

Mixed ytd operating performance; dollar margin likely maintained

What's changed

We note mixed ytd operating performance for BJE: **(1)** Downstream gas sales volume increased 28.5% yoy for 5M15, mainly driven by the ramp up of recently-launched gas power plants (mainly Jingxi, Gaojing and Gaoantun). Looking ahead, Gaohua and Hauneng gas power plants will commence operation in 2H15 and 2016, and management targets 13bn m³ gas sales in 2015, implying 30.5% yoy growth. **(2)** On the other hand, Shaanxi-Beijing pipeline's gas sales volume posted 5-6% yoy growth for 5M15, mainly due to the slowdown in overall gas demand. While the municipal government revised down the transmission tariff for local gas pipeline by 10%, it does not affect the tariff scheme of Shaanxi-Beijing pipeline. **(3)** BJE is still negotiating with PetroChina for gas procurement costs and expects its dollar margin for downstream gas sales to remain unchanged in 2015.

Implications

We believe BJE's defensive customer portfolio enables its earnings to be less sensitive against the macro slowdown as compared to other gas companies under coverage. In addition, solid execution in coal to gas conversion in 2015-16 may provide earnings upside. 4,000 steam tonnes of coal boilers have been converted to gas in 2014, which BJE expects should create 1bn m³ annual gas demand and 3,500-4,000 steam tonnes to be converted in 2015. To turn more positive on the stock, however, we view clarity on the dollar margin trend and potential SOE reform as critical factors.

Valuation

We revise up our 2015-17E net profit by 2-3% mainly to factor in a better downstream gas sales and margin outlook. We lift our 2015E EV/GCI vs. CROCI/WACC based 12m TP from HK\$56 to HK\$60 on our revisions and a higher sector cash flow multiple (from 1.21x to 1.26x on marking to market). Maintain Neutral.

Key risks

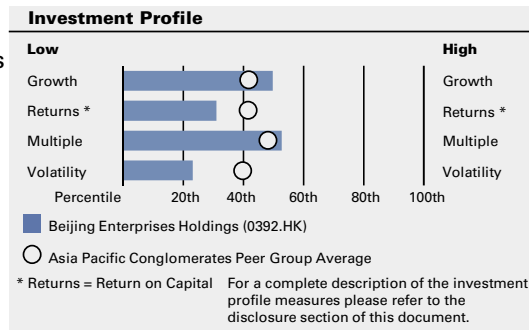
Value-accretive M&As (upside) and dollar margin in gas sales (downside).

INVESTMENT LIST MEMBERSHIP

Neutral

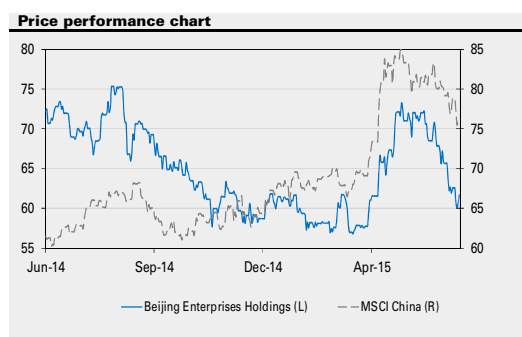
Coverage View: Neutral

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Key data	Current
Price (HK\$)	61.65
12 month price target (HK\$)	60.00
Market cap (HK\$ mn / US\$ mn)	79,213.5 / 10,218.4
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (HK\$) New	3.78	4.45	5.15	5.95
EPS revision (%)	0.0	2.8	3.2	2.1
EPS growth (%)	4.7	17.9	15.8	15.4
EPS (dil) (HK\$) New	3.78	4.45	5.15	5.95
P/E (X)	18.0	13.9	12.0	10.4
P/B (X)	1.5	1.3	1.2	1.1
EV/EBITDA (X)	21.5	18.0	16.3	15.0
Dividend yield (%)	1.3	2.2	2.5	2.9
ROE (%)	8.7	9.6	10.3	11.0
CROCI (%)	7.2	7.5	7.7	7.8



Share price performance (%)	3 month	6 month	12 month
Absolute	7.4	4.1	(14.7)
Rel. to MSCI China	(4.1)	(14.4)	(31.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/18/2015 close.

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Beijing Enterprises Holdings: Summary Financials

Profit model (HK\$ mn)	12/14	12/15E	12/16E	12/17E	Balance sheet (HK\$ mn)	12/14	12/15E	12/16E	12/17E
Total revenue	47,935.8	62,088.8	67,872.6	74,372.7	Cash & equivalents	11,207.7	10,604.6	11,501.4	13,272.9
Cost of goods sold	(39,359.8)	(50,980.7)	(55,729.7)	(61,066.9)	Accounts receivable	5,320.8	5,852.9	6,438.2	7,082.0
SG&A	(2,596.0)	(3,104.4)	(3,393.6)	(3,718.6)	Inventory	5,393.4	5,932.7	6,526.0	7,178.6
R&D	--	--	--	--	Other current assets	11,324.1	11,890.3	12,484.8	13,109.1
Other operating profit/(expense)	(229.5)	(1,508.3)	(1,593.8)	(1,894.5)	Total current assets	33,246.0	34,280.5	36,950.4	40,642.6
EBITDA	5,750.5	6,495.3	7,155.4	7,692.7	Net PP&E	39,320.5	42,439.7	44,258.9	45,522.4
Depreciation & amortization	(2,419.5)	(2,405.8)	(2,466.0)	(2,521.7)	Net intangibles	9,069.7	9,069.7	9,069.7	9,069.7
EBIT	3,331.1	4,089.5	4,689.4	5,171.0	Total investments	34,590.0	36,719.5	39,140.5	42,057.8
Interest income	164.0	168.1	159.1	172.5	Other long-term assets	7,837.7	8,263.5	8,714.0	9,190.7
Interest expense	(1,172.5)	(1,411.0)	(1,411.0)	(1,411.0)	Total assets	124,063.9	130,772.8	138,133.5	146,483.1
Income/(loss) from uncons. subs.	3,811.9	4,094.1	4,553.5	5,169.7	Accounts payable	2,238.4	2,574.2	2,960.3	3,404.3
Others	(252.8)	0.0	0.0	0.0	Short-term debt	17,691.4	17,691.4	17,691.4	17,691.4
Pretax profits	5,970.5	6,940.8	7,991.0	9,102.3	Other current liabilities	15,187.8	16,784.5	18,479.4	20,374.3
Income tax	(564.8)	(563.6)	(633.9)	(699.6)	Total current liabilities	35,117.7	37,050.1	39,131.1	41,470.1
Minorities	(574.0)	(682.1)	(763.9)	(795.9)	Long-term debt	19,439.2	19,439.2	19,439.2	19,439.2
Net income pre-preferred dividends	4,831.7	5,695.1	6,593.2	7,606.8	Other long-term liabilities	1,456.1	1,456.1	1,456.1	1,456.1
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	20,895.3	20,895.3	20,895.3	20,895.3
Net income (pre-exceptionals)	4,742.8	5,695.1	6,593.2	7,606.8	Total liabilities	56,012.9	57,945.4	60,026.3	62,365.3
Post-tax exceptionals	88.8	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	4,831.7	5,695.1	6,593.2	7,606.8	Total common equity	57,176.4	61,498.4	66,284.8	71,802.6
EPS (basic, pre-exception) (HK\$)	3.71	4.45	5.15	5.95	Minority interest	10,874.6	11,329.1	11,822.3	12,315.2
EPS (basic, post-exception) (HK\$)	3.78	4.45	5.15	5.95	Total liabilities & equity	124,063.9	130,772.8	138,133.5	146,483.1
EPS (diluted, post-exception) (HK\$)	3.78	4.45	5.15	5.95	BVPS (HK\$)	44.69	48.07	51.81	56.12
DPS (HK\$)	0.90	1.34	1.55	1.78	Ratios	12/14	12/15E	12/16E	12/17E
Dividend payout ratio (%)	23.8	30.0	30.0	30.0	CROCI (%)	7.2	7.5	7.7	7.8
Free cash flow yield (%)	0.8	0.8	3.0	4.2	ROE (%)	8.7	9.6	10.3	11.0
Growth & margins (%)	12/14	12/15E	12/16E	12/17E	ROA (%)	4.1	4.5	4.9	5.3
Sales growth	13.2	29.5	9.3	9.6	ROACE (%)	7.2	7.8	8.4	9.0
EBITDA growth	(4.6)	13.0	10.2	7.5	Inventory days	51.3	40.5	40.8	41.0
EBIT growth	(9.9)	22.8	14.7	10.3	Receivables days	37.0	32.8	33.0	33.2
Net income growth	15.5	17.9	15.8	15.4	Payable days	21.4	17.2	18.1	19.0
EPS growth	4.7	17.9	15.8	15.4	Net debt/equity (%)	38.1	36.4	32.8	28.4
Gross margin	17.9	17.9	17.9	17.9	Interest cover - EBIT (X)	3.3	3.3	3.7	4.2
EBITDA margin	12.0	10.5	10.5	10.3	Valuation	12/14	12/15E	12/16E	12/17E
EBIT margin	6.9	6.6	6.9	7.0	P/E (analyst) (X)	18.0	13.9	12.0	10.4
Cash flow statement (HK\$ mn)	12/14	12/15E	12/16E	12/17E	P/B (X)	1.5	1.3	1.2	1.1
Net income pre-preferred dividends	4,831.7	5,695.1	6,593.2	7,606.8	EV/EBITDA (X)	21.5	18.0	16.3	15.0
D&A add-back	2,419.5	2,405.8	2,466.0	2,521.7	EV/GCI (X)	1.2	1.0	1.0	0.9
Minorities interests add-back	574.0	682.1	763.9	795.9	Dividend yield (%)	1.3	2.2	2.5	2.9
Net (inc)/dec working capital	(804.2)	(735.7)	(792.4)	(852.4)					
Other operating cash flow	(1,587.9)	(1,762.7)	(2,050.3)	(2,436.0)					
Cash flow from operations	5,344.2	6,284.6	6,980.4	7,635.9					
Capital expenditures	(4,525.0)	(5,525.0)	(4,285.2)	(3,785.2)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	1,345.8	0.0	0.0	0.0					
Cash flow from investments	(3,179.2)	(5,525.0)	(4,285.2)	(3,785.2)					
Dividends paid (common & pref)	(1,054.3)	(1,362.8)	(1,798.3)	(2,079.3)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	(127.0)	0.0	0.0	0.0					
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	(1,181.3)	(1,362.8)	(1,798.3)	(2,079.3)					
Total cash flow	983.7	(603.2)	896.9	1,771.5					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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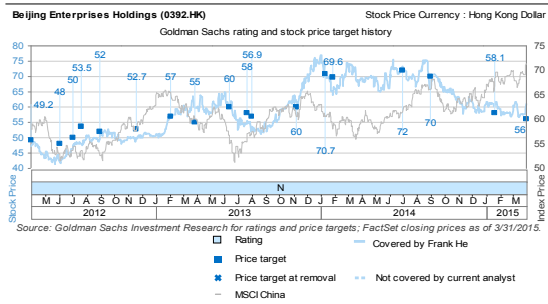
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