



Rating
Hold

Asia
China

Utilities
Utilities

Company
ENN Energy Alert

Reuters 2688.HK	Bloomberg 2688 HK	Exchange HKG	Ticker 2688
ADR Ticker XNGSY	ISIN US26876F1021		

Date
30 March 2015

Results

Price at 27 Mar 2015 (HKD)	47.35
Price target - 12mth (HKD)	39.70
52-week range (HKD)	60.10 - 40.25
HANG SENG INDEX	24,486

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**FY14 broadly in-line excl. Rmb569m
CB gain**

FY14 recurring net profit up 21% yoy, 4% higher than DBE

ENN announced FY14 results on 27 Mar after market close. Reported net profit was up 137% yoy to Rmb2,968m. Stripping out one-off items (largely fair value gain of convertible bonds of Rmb569m, vs. Rmb784m loss in 2013), recurring earnings were up 21% yoy to Rmb2.36bn, which is 4%/5% higher than DBE/consensus mainly due to a solid JCE contribution (up 51% yoy) and finance cost savings. ENN declared a dividend of HKD0.83/share, with payout largely unchanged at 32%. We show the yoy comparisons in Figure 1 below and segment breakdown in side column.

Gas sales target achieved in FY14

Natural gas sales volume increased by 25.9% yoy to 10.12bcm, in-line with the earlier guidance of 10bcm (+25%); while the 2H growth of 19% shows a slowdown from 1H (+33%). Piped gas sales margin declined by 2.4ppt to 17.6% and vehicle gas sales margin declined by 2.4ppt to 15.2%, which we believe is mainly due to delayed pass-through and under-utilization of newly added LNG stations. Connection income was up by 15% yoy, with 1.3m newly connected households in FY14 (+8% yoy), exceeding the earlier guidance of 1.1-1.2m. Connection income accounted for 43% of segment profit in FY14 (vs. 42% in FY13) and gross margin slightly improved by 1ppt to 66%.

New project and CNG/LNG station additions

ENN added 8 new piped gas projects, 18 CNG stations and 61 LNG stations in FY14 (vs. 17, 24 and 94 in FY13 respectively). The company will hold an analyst briefing at 10am, 30 Mar (JW Marriott). Key focus remains on the impact of gas tariff adjustment from Apr 2015, unit sales margin, gas demand and connection outlook in FY15. We will follow up with more details.

Figure 1: ENN FY14 results table

P&L (Rmb m)	FY13	FY14	yoy	Deutsche Bank comment
Total turnover	22,966	29,087	27%	Up mainly on higher gas sales, connection and wholesale rev (see sidebar)
Gross profit	5,464	6,069	11%	Higher gas sales vol. (+24.9%) offset by lower unit margin
Gross margin (%)	23.8%	20.9%	-2.9ppt	Piped gas -2.4ppt; vehicle gas -2.4ppt; connection +1.0ppt
Other revenue	238	271	14%	
Admin & selling expenses	(2,133)	(2,417)	13%	
Profit from operations	3,569	3,923	10%	
Operating margin (%)	15.5%	13.5%	-2.1ppt	
Other gain/(loss)	(685)	625	-191%	Mainly Rmb569m fair value gain of CB (vs. Rmb784m loss in FY13)
Finance costs	(567)	(430)	-24%	2013 incl. Rmb64m CB issuance expense
Share of assoc and JC	443	629	42%	
Profit before tax	2,760	4,747	72%	
Taxation	(960)	(1,127)	17%	
Profit before MI	1,800	3,620	101%	
MI	(548)	(652)	19%	
Net profit	1,252	2,968	137%	
Diluted EPS (Rmb/share)	1.16	2.06	78%	Reported; adjusted for CB conversion/fair value gain in FY14
Recurring net profit	1,947	2,361	21%	Excl. fair value/FX/disposal gain (loss) etc.

Source: Deutsche Bank, company data

Stock data

Market cap (HKDm)	51,273
Market cap (USDm)	6,613
Shares outstanding (m)	1,082.9
Major shareholders	ENN Group (31%)
Free float (%)	68.0
Avg daily value traded (USDm)	16.7

Source: Deutsche Bank

Segment revenue and margin breakdown

Rmb m	FY13	FY14	yoy
Segmental turnover			
Gas connection fee	3,843	4,403	15%
LPG and other energy	61	54	-11%
Piped gas	14,102	17,485	24%
Wholesale gas	1,551	2,898	87%
Gas appliances	108	110	2%
Vehicle gas	3,085	3,849	25%
Materials sales	216	288	33%
Total	22,966	29,087	27%
Segment profit (bef. D&A)			
Gas connection fee	2,508	2,917	16%
LPG and other energy	30	24	-20%
Piped gas	2,819	3,074	9%
Wholesale gas	67	47	-30%
Gas appliances	38	46	21%
Vehicle gas	545	586	8%
Materials sales	33	28	-15%
Total	6,040	6,722	11%
Segment operating margin (before D&A)			
Gas connection fee	65.3%	66.3%	1.0ppt
LPG and other energy	49.2%	44.4%	-4.7ppt
Piped gas	20.0%	17.6%	-2.4ppt
Wholesale gas	4.3%	1.6%	-2.7ppt
Gas appliances	35.2%	41.8%	6.6ppt
Vehicle gas	17.7%	15.2%	-2.4ppt
Materials sales	15.3%	9.7%	-5.6ppt
Total	26.3%	23.1%	-3.2ppt

Source: company data, Deutsche Bank

Deutsche Bank AG/Hong Kong

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