



Company Report: Beijing Enterprises Holdings (00392 HK)

公司报告: 北京控股 (00392 HK)

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2018 Interim Results Beat Expectations, Maintain "Buy"

2018年中期业绩超出市场预期, 维持“买入”评级

- **The 2018 interim results of the Company were higher than market consensus and our estimations.** Total revenue of the Company increased 24.5% yoy to HK\$ 34.35 billion and net profit attributable to shareholders increased 13.0% yoy to HK\$ 4.27 billion.
- **Revise up natural gas sales assumptions.** We expect total sales of natural gas of the Company to increase by 15%-20% in 2018. We expect total sale of natural gas of the Company to record moderate growth in 2019-2020.
- **Maintain gas dollar margin assumptions unchanged.** We expect gas dollar margin of the Company to remain stable in 2018. We believe that gas procurement costs will be more stable in the second half of 2018 and customer mix change will only have limited impact.
- **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\$ 49.53, but maintain "Buy".**
- 公司 2018 年中期业绩高于市场一致预期和我们的估计。公司收入同比增长 24.5%至港币 343.5 亿元, 股东净利同比增长 13.0%至港币 42.7 亿元。
- 上调天然气销量假设。我们预计公司的天然气销量在 2018 年增长 15%-20%。我们预计公司的天然气销量在 2019-2020 年保持温和增长。
- 维持销气价差假设不变。我们预计公司的销气价差在 2018 年将保持稳定。我们相信 2018 年下半年天然气采购价格将更加稳定, 客户结构变化的影响有限。
- 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 49.53 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\$49.53

Revised from 原目标价:

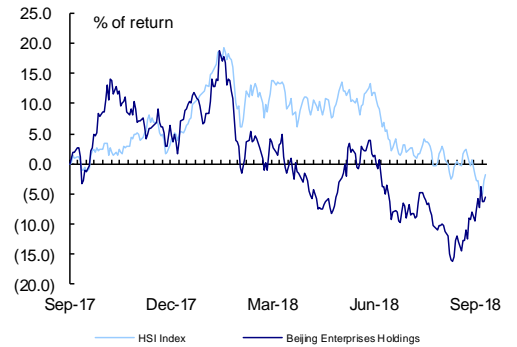
HK\$52.09

Share price 股价:

HK\$39.150

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 %	7.4	(6.3)	(7.7)
Rel. % to HS Index 相对恒指变动 %	9.1	4.0	(5.9)
Avg. Share price(HK\$) 平均股价 (港元)	37.1	37.8	41.7

Source: Bloomberg, Guotai Junan International.

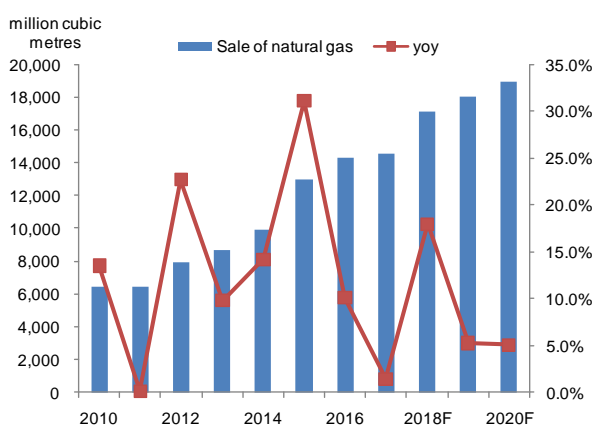
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	55,959	6,236	4.924	11.6	8.0	45,258	0.9	0.947	2.4	10.8
2017A	57,508	6,880	5.452	10.7	7.2	53,536	0.7	0.980	2.5	11.0
2018F	69,743	7,815	6.192	13.6	6.3	57,561	0.7	2.167	5.5	11.1
2019F	74,644	8,817	6.986	12.8	5.6	62,102	0.6	2.445	6.2	11.7
2020F	79,890	9,958	7.890	12.9	5.0	67,230	0.6	2.761	7.1	12.2
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)			49,411.2		Free float (%) 自由流通比率 (%)				45.5%	
3 month average vol. 3 个月平均成交股数 ('000)			1,873.1		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				62.0	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			50.500 / 34.500		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				58.1	

Source: the Company, Guotai Junan International.

The 2018 interim results of Beijing Enterprises Holdings (the "Company") were higher than market consensus and our estimations. Total revenue of the Company increased 24.5% yoy to HK\$ 34.35 billion and net profit attributable to shareholders increased 13.0% yoy to HK\$ 4.27 billion. Gas distribution business, beer business, water business and solid waste treatment business contributed HK\$ 3.50 billion, HK\$ 0.22 billion, HK\$ 1.00 billion and HK\$ 0.28 billion in operating profit, respectively, representing 70.0%, 4.3%, 20.1% and 5.6% of total operating profit. Total sale of piped gas increased 23.1% yoy to 8.89 billion m³ and revenue contributed by gas distribution increased by 31.3% yoy to HKD 24.45 billion. Profit contributed by China Gas (00384 HK) increased by 18.8% to HKD 0.66 billion due to faster growth of each business. The beer business was still facing challenges and only contributed RMB 215.7 million in profit. Water business grew fast as new water plants were put into operation and profit contributed by water business increased 20.1% to HKD 1.00 billion. Solid waste treatment business contributed HKD 278.1 million profit, which accounted for 5.6% of total operating profit.

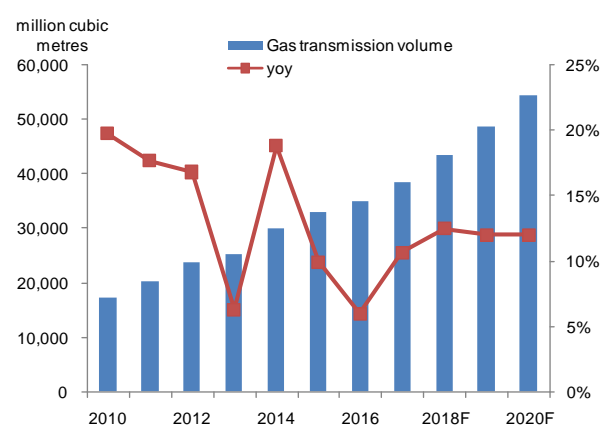
Revise up natural gas sales assumptions. We expect total sales of natural gas of the Company to increase by 15%-20% in 2018. China's natural gas consumption growth speed accelerated in the first half of 2018, mainly due to strong consumption demand and sufficient supply. Growth speed was 2.3 pts higher compared to the same period last year. Natural gas consumed by industrial and commercial sectors grew faster than that of 2017, which led to higher growth speed. Although Beijing is a fully developed area, the Company still benefited from more consumption demand from the commercial sector and more "coal to gas" projects. We expect China's natural gas consumption to continue to benefit from the adjustment of energy consumption structure and environmental protection pressure, which will drive natural gas consumption in the long term. We expect total sales of piped gas of the Company to maintain steady and moderate growth in 2019-2020 as gas fired cogeneration power plants are reaching full capacity and since there are more "coal to gas" projects. Gas power stations are the single largest customer group, consuming about 50% of total piped natural gas of the Company. 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. Total gas transporting volume of Petro China Beijing Pipeline Co. increased by 31.5% to 24.63 billion m³ in 2017, slightly higher 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 decreased in the first half of 2018 due to the new pricing mechanism, but is expected to stay at the new level in the future. 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



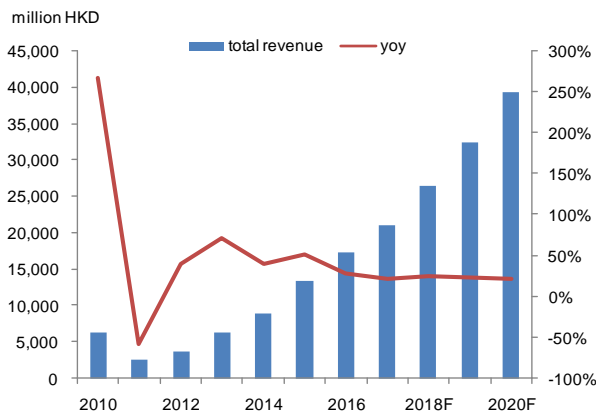
Source: the Company, Guotai Junan International.

Maintain gas dollar margin assumptions unchanged and expect gas dollar margin of the Company to remain stable in 2018. We expect gas dollar margin of gas distribution companies to be more stable under the new price mechanism and will mainly be impacted by accidental factors. Gas dollar margin of the Company was generally stable in the first half of 2018 and improved much compared to the previous half year (the second half of 2017). We expect gas dollar margin to continue to remain stable in the second half of 2018. We believe that gas supply problems in the winter season will vastly improve as more gas storage facilities are under construction, which will significantly expand storage capacity as a whole. On the other hand, governments and gas suppliers have all taken effective measures to expand supply. Hence, we believe that average procurement costs will be stable in the second half of 2018, especially in the winter season. Although newly added "coal to

gas" customers have lower gas dollar margin, we believe that they will only have slight impact in 2018. We believe gas dollar margin of the Company may decline slightly due to customer mix change, but generally remain stable. We maintain gas dollar margin assumptions unchanged.

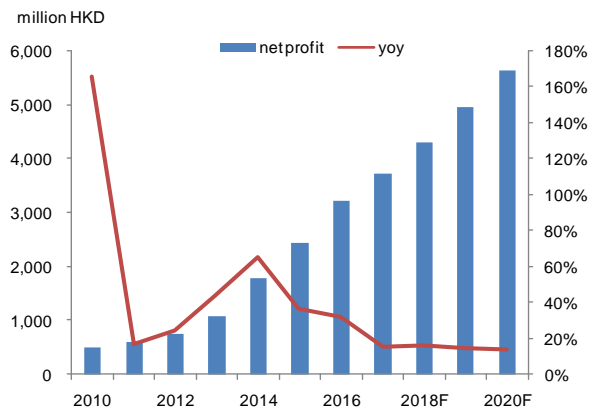
We expect net profit contributed by water business to maintain fast growth, but beer business will still be under pressure in 2018 due to an unfavorable macro economy. Total revenue of Beijing Enterprises Water Group in the first half of 2018 increased by 9.7% yoy to HK\$ 10.01 billion, and profit contributed by water business of the Company also increased 20.1% yoy to HK\$ 1.00 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\$ 49.53, 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 over 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 moderate growth in 2018-2020, which is slower than other large gas distribution companies, 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\$ 49.53, which is equivalent to 8.0x 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
Gas Distributors												
Kunlun Energy Co Ltd	00135 HK	HK\$	8.91	13.1	11.8	10.3	9.3	1.5	1.5	1.3	1.2	13.1
Beijing Enterprises Hldgs	00392 HK	HK\$	39.15	7.1	6.5	5.9	5.3	0.7	0.7	0.6	0.6	10.4
China Gas Holdings Ltd	00384 HK	HK\$	23.60	27.8	19.2	15.0	12.7	5.7	4.1	3.5	2.9	24.9
Enn Energy Holdings Ltd	02688 HK	HK\$	70.80	23.7	16.0	13.7	11.7	3.8	3.3	2.8	2.4	21.9
China Resources Gas Group Lt	01193 HK	HK\$	35.60	21.2	17.5	15.5	13.6	3.6	3.1	2.7	2.4	19.0
Towngas China Co Ltd	01083 HK	HK\$	7.11	14.3	13.8	12.3	11.1	1.2	1.2	1.1	1.0	8.7
Simple Average				17.8	14.1	12.1	10.6	2.8	2.3	2.0	1.8	16.3
Weighted Average				20.2	15.3	12.9	11.2	3.4	2.8	2.4	2.1	18.7
Beer												
China Resources Enterprise	00291 HK	HK\$	29.95	72.1	42.8	32.6	26.6	4.4	4.3	3.9	3.6	10.8
Tsingtao Brewery Co Ltd-H	00168 HK	HK\$	33.15	30.7	24.8	21.0	18.3	2.2	2.1	2.0	1.9	8.9
Beijing Enterprises Hldgs	00392 HK	HK\$	38.45	7.1	6.5	5.9	5.3	0.7	0.7	0.6	0.6	10.4
San Miguel Brewery Hk Ltd	00236 HK	HK\$	1.17	39.0	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.
Simple Average				37.2	24.7	19.8	16.7	2.0	2.4	2.2	2.0	10.0
Weighted Average				45.6	29.3	23.0	19.2	2.9	2.8	2.6	2.4	10.2
Water Treatment												
Beijing Enterprises Water Gr	371 HK	HKD	3.87	9.1	7.7	6.9	6.1	1.6	1.4	1.2	1.1	18.4
Guangdong Investment Ltd	270 HK	HKD	13.40	15.2	17.6	16.5	15.7	2.2	2.1	2.0	1.9	12.0
China Everbright Intl Ltd	257 HK	HKD	6.16	8.1	7.1	6.6	6.0	1.3	1.0	1.0	0.9	15.8
Tianjin Capital Environ-H	1065 HK	HKD	3.10	7.5	7.3	6.9	n.a.	0.7	0.7	0.6	n.a.	9.9
China Water Affairs Group	855 HK	HKD	8.62	15.2	11.9	10.3	8.9	2.3	1.9	1.8	1.6	17.8
Ct Environmental Group Ltd	1363 HK	HKD	0.90	8.2	7.9	6.8	5.6	1.3	1.1	1.0	0.8	16.0
Yunnan Water Investment -H	6839 HK	HKD	2.18	5.3	4.3	3.6	2.8	0.5	0.4	0.3	0.3	n.a.
Kunming Dianchi Water Trea-H	3768 HK	HKD	2.17	5.7	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.
Kangda International Environ	6136 HK	HKD	1.06	4.6	4.3	3.9	3.4	0.5	0.4	0.4	0.4	10.3
Simple Average				8.8	8.5	7.7	6.9	1.2	1.1	1.0	1.0	14.3
Weighted Average				12.8	14.0	13.0	12.2	1.9	1.8	1.7	1.6	13.9

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	69,743	74,644	79,890	PPE	43,428	51,729	53,643	55,723	57,972
COGS	(46,523)	(48,145)	(59,029)	(62,896)	(67,203)	Goodwill	15,772	16,910	16,234	15,585	14,961
Gross profit	9,436	9,363	10,714	11,748	12,687	Investment in JV and Asso.	33,117	48,328	50,744	53,281	55,945
G&A expenses	(6,644)	(6,666)	(7,602)	(8,062)	(8,548)	Other receivables	2,941	891	909	927	945
Operating Profit	2,791	2,697	3,112	3,686	4,139	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)	(1,873)	(2,045)	(2,043)	Total Non-current Assets	110,872	138,146	139,575	144,344	149,471
Profits from JV and Asso.	4,950	5,855	6,721	7,525	8,440	Cash & Cash Equivalents	15,972	17,842	18,133	19,407	20,771
Profit Before Tax	7,497	8,032	9,143	10,315	11,650	Inventories	4,953	5,294	5,928	6,345	6,791
Income Tax	(858)	(845)	(960)	(1,083)	(1,223)	Trade receivables	3,677	4,013	5,824	6,233	6,671
profit After Tax	6,639	7,187	8,183	9,232	10,427	Other receivables	4,782	4,186	6,974	7,464	7,989
Non-controlling Interest	(403)	(307)	(368)	(415)	(469)	Others	4,453	1,977	2,308	2,717	3,227
Shareholders' Profit / Loss	6,236	6,880	7,815	8,817	9,958	Total Current Assets	33,836	33,403	39,167	42,166	45,449
Basic EPS	4.924	5.452	6.192	6.986	7.890	Total Assets	144,709	171,549	178,742	186,510	194,920
						Trade payables	3,929	4,122	3,487	3,732	3,994
						Receipts in advance	5,566	6,953	7,672	8,211	8,788
						Other payables	10,660	13,777	11,889	12,696	13,557
						Bank borrowings	18,419	6,392	7,378	6,402	2,427
						Others	687	654	673	693	714
						Total Current Liabilities	39,260	31,950	31,099	31,734	29,481
						Bank borrowings	12,877	22,685	20,923	19,407	19,972
						Guaranteed notes	19,334	31,411	34,871	37,322	39,945
						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	62,441	63,708	67,246
						Total Liabilities	76,670	92,376	93,541	95,442	96,727
						Total Shareholders' Equity	57,321	67,568	72,648	78,379	84,851
						Minority Interest	10,718	11,605	12,554	12,689	13,342
						Total Equity	68,039	79,173	85,202	91,068	98,193

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Profit before tax	7,497	8,032	9,143	10,315	11,650
Income tax	(858)	(845)	(960)	(1,083)	(1,223)
Financial costs	1,492	1,597	1,873	2,045	2,043
Adjust for depre.&amort.	2,581	2,891	3,466	3,594	3,733
Change in WC	3,060	7,088	(5,095)	323	343
Adjust of Profit from JV and Asso.	(2,973)	(3,523)	(4,043)	(4,525)	(5,073)
Others	(376)	(410)	(378)	(382)	(386)
Cash from Operating Activities	10,424	14,830	4,006	10,287	11,087
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	3,461	2,450	2,623
Net bank borrowings	15,984	(2,219)	(776)	(2,492)	(3,409)
Interest paid	(1,492)	(1,597)	(1,873)	(2,045)	(2,043)
Dividend paid	(1,199)	(1,237)	(2,735)	(3,086)	(3,485)
Others	(1,666)	177	5,848	4,218	5,088
Cash from Financing Activities	11,516	7,202	3,925	(955)	(1,226)
Net Changes in Cash	2,278	1,870	292	1,274	1,364
Cash at Beg of Year	13,694	15,972	17,842	18,133	19,407
Foreign exchange rate changes	0	0	0	0	0
Cash at End of Year	15,972	17,842	18,133	19,407	20,771

Financial Ratios					
Year end 31 Dec	2016A	2017A	2018F	2019F	2020F
Gross margin	16.9%	16.3%	15.4%	15.7%	15.9%
Net margin	11.1%	12.0%	11.2%	11.8%	12.5%
ROE	10.8%	11.0%	11.1%	11.7%	12.2%
ROA	4.6%	4.2%	4.6%	4.9%	5.3%
Free CF	599	-5,981	-4,290	1,576	1,940
Net gearing	60.5%	63.1%	62.0%	55.8%	49.0%

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.

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