



Stock Code:01600.HK

China Tian Lun Gas Holdings Limited

2020 Interim Results Investor Presentation

2020.08.27



- I. Performance Summary
- II. Business Review
- III. Financial Review
- IV. Outlook
- V. Appendix





Performance Summary

Performance Summary



Main business was affected in 1Q20 due to Covid-19, but recovered rapidly in 2Q20;



Retail gas sales volume grew by 4.2% to 570 million m³ in 1H;



Newly connected 379,263 household users, largely stable YoY



Core profit increased by 3.5% to RMB 420 million



Operating Cash Flow* increased to RMB 640 million; free cash flow reached to RMB 260 million



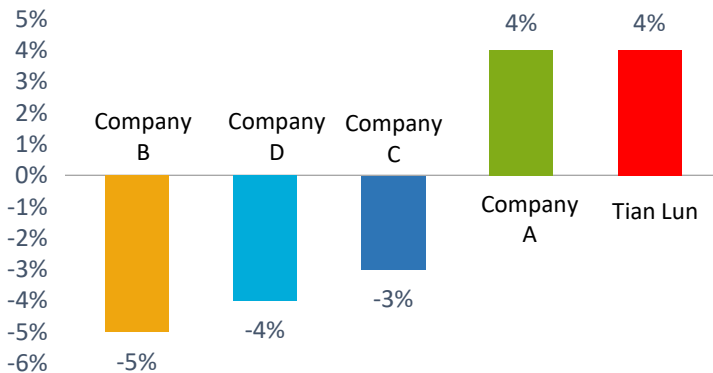
The board recommends a Interim dividend: RMB 11.4 cents per share (flat YoY) and payout ratio improved to 30.4%

*Operating cash flow = cash generated from operations-income tax paid

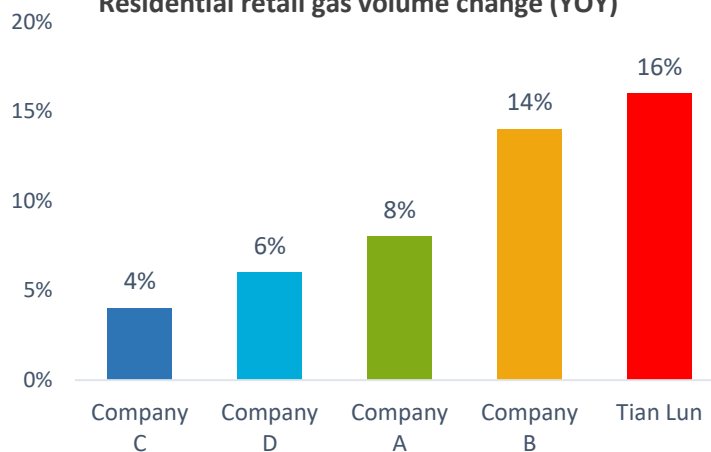
Peers Comparison

In 1H20, our retail gas sales volume growth outpaced industry peers, especially in residential and transportation gas.

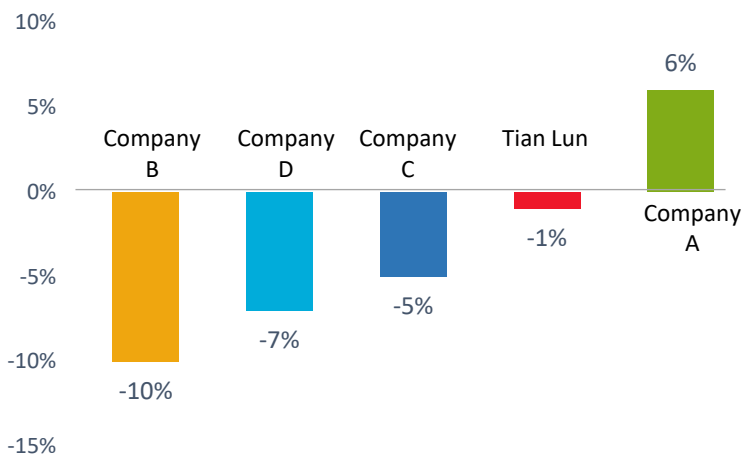
Retail gas volume change (YOY)



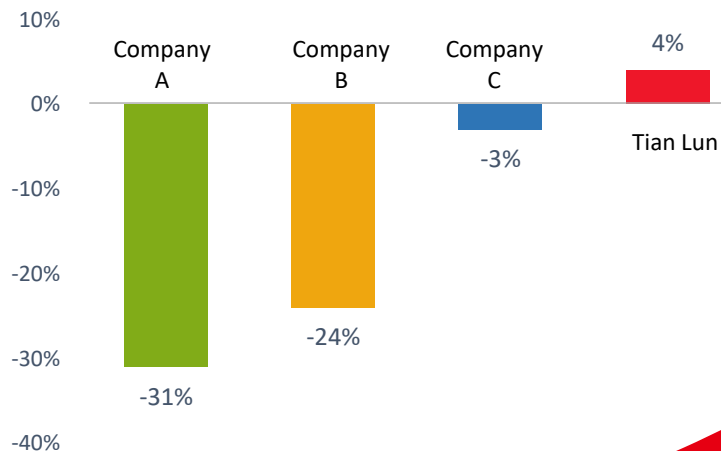
Residential retail gas volume change (YOY)



C&I retail gas volume change (YOY)



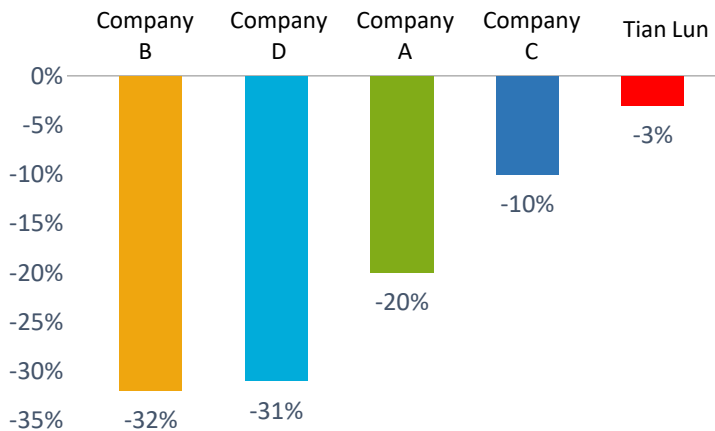
Transportation retail gas volume change (YOY)



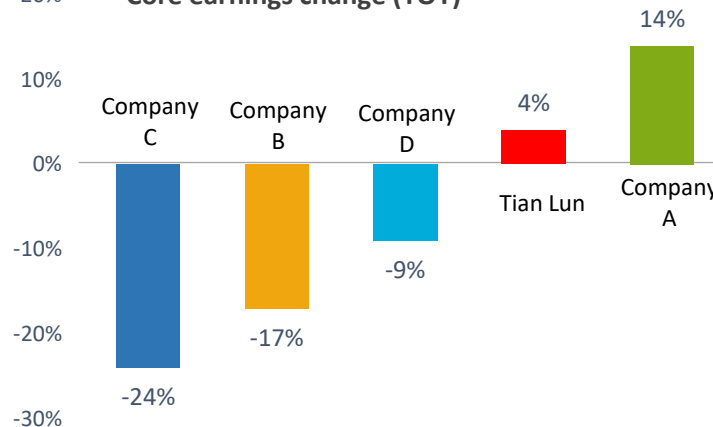
Peers Comparison

Despite the impact of Covid-19 in 1H20, our new household connections recorded much milder decline compared with our peers. We also achieved rapid revenue growth in value-added services and maintained a leading position in core earning growth and ROE.

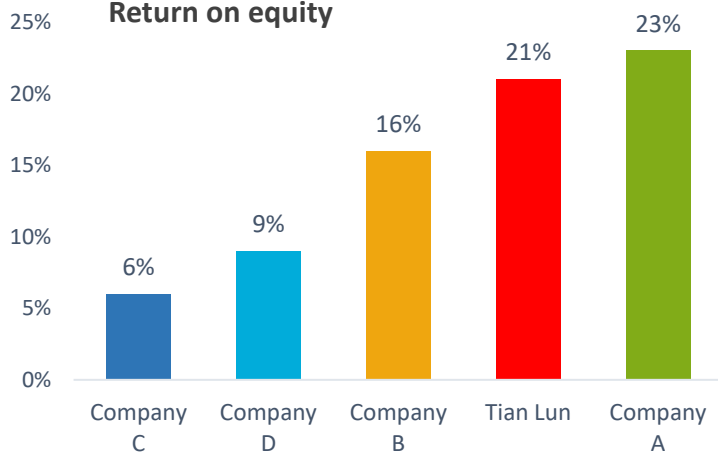
New household connection change (YOY)



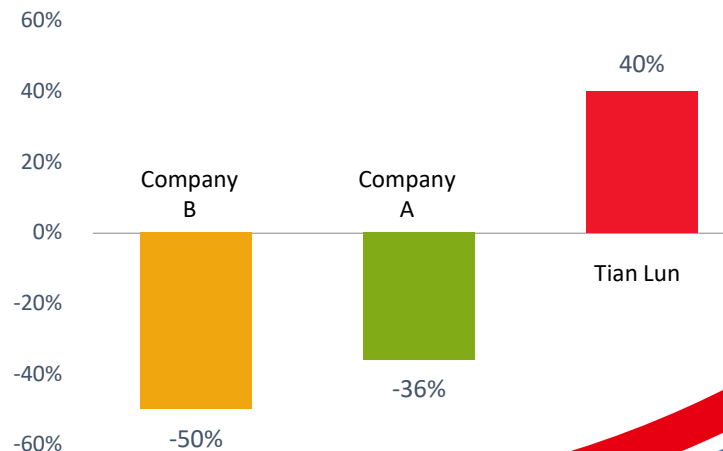
Core earnings change (YOY)



Return on equity



Value-added business revenue (YOY)





Business Review

Gas Sales Business

During 1Q20, our gas sales business was affected by Covid-19 to a certain extent but operations significantly improved in 2Q20. Responding to profitability pressure of our wholesale business affected by the pandemic and low oil prices, we scaled down the business activities of our wholesale business.

Million m ³	1H2020	1H2019	YOY	2Q20 YOY	1Q20 YOY
Gas sales - Retail	570.8	548.0	4.2%	9.0%	0.3%
Residential	176.8	152.1	16.2%	16.3%	16.1%
C&I	357.7	361.0	-0.9%	6.3%	-7.1%
Transportation	36.3	34.9	4.0%	10.0%	-3.6%
Gas sales - Wholesale	143.9	192.9	-25.4%	-30.0%	-21.1%
Total Gas Sales Volume	714.7	740.9	-3.5%	-1.8%	-5.0%
Long-haul Pipeline transmission	323.4	352.4	-8.2%	1.6%	-20.2%

Connection Business

Affected by Covid-19, connection business and value-added services declined during 1Q20. With easing government control measures, we actively picked up construction pace and the connection business recorded positive growth during 2Q20.

	2020.06.30	2019.12.31	Change Amount	Change
Number of Customers* (Household)	3,736,418	3,247,483	488,935	15.1%
Residential Customers (Household)	3,711,313	3,224,163	487,150	15.1%
C&I Customers (Household)	25,105	23,320	1,785	7.7%
Accumulative designed daily gas supply capacity for C&I ('000 m ³ /day)	9,264	8,683	581	6.7%

	1H2020	1H2019	YOY	2Q20 YOY	1Q20 YOY
New Residential Customers (Households)	379,263	390,604	-2.9%	6.7%	-47.4%
City(Household)	138,824	140,577	-1.2%	4.5%	-32.2%
Rural(Household)	240,439	250,027	-3.8%	7.9%	-54.6%
New C&I Customers (Households)	1,177	1,152	2.2%	7.8%	-7.5%

*Customers from the newly consolidated project in 2020 1H: 107,887 residential customers; 608 C&I customers

ASP & Dollar Margin

Along with the procurement cost reductions, we also lowered our gas selling prices during 1H20. The residential gas price increase was largely due to the expanding progressive charges mechanism in Northern China city projects.

Selling prices & gas cost (RMB/m³)	1 H 2 0 2 0	1 H 2 0 1 9
Residential	2.40	2.35
C&I	2.59	2.82
Transportation	3.09	3.47
Average selling price	2.56	2.73
Dollar margin(ex VAT)	0.56	0.54

Average connection fee (RMB/household)	1 H 2 0 2 0	1 H 2 0 1 9
Urban households	2,592	2,605
Rural households	2,752	2,752

Rural coal to gas

Completion unit: household numbers

Revenue and collection: RMB thousand

We have co-operated with Zhongyuan Yuzi in the coal-to-gas business since 2H18. As of June 30 2020, we have completed cumulative construction of over 1.2 million households and collected RMB 2.24bn with 61.5% of collection rate.

	Cumulative household completion	Cumulative project revenue (inc. VAT)	Accumulated Payment collection	Cumulative Payment collection percentage
2018.12.31	382,591	1,147,772	500,000	43.6%
2019.06.30	632,618	1,897,853	731,125	38.5%
2019.12.31	960,792	2,846,952	1,919,125	67.4%
2020.06.30	1,201,231	3,638,118	2,236,198	61.5%

Value Added Business

We continued to monetize our access to community customers. Despite the pandemic, we launched “Tianlun E-Shopping” and embarked online activities, which contributed to the rapid growth of our business.

Category	Products and Services			
Gas stoves	Table stove	Built-in stove		
Water heaters	Thermostat	Condenser	Zero chiller	Mechanical button
Grate furnaces	Board replacement	Casing machine		
Range Hood	Side suction machine	European style range hood	Tower machine	
Water purification series	Ultrafiltration machine	Reverse osmosis machine		
Fresh air series	Engineering machine	Home machine	Business machine	
Special gas pipe	Cut-to-length products	Non-fixed products	Covered tube	
Alarm system	Alarm system	Shut-off valve	Self-closing valve	
Household appliances	Large machine	Small kitchen appliances	Home devices	
Fresh fruits and vegetables	Fruits	Vegetables		
Kitchenware	Cookware	Tableware	Sanitary ware	
Heating equipment	Heating stove	Heat sink		
Xiaofan service	Refurbishment	Maintenance service	Cleaning services	Housekeeping services
Gas equipment	Gas Meter and alarm Linkage	Recharge		
Commercial Series	Commercial cooker	Water heater	Disinfection cabinet	Boiler

RMB thousand	1H2020	1H2019	Change
Revenue	58,726	41,838	40.4%
Gross profit	38,420	28,518	34.7%
Gross profit margin	65.4%	68.2%	

Strategic cooperation with Haier and Huayi



Projects

We currently operate 63 city gas projects, 1 LNG plant, 6 long-haul transmission pipelines (3 not yet in operation) and 51 gas refilling stations. The Shenqiu County project was consolidated during 1H20.





Financial Review

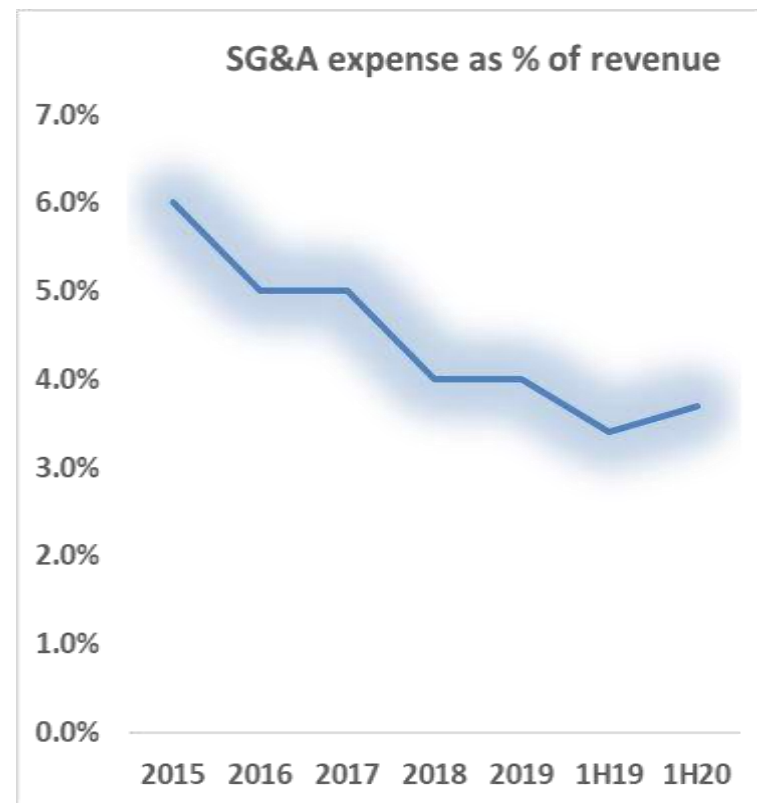
Revenue & Segment profit

Retail gas: Revenue decline was due to average selling price declines following the cost pass-through in 1Q20 but segment profit rose thanks to largely the gas volume growth and dollar margin expansion of residential gas.

Wholesale gas: The profitability of the wholesale business was severely affected by Covid-19 and low oil prices, we reduced the scale of the low-margin business. SG&A expenses as % of revenue remained low during 1H20.

RMB thousand	1H2020	1H2019	Change
Total revenue	2,995,535	3,150,250	-4.9%
Retail gas sales	1,462,099	1,494,986	-2.2%
Wholesale gas sales	322,540	495,017	-34.8%
Engineering Construction Service	1,142,010	1,099,268	3.9%
Other businesses	68,886	60,979	13.0%

RMB thousand	1H2020	1H2019	Change
Total segment profit	734,136	729,090	0.7%
Retail gas sales	171,721	159,345	7.8%
Wholesale gas sales	20,202	48,140	-58.0%
Engineering Construction Service	506,194	489,227	3.5%
Other businesses	36,019	32,378	11.2%



Profitability

Total revenue decline was a result of average gas selling price declines and reduced business activities of the wholesales business. Thanks to the segment profit expansion of retail gas, new connections and value-added business, we achieve positive growth in total gross profit, EBITDA and core earnings.

	1 H 2 0 2 0	1 H 2 0 1 9	Change
Total Revenue (RMB thousand)	2,995,535	3,150,250	-4.9%
Gross Profit (RMB thousand)	836,494	829,464	0.8%
EBITDA (RMB thousand)	847,167	831,740	1.9%
Profit attributable to owners of company (RMB thousand)	375,157	404,935	-7.4%
Core earnings* (RMB thousand)	424,345	410,085	3.5%
Dividend per share (RMB cents)	11.4	11.42	-0.2%
Gross profit margin	27.9%	26.3%	+1.6PPT
Net Income Margin	12.9%	13.4%	-0.5PPT
ROE(annualized)	21.1%	24.1%	-3.0PPT
ROA(annualized)	6.9%	7.1%	-0.2PPT

*Exchange losses in 1H20 increased by RMB 43.49 million from last year

*Core earnings = Profit attributable to the parent company-Other gains and losses (including exchange gains and losses)

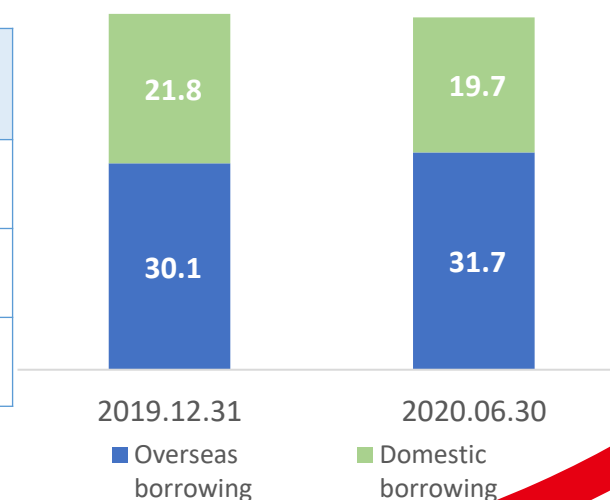
*ROE & ROA were annualized basing on core earnings

Balance sheet

Our financial status remains sound and the debt structure is further optimized.

RMB million	2020/6/30	2019/12/31	Change
Total asset	12,518.3	11,938.8	4.9%
Total liability	8,069.6	7,751.5	4.1%
Total equity	4,448.7	4,187.3	6.2%
Equity attributable to owners of the Company	4,146.8	3,890.8	6.6%
Cash and cash equivalents	1,273.3	1,349.8	-5.7%
Debt Asset ratio	64.5%	64.9%	-0.4PPT

Borrowings	2020/6/30	2019/12/31	Change
Total borrowings (RMB 100 million)	51.4	51.9	-1.0%
Net debt (RMB 100 million)	38.7	38.4	0.8%
Net debt/Equity	87.0%	91.7%	-4.7PPT

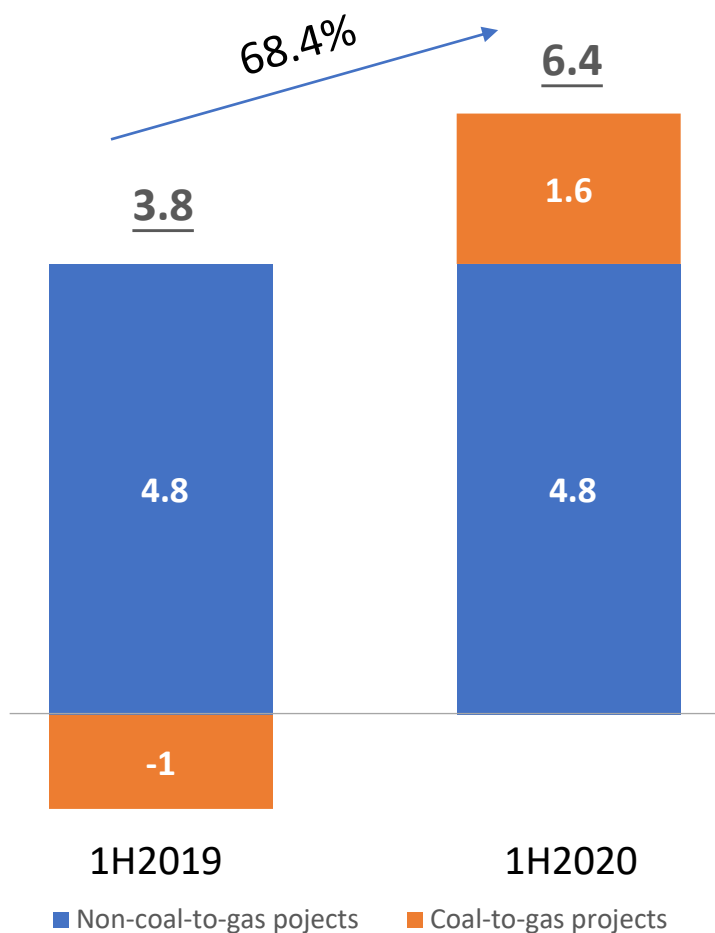


Cash flow growth

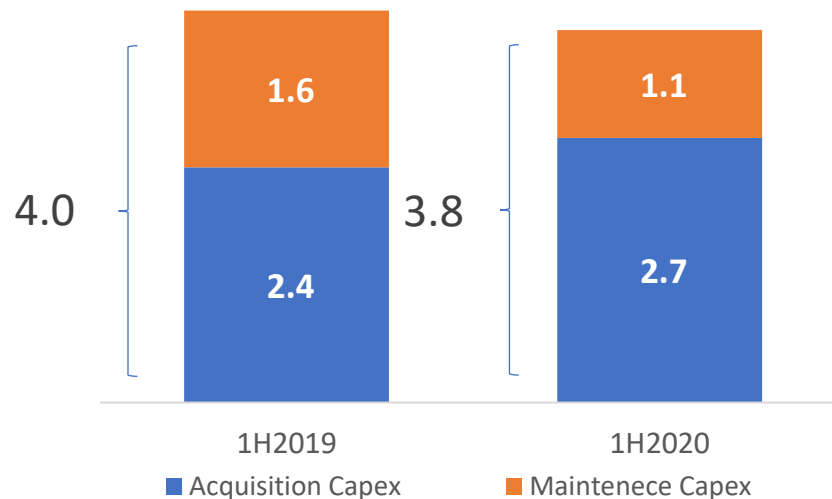
RMB 100 million

During 1H20, our operating cash flow continued to strengthen with steady growth from non-coal-to-gas projects while coal-to-gas projects improved. Total capex was largely similar as same time last year. For 2H20, we will continue to strengthen our cash flow management and investment prudently.

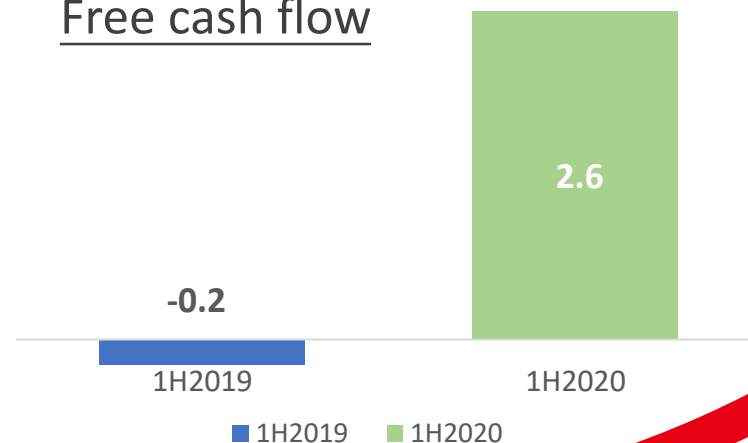
Operating cash flow



Capital Expenditure



Free cash flow



*Free cash flow=Operating cash flow – Capital Expenditure



Outlook

Key guidance

Variables	Latest guidance for FY2020
Number of customers	4.1 million cumulative households
Retail gas sales volume	10% YoY growth
Dollar margin	Slight YoY expansion
Core earnings	8-10% YoY growth
Annual dividend payout ratio	No lower than 2019

Our vision

We will strengthen our operational management and enhance organic growth opportunities of our existing projects. We will actively capture new business opportunities based on project return and quality of cash flow. We will actively pursue sustainable development model and establish ESG franchise. We will maintain or achieve leading position in the key financial indicators to continue to create shareholder value.



Organic growth: improve operational efficiency and strengthen the profitability of core assets

- For residential gas in our services areas, average gas consumption per household has potential to improve;
- The C&I gas has great potential with some of our service locations benefiting from industry relocation;
- Accelerate penetration and ARPU of our value-added business, leveraging on our access to community data;
- Continue to cost management full play to our cost management advantages and continue to control the SG&A cost.



Expansionary growth: prudently invest in projects based on project return criteria and cash flow quality

- Focus on business synergies and geographical emphasis in the context of new acquisitions;
- For city gas projects, we will prioritize mature projects with robust cash flow and steady returns;
- For coal-to-gas business in Henan, we will stay selective emphasizing stability and timeliness of payment collection.

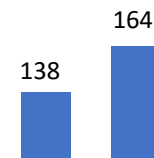


ESG: create a low-carbon, green, and responsible development model; enhance our ESG brand



Maintain or achieve leading position in key financial indicators and create value for shareholders.

Average annual gas sales volume by residential users (m³/year) - 2019



Tianlun Peers

ESG

The Group will continue to pursue sustainable development strategy and enhance ESG works including conducts ESG work including safety management, customer services, environmental protection, staff development, compliant operation, positive co-operation and society payback. The Group integrates ESG concepts into the process of strategy planning and decision making. The Group follows global sustainable development trend and makes efforts to achieve UN Sustainable Development Goals



Environmental

- In 2019, our urban gas operation and transmission business distributed 2.33 billion m³ of natural gas, substituting 3.88mt of coal consumption.
- As a result of our promotion of green operation and energy conservation, our annual energy consumption density and greenhouse gas emission density decreased by 31% and 28% YoY.
- Our waste water discharge density (0.243 tons/million RMB) and natural gas consumption density (90 m³ /million RMB) are both lower than peers.

Social

- We have formulated the Charity and Public Welfare Management Policy and actively organized various charity activities, with a RMB 5 million donation in 2019.
- We place great emphasis on employee training and career development and provided nearly 4,700 hours of lectures in 2019.
- 37% of our total employees are female.
- We pay attention to the employees' personal safety and strictly implement the Dangerous Operations Management Policy and other relevant regulations.

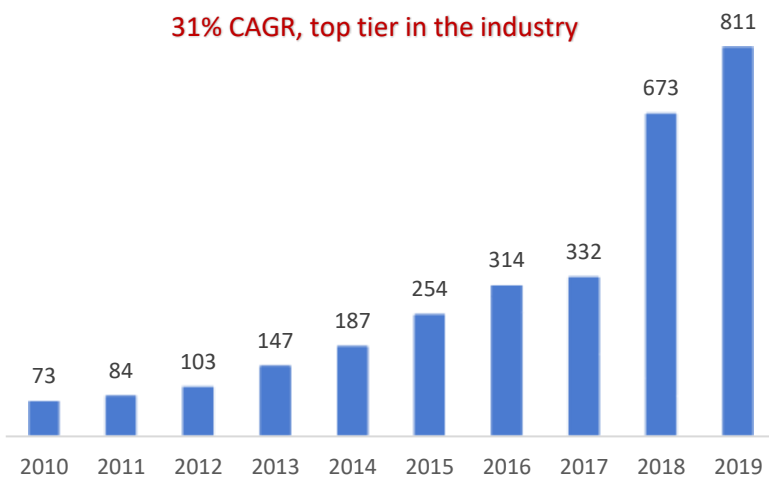
Governance

- We have established ESG management structure, composed of Board of Directors, management, responsible department and ESG working group.
- The independent directors accounted for 50% of board members, and 25% of the board members are female as of 1H20.
- We insist on promoting risk control as the core of safety management system. To achieve safety goals, we organize members to establish position safety production responsibility regulations. We also carry out safety assessment and distribute rewards or warnings based on the results.
- In 2019, the Group joined the "National Anti-fraud Alliance" and won the title of "Vice President".

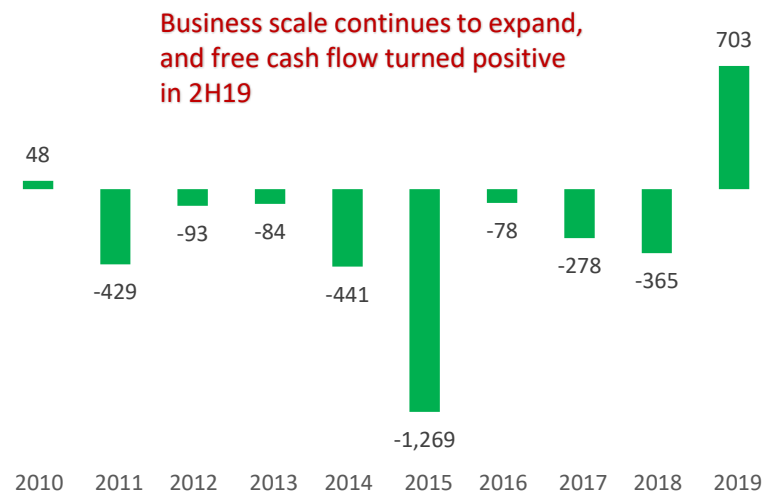
Four drivers to create shareholder value

We place great emphasis on shareholder value creation. We aim to maintain or achieve leading industry position with indicators including core earnings growth, free cash flow quality, return on equity and dividend payout.

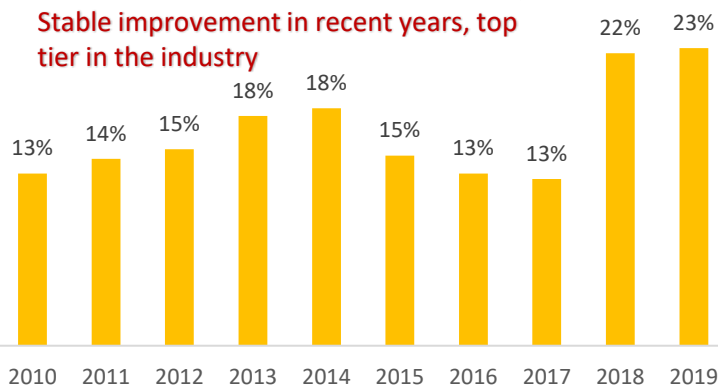
Core earnings



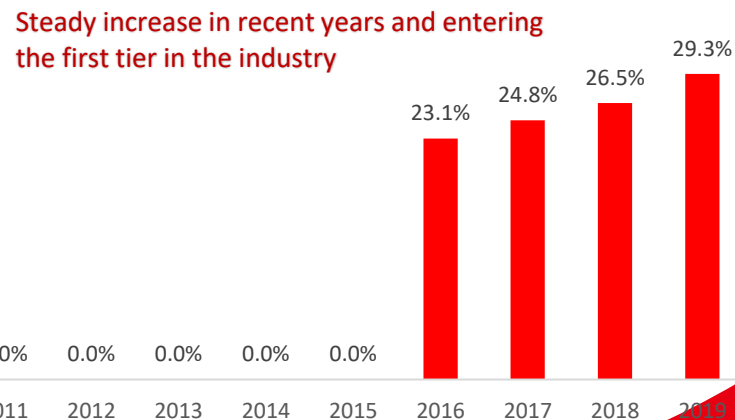
Free cash flow



ROE (calculate with core earnings)



Dividend payout ratio





Appendix

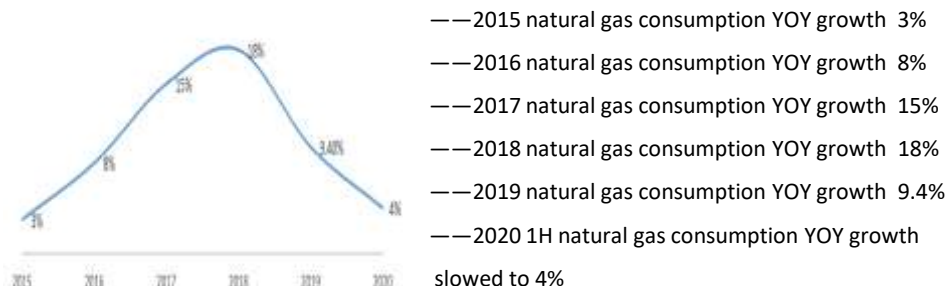
Optimistic prospects for natural gas growth

Global natural gas demand outlook:

- Global outlook remains encouraging
 - In 2019, natural gas accounted for 24% of global primary energy
 - By 2030, natural gas may account for 25% of global primary energy, with 2% compound annual growth rate in demand
- Asia-Pacific share continues to increase
 - During 2010-2019, Asia-Pacific region contributed 36% of the absolute increase
 - During 2019-2030, Asia-Pacific region may contribute 40% of the absolute increase
- China's demand likely steadily grow
 - China may become the world's second largest natural gas consumer
 - During 2019-2030, China is expected to account for 25% of the absolute increase in the Asia-Pacific region

National natural gas demand outlook:

- In 2020, the Chinese economy and natural gas demand were affected severely by Covid-19 but have been recovering lately.
- During the 14th Five-Year Plan period (2021-2025), natural gas demand is expected to keep growing.



- 2015 natural gas consumption YOY growth 3%
- 2016 natural gas consumption YOY growth 8%
- 2017 natural gas consumption YOY growth 15%
- 2018 natural gas consumption YOY growth 18%
- 2019 natural gas consumption YOY growth 9.4%
- 2020 1H natural gas consumption YOY growth slowed to 4%

*Source : BP energy outlook 2020 edition

1Q2020

Apparent consumption increased by only **1.6%**

2Q2020

Apparent consumption increased by **4%** to **155.6** billion m³

2019

China's apparent natural gas consumption **306.7** billion m³ with a **9.4%** YOY increase, accounted for **8.4%** of the primary energy consumption.

(Source: NDRC)

Recent key industry policies

Natural gas pipeline network reform

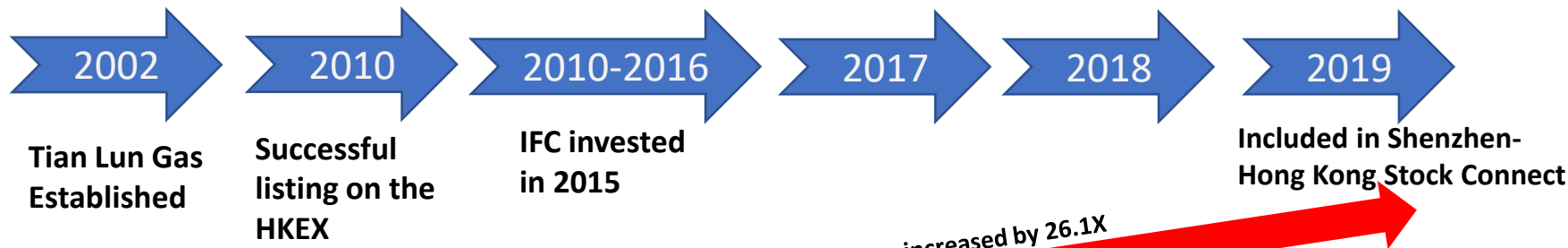
- **2017** [Several Opinions on strengthening the Reform of Oil and Gas Industry](#)
 - Fundamental direction of the reform: market-oriented reform of the oil and gas system
 - Key goals of the reform: separation of gas transportation and distribution, open and fair access to the pipeline network and gas infrastructure and the inter-connectivity of pipeline transportation and storage
 - Key expectations: improve the allocation of resources, reduce pipeline transmission costs, and implement the development model of "controlling the middle and liberalizing both ends"
- **2020.5** [Opinions on accelerating the improvement of the socialist market economic system in the new era](#)
 - Fundamental direction of the reform: market Reform of the natural monopoly industries
 - Key goals of the reform : fair opening of the oil and gas pipeline network and liberalization of natural gas sources and selling prices
 - Key expectations: establish a competitive and liquid oil and gas market
- **2020.7** The newly established national oil and gas pipeline network company (or PipeChina) announced the [acquisition of pipeline network assets](#) from major state-owned oil and gas companies
- **Future** We expect that city gas industry will enjoy [diversified gas supplies](#) and [liberalized gas prices linked to global prices](#)

Gate price and connection fee supervision

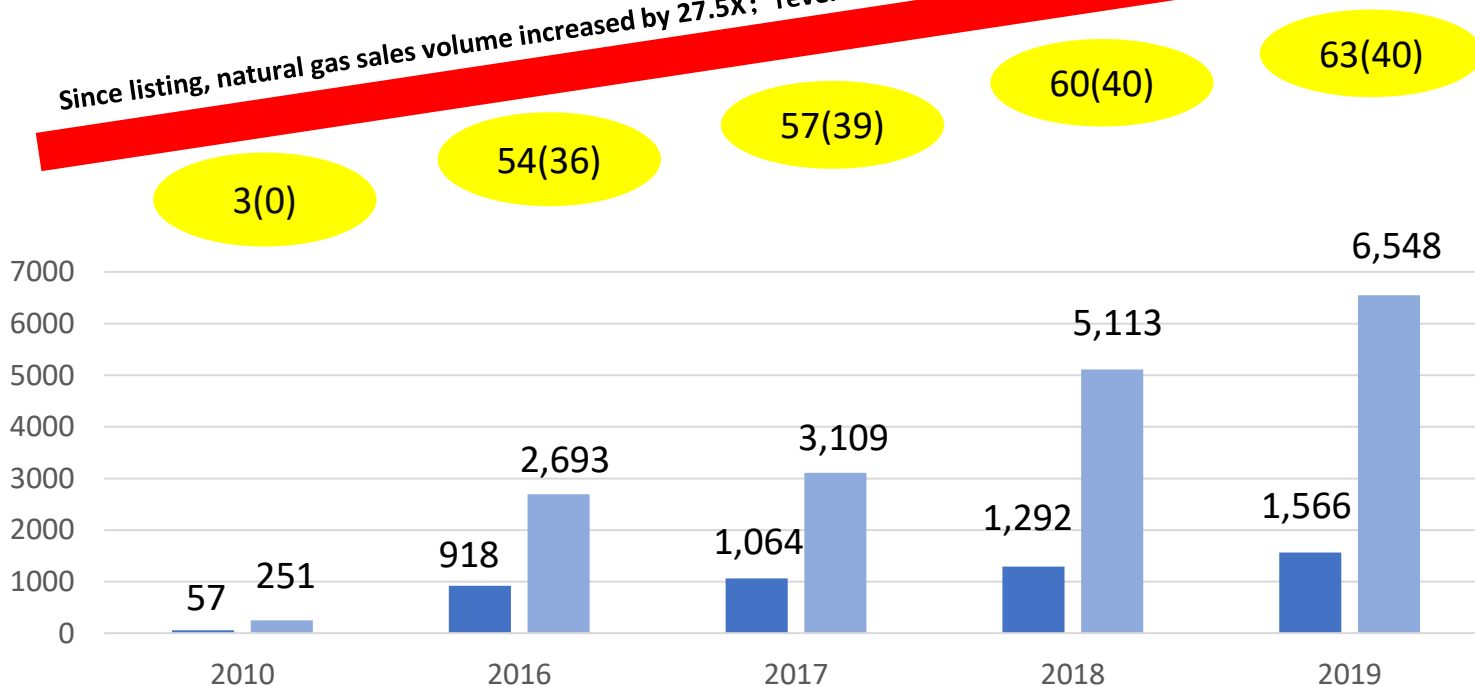
- A number of provinces promulgated regulatory measures for [natural gas distribution margin](#)
 - Content: define management scope, authority and strategy; stipulate calculation principles and methodology; clarify pricing adjustment procedures and information disclosure requirements
 - Goals: strengthen the supervision of the natural gas short-distance distribution market, to improve the transparency of the city gas industry business, and promote the sustainable and healthy development of city gas
- [Opinions on regulating connection charges for city gas projects](#)
 - Regulatory content : clarify the definition of gas connection fees, eliminate unreasonable charges; strengthen the transparency of information
 - Regulatory goals: Create an operating environment which emphasizes the engineering quality and protects users' safety for the city gas engineering conversion market

Development Path

Based in Henan, Tian Lun Gas has established a nationwide business footprint with 63 city gas projects in 15 provinces in 2019, compared with only 3 in the year of listing. Total natural gas sales volume increased by 27.5X from 2010 to 2019 and revenue increased by 26.1X



Since listing, natural gas sales volume increased by 27.5X; revenue increased by 26.1X



● Number of City-gas Projects
 () Projects in Henan

■ Total Natural Gas Sales Volume (Million m³)

■ Revenue(RMB million)

Key regional development trends

Henan Province

- **Rapid development in the province:** Total natural gas consumption has steadily grown with growing city gas users. Natural gas contribution total energy supply has increased throughout the years.
- **Further room to improve on gasification:** In 2019, the urbanization rate in Henan province was 53.21%, lower than the national average of 60%. The urbanization process led to a further increase in the gasification rate.
- **Confirm the strategic goal of "gasifying Henan":** The province has published key documents like the "*Natural Gas Development and Utilization Planning Outline of Henan Province (2011-2020)*" and "*Energy Medium and Long-term Development Plan of Henna Province (2012-2030)*" and at the same time promulgated preferential subsidy policies such as "2 million households with double substitution policy subsidies" to accelerate the increase of the natural gas penetration rate of rural residents. These policies could help achieve: provide 7,000 kilometers of long-distance gas pipelines throughout the province; annual natural gas consumption reaching 15 billion m³; city residents' gasification rate of 80% and 7.5% contribution to total energy consumption. In 1H20, Henan accounted for approximately 39.1% of the group's total gas sales volume (including wholesale).

Sichuan Province/Shaanxi Province

- **Sichuan:** In 2019, clean energy consumption accounted for 43.7% of the total energy consumption in Sichuan, of which natural gas consumption accounted for 17%, (0.4ppt increase from 2018), far higher than the national average of 8.3%. In 2020, the proportion of clean energy consumption in the province will further increase, and the proportion of natural gas consumption in the province is expected to account for more than 17%.
- **Shaanxi:** During first four months of 2020, the province's sizable industrial natural gas production was 18.23 billion m³, a 9.8% YoY increase compared with same period in 2019, 0.5 PPT lower than the national level. In 2019, the province's sizable industrial natural gas production was 47.34 billion m³, a 6.5% YoY increase compared with the growth rate in 2018. Total natural gas consumption was 10.5 billion m³ in 2018, accounting for 10.6% of the province's energy consumption and population with access to gas was approximately 16.8 million and gasification rate was 86%. In 1H20, total gas sales in Sichuan and Shanxi accounted for approximately 19.1% of the company's total gas sales volume (including wholesale).

Jilin Province

- **Pipeline planning for the southern section of the Sino-Russian Eastern Route:** The Yongqing-Shanghai section commenced construction on July 28 and the entire pipeline covers a total length of 5,111 kilometers, starting at the China border in Heihe City, Heilongjiang Province, passing through 9 provinces including Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Tianjin, Shandong, Jiangsu, ending in Shanghai.
- **Stable gas supply from Gazprom:** The president of Gazprom said that in the future, Gazprom will export more than 130 billion m³ of natural gas to China every year.
- **Proactive market participation:** The Group has 10 city gas projects in Jilin Province with >10 gas refilling stations and 1 LNG liquefaction plant in the operating area. In 1H20, we sold 53 million m³ of gas in Jilin Province, accounting for 7.5% of total gas sales volume.

Coastal provinces (Shandong, Guangdong, Fujian, Jiangsu)

- **Challenges and opportunities co-exist:** Some of the coastal provinces have experienced a slight economic downturn. At the same time, the country's natural gas market-oriented reform of "opening the two ends and controlling the middle" provides opportunities for the company to diversify gas sources and control costs. In 1H20, the company's coastal provinces accounted for approximately 23.8% of the company's total gas sales volume (including wholesale).

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