

Towngas China (1083.hk) 2016 Final Results Presentation

Expanding
NEW HORIZONS



Towngas China as a major city-gas platform in China for Hong Kong & China Gas



Hong Kong & China Gas
(0003.hk)

- Major utilities and energy company in Hong Kong and mainland China
- A HSI constituent stock

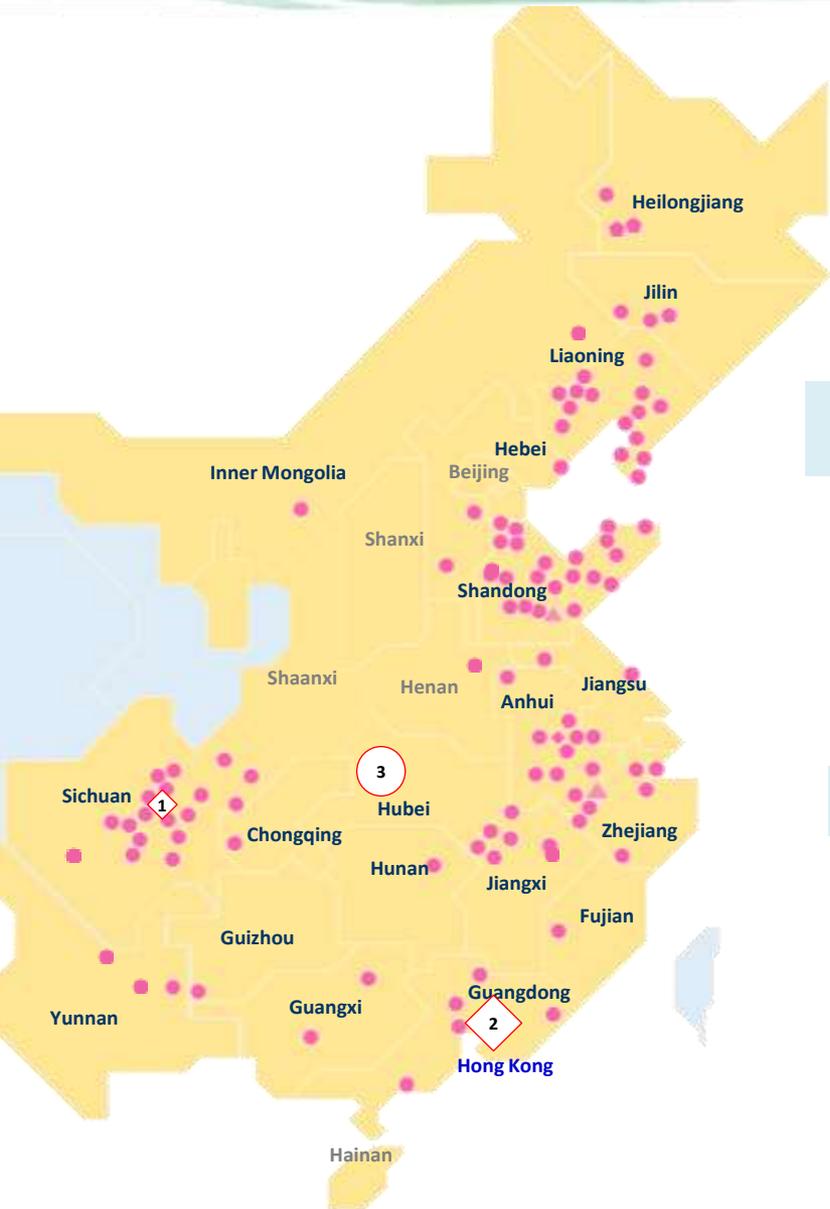
64.15%



Towngas China
(1083.hk)

- Major city-gas operator in mainland China

Territorial Coverage



3 project added, total **105** projects
in **19** provincial regions

New Projects		Stake	TCCL Investment
1	Sichuan Distributed Energy System	25%	Rmb129Mn
2	Distributed Energy Investment (Shenzhen)	100%	Rmb100Mn
3	Hubei Zhongxiang	100%	Rmb61Mn

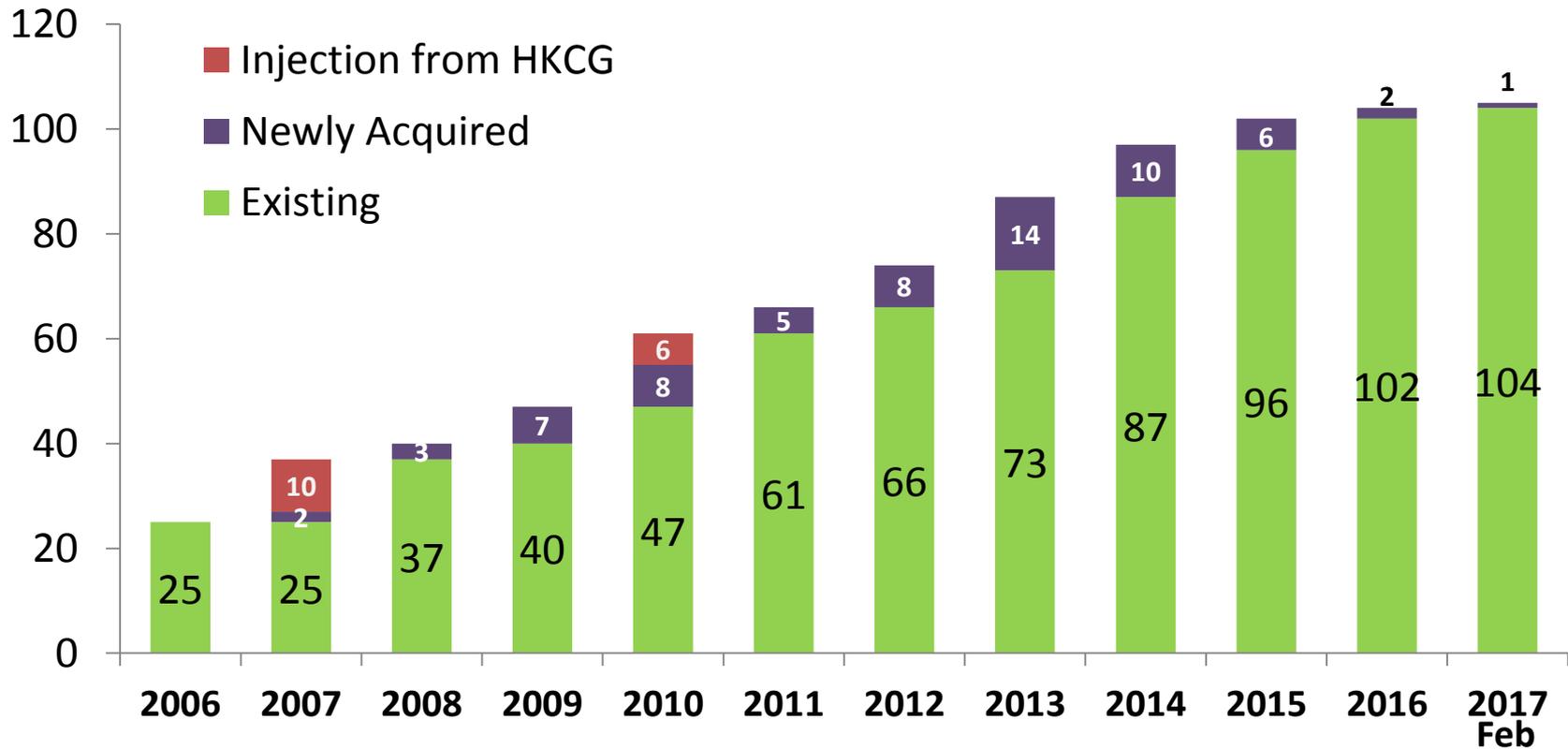
Profile

City-gas	●	98
Midstream	▲	2
Refilling station	◆	2
Other	◇	3

Number of Projects



2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	17Feb
25	37	40	47	61	66	74	87	97	102	104	105



Financial and Operational Performance



2016 Final Results Highlights



Operating Profit

HK\$1,457Mn **↑3%**
(Rmb1,247Mn **↑9%**)

Gas Sales
Volume

↑9%

7.1Bn m³

Total Projects

+2

Total 104

Total Customers

+0.9Mn

10.9Mn

New
Connections

1.09Mn

Results Highlights (Financial)



	FY2015	FY2016	Change
Turnover (HKD Mn)			
Gas Sales	6,010	5,518	-8.2%
Connection Fees	1,708	1,663	-2.6%
	<u>7,718</u>	<u>7,181</u>	-7.0%
Profit from Project Companies (Rmb Mn)	1,141	1,247	+9.3%
Profit attributable to shareholders (HKD Mn)	807	974	+20.7%
Basic EPS (HK cents per share)	30.45	36.26	+19.1%
Dividend (HK cents per share)	10.00	12.00	+20.0%

Results Highlights (Financial)

Segment Margin

(HK\$Mn)	FY2015	FY2016
Piped-gas & related products	7.6%	8.2%
Gas connection	41.9%	43.4%

RMB Impact

(HK\$Mn)	FY2015	FY2016
Exchange Loss	301.5	258.7
Gain from hedging	-	(168.5)
Net FX effect (to P/L)	<u>301.5</u>	<u>90.2</u>
Operating profit (translation)	<u>80</u>	<u>29</u>

Note:

- ▶ All the non-RMB borrowings had either been converted into RMB borrowings or hedged with cross-currency swaps and forward contracts in 2016.

Financing Strategies – Exchange Risk

(HKD Mn)	<u>After</u> <u>Re-financing</u>	<u>Maintain</u> <u>Off-shore Debts</u>	<u>+/-</u>
Off-shore interest expenses	237	153	+84
Average interest cost	3%	2%	
Exchange Loss	90	518	-428
Total	327	671	-344



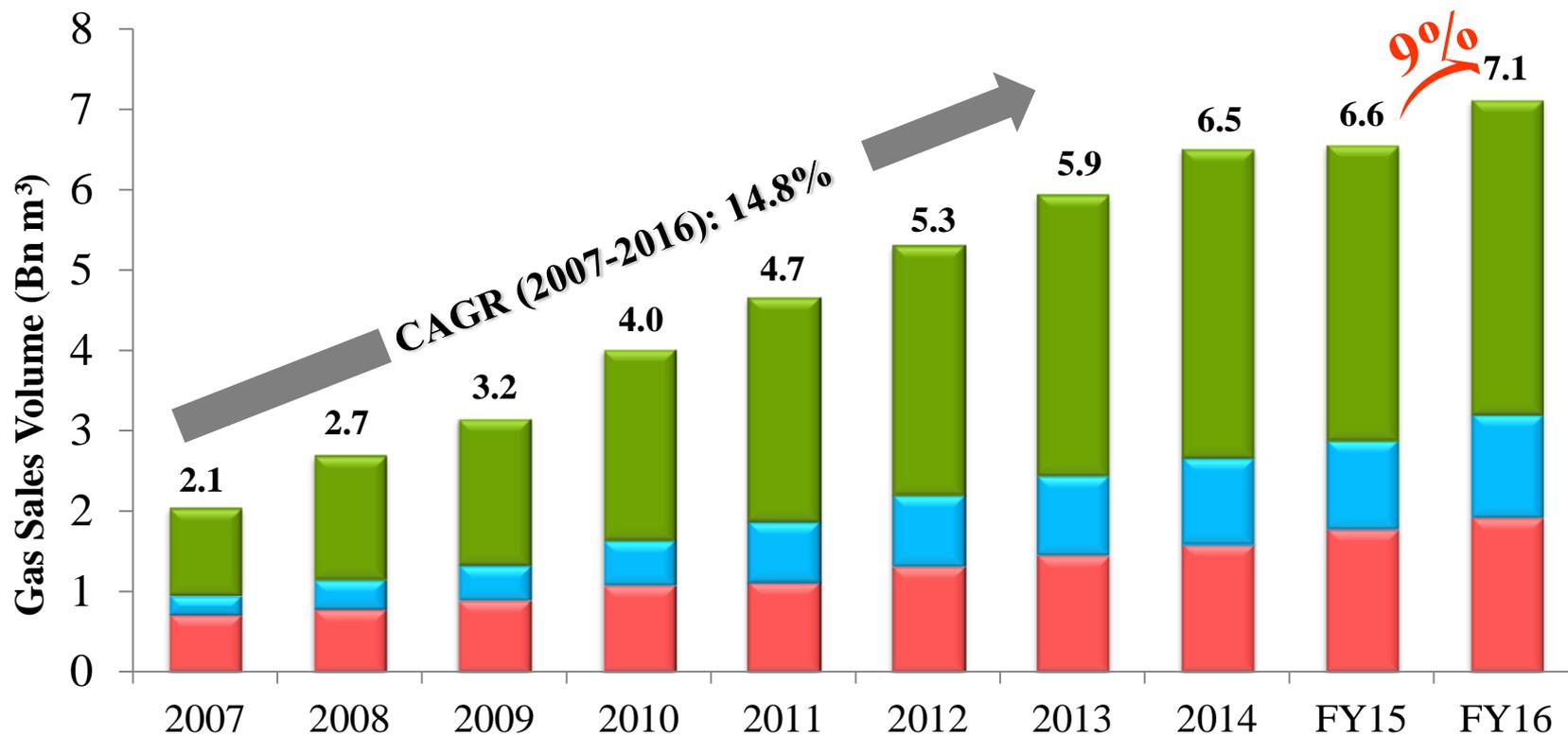
TCCL Financial Position as at 31 Dec 2016



TCCL (1083 HK)	FY16		FY16	
	HK\$ Bn		HK\$ Bn	
Total assets	28.0	P/B	0.9x	
Net asset value	14.7	P/E	12.7x	
Market cap	12.0	Gearing (net)	31.7%	
Cash & bank	1.6	Credit Ratings	 	BBB+
Total borrowings	7.8			Baa1

Growing Gas Sales Volume

(Bn m ³)	FY15	FY16	Change
■ Industrial	3.7	3.9	+7%
■ Commercial	1.1	1.3	+16%
■ Residential	1.8	1.9	+8%
Total	6.6	7.1	+9%



*All JVs (100%)

Gas Sales Volume of JVs

Volume (Mn m ³)	FY15	FY16	Change
Subsidiaries	1,719	1,890	+10%
JCEs & Associates	3,576	3,904	+9%
Chengdu JV	1,267	1,326	+5%
Total	6,562	7,120	+9%

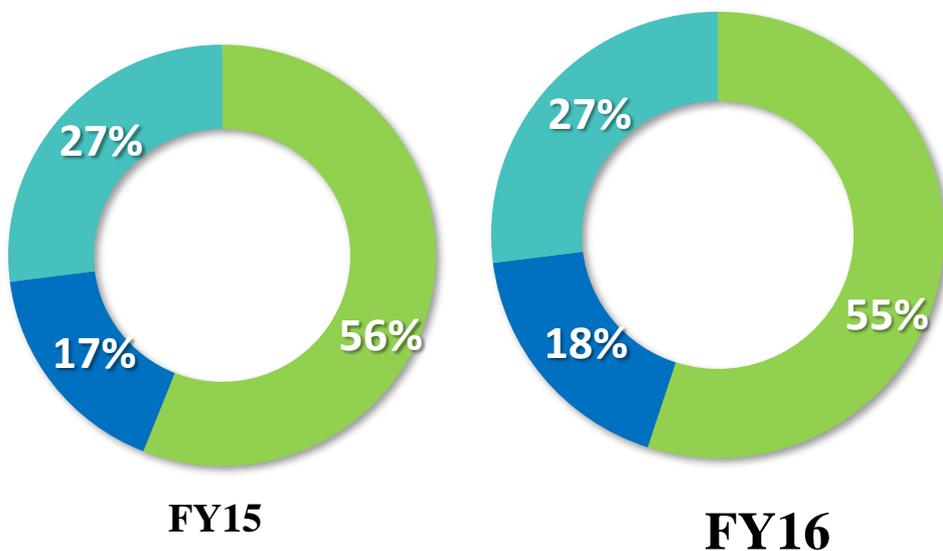
Note: Chengdu JV with 13% shareholding is classified as financial investment

Operational Highlights



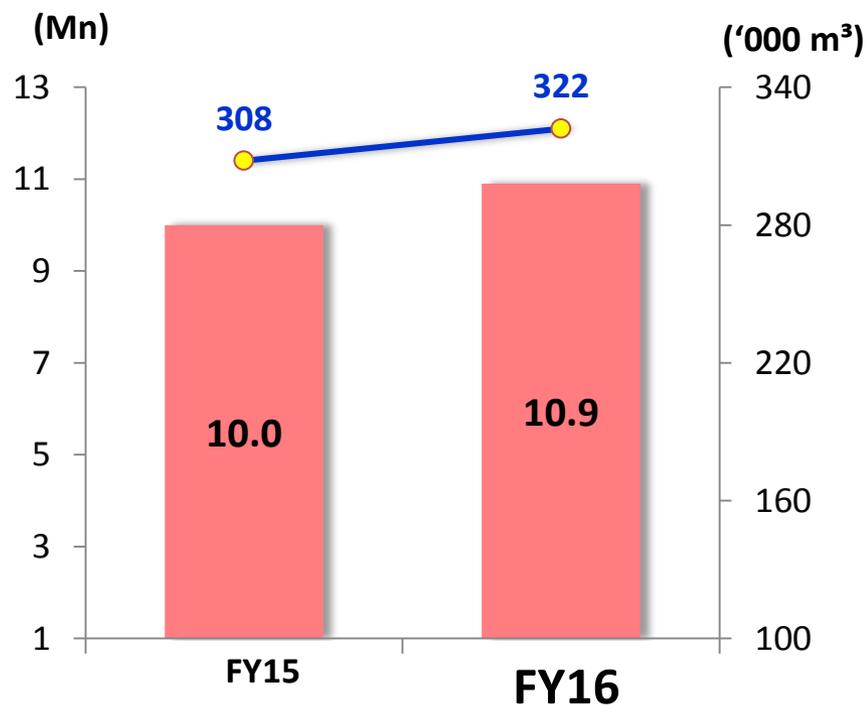
Gas Sales Volume Mix (%)

■ Residential
 ■ Commercial
 ■ Industrial



Productivity

■ Customers No. (LHS)
—● Gas Volume/Employee (RHS)



* All JVs (100%)

Natural Gas Price Reform



- ▶ **Towards a more structured & market oriented industry**
- ▶ **Open up upstream & downstream (price flexibility); regulate midstream**
- ▶ **Seasonal gas pricing**
 - Back to pre-November 2016 in mid-March 2017
 - Possible reduction in summer

Market Development

Commercial & Industrial



Industrial Customers Coal-to-Gas Conversion	FY15	FY16
JVs with supporting government policy	33	69
Converted Customer	485	710
Capacity (Steam tons)	2,130	4,154
Annualized NG Demand (Mn m ³ /p.a.)	320	620

Commercial Customers	FY15	FY16
Newly Acquired Customer	5,711	6,470
Annualized NG Demand (Mn m ³ /p.a.)	140	160

Market Development

5-Year-Plan (2016 to 2020) for Social & Environmental

- ▶ Energy mix targets by 2020
 - Target to lower coal to 58% (from 64% in 2015)
 - Natural gas target reaching 10% (from 6%)
- ▶ Promote clean space heating in the northern region
 - Replacement of using coal: >3 million households
 - Shut down all small coal-fired boilers at prefectural-level cities
- ▶ Further promote urbanization
 - New urban residents: 13 million in 2017
 - Development of small & medium cities and small towns
 - Urbanization rate: +1% p.a.



▶ 10 CHP potential projects

- NG consumption: 400Mn m³ p.a.

▶ Domestic space heating system

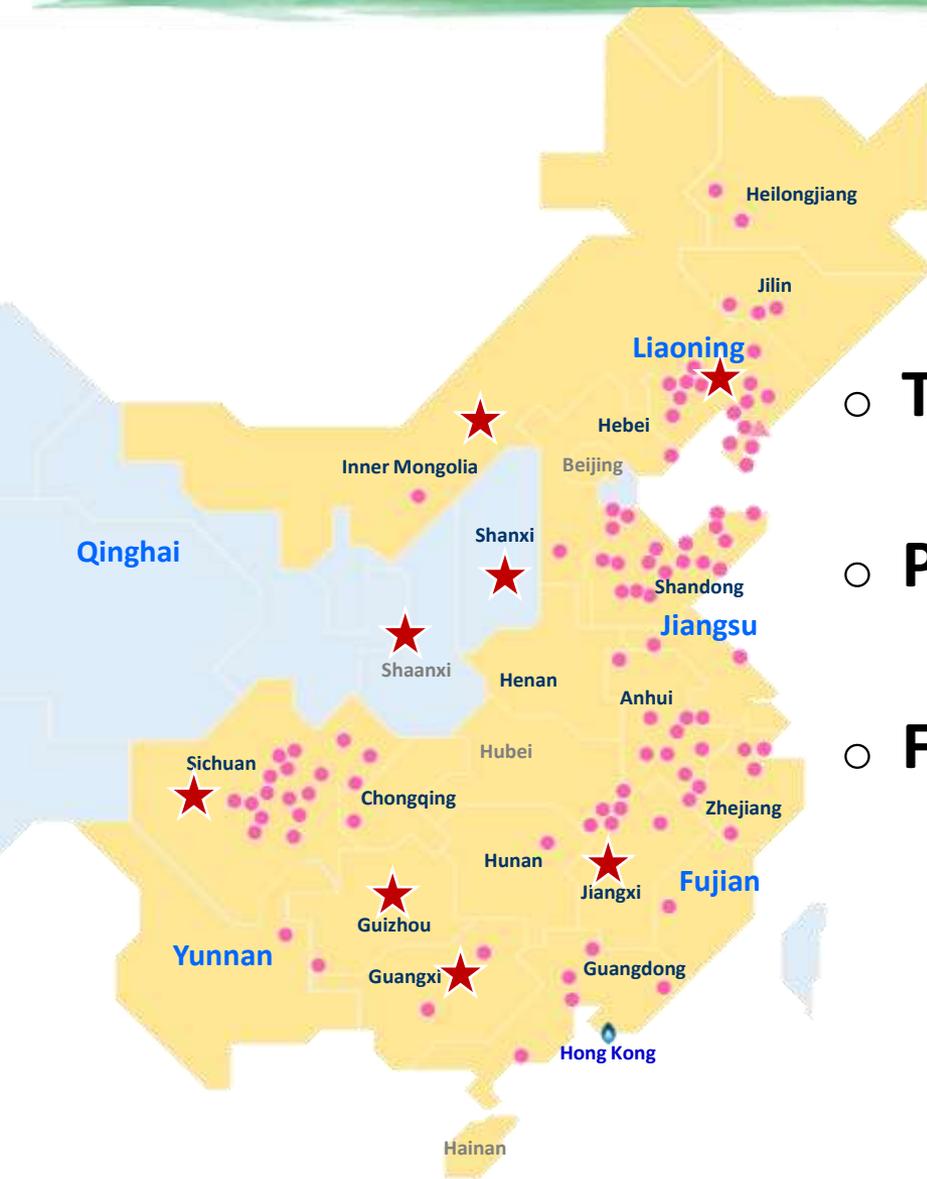
- Market potential: >40,000 units p.a.
- 10X gas consumption
- 40Mn m³ p.a.



▶ Gas Clothes Dryer

- Market potential: >6,000 units p.a.
- +30 to 50% gas consumption

Our Business: Expanding Coverage



- Target: **4-6** new projects / year
- Penetration into neighboring cities
- Focusing on new territories



❖ China's Commitments on Carbon Emission Intensity Reduction

- 2020: \searrow 40 ~ 45%
- 2030: \searrow 60 ~ 65% (Emission amount capped)

❖ Smog Issue Accelerates the Use of Cleaner Fuels

❖ 13-5 Plan: Natural Gas Share

- | | | |
|--------------------------|----------|--------------|
| ▪ 2015: 6% | - 193bcm | } CAGR: 6.3% |
| ▪ 2020: 10% | - 360bcm | |
| ▪ 2030: 15% (projection) | - 480bcm | |



❖ 13-5 Plan Natural Gas Key Consumption Growth

	<u>bcm p.a.</u>
▪ Coal-to-gas conversion (boilers, furnaces)	+45
▪ Distributed energy centres (CHP)	+60
▪ Urbanization	+27
▪ Transportation fuel (land & marine)	+25
	<hr/>
	<u>+157</u>

❖ Abundant Supply; Sufficient Infrastructures

- Indigenous PNG
- Imported PNG
- Imported LNG

Business Outlook

Full of Opportunities



❖ Business Opportunities

- 4 to 6 new city-gas projects p.a.
- Gas sales volume growth at mid-teen rate
- Capitalising on 11 million strong customer base
 - Extended products/services

❖ Market Regulatory Regime

- Open up up-stream
- Regulate mid-stream
- More market oriented down-stream

❖ Sufficient Storage and Peak-Shaving Capacities

- LNG, U/G caverns, hi-pressure pipelines
- Facilitate capture of winter load markets

THANK YOU

Expanding
NEW HORIZONS



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.