

First Read

ENN Natural Gas

H1 profit of Rmb2.1bn slightly beat our expectation

Q2 net profit rose sharply QoQ to Rmb1.5bn

H121 revenue/net profit came in at Rmb51.8bn/2.1bn, close to the upper end of the pre-earnings range of Rmb1.96-2.11bn. Q221 net profit rose 145% sequentially to Rmb1.48bn. H1 recurring earnings included an FX gain of cUS\$390m associated with US dollar-denominated debt, as well as investment income of cRmb90m from ENN's sale of its stake in Xinneng Phoenix Energy. In H1, directly sold and retailed gas volume grew rapidly, as did integrated energy sales volume. Also, the company plans to raise its dividend payout ratio gradually to 35% over 2021-25.

Fast growth in gas retails/integrated energy sales

ENN's gas retail sales increased 22.3% to 12.4bn cbm in H121, with volume rising 26% YoY to 9.6bn cbm (or 77% of the total) for industrial and commercial users, and climbing 15% to 2.5bn cbm (or 20% of the total) for residential users. Also in H1, newly connected residential users increased 15% YoY to 1.18m households with directly sold gas volume of 1.46bn cbm. In addition, ENN launched 16 integrated energy projects in H1, leading integrated energy sales to rise 68% YoY to 8bn kWh, and the company still has 40 such projects under construction now. Additionally, value-added business revenue rose 41% YoY in H1.

Guidance unchanged overall; payout ratio may rise gradually over next 5 years

In its H1 financial report, ENN guided for total natural gas sales to reach 35-40bn cbm in 2021, including direct sales of c3.5bn cbm, while expecting self-controlled natural gas resources to reach c5m tonne. Also, ENN forecasts coal production of c4m tonne for full-year 2021. The company is actively developing its new energy business, expecting relevant investment of cRmb1bn in 2021. In addition, it plans to raise its dividend payout ratio gradually to 35% over 2021-25.

Valuation: Lift price target to Rmb28.00 from Rmb26.00; maintain Buy rating

Based on the H1 results, we raise 2021/22/23E earnings 19%/10%/9%; our 2021E earnings include a potential FX gain of Rmb400m. We lower our risk-free rate assumption in our DCF model to 3.1% from 3.2% (hence, a lower WACC of 7.5%, from 7.6%). We raise our price target to Rmb28.00, implying 22x/19x 2021/22E PE.

Equities

China
Chemicals, Commodity

12-month rating **Buy**

12m price target **Rmb28.00**

Prior : Rmb26.00

Price (23 Aug 2021) **Rmb19.47**

RIC: 600803.SS BBG: 600803 CH

Trading data and key metrics

52-wk range	Rmb19.47-11.21
Market cap.	Rmb55.4b/US\$8.55b
Shares o/s	2,846m (ORDA)
Free float	49%
Avg. daily volume ('000)	11,179
Avg. daily value (m)	Rmb194.2
Common s/h equity (12/21E)	Rmb14.6b
P/BV (12/21E)	3.8x
Net debt to EBITDA (12/21E)	1.0x

EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/21E	1.06	1.26	19	1.07
12/22E	1.32	1.45	10	1.27
12/23E	1.60	1.74	9	1.49

Amily Guo

Analyst

S1460518050002

amily.guo@ubs.com

+86-10-5832 8845

Highlights (Rmbm)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	13,632	13,544	88,099	100,438	119,812	139,373	158,773	180,699
EBIT (UBS)	1,735	1,287	10,293	11,871	14,810	17,909	19,651	21,634
Net earnings (UBS)	1,321	1,205	2,107	3,597	4,131	4,964	5,207	5,461
EPS (UBS, diluted) (Rmb)	1.07	0.98	0.81	1.26	1.45	1.74	1.83	1.92
DPS (net) (Rmb)	0.21	0.21	0.19	0.29	0.34	0.52	0.55	0.00
Net (debt) / cash	(6,192)	(6,293)	(19,155)	(15,062)	(11,852)	(7,165)	(2,844)	3,337
Profitability/valuation	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
EBIT (UBS) margin %	12.7	9.5	11.7	11.8	12.4	12.8	12.4	12.0
ROIC (EBIT) %	20.7	12.9	38.4	25.2	27.2	28.9	27.9	27.3
EV/EBITDA (UBS core) x	7.5	7.6	3.6	6.1	5.2	4.8	4.5	4.4
P/E (UBS, diluted) x	11.5	10.8	13.9	15.4	13.4	11.2	10.6	10.1
Equity FCF (UBS) yield %	(0.8)	6.3	30.3	(7.2)	(5.3)	(5.7)	(7.9)	(7.2)
Dividend yield (net) %	1.7	2.0	1.7	1.5	1.7	2.7	2.8	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb 19.47 on 23-Aug-2021 21:58:59 CST

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Forecast returns

Forecast price appreciation	+43.8%
Forecast dividend yield	1.5%
Forecast stock return	+45.3%
Market return assumption	8.1%
Forecast excess return	+37.3%

Company Description

Formerly known as Veyong Bio-Chemical, ENN Ecological has five segments (natural gas engineering, overseas upstream natural gas, coal, chemical and veterinary medicine) via a series of M&As after the ENN Group became the largest shareholder of the listco in 2011. ENN Ecological continues to build its presence in the natural gas sector, with a rising share of natural gas in the company's business.

Valuation Method and Risk Statement

We use DCF to value the company.

Key risks to the company include: 1) the negative impact of the COVID-19 outbreak and a sharp drop in oil and gas prices; 2) production plant shutdowns, overhauls and coal mine accidents leading to lowered utilisation; 3) LNG import price uncertainty; and 4) fiercer upstream competition, given the market-based operation of LNG storage and transportation facilities.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	53%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2021.

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Company Name	Reuters	12-month rating	Price	Price date
ENN Natural Gas ^{2,4,5}	600803.SS	Buy	Rmb19.47	23 Aug 2021

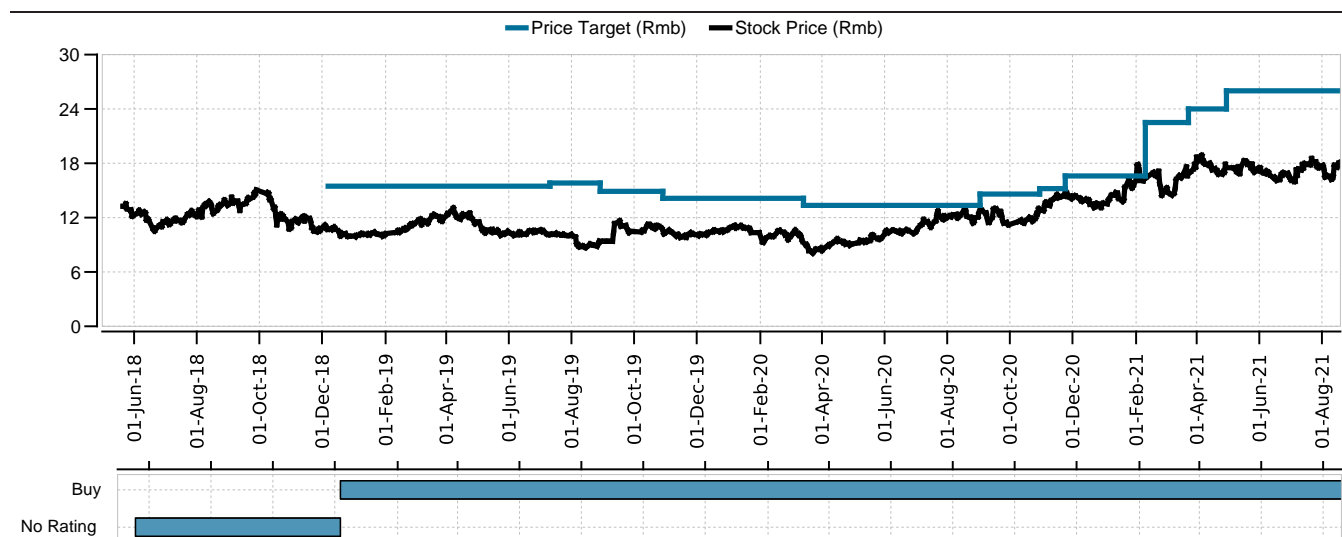
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ENN Natural Gas (Rmb)



Date	Stock Price (Rmb)	Price Target (Rmb)	Rating
2018-05-18	13.25	-	No Rating
2018-12-06	10.73	15.47	Buy
2019-07-10	10.13	15.82	Buy
2019-08-28	9.40	14.90	Buy
2019-10-28	10.83	14.13	Buy
2020-03-13	9.38	13.35	Buy
2020-09-01	12.58	14.60	Buy
2020-10-29	13.00	15.20	Buy
2020-11-23	14.38	16.60	Buy
2021-02-09	16.51	22.50	Buy
2021-03-23	16.62	24.00	Buy
2021-04-29	17.89	26.00	Buy

Source: UBS; as of 20-Aug-2021

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