

**The Hong Kong and China Gas Co., Ltd. (3 HK)**



**Incorporating**

**Towngas China Co., Ltd. (1083 HK)**

**2014**

**Annual Results Presentation**

**18 March 2015**



# 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.

# Agenda



- ▶ **Corporate & Results Overview**
- ▶ **New Energy**
- ▶ **Utilities**
- ▶ **Group Financials Review**
- ▶ **Conclusions & Outlook**



# Corporate Results Overview

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**Expanding New Horizon**

# Three Business Drivers



## HK Core (HC)



- HK City-gas
- Landfill Gas
- Bandwidth + Data Centre

## Mainland Utilities (MU)



- City-gas (0003.hk + 1083.hk)
- Mid Stream
- Gas Storage
- Clean Transportation Fuels
- Water Supply/Sewage

## New Energy (NE)



- Energy Infrastructure
- Renewables/Recycling
- Conventional

# Utilities Business – 2014



## Hong Kong (HC)

- Stable, minute steady volume growth
- Oil price declined; FCVC substantially shrank
- OPEX increased due to labor cost and rental shot up
- Side business, e.g. appliances, kitchen cabinets doing well
- Carbon footprint advantage over electricity

# Utilities Business – 2014



## Mainland (MU)

- Economic backdrop not ideal
  - GDP
  - Housing market
  - Industrial output
  - Domestic spending
- Strong RMB, higher costs weaken export
- Consecutive 2 years of natural gas upstream price increase

# Utilities Business – 2014



## Mainland (MU)

- Energy consumption growth the lowest in recent years
  - Electricity: +3.8%
  - Natural Gas: +5.6% (drop in power-gen)
- Smog issue has become a political focus
- Still capturing a few new city-gas projects
- Urbanization continued



# New Energy Business – 2014



## Hong Kong (NE)

- Aviation fuel logistics continued to show growth  
Profit: HK\$275Mn (+6.7%)
- Taxi refilling business doing well with lowering LPG prices  
Profit: HK\$43mn
- Contracted the 3<sup>rd</sup> land-fill gas utilization project (TKO)  
Investment: HK\$350Mn



## Mainland (NE)

- Coal Price decline continued. Oil price fell sharply since 2H
- Upstream Oil E/P in Thailand achieved 4-fold output
- Focused on converting lo-cost feedstock to hi-value fuels
  - Renewables/Recycling
  - Coal chemicals

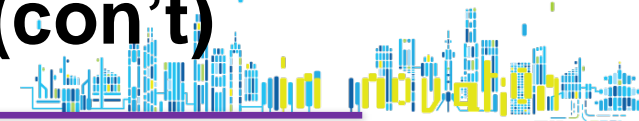
# New Energy Business – 2014 (con't)



## Mainland (NE)

- R&D achieved several breakthroughs
  - Methanol to chemicals (gasoline equivalent)
  - Agricultural waste to methane (natural gas equivalent)
  - Many others are under laboratory/industrial testing
  
- Several projects are in progress:
  - Coke-oven-gas to methane (natural gas equivalent)
  - Upstream natural gas/coal-bed methane to LNG
  - Methanol to chemicals (gasoline equivalent)

# New Energy Business – 2014 (con't)



## Mainland (NE)

- A pilot plant on methanol to chemicals was built and commissioned
- Capturing an increasing number of natural gas refilling stations
- Coal supply becomes plentiful and cheap, looking for moving away from owning coal mining assets

# 0003.HK Hong Kong & China Gas Co., Ltd.



(HK\$ Bn)	2014	2013	Change
Revenue (Excluding FCVC in HK)	29.89	26.28	+14%
Operating Profit After Tax*	6.96	6.32	+10%
Exchange Gain/(Loss)	(0.27)	0.31	N.A.
Property Revaluation Gain	0.42	0.23	+80%
Profit Attributable to Shareholders	7.11	6.85	+4%
Earnings Per Share (HK cents)	67.6	65.2	+4%
Full Year Dividend Per Share (HK cents)	35.0	35.0	
Bonus Share Issue	1 for 10	1 for 10	

\*including net financial income \$0.32Bn (2013 \$0.17Bn)

# 0003.HK Hong Kong & China Gas Co., Ltd.



## Operating Profit After Tax By Businesses

(HK\$ Bn)	2014	2013	Change
<b>Hong Kong (HC)</b>	<b>2.69</b>	<b>2.67</b>	<b>+1%</b>
<b>Mainland Utilities (MU)</b>	<b>3.43</b>	<b>2.96</b>	<b>+16%</b>
<b>New Energy (NE)</b>	<b>0.51</b>	<b>0.52</b>	<b>-2%</b>
	<b>6.63</b>	<b>6.15</b>	<b>+8%</b>
Net financial income	<b>0.32</b>	<b>0.17</b>	
<b>Total</b>	<b>6.96</b>	<b>6.32</b>	<b>+10%</b>

# 1083.HK Towngas China Co., Ltd.

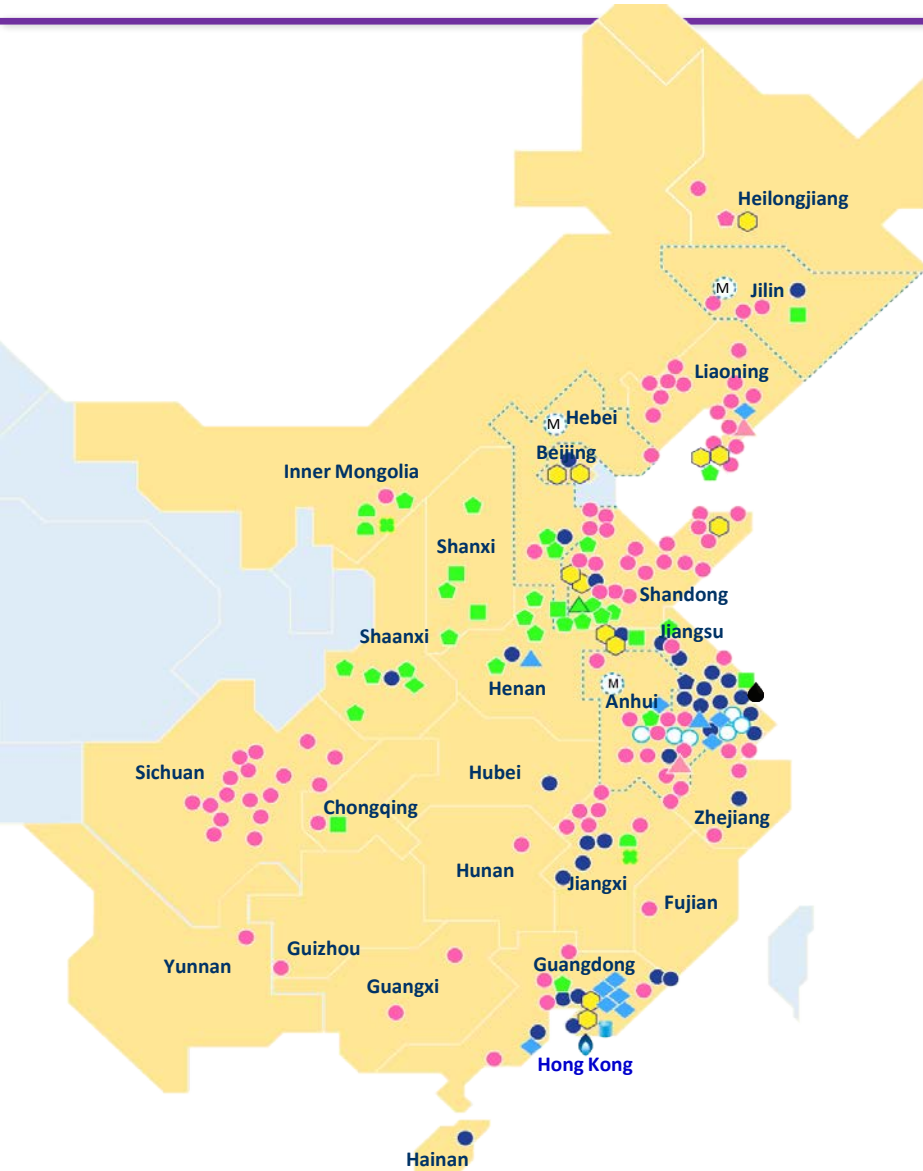


(HK\$ Bn)	2014	2013	Change
Revenue	7.88	6.72	+17%
Operating Profit After Tax	1.19	0.95	+26%
Exchange Gain/(Loss)	(0.14)	0.16	
Profit Attributable to Shareholders	1.05	1.11	-5%
Earnings Per Share (HK cents)	40	42	-5%
Dividend Per Share (HK cents)	10	8	+25%

# Businesses Profile



**32** projects added, total **204** projects  
in **24** provincial regions



## Utilities

City-gas	127	(HKCG: 33 ● + TCCL: 94 ●)
Midstream	8	● (cylinder) ● (M) ● (triangle) ● (triangle)
Water & Sewage	6	○
Refilling stations	2	● (pentagon) ● (pentagon)

## New Energy

Gas-based	6	■
Coal-based	6	● (coal-mine) ● (chemical plant) ● (logistics)
Refilling stations	25	● (pentagon)
Others	3	◆

## Telecommunications

## Others

12



9



as of Feb 2015

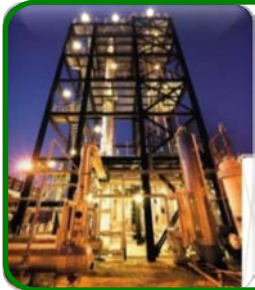
# New Energy



Moving Forward



# Performance Overview



**Shanxi Jincheng Coalbed  
Methane Liquefaction**

**↑ 6%**

**250Mn m<sup>3</sup>**



**Inner Mongolia  
Coal-to-Methanol**

**↑ 214%\***

**0.22Mn tons**



**Hong Kong Aviation  
Fuel Facility**

**↑ 4%**

**7.2Bn litre**



**Mainland CNG/LNG  
Refilling Stations**

**41 Stations**

**83Mn m<sup>3</sup>**



**Thailand Oilfield**

**↑ 178%**

**1.32Mn Barrels**

\*Full capacity attained

# New Energy Business



## – Refining on strategies

- Downplay on coal resources business
- Focus on conversion

Lo-value feedstock → Hi-value fuels

## – Lower oil price

- Select projects having minimum impacts
- Would crude price stay low for long?

# New Energy Business



## Methanol-to-Gasoline Project in Inner Mongolia

- Commissioned in Nov 2014
- Production capacity: 140,000 ton/yr of gasoline
- Provide flexibility in producing gasoline
  - From methanol
  - From coal
- Total investment: Rmb395Mn
- Projected IRR >25%

# IM Coal to Methanol to Gasoline



# New Energy Business



## Thailand Oilfield Project

- Increasing daily production
  - 2013 avg: 1,300 BPOD
  - 2014 end: 6,000 BPOD
- 2014 contribution is double of 2013
- L33 & L44 blocks:
  - 4,000 km<sup>2</sup>
  - With further development potential



**Utilities:**  
Hong Kong &  
Mainland China



**Upward Momentum**

# Hong Kong Business Performance



- ▶ Stable Business
- ▶ Better C&I sales volume
- ▶ Fuel Cost Pass-through, maintaining price competitiveness
- ▶ Gas Sales Volume: +1%
- ▶ ICA renewed and signed

# Hong Kong Business Performance



**Profit  
After Tax**

**HK\$2.7Bn** ↑1%

**Town Gas Sales**

**28,835TJ**

↑1%

**Total Customers**

**1.82Mn**

↑21,000

**Household  
Penetration**

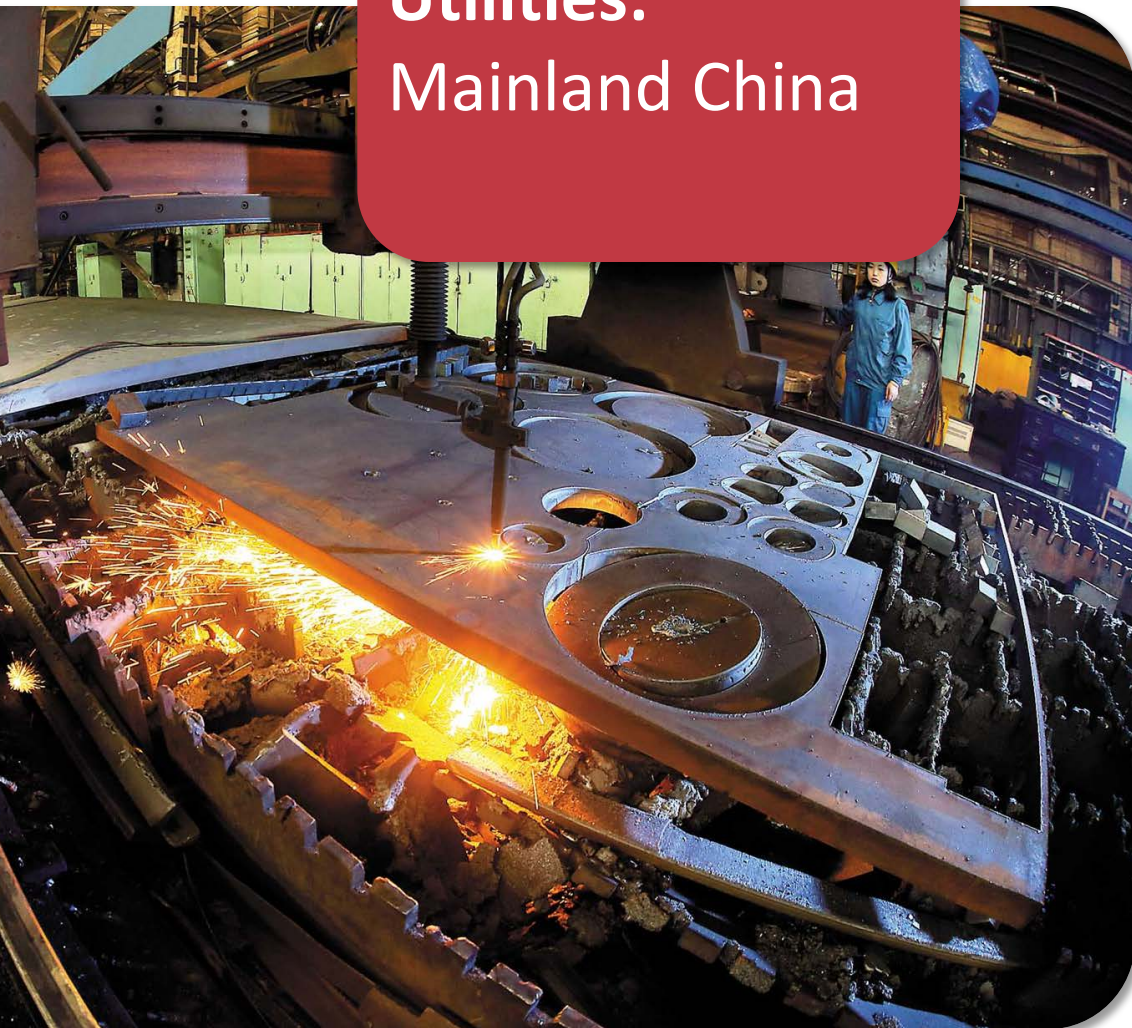
**74%**

**Coverage**

**86%**



## Utilities: Mainland China



Upward Momentum

# Mainland Utilities Performance

(Towngas China inclusive)

## Operating Profit After Tax

HKCG Group  
**HK\$3.4Bn** ↑16%

TCCL  
**HK\$1.2Bn** ↑26%

### City-gas

### City-water

### Midstream-gas

HKCG Group

TCCL

HKCG Group

HKCG Group

Volume:

↑14%

15.2Bn m<sup>3</sup>

↑10%

6.5Bn m<sup>3</sup>

↑2.3%

424Mn ton

↑11%

3.5Bn m<sup>3</sup>

Total Projects:

127 (+8)

94 (+8)

6

7

Total Customers:

↑1.7Mn

19Mn

↑0.79Mn

9.2Mn

↑60,000

1Mn

New Connections:

1.8Mn

0.98Mn

Refilling Station Volume:

↑15%

295Mn m<sup>3</sup>

↑24%

187Mn m<sup>3</sup>

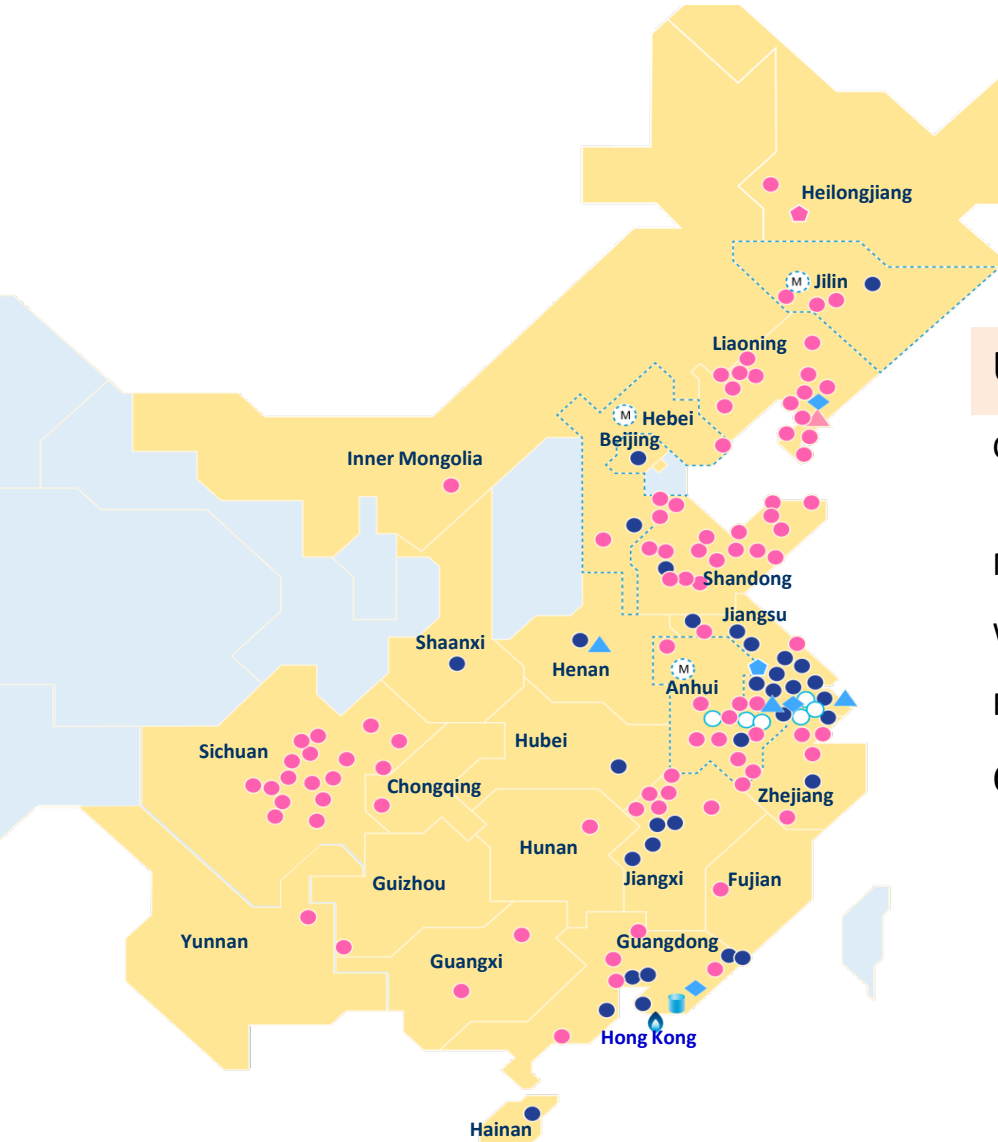












# Territorial Coverage

Up to 18 March 2015

**12** projects added, total **147** projects  
in **23** provincial regions

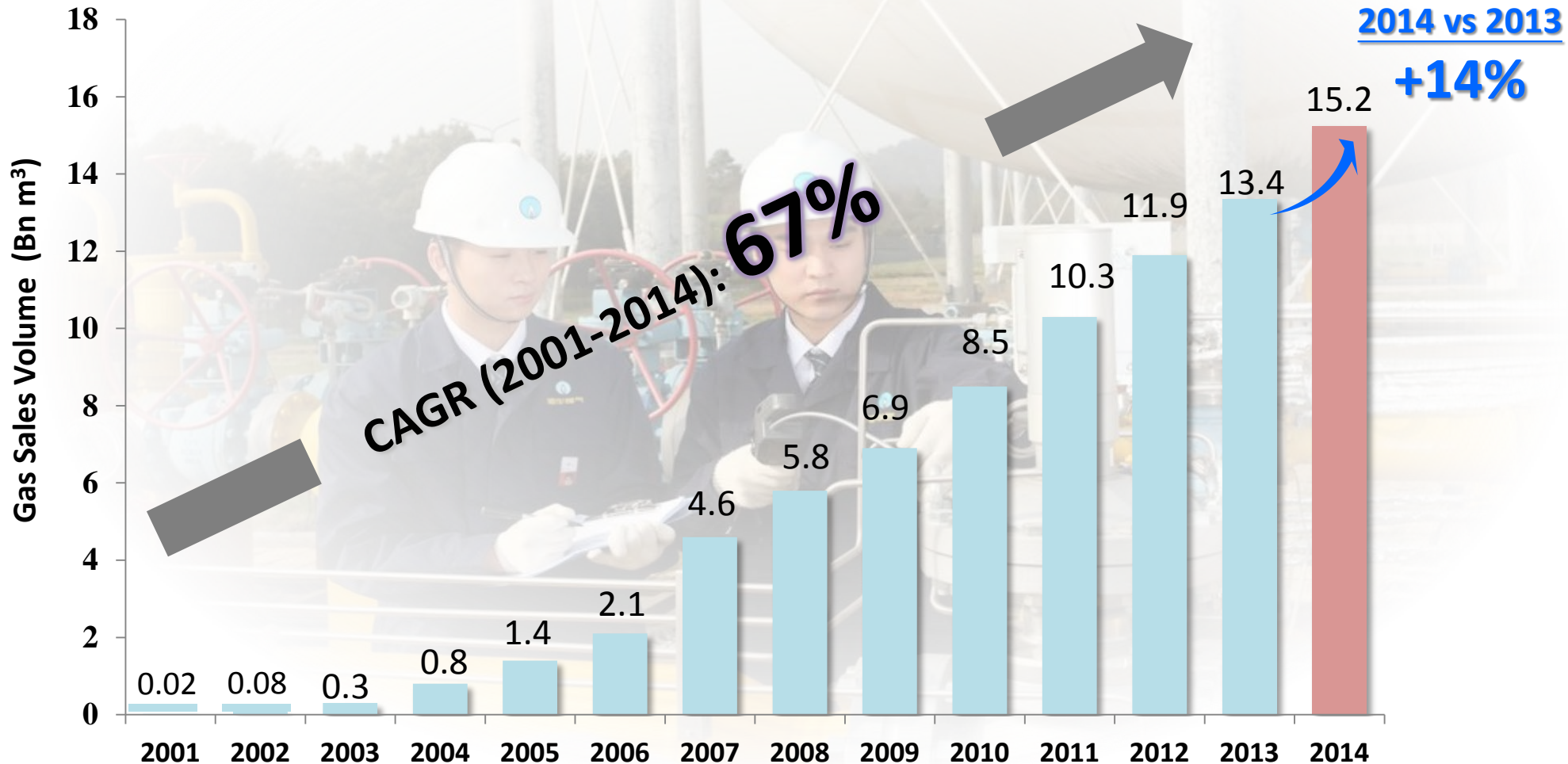


## Utilities

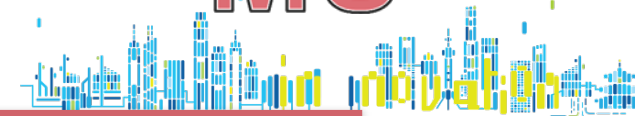
City-gas	127 (HKCG: 33 ● + TCCL: 94 ●)
Midstream	8    
Water & Sewage	6 
Refilling stations	2  
Others	4 

# City-gas Business

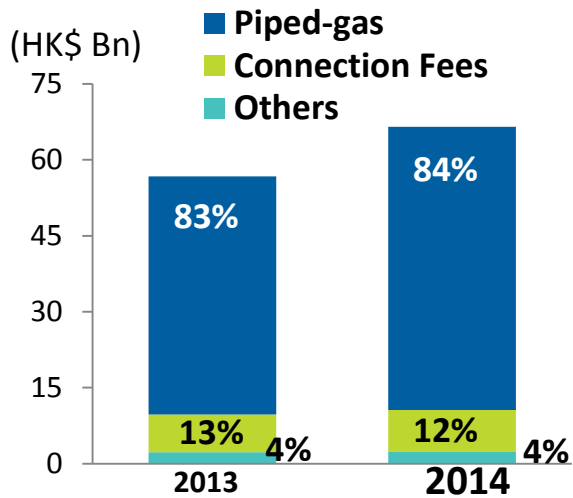
## Growing Gas Sales Volume All JVs (100%)



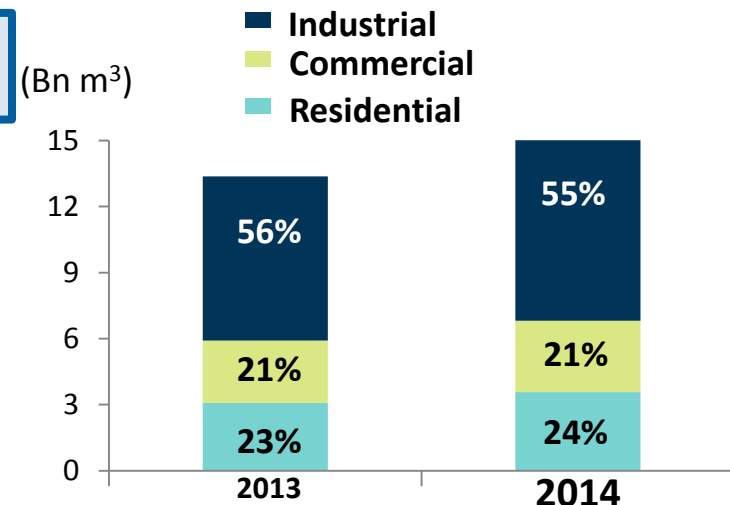
# City-gas Business Operational Highlights



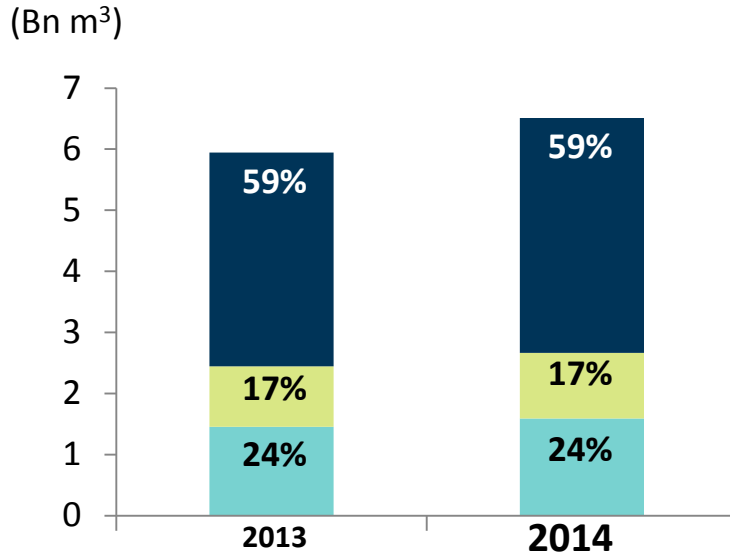
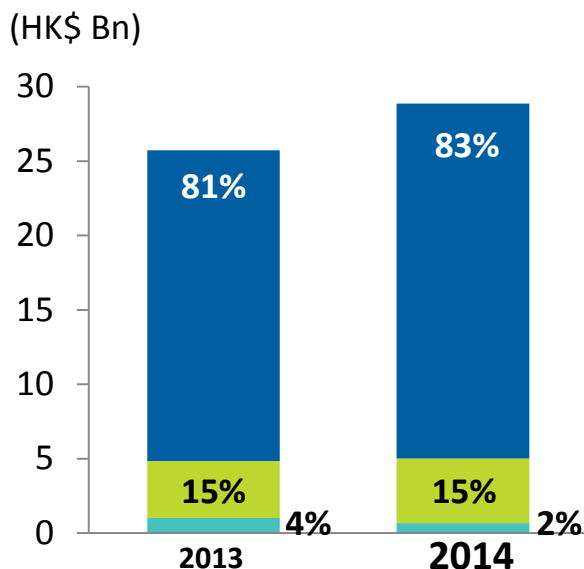
Turnover Mix  
(All JVs 100%)



Sales Volume  
Mix (%)

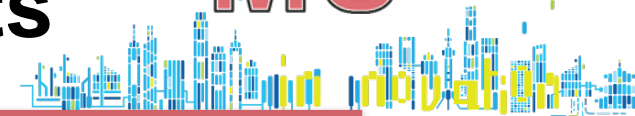


MU



TCCL

# Mainland Utilities Segment Results



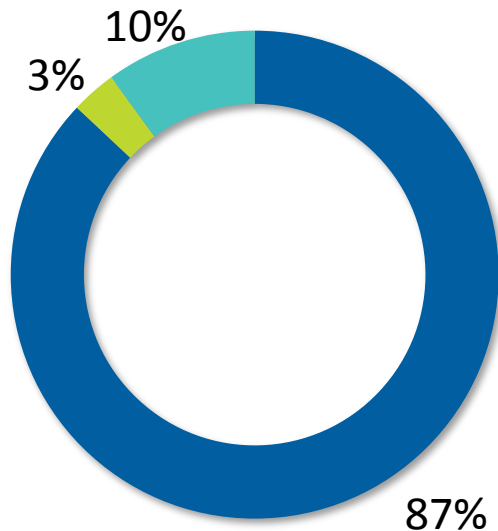
2014

Total Turnover **↑18%**

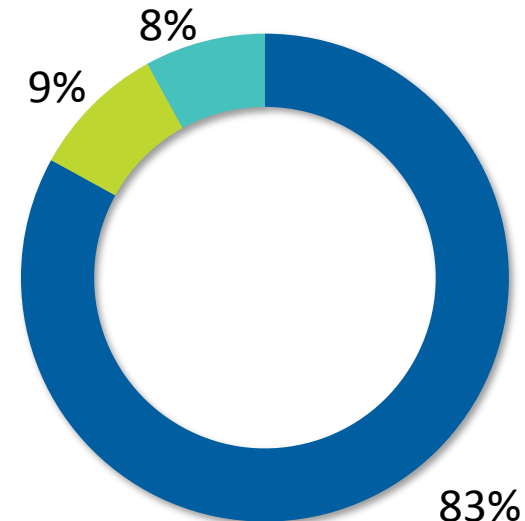
**HK\$ 76.5Bn**

Shared Profit **↑16%**

**HK\$ 3.4Bn**



- City-gas
- Water
- Midstream



\* Turnover: All JVs (100%)

# Water Business (1)



- **6 projects**
  - all projects in cities with city-gas business
- **Fresh water supply & waste water treatment**
- **424Mn tons (↑ 2%) of water sales in 2014**

# Water Business (2)



- **A strategic business**
- **Synergy with city-gas business**
- **Policy support from government for clean water resources**



# 3rd NG Gate-Price Adjustment and Unification



- ▶ Effective 1 April 2015
- ▶ Affect non-residential customers
- ▶ Unified 'Additional' and 'Existing' gas volume prices
- ▶ Additional gas volume: -Rmb0.44/m<sup>3</sup>
- ▶ Existing gas volume: +Rmb0.04/m<sup>3</sup>
- ▶ Expecting Group's average incoming price decrease Rmb0.1/m<sup>3</sup>



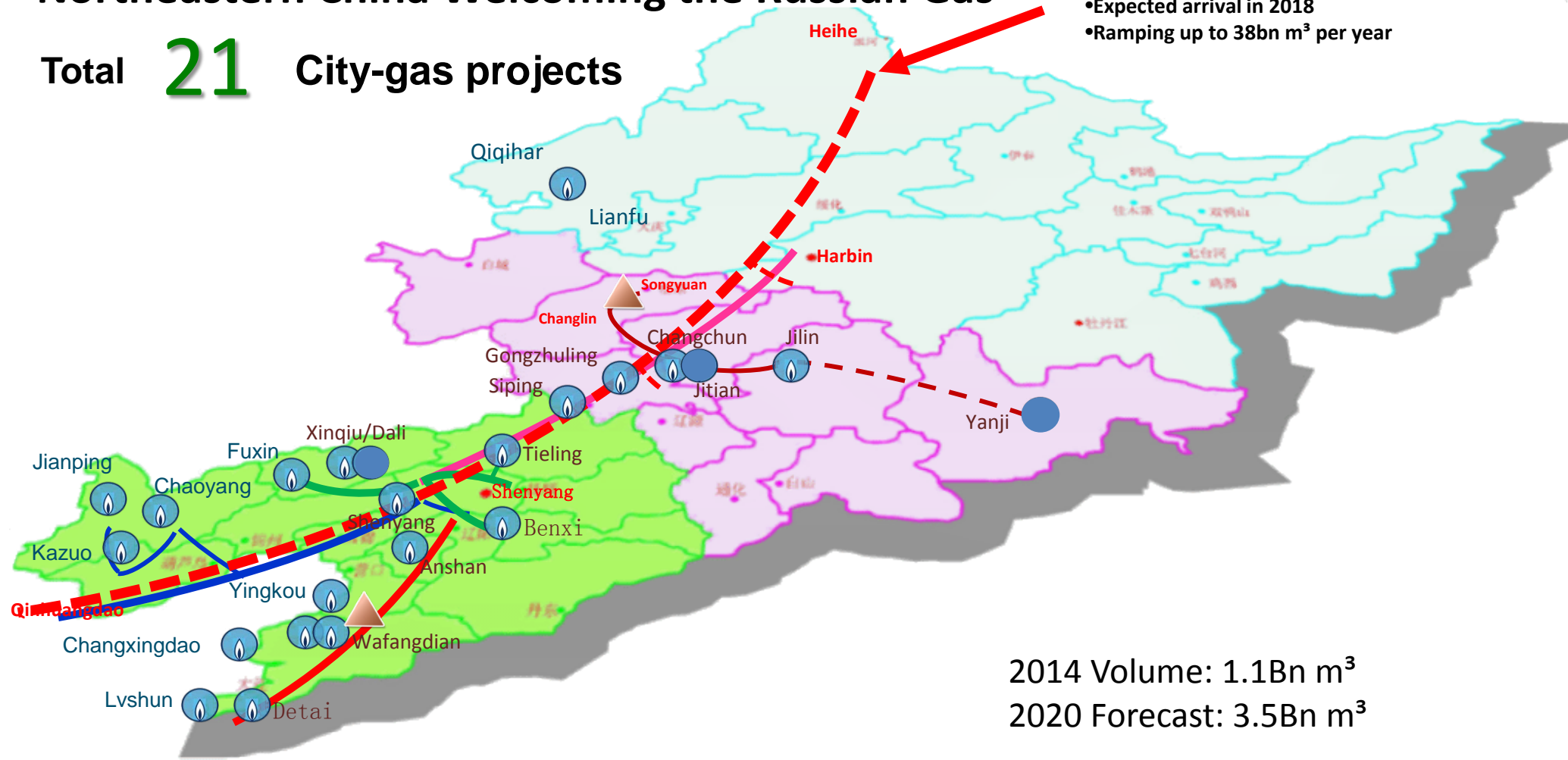
# Sino-Russian Gas Supply

## Northeastern China Welcoming the Russian Gas

Total **21** City-gas projects

### Russian Gas

- Expected arrival in 2018
- Ramping up to 38bn m<sup>3</sup> per year



2014 Volume: 1.1Bn m<sup>3</sup>  
 2020 Forecast: 3.5Bn m<sup>3</sup>



# Outlook: Utilities

- ▶ Gas sales volume annual double digit increase for next five years
- ▶ Water heating and space heating potential in Northern part of China increasing household average consumption
- ▶ Price reforms help NG remain competitive
- ▶ Environmental pressure helps NG replace dirty fuels
- ▶ Less competition for new JVs resulting better project returns
- ▶ Increasing urbanization strengthen steady connection fees and customer gains

# Corporate Financial Overview



**Sustainable Growth**

# 0003.HK Hong Kong & China Gas Co., Ltd.



## Underlying Profit Growth

(HK\$ Bn)	2014	2013	Change
Profit Attributable to Shareholders	7.11	6.85	+4%
Property Revaluation Gain	0.42	0.23	+80%
Exchange Gain/(Loss)	(0.27)	0.31	-
	6.96	6.32	+10.0%

# 1083.HK Towngas China Co., Ltd.



## Underlying Profit Growth

(HK\$ Bn)	2014	2013	Change
Profit Attributable to Shareholders	1.05	1.11	-5%
Exchange Gain/(Loss)	(0.14)	0.16	-
	1.19	0.95	+26.0%

# EBITDA Return on Revenue



	Hong Kong Core		Mainland Utilities		New Energy	
	2014	2013	2014	2013	2014	2013
Revenue (HK\$Bn)	9.6	9.6	18.4	15.7	3.1	2.4
EBITDA (HK\$Bn)	4.3	4.2	4.3	3.7	1.1	0.9
$\frac{\text{EBITDA}}{\text{Revenue}}$ (%)	44.6%	43.7%	23.3%	23.6%	34.1%	35.3%

# EBITDA Return on Assets



	Hong Kong Core		Mainland Utilities		New Energy	
	2014	2013	2014	2013	2014	2013
<b>Asset</b> (HK\$Bn)	<b>16.1</b>	16.0	<b>54.5</b>	51.5	<b>20.7</b>	19.5
<b>EBITDA</b> (HK\$Bn)	<b>4.3</b>	4.2	<b>6.6</b>	5.8	<b>1.1</b>	0.9
<b>EBITDA</b> <b>Assets</b> (%)	<b>26.5%</b>	26.2%	<b>12.1%</b>	11.3%	<b>5.1%</b>	4.4%

EBITDA includes shares of results of JCE & Asso.



# Strong Financial Position



As at 31 December 2014,

**Cash On Hand**

**HK\$13.2Bn**

**(+\$ 3.0Bn)**

**Current Ratio**

**119%**

**(+6%)**

**Net Asset Value**

**HK\$62.2 Bn**

**(+\$ 5.9 Bn)**

**Return on Equity**

**13.9%**

# Leverage



**Interest  
Coverage**

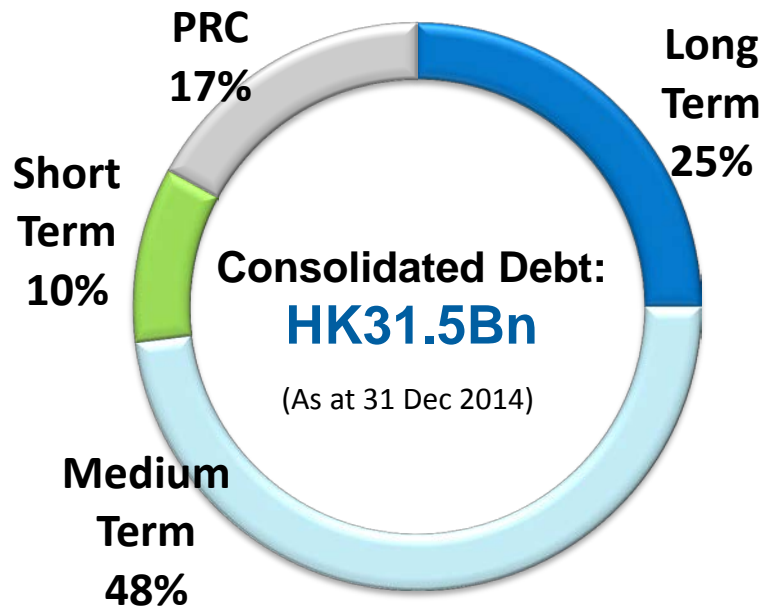
**9.8x**

**12.0x**

**Gearing**

**25.1%**

**26.4%**



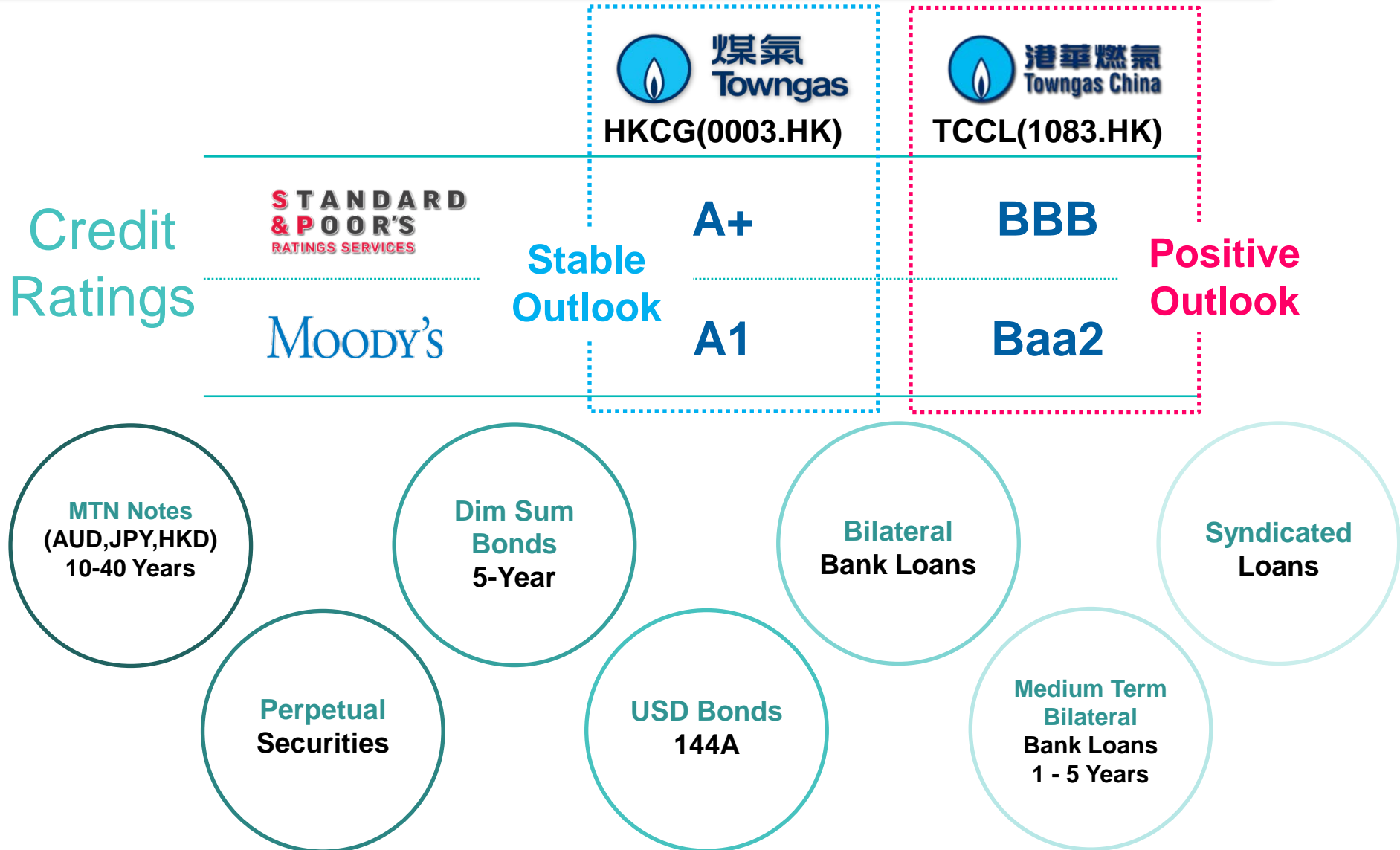
**Avg. Maturity**

**5.2 years**

**Avg. Interest**

**3.8% p.a.**

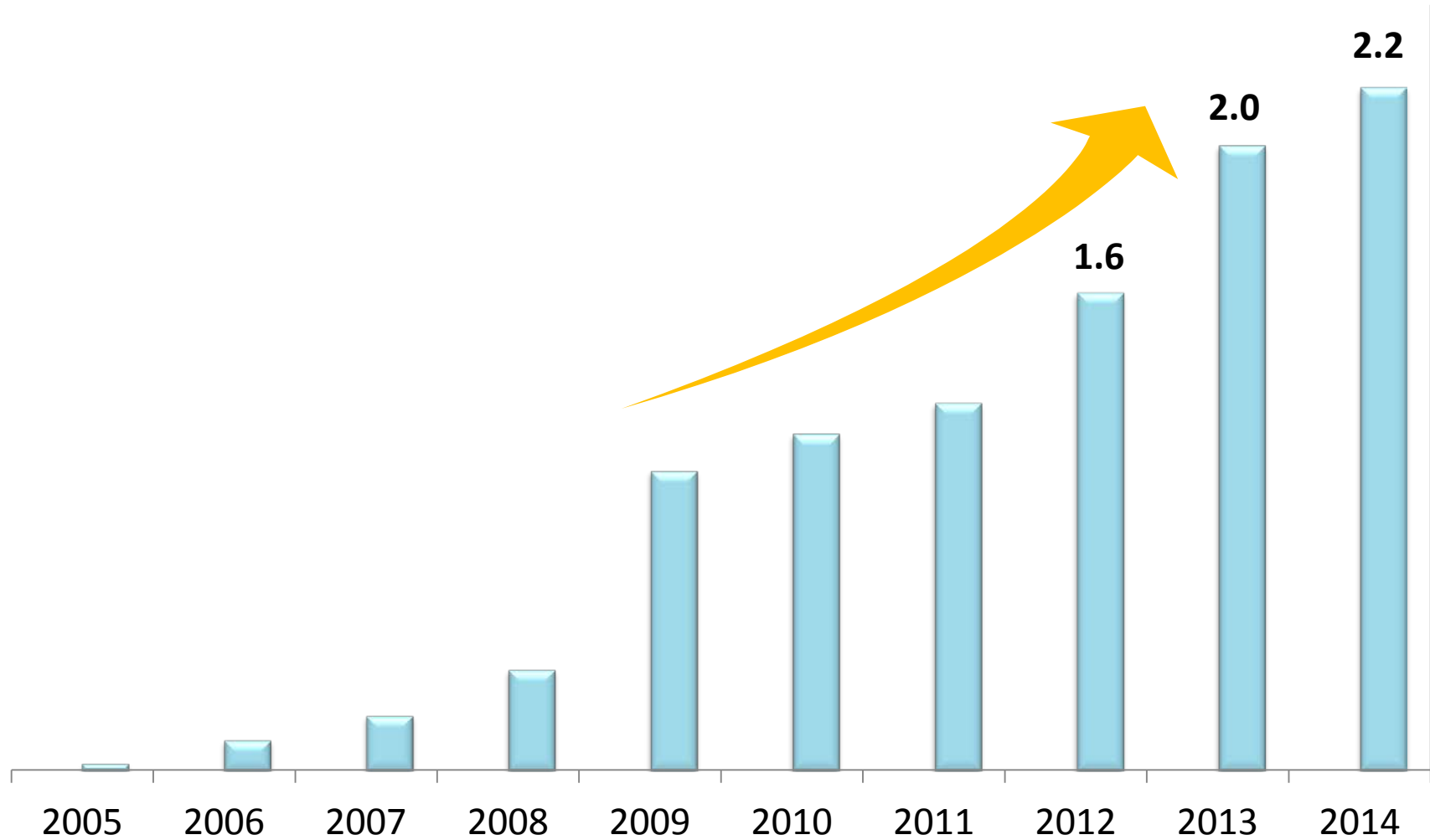
# Diversified Funding Sources



# Strong Dividend from the Mainland





(HK\$ Bn)



# Rolling 3-Year Cashflow Projection

## Healthy Cashflow



		(HKD Bn)
	Group Operation	13
	PRC Dividends Distribution	7
		<b>20</b>
	Dividend	12
	New Investment	10
		<b>22</b>
<b>Shortfall – can be financed by Cash on Hand</b>		<b>2</b>

# Outlook



**Expanding New Horizon**

# Looking Forward



- 2015 will be a challenging year for mainland businesses (Low GDP growth, weak export, sluggish domestic spending)
- Yet the troubled air/water environment will drive growth in clean/renewable energies
- Natural gas shall remain the key player in energy growth
- Availability of more natural gas resources via pipelines or LNG terminals will facilitate utilization, summer or winter
- Cheaper natural gas price effective 2Q15 shall encourage consumption

# Looking Forward (con't)



- Natural gas reform should benefit downstream players
  - Integrated pipeline infrastructure
  - 3<sup>rd</sup> party access
  - Trading platform at Shanghai
- Housing needs persist while urbanization continues
- Natural gas refilling (automobile/marine) business shall have a prosperous growth
- Renewable/Recycling/Carbon Footprint shall become our going concern
- China's commitment to carbon emission reduction target 2020 and capping in 2030 is real



# Looking Forward (con't)



- Our plans, actions and investments are overall in line with China's environmental objectives:

## Reduce

- PM2.5 (Smog)
- CO<sub>2</sub>
- SO<sub>x</sub>, NO<sub>x</sub>
- Crude consumption

# Looking Forward (con't)



## Our Views and Objectives

### HK Gas Business:

Remains as a stable, low growth cash generating operation

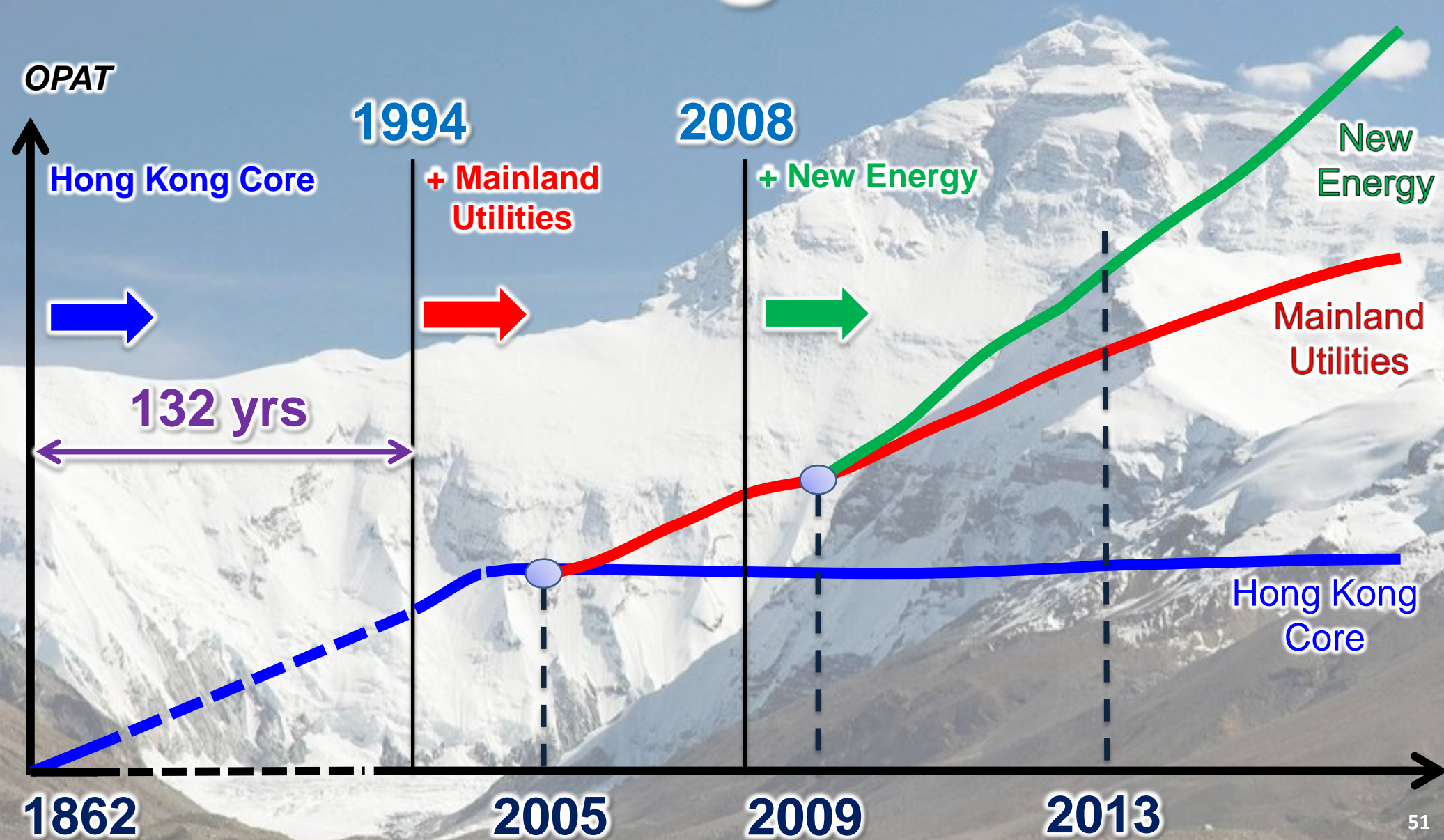
### Mainland Utilities Business:

Continue to be a mid-growth locomotive having market share and organic volume expansion while capturing the environment and urbanization opportunities

### New Energy Business:

Position to be a high-growth driver focusing on renewable/recycling on fuels, while developing proprietary technologies, at the same time establishing long-term energy infrastructures

# Sustaining Growth



# Expanding New Horizon

