014, primarily due to higher purchase costs of natural gas.
- **Shares of profits of joint venture and associates** soared by 39.3% year-on-year to HK$3.81 billion, mainly attributable to i) its 40% interest in PetroChina Beijing Pipeline Company (+5.3% year-on-year to HK$2.33 billion); ii) its 43.92% interest in Beijing Enterprises Water Group Limited (371.HK, "BEWG") (+65.0% year-on-year to HK$790 million); and iii) the new profit contribution of HK$622 million from its 22.4% interest in China Gas Holdings Limited (384.HK, "China Gas") which was acquired by the Group at the end of 2013.
- **Earnings per share** rose 4.7% year-on-year to HK$3.78 per share despite a 15.5% year-on-year profit growth. This was attributable to the dilution effect of the conversion of convertible bonds which were due in 2014. Nonetheless, the Group increased its final dividend from HK$0.60 per share in 2013 to HK$0.62 per share in 2014. Together with interim dividend of HK$0.28 per share (1H13: HK$0.25 per share), its full-year dividend was up 5.9% year-on-year to HK$0.90 per share in 2014. Payout ratio improved from 23.5% in 2013 to 23.8% in 2014 accordingly.

- As at 31st December 2014, its net debt to equity ratio increased from 0.53% at the end of 2013 to 17.7%, mainly due to a substantial increase in its total borrowings (+108.8% year-on-year to HK$23.3 billion).

Breakdown of revenue

HK$ million	2014	%	2013	%	*y-o-y Change*
Piped gas operation	32,438	67.7%	25,159	59.4%	*28.9%*
Brewery operation	15,151	31.6%	16,837	39.7%	*(10.0%)*
Corporate and others	346	0.7%	364	0.9%	*(4.9%)*
Total	**47,936**	**100.0%**	**42,361**	**100.0%**	*13.2%*

Breakdown of profit attributable to shareholders

HK$ million	2014	%	2013	%	*y-o-y Change*
Piped gas operation	4,454	92.2%	3,520	84.1%	*26.5%*
Brewery operation	388	8.0%	358	8.6%	*8.3%*
Sewage and water treatment operations	790	16.3%	514	12.3%	*53.6%*
Corporate and others	(800)	-16.6%	(209)	-5.0%	*283.4%*
Total	**4,832**	**100.0%**	**4,184**	**100.0%**	*15.5%*

Business Highlights

- **Piped gas operation**
  - **Natural gas distribution business:** Revenue of the segment marked robust growth of 28.9% year-on-year to HK$32.44 billion. Gas sales volume increased by 14.2% from a year ago to 9.96 billion cubic meters in 2014. BEH saw a significant increase in gas sales volume in 2H14, mainly due to the commencement of the two Cogeneration Power Plants in Jingxi and Gaojing of Northwest Thermal Gas Power Center in 4Q14 and the trial production of Gaoantum turbine of Northeast Thermal Gas Power Center which drove the gas demand for power generation. At the end of 2014, its total number of subscribers grew steadily by 5.0% year-on-year to 5,210,000.
  - **Natural gas transmission business:** Gas transmission volume posted solid growth of 18.9% year-on-year to 29.96 billion cubic meters in 2014. Net profit after tax of the segment grew merely by 5.3% year-on-year to HK$2.33 billion, through its 40% equity interests in PetroChina Beijing Pipepine Company. The increase in net profit was smaller than that in its gas transmission volume, dragged by a lower pipeline transmission tariff in 2014.
  - **China Gas:** For the six months ended 30th September 2014, China Gas achieved a sales volume of 4.19 billion cubic meters in pipeline gas, representing a year-on-year increase of 17.8%. During the period, the average gas selling price was RMB2.41 per cubic meter for residential customers (+4.8% year-on-year), RMB2.69 per cubic meter for industrial customers (+4.7% year-on-year), RMB2.92 per cubic meter for commercial customers (+9.8% year-on-year), and RMB3.26 per cubic meter for CNG/LNG vehicle users (+13.2% year-on-year). Revenue increased by 49% year-on-year to HK$15.588 billion in 1HFY15.

- **Brewery operation**
  - In 2014, revenue of Beijing Yanjing Brewery Co., Ltd. ("Yanjing Beer") declined 10.0% year-on-year to HK$15.15 billion, with a 6.87% yearly decrease in its beer sales volume to 5.32 million kilolitres. The decline in sales volume of Yanjing Beer was mainly attributable to i) the cut-down of its low-end beer products for the change of product mix; ii) weak demand for mid-to-high beverages in China; and iii) intense market competition. Yet, profit attributable to shareholders of the Group managed to post a 8.3% year-on-year growth to HK$388 million in 2014, thanks to significant improvement in gross margin with higher proportion of sales of its mid-to-high end beer products which offset a drop in its sales volume.

Outlook & Prospect

- ***Promising growth in gas sales distribution volume but potential margin squeeze.*** Management expected a 25% to 30% year-on-year growth of gas sales distribution volume in 2015, on the back of the full-year operation of gas-fired power plants added in 2H14 including Jingxi, Gaojing and Jingneng Gaoantun as well as the new Guohua Gaoantun plant, which will be operational in the summer of 2015. In addition, gas sales distribution volume is expected to increase by around 15% year-on-year for 2016, as a new gas-fired generation power project in the southeast of Beijing will be completed during the year and all coal-fired power plants in Beijing are scheduled to be shut down by 2016. Nevertheless, the Group is likely to see a margin squeeze in 1H15, due to gas cost hikes from 1st April 2015 as announced by the Beijing Municipal Commission of Development and Reform for city-gate price unifying. The margin squeeze is expected to drag the Group's net profit by 3.5%-4.0% in 2015, which may be mitigated by better cost control.

- ***Expect a 15%-20% yearly growth in gas transmission volume for 2015.*** Management expected a 15% to 20% year-on-year growth in gas transmission volume for 2015, driven by stronger demand for gas consumption in Beijing. Meanwhile, Shaanix-Beijing No.4 Pipeline is currently under construction, which is scheduled for completion at the end of 2017.

- ***Continue to shift to high-end beer products.*** Although the operating environment of its brewery business may remain tough this year, Management aims to lift its sales mix of high-end beer from currently 40% to 60%-70% so as to boost its profit margin.

- ***Disposal of less performing assets to its parent company*.** On 30th March 2015, BEH entered into a memorandum of understanding (MoU) with its parent company to dispose of its 34% interest in Inner Mongolia Datang International Keqi Coal-based Gas Company. The profitability of the project was low, given low volume of natural gas being produced. The move is viewed to be positive for the Group by deleveraging less performing non-core assets.

- ***Guidance on CAPEX for 2015.*** Management expected its 2015 capital expenditure (CAPEX) to be around HK$7 billion to HK$8 billion, of which HK$4 billion will be for gas operation, HK$1 billion for beer brewery and the remaining for waste treatment business.

- **Valuation:** The valuation is undemanding, as the shares are trading at 13.7x 2015E P/E, compared to the industry average of 16.3x. We recommend "Buy" rating on the counter, given its healthy balance sheet and the positive outlook for gas business. Key downside risks include lower-than-expected gas sales volume, slower-than-expected tariff hike of natural gas and any delay in the commissioning of gas-fired power plants.

Recommendation: Buy

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