

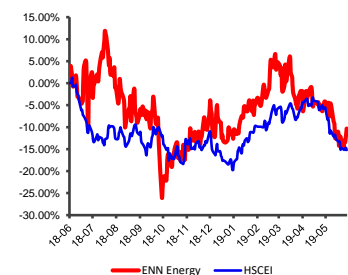
3 June 2019

Hold
Unchanged

Market Data: May 31, 2019

Closing Price (HK\$)	70.50
Price Target (HK\$)	77.31
HSCEI	10,387
HSCCI	4,286
52-week High/Low (HK\$)	92.35/55.25
Market Cap (RMB Mn)	66,037
Market Cap (HK\$m)	79,244
Shares Outstanding (m)	1,124
Exchange Rate (Rmb-HK\$)	1.20

Price Performance Chart:



Source: Bloomberg

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Related Reports

"ENN Energy (02688:HK) – "Margin pressure" 22 March 2019

"ENN Energy (02688:HK) – "Stepping on the gas" 19 November 2018

The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

阳光总在风雨后

ENN Energy (02688:HK)

Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (Rmbm)	48,269	60,698	73,325	87,815	105,103
YoY (%)	41.54	25.75	20.80	19.76	19.69
Net income (Rmbm)	2,802	2,818	4,767	5,931	7,132
YoY (%)	30.26	0.57	69.17	24.42	20.24
EPS (Rmb)	2.59	2.56	4.34	5.39	6.49
Diluted EPS (Rmb)	2.59	2.56	4.32	5.38	6.47
ROE (%)	16.53	13.18	19.47	20.93	21.63
Debt/asset (%)	65.86	65.43	62.04	60.12	58.52
Dividend Yield (%)	1.82	2.11	2.37	2.95	3.54
PE (x)	22.7	22.9	13.6	10.9	9.1
PB (x)	3.7	3.0	2.6	2.3	2.0
EV/Ebitda (x)	12.2	10.4	9.7	6.6	5.4

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

上周五我们走访了新奥东莞经营区内的煤改气及分布式能源用户，我们发现工业煤改气 19 年显著提速；分布式能源项目进展顺利，符合预期。但是，我们仍然担心上游涨价带来的毛差影响，传导机制的不透明以及地区差异加大了短期不确定性。受此影响，我们将 19 年摊铺每股收益预测由人民币 4.41 元下调至人民币 4.32 元。长期来看，我们依然看好公司未来发展，工业煤改气、泛能业务有望共同拉动气量增长，推动公司持续前进。我们维持 20 年摊铺每股收益预测人民币 5.38 元，进一步将 21 年摊铺每股收益预测由人民币 6.10 元上调至人民币 6.47 元。为了体现短期毛差不确定性的影响，我们将目标价由 79.05 下调至 77.31 元，对应 19 年 15 倍市盈率。现价据目标价有 9.7% 的上行空间，我们维持中性评级。

气量增长前景光明。新奥东莞项目公司 18 年录得约 13 亿方的销气量，占公司总销气量约 7%。在经营区内，工业煤改气显著加速，大工业用户比如理文造纸、玖龙纸业被要求对自备电厂进行煤改气，并在今年 9 月之前完成。自备电厂用气量巨大，通气后有望在三年内拉动新奥东莞公司销气量大幅增长至约 26 亿-30 亿方，相当于 18 年公司总销气量约 12%。新奥东莞公司可观的潜在销气量增长空间，从侧面印证了我们之前强调的工业煤改气潜力巨大的观点。排除燃气批发，我们预计未来 5 年新奥销气量将以年化 14.8% 的增速稳健增长。

短期毛差不确定性仍在。新奥东莞项目公司的购气成本在非供暖季同比上涨 15%，考虑到价格联动机制以及区内用户较高的价格承受能力，当地管理层有信心能将成本传导到下游终端客户。但我们怀疑在价格承受能力较弱的北方，上游成本也能顺利得传导到下游用户，特别是终端居民用户。因此出于稳健起见，我们将 19 年摊铺每股收益预测由人民币 4.41 元下调至人民币 4.32 元。但随着供需结构改善，我们相信毛差影响是短期的。

维持中性。我们将 19 年摊铺每股收益预测由人民币 4.41 元下调至人民币 4.32 元。长期来看，我们依然看好公司未来发展，工业煤改气、泛能业务有望共同拉动气量增长，推动公司持续前进。我们维持 20 年摊铺每股收益预测人民币 5.38 元，进一步将 21 年摊铺每股收益预测由人民币 6.10 元上调至人民币 6.47 元。为了体现短期毛差不确定性的影响，我们将目标价由 79.05 下调至 77.31 元，对应 19 年 15 倍市盈率。现价据目标价有 9.7% 的上行空间，我们维持中性评级。

Last Friday, we visited several ENN Energy projects in Dongguan (Guangdong Province). We note industrial coal-to-gas conversion projects are accelerating, while integrated energy projects are progressing as expected. However, the financial impact of rising piped gas costs remains uncertain in 19E, given unclear pass-through progress. As such, we lower our 19E diluted EPS forecast from Rmb4.41 to Rmb4.32 (+68.8% YoY). Nonetheless, we believe the firm's long-term growth potential remains strong, given solid gas sales and a promising integrated energy services (IES) business, and thus maintain our 20E forecast of Rmb5.38 (+24.5% YoY), while raising our 21E forecast from Rmb6.10 to Rmb6.47 (+20.3% YoY). We cut our target price from HK\$79.05 to HK\$77.31 (15.0x 19E PE) to reflect our cautious view in the short term. With 9.7% upside, we maintain our Hold rating.

Promising gas growth potential. ENN recorded 18A gas sales of c.1.3bcm in Dongguan, accounting for c.7% of total sales. We note large industrial users, such as Lee & Man Paper (02314:HK – Not rated) and Nine Dragons Paper (02689:HK – Not rated) started coal-to-gas conversions this year, which the government requires to be completed before September, with self-owned coal-fired power plants on the conversion list. Given substantial incremental gas demand from power plants, gas sales are expected to ramp up to 2.6-3bcm in the coming three years, which reinforces our previous argument that industrial coal-to-gas conversions represent large gas growth potential. Excluding wholesale gas, we expect ENN to record a gas sales Cagr of 14.8% in the next five years.

Short-term margin pressure. ENN's gas cost increased c.15% YoY during the off-season in Dongguan. Local management is confident on the pass-through of rising costs to terminal users given the price-linkage system and high cost tolerance. However, we are not sure whether rising costs can be passed through to residential users as easily as in Dongguan, especially in northern China. To reflect our conservative view, we lower our 19E diluted EPS forecast from Rmb4.41 to Rmb4.32 (+68.8% YoY). However, we believe the margin pressure will only exist in the short term.

Maintain Hold. Given short-term margin pressure, we lower our 19E diluted EPS forecast from Rmb4.41 to Rmb4.32 (+68.8% YoY). Nonetheless, we believe the firm's long-term growth potential remains strong, given solid gas sales and a promising IES business, and thus maintain our 20E forecast of Rmb5.38 (+24.5% YoY), while raising our 21E forecast from Rmb6.10 to Rmb6.47 (+20.3% YoY). We cut our target price from HK\$79.05 to HK\$77.31 (15.0x 19E PE) to reflect our cautious view in the short term. With 9.7% upside, we maintain our Hold rating.

Consolidated Income Statement

Rmbm	2017	2018	2019E	2020E	2021E
Revenue	48,269	60,698	73,325	87,815	105,103
Cost of Sales	(39,930)	(51,188)	(62,129)	(74,239)	(88,755)
Gross Profit	8,339	9,510	11,196	13,575	16,348
Other Income	(219)	(685)	1,091	1,277	1,481
Selling expenses	(635)	(790)	(953)	(1,142)	(1,366)
Administrative expenses	(2,377)	(2,673)	(3,600)	(4,309)	(5,049)
EBITDA	6,226	6,648	9,839	11,965	14,354
EBIT	5,108	5,362	8,255	10,110	12,154
P/I of Associate/JV	634	876	1,073	1,314	1,580
Finance Costs	(552)	(637)	(616)	(586)	(701)
Profit before tax	5,190	5,601	8,712	10,839	13,033
Income tax expense	(1,517)	(1,783)	(2,439)	(3,035)	(3,649)
Minority interests	(871)	(1,000)	(1,505)	(1,873)	(2,252)
Profit for the year	2,802	2,818	4,767	5,931	7,132

Source: Company data, SWS Research

Consolidated Cash Flow Statement

Rmbm	2017	2018	2019E	2020E	2021E
Profit before taxation	5,190	5,601	8,712	10,839	13,033
Plus: Depr. and amortisation	1,118	1,286	1,584	1,855	2,200
Finance cost	0	1	2	3	4
Losses from investments	39	(197)	(100)	(739)	(636)
Change in working capital	767	2,518	3,364	3,662	4,692
Tax and others	(1,471)	(1,952)	(2,439)	(3,035)	(3,649)
CF from operating activities	6,093	8,294	11,121	12,582	15,640
Capex	(4,527)	(5,918)	(7,512)	(8,963)	(9,000)
Other CF from investing activities	0	1	2	3	4
CF from investing activities	(4,532)	(6,602)	(7,512)	(8,963)	(9,000)
Net change in liabilities	9,789	8,015	(1,344)	(1,000)	(2,779)
Dividend and interest paid	(1,443)	(1,489)	(1,669)	(2,076)	(2,496)
Other CF from financing activities	0	1	2	3	4
CF from financing activities	(708)	(1,774)	(3,013)	(3,076)	(5,275)
Net cash flow	812	(52)	596	543	1,365
FCFF	634	(532)	3,251	3,630	6,397
FCFE	2,036	816	3,251	3,630	6,397

Source: Company data, SWS Research

Consolidated Balance Sheet

Rmbm	2017	2018	2019E	2020E	2021E
Current Assets	17,626	21,539	22,295	24,989	28,839
Bank balances and cash	8,213	7,985	8,759	9,302	10,668
Trade and other receivables	6,068	8,560	9,040	10,345	11,806
Inventories	744	1,331	1,362	1,627	1,945
Other current assets	2,601	3,663	3,134	3,714	4,419
Non-current Assets	41,589	37,676	57,149	65,012	74,452
Long-term investment	10,178	16,017	14,583	14,991	15,475
PP&E	25,490	31,073	36,739	43,544	51,720
Intangible and other assets	1,873	5,285	5,827	6,477	7,257
Total Assets	59,215	73,914	79,444	90,000	103,291
Current Liabilities	25,605	33,017	29,924	35,752	40,933
Borrowings	8,368	11,118	4,000	4,000	2,000
Trade and other payables	15,952	9,940	24,681	30,509	37,690
Other current liabilities	1,285	11,959	1,243	1,243	1,243
Non-current Liabilities	13,393	38,998	48,360	47,793	53,509
Total Liabilities	38,998	48,360	49,286	54,114	60,516
Shareholder Equity	16,952	21,385	24,484	28,339	32,975
Share Capital	112	116	116	116	116
Reserves	16,840	21,269	24,368	28,223	32,859
Minority Interests	3,265	4,169	5,674	7,547	9,800
Total Liabilities and equity	59,215	73,914	79,444	90,001	103,290

Source: Company data, SWS Research

Key Financial Ratios

	2017	2018	2019E	2020E	2021E
Ratios per share (Rmbm)					
Earnings per share	2.59	2.56	4.34	5.39	6.49
Diluted EPS	2.59	2.56	4.32	5.38	6.47
Operating CF per share	5.63	7.54	10.11	11.44	14.22
Dividend per share	0.90	1.04	1.52	1.89	2.27
Net assets per share	15.67	19.45	22.26	25.77	29.99
Key Operating Ratios (%)					
ROIC	8.39	7.40	11.33	13.37	15.26
ROE	16.53	13.18	19.47	20.93	21.63
Gross profit margin	17.28	15.67	15.27	15.46	15.55
Ebitda Margin	12.90	10.95	13.42	13.63	13.66
Ebit Margin	10.58	8.83	11.26	11.51	11.56
Growth rate of Revenue(YoY)	41.54	25.75	20.80	19.76	19.69
Growth rate of Profit(YoY)	30.26	0.57	69.17	24.42	20.24
Debt-to-asset ratio	65.86	65.43	62.04	60.13	58.59
Turnover rate of net assets	2.85	2.84	2.99	3.10	3.19
Turnover rate of total assets	0.82	0.82	0.92	0.98	1.02
Effective tax rate (%)	29.23	31.83	28.00	28.00	28.00
Dividend yield (%)	1.82	2.11	2.37	2.95	3.54
Valuation Ratios (x)					
PE	22.7	22.9	13.6	10.9	9.1
PB	3.7	3.0	2.6	2.3	2.0
EV/EBITDA	12.2	10.4	9.7	6.6	5.4

Source: Company data, SWS Research

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Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

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