



## Company Report: Beijing Enterprises Holdings (00392 HK)

公司报告: 北京控股 (00392 HK)

Kevin Guo 郭勇  
(86755) 2397 6671  
kevin.guo@gtjas.com

23 April 2018

# 2017 Annual Results In Line, Maintain "Buy"

2017年年度业绩符合预期, 维持“买入”评级

- **The 2017 annual results of the Company were generally in line with market consensus and our estimations.** Total revenue of the Company increased 2.8% yoy to HK\$ 57.51 billion and net profit attributable to shareholders increased 10.3% yoy to HK\$ 6.88 billion.
- **We expect total sales of gas of the Company to only record single-digit percentage growth in 2018-2020.** All of the 4 heating and power stations are gradually reaching full capacity and consumption from other customers is also generally stable.
- **We expect gas dollar margin of the Company to remain stable in 2018.** The customer group of the Company is much more stable than other gas distribution companies, so the Company is expected to be less impacted by newly added "coal to gas" customers.
- **We expect net profit contributed by water business to maintain fast growth, but beer business to still be under pressure in 2018 due to an unfavorable macro economy.**
- **Revise down the TP to HK\$ 52.09, but maintain "Buy".**
- 公司 2017 年年度业绩基本符合市场一致预期和我们的估计。公司收入同比增长 2.8% 至港币 575.1 亿元, 股东净利同比增长 10.3% 至港币 68.8 亿元。
- 我们预计公司的天然气销量在 2018-2020 年将仅录得单位数增长。所有四个燃气热电厂将逐步达到设计产能且来自其它客户的消费量基本稳定。
- 我们预计公司 2018 年的销气价差保持稳定。公司的客户群体比其它燃气分销公司更加稳定, 公司受到新增“煤改气”用户的影响将更小。
- 我们预计水务业务贡献的净利将保持快速增长, 但啤酒业务在 2018 年由于不利的宏观经济仍将面临压力。
- 下调目标价至 52.09 港元, 但维持“买入”评级。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$52.09**

Revised from 原目标价:

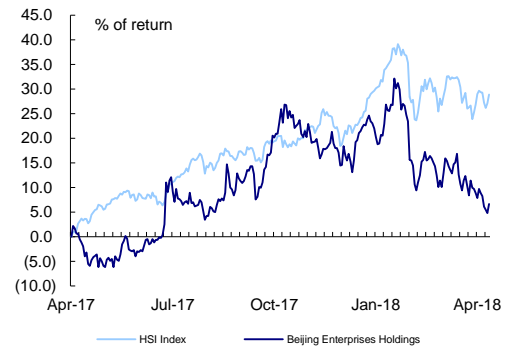
HK\$62.50

Share price 股价:

HK\$39.650

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(5.7)	(18.6)	(0.9)
Rel. % to HS Index 相对恒指变动 %	(5.4)	(10.4)	(26.6)
Avg. share price (HK\$) 平均股价 (港元)	40.9	43.2	42.1

Source: Bloomberg, Guotai Junan International.

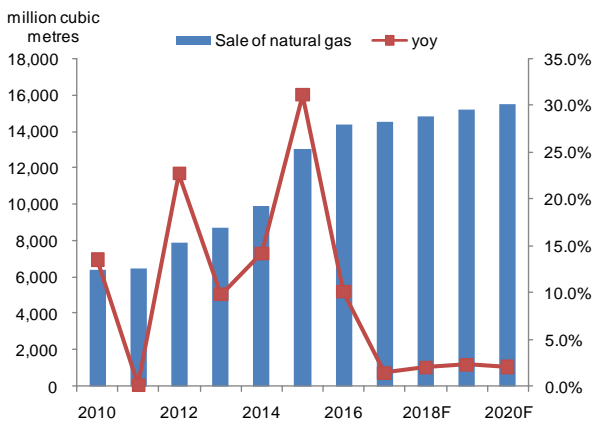
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	55,959	6,236	4.924	11.6	8.2	45,258	0.9	0.947	2.3	10.8
2017A	57,508	6,880	5.452	10.7	7.4	53,536	0.8	0.980	2.4	11.0
2018F	63,119	7,305	5.788	6.2	7.0	57,733	0.7	1.592	3.9	10.4
2019F	66,402	7,910	6.267	8.3	6.4	62,277	0.6	1.724	4.3	10.4
2020F	69,932	8,784	6.960	11.1	5.8	67,322	0.6	1.914	4.7	10.7
Shares in issue (m) 总股数 (m)			1,262.1		Major shareholder 大股东				BEH Group 54.5%	
Market cap. (HK\$ m) 市值 (HK\$ m)			50,925.7		Free float (%) 自由流通比率 (%)				45.5%	
3 month average vol. 3 个月平均成交股数 ('000)			1,600.1		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				53.2	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			50.500 / 36.150		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				72.0	

Source: the Company, Guotai Junan International.

The 2017 annual results of the Company were generally in line with market consensus and our estimations. Total revenue of the Company increased 2.8% yoy to HK\$ 57.51 billion and net profit attributable to shareholders increased 10.3% yoy to HK\$ 6.88 billion. Gas distribution business, beer business, water business and solid waste treatment business contributed HK\$ 6.14 billion, HK\$ 17.52 million, HK\$ 1.62 billion and HK\$ 0.46 billion in operating profit, respectively, representing 74.5%, 0.2%, 19.6% and 5.7% of total operating profit. Total sales of piped gas increased 1.4% yoy to 14.58 billion m<sup>3</sup> and revenue contributed from gas distribution increased by 1.3% yoy to HKD 39.89 billion. Profit contributed from China Gas (00384 HK) increased by 136% to HKD 1.39 billion due to faster growth of each business. The beer business was still facing challenges and only contributed RMB 17.5 million profit. Water business grew fast as new water plants were put into operation and profit contributed by water business increased 14.5% to HKD 1.62 billion. Solid waste treatment business contributed HKD 464.8 million in profit, which accounted for 5.7% of total operating profit.

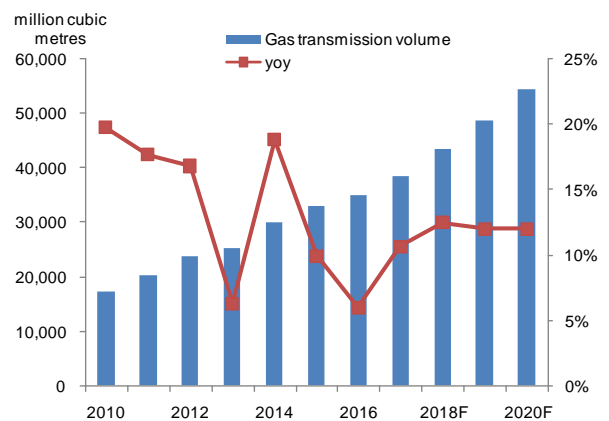
We expect total sale of gas of the Company to only record single-digit percentage growth in 2018-2020. We expect total sales of piped gas of the Company to maintain steady growth in 2018-2020 as gas fired cogeneration power plants are reaching full capacity and since there are more “coal to gas” projects. But, we expect total sale of natural gas of the Company to only maintain single-digit percentage growth in 2018-2020. Gas power stations are the single largest customer group, consuming about 50% of total piped natural gas of the Company. According to the Beijing Municipal Government’s plans, the 4 heating and power stations have a total power generating capacity of a gas fired power plant of 8,000 MW; they are expected to consume more than 8 billion m<sup>3</sup> of natural gas when under full operation. All of the 4 heating and power stations are gradually reaching full capacity, so gas consumed by gas power stations is expected to only grow slightly. The Beijing Municipal government has committed to improve air quality and plans to develop more “coal to gas” projects, which will also drive natural gas consumption, but growth prospects will also be limited due to a relatively small customer group. Total gas transporting volume of Petro China Beijing Pipeline Co. increased by 14.8% to 38.62 billion m<sup>3</sup> in 2017, slightly lower than our estimation. Petro China Beijing Pipeline operates Shanxi-Beijing gas transmission lines, which connects the gas production region of Shanxi to Beijing, Shandong, Hebei and other provinces. We expect gas transporting volume growth to accelerate in 2018 and maintain double-digit percentage growth due to strong demand growth in 2018-2020. Gas transportation prices are relatively stable under the new pricing mechanism, so we expect total revenue and net profit of gas transmission business to grow accordingly with the growth of gas transmission volume.

Figure-1: Sale of Natural Gas of Beijing Enterprises



Source: the Company, Guotai Junan International.

Figure-2: Gas Transmission Volume of the JV



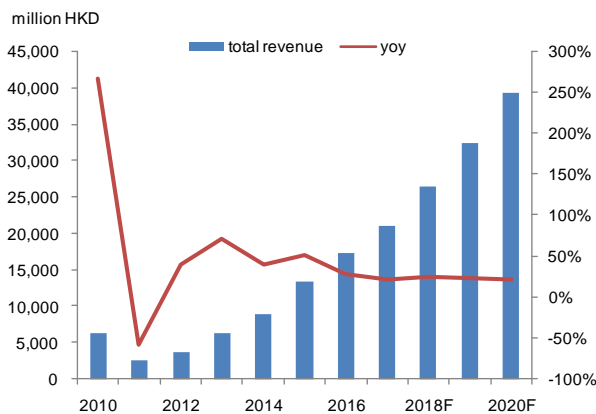
Source: the Company, Guotai Junan International.

We expect gas dollar margin of the Company to remain stable in 2018. Gas dollar margin of gas distribution companies became much more stable after the gas price reform which took place in 2015, as the price difference between “legacy” and “incremental” gas was removed. However, gas dollar margin of the Company declined in 2017 for two reasons: firstly, newly developed “coal to gas” customers generally had lower gas dollar margin as governments issued favorable policies to encourage gas consumption; secondly, gas supply problems in the winter season led to higher gas procurement costs. We expect gas dollar margin to generally remain stable in 2018. We believe that gas supply problems in the winter season will not take place again as more gas storage facilities are under construction, which will significantly expand whole storage capacity. On the other hand, we believe that governments and gas suppliers will take more measures to prevent upstream supply shortage problems. Hence, we believe that average procurement costs will be more stable in 2018. Although newly added “coal to gas” customers have lower gas dollar margin, we believe that they will only have slight impact in 2018. The customer group of the Company is much more stable than other gas distribution companies, so the Company is expected to be less

impacted. We believe that gas dollar margin of the Company may decline slightly due to customer mix change, but generally remain stable.

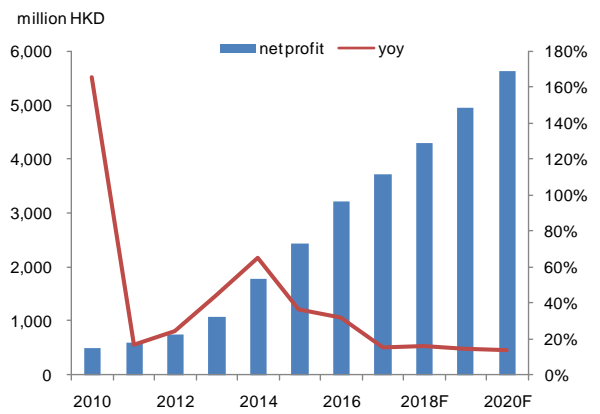
**We expect net profit contributed by water business to maintain fast growth, but beer business will still be under pressure in 2018 due to an unfavorable macro economy.** Total revenue of Beijing Enterprises Water Group in 2017 increased by 22.1% yoy to HK\$ 21.19 billion, and profit contributed by water business of the Company also increased 14.5% yoy to HK\$ 1.62 billion. The fast growth of water business was mainly attributed to the substantial release in new capacity of sewage treatment and water distribution. We expect water business of the Company to maintain fast growth as more capacity of sewage treatment and water distribution is put into operation. As China's macro economic growth rate is expected to continue to slow down, beer business of the Company is expected to still be under pressure. The Company successfully acquired German EEW project in 2016 which added 13,000 tons per day of solid waste treating capacity. Besides, the Company has also expanded its domestic solid waste treatment capacity. We expect net profit contributed by solid waste treating business to grow steadily in 2018.

**Figure-3: Total Revenue of Beijing Enterprises Water**



Source: the Company, Guotai Junan International.

**Figure-4: Net Profit of Beijing Enterprises Water**



Source: the Company, Guotai Junan International.

**Revise down the TP to HK\$ 52.09, but maintain “Buy”.** Beijing Enterprises is an integrated public utilities company and also engages in beer business. The company focuses on public utilities business, which mainly includes gas distribution business and municipal water operation. Gas business constituted the largest part of revenue and operating profit of the Company. We expect total sale of piped gas of the Company to maintain steady growth over the next 3 years, and gas dollar margin is also expected to remain at a steady level under the new pricing mechanism. At the same time, net profit contributed by gas transporting business and China Gas is expected to maintain double-digit percentage growth. Profit contributed by China Gas is also expected to grow at a faster speed due to faster natural gas sales and connection revenue. We also expect profit contributed by water business of the Company to grow at fast speed in the next 3 years as more capacity is put into operation. However, beer business is expected to still be under pressure in 2018 due to an unfavorable macro economy. Besides, solid waste treatment business of the Company is also expected to grow fast in 2018. However, the sale of natural gas of the Company is expected to only record single-digit percentage growth in 2018-2020 as gas consumption in Beijing will gradually reach saturation. We expect net profit of the Company to grow steadily in 2018-2020, but the growth rate is expected to be slower than other gas distributors. Hence, we grant the Company a lower PE valuation level. We have revised down the TP of the Company to HK\$ 52.09, which is equivalent to 9.0x FY18 PE, but maintain “Buy”.

**Table-1: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				17A	18F	19F	20F	17A	18F	19F	20F	18F
<b>Gas Distributors</b>												
Kunlun Energy Co Ltd	00135 HK	HK\$	6.32	9.3	8.6	7.5	6.8	1.1	1.0	0.9	0.8	11.9
Beijing Enterprises Hldgs	00392 HK	HK\$	39.65	7.1	6.8	6.2	5.5	0.7	0.7	0.6	0.6	10.3
China Gas Holdings Ltd	00384 HK	HK\$	28.15	33.3	22.9	19.0	16.2	6.8	5.6	4.7	3.9	26.3
Enn Energy Holdings Ltd	02688 HK	HK\$	70.25	23.5	15.2	13.0	11.0	3.7	3.0	2.6	2.2	20.9
China Resources Gas Group Lt	01193 HK	HK\$	28.45	16.9	15.2	13.8	11.7	2.9	2.6	2.2	1.9	17.6
Towngas China Co Ltd	01083 HK	HK\$	6.87	13.8	13.4	12.1	10.8	1.2	1.1	1.1	1.0	8.7
Simple Average				17.3	13.7	11.9	10.3	2.7	2.3	2.0	1.7	16.0
Weighted Average				21.6	15.9	13.6	11.7	3.8	3.2	2.7	2.3	19.2
<b>Beer</b>												
China Resources Enterprise	00291 HK	HK\$	33.85	81.4	39.8	32.7	27.5	5.0	4.4	4.1	3.8	10.7
Tsingtao Brewery Co Ltd-H	00168 HK	HK\$	42.05	39.0	28.4	25.8	25.8	2.8	2.5	2.3	2.3	9.3
Beijing Enterprises Hldgs	00392 HK	HK\$	38.95	7.1	6.8	6.2	5.5	0.7	0.7	0.6	0.6	10.3
San Miguel Brewery Hk Ltd	00236 HK	HK\$	1.22	40.7	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.
Simple Average				42.1	25.0	21.6	19.6	2.3	2.5	2.3	2.2	10.1
Weighted Average				52.8	29.2	24.9	22.2	3.4	3.0	2.8	2.6	10.2
<b>Water Treatment</b>												
Beijing Enterprises Water Gr	371 HK	HKD	4.31	10.2	8.5	7.4	6.6	1.8	1.5	1.4	1.2	18.9
Guangdong Investment Ltd	270 HK	HKD	12.12	13.8	16.0	15.3	13.6	1.9	2.0	1.9	1.7	12.4
China Everbright Intl Ltd	257 HK	HKD	10.70	13.7	10.8	9.1	8.0	2.1	1.9	1.6	1.4	18.6
Tianjin Capital Environ-H	1065 HK	HKD	4.30	10.3	9.4	8.9	n.a.	1.0	0.9	0.8	n.a.	9.8
China Water Affairs Group	855 HK	HKD	7.78	13.7	12.3	10.5	8.8	2.1	2.0	1.7	1.5	15.5
Ct Environmental Group Ltd	1363 HK	HKD	1.19	10.8	9.1	7.8	6.4	1.7	1.3	1.2	1.0	17.0
Yunnan Water Investment -H	6839 HK	HKD	3.09	7.6	6.1	5.2	4.0	0.7	0.5	0.5	0.4	9.6
Kunming Dianchi Water Trea-H	3768 HK	HKD	2.76	7.2	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.
Kangda International Environ	6136 HK	HKD	1.37	5.9	4.5	4.2	3.2	0.6	0.5	0.5	0.4	11.4
Simple Average				10.4	9.6	8.5	7.2	1.4	1.3	1.2	1.1	14.1
Weighted Average				12.1	12.8	12.0	10.6	1.8	1.8	1.7	1.5	14.5

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	55,959	57,508	63,119	66,402	69,932	PPE	43,428	51,729	47,704	50,181	52,802
COGS	(46,523)	(48,145)	(53,300)	(55,916)	(58,713)	Goodwill	15,772	16,910	16,234	15,585	14,961
Gross profit	9,436	9,363	9,819	10,485	11,219	Investment in JV and Asso.	33,117	48,328	50,744	53,281	55,945
G&A expenses	(6,644)	(6,666)	(7,006)	(7,304)	(7,762)	Other receivables	2,941	891	909	927	945
Operating Profit	2,791	2,697	2,812	3,181	3,457	Other investments	3,172	6,432	6,754	7,091	7,446
Other Income and Expenses	1,248	1,078	1,184	1,149	1,114	Others	12,442	12,762	11,292	11,737	12,201
Finance Costs	(1,492)	(1,597)	(1,636)	(1,782)	(1,778)	Total Non-current Assets	110,872	138,146	133,636	138,802	144,301
Profits from JV and Asso.	4,950	5,855	6,186	6,707	7,484	Cash & Cash Equivalents	15,972	17,842	16,411	17,264	18,182
Profit Before Tax	7,497	8,032	8,547	9,255	10,277	Inventories	4,953	5,294	5,365	5,644	5,944
Income Tax	(858)	(845)	(897)	(972)	(1,079)	Trade receivables	3,677	4,013	5,270	5,545	5,839
profit After Tax	6,639	7,187	7,649	8,283	9,198	Other receivables	4,782	4,186	6,312	6,640	6,993
Non-controlling Interest	(403)	(307)	(344)	(373)	(414)	Others	4,453	1,977	2,308	2,717	3,227
Shareholders' Profit / Loss	6,236	6,880	7,305	7,910	8,784	Total Current Assets	33,836	33,403	35,666	37,811	40,186
Basic EPS	4.924	5.452	5.788	6.267	6.960	Total Assets	144,709	171,549	169,302	176,613	184,487
						Trade payables	3,929	4,122	3,156	3,320	3,497
						Receipts in advance	5,566	6,953	6,943	7,304	7,692
						Other payables	10,660	13,777	10,895	11,459	12,064
						Bank borrowings	18,419	6,392	6,582	3,516	41
						Others	687	654	673	693	714
						Total Current Liabilities	39,260	31,950	28,250	26,293	24,008
						Bank borrowings	12,877	22,685	17,042	17,928	18,882
						Guaranteed notes	19,334	31,411	31,559	33,201	34,966
						Other liabilities	1,023	1,551	1,629	1,710	1,795
						Deferred tax liabilities	2,081	2,594	2,724	2,860	3,003
						Others	2,095	2,185	2,294	2,409	2,529
						Total Non-current Liabilities	37,410	60,426	55,249	58,109	61,176
						Total Liabilities	76,670	92,376	83,498	84,401	85,183
						Total Shareholders' Equity	57,321	67,568	72,864	78,599	84,967
						Minority Interest	10,718	11,605	12,939	13,612	14,336
						Total Equity	68,039	79,173	85,804	92,211	99,303

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Profit before tax	7,497	8,032	8,547	9,255	10,277
Income tax	(858)	(845)	(897)	(972)	(1,079)
Financial costs	1,492	1,597	1,636	1,782	1,778
Adjust for depre.&amort.	2,581	2,891	3,039	3,196	3,362
Change in WC	3,060	7,088	(5,370)	256	272
Adjust of Profit from JV and Asso.	(2,973)	(3,523)	(3,722)	(4,034)	(4,500)
Others	(376)	(410)	(378)	(382)	(386)
Cash from Operating Activities	10,424	14,830	2,854	9,101	9,724
Capital expenditure	(8,500)	(5,600)	(5,880)	(6,174)	(6,483)
Investment in JV and associates	(1,325)	(15,210)	(2,416)	(2,537)	(2,664)
Disposal of assets	500	500	500	500	500
Others	(10,338)	149	156	153	150
Cash from Investing Activities	(19,663)	(20,162)	(7,640)	(8,058)	(8,497)
Issue of guaranteed notes	(111)	12,077	149	1,641	1,765
Net bank borrowings	15,984	(2,219)	(5,453)	(2,180)	(2,522)
Interest paid	(1,492)	(1,597)	(1,636)	(1,782)	(1,778)
Dividend paid	(1,199)	(1,237)	(2,009)	(2,175)	(2,416)
Others	(1,666)	177	12,303	4,306	4,641
Cash from Financing Activities	11,516	7,202	3,355	(189)	(310)
Net Changes in Cash	2,278	1,870	(1,431)	854	918
Cash at Beg of Year	13,694	15,972	17,842	16,411	17,264
Foreign exchange rate changes	0	0	0	0	0
Cash at End of Year	15,972	17,842	16,411	17,264	18,182

Financial Ratios					
Year end 31 Dec	2016A	2017A	2018F	2019F	2020F
Gross margin	16.9%	16.3%	15.6%	15.8%	16.0%
Net margin	11.1%	12.0%	11.6%	11.9%	12.6%
ROE	10.8%	11.0%	10.4%	10.4%	10.7%
ROA	4.6%	4.2%	4.5%	4.7%	5.0%
Free CF	599	-5,981	-5,442	390	577
Net gearing	60.5%	63.1%	53.2%	47.6%	42.0%

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GREENLAND BROAD (01253 HK), KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), CAM SCSMALLCAP (03157 HK), ZHENRO PPT (06158 HK), LINK HOLDINGS (08237 HK), MR CSI300 ETF-R (CNY) (83127 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

### DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk