

# **Towngas Smart Energy Company Limited (1083.HK)**




**FY2023 Annual Results**




**19 March 2024**

# 2024: Embarked on Burgeoning Beginnings

## Value creation in tough time by a team with strong spirit



 Rising interest rate pressure	End of rate rise cycle
 Recovery of oil & gas demand	Falling price volatility
 Transition towards decarbonisation	Establishment of new energy system

 Business restructuring, cost-saving & efficiency enhancement
 Gas supply chain business in full swing
 Upgrade from PV investment to “investment + service”





## City Gas

### Gas Sales Volume

**16.5** billion m<sup>3</sup> ↑ **8%**

### City Gas Projects

**187** projects ↑ **4**

### Customers

**16.77** million ↑ **0.84** million

### Dollar Margin

**0.51** RMB/m<sup>3</sup> ↑ **0.01** RMB/m<sup>3</sup>



## Renewable Energy

### Accumulative

**124** Zero-carbon Industrial Parks ↑ **44**

### PV

Contracted: **3** GW ↑ **1.6** GW

Grid-connected: **1.8** GW ↑ **1.2** GW

### Power Generation Volume:

**0.94** billion kWh ↑ **6x**

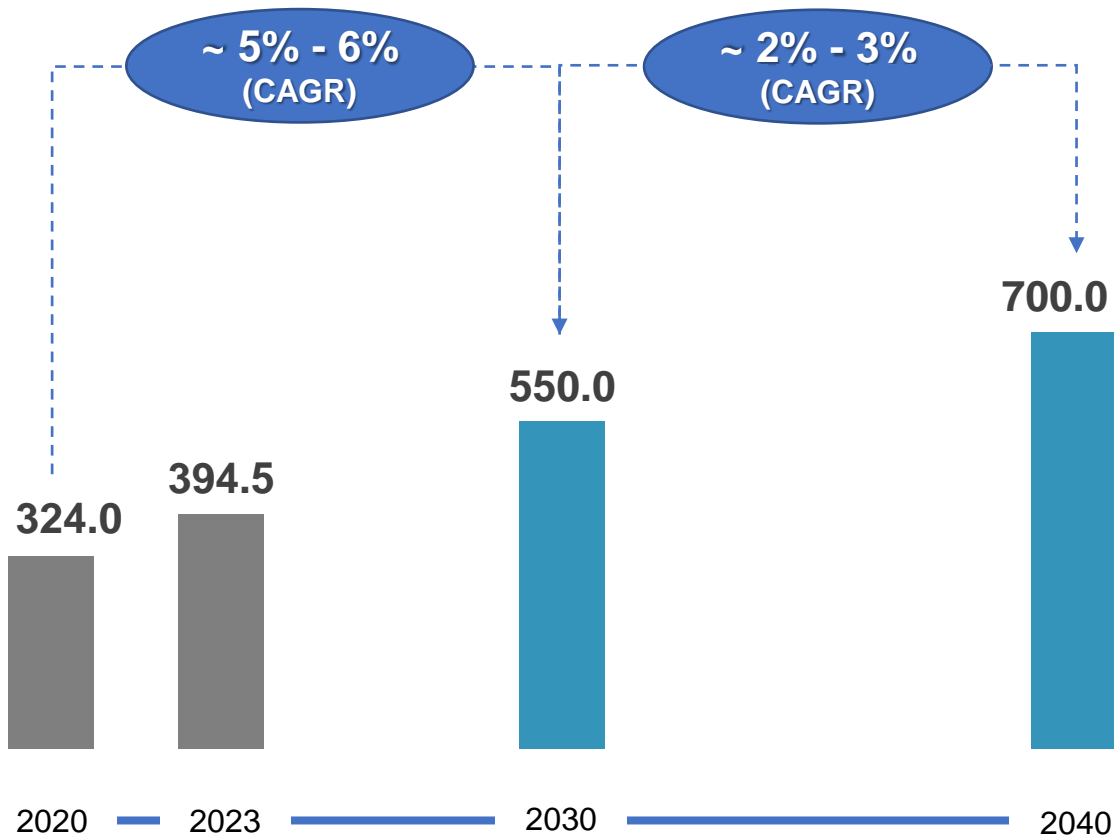
### Continuous Efforts:

- Ongoing development of asset-light businesses
- PV power generation volume and profits continue to rise

## China's Natural Gas Demand Outlook by 2040

### National Natural Gas Consumption

(Unit: billion m<sup>3</sup>)

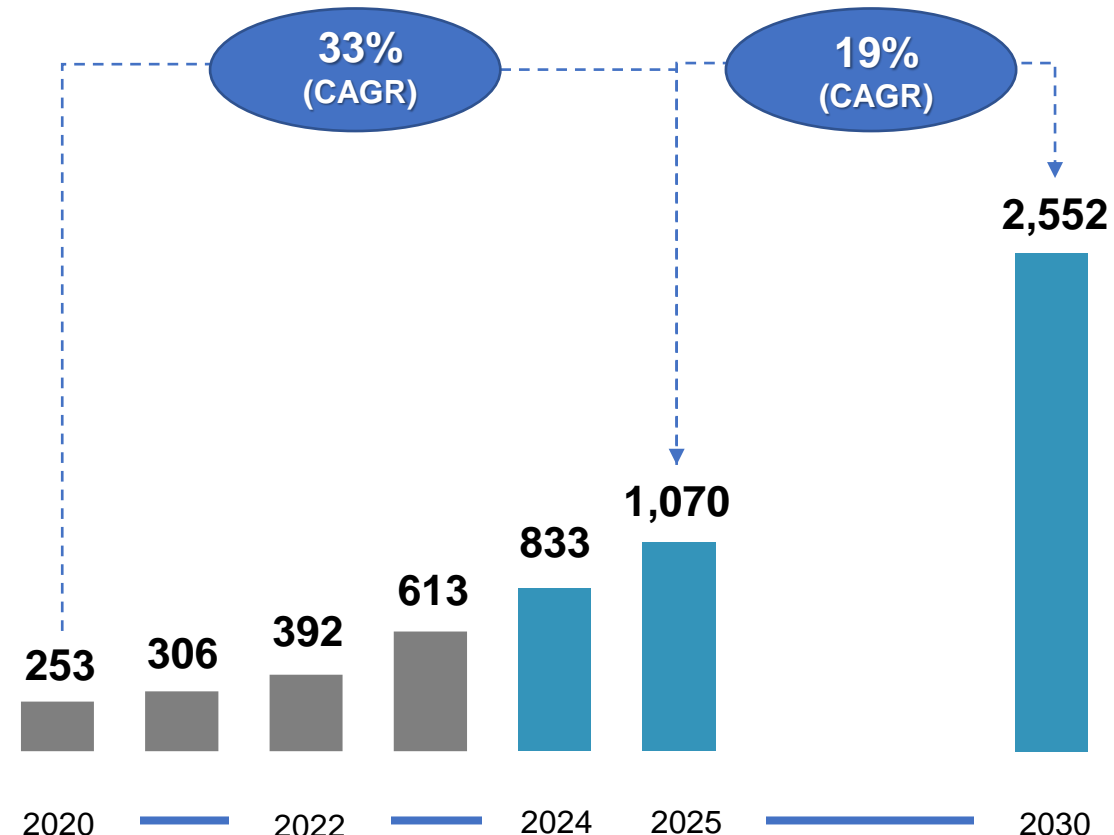


Source: International Gas Union (IGU)

## China's Installed PV Capacity Outlook by 2030

### National Cumulative Installed PV Capacity

(Unit: GW)



Source: China Photovoltaic Industry Association (CPIA)

# AGENDA

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## **Business Review**









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# Financial Highlights

RMB exchange rate: -5%

(Unit: HK\$ million)	2022	2023	Changes
<b>Revenue</b>	20,073	19,842	 1%
<b>Operating Profit (RMB million)</b>	<b>1,469</b>	<b>1,733</b>	 18%
<b>Operating Profit</b>	1,714	1,919	 12%
<b>Gas Business Net Profit</b>	1,833	1,841	0%
<b>Renewable Energy Net Profit</b>	(119)	78	Not applicable
<b>Corporate Financial Expenses</b>	(633)	(597)	 6%
<b>Core Profit</b>	1,023	1,190	 16%
<b>Non-operating Gain or Loss</b>	(58)	385	Not applicable
<b>Profit Attributable to Shareholders</b>	965	1,575	 63%
<b>Basic Earnings per Share (HK Cents)</b>	30.17	47.74	 58%
<b>Proposed Dividend per Share (HK Cents)</b>	15	16	 7%

# Healthy Financial Position

(Unit: HK\$ billion)	31 Dec 2022	31 Dec 2023
<b>Total Assets</b>	52.9	53.5
<b>Net Assets</b>	23.9	25.2
<b>Cash and Bank Balances</b>	4.0	4.2
<b>Total Borrowings</b>	19.7	18.3
<b>Net Gearing Ratio</b>	39.7%	35.8%
<b>Capex</b>	3.4	6.6*

**Credit Rating:**  **BBB+**  **Baa1**  **AAA**

\*Note: Including accounts payable



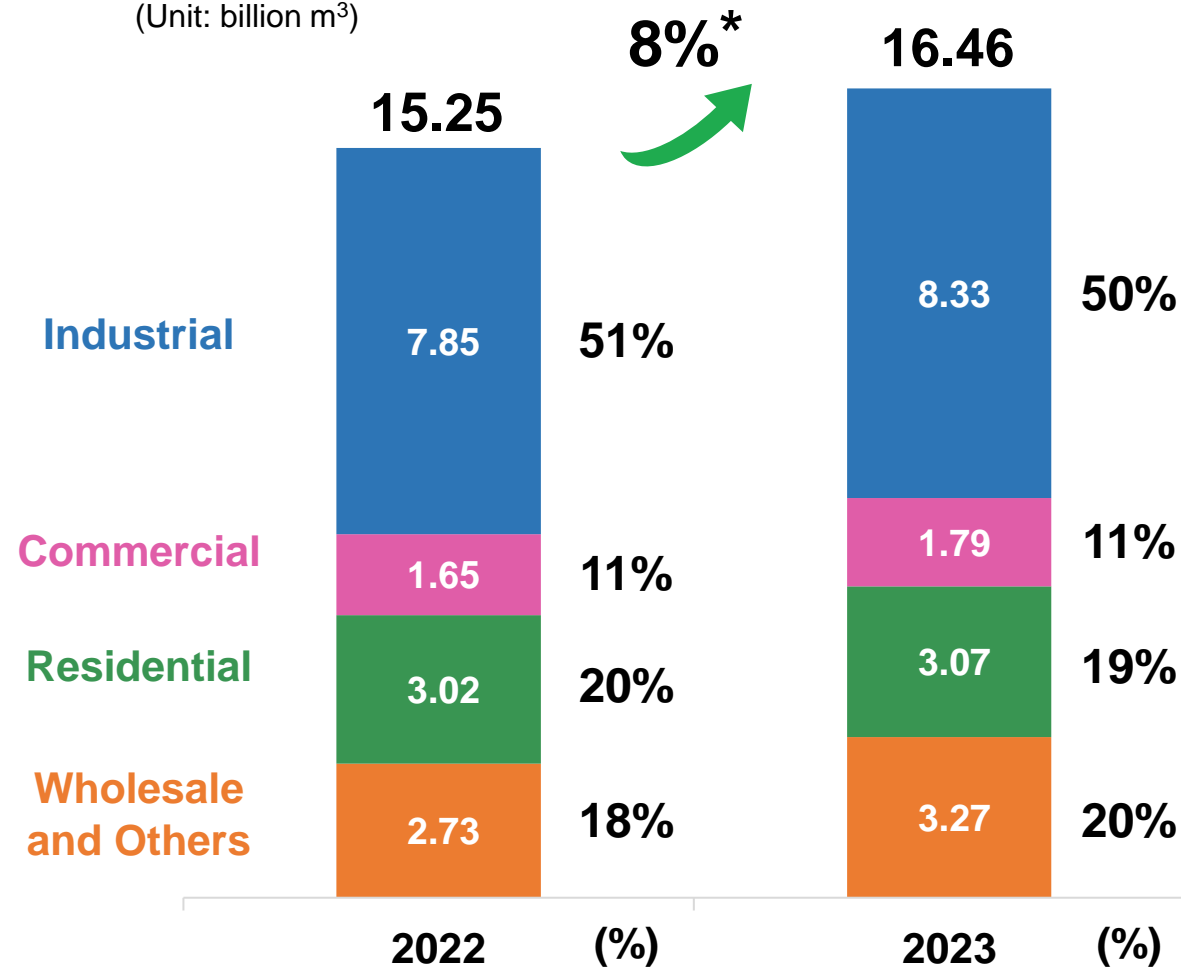
# Business Review

- **Gas Business**
- **Renewable Energy**

# Gas Sales Volumes Above National Growth with Stable Gas Sales Mix

## Gas Sales Volume

(Unit: billion m<sup>3</sup>)



National natural gas consumption

2023: 394.5 billion m<sup>3</sup>

2040: 700.0 billion m<sup>3</sup>

\*Note: National natural gas consumption increased by 7.6% (Source: NDRC)

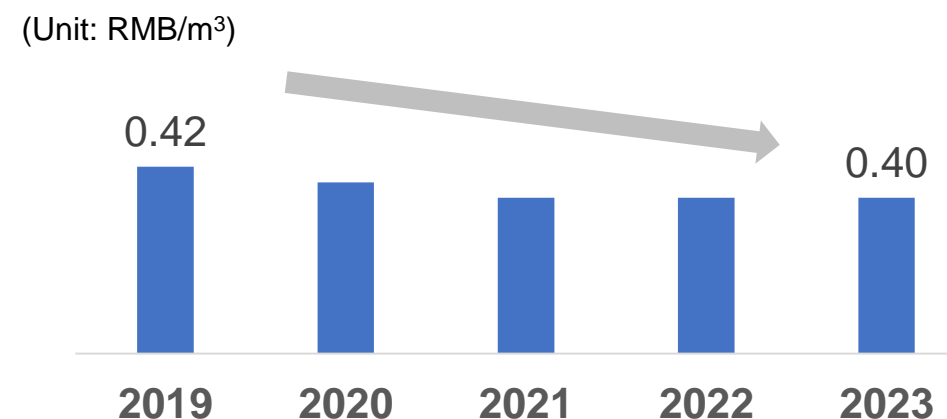
## Selling Price, Cost and Dollar Margin

(Unit: RMB/m <sup>3</sup> )		2022	2023	Changes
<b>Selling Price</b>	Residential	2.71	2.78	+0.07
	Commercial	3.46	3.61	+0.15
	Industrial	3.74	3.57	-0.17
	Wholesale	3.27	3.06	-0.21
<b>Average Selling Price</b>		3.49	3.39	-0.10
<b>Average Gas Cost</b>		2.99	2.88	-0.11
<b>Dollar Margin</b>		0.50	0.51	+0.01

## Dollar Margin

- Upstream volume control and price increase, and resilient procurement of LNG and unconventional gas
- Cost pass-through mostly completed for non-residential, and 75% completed for residential (Nanjing, Jinan, Qingdao, Mianyang, etc.)
- Dollar margin improved in 2023

## Unit Opex



## Connection revenue decreased by 17% YoY\* amid sluggish real estate market

Number of household connections decreased YoY

(Unit: Million)

User Type	2022	2023	Changes (%)
Residential	1.175	0.914	-22%
Industrial & Commercial	0.014	0.015	+7%

Unit residential connection fee increased steadily with unit costs unchanged

(Unit: RMB/household)

	2022	2023	Changes (%)
Residential Connection Fee	3,238	3,390	+5%

\*Note: in RMB

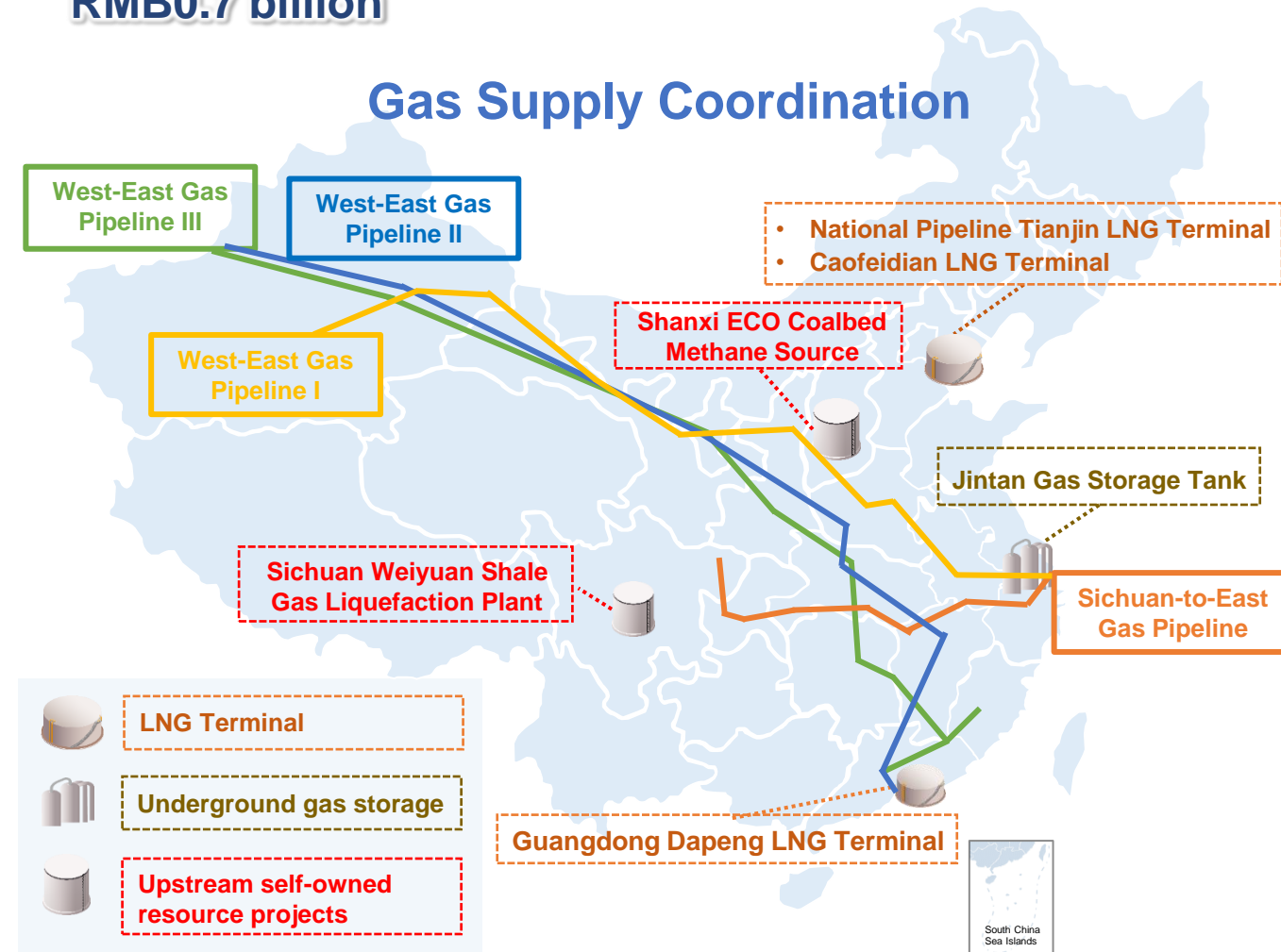
## Unleashing uncharted potential to improve gross unit margin

- Collaborate with government to promote “cylinder to pipeline”
- Seize the opportunity to renovate old urban residential communities
- Stringent cost management and continual improvement of gross unit margin

# Gas Supply Chain - Coordination & Ensurance of Gas Supply and Cost Reduction

- In 2023, the Group and its Parent Company had coordinated gas supply of **3.48 billion m<sup>3</sup>** (**9.7%** of the total gas volume) and saved **RMB0.32 billion**
- 2027 targets: gas supply coordination to **exceed more than 10%** of the Group's total gas volume and expect to save **RMB0.7 billion**

## Gas Supply Coordination



### Ensurance of Gas Supply

Collaborate with PipeChina to initiate **multi-site deployment scheme, coordinate and ensure gas supply**



LNG terminals in **North China (Tianjin and Tangshan)** and **South China (Dapeng)** and operations in **East China (Shanghai Gas, etc.)** provide abundant cooperation scenarios



Jintan Gas Storage Tank currently has a usable capacity of **0.23 billion m<sup>3</sup>** with full production usable gas capacity of more than **1 billion m<sup>3</sup>**



### Cost Reduction

**LNG imports:** the first shipment of imported LNG arrived at Tianjin Port in Aug 2023 and **fully distributed**, and aim to import **two or more shipments** in 2024

**LTA:** **1 million tonnes** signed in 2023; the Group's self-determined gas supply reaching **5 million tonnes** by 2027

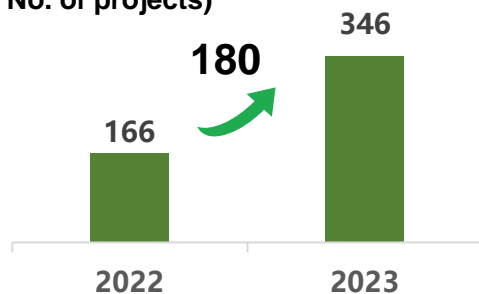


# “Gas+”: Business Continues to Grow with Focus on Public Institutions

## Ignite Activation & Rapid Development

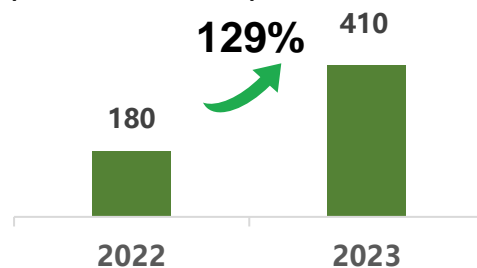
### Offer Customized Solutions

(Unit: No. of projects)



### Revenue Increased Greatly

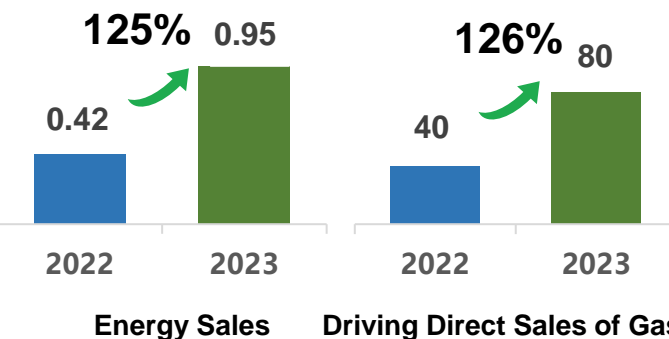
(Unit: RMB million)



### Synergic Increase in Energy and Gas Sales

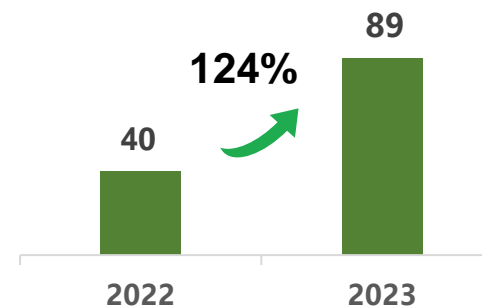
(Unit: billion kWh)

(Unit: million m<sup>3</sup>)



### Remarkable Gross Profit Growth

(Unit: RMB million)



## Build a high-dimensional ecosystem, and to make it scalable in more cities



Establish strategic cooperation with China Energy Conservation Association  
Leading ecological development with public institutions



Contracts signed with 18 institutions in East China  
Promote business cooperation with public institutions on a large scale

## High-quality energy service projects to drive performance growth



Cooperation agreement signed with Huanggang Central Hospital in Hubei Province  
Create a benchmark for hospital EMC projects



Qiqihar large-scale commercial complex  
High-efficiency gas boiler + one-stop lean operation and management

# Business Review

- Gas Business
- Renewable Energy

## Challenges

- Difficult business environment amid weak economy
- Increasing financing costs drive down investment returns
- Electricity tariff cut weaken PV development in certain provinces

## Opportunities

- Ample market space for distributed PV and energy storage
- The pace of “dual carbon” development exceeds expectation
- PV module prices continue to remain low

## Strategies

- 1. Utilize Mainland China low financing cost**
  - Annual PV investment: 1GW
  - Sourcing additional capital, enlarge scale and reduce equity stake
- 2. Accelerate asset-light service**
  - PV development, EPC and O&M
  - Carbon management, power trading and energy storage
- 3. Strengthen PV investment risk control**
  - Projects with high rate of return
  - Regions with low risk of tariff cut

(Unit: HK\$ million)	2022	2023	
<b>BU Profit Contribution</b>			
PV Power Generation & Services*	-16	183	Converting contract into physical grid-connection
Energy & Carbon Management Services**	8	36	Rising profit in carbon management and electricity trading
<b>Net Profit</b>	<b>-119</b>	<b>78</b>	<b>+197</b>

\*PV Power Generation & Services: including PV power generation, project development services, EPC services, O&M services

\*\*Energy & Carbon Management Services: including integrated energy, carbon trading & other services, electricity trading and energy storage

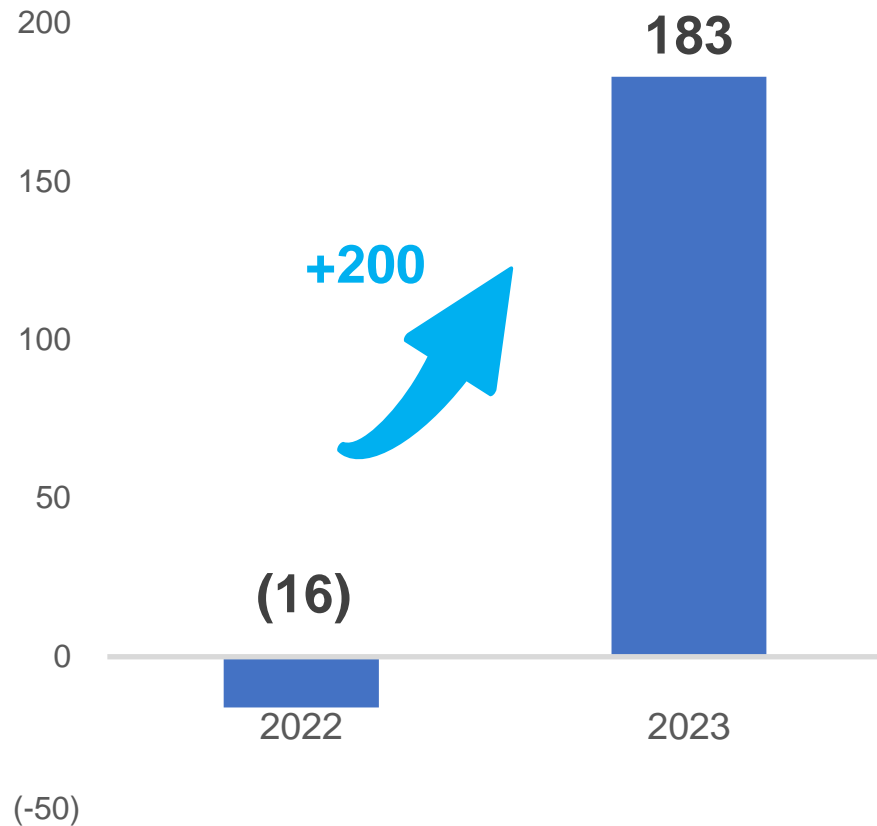
# Leading Grid-connected Growth Rate

Operational Data	2022	2023
Contracted (GW)	1.4	3.0
Grid-connected (GW)	0.55	1.8
Share of Assets	85%	78%
PV Generation (billion kWh)	0.14	0.94
Electricity Selling Price (RMB/kWh)	0.610	0.626
Gross Profit (RMB/kWh)	0.335	0.346



# PV Power Generation and Services: Power Generation Volume Doubles and Contributions from Rising Profit in PV Services in 2024

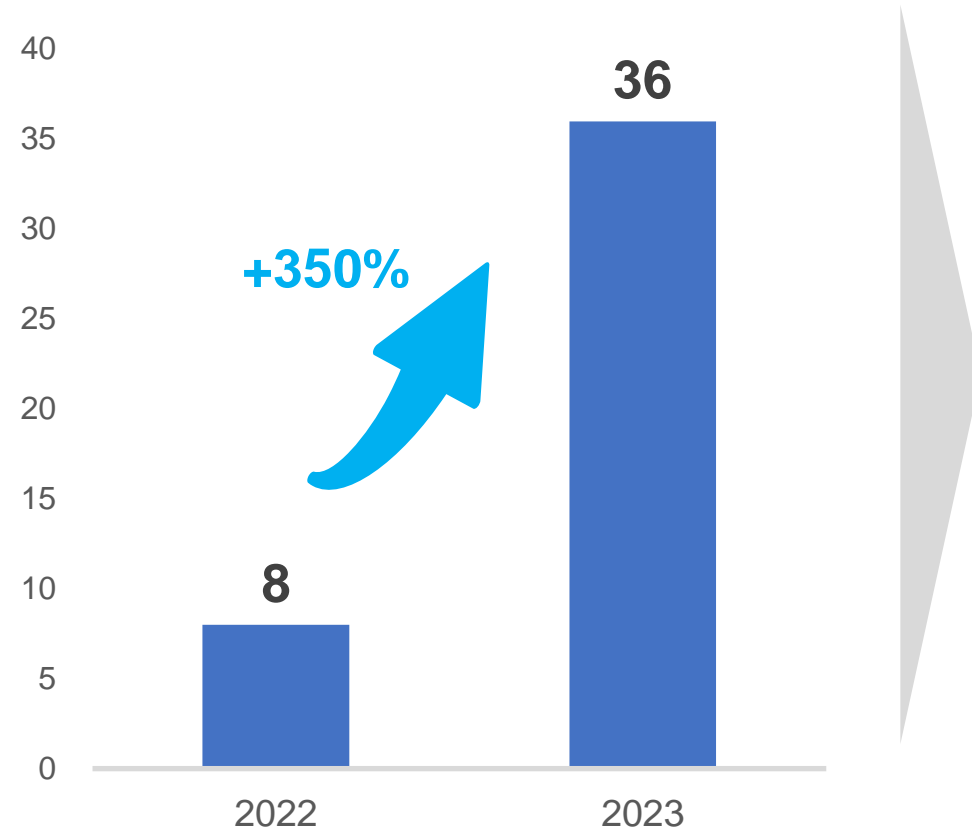
(Unit: HK\$ million)



- 1** Market leader: Industrial distributed grid-connection exceeds 1GW per annum
- 2** Grid-connected projects to bring significant profit growth in 2024
- 3** Provide project development & EPC services for 1GW new jointly invested PV projects in 2024
- 4** Provide smart O&M services for over 2GW grid-connected PV projects in 2024

# Energy & Carbon Management Services: Provide Carbon Management and “PV Storage & Sales” Services for PV and City Gas Customers

(Unit: HK\$ million)



1

Favorable policies and strong demand for carbon management services drive profit exceeding RMB10 million

2

The robust business growth is fueled by the notable competitive edge of “PV, Storage & Power Trading” services

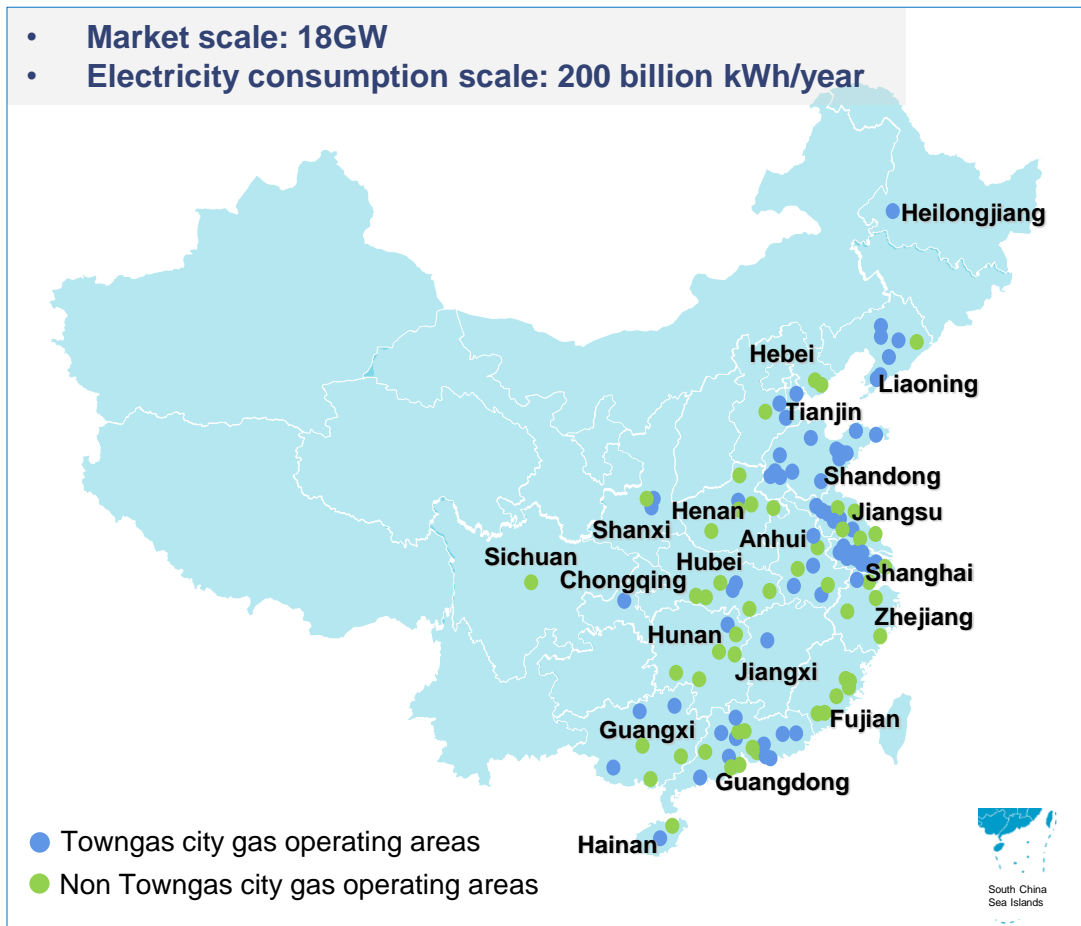
3

Serving over 2,000 “PV, Storage & Power Trading” customers, targeting 50% increase in 2024

# Zero-carbon Parks: Foundation & Driving Force for Strong Business Growth

## 124 Zero-carbon Industrial Parks (44 Newly Increased)

- Market scale: 18GW
- Electricity consumption scale: 200 billion kWh/year



Note: Data as of 31st December 2023

## Core Competitiveness

High-return PV development

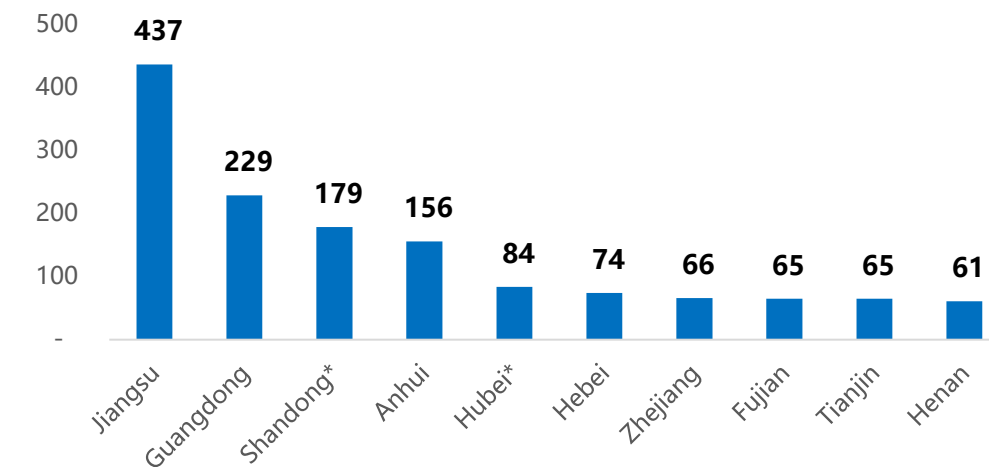
High-quality energy and carbon services

High-standard PV operations

High level of risk control

## Top 10 Provinces by Grid-connected Scale

(Unit: MW)



\*Note: Affected by the time-of-use tariff (TOU), Shandong and Hubei accounted for 14% of total grid-connections

# ESG

## Rating



Responded to TCFD and disclosed climate risk-related **financial information**



Pioneering response to TNFD with risk assessment incorporating **biodiversity**





Strengthen ESG control and compensation management **link salary to goals & KPIs**



Enhance diversity and board representation in particular **female representation**

Excellent performance affirmed

	2022	2023
 <p>Included in FTSE Russell Social Responsibility Index constituent for the first time</p>	2.7	↑ 3.0
 <p>Hang Seng Corporate Sustainability Index Series</p>	AA-	↑ AA





# Group Outlook and Business Guidance

## Mainland Gas Business

- Develop industrial customers for new energy and accelerate the “Gas+” energy business
- Strengthen gas sources and price pass-through

## Gas Supply Chain

- Enter into long term contract with the “Three Majors” to increase additional gas supply to 14 billion m<sup>3</sup>
- Diversify gas supply, expand LNG imports and Mainland’s coal bed methane & shale gas supply, etc., to ensure cost-saving & efficiency enhancement
- Integrate gas supply chain infrastructure and expand connections with PipeChina to ensure gas supply security

## Renewable Energy

- Expand PV development, EPC and O&M services with rapid revenue rise
- Provide energy and carbon services to PV customers and develop the “PV + Storage” business
- Contribute significantly to the Group’s net profit growth
- Bring in strategic investors & partners to reduce funding pressure, and focus on asset-light business model to sustain long term growth


## Headquarter Average Borrowing Cost

- Decrease from 3.8% in 2022 to 3.2% in 2023 and is expected to decline further in 2024




## City Gas

### Gas Sales Volume\*

**17.8** billion m<sup>3</sup>  **8%**

### Customers

**17.57** million  **0.8** million


### Dollar Margin

**0.51** RMB/m<sup>3</sup>



## Renewable Energy

### Accumulated PV Grid-connected Capacity

**2.8** GW  **1** GW

### Power Generation Volume

**1.9** billion kWh  **1x**

\*Note: City Gas Sales Volume

**THANK YOU**

This presentation and corresponding discussion may contain certain forward-looking statements, including statements regarding our intent, belief or current expectations with respect to Towngas Smart Energy's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, specific provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements in relation to holding, purchasing or selling securities or other financial products or instruments. Towngas Smart Energy does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof or the occurrence of unanticipated events. Past performance cannot be relied on as a guide for future performance.