



Rating  
**Hold**

Asia  
China

Utilities  
Utilities

Company  
**ENN Energy**

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

Date  
31 March 2015

Forecast Change

Price at 30 Mar 2015 (HKD)	46.90
Price target - 12mth (HKD)	42.80
52-week range (HKD)	60.10 - 40.25
HANG SENG INDEX	24,486

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## Still rich on valuation; maintaining Hold

### Volume growth sustained ,but margin under pressure; maintaining Hold

ENN's 25% gas volume growth target in 2015 appears based on 1) strong increase in thin-margin wholesale gas (15-20% excl. wholesale) and 2) demand pickup after the April 2015 tariff adj. (vs. 10% in 1-2M15). The company intends to keep a stable dollar margin despite c.Rmb0.15/cm cost savings from the tariff adj. to incentivize demand. Residential connection is being pushed to 1.4m households in 2015 (through effort in lower-margin old buildings) to somehow buffer the loss from North American gas stations. Overall, we expect its core net profit growth to slow down to low-to-mid teens in 2015-16E (vs. 20-21% in 2013-14). Maintaining Hold on rich valuation at 17x 15E P/E..

### 2014 results broadly in-line; stable dollar margin

In 2014, ENN's reported net profit was up 137% yoy to Rmb2,968m. Stripping out one-off items (mainly Rmb569m fair value gain of CB), recurring earnings were up 21% yoy to Rmb2.36bn, mainly driven by 26% yoy growth in natural gas (NG) sales volume and finance cost savings (-24% yoy). Dollar margin was kept stable at Rmb0.83/cm, though gross margin retreated by 2.9ppt due to higher tariff base and mix change.

### 15-20% NG vol. growth (excl. wholesale); more connections from old buildings

ENN guided 25% yoy growth in NG sales volume (or 15-20% yoy if excl. wholesale gas), which implies 80-140% growth in the thin-margin wholesale business (1.6% GPM in FY14). Residential connections will be increase to 1.4m households in 2015 (vs. 1.32m in 2014) through more old building contribution (GPM c.3.5-3.5ppt lower than new ones), while C&I new capacity will be stable at over 8mcm/day. Organic capex will remain flat at c.Rmb3.0-3.5bn in 2015.

### Earnings revision; target price of HKD42.8 (from HKD39.7); risks

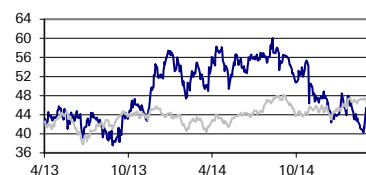
We lift our 2015/16E earnings by 7.5%/8.7% to incorporate the 2014 results and the higher-than-expected connection. Our target price is DCF-based using a WACC of 9.1%. Upside/downside risks: higher/lower-than-expected gas sales/margin/connection (page 6).

#### Key changes

Price target	39.70 to 42.80	↑	7.8%
Sales (FYE)	34,408 to 32,764	↓	-4.8%
Op prof margin (FYE)	11.8 to 12.6	↑	6.6%
Net profit (FYE)	2,442.1 to 2,624.2	↑	7.5%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	14.0	6.6	-10.8
HANG SENG INDEX	-1.4	4.2	11.0

Source: Deutsche Bank

#### Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	22,966	29,087	32,764	37,595	42,948
Reported NPAT (CNYm)	1,252	2,968	2,624	3,008	3,321
Reported EPS FD(CNY)	1.156	2.552	2.256	2.586	2.855
DB EPS FD (CNY)	1.798	2.030	2.256	2.586	2.855
DB EPS growth (%)	29.8	12.9	11.1	14.6	10.4
PER (x)	18.9	20.7	16.7	14.5	13.2
Price/BV (x)	5.2	3.1	2.9	2.5	2.2
EV/EBITDA (x)	10.4	10.4	8.9	7.6	8.1
Yield (net) (%)	1.1	1.6	1.9	2.2	2.4
ROE (%)	13.8	27.4	20.1	19.9	19.0

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 30 March 2015

## Running the numbers

Asia

China

Utilities

## ENN Energy

Reuters: 2688.HK

Bloomberg: 2688 HK

## Hold

Price (30 Mar 15) HKD 46.90

Target Price HKD 42.80

52 Week range HKD 40.25 - 60.10

Market Cap (m) HKDm 50,786

USDm 6,550

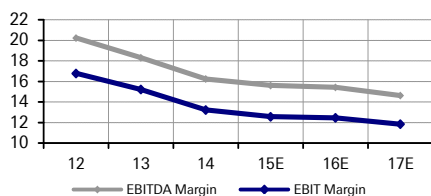
## Company Profile

ENN Energy Holdings Ltd (formerly known as XinAo Gas) is one of the first privately-owned piped gas distributors in the PRC. Its principal business includes construction of city gas networks and provision of piped gas to households, commercial and industrial (C&I) users. In addition, the company is developing CNG refueling stations for vehicles and sells household gas appliances.

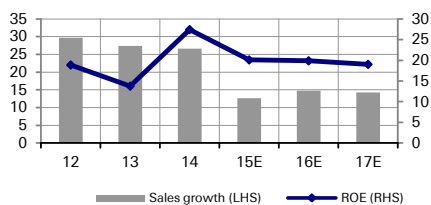
## Price Performance



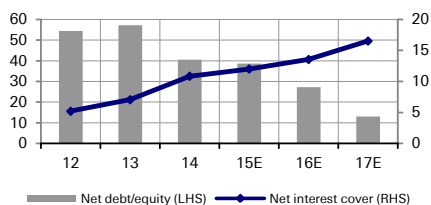
## Margin Trends



## Growth &amp; Profitability



## Solvency



Fiscal year end 31-Dec

## Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	1.39	1.80	2.03	2.26	2.59	2.86
Reported EPS (CNY)	1.38	1.16	2.55	2.26	2.59	2.86
DPS (CNY)	0.34	0.38	0.66	0.72	0.83	0.92
BVPS (CNY)	8.0	8.8	11.2	12.9	15.0	17.2
Weighted average shares (m)	1,068	1,083	1,083	1,083	1,083	1,083
Average market cap (CNYm)	25,221	36,870	45,553	40,699	40,699	40,699
Enterprise value (CNYm)	31,022	43,659	49,314	45,251	44,167	51,037

## Valuation Metrics

P/E (DB) (x)	17.1	18.9	20.7	16.7	14.5	13.2
P/E (Reported) (x)	17.1	29.5	16.5	16.7	14.5	13.2
P/BV (x)	3.44	5.16	3.13	2.91	2.51	2.18
FCF Yield (%)	2.7	2.3	4.4	3.6	4.6	8.3
Dividend Yield (%)	1.4	1.1	1.6	1.9	2.2	2.4
EV/Sales (x)	1.7	1.9	1.7	1.4	1.2	1.2
EV/EBITDA (x)	8.5	10.4	10.4	8.9	7.6	8.1
EV/EBIT (x)	10.3	12.5	12.8	11.0	9.4	10.0

## Income Statement (CNYm)

Sales revenue	18,027	22,966	29,087	32,764	37,595	42,948
Gross profit	5,465	6,172	6,947	7,518	8,412	9,127
EBITDA	3,646	4,205	4,726	5,113	5,800	6,285
Depreciation	551	635	805	922	1,038	1,122
Amortisation	70	73	73	73	73	73
EBIT	3,025	3,497	3,848	4,118	4,688	5,091
Net interest income/(expense)	-581	-495	-355	-343	-346	-308
Associates/affiliates	416	443	629	686	777	865
Exceptionals/extraordinaries	-8	-685	625	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,852	2,760	4,747	4,462	5,119	5,648
Income tax expense	859	960	1,127	1,125	1,293	1,425
Minorities	511	548	652	713	817	903
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,482	1,252	2,968	2,624	3,008	3,321
DB adjustments (including dilution)	6	695	-607	0	0	0
DB Net profit	1,488	1,947	2,361	2,624	3,008	3,321

## Cash Flow (CNYm)

Cash flow from operations	3,172	3,484	4,697	4,724	5,135	5,703
Net Capex	-2,498	-2,654	-2,691	-3,255	-3,269	-2,330
Free cash flow	674	830	2,006	1,469	1,866	3,372
Equity raised/(bought back)	419	0	0	0	0	0
Dividends paid	-670	-777	-411	-715	-782	-896
Net inc/(dec) in borrowings	686	501	3,137	-325	-325	-1,025
Other investing/financing cash flows	-661	56	-1,240	-3,338	0	0
Net cash flow	448	610	3,492	-2,910	759	1,451
Change in working capital	941	966	1,272	1,148	1,031	1,195

## Balance Sheet (CNYm)

Cash and other liquid assets	6,472	7,082	10,574	7,664	8,423	9,874
Tangible fixed assets	15,099	17,531	19,411	23,535	25,997	27,375
Goodwill/intangible assets	1,434	1,500	1,993	1,920	1,847	1,774
Associates/investments	3,069	3,802	4,318	5,004	5,781	6,646
Other assets	4,819	5,990	6,739	7,111	7,701	8,360
Total assets	30,893	35,905	43,035	45,235	49,749	54,029
Interest bearing debt	12,274	13,873	16,471	14,353	14,027	13,002
Other liabilities	7,949	10,140	12,023	13,543	15,164	17,018
Total liabilities	20,223	24,013	28,494	27,896	29,191	30,020
Shareholders' equity	8,653	9,543	12,098	14,007	16,233	18,658
Minorities	2,017	2,349	2,443	3,331	4,324	5,351
Total shareholders' equity	10,670	11,892	14,541	17,339	20,557	24,009
Net debt	5,802	6,791	5,897	6,688	5,604	3,128

## Key Company Metrics

Sales growth (%)	29.7	27.4	26.7	12.6	14.7	14.2
DB EPS growth (%)	14.8	29.8	12.9	11.1	14.6	10.4
EBITDA Margin (%)	20.2	18.3	16.2	15.6	15.4	14.6
EBIT Margin (%)	16.8	15.2	13.2	12.6	12.5	11.9
Payout ratio (%)	24.7	32.8	24.1	29.8	29.8	30.0
ROE (%)	18.9	13.8	27.4	20.1	19.9	19.0
Capex/sales (%)	14.9	12.8	9.3	9.9	8.7	5.4
Capex/depreciation (x)	4.3	4.2	3.1	3.3	2.9	2.0
Net debt/equity (%)	54.4	57.1	40.6	38.6	27.3	13.0
Net interest cover (x)	5.2	7.1	10.8	12.0	13.5	16.5

Source: Company data, Deutsche Bank estimates



## Recap of 2014 results

ENN announced FY14 results on 27 March after the 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 the Deutsche Bank estimate/consensus. ENN declared a dividend of HKD0.83/share, with payout largely unchanged at 32%. We show the yoy comparison in Figure 1.

Figure 1: ENN's 2014 summary P&L and segment profit breakdown

P&L (Rmb m)	FY13	FY14	yoy	Deutsche Bank comment
<b>Total turnover</b>	<b>22,966</b>	<b>29,087</b>	<b>27%</b>	Up mainly on higher gas sales, connection and wholesale rev (see sidebar)
Cost of sales	(17,502)	(23,018)	32%	
<b>Gross profit</b>	<b>5,464</b>	<b>6,069</b>	<b>11%</b>	Higher gas sales vol. (+24.9%) offset by lower unit margin
<i>Gross margin (%)</i>	<i>23.8%</i>	<i>20.9%</i>	-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%	
<b>Profit from operations</b>	<b>3,569</b>	<b>3,923</b>	<b>10%</b>	
<i>Operating margin (%)</i>	<i>15.5%</i>	<i>13.5%</i>	-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 associates	84	87	4%	
Share of JCE	359	542	51%	c. Rmb100m impact from accounting chg. in Changsha project
<b>Profit before tax</b>	<b>2,760</b>	<b>4,747</b>	<b>72%</b>	
<i>PBT margin (%)</i>	<i>12.0%</i>	<i>16.3%</i>	4.3ppt	
Taxation	(960)	(1,127)	17%	
<i>Effective tax rate</i>	<i>32.0%</i>	<i>32.3%</i>	0.3ppt	
<b>Profit before MI</b>	<b>1,800</b>	<b>3,620</b>	<b>101%</b>	
MI	(548)	(652)	19%	
<b>Net profit</b>	<b>1,252</b>	<b>2,968</b>	<b>137%</b>	
<i>Net margin</i>	<i>5.5%</i>	<i>10.2%</i>		Recurring net margin slighted down by 0.4ppt to 8.1% due to mix chg.
<b>Diluted EPS (Rmb/share)</b>	<b>1.16</b>	<b>2.06</b>	<b>78%</b>	Reported; adjusted for CB conversion/fair value gain in FY14
<b>Recurring net profit</b>	<b>1,947</b>	<b>2,361</b>	<b>21%</b>	Excl. fair value/FX/disposal gain (loss) etc.
Rmb m	FY13	FY14	yoy	Deutsche Bank comment
<b>Segmental turnover</b>				
Gas connection fee	3,843	4,403	15%	Residential household added up by 8% to 1.32m
LPG and other energy	61	54	-11%	Down and in-line with ENN's strategy to de-emphasize the LPG business
Piped gas	14,102	17,485	24%	On 26% NG vol. growth and higher avg. gas tariff
Wholesale gas	1,551	2,898	87%	Volume up 117% yoy
Gas appliances	108	110	2%	
Vehicle gas	3,085	3,849	25%	Vehicle gas sales vol. up 21% yoy
Materials sales	216	288	33%	Derived from sales of some materials for pipeline construction
<b>Total</b>	<b>22,966</b>	<b>29,087</b>	<b>27%</b>	
<b>Segment profit (bef. D&amp;A)</b>				
Gas connection fee	2,508	2,917	16%	Accounted for 43% of total segment profit (2013: 42%)
LPG and other energy	30	24	-20%	
Piped gas	2,819	3,074	9%	
Wholesale gas	67	47	-30%	Segment profit declined despite a 87% top-line growth
Gas appliances	38	46	21%	
Vehicle gas	545	586	8%	
Materials sales	33	28	-15%	
<b>Total</b>	<b>6,040</b>	<b>6,722</b>	<b>11%</b>	
<b>Segment operating margin (before D&amp;A)</b>				
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	Mainly on higher tariff base, as dollar margin was basically kept stable
Wholesale gas	4.3%	1.6%	-2.7ppt	Little profit contribution given the thin margin
Gas appliances	35.2%	41.8%	6.6ppt	
Vehicle gas	17.7%	15.2%	-2.4ppt	Due to higher contribution from lower-margin LNG stations
Materials sales	15.3%	9.7%	-5.6ppt	
<b>Total</b>	<b>26.3%</b>	<b>23.1%</b>	<b>-3.2ppt</b>	

Source: Deutsche Bank, company data



## Outlook and key takeaways after the results briefing

### Natural gas sales volume growth of 25% in 2015E

In 2014, ENN's 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%). Total gas sales volume, which includes coal gas, LPG, and synthetic natural gas, was up 24.9% yoy to 10.15bcm (Figure 2). If excluding wholesale gas, total gas sales volume was up 20.5% yoy.

Looking into 2015, management expects to maintain 25% yoy growth in natural gas sales volume, or 15-20% if excluding wholesale gas. This implies 80-140% growth in the thin-margin wholesale business (1.6% GPM in FY14). In 2M15, the volume growth is slightly lower at c.10% yoy (excl. wholesale), but management expects some recovery following the tariff adjustment effective from April 2015.

### Gas stations: 20 CNG and 50 LNG to be added in 2015

ENN added 18 CNG stations and 61 LNG stations in FY14 (vs. 24 and 94 in FY13, respectively), increasing the total number of stations to 286 (CNG) and 241 (LNG). Within the 241 LNG stations, management said that 93 have achieved positive gross profit, and 42 have even achieved positive net profit. As such, LNG stations turned gross profit positive in 2014.

In 2015, the company targets to add another 20 CNG stations and 50 LNG stations.

### Unit gas sales margin unchanged in 2014; stable outlook in 2015

In 2014, ENN's unit gas sales margin remained flat yoy at Rmb0.83/cm (incl. VAT). This is recovered from the 1H14 dollar margin of Rmb0.76/cm due to 1) less volume contribution from the low-margin Quanzhou project; and 2) an assumed higher gas procurement cost was booked for 1H14 given a higher proportion of "Incremental Volume" gas.

- In 1H14, the unit sales margin in Quanzhou was down Rmb0.24-0.25/cm to Rmb0.31/cm due to a significant increase in lower-margin industrial customers (ceramics), and the overall impact to ENN was c.Rmb0.04-0.05/cm. Management expects some improvement in the project in 1H15 vs. 2H14, as the local government has made price adjustment for certain low gas price users in Nov 2014.
- In 1H14, ENN adopted a conservative gas procurement cost booking with c.Rmb0.03-0.04/cm impact to the overall margin. This was recovered in 2H, as the settlement payment with upstream suppliers turned out to be more favorable than it assumed.

In 2015, ENN expects the dollar margin will remain largely stable, considering some delayed pass-through in lowering the gas tariff after the April 2014 adjustment, but this will be partly offset by the volume recovery of the low-margin Quanzhou project (vs. 2H14).

- **Impact of April 2015 tariff adjustment:** ENN estimates the average gas procurement cost will be reduced by Rmb0.15/cm after the gas tariff adjustment goes into effect on 1 April. However, management does not expect any substantial margin improvement from this, as the



benefits will largely be passed through to end users to incentivize downstream demand.

Figure 2: ENN's key operating matrix

Key operating data	1H13	1H14	yoy	2013	2014	yoy
Population coverage <sup>(1)</sup> ('000)	57,467	61,645	7.3%	61,015	63,375	3.9%
Number of projects <sup>(1)</sup>	126	140	11.1%	134	142	6.0%
# household covered <sup>(1)</sup> ('000)	19,156	20,548	7.3%	20,338	21,792	7.1%
# household connected <sup>(1)</sup> ('000 - natural gas)	8,399	9,852	17.3%	9,201	10,605	15.3%
Resident'l penetrat'n rates <sup>(1)</sup>	43.8%	47.9%	3.7ppt	45.2%	48.7%	3.4ppt
Resident'l penetrat'n rates (all gas) <sup>(1)</sup>	44.3%	48.3%	3.5ppt	45.6%	48.7%	3.1ppt
C&I daily capacity connected <sup>(1)</sup> ('000 m3/ day)	37,355	46,525	24.5%	41,820	50,243	20.1%
<b>Avg. gas tariff (incl. VAT, Rmb/cm)</b>	<b>3.37</b>	<b>3.67</b>	<b>8.9%</b>	<b>3.49</b>	<b>3.69</b>	<b>5.7%</b>
Residential	2.56	2.60	1.6%	2.57	2.61	1.6%
C&I	3.41	3.76	10.3%	3.53	3.74	5.9%
Vehicle (LNG)	4.60	4.67	1.5%	4.67	4.45	-4.7%
Vehicle (CNG)	3.95	4.22	6.8%	4.06	4.28	5.4%
Avg. gas cost (Rmb/cm)	2.51	2.91	15.9%	2.66	2.86	7.5%
<b>Avg. gas sales margin (incl. VAT, Rmb/cm)</b>	<b>0.86</b>	<b>0.76</b>	<b>-11.6%</b>	<b>0.83</b>	<b>0.83</b>	<b>0.0%</b>
Avg household connection fee <sup>(1,2)</sup> (Rmb)	2,732	2,785	1.9%	2,792	2,853	2.2%
Avg C&I connection fee <sup>(1,2)</sup> (Rmb/ m3/ day)	144	145	0.7%	157	178	13.4%
('000 m <sup>3</sup> )						
Piped natural gas sales volume <sup>(1)</sup>	3,058,283	3,969,354	29.8%	6,494,513	7,896,334	21.6%
Vehicle gas sales volume <sup>(1)</sup>	532,300	666,592	25.2%	1,172,493	1,419,078	21.0%
Wholesale gas sales volume <sup>(1)</sup>	138,317	364,599	163.6%	370,019	804,160	117.3%
<b>Total natural gas sales volume <sup>(1)</sup></b>	<b>3,728,900</b>	<b>5,000,545</b>	<b>34.1%</b>	<b>8,037,025</b>	<b>10,119,572</b>	<b>25.9%</b>
Total gas sales volume <sup>(1)</sup>	3,777,711	5,013,145	32.7%	8,124,934	10,148,093	24.9%
No. of vehicle gas refuelling stations <sup>(1)</sup>	376	485	29.0%	448	527	17.6%
CNG	253	277	9.5%	268	286	6.7%
LNG	123	208	69.1%	180	241	33.9%
Residential piped gas sale volume <sup>(1)</sup>	15%	13%	-0.4ppt	12.7%	12.0%	-0.6ppt
C&I piped gas sale volume <sup>(1)</sup>	67%	66%	0.1ppt	68.2%	65.8%	-2.4ppt
Vehicle gas sale volume <sup>(1)</sup>	14%	13%	-0.3ppt	14.6%	14.0%	-0.6ppt
Wholesale gas sale volume <sup>(1)</sup>	4%	7%	0.6ppt	4.6%	7.9%	3.4ppt

Source: Deutsche Bank, company data

### Organic residential additions target: 1.4m households (vs. 1.32m in 2014)

In 2014, ENN added 1.3m residential households (exceeding the earlier guidance of 1.1-1.2m) and 8.3mcm/day C&I capacity (vs. 8.0mcm/day guidance). In 2015, ENN targets to further increase organic household additions to 1.4m, despite the sluggish property market, through strengthening the effort in existing buildings (instead of new ones).

- The cost of connection in existing buildings will be Rmb100-150 higher than those in new buildings (implying a 3.5-5.3ppt lower gross margin based on its 2014 average connection fee of Rmb2,853 per household).

For C&I, management targets that the capacity addition will remain above 8mcm/day in 2015 (vs. 8.3mcm in 2014).

### Other issues

- **North American business:** Management guides a loss of no more than USD25m in 2015 and targets to achieve breakeven in 2016.
- **Capex:** In 2014, ENN spent Rmb4.23bn, which includes Rmb1.16bn for acquisition. Going forward, management expects the capex (excl.



acquisition) to remain at a normalized Rmb3.0-3.5bn p.a. given a more mature project profile (with less pipeline construction needed).

- **Net gearing:** As of end-2014, ENN's net gearing (net debt/total equity) improved by 19.8ppt to 27.5%, which has been increased to 55% upon the payment of Rmb4bn for the purchase of a 1.12% stake in Sinopec Marketing in February 2015. As this is still much lower than its target net gearing ratio of below 80%, management concluded that it does not have equity placement plans in the near term assuming no significant acquisitions.

## Valuation and risks

### Earnings revision

We lift our 2015/16E earnings by 7.5%/8.7% to incorporate the 2014 results as well as to factor in the higher-than-expected connection. Consequently, we increase our DCF-based target price to HKD42.8 (from HKD39.7). We also introduce our 2017 forecasts, while the Street forecast is currently not representative yet given the limited data points.

We show our earnings change and Deutsche Bank vs. consensus in Figure 3 and Figure 4.

Figure 3: Earnings estimate and target price changes

2688.HK	Current	Before	% change
<b>Revenue (Rmb m)</b>			
2015E	32,764	34,408	-4.8%
2016E	37,595	38,835	-3.2%
2017E	42,948	NA	NA
<b>EBITDA (Rmb m)</b>			
2015E	5,113	5,027	1.7%
2016E	5,800	5,638	2.9%
2017E	6,285	NA	NA
<b>Net profit (Rmb m)</b>			
2015E	2,624	2,442	7.5%
2016E	3,008	2,768	8.7%
2017E	3,321	NA	NA
<b>Rating</b>	<b>Hold</b>	<b>Hold</b>	
<b>Target price (HKD)</b>	<b>42.80</b>	<b>39.70</b>	<b>7.8%</b>

Source: Deutsche Bank estimates

Figure 4: Deutsche Bank vs. consensus forecast

Company	Ticker	Target price	Rating
ENN Energy	2688.HK	HKD42.80	Hold
	DB	Consensus	DB vs. Consensus
<b>Revenue (Rmb m)</b>			
2015	32,764	35,549	-8%
2016	37,595	42,316	-11%
2017	42,948	45,025	-5%
<b>EBITDA (Rmb m)</b>			
2015	5,113	5,402	-5%
2016	5,800	6,166	-6%
2017	6,285	5,592	12%
<b>Net income (Rmb m)</b>			
2015	2,624	2,539	3%
2016	3,008	2,971	1%
2017	3,321	3,255	2%
<b>Consensus Ratings</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
	13	9	0

Source: Deutsche Bank estimates, Bloomberg Finance LP

### Valuation

We value the company using a discounted cash flow approach, with a WACC of 9.1% (a 3.9% risk-free rate, 1.0x beta, a 5.6% equity risk premium, 4.9% after-tax cost of debt and a 30% target debt to total capital ratio). We employ a 2% terminal growth rate (based on long-term economic growth) in cash flow to arrive at our terminal value.

### Risks

Key upside/downside risks include margin expansion/compression in the downstream gas distribution business, as well as higher-/lower-than-expected natural gas sales and connection fee income. Other downside risks include a growth slowdown in the gas station business due to reduced gas price competitiveness to cheap oil, especially in the US market; changes in the



connection fee regime, which would affect the cash flow of the company; and overpaying for acquisitions.

We show the comparable trading analysis in Figure 5.

Figure 5: Sector valuation comps and share performance

Share price as of		3/30/2015		Performance						Valuations						Returns & Gearing (%)							
Company	Ticker	Price	Rating	Price target	% to target	Mkt. Cap. US\$m	Absolute 3m	Relative 3m	14E	15E	16E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E
Towngas China	1083.HK	HKD6.99	Hold	HKD6.40	(8%)	2,353	(12%)	(15%)	17.4	15.3	13.6	20.2	17.9	1.4	1.3	7.3	8.7	3.6	4.3	34.0	1.3		
BJ Enterprises	0392.HK	HKD59.55	Buy	HKD71.40	20%	9,755	(2%)	(6%)	17.1	13.4	11.2	5.4	4.6	1.3	1.2	8.6	9.5	4.3	4.8	23.1	1.9		
ENN Energy	2688.HK	HKD46.90	Hold	HKD42.80	(9%)	6,550	7%	3%	18.5	16.7	14.5	8.4	8.1	3.4	2.9	27.4	20.1	7.5	5.9	40.6	1.8		
China Gas	0384.HK	HKD13.08	Hold	HKD11.50	(12%)	8,427	6%	2%	22.0	19.7	17.1	11.3	14.1	3.6	3.1	19.2	18.0	6.9	6.9	61.5	1.2		
Kunlun Energy	0135.HK	HKD7.65	Hold	HKD7.80	2%	7,921	4%	0%	11.6	13.6	10.7	6.1	6.3	1.1	1.1	10.1	8.2	4.2	3.2	20.0	2.4		
CR Gas	1193.HK	HKD24.00	Hold	HKD18.80	(22%)	6,884	21%	16%	21.1	19.2	17.0	13.9	14.6	3.3	2.9	16.4	16.2	4.6	4.4	24.5	1.0		
<b>Average</b>							<b>4%</b>	<b>0%</b>	<b>18.0</b>	<b>16.3</b>	<b>14.0</b>	<b>10.9</b>	<b>10.9</b>	<b>2.3</b>	<b>2.1</b>	<b>14.8</b>	<b>13.4</b>	<b>5.2</b>	<b>4.9</b>	<b>34.0</b>	<b>1.6</b>		

All estimates are DB estimates and all stock data is from Datastream, Bloomberg Finance LP  
 Definitions: 1) Gearing is net debt / shareholders equity; 2) EV is after deducting estimated value of associates;

Company	Price	Rating	Share price performance						Relative performance						Share price statistics						Avg. daily vol. US\$, 1yr**		
			1wk	1m	3m	6m	12m	3yr	Avg. daily vol. US\$, 1m**	local currency & local country index****						Avg. daily vol.							
			local currency						local currency						current / current/								
			daily vol.						daily vol.						52w H / 52w L								
Towngas China	HKD6.99	Hold	0%	(1%)	(12%)	(16%)	(27%)	27%	4.3	(1%)	(2%)	(15%)	(30%)	(40%)	10%	3.8	9.97	6.70	0.70	1.04	10.15	1.23	3.7
BJ Enterprises	HKD59.55	Buy	3%	3%	(2%)	(10%)	(12%)	31%	13.5	2%	2%	(6%)	(25%)	(29%)	13%	12.3	76.13	56.65	0.78	1.05	77.17	8.17	12.0
ENN Energy	HKD46.90	Hold	2%	14%	7%	(8%)	(10%)	81%	17.5	1%	13%	3%	(23%)	(27%)	56%	21.2	61.90	40.05	0.76	1.17	61.90	3.52	17.4
China Gas	HKD13.08	Hold	5%	8%	6%	2%	12%	261%	18.8	4%	7%	2%	(15%)	(9%)	212%	15.7	16.08	10.61	0.81	1.23	16.08	0.45	16.4
Kunlun Energy	HKD7.65	Hold	5%	0%	4%	(32%)	(40%)	(42%)	14.4	4%	(1%)	0%	(43%)	(51%)	(50%)	24.0	13.86	6.88	0.55	1.11	16.76	0.92	22.4
CR Gas	HKD24.00	Hold	10%	25%	21%	14%	1%	66%	12.7	9%	24%	16%	(4%)	(18%)	43%	8.2	26.74	17.88	0.90	1.34	27.51	1.61	8.2
<b>Average</b>			<b>4%</b>	<b>8%</b>	<b>4%</b>	<b>(8%)</b>	<b>(13%)</b>	<b>71%</b>	<b>13.5</b>	<b>3%</b>	<b>7%</b>	<b>0%</b>	<b>(23%)</b>	<b>(29%)</b>	<b>47%</b>	<b>14.2</b>	<b>34.11</b>	<b>23.13</b>	<b>0.75</b>	<b>1.16</b>	<b>34.93</b>	<b>2.65</b>	<b>13.4</b>

\*\* in USD millions  
 \*\*\*\* Relative performance is against the HSCEI

Source: Deutsche Bank, Datastream





# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
ENN Energy	2688.HK	47.00 (HKD) 30 Mar 15	6,9,14,15

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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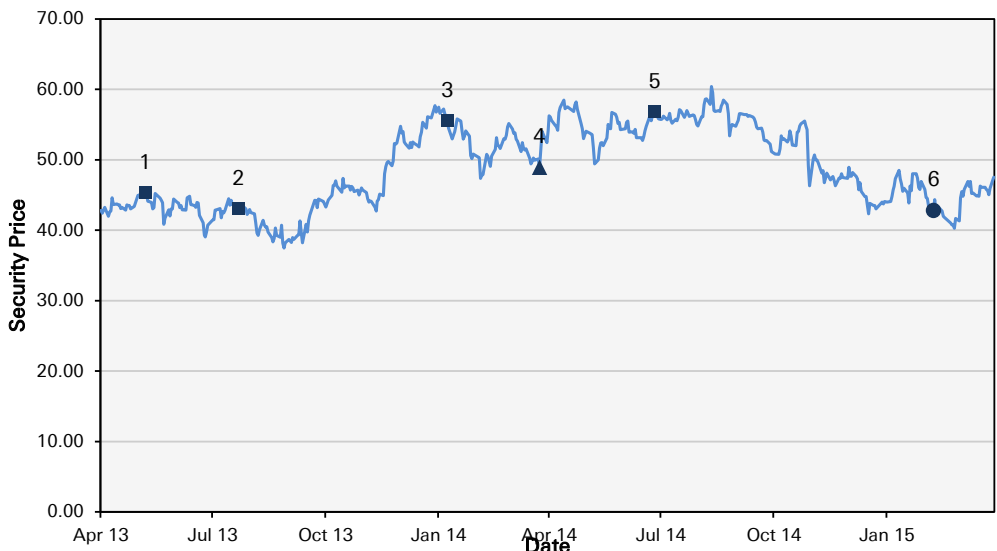
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Historical recommendations and target price: ENN Energy (2688.HK)

(as of 3/30/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	08/05/2013:	Hold, Target Price Change HKD41.00	4.	25/03/2014:	Upgrade to Buy, Target Price Change HKD60.80
2.	23/07/2013:	Hold, Target Price Change HKD40.80	5.	27/06/2014:	Buy, Target Price Change HKD64.00
3.	09/01/2014:	Hold, Target Price Change HKD54.60	6.	09/02/2015:	Downgrade to Hold, Target Price Change HKD39.70

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**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

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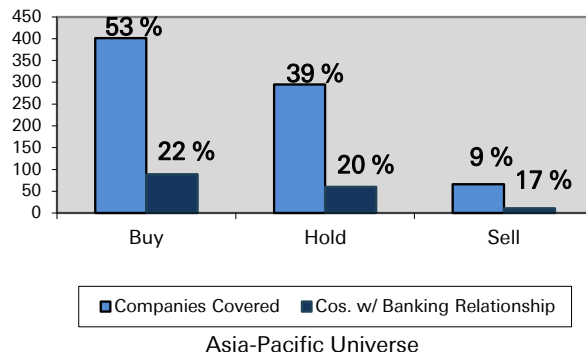
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