



煤氣
Towngas



The Hong Kong & China Gas Co. Ltd. (3 HK)

incorporated

Towngas China Co. Ltd. (1083 HK)

2019 Annual Results

19 March 2020





Group Financial

Stable Business

FY2019 Operating Profit After Tax



OPAT HK\$7.0Bn - 6% (-3.8%
in constant Rmb)

Hong Kong (HC)

HK\$3.0Bn

- 4%

[Gas Volume -2.8%
Record temperature]

Mainland Utilities (MU)

HK\$3.9Bn

+ 1%

[Gas Volume +11%
+5% in Rmb currency]

New Energy (NE)

HK\$0.2Bn

- 68%

(Falling commodity prices)

2019 Annual Results

The Hong Kong & China Gas (3 HK): Stable Operating Results

(HK\$ Mn)	2019	2018	Change
Revenue	40,628	39,073	+4%
Operating Profit	7,013	7,451	-6%
IFC Revaluation Gain	200	2,030	-90%
Profit Attributable to Shareholders	6,966	9,313	-25%
Earnings per Share^	HK 41 cents	HK 55 cents	-25%
Full Year Dividends per Share	HK 35 cents	HK 35 cents	-
Bonus Shares	1 for 20	1 for 10	

^2018 figures were adjusted for the bonus shares issued in 2019

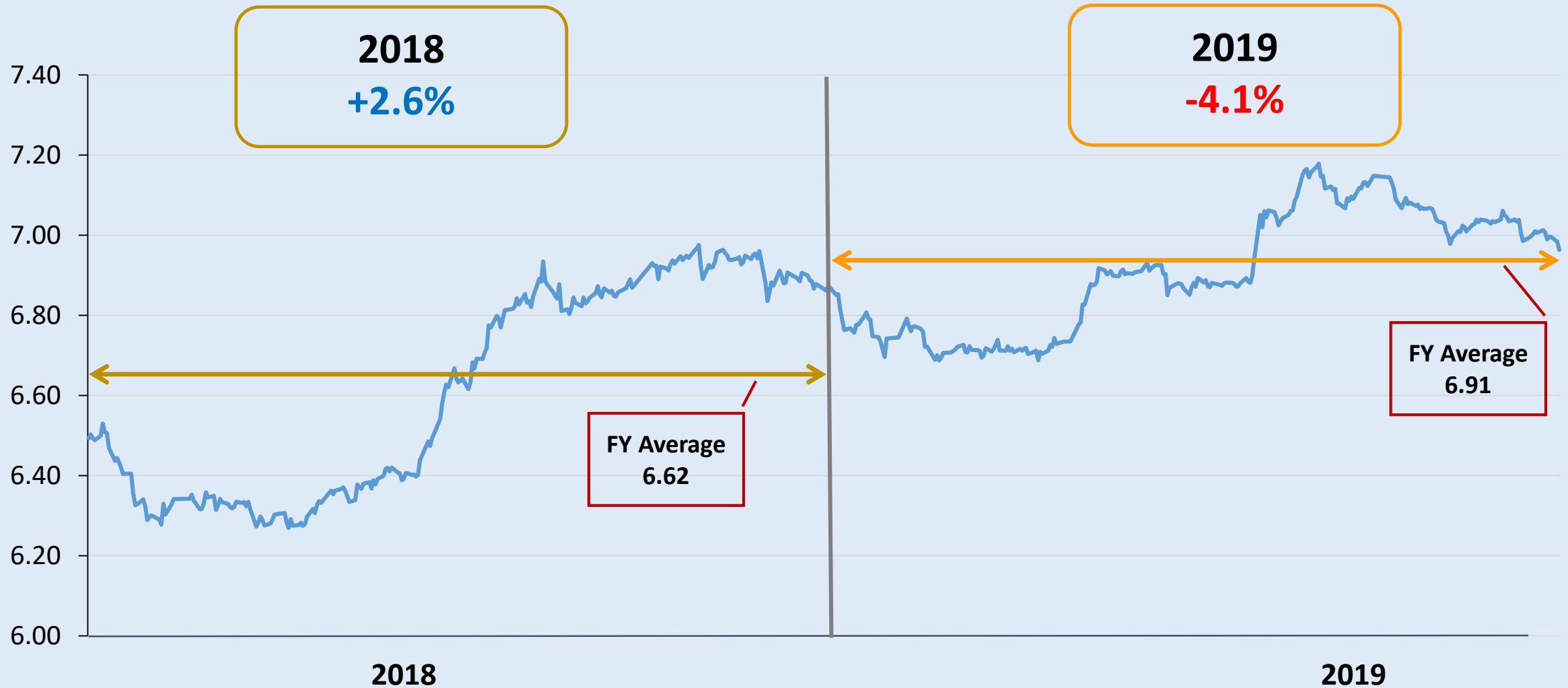
2019 Annual Results

Towngas China (1083 HK): Strong Operating Results

(HK\$ Mn)	2019	2018	Change
Turnover			
Gas Sales & Others	10,835	9,755	+11%
Connection Fees	2,089	2,032	+3%
	12,924	11,787	+10%
Operating Profit	1,456	1,224	+19%
Profit Attributable to Shareholders	1,308	1,224	+7%
Earnings per Share	HK 46.06 cents	HK 43.89 cents	+5%
Dividends per Share	HK 15 cents	HK 15 cents	-

RMB/USD Average Exchange Rate

Rmb Depreciation in 2019



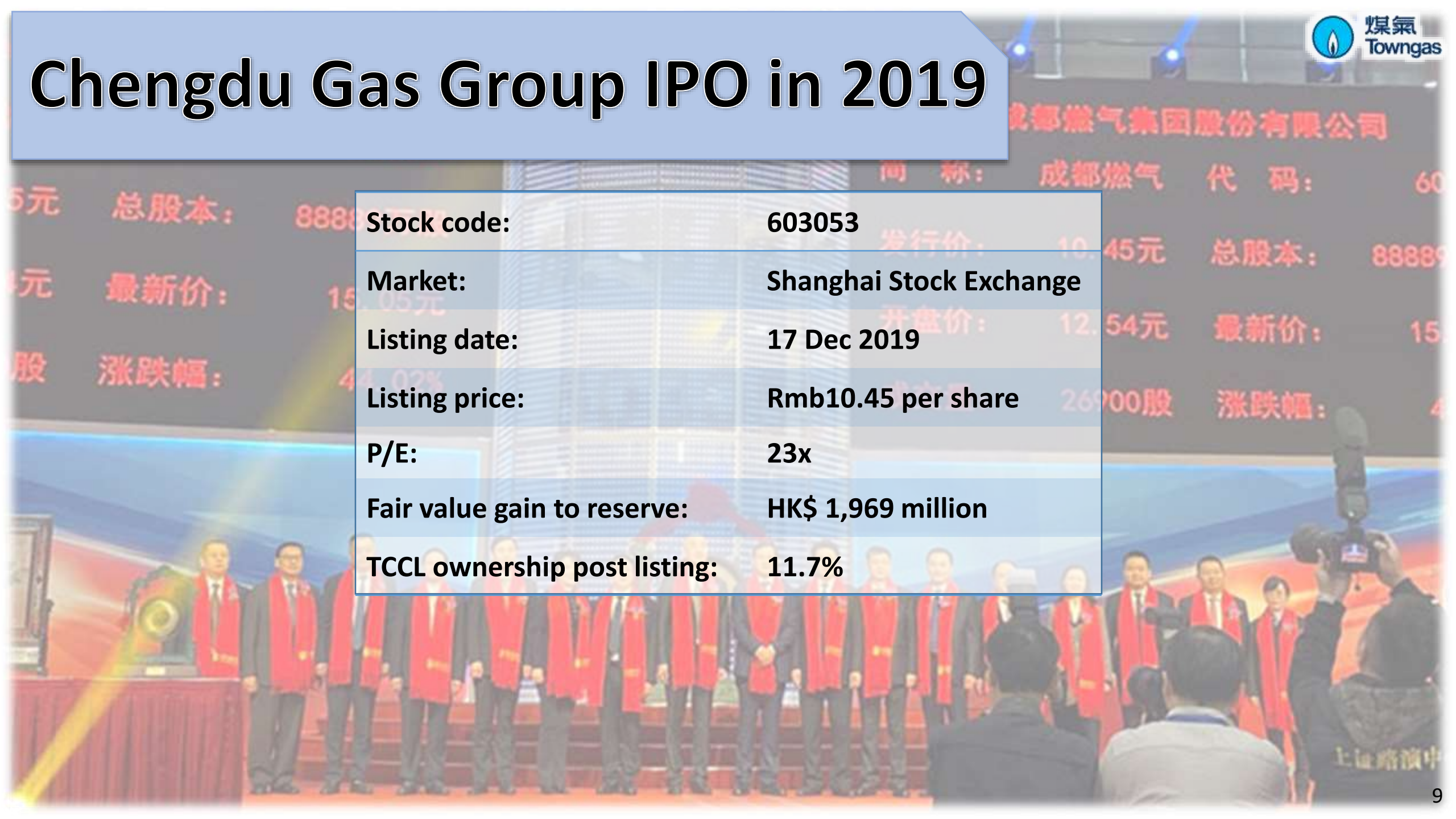
HKCG (3 HK)	31 Dec 2019	31 Dec 2018	Change			31 Dec 2019	31 Dec 2018	Change
	HK\$ Bn	HK\$ Bn						
Total assets	140.5	132.7	+6%		Share price (HK\$)^	15.22	14.73	+3.3%
Net asset value	75.4	70.2	+7%		Market cap. (HK\$ Bn)	257.6	249.3	+3.3%
Cash and Bank	8.0	8.8	-9%		P/E Ratio	37.0x	26.8x	
Total borrowings	37.9	35.7	+6%		P/B Ratio	4.0x	4.0x	
Interest Coverage	10.0x	10.7x		<div>Credit Ratings:<div><div><div>STANDARD & POOR'S</div><div>RATINGS SERVICES</div></div><div>A</div></div><div><div>MOODY'S</div><div>A1</div></div></div>				
Gearing (Net)	31%	29%						

^2018 figures adjusted for the bonus shares issued in 2019

TCCL (1083 HK)	31 Dec 2019	31 Dec 2018	Change			31 Dec 2019	31 Dec 2018	Change
	HK\$ Bn	HK\$ Bn						
Total assets	38.2	34.0	+12%		Share price (HK\$)	5.40	5.81	-7%
Net asset value	20.3	17.8	+14%		Market cap. (HK\$ Bn)	15.5	16.3	-5%
Cash and Bank	2.0	1.7	+20%		No. of Shares (Bn)	2.87	2.81	+2%
Total borrowings	10.2	9.5	+8%		P/E Ratio	11.7x	13.2x	
Interest Coverage	7.7x	8.6x			P/B Ratio	0.8x	1.0x	
Gearing (Net)	31%	33%			Credit Ratings:	STANDARD & POOR'S <small>RATINGS SERVICES</small> BBB+ Moody's Baa1		

Chengdu Gas Group IPO in 2019

Stock code:	603053
Market:	Shanghai Stock Exchange
Listing date:	17 Dec 2019
Listing price:	Rmb10.45 per share
P/E:	23x
Fair value gain to reserve:	HK\$ 1,969 million
TCCL ownership post listing:	11.7%



Strong Dividend from Joint Ventures



(HK\$Bn)

Cumulative Total = \$22 Bn



Rolling 3-Year Cashflow Projection

Healthy Position

		(HK\$ Bn)
Inflow 	HK Operations	14
	PRC Dividends Distribution	8
		22
Outflow 	Cash on Hand	8
	Fund available	30
	Dividend	20
	HK Capex	2
	PRC Investments	8
	Dividend and Investment	30



Hong Kong Gas Business

Hong Kong Business FY2019

Stable & Resilient Business

**Operating
Profit After Tax
HK\$2.97Bn
Strong & Stable**



Gas Sales **28,712TJ**
-2.8%



Customers **1.93Mn**
+ 25,216

Basic tariff increase 1.1¢/MJ
(4.4%) effective 1 August 2019

- Additional income(after tax):
HK\$260Mn p.a.



Household Penetration **74%**

FCVC fuel cost pass-through
mechanism



Network Coverage **86%**

Hong Kong Customers Growth & Gas Sales

Resilient Business

Number of Customers

	Addition	Year-end 2019
Residential	+25,204	1,916,595
Commercial & Industrial	+12	17,132
Total	+25,216	1,933,727

Town Gas Sales

	Change	FY019 (TJ)
Residential (Average Temperature: +0.6°C)	-2.9%	15,021
Commercial & Industrial (Social event)	-2.8%	13,691
Total	-2.8%	28,712

Business Opportunities

- **More housing units**
- **New gas applications**
- **Kitchen cabinet: ~ 30% market share on private housing**
- **CAPEX will remain at a low level**

More Housing Units

2020-21 HK Government Budget

	Supply in coming 5 years
Public	100,400
Private	98,000
	198,400 units

More Commercial & Industrial Gas Sales

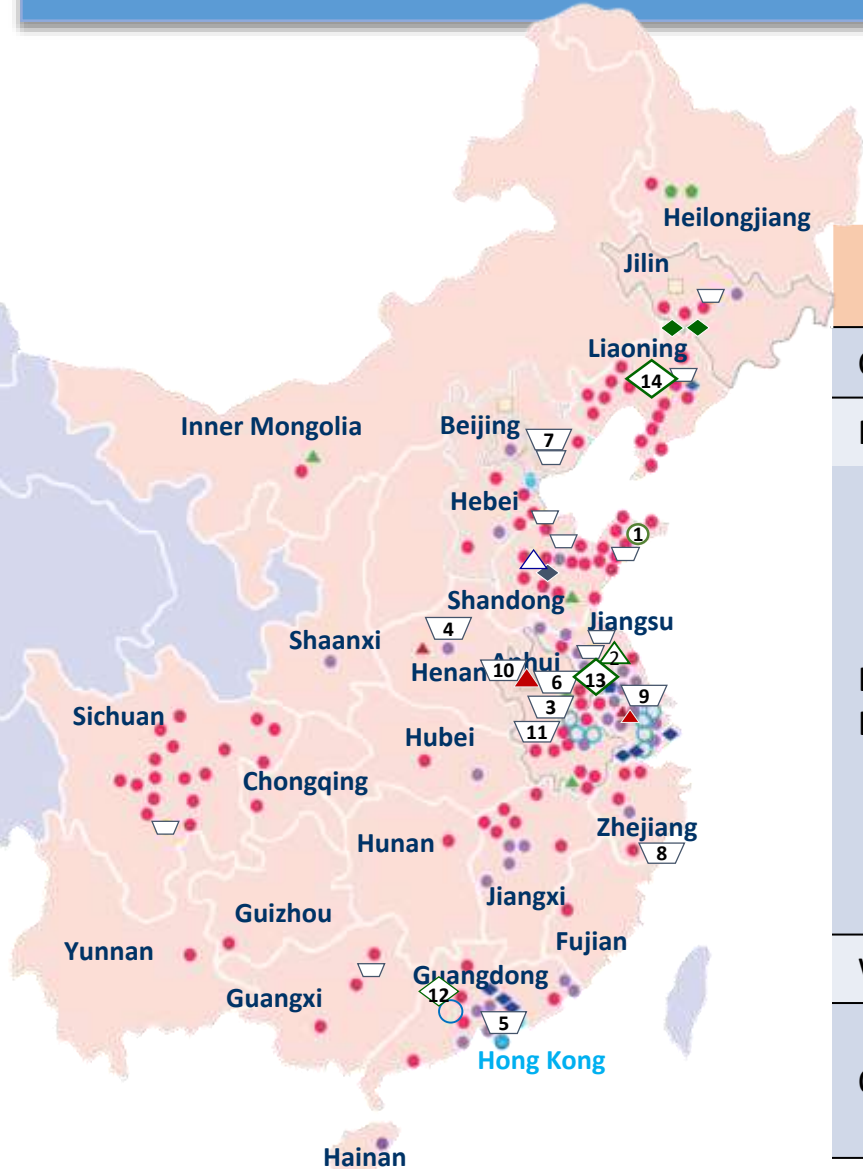
	Target Customer	Additional Annual Gas Volume
Gas Cooling and Heating Applications	Disneyland, Ocean Park, Data Centres, HK Airport	500 TJ
Diesel Conversion Projects	Hospitals, Food Factories, Laundries	610 TJ
New Projects	Hotel development projects, Wo Hop Shek Crematorium expansion, Food Factories	260 TJ
Potential Project	Waste Paper Recycle Plant (Tuen Mun)	1,000TJ



Mainland Utilities

Mainland Utilities

Diversified Territorial Coverage

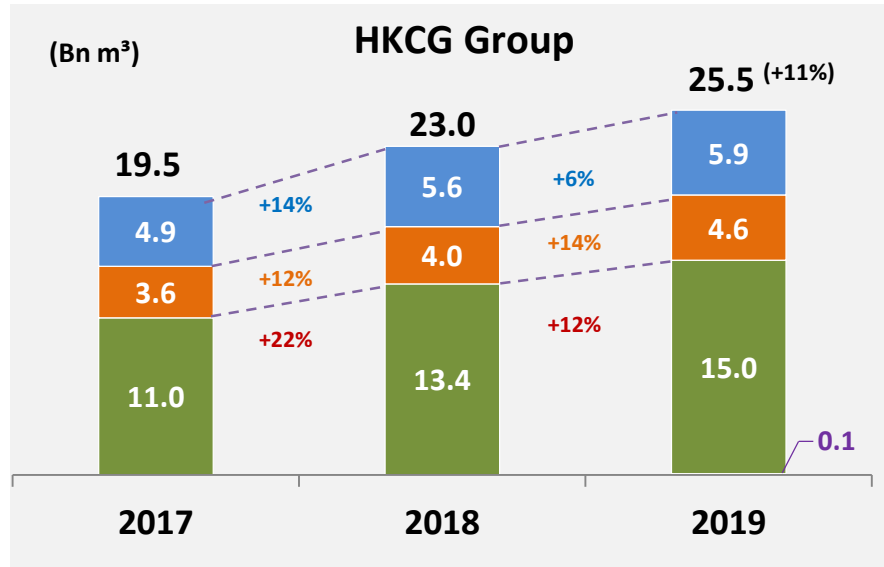


14 projects added, total **187** projects
in **24** provincial regions

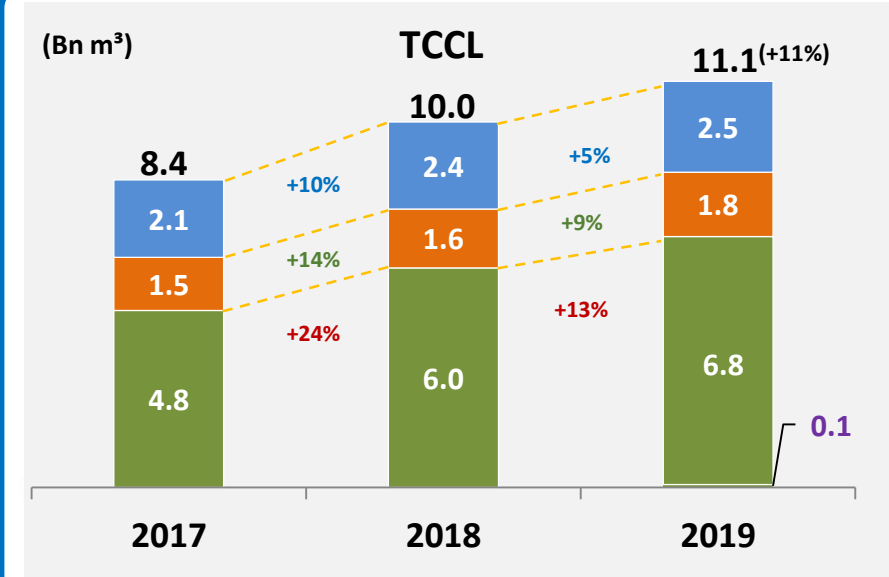
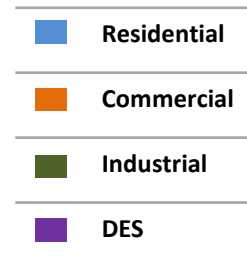
		Total projects	New Projects
City-gas	○	132	1. Eastern coastal area of Laoshan district, Qingdao city, Shandong
Midstream	△	13	2. Taizhou
Distributed Energy System	▱	19	3. Maanshan Economic & Technological Development Zone South District 4. Xinmi Yinji International Tourism Resort 5. Shenzhen 6. Dangtu Economic Development Zone Northern District, Anhui 7. Fengnan Lingang Economic Development Zone, Tangshan city, Hebei 8. Wangcun Industrial Zone in Songyang county, Lishui city, Zhejiang 9. Changzhou Photovoltaic Industrial Park, Jiangsu 10. Electricity project in Anhui 11. Eastern Park of Tongling Economic & Technological Development Zone, Anhui
Water	◯	8	-
Others	◇	15	12. U-Tech (Guangdong) Engineering Construction 13. Towngas Agriculture Investment (Nanjing) 14. Liaoning Clean Energy

Mainland City-gas Volume(All JVs)

Continuous Growth



2017	2018	2019
25%	24%	23%
19%	18%	18%
56%	58%	59%
-	-	0.3%



2017	2018	2019
25%	24%	22%
17%	16%	16%
58%	60%	61%
-	-	1%

Mainland City-gas

Steady Customers Gain

FY2019	HKCG Group	TCCL
New Customers	2.0Mn	1.1Mn
Total	29.8Mn	13.4Mn

COVID-19: A Pandemic

Business Environment & Measures

- **Economic activities were mostly suspended in February 2020**
- **Resumption of work and production in an orderly manner. C&I gas consumptions gradually resume from March 2020**
- **Gas volume in 1Q2020 is expected to drop by 15%, expect a single digit volume growth for 2020FY**
- **Some provincial/municipal governments ask to reduce gas prices & extend credit period to relieve affected C&I customers' financial burden**
- **Lowered NG city gate price to help C&I customers**
- **Low activities in construction works and new connections to customers will be delayed**
- **Various government supportive measures: low interest financing, interest subsidies, waiver of social security levies & office rent may apply on utilities**
- **Measures to control JVs' operating expenses and postpone CAPEX**
- **Actively deploy virtual customer centre to serve customers online and promote extended business**

Mainland City-gas

Supporting Business Environment (1)

1. National Gas Volume Growth Continues

	2019	2020	2030
National Annual Consumption	307 Bn m ³	330 Bn m ³	480 Bn m ³
Share of Primary Energy	8.3%	8-9%	15%

2. Lift restriction on foreign ownership on city-gas JVs

- Restriction on majority foreign ownership for cities with population >500,000 was lifted
- Open up city-gas business investment for foreign investors
- Reduce the risk of taking away majority shareholding status when the city expands
- City-gas business will be more market oriented

Russian Gas Will Spark Volume Growth in North-Eastern & Northern Regions



Russian NG supply started in Dec 2019 with volume of 38 Bn m³ p.a. by 2024

North-Eastern	2019	2024F
Number of projects	22	>25
Volume (Bn m ³)	1.8	4.8
Volume Growth	CAGR: 22%	

Northern	2019	2024F
Number of projects	28	>30
Volume (Bn m ³)	3.1	6.0
Volume Growth	CAGR: 14%	

3. Setting up National Oil and Gas Pipeline Company

- Announced in December 2019
- Open access to pipelines and NG importation
- More extensive pipelines development
- Free flow of NG, LNG nationwide
- Lower procurement cost
- Gas shortage in certain regions will be reduced

4. NDRC on Connection Fees Policy

- The guidelines issued in June 2019 is more liberal
- Provincial and municipal authorities discussing with city-gas operators and considering local situations
- In most cases, connection fee arrangements are allowed to continue
- Room for cost improvement

5. Coal-to-Gas Conversion Policy

- Chinese government continues to reduce carbon emission and improve air quality
- Step up boiler conversion: from 10 to 35 steam tons (eqv. 2,800 m³ NG/hour)

Benefits to HKCG Group	2015-18	2019	2020F
Cumulative Annualized Gas Consumption Capacity (Bn m ³)	4.0	5.1	6.0

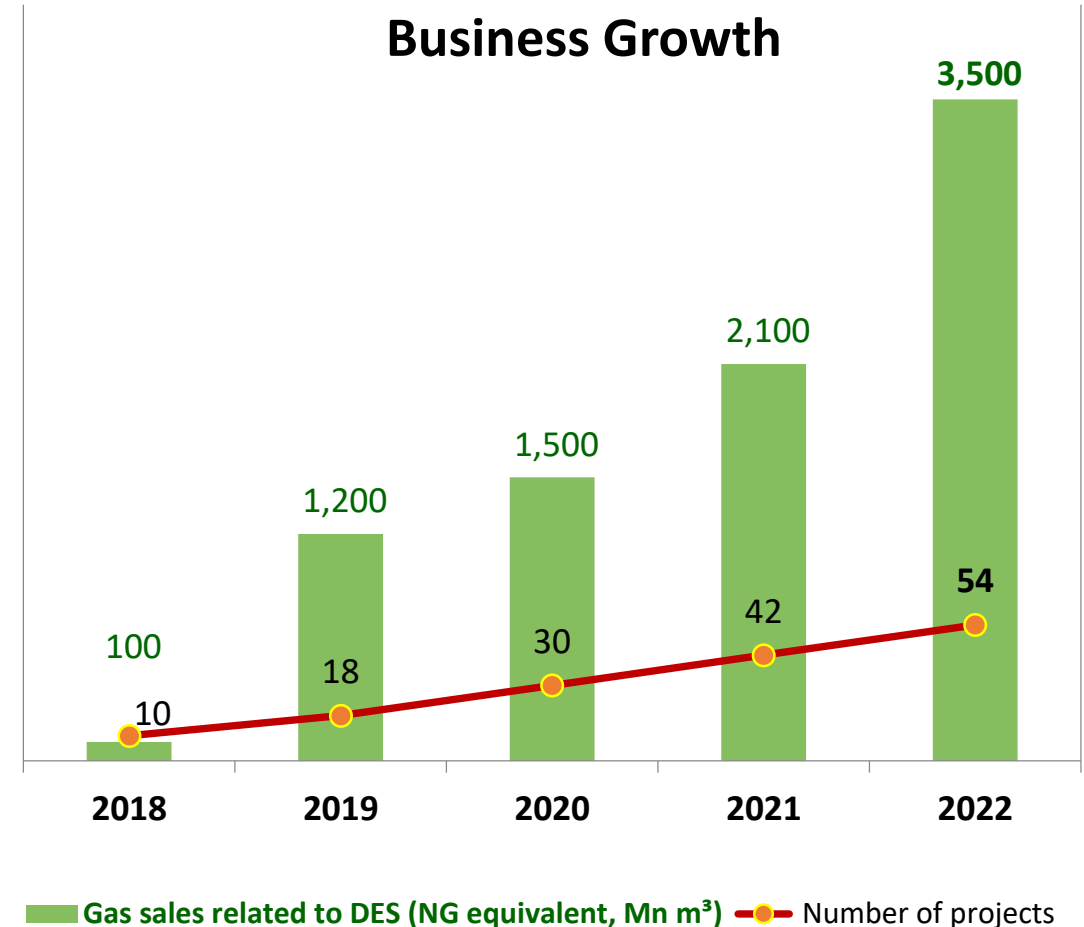
- A key driver for gas sales volume growth

Distributed Energy System (DES) Strategies

Huge Growth Opportunities

- **Green Energy Integrated Services**
- Enhance energy efficiency with more gas sales
- **Projects**
 - Central space heating
 - Central steam supply for industrial parks
 - Air-conditioning
 - Electricity
 - Pipelines for steam supply from power plants
- **Target: 54 projects by 2022**

**Green Energy Integrated Services
Business Growth**



Underground Gas Storage

Presenting Business Opportunities



Jintan Underground NG Storage

Project Information

- Phase 1-1 capacity: (3 caverns)
- Completion:
- Phase 1-2 capacity: (+7 caverns)
- Construction Commencement:
- Phase 2 capacity: (+12 caverns)

Cumulative

140Mn m³
Jan 2018
460Mn m³
Mar 2018
>1,000Mn m³

Gas storage in Jintan, Jiangsu

- To meet winter peak demand
- Sharing investment cost among JVs
- National pipelines facilitate free flow of NG
- NG and LNG trading opportunities
- Shanghai Gas is a partner of Phase 1 with 25% shareholding
- Total investment Rmb1.2Bn (22 caverns)

Expanding Extended Businesses

Diversifying Businesses with Increasing Income

2019 Full Year Revenue: HK\$1,460Mn

Kitchen Solution



Revenue
HK\$80Mn

Towngas Lifestyle
O2O platform



7Mn
Members

Gas Related
Insurance



Revenue
HK\$240Mn

Gas Appliances
Sales



Revenue
HK\$1,140Mn

Water Business

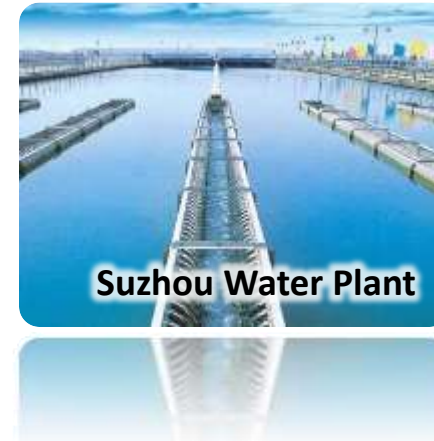
Stable Growth

1. Total 8 projects serving more than 2.4Mn customers

	Water Supply	Sewage	Food & Organic Waste	Heavy Metals Sewage Treatment
Mn ton p.a.	926	389	0.1	4.7

2. 27% shareholding in Foshan Water company signaling a new era for business expansion in the Greater Bay Area

3. FY2019 profit = HK\$446Mn



Food Waste Treatment Business

New Business Strategy with Expansion Opportunity

- First food waste project located in Suzhou Industrial Park
- Commissioned in 2019
- Investment: Rmb290Mn
- Capacity: 500 tons/day, with capacity for expansion
- By-products:
 - ❖ Natural Gas
 - ❖ Gutter oil
 - ❖ Biomass solid fuel
- Expect to add 6 projects in the coming 3 years
- Project IRR: 10-12%



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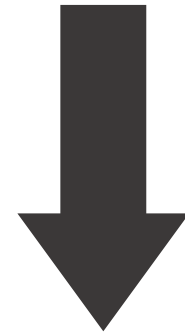
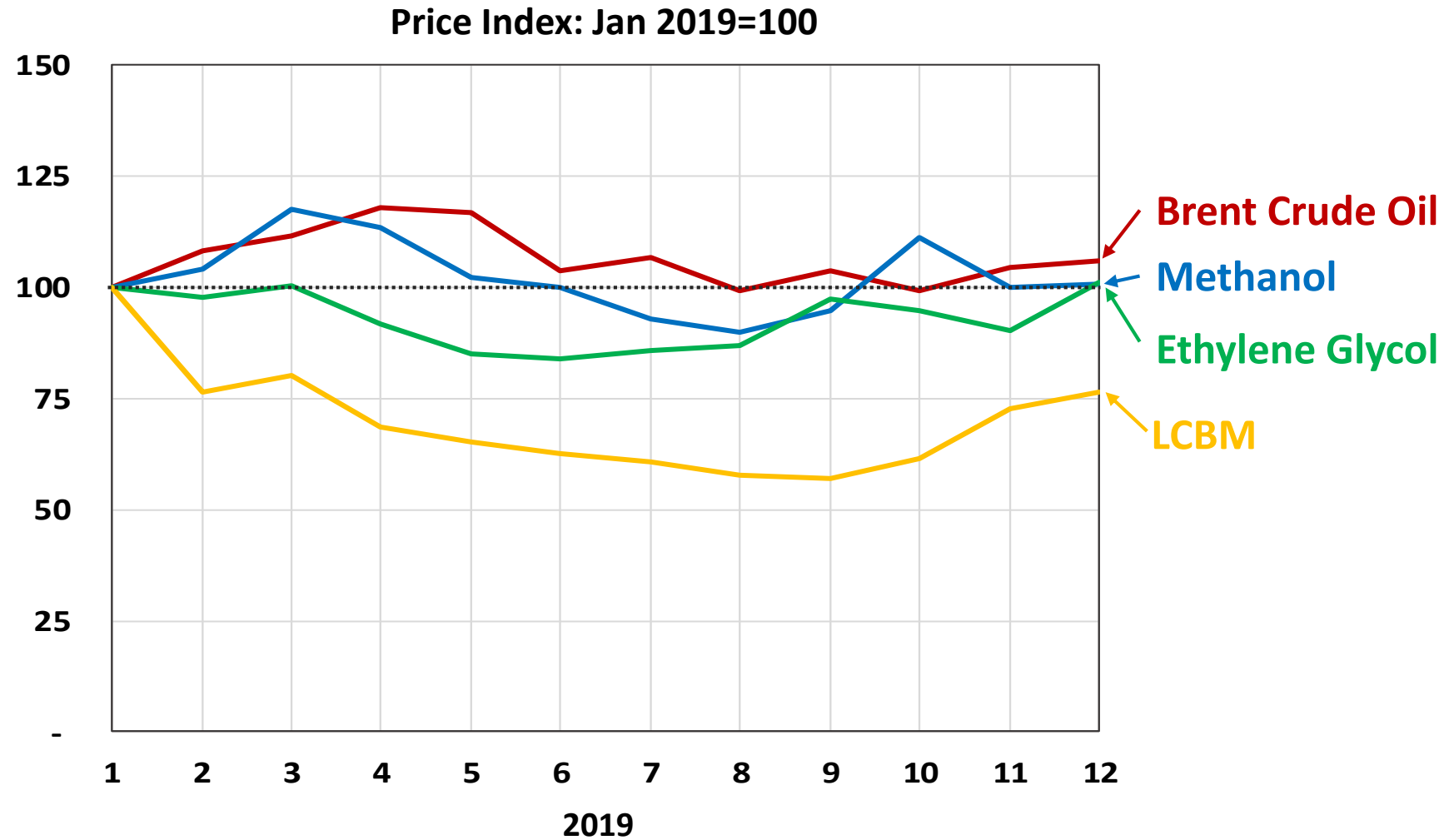
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New Energy & Outlook

Commodity Price Slump



New Energy

- **STRATEGY :**
 - **SUSTAINABILITY**
- **FOCUSES :**
 - **Reduce Carbon Emission**
 - **Waste Utilization**
 - **Advanced Bio-fuels**
 - **Bio-material**
 - **R&D, Proprietary Technologies**

New Energy & Materials Projects (Technologies Developed by ECO's R&D)

- Advanced Biofuel

- ZhangJiaGang, Jiangsu Bio-grease → HVO

- Agricultural Waste Utilization

- Luanzhou, Hebei

- Corn Stalks → Furfural, Paper Pulp

- Cangzhou, Hebei

- Corn Cobs → Furfural, Bio-Ethanol

Zhang Jia Gang Bio-grease → HVO Project

Selling Advance Biofuel to Europe

Hydrotreated Vegetable Oil (HVO) – Advanced Biofuel

- EU's HVO Standard: EN15940
- Phase 1 : Commissioned, 30k tons produced
- Phase 2 : 2Q 2020 commissioning
- Feedstock : Palm Oil Mill Effluent, Used Cooking Oil
- Total Capacity : 250k tons HVO/year
- Investment : RMB 850Mn
- Revenue : RMB 2.6Bn/year

Luanzhou Agricultural Waste Utilization Project

Biomass Business Strategy

- **Schedule** : 2Q 2020 commissioning
- **Feedstock** : Corn stalk/corn cob, 240k tons/year
- **Total Capacity** : 25k tons furfural/year
80k tons paper pulp/year
- **Investment** : RMB 300Mn
- **Revenue** : RMB 400Mn/year

Cangzhou Agricultural Waste Utilization Project


















Biomass Business Strategy

- **Schedule** : 4Q 2020 commissioning
- **Feedstock** : Corn cob, 240k tons/year
- **Total Capacity** : 25k tons furfural/year
25k tons bio ethanol/year
- **Investment** : RMB 400Mn
- **Revenue** : RMB 430Mn/year

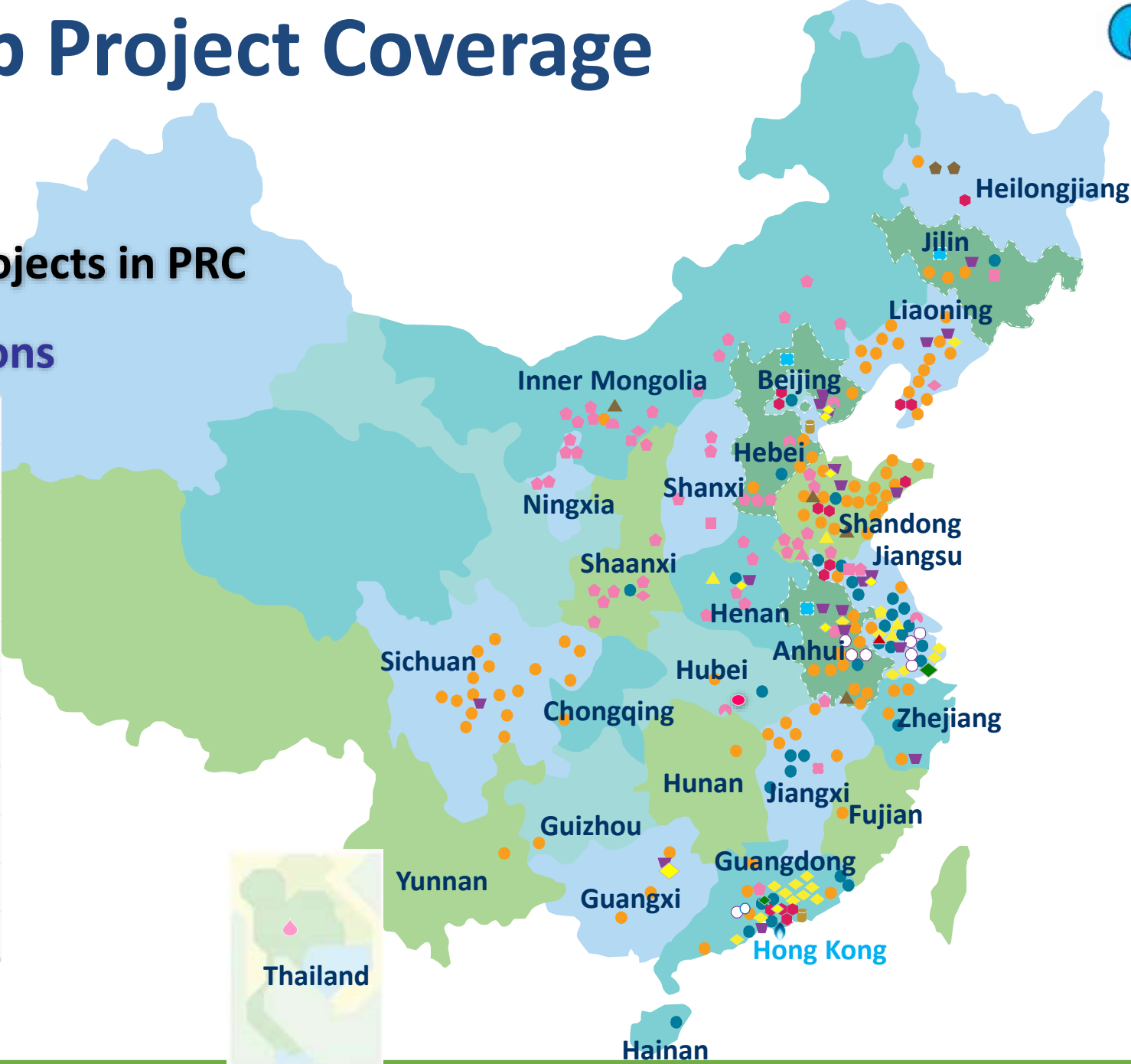
Diversified Group Project Coverage



Total **266** projects in PRC
26 provincial regions

City-gas	 
Midstream	   
Distributed Energy	
Water, Sewage & Waste Treatment	
Refilling Stations	 
Gas-based	
Coal-based	 
Biomass	
Oil E&P	
Telecommunications	
Others	

Up to 16 Mar 2020





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Outlook

2019: A Challenging Year

Hong Kong

- Warmest Year
- Sino/ US Trade Conflict
- Social Unrest
- Visitor Arrivals ↓

Mainland China

- Economy & GDP ↓
- Sino/ US Trade Conflict
- Commodity Prices ↓
- Depreciating RMB
- Housing Market Suppressed
- Export Industries ↓

2020: Another Exceedingly Challenging Year

- **Coronavirus Outbreak : HK + Mainland**
- **Coronavirus Pandemic : Global**
- **Oil Price ↑↓**
- **Sino-US Trade War (Ph2)**
- **Global Economy at Stake**
- **Return of Social Unrest**
- **Tourism Slump**

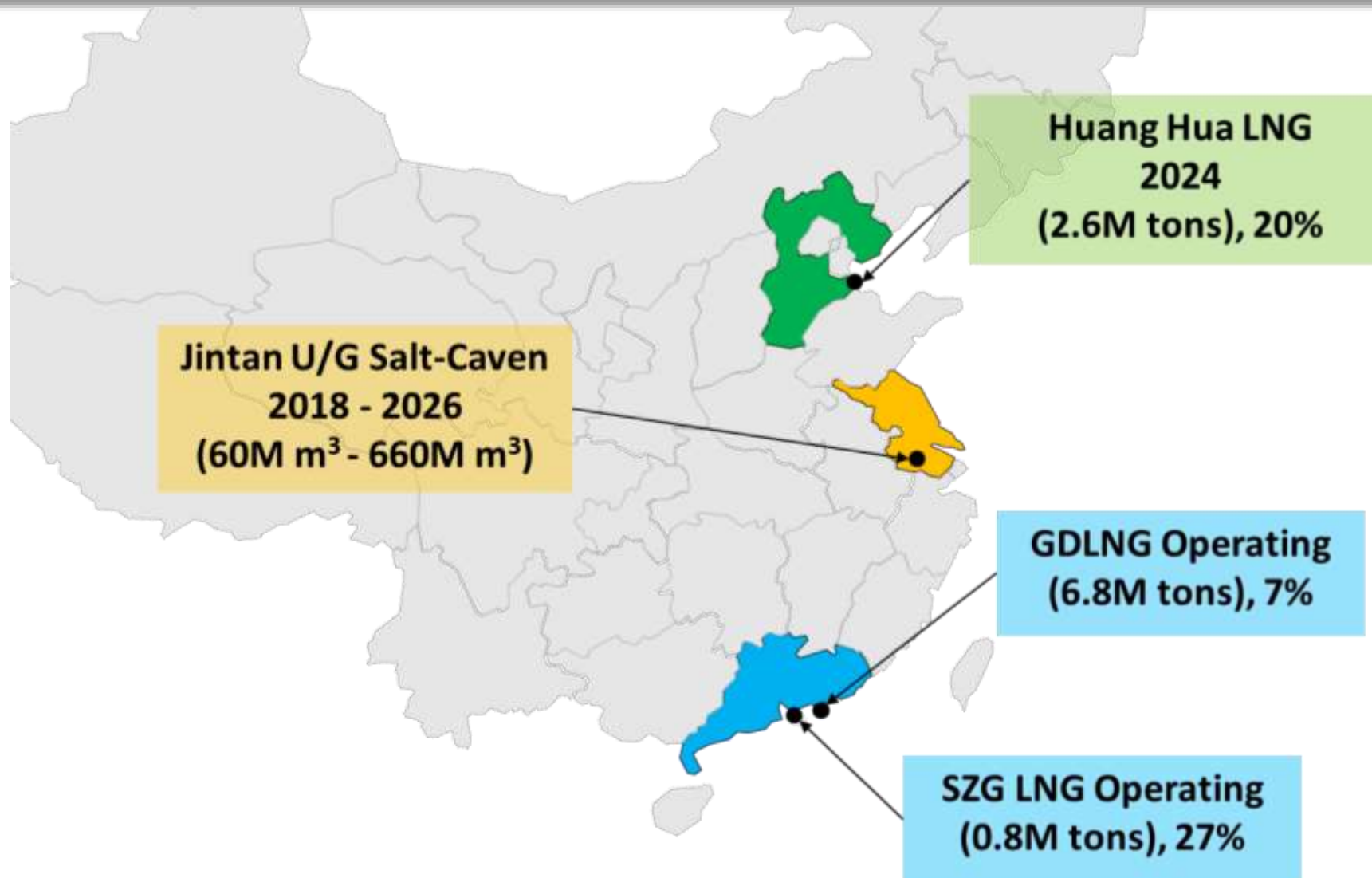
Resilient Against Economic Volatility

- **Utility Business as Core**
- **7 months Gas Tariff increase Effect**
- **Commercial gas demand loss partially compensated by Residential consumption increase**
- **Coal → Gas Continues**
- **Proactive Austerity Measures**
- **Strong Cash Flow**
- **Low Borrowing Cost**

Conclusion

- **Steady Gas Business in HK**
 - Increasing housing supply
 - Gas cooling/dehumidification
 - Kitchen cabinets
- **Growing Gas Business in the Mainland**
 - Natural gas is the key energy driver
 - Russian gas arrival
 - Coal → Gas
 - NDRC's regulation guidelines are manageable
 - Capitalizing on 30 Mn customer-base

LNG Importation and NG Storage Capacities



Conclusion

- **Expanding District Energy Centre Business**
 - CHP + space heating/cooling
 - SMART energy (real time management)
 - Commercial laundry
- **Extending City Water Business Scope**
 - Municipal waste treatment/utilization
 - Bio-waste treatment/utilization
- **Commercializing New Energy's R&D Achievements**
 - Advanced bio-fuels
 - Agricultural waste utilization

Our Business

**Resilient to Economic Ups and Downs
with
A Bright Long-Term Future**

Q1) What will be the impacts of Coronavirus Outbreak?

- **Commercial gas sales decreases while Residential gas sales increases due to more cooking & water heating at home**
- **Industrial customers resume most of their operation capacity by Q1 2020**
- **Temporary NG price concession for C&I customers in some provinces of Mainland, to be compensated by lower city-gate prices**
- **Extend credit period for affected C&I customers**
- **Overall gas sales growth in Mainland will be affected**

Q2) Will the unfavourable GDP growth affect Hong Kong's business?

- **Stable utility business nature**
- **Commercial gas sales drop compensated by Residential gas sales growth**
- **Industrial gas sector is small and stable**
- **More housing supply**
- **Full year effect of 2019 tariff increase**
- **Proactive cost control**

Q3) Will 7% ROA adversely affect city gas profits?

- **Apply to gas distribution only (excluding connection fee)**
- **Most JVs have not reached that level**
- **JVs will continue to invest in fixed assets to meet the high demand growth, hence expanding the asset base**
- **Implementation of 7% ROA across the board will be complicated & may vary amongst different provinces**
- **Several JVs have finalized the distribution pricing with no adverse impact**

Q4) Will 10% margin on connection fee affect our profit?

- The latest general guideline issued by NDRC is quite liberal
- Provincial and municipal authorities will discuss with gas operators considering local market situations
- Exceptionally high Connection fee may have to scale back
- Overall effect is mild

Q5) How well will gas consumption growth continue?

- **Government committed to Paris Agreement**
- **Environmental issues must be tackled**
- **NG's share of primary energy consumption**
2015: 5% 2020: 10% (8-9%) 2030: 15%
- **Consumption forecast (BCM)**
2015: 193 2020: 360 (330) 2030: 480

Q6) What is HKCG's plan in securing more NG sources?

- **New NG supplies from Myanmar & Russia**
- **National grid for 3rd party access**
- **Invest in LNG receiving & gasification terminals**
- **Invest in provincial networks**
- **Invest in NG storage facilities**
- **Link up the Jintan Salt Cavern Storage with other networks**

Disclaimer

This presentation and subsequent discussion may contain certain forward-looking statements. These forward-looking statements reflect the company's view on some future events and involve known and unknown risks and uncertainties and other factors which may cause actual performance and development differ materially. Past performance cannot be relied on as a guide for future performance.



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Thank You