



中國天倫燃氣控股有限公司  
CHINA TIANLUN GAS HOLDINGS LIMITED

(HKEx Stock Code:1600)

# Management Presentation

November 2017



CNG 燃气



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# **Agenda**

**1. Company Profile**

**2. Business Overview**

**3. Financial Performance**

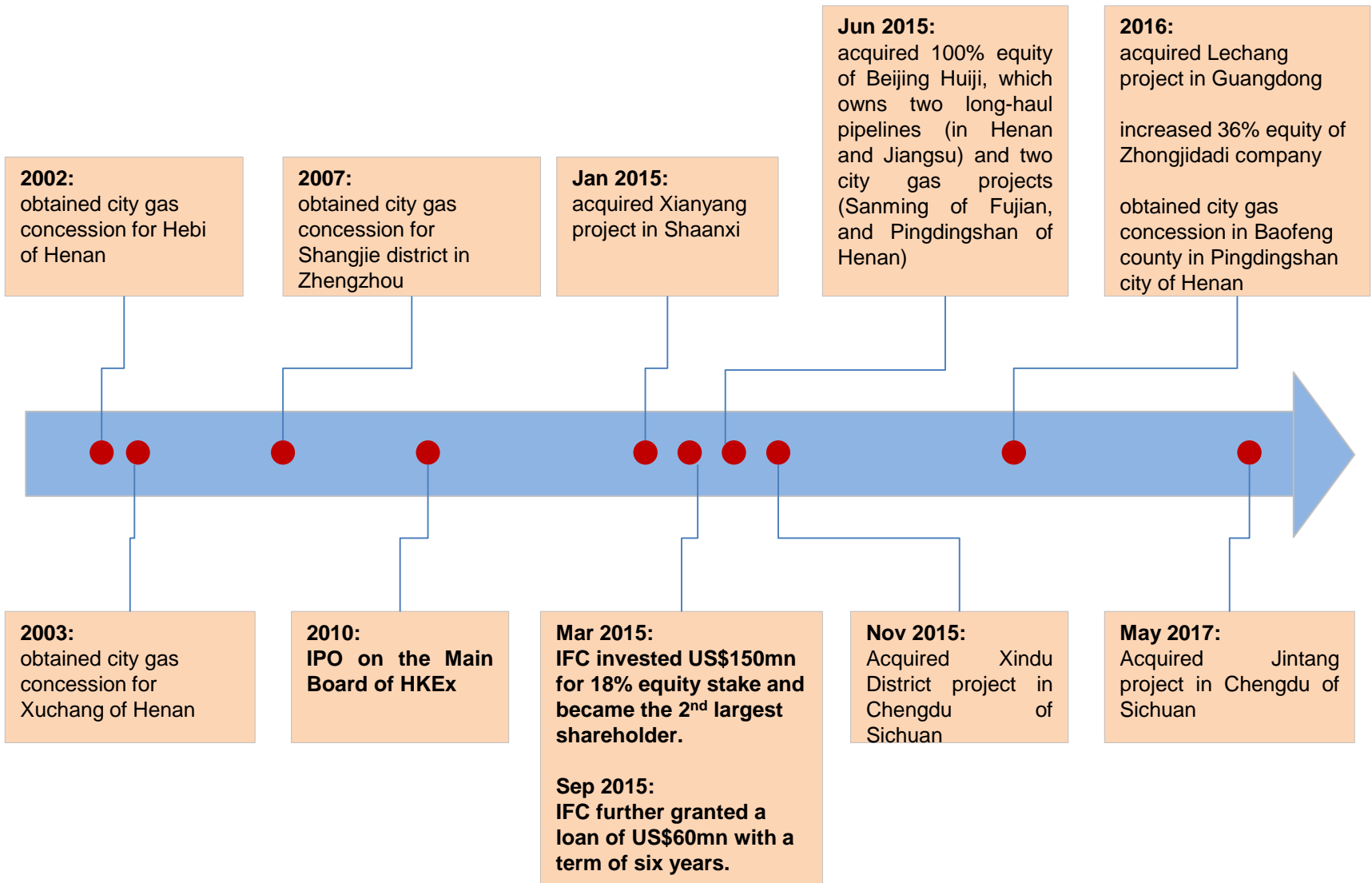
**4. Strategies & Outlook**



## Company Profile

- ◆ Tian Lun Gas was founded in 2002 and listed on the main board of Hong Kong Stock Exchange in 2010 (stock code: 1600.HK)
- ◆ The business scope mainly includes five areas: city gas operation, gas station, LNG plant, long-haul pipeline and direct supply to industrial users.
- ◆ Tian Lun operates in 16 provinces under 6 regions, with 54 city gas projects, 50 gas stations, 2 LNG plants and 6 long-haul pipelines
- ◆ The company has been growing rapidly in past seven years since IPO, and its revenue for the year of 2016 was 15 times of that in 2009.

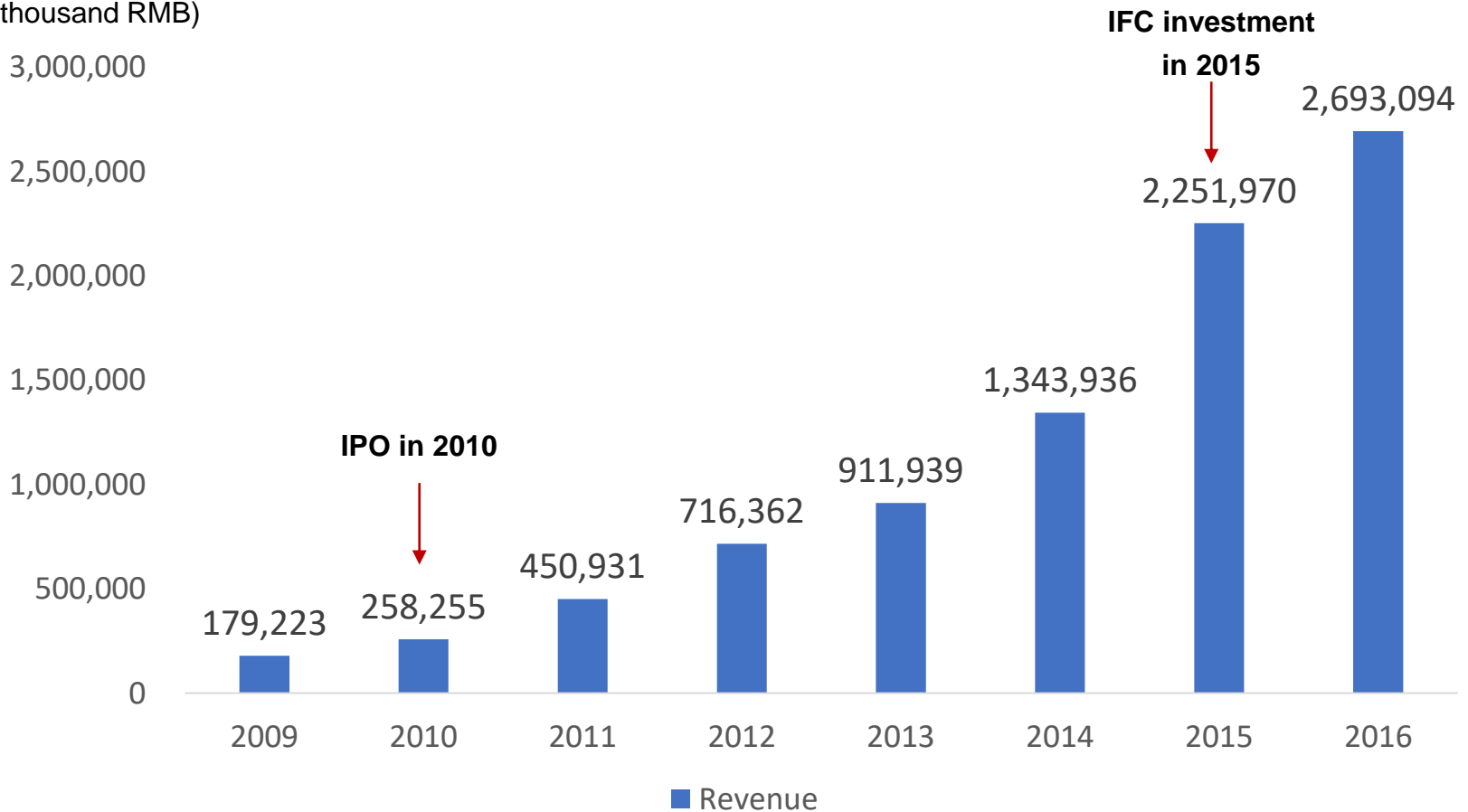
# Milestones



# CAGR of 47% in Revenue since IPO

## Growth of Revenue since IPO

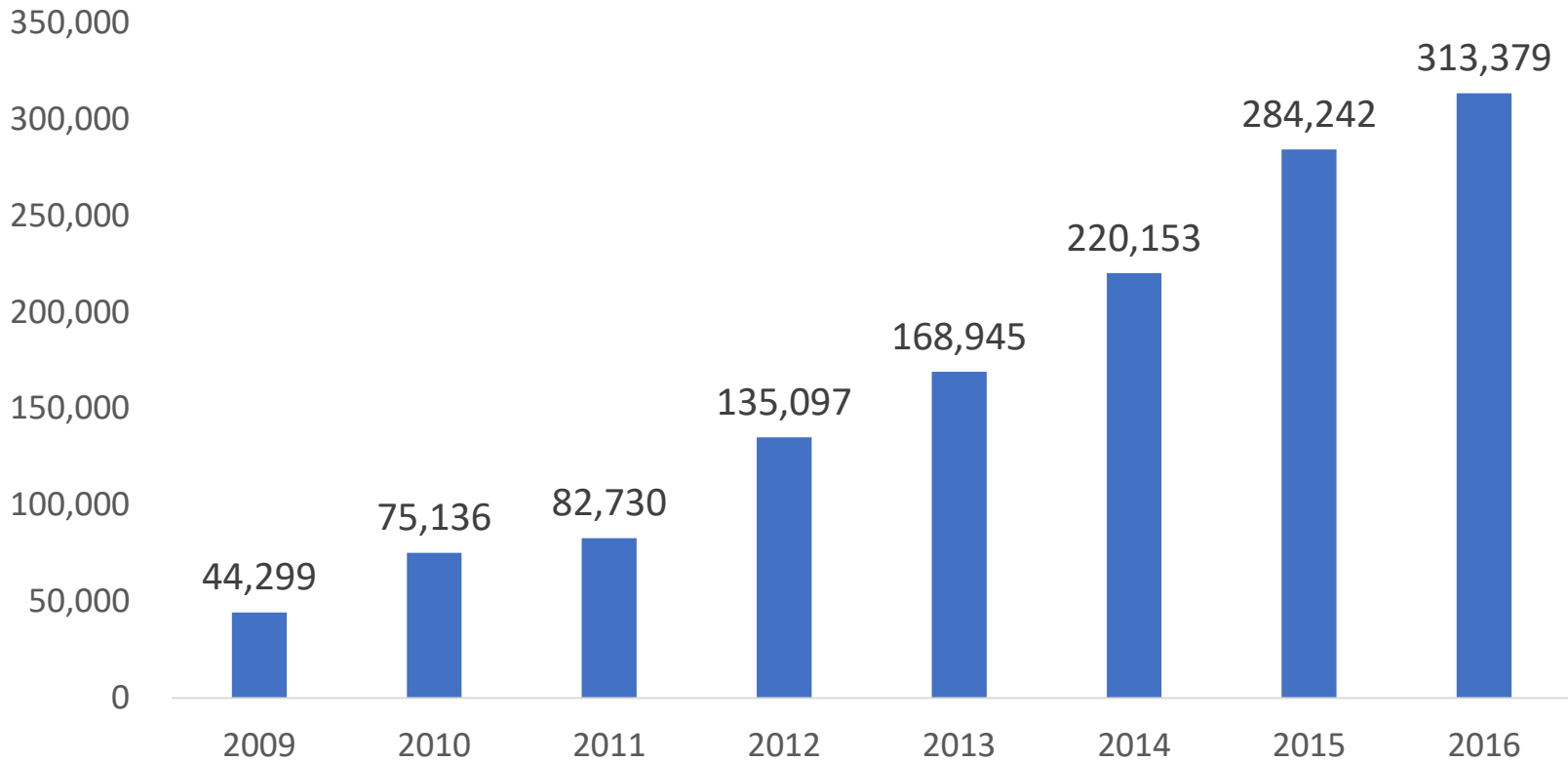
(thousand RMB)



# CAGR of 32% in Net Profit since IPO

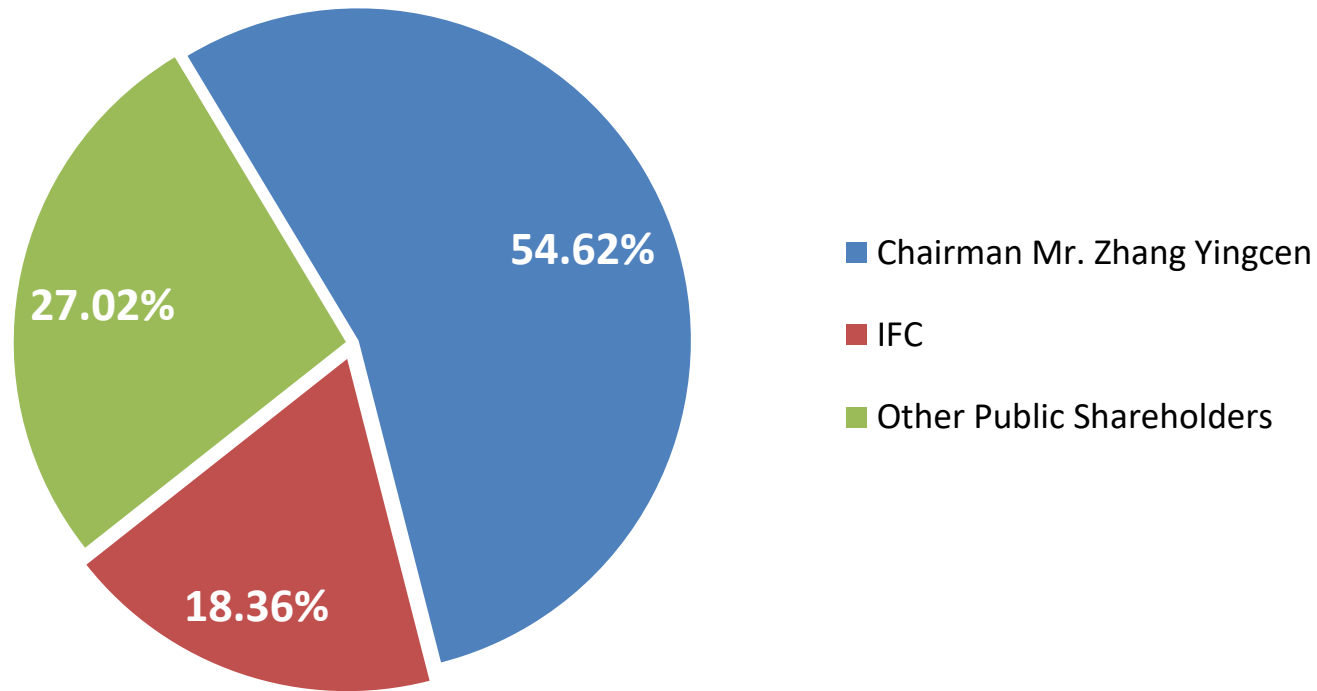
## Growth of Profit Attributable to Shareholders since IPO

(thousand RMB)



■ Profit Attributable to Shareholders

# Strong Shareholder Base

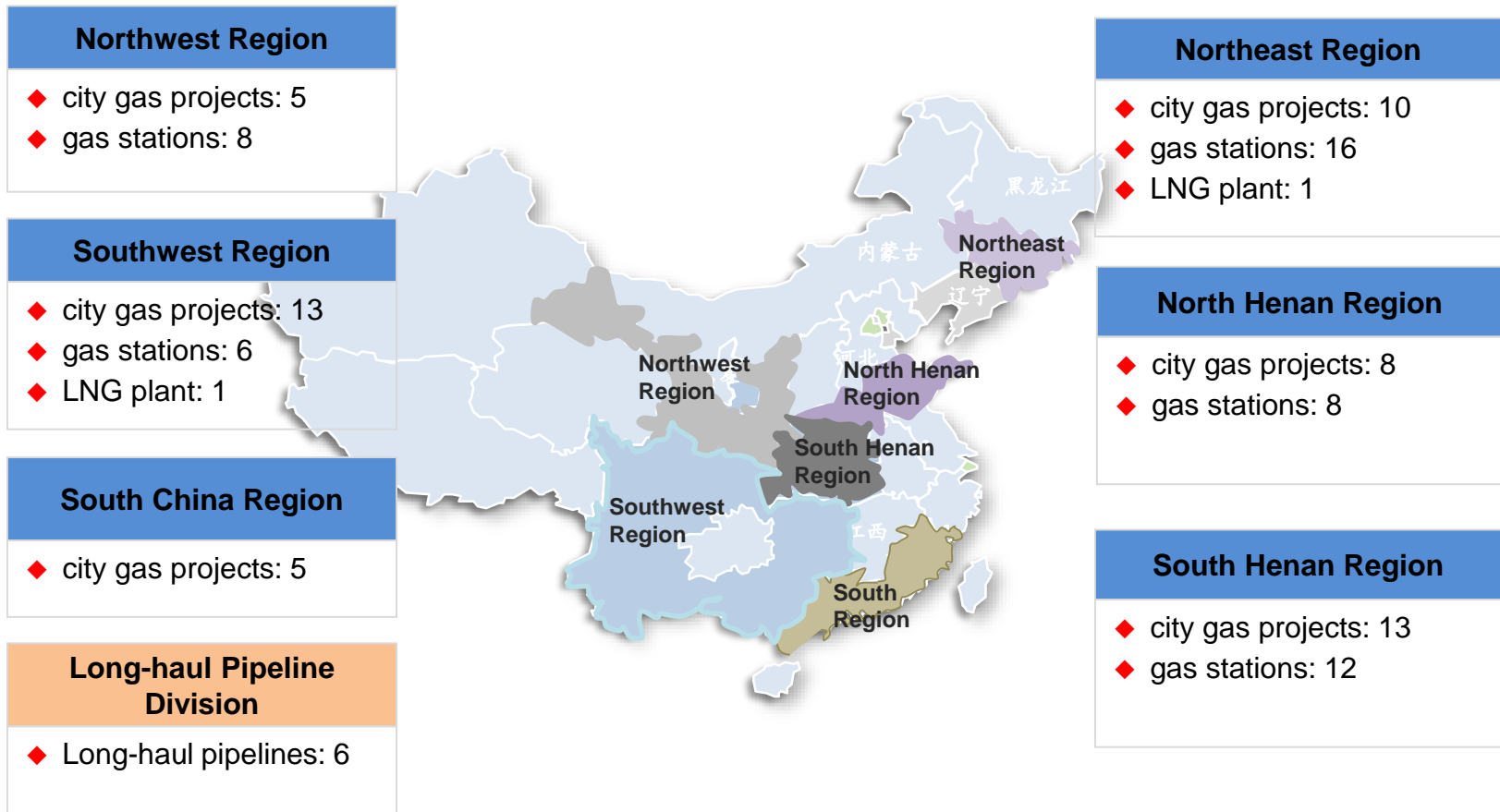


- Mr. Zhang Yingcen, founder and Chairman of Tian Lun Gas, is a well-known entrepreneur in China, serving as a deputy to the 11th and 12nd National People's Congress, the deputy chairman of Henan Industry and Commerce Federation, and vice president of Charity Association of Henan Province.
- International Finance Corporation (the “**IFC**”) under the World became a strategic investor in Tian Lun Gas in 2015 and became the 2<sup>nd</sup> largest shareholder in the Company.
- The Company also has other high-quality institutional investors such as PICC.

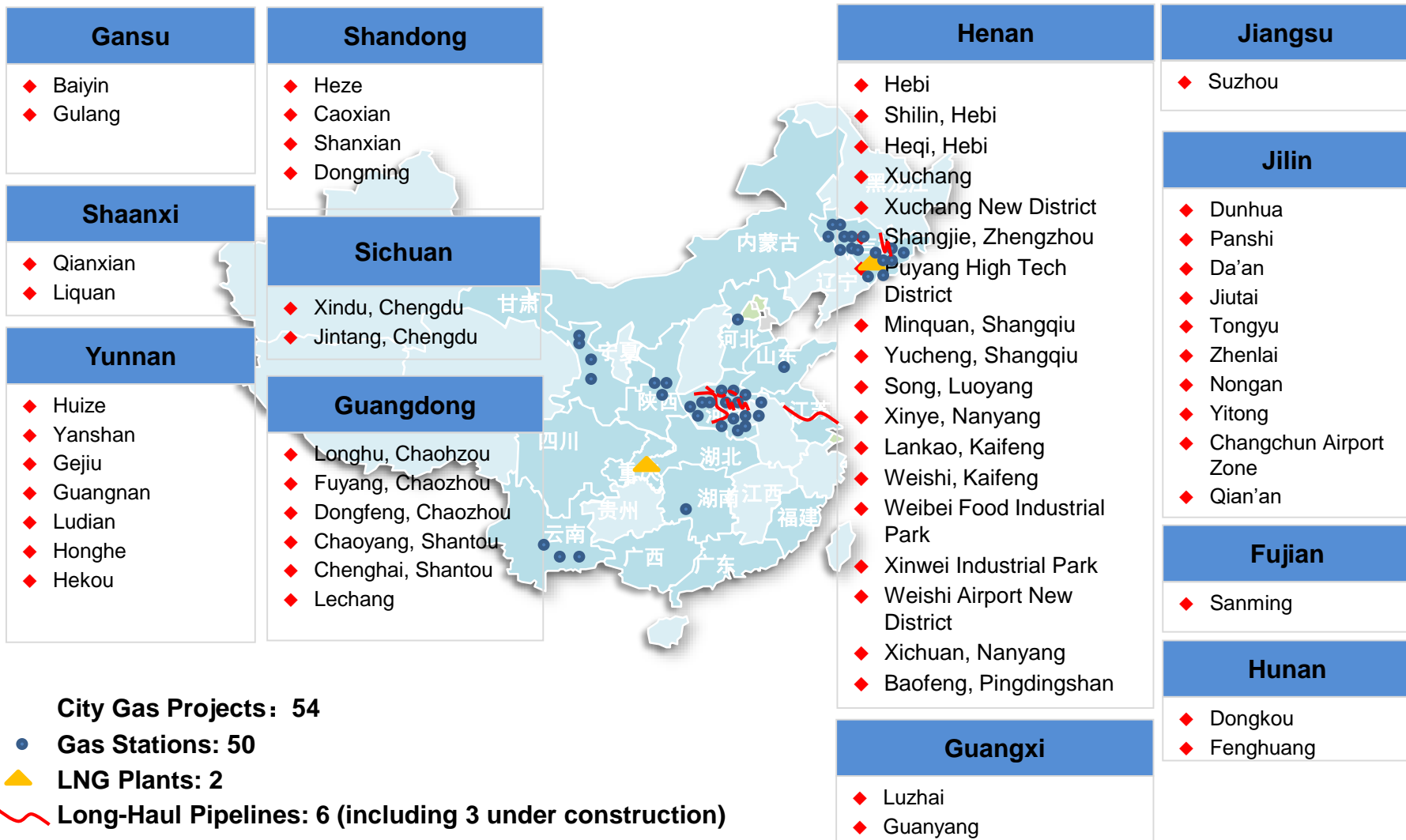


# Nationwide Presence

Tian Lun Gas has **54** city gas projects in **6** major regions; **50** gas stations in operation; **2** LNG plants (Jilin Changling LNG plant has started production since October 2017); and **6** long-haul pipelines.



# Focusing on 3<sup>rd</sup>/4<sup>th</sup> Cities, Benefiting from Industrial Migration and Coal to Gas Conversion



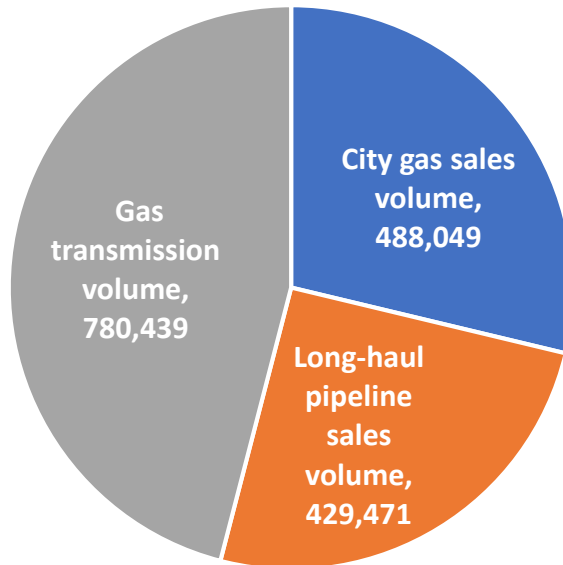
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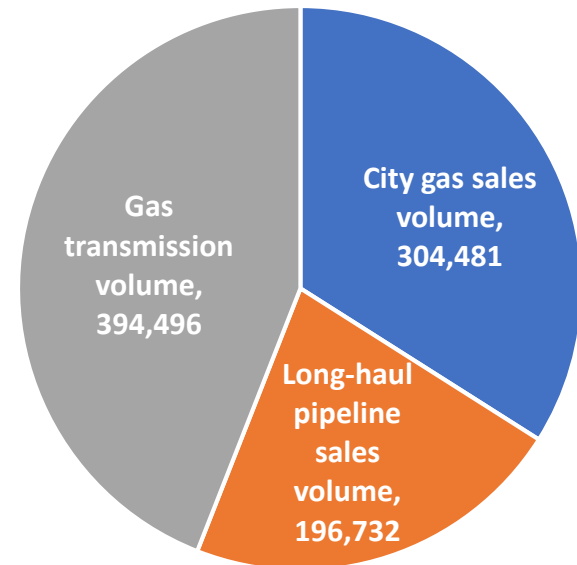
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# Natural Gas Volume Composition

Gas volume(1000 cubic meters) in 2016  
totaled 1.7 billion cubic meters



Gas volume(1000 cubic meters) in 1H17  
totaled 896 million cubic meters

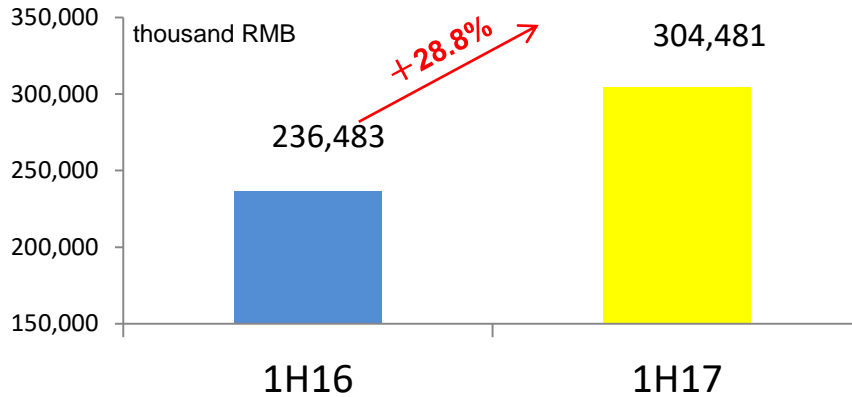


# Rapid Growth of City Gas Sales Boosted by Coal to Gas Conversion

(1000 cubic meters)	1H17	1H16	Change
<b>1. City gas sales volume</b>	<b>304,481</b>	<b>236,483</b>	<b>28.8%</b>
Residential gas	82,683	69,042	19.8%
C&I gas	145,636	110,392	31.9%
-Industrial gas	93,926	63,924	46.9%
-Commercial gas	51,710	46,468	11.3%
Transportation gas	76,162	57,049	33.5%
<b>2. Long-haul pipeline sales volume</b>	<b>196,732</b>	<b>204,723</b>	<b>-3.9%</b>
Direct supply to industrial users	125,638	114,880	9.4%
Sales to other city gas companies	71,094	89,843	-20.9%
<b>3. Gas transmission volume</b>	<b>394,496</b>	<b>346,595</b>	<b>13.8%</b>
<b>Total</b>	<b>895,709</b>	<b>787,801</b>	<b>13.7%</b>

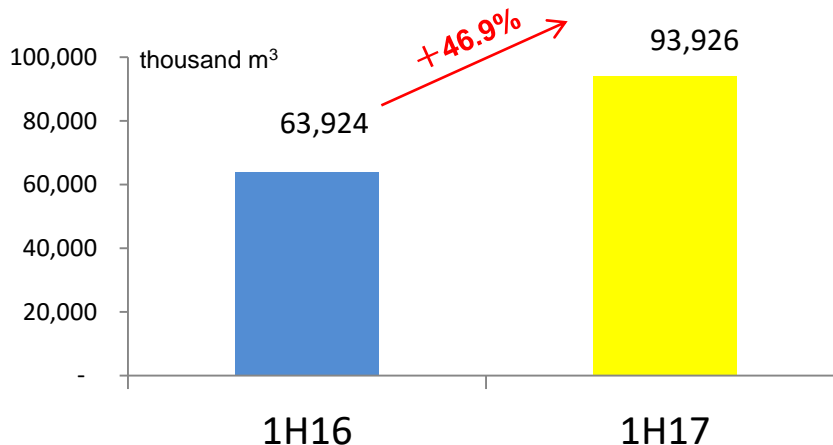
# Extraordinary Fast Growth in Sales Volume to Industrial Users

## City Gas Sales Volume in 1H17



◆ In 1H2017, benefiting from coal to gas conversion, the Company's city gas sales volume increased by 28.8% YoY, where were mainly from organic growth.

## Industrial Sales Volume in 1H17



◆ In 1H2017, the Company's sales volume to industrial users recorded continuous rapid growth of 46.9%, thanks to implementation of the Company's strategy to quickly expand industrial users.

# Reasonable Sales Price and Dollar Margin under Return Cap

Average Gas Sales Price (excluding tax) in 1H17	
Residential users	2.20 RMB/m <sup>3</sup>
C&I users	2.41 RMB/m <sup>3</sup>
Transportation users (retail)	3.04 RMB/m <sup>3</sup>
Transportation users (wholesale)	2.11 RMB/m <sup>3</sup>
Direct supply to industrial users	2.27 RMB/m <sup>3</sup>
Sales to other city gas companies	1.88 RMB/m <sup>3</sup>
Gas transmission	0.12 RMB/100km

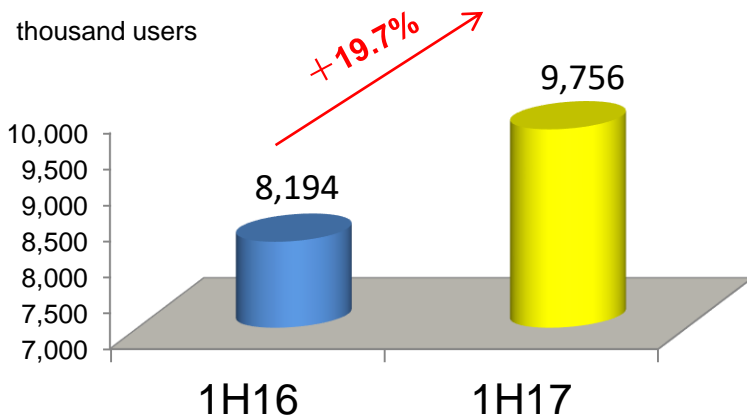
# Newly Connected Users Increased Steadily

(households)	1H17	1H16	Change
<b>Number of newly connected users</b>	96,530	94,166	2.5%
Residential households	95,691	93,663	2.2%
C&I users	839	503	66.8%
<b>Number of accumulated users</b>	1,430,829	1,222,846	17.0%
Resident users	1,421,073	1,214,652	17.0%
C&I users	9,756	8,194	19.1%

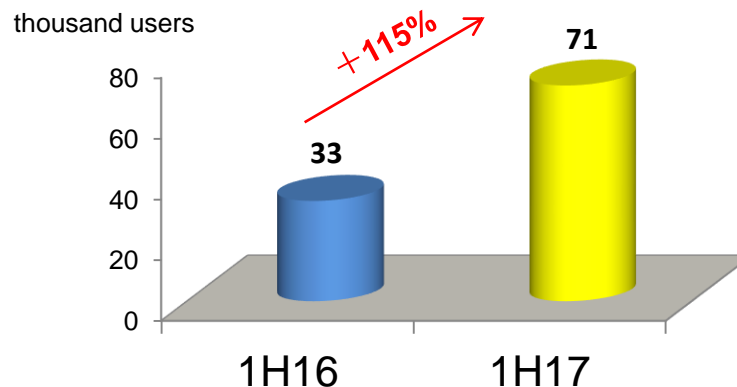


# Steady Growth in New Connections

## Accumulated C&I Users



## Newly Connected Industrial Users



## Newly Developed Large Industrial Users

Project Company	Industrial User Name	Designed Daily Usage Volume (m <sup>3</sup> /per day)
Dongming Company	Shandong Green Jewelry Fertilizer Company	30,000
	Dongming Baihua	20,000
Shan County Company	Shandong Shangshun Chemical Company	50,000
	Hebi Jincheng Rubber Plant	20,000
Hebi Company	Hebi Hangyu Road and Bridge Construction	30,000
	Henan Jinju Color Aluminum	80,000
Shangjie Company	Guangdong Steel Pipe Plant	40,000
	Ceramic Industry Plants	80,000

# Successful Acquisition of Jintang Project in Chengdu in May 2017



# Jintang Project Profile

- ◆ Started construction in 1989 and operation in 1991.
- ◆ Concession covers six towns of Jintang County. Through over 20 years of development, the project company has obtained rich operation experiences with a very professional management team.
- ◆ Owns over 120km of high pressure pipelines, 4 transmission and distribution stations, 300km medium pressure city gas pipelines, and has gas supply from both Sinopec and PetroChina.
- ◆ With more than 110,000 residential users, and over 2,500 C&I users, Jintang company's annual gas sales volume was over 45 million m<sup>3</sup>, with 15,000 newly connected users and over 43 million net profit in 2016.
- ◆ In May 2017, Tian Lun Gas acquired 100% equity interest in Jintang company for a consideration of RMB500 million (representing 2016P/E of 11.4x), and started consolidating its financials since Jul 2017.

# Jintang is a Main Destination of Eastbound Migration of Chengdu's Industrial Companies

- ◆ According to the strategy by Chengdu City to migrate industrial companies to the east areas, Jintang County will build a new town named “Huaizhou Advanced Manufacturing Base” with a size of one trillion RMB.
- ◆ In recent years, Jintang's industry has maintained double-digit growth, and the strategic industries, led by energy saving & environmental protection, general aviation and new energy vehicles, have been growing rapidly.
- ◆ Jintang company will actively participate in the construction of Huaizhou new town to achieve rapid growth.



# Accelerated Development of Gas Stations and Long-haul Pipelines

## Gas Refilling Stations

Company	Name of Gas Refilling Station	Designed Fueling Capacity (m <sup>3</sup> /day)
Caoxian Company	CNG Refilling Sub Station	10,000
	Gejiu LNG/L-CNG Refilling Joint Station	40,000
Yunnan Company	Hekou LNG/L-CNG Refilling Joint Station	20,000
	Guangnan LNG/L-CNG Refilling Joint Station	40,000
Hebi Company	Weishi Road L-CNG Station	50,000
	Tangyin Yuneng LNG/L-CNG Refilling Joint Station	110,000
<b>Total</b>		<b>290,000</b>

## Long-haul Pipelines

- ◆ **Lushan-Ruzhou Pipeline Branch** has finished the prophase work, and has started construction in 2017Q3.
- ◆ **Long-haul pipeline between Yuzhou and Changge** has finished site-selection and design bidding, and will start construction in 2017Q4. This pipeline will serve the gas supply to Xuchang, which is one of the Group's core operation areas, and its neighboring market.
- ◆ **Long-haul pipeline between Puyang and Hebi** has obtained Henan DRC approval on the 13<sup>th</sup> Five-Year Plan. After construction, it will serve the gas supply to Puyang and Hebi, lower its gas purchase cost and support expansion of its neighboring market.

# Advanced IT and ERP Platforms

Establish Information Platform to Enhance Efficient Management

## ◆ Operation management

◆ Centralized financial management, human resources management and control, supply chain management and control, and capital management and control modules.

## ◆ SCADA remote monitoring system

◆ Real-time remote monitoring and data transmission at major stations of members, including the information on large industrial and commercial users of the Group.

## Information Platform

## ◆ Service terminal “Internet +”

◆ Including diversified services channels scan codes payment, online search service, self-payment machines.

## ◆ Marketing service system

◆ Including meter reading, charge, work order, security check, inspection and reporting, transmission error management, to ensure the accuracy of data management.

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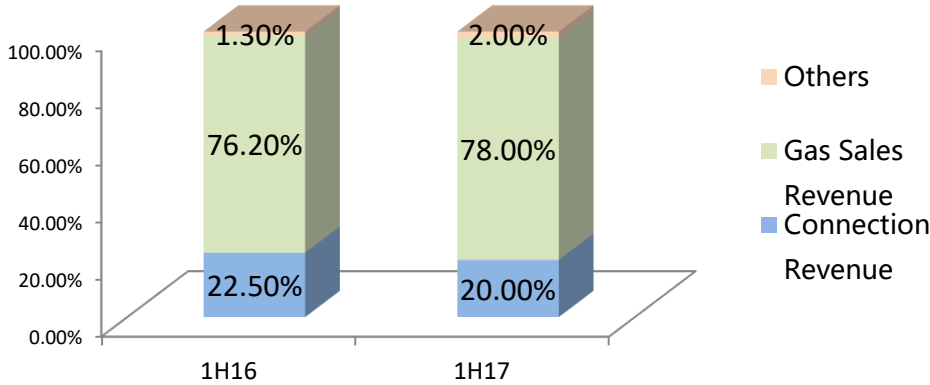
# Rapid Growth in Revenue and Profit

	1H2017	1H2016	Change
	RMB('000)	RMB('000)	
<b>Revenue</b>	1,490,354	1,289,887	15.54%
<b>Sales Proceeds</b>	1,683,497	1,426,594	18.01%
<b>Gross Profit</b>	379,064	328,146	15.52%
<b>EBITDA</b>	457,855	398,293	14.95%
<b>Profit Before Tax</b>	274,684	232,230	18.28%
<b>Profit for the Period</b>	196,906	167,463	17.58%
<b>Profit Attributable to Shareholders</b>	186,815	151,080	23.65%



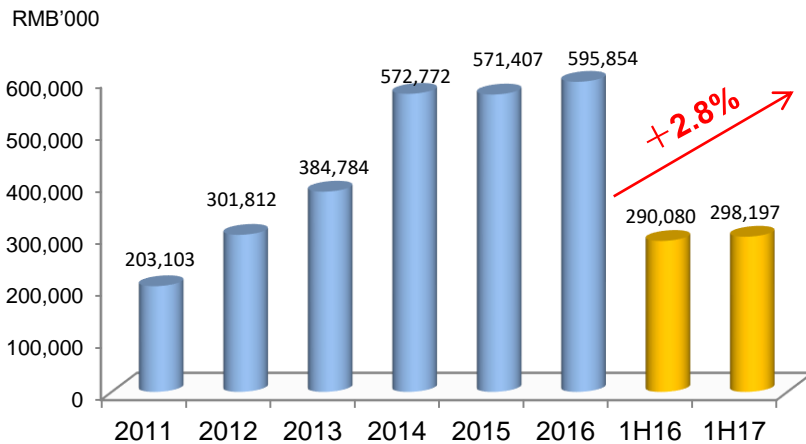
# Increasing Contribution to Revenue from Gas Sales

## Revenue Structure

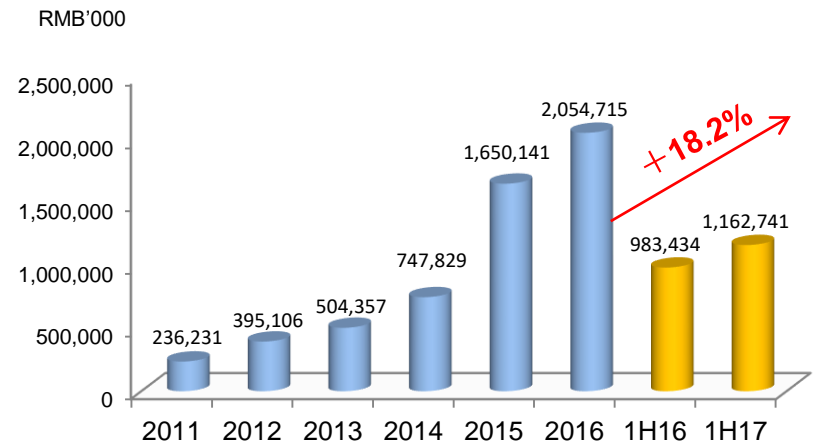


◆ Contribution from gas sales increased to 78% to total revenue.

## Connection Revenue

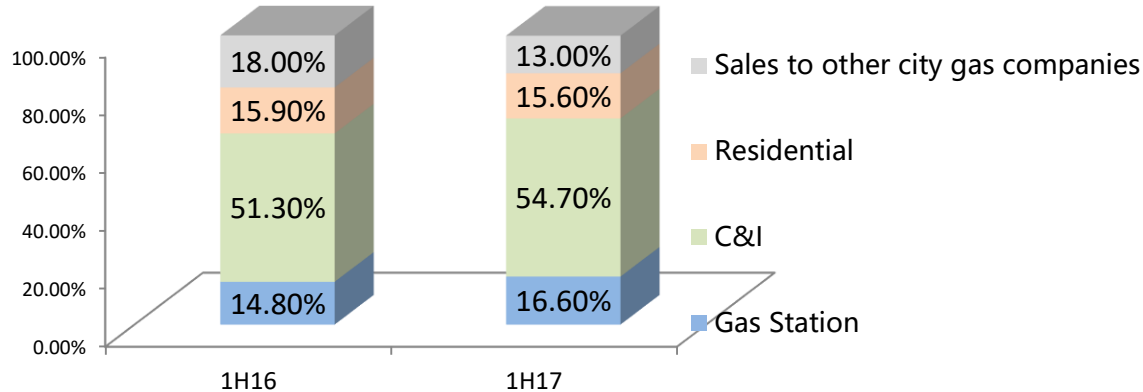


## Gas Sales Revenue



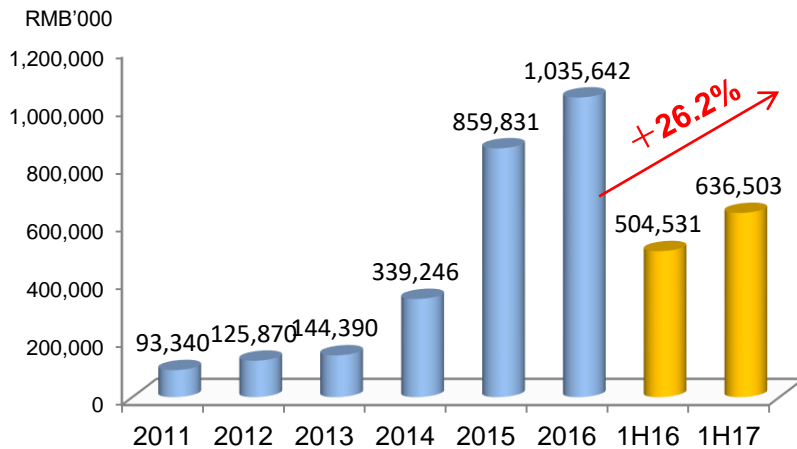
# C&I Gas Sales Revenue Ramped Up Rapidly Driven by Coal to Gas Conversion

## Gas Sales Structure

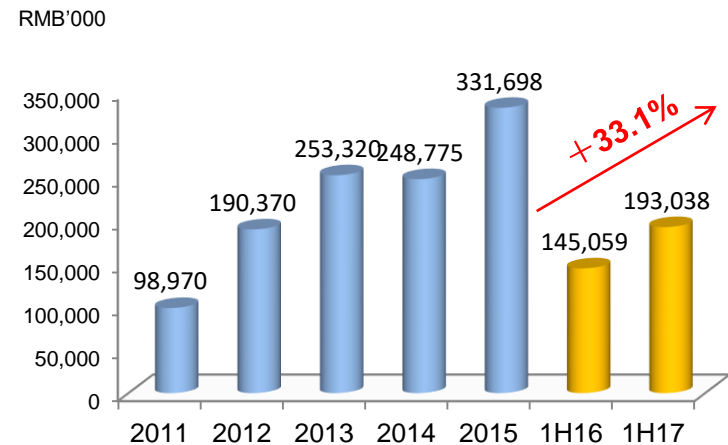


◆ Revenue from C&I gas sale accounted for 54.7% of total revenue.

## C&I Gas Sales Revenue



## Gas Station Sales Revenue





# Increasing Margin due to Contribution from C&I Users

	1H2017	1H2016
<b>Gross Margin</b>	25.44%	25.43%
<i>Gross Margin of Gas Sales</i>	14.01%	12.73%
-City gas	16.41%	15.02%
-Long-haul Pipelines	6.62%	6.83%
<i>Gross Margin of Connection</i>	66.95%	67.74%
<b>Net Margin</b>	13.22%	12.98%
<b>EPS (RMB)</b>	0.19	0.15
<b>Interim Dividends (HK Cent)</b>	9.28	8.3

# Financial Leasing JV with Business Synergies and Profitable Investment Income

- ◆ In Mar 2016, Tian Lun Gas, together with Zhengzhou Bank and Yutong Bus launched Henan Jiuding Finance Lease Company, with a registered capital of 1 billion RMB and Tian Lun Gas contributes 20%.
- ◆ Jiuding Finance Lease has outstanding performance using its shareholders' industrial and commercial customer resources. In 2016, the net profit after provision was over RMB 98 million, and was rmb 109 million in 2017H1, implying 110% annualized growth. In 2017H1, it contributed an investment income of RMB21.8 million to Tian Lun Gas, representing a return of 22%, well above the 5.4% financial cost of Tian Lun.
- ◆ In Aug 2017, the registered capital of Jiuding Finance Lease Company increased to 2 billion RMB, which was increased by three shareholders with equal proportion. With the increase of capital and expansion of the business scale, it will continue to bring considerable benefits to Tian Lun.

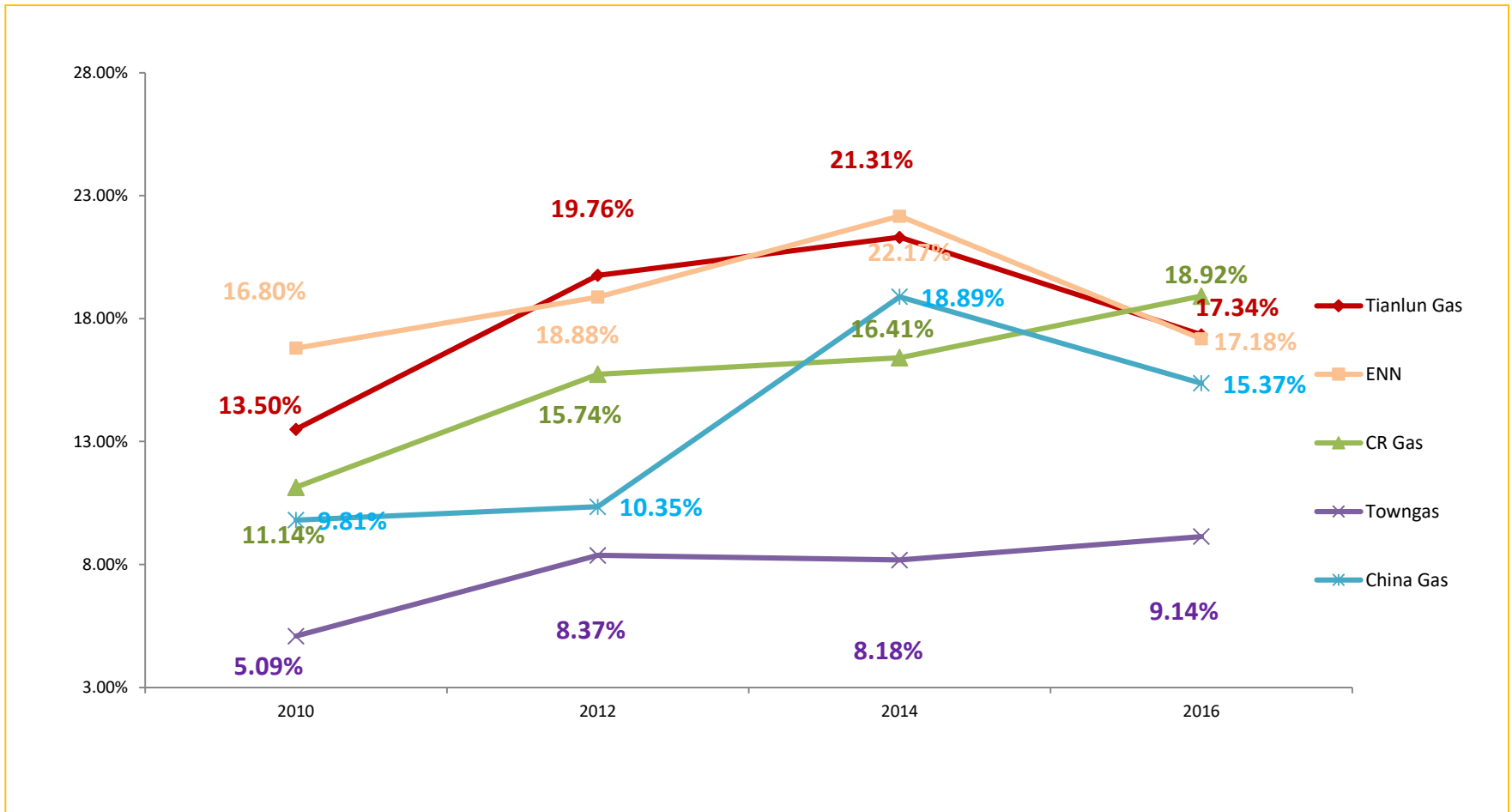


# Solid Balance Sheet

	30 Jun 2017	31 Dec 2016
	RMB('000)	RMB('000)
<b>Total Assets</b>	8,107,171	7,633,412
<b>Total Equity</b>	2,949,812	2,751,709
<b>Total Liabilities</b>	5,157,359	4,881,703
<b>Total Borrowings</b>	3,834,418	3,588,447
<i>Domestic Borrowings</i>	1,638,314	1,247,038
<i>% of Total</i>	42.73%	34.75%
<i>Overseas Borrowings</i>	2,196,104	2,341,409
<i>% of Total</i>	57.27%	65.25%
<b>Total No. of Issued Shares ('000 shares)</b>	989,615	989,615

# Outstanding Return on Equity

## Comparison of ROE of Listed Peers



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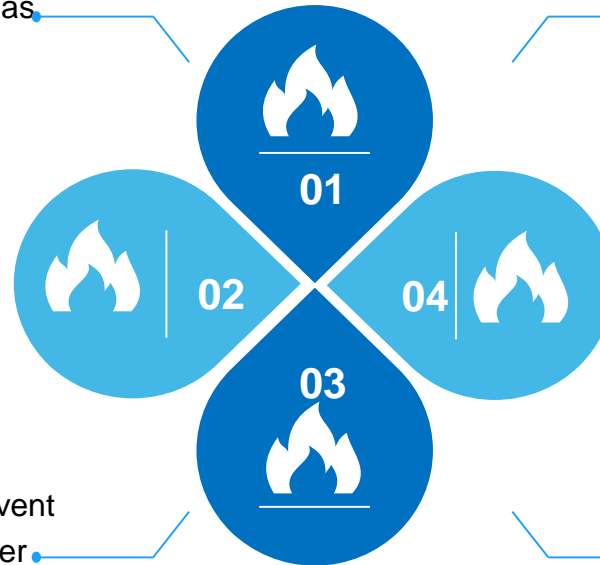
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# I. Utilizing the Encouraging Policies in Natural Gas Industry

**Opportunity 1:** The 13th five-year plan for natural gas development aims to increase the percentage of natural gas in energy consumption to 10%.

**Opportunity 2:** The opinion on accelerating the use of natural gas has further clarified the status of natural gas as one of the main energy sources of the modern energy system.



**Opportunity 3:** The opinion on promoting supply-side reform to prevent the risk of over-capacity of coal power production requires the closure of coal-fired generating units that do not meet the requirements of 300,000 kilowatts.

**Opportunity 4:** With the deepening of supply-side reform, the natural gas consumption market will continue to grow significantly.



# Vast Business Opportunities from Coal-to-Gas Conversion



**Industrial Coal-to-Gas Conversion**



**Gas-fired Power Plants**



**Distributed Energy**



**Residential Coal-to-Gas Conversion  
(household heaters)**

## II. Active and Selective Acquisitions

### City gas projects acquisition

- ◆ Tian Lun Gas will continue to actively engage in acquisitions to enhance scalability with selectively criteria:
- ◆ In terms of regions, we focus on gas rich areas in southwest and northwest, coastal developed areas such as Jiangsu and Zhejiang, and the coal-to-gas conversion areas around Beijing-Tianjin-Hebei Region.
- ◆ In terms of targets, the company focuses on mature projects with sizeable scale, stable cash flow and solid management.



# Fragmented City Gas Sector Offers Acquisition Opportunities

- ◆ There are large number of small and medium-sized private city gas companies in China, which can not IPO independently or consolidate other players in the same region. As their management and shareholders approach retiring, being acquired by large players such as Tian Lun Gas becomes a natural choice.
- ◆ For example, in Chengdu City, the SOE Chengdu Gas only covers several downtown districts, while most of the city gas projects in surrounding areas are owned and managed by private gas enterprises. In total, there are around 51 city gas companies in Chengdu, of which nearly 30 private city gas companies can be acquired.



## III. Secure Upstream Gas Supply

### Secure Upstream Gas Supply

- ◆ With the rapid growth of natural gas consumption, securing upstream gas supply will become one of the core competitiveness of city gas companies.
- ◆ Tian Lun Gas has three long-haul pipelines in operation in Henan, Jilin and Jiangsu, with total gas transmission capacity of 5 billion m<sup>3</sup> per year. We also have another three long-haul pipelines under construction, providing an important guarantee for the company's gas supply.
- ◆ We will actively develop LNG import and trade business which will be complementary to piped gas supply.

## IV. Enter Shenzhen-HK Stock Connect and Expand Shareholder Base

### The Shenzhen-Hong Kong Stock Connect

- ◆ The Company is aiming to enter the Shenzhen-Hong Kong Stock Connect given its market capitalization and trading volume.
- ◆ Entering the Connect will further expand the Company's shareholder base, increase liquidity and enhance its brand awareness to customers and investors.





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**Focusing on Gas Utilization**  
**Entering Rapid Growth Phase**