

ENN ENERGY (2688.HK)

Basic business had grown steadily and debt level had been significantly reduced
China | Gas |

10 Jan 2025

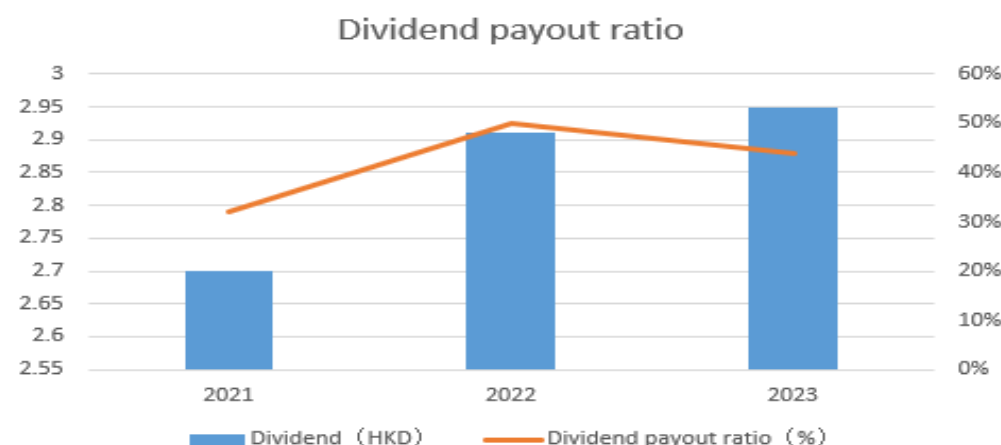
Overview

ENN ENERGY (2688.HK) is one of the largest clean energy distributors in China. Its main business includes investing, constructing, operating and managing gas pipeline infrastructure in China, selling and distributing pipeline gas, liquefied natural gas and other multi-category clean energy products and providing customers with digital intelligence services related to low-carbon overall solutions and the development of diversified value-added business based on customer needs. As of June 30, 2024, the company operated 260 urban gas projects which covered a population of 140 million.

2024H1 Performance review

In the first half of 2024, the company's revenue was 54.59 billion yuan (RMB, the same below) with a year-on-year increase of 0.9%; gross profit was 6.47 billion yuan with a year-on-year decrease of 9.7%, mainly due to the reduction of international market opportunities, decline in gas wholesale business revenue and gross profit and the engineering installation business was dragged down by the weak domestic real estate situation; profit attributable to shareholders was 2.57 billion yuan with a year-on-year decrease of 22.8%; core profit was 3.26 billion yuan with a year-on-year decrease of 16.6%, of which domestic basic business was 3.08 billion yuan with a year-on-year increase of 9.5%, achieving solid growth. EPS was 2.29 yuan with a year-on-year decrease of 22.4%. The company's operating cash inflow was 3.27 billion yuan which was relatively stable, and its free cash flow amounted to 630 million yuan. The company has ample cash at hand and is actively repaying debt. An interim dividend of HK\$0.65 per share was paid. The company began to pay dividends in 2004, and the dividend amount had been steadily increasing for most of the time.

Chart 1: Dividend payout ratio



Resources : Annual Report · PSHK

In the first half of 2024, the company's gross profit from continuing business such as retail gas sales, integrated energy and value-added business accounted for 87.3% with a year-on-year increase of 8.6 percentage points, indicating that the company's profit quality continued to be optimized. The company has abundant customer resources, and the potential customers it can reach out and around the area covered by its operating rights are constantly growing thus there is still a lot of room for business development. The company's

Accumulate

CMP HK\$54.5

(Closing price as of 06 Jan)

Target 58.81HKD (+7.9%)

COMPANY DATA

O/S SHARES (MN) :	1131
MARKET CAP (HKD bn) :	61.65
52 - WK HI/LO (HKD):	76.59/44.15

SHARE HOLDING PATTERN, %

ENN Natural Gas Co., Ltd	34.6%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB m	FY22	FY23	FY24E	FY25E	FY26E
Revenue	110051	113858	118086	127138	136983
Net profit	6666	7732	7893	8252	8856
Diluted EPS (RMB)	5.20	6.04	6.16	6.44	6.91
P/E ratio, x	9.9	8.5	8.3	8.0	7.4
Dividend Yield %	5.3%	5.4%	5.5%	5.7%	6.1%

Source: Company reports, Phillip Securities Est.

Analyst

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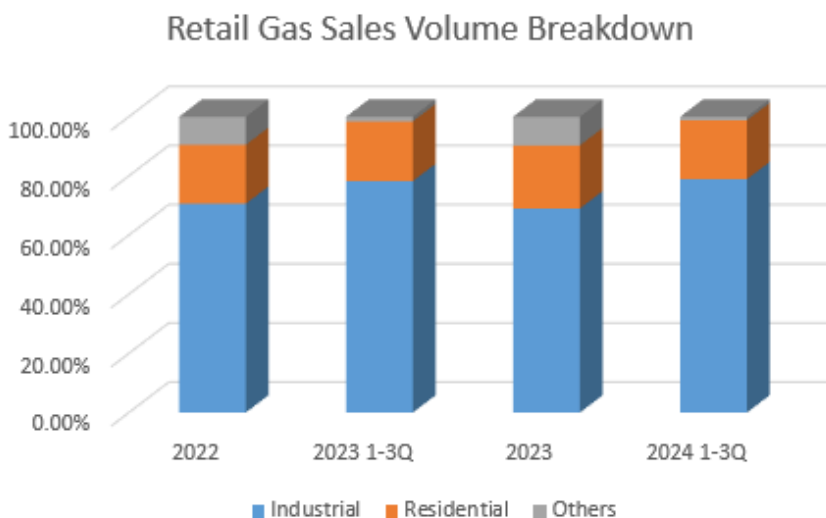
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debt structure had been continuously optimized, effectively reducing the proportion of overseas debt and significantly reducing debt levels. Interest-bearing liabilities had been reduced to 19.83 billion yuan, compared with 21.92 billion yuan in 2023, and the comprehensive financing cost was 3.4%. Capex was 2.74 billion yuan with a significant year-on-year decrease of 20%, indicating that the company maintained a prudent investment strategy to ensure that the company had stable cash flow.

Q3 Operating situation

In the first three quarters of 2024, the company's retail gas volume was 18.82 billion cubic meters with a year-on-year increase of 4.8%, of which the industrial and commercial gas volume was 14.84 billion cubic meters with a year-on-year increase of 5.7%, and the civil gas volume was 3.75 billion cubic meters with a year-on-year increase of 3.4%; the new opening gas volume was 11.13 million cubic meters/day, the number of new household users was 1.10 million. The company's integrated energy sales volume was 29.67 billion kilowatt-hours with a year-on-year increase of 21.4%. The company has 347 integrated energy projects in operation and 59 integrated energy projects under construction, with a maximum energy consumption scale of more than 63.47 billion kilowatt hours. In the first three quarters, 643 new park projects, 332 new factory projects and 115 new construction projects were signed for the integrated energy business. In terms of value-added business, the company got 5.06 million e-city door-to-door service orders in the first three quarters with a year-on-year increase of 8.6%. The sales volume of smoke and heat stove mining products was 268,500 units with a year-on-year increase of 23.4%.

Chart 2: Retail Gas Sales Volume Breakdown



Resources : Annual Report · PSHK

Investment Thesis

The company had made full-year guidance for each business. Retail gas volume will increase by 5%, new industrial and commercial opening gas volume will be 12-14 million cubic meters per day, retail gas business gross profit will increase by 10%+; integrated energy sales volume will increase by 20%-30% and gross profit will increase by 20%-30%; gross profit of value-added business will increase by 20%-30%. On December 25, 2024, the National Development and Reform Commission released the National Natural Gas Operation Express Report for November 2024. According to the statistics, in November 2024, the apparent consumption of natural gas nationwide was 34.86 billion cubic meters with a year-on-year decrease of 0.5%. From January to November 2024, the apparent consumption of natural gas nationwide was 388.57 billion cubic meters with a year-on-year increase of 8.9%. China Petroleum Economics and Technology Research Institute predicts that China's natural gas demand will continue to grow in the future, and China's natural gas

demand will be 610 billion cubic meters in 2035. In 2023, the National Development and Reform Commission issued the "Guiding Opinions on Establishing and Improving the Upstream and Downstream Price Linkage Mechanism for Natural Gas." Under this guidance, different cities have continuously introduced and improved local natural gas upstream and downstream price linkage mechanisms based on the development of the local natural gas industry and economic conditions and have launched or accelerated price linkage reforms. The company has actively followed the reform trend and promoted price adjustments for residents. As of the end of July 2024, the company's cumulative completion rate for gas price adjustment was approximately 59% of residential gas volume. As the gas price gradually rationalizes, the company's performance will gradually improve. Since 2024, the Ministry of Commerce has taken the lead in the implementation of the trade-in of old consumer goods, and various regions have also launched detailed implementation plans based on local conditions, which have achieved good results and greatly promoted consumer demand. The company has continuously improved core products and services, improved the operation system of its own brand Gratle, and standardized the process of serving households. In addition, it also upgraded its products through intelligentisation for scenarios such as safety, kitchen and community. With the further implementation of the old-for-new policy, the company's value-added business revenue is expected to continue to grow.

We predict that the company's operating income will be 118.09 billion yuan, 127.14 billion yuan and 136.98 billion yuan respectively in 2024-2026. EPS will be 6.16/6.44/6.91 yuan, corresponding to the P/E of 8.3x/8.0x/7.4x. It has now entered the peak winter natural gas demand season, which may make up for the impact of the company's summer sales decline. The company is given a P/E of 9 times in 2024, with a target price of HK\$58.81, and our investment rating is "Accumulate". (Current price as of Jan 6)

Risk factors

Supply and demand adjustments, real estate industry downturn, natural gas price fluctuations, and national policies.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	110051	113858	118086	127138	136983
Cost of sales	-94295	-99520	-103325	-111246	-119860
Gross profit	15756	14338	14761	15892	17123
Other income	953	1023	1125	1023	1125
Other gains and losses	-1569	267	267	267	267
Distribution and selling expenses	-1180	-1171	-1299	-1399	-1507
Administrative expenses	-4261	-4144	-4251	-4577	-4931
Share of results of associates	68	14	14	14	14
Share of results of joint ventures	-43	464	464	464	464
Finance costs	-672	-786	-827	-890	-959
Profit before tax	9052	10005	10254	10795	11596
Income tax expense	-2386	-2273	-2362	-2543	-2740
Profit for the year	6666	7732	7893	8252	8856
Profit for the year attributable to					
– Owners of the Company	5867	6816	6946	7262	7794
– Non-controlling interests	799	916	947	990	1063
EPS(RMB)	5.20	6.04	6.16	6.44	6.91
DPS(HKD)	2.91	2.95	2.99	3.13	3.35
Dividend payout ratio	50%	45%	45%	45%	45%
Weighted shares outstanding	1128	1128	1128	1128	1128

Key Financial Data

Dec Y/E	FY22	FY23	FY24E	FY25E	FY26E
Valuation Ratio					
P/E ratio	9.9	8.5	8.3	8.0	7.4
Dividend Yield, %	5.3%	5.4%	5.5%	5.7%	6.1%
Per share data(RMB)					
EPS	5.20	6.04	6.16	6.44	6.91
BVPS	34.62	37.83	42.27	46.81	51.62
DPS(HKD)	2.91	2.95	2.99	3.13	3.35
Growth & Margin					
Growth					
Revenue Growth	18.2%	3.5%	3.7%	7.7%	7.7%
Gross Profit Growth	12.1%	-9.0%	2.9%	7.7%	7.7%
Net Profit Growth	-25.9%	16.0%	2.1%	4.6%	7.3%
Margin					
Gross Profit Margin	14.3%	6.9%	7.4%	7.4%	7.5%
Net Profit Margin	6.1%	6.8%	6.7%	6.5%	6.5%
Key Ratios					
ROE	15.0%	16.0%	14.8%	14.1%	13.8%
ROA	5.7%	6.6%	6.5%	6.5%	6.5%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
Current assets					
Inventories	1708	1682	1720	1852	1995
Accounts receivable	10675	11091	11647	12540	13511
Cash and cash equivalents	8056	9689	9697	10249	11837
Others	6694	3913	3758	3117	2834
Total current assets	27133	26375	26822	27758	30177
Non-current assets					
PPE	50380	50330	51101	54371	57851
Others	24845	26426	29502	30352	30991
Total current assets	75225	76756	80602	84723	88842
Total Assets	102358	103131	107424	112481	119018
Current liabilities					
Accounts and bills payables	8066	8171	8599	9258	9975
Short-term Bank and other loans	6341	8767	7080	5203	4532
Others	21675	17985	18662	19456	20467
Total current liabilities	36082	34923	34341	33918	34974
Non-current liabilities					
Long-term Bank& other loans	13451	13156	13212	13734	13722
Others	7263	6790	6617	6475	6545
Total non-current liabilities	20714	19946	19828	20208	20267
Total liabilities	56796	54869	54169	54126	55242
Equity attributable to equity holders of the Company	39040	42660	47073	51581	56373
Non-controlling interests	6522	5602	6182	6774	7403
Total equity	45562	48262	53255	58355	63776
Total liabilities and equity	102358	103131	107424	112481	119018

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY22	FY23	FY24E	FY25E	FY26E
CFO	10102	9612	11950	12423	13512
Profit before income tax expense	9052	10005	10254	10795	11596
Change in working capital	-2448	485	-165	-365	-397
Others	3498	-878	1861	1994	2313
CFI	-5726	-4849	-5680	-5913	-6324
Purchase of PP&E	-6241	-6495	-6396	-6805	-7241
Others	515	1646	716	893	917
CFF	-5021	-3143	-6262	-5958	-5601
Dividends paid	-2657	-2977	-3033	-3126	-3268
Cash received from bank borrowing	13482	17518	22762	28510	35710
Others	-15846	-17684	-25991	-31343	-38043
Net increase in cash and cash equivalents	-645	1620	8	552	1588
Cash and cash equivalents at 31 December	8056	9689	9697	10249	11837

Current Price as of: 06 Jan

Source : PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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