

**Nat Resources & Energy**  
**Gas Utilities**  
**Equity – China**

## Buy

<b>Target price (HKD)</b>	<b>61.00</b>
<b>Share price (HKD)</b>	<b>45.85</b>
<b>Upside/Downside (%)</b>	<b>33</b>

Performance	1M	3M	12M
Absolute (%)	12.4	4.2	-6.3
Relative <sup>A</sup> (%)	12.8	0.3	-24.4

Index<sup>A</sup> HSCEI

RIC 2688.HK  
 Bloomberg 2688 HK

Market cap (USDm) 6,403  
 Market cap (HKDm) 49,658

Enterprise value (CNYm) 46318  
 Free float (%) 69

**25 March 2015**

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# Enn Energy Holding Ltd (2688 HK)

Buy: FY14 results preview

- ▶ **FY14e results preview: revenue/normalized net attributable profit: HKD32,016/2,162m, i.e. 2H/FY14e c55/45%**
- ▶ **We look for FY15e volume growth % guidance, specifically by segment, updates on ENN US/Canada**
- ▶ **Establish Buy rating, fair value TP at HKD61.0**

**FY14 results preview.** ENN Energy is reporting results on 27 March 2015. Analyst briefing will be held after market on 31 March 2015. HSBCe FY14e revenue/net attributable profit is HKD32,016/2,162m, 2H14e revenue/net attributable profit represents 55/45% of FY14e.

**What we will look for during FY14 results briefing.** a) FY15 volume growth % guidance; specifically growth in each of commercial & residential, residential and vehicle gas segment, b) Capex for FY15e, c) Updates on ENN US/Canada, d) impact on gas cost with the citygate price decrease effective 1 April 2015, and whether there could be potential margin expansion with a < 100% passthrough of the citygate price decrease to end users.

**Investment thesis.** ENN Energy shares appear undervalued in our view (trading below the 3-year historical average PE of 22x) although we believe the company offers more robust EPS growth than its peers. Although China is expected to see a slowing economy and a low oil price environment, we continue to like ENN Energy, as we believe it can still deliver above-industry average volume growth in challenging times.

**Valuation and rating.** We derive our fair value target price of HKD61.0 by an equal-weighted average of three methods: PE, PB, and DCF. Our PE-based valuation of HKD57.75 per share uses a multiple of 20.0x 2015e EPS, based on 1x 2015e-17e PEG. Our PB valuation of HKD54.54 per share is based on an ROE-implied 2015e PB of 3.5x. Our DCF valuation of HKD71.44 per share assumes a WACC of 6.5%, a risk-free rate of 3.5%, an equity risk premium of 5.5%, and a beta of 0.67. We establish a Buy rating for the stock.

**Downside risks:** (1) a decline in industrial volumes with slowing GDP; (2) Any future citygate price hikes not being passed through to customers.

## Financials & valuation

### Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
<b>Profit &amp; loss summary (CNYm)</b>				
Revenue	22,966	32,016	40,303	47,733
EBITDA	4,039	4,712	5,548	6,420
Depreciation & amortisation	-708	-726	-801	-866
Operating profit/EBIT	3,331	3,986	4,747	5,555
Net interest	-329	-249	-627	-506
PBT	2,760	4,979	4,672	5,612
HSBC PBT	2,760	4,979	4,672	5,612
Taxation	-960	-1,394	-1,308	-1,571
Net profit	1,252	2,666	2,501	3,005
HSBC net profit	1,940	2,162	2,501	3,005

### Cash flow summary (CNYm)

Cash flow from operations	4,026	6,590	6,714	5,874
Capex	-2,971	-2,954	-2,180	-2,215
Cash flow from investment	-3,094	-7,763	-1,926	-1,923
Dividends	-362	-411	-800	-750
Change in net debt	535	2,302	-3,057	-2,306
FCF equity	707	2,513	4,012	3,154

### Balance sheet summary (CNYm)

Intangible fixed assets	1,500	1,424	1,348	1,272
Tangible fixed assets	17,531	19,835	21,290	22,715
Current assets	11,097	13,814	18,246	21,592
Cash & others	6,822	8,595	11,682	14,028
Total assets	35,905	46,318	52,560	57,657
Operating liabilities	11,171	14,514	18,438	20,463
Gross debt	12,443	16,518	16,548	16,588
Net debt	5,621	7,923	4,866	2,560
Shareholders funds	9,543	11,798	13,499	15,754
Invested capital	12,135	11,965	10,764	11,088

### Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
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#### Y-o-y % change

Revenue	27.4	39.4	25.9	18.4
EBITDA	15.6	16.7	17.8	15.7
Operating profit	15.9	19.7	19.1	17.0
PBT	-3.2	80.4	-6.2	20.1
HSBC EPS	19.8	11.5	15.7	20.1

#### Ratios (%)

Revenue/IC (x)	1.9	2.7	3.5	4.4
ROIC	18.4	23.8	30.1	36.6
ROE	21.3	20.3	19.8	20.5
ROA	6.5	9.6	7.7	8.2
EBITDA margin	17.6	14.7	13.8	13.5
Operating profit margin	14.5	12.5	11.8	11.6
EBITDA/net interest (x)	12.3	18.9	8.8	12.7
Net debt/equity	47.3	53.2	28.3	12.7
Net debt/EBITDA (x)	1.4	1.7	0.9	0.4
CF from operations/net debt	71.6	83.2	138.0	229.5

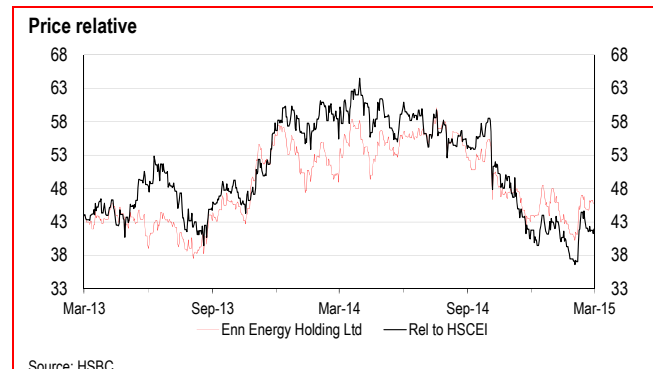
#### Per share data (CNY)

EPS reported (fully diluted)	1.16	2.46	2.31	2.77
HSBC EPS (fully diluted)	1.79	2.00	2.31	2.77
DPS	0.38	0.74	0.69	0.83
Book value	8.81	10.89	12.47	14.55

### Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	1.9	1.4	1.1	0.9
EV/EBITDA	10.8	9.8	7.8	6.5
EV/IC	3.6	3.9	4.0	3.7
PE*	20.5	18.4	15.9	13.2
P/Book value	4.2	3.4	2.9	2.5
FCF yield (%)	1.9	6.5	10.4	8.1
Dividend yield (%)	1.0	2.0	1.9	2.3

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Mar 2015

# Disclosure appendix

## Analyst Certification

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### **From 23rd March 2015 HSBC has assigned ratings on the following basis:**

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

### **Prior to this date, HSBC's rating structure was applied on the following basis:**

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands were classified as Neutral.

\*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

## Rating distribution for long-term investment opportunities

As of 25 March 2015, the distribution of all ratings published is as follows:

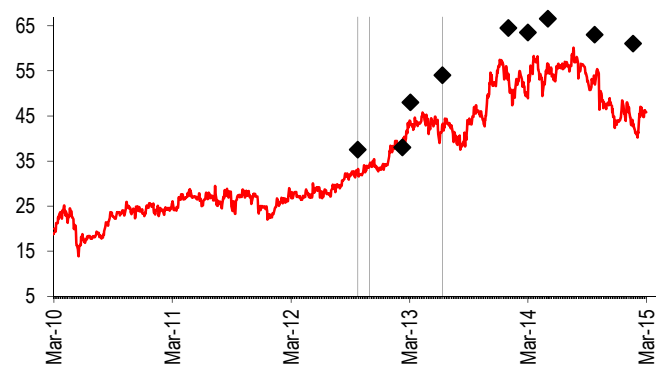
<b>Buy</b>	41%	(30% of these provided with Investment Banking Services)
<b>Hold</b>	39%	(28% of these provided with Investment Banking Services)
<b>Sell</b>	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

## Share price and rating changes for long-term investment opportunities

Enn Energy Holding Ltd (2688.HK) Share Price performance HKD Vs HSBC

rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	16 October 2012
Overweight	Neutral	22 November 2012
Neutral	Overweight	04 July 2013
Target Price	Value	Date
Price 1	37.50	16 October 2012
Price 2	38.00	03 March 2013
Price 3	48.00	27 March 2013
Price 4	54.00	04 July 2013
Price 5	64.50	24 January 2014
Price 6	63.50	25 March 2014
Price 7	66.50	25 May 2014
Price 8	63.00	16 October 2014
Price 9	61.00	12 February 2015

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
ENN ENERGY HOLDINGS LTD	2688.HK	45.85	24-Mar-2015	1, 5, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
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- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.

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