



**ENN 新奥**

新奥能源控股有限公司  
(股份代號: 2688)

# 2019 Interim Results

## Company Presentation

**23 August 2019**

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- 1. Operational Review**
- 2. Financial Review**
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# Highlights of 1H19 Results



Core Profit up **14.4%** to RMB**2,734** million



**Steady Growth** of Gas Sales and  
Integrated Energy Business



Newly-added **34** City-gas & IE Projects  
to Accelerate Business Growth

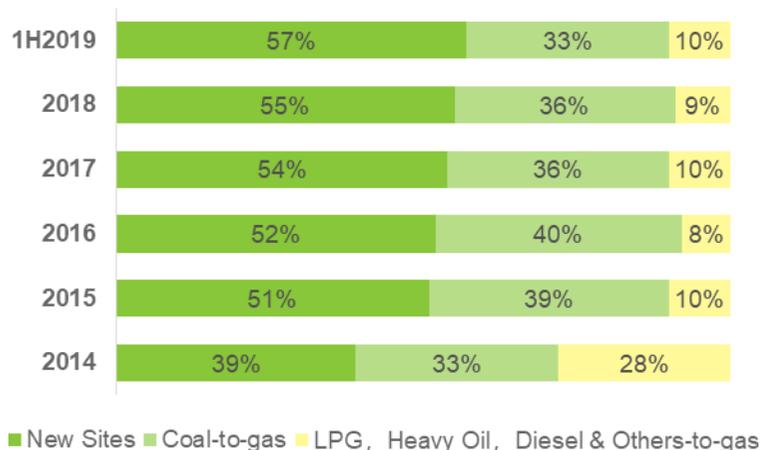


Operating Cash Flow Grew Strongly by **124.9%** to  
RMB**4,294** million

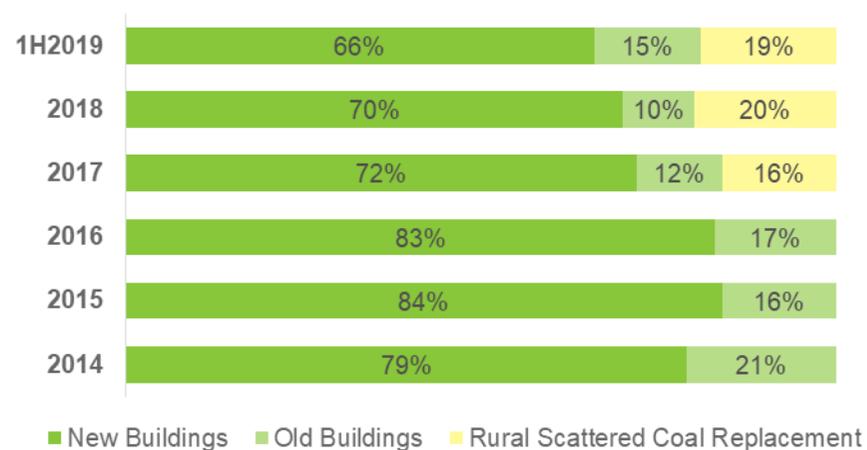
# Growing Customer Base

	1H2019	1H2018	Change
<b>New C/I Customers Development (site)</b>	<b>12,110</b>	<b>10,764</b>	<b>+12.5%</b>
Accumulated C/I Customers (site)	133,209	102,643	+29.8%
<b>Newly Installed Designed Daily Capacity for C/I Customers (m<sup>3</sup>)</b>	<b>8,637,801</b>	<b>8,228,222</b>	<b>+5.0%</b>
Accumulated Installed Designed Daily Capacity for C/I Customers (m <sup>3</sup> )	115,177,890	96,128,735	+19.8%
<b>New Residential Customers Development (household)</b>	<b>1,286,538</b>	<b>1,078,407</b>	<b>+19.3%</b>
Accumulated Residential Customers (household)	19,786,836	17,299,550	+14.4%

**New C/I Customers Breakdown**  
(by installed capacity m<sup>3</sup>)



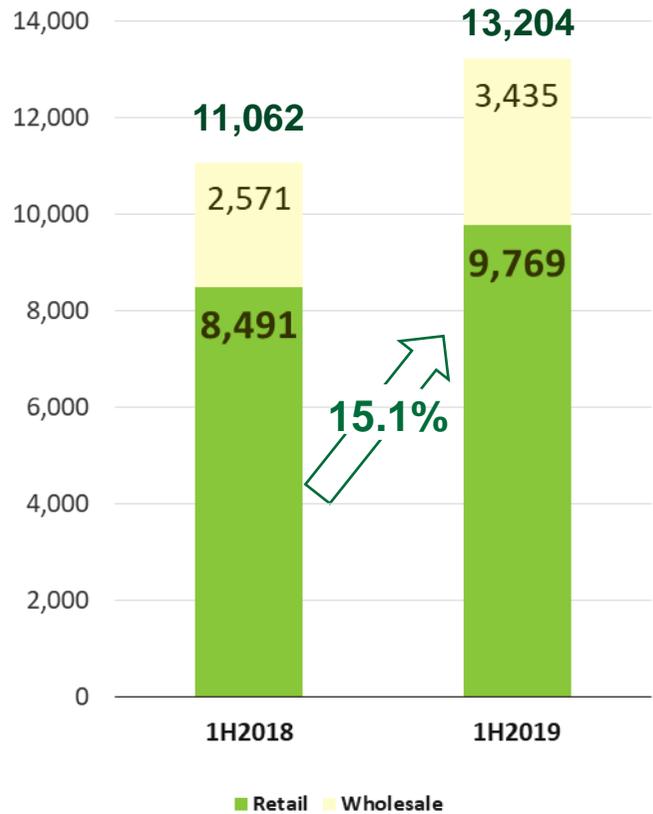
**New Residential Customers Breakdown**  
(by household)



# Robust Volume Growth

## Total Natural Gas Sales Volume

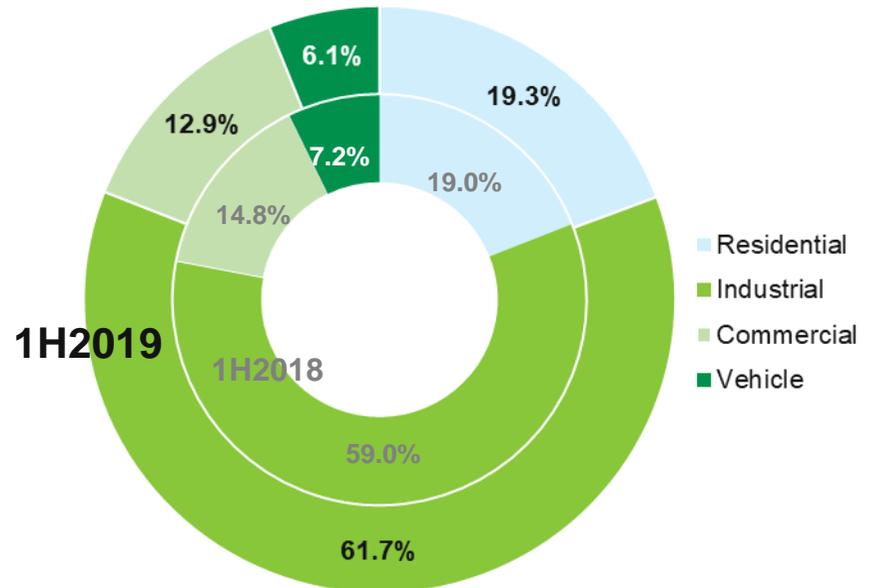
million m<sup>3</sup>



## Retail Gas Sales Volume Breakdown

(million m <sup>3</sup> )	1H2019	1H2018	Change
Industrial & Commercial	7,289	6,264	16.4%
Residential	1,887	1,614	16.9%
Vehicle Refuelling Stations	593	613	(3.3%)

C/I Gas Sales accounted for **74.6%**



# Dollar Margin Analysis

ASP & Gas Cost (RMB/m <sup>3</sup> )	1H2019	2H2018	1H2018
Residential	2.76	2.71	2.65
Commercial & Industrial	3.29	3.12	3.07
Vehicle Refuelling Stations	4.08	3.98	3.92
<b>ASP</b>	<b>3.24</b>	<b>3.13</b>	<b>3.05</b>
<b>Average Cost</b>	<b>2.60</b>	<b>2.47</b>	<b>2.37</b>
<b>Dollar Margin (ex VAT)</b>	<b>0.58</b>	<b>0.60</b>	<b>0.62</b>

1. Some of the government subsidies on gas fee for rural households have not been distributed yet
2. The share of vehicle & commercial gas sales volume with higher DM dropped
3. Offered discounts to industrial users with large gas consumption volume

# Continuous Expansion of City-gas Concessions

- Acquired **14** new projects & **3** new concessions nearby existing projects in 1H2019
- The Group managed **201** city-gas projects in China with a total population coverage of **99.95 million**
- Average gas penetration rate of **59.4%**

Provinces	New Projects	Connectable Population '000
Shandong	Shouguang City 寿光市	230
	Tai'an Ningyang County 泰安宁阳县	350
	Jinan Laiwu District 济南市莱芜区	330
	Dongming County 东明县	300
	Linyi Luozhuang District 临沂罗庄区	45
Hebei	Tangshan Fengnan District 唐山市丰南区	170
	Mengcun County 孟村县	230
	Xian County 献县	180
	Nandagang Industrial Zone 南大港产业园区	-
Heilongjiang	Suihua City 绥化市	500
Fujian	Zhangzhou Nanjing High-tech Industrial Park 漳州南靖高新技术产业园区	-
Gansu	Lanzhou Shuping Industrial Park 兰州树屏产业园	-
Henan	Jia County 郟县	110
Guangxi	China-Asean Nanning Airport Fusui Economic Zone Forestry Circular Economy Industrial Cluster 中国-东盟南宁空港扶绥经济区林业循环经济产业带	-
<b>Additional Population Coverage</b>		<b>2,445</b>

Incremental vol of  
**over 800 mil m<sup>3</sup>**  
in next 3 years

# IE Business Shown Exponential Growth

	(RMB mil)	1H2018		1H2019	
Revenue		369	2.76x	1,019	<ul style="list-style-type: none"> <li>➤ Same level as the revenue in FY2018</li> </ul>
Gross Profit		28	7.36x	206	<ul style="list-style-type: none"> <li>➤ Utilization rate increased</li> <li>➤ Contribution from planning and designing IE solutions</li> </ul>
Projects in Operation		46	1.78x	82	<ul style="list-style-type: none"> <li>➤ More high-quality projects were put into operation                             <ul style="list-style-type: none"> <li>- 14 national/provincial-level industrial parks</li> </ul> </li> <li>➤ Breaking through boundary of gas concessions                             <ul style="list-style-type: none"> <li>- 11 located outside of ENN city-gas concessions</li> </ul> </li> </ul>
IE Sales Vol (mil kWh)		1,016	1.92x	1,952	<ul style="list-style-type: none"> <li>➤ Steady growth of IE sales volume                             <ul style="list-style-type: none"> <li>- 79% Steam</li> <li>- 15% Cooling &amp; Heating</li> <li>- 6% Electricity</li> </ul> </li> </ul>
Installed Capacity (MW)		689	2.27x	1,561	<ul style="list-style-type: none"> <li>➤ Enhanced energy supply capability</li> </ul>

# IE Business Development Adapting to Local Conditions

Obtained more integrated energy distribution rights  
(incl projects in operation & under construction)

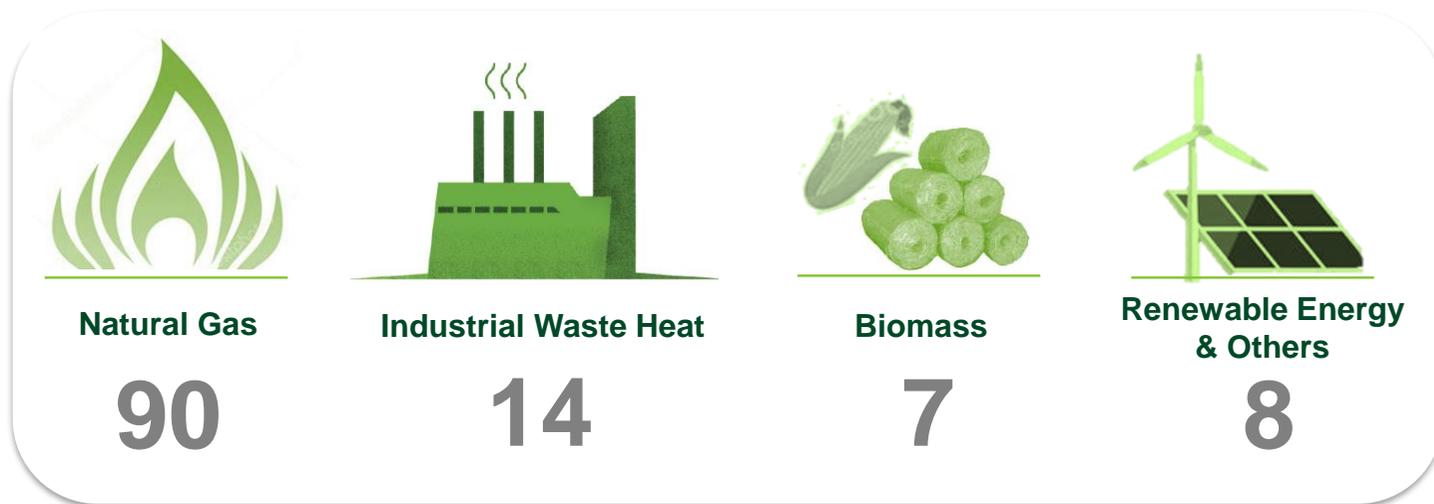
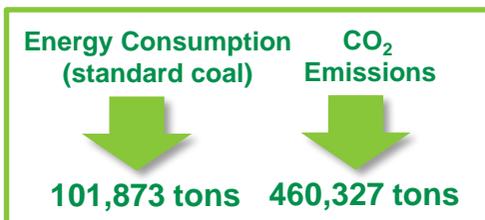
**Total Energy Demand**

**>30 bil kWh**



Based on local conditions, utilizing the most competitive clean energy sources to provide customers with integrated energy solutions  
(incl projects in operation & under construction)

Energy conservation and emission reduction for customers in 1H2019:



# Geographical Coverage of Energy Distribution Business

## The Greater Bay Area

- The central government proposed to optimize energy structure
- The gas consumption target in the area is 28 billion cubic meters in 2020 and 45 billion cubic meters in 2025
- Construction of new form of smart cities and national big data experimental zones in the pearl river delta region
  - Develop smart energy

## Northeast Area

- Opportunities from “use of clean coal” policy
- New gas sources brought by China-Russia Line; Biomass resources
- A huge market for clean heating supply business

## Beijing-tianjin-hebei, Yangtze River Delta, Fenwei Plain

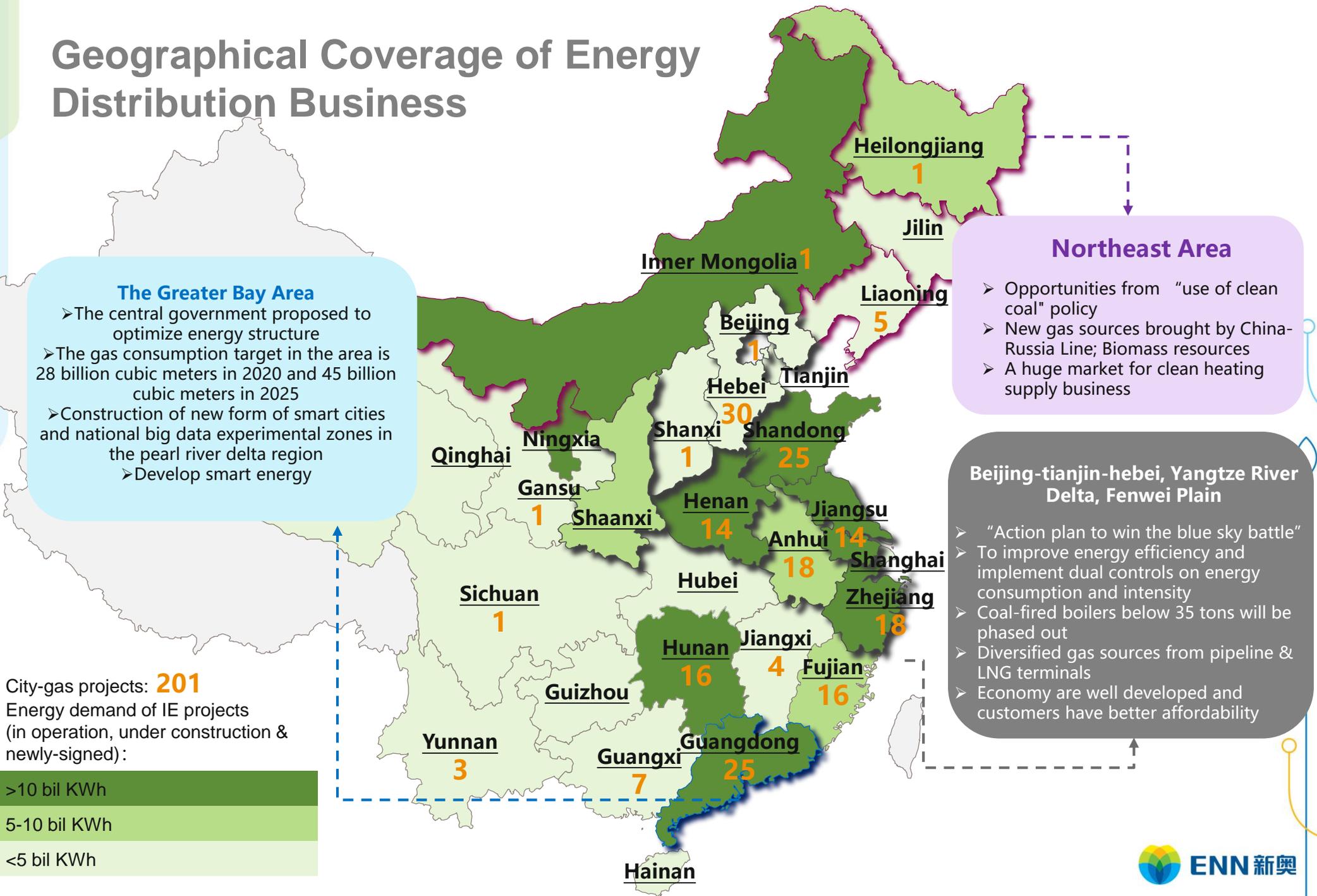
- “Action plan to win the blue sky battle”
- To improve energy efficiency and implement dual controls on energy consumption and intensity
- Coal-fired boilers below 35 tons will be phased out
- Diversified gas sources from pipeline & LNG terminals
- Economy are well developed and customers have better affordability

City-gas projects: **201**  
 Energy demand of IE projects  
 (in operation, under construction &  
 newly-signed):

>10 bil KWh

5-10 bil KWh

<5 bil KWh



# Value-added Services



## C/I Customers

- Energy experts provide energy-saving technologies and retrofitting services for customers
  - ↑ Enhance customer's energy consumption and production efficiency
  - ↑ Encourage energy consumption, new customer development
- Provide maintenance & repairing services for gas-related facilities, and sales of commercial cooking appliances
  - ↑ Improve gas facilities safety

➔ Case Study

Value-added services and sales of products  
(RMB mil)

	1H2018		1H2019
Revenue	460	2.25x	1,037
Gross Profit	223	2.96x	659



## Residential Customers

- Sales of cookers, space heaters under brand name "Gratle"

**Gratle**  
格瑞泰

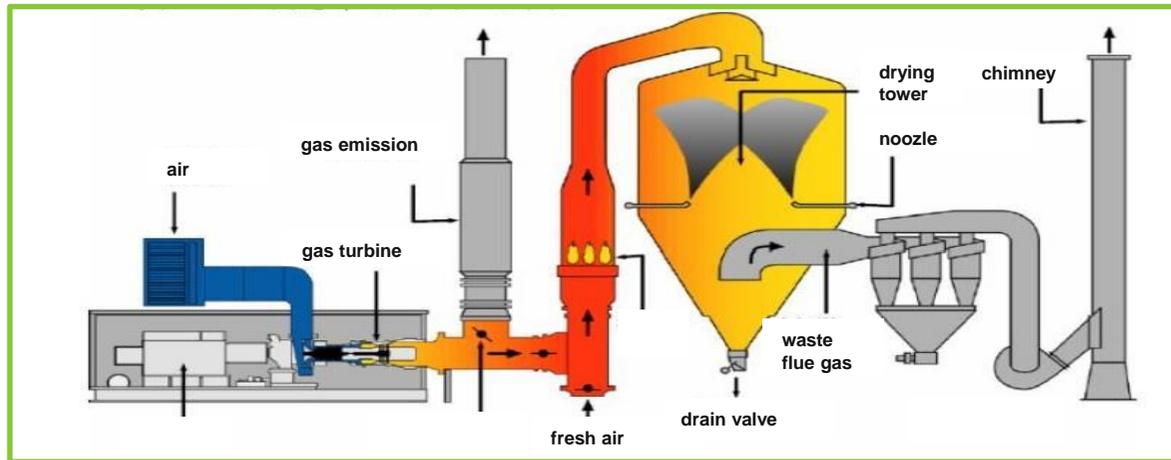


- ↑ Increase gas consumption volume of residential customers
- Provide synergistic services such as smart products, gas insurance agency and floor heating installation
  - ↑ Enhance brand image
  - ↑ Broaden income source

# Technological Innovation to Drive Business Growth

## Case 1: Coal-to-gas Project for a Ceramic Producer (Quanzhou ENN in Fujian)

- Redesigned burning process and replaced coal-boiler with gas-fired hot air oven to improve ignition efficiency
- Works well in the case of discontinuous operation of ceramic spray-drying tower
- High temperature flue gas and cold air can be mixed evenly, facilitating temperature control and enhancing the quality of ceramic materials



Coal-to-gas for Ceramic Drying Tower

Utilise Waste Gas to Generate Heat and Electricity

Result:

Increase Natural Gas Consumption



900,000 m<sup>3</sup>/year

Energy Consumption



40%

Cost of Production



RMB670,000/year

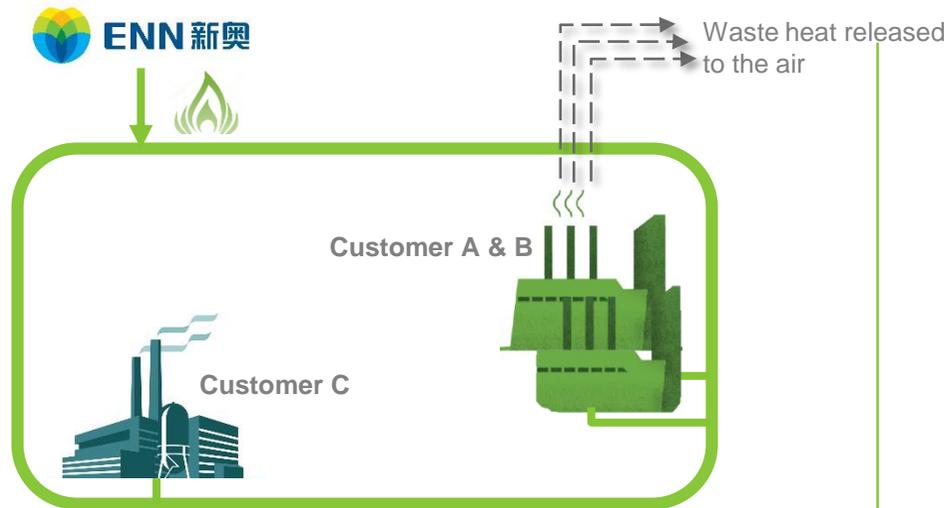


# Technological Innovation to Drive Business Growth

## Case 2: Industrial Waste Heat Recycled Project (Jieshou ENN in Anhui)

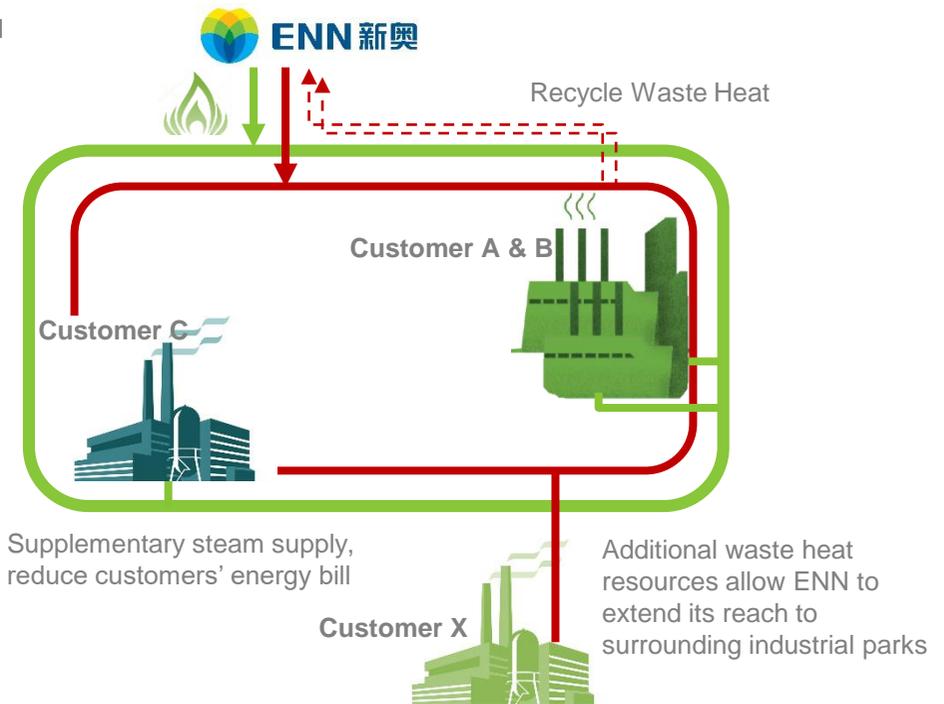
- ENN energy experts proposed an innovative business model and provided retrofitting services, to better utilize lower-cost heat resources available in the industrial park
- Helped customer reduce energy bill

Before:



With large gas consumption volume, gas price hike increased customers' burden

After:



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# Solid Results Achieved

(RMB million)	1H 2019	1H 2018	Change
<b>Key Financial Highlights</b>			
Revenue	35,344	26,530	33.2%
Gross Profit	5,598	4,662	20.1%
EBITDA	5,584	4,695	18.9%
Profit attributable to Shareholders of the Company	3,362	1,782	88.7%
Basic EPS (RMB)	2.99	1.64	82.3%
Core Profit*	2,734	2,389	14.4%
Core EPS (RMB)	2.43	2.20	10.5%

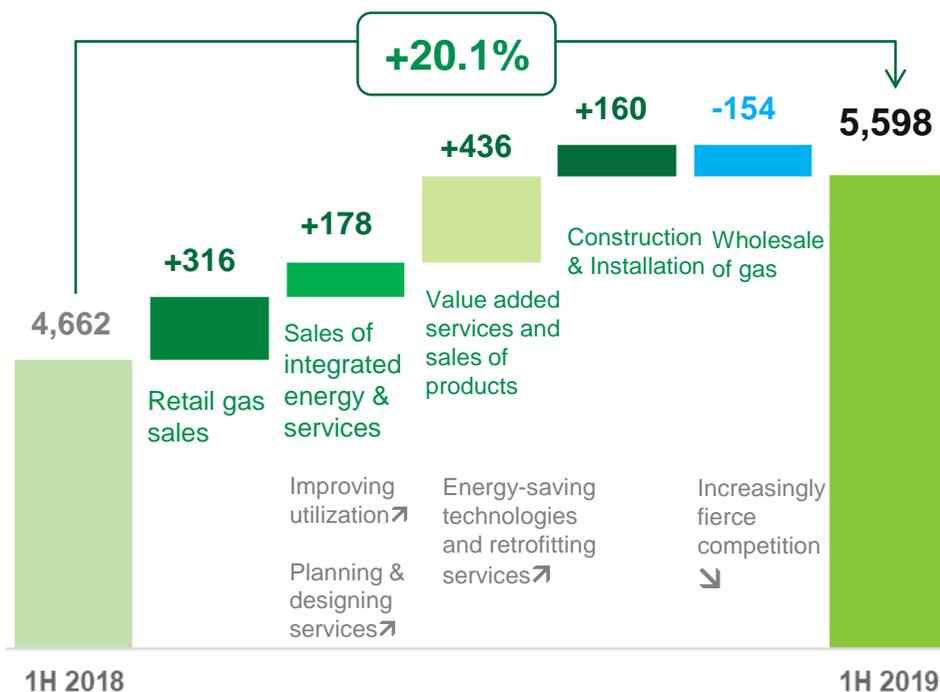
\*Core profit = Profit attributable to shareholders of the Company – one-off items in Other Gains & Losses and amortization of share option expenses

# Solid Results Achieved

- Expanded business scale with all business segments growing steadily

Revenue (RMB million)	1H 2019	1H 2018	Change
Retail Gas Sales	20,332	16,301	24.7%
Sales of Integrated Energy and Services	1,019	369	176.2%
Wholesale of Gas	9,330	6,595	41.5%
Construction and Installation	3,626	2,805	29.3%
Value Added Services and Sales of Products	1,037	460	125.4%

- Strong Gross Profit Growth and Modified Business Mix



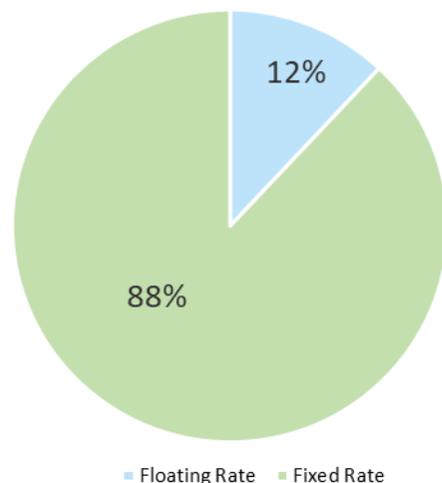
# Strong Balance Sheet & Liquidity

(RMB million)	As of 30 June 2019	As of 31 December 2018	Change
Cash on Hand	7,742	7,923	-2.3%
Total Debt	19,181	20,249	-5.3%
- Short-term	8,303	11,561	-28.2%
- Long-term	10,878	8,688	25.2%
Net Gearing Ratio	40.8%	48.2%	-7.4ppt
Net Debt/EBITDA	1.0x	1.3x	-0.3x

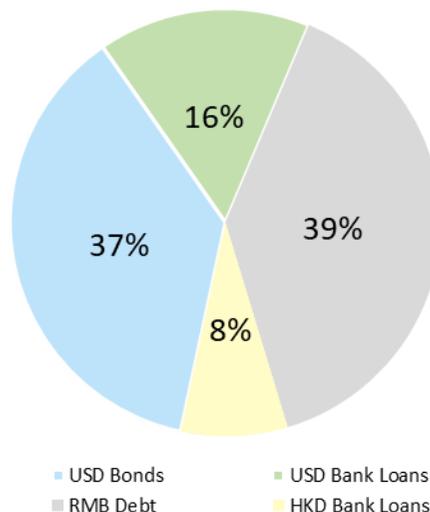
Rating Agency	1H 2019
 S&P Global Ratings	BBB+ (Stable)
 MOODY'S INVESTORS SERVICE	Baa2 (Stable)
 FitchRatings	BBB (Stable)

# Healthy Debt Structure

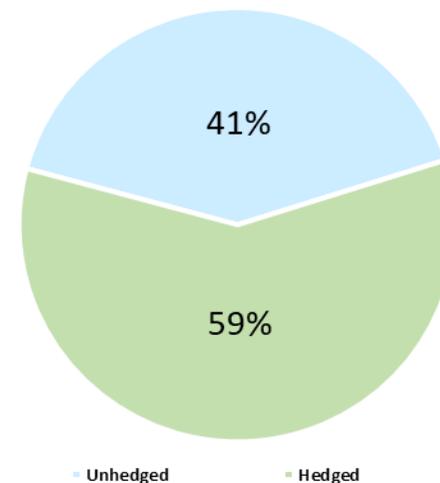
Fixed Rate Dominated Debt Structure



Breakdown by Currency



Foreign Currency Exposure Management – Long-term USD Debt

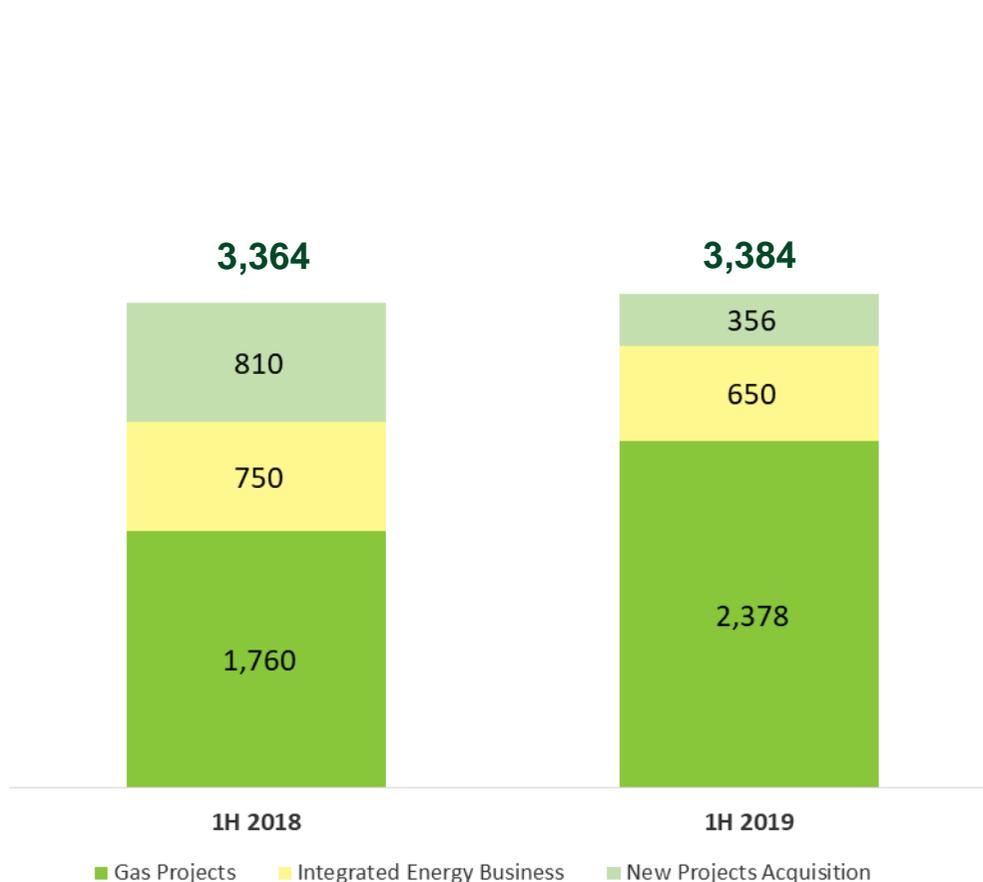


	1H2019	2018	2017
<b>Avg. Effective Interest Rate</b>	<b>4.06%</b>	<b>4.05%</b>	<b>4.31%</b>

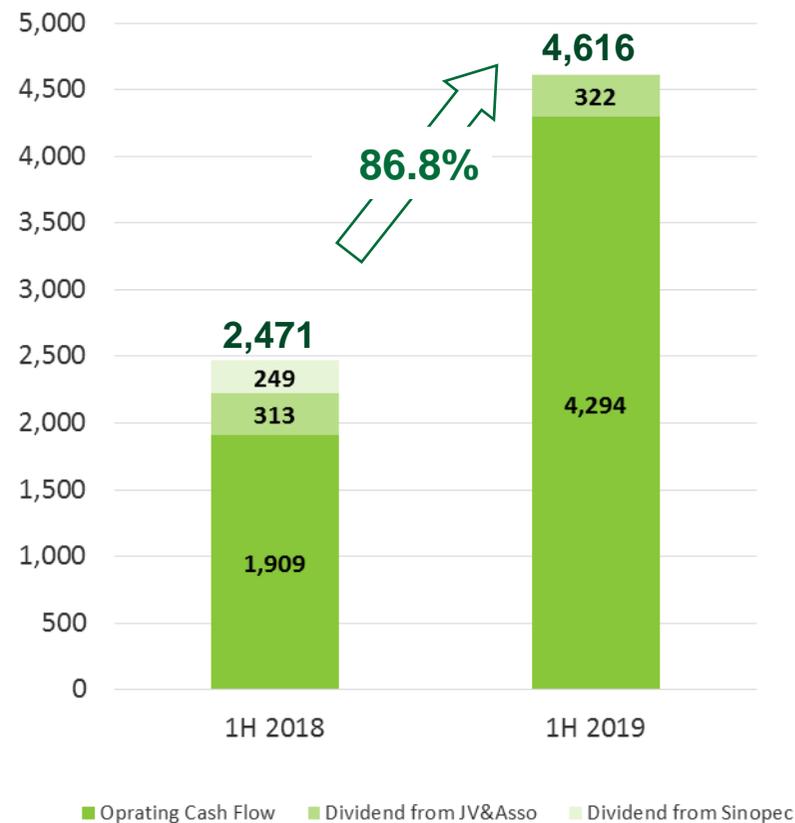
<b>2019 Sensitivity Analysis</b>	<b>RMB Depreciation</b>	<b>Cash Impact</b>	<b>Non-cash Impact</b>
	↓ 1%	↓ RMB1.3 million	↓ RMB 63 million
<b>FX Risk Management</b>	<ul style="list-style-type: none"> <li>➢ USD bank loans can be rolled over, thus cash flow will not be affected by FX movement</li> <li>➢ Continue to monitor the exchange rate movement and market conditions, further hedge remaining long-term USD bonds when appropriate</li> </ul>		

# Capital Allocation and Cash Flow

**Growth CAPEX to Support Strategic Development**  
(RMB million)



**Strong Growth of Cash Flow**  
(RMB million)



\*The RMB62 million (before tax) - dividend from Sinopec Marketing for 1H2019 was received in July 2019.

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# Challenges and Opportunities in 2H19

## Challenges

1. Economic slowdown
2. Upstream Gas Price Hike
3. Intensified Competition in Integrated Energy Business

## Opportunities

Intensified reform in energy sector with an increasing transparent regulatory environment

Stringent control of air pollution driven by the implementation of “Three-year Action Plan to Win the Blue Sky Defense War”

Rapid Development of clean energy driven by the acceleration of energy structure modification

### Customer

- With an increasing demand for clean, economic and efficient energy, the change from passive acceptance to active deployment of energy has led to the development of demand-driven integrated energy service

### Gas

- Natural gas demand is growing steadily. Chinese government targets to raise the share of natural gas in primary energy mix to 10% by 2020 and 15% by 2030
- Opportunities arise from industry consolidation, ENN accelerates M&A to expand its energy distribution concessions

### Heat

- The relocation of industrial parks creates incremental demand of steam/heat
- The replacement of clean energy, as well as the integration of heating network are changing the pattern of heating supply
- New opportunities arise for heating supply utilizing biomass and industrial waste heat

### Electricity

- The implementation of incremental power distribution market reform, push forward entities other than power-grid and governments become controlling shareholders
- The open-up of electricity retail sales market facilitates the development of integrated energy business

# Key Measures to Achieve FY19 Performance Guidance

## Develop New Customers Proactively

- Strengthen business development, conduct “coal-to-gas” and provide energy-saving technology & services for C/I customers, so as to encourage gas consumption
  - ✓ Develop over 18 million m<sup>3</sup> installed daily capacity for C/I customers
- Actively provide gas facilities installation to new buildings, strengthen the penetration of old buildings, and prudently conduct rural coal-to-gas conversion
  - ✓ Develop over 2.3 million residential households

## Expand New Projects and New Areas

- Seize the opportunity arise from industry consolidation, accelerate the acquisition of gas projects with synergies
  - ✓ Acquire 20-30 new gas projects
- Develop IE business based on locally available resources, explore opportunities arise from heating supply and incremental power distribution projects
- Accelerate the construction and operation of quality IE projects
  - ✓ Revenue of IE business to be RMB3-4bil



## Ensure Growth of Natural Gas Sales Volume & Profitability

- Fully implement digital management and operation, analyze customer energy consumption data, identify market opportunities and risks
- Conduct intelligent matching of gas supply and demand, leverage on enhanced transmission capacity of Zhoushan LNG terminal, diversify gas sourcing channels, ensure stable supply in winter season
  - ✓ Retail natural gas sales volume up 15%-20%
- Conduct strategic pricing and pass-through of incremental costs, strengthen customer relationship management
  - ✓ Stable dollar margin

## Promote “Value Creation” Corporate Culture & Improve Operational Efficiency

- Provide more diversified products and services, tap into the potential opportunity of 19.92 million residential and C/I customers
- Provide customers with diversified gas services and products through various channels, in an attempt to improve customers’ satisfaction
- Optimize the “Self-driven + Empowerment” organization, and strive to create value for the company
  - ✓ The share of SG&A in revenue further decline

✓ Core earnings up 15%-20%

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# ENN - One of the First Privately Owned Clean Energy Distributors in China

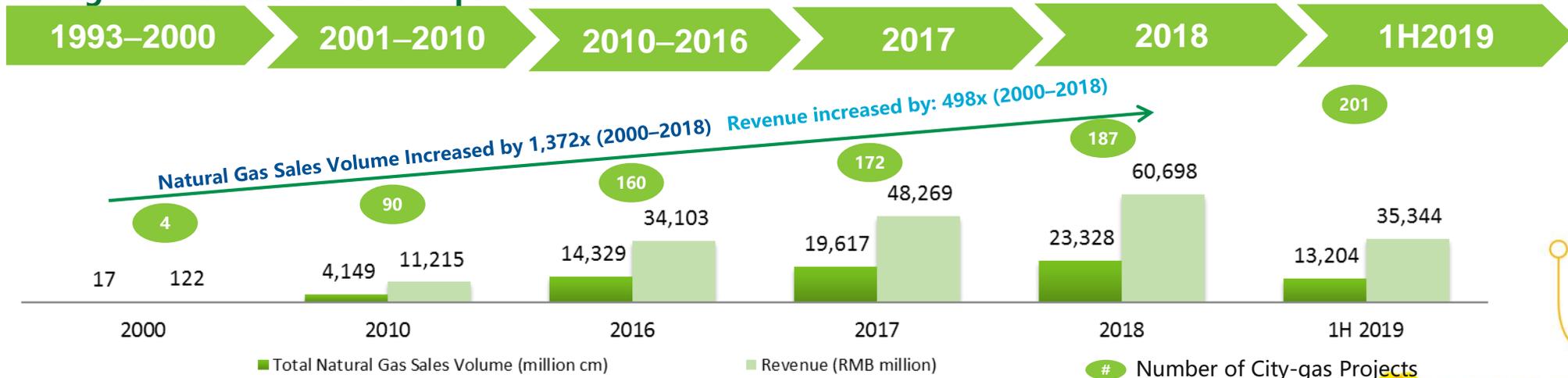
## Company Overview

- Established in 1993, ENN is one of the leading privately-owned clean energy distributors in the PRC
- ENN's principal business includes sale and distribution of piped gas, investment in, and the operation and management of gas pipeline infrastructure, vehicle/ship gas refuelling stations, integrated energy business, sales and wholesale of piped gas, as well as sales of LNG and multiple energy forms. It also develops integrated energy business and wholesale of gas business, while providing other energy-related services
- ENN was listed on the GEM in 2001 and transferred to the Main Board of HKEX (stock code: 2688) in 2002

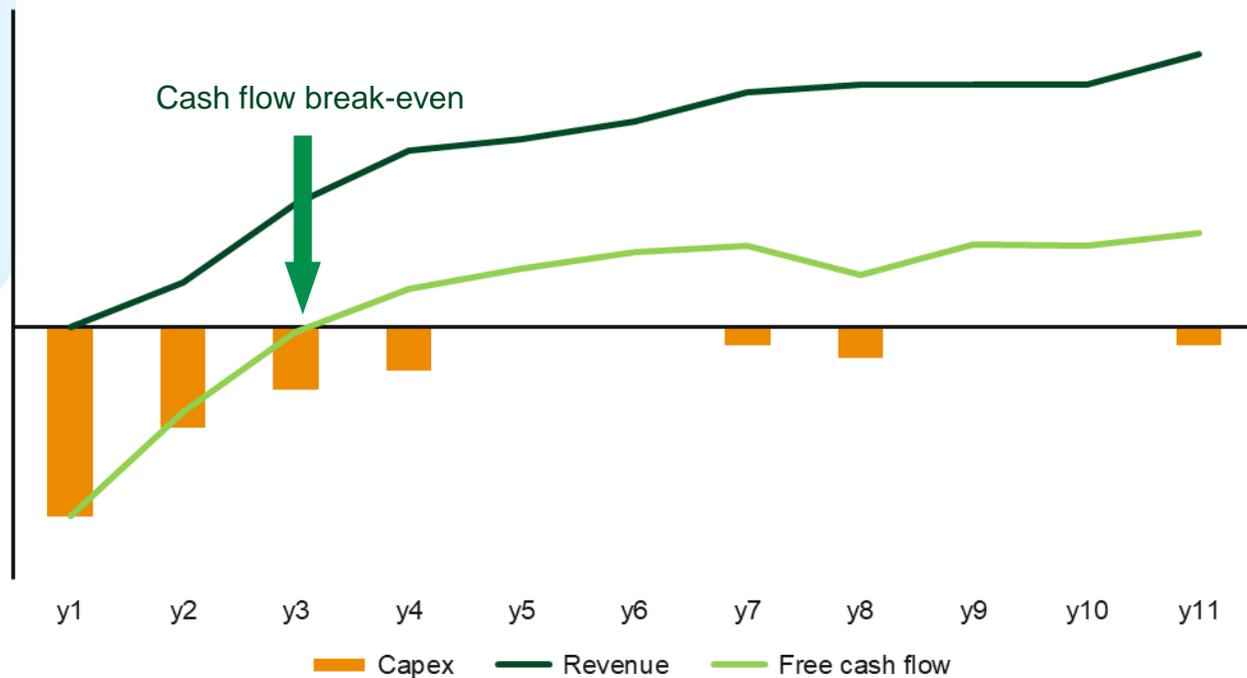
## Key Business Segments

Retail Gas Sales Business	Sales of Integrated Energy and Services	Wholesale of Gas	Construction & Installation	Value Added Service and Sales of Products
				
<ul style="list-style-type: none"> <li>• Sell piped gas to residential households and C/I customers</li> <li>• Construct and operate CNG/LNG gas refuelling stations</li> </ul>	<ul style="list-style-type: none"> <li>• Based on customers' need, provide multi-energy products according to energy sources available locally, and customise integrated energy solutions for users</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct natural gas wholesale business to fully utilize its advanced dispatch system, logistics fleet and upstream resources</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct gas pipeline construction and installation for residential and C/I customers</li> </ul>	<ul style="list-style-type: none"> <li>• Provide energy-saving technologies, retrofitting services, and facilities inspection and maintenance services</li> <li>• Provide gas-related products and material sales</li> </ul>

## Strong and Sustainable Development



# Typical Industrial Park IE Project - Cash Flow Projection



## 1. Stable & Recurring Income

- Integrated energy solutions reduce customers' overall energy bills **↓10%**
- Selling the types of energy customer need increases their stickiness

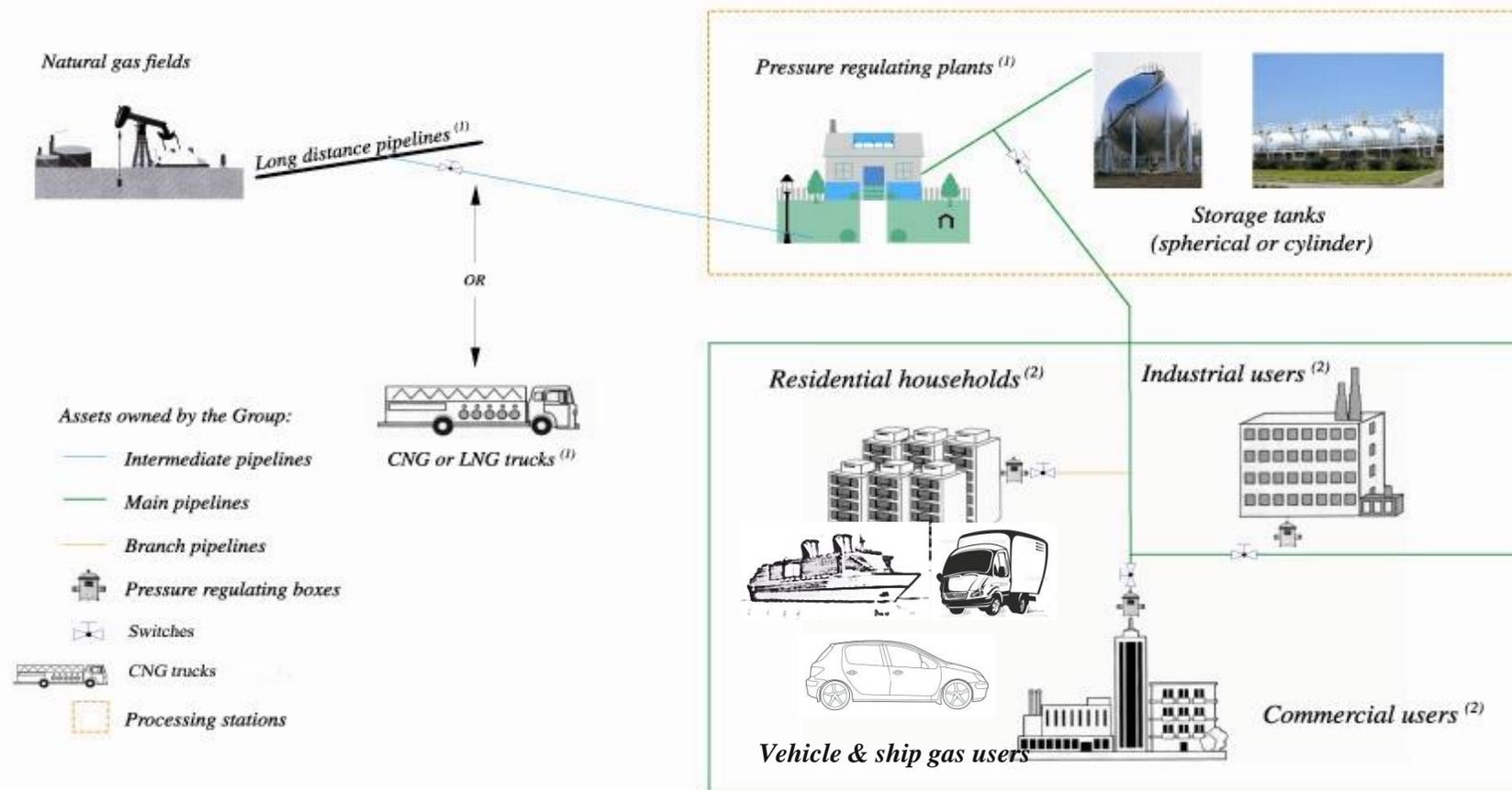
## 2. Rapid Cash Flow Generation

- Capex are invested by stages depending on the number of customers and their energy consumption scale
- Our projects are mostly industrial parks with existing customers, once the energy stations completed, energy sales can be generated
- Payback period: **7-8** years

## 3. Low Risk

- Diversified customer base in industrial parks helps reduce cyclical risks of certain industry
- Sign minimum energy offtake volume and establish automatic passthrough mechanism with customers
- Market-oriented business model with low regulatory risk

# Gas Delivery Process



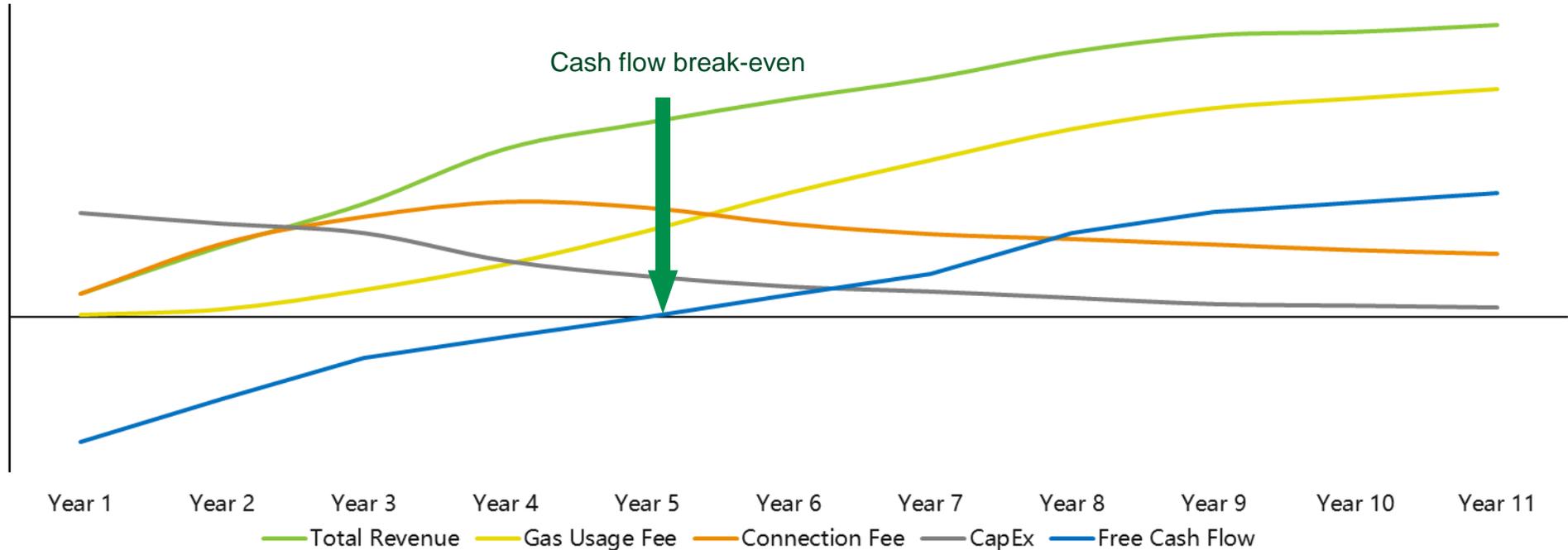
**Notes:**

(1) Gas delivery using either intermediate pipelines or CNG or LNG trucks.

(2) Customers' pipelines and metres which are not owned by the Group are within the customers' premises and are not highlighted in this diagram.

# Simplified Model for a Typical City-gas Project

## Revenue/Cost



- Connection fee dominates in early years when the project companies are signing up new customers
- Gas usage increases as projects mature, becoming the major source of recurring income
- Prior to the completion of the whole pipeline network in cities, revenue will be generated as soon as gas supply becomes available in certain districts. Each connection contract normally takes 6–12 months to complete
- In general, gas projects would generate positive free cash flow after 5 years of operation

# Latest Benchmark City-gate Price

Province	From 25 May 2018	From 1 April 2019	Province	From 25 May 2018	From 1 April 2019
Unit: RMB/m <sup>3</sup> (Incl. VAT)			Henan	1.89	1.87
Beijing	1.88	1.86	Hubei	1.84	1.82
Tianjin	1.88	1.86	Hunan	1.84	1.82
Hebei	1.86	1.84	Guangdong	2.06	2.04
Shanxi	1.79	1.77	Guangxi	1.89	1.87
Inner Mongolia	1.23	1.22	Hainan	1.53	1.52
Liaoning	1.86	1.84	Chongqing	1.53	1.52
Jilin	1.65	1.64	Sichuan	1.54	1.53
Heilongjiang	1.65	1.64	Guizhou	1.60	1.59
Shanghai	2.06	2.04	Yunnan	1.60	1.59
Jiangsu	2.04	2.02	Shaanxi	1.23	1.22
Zhejiang	2.05	2.03	Gansu	1.32	1.31
Anhui	1.97	1.95	Ningxia	1.40	1.39
Jiangxi	1.84	1.82	Qinghai	1.16	1.15
Shandong	1.86	1.84	Xinjiang	1.04	1.03

Source: NDRC

\* Provincial Pipeline Tariff

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