



中油燃氣集團有限公司

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 603

2013 ANNUAL RESULTS PRESENTATION

MARCH 2014



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Financial Highlights



中油燃氣集團有限公司
CHINA OIL AND GAS GROUP LIMITED

<i>(HK\$ million)</i>	2013	2012	Change
Revenue <i>(excluding LPG segment)</i>	6,440	4,805	34%
Gross Profit	1,454	1,102	32%
Profit for the Year	938	734	28%
Recurring Profit Attributable to Owners of the Company	420	311	35%
Profit Attributable to Owners of the Company	401	366	10%
Earnings per Share <i>(HK cents)</i>	8.142	7.396	10%
EBITDA	1,385	1,057	31%
Dividend per Share (HK cents)	0.72*	0.65	11%

**proposed*

<i>(HK\$ million)</i>	2013	2012	Change
Total Assets	12,157	9,188	32%
Net Assets	5,826	5,027	16%

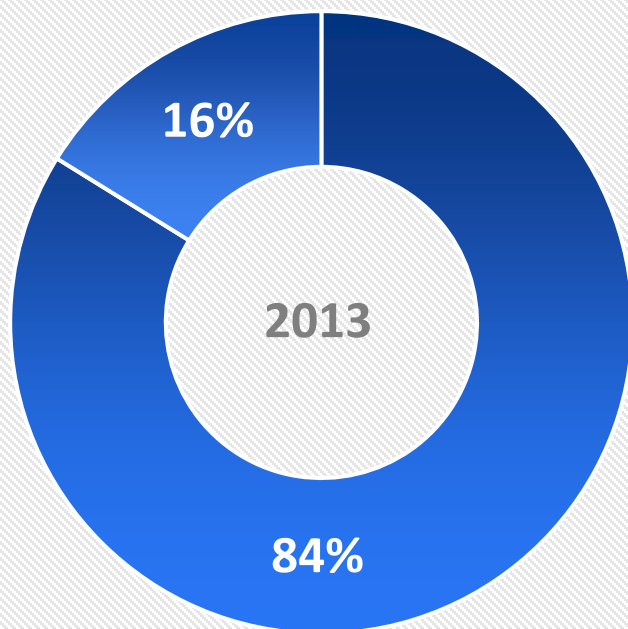
Financial Highlights



中油燃氣集團有限公司
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Revenue Breakdown – by Segment

- Sales and distribution of natural gas and other related products
- Gas pipeline connection and construction services income



- Sales and distribution of natural gas and other related products
- Sales of LPG
- Gas pipeline connection and construction services income

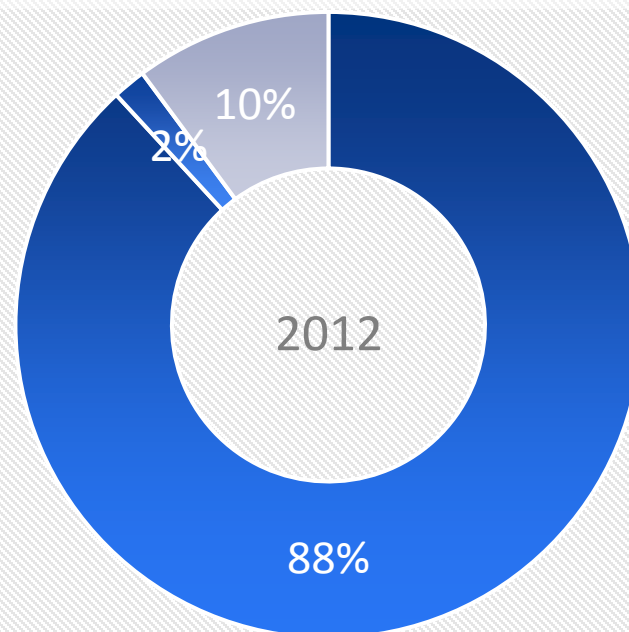


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Key Operation Data



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<i>million m³</i>	2013	2012	Change
Total Gas Sales Volume	2,247	1,930	16%
<i>Residential Users</i>	<i>487</i>	<i>448</i>	<i>9%</i>
<i>Industrial, Commercial and Other Users</i>	<i>1,366</i>	<i>1,179</i>	<i>16%</i>
<i>Gas Stations</i>	<i>394</i>	<i>304</i>	<i>30%</i>
Transmission Volume to Third Party	377	351	7%
Total Transportation Volume	124	100	24%
<i>Other Key Operating Data</i>	2013	2012	
Blended Average Selling Price (RMB/m³)	1.84	1.74	
<i>Residential Users</i>	<i>1.34</i>	<i>1.30</i>	
<i>Industrial, Commercial and Other Users</i>	<i>1.89</i>	<i>1.78</i>	
<i>Gas Stations</i>	<i>2.32</i>	<i>2.22</i>	
Blended Average Purchase Price (RMB/m³)	1.36	1.25	
Average Transmission to Third Party Price (RMB/m³)	0.050	0.044	
Average Residential Connection Fee (RMB/household)	2,893	2,550	

Sales Volume Breakdown

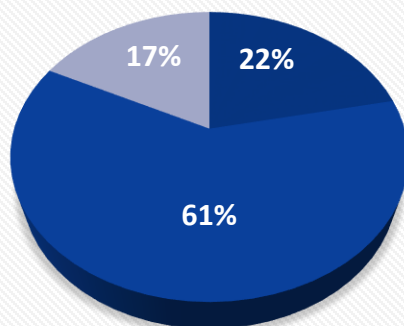


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Sales Volume Breakdown – by Customer Type

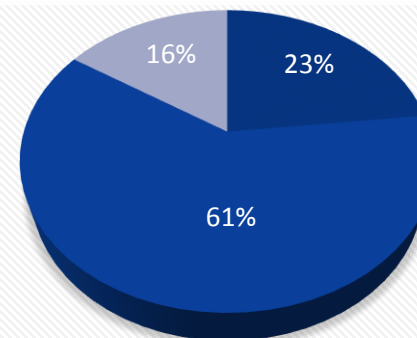
2013

■ Residential ■ Industrial, Commercial and Others ■ Gas stations



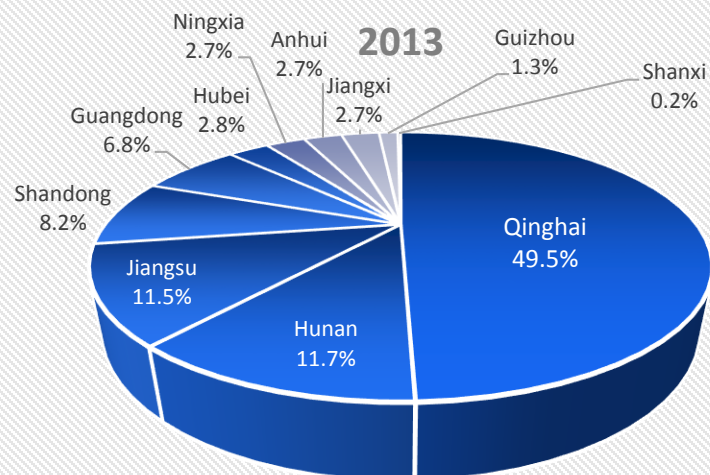
2012

■ Residential ■ Industrial, Commercial and Others ■ Gas stations

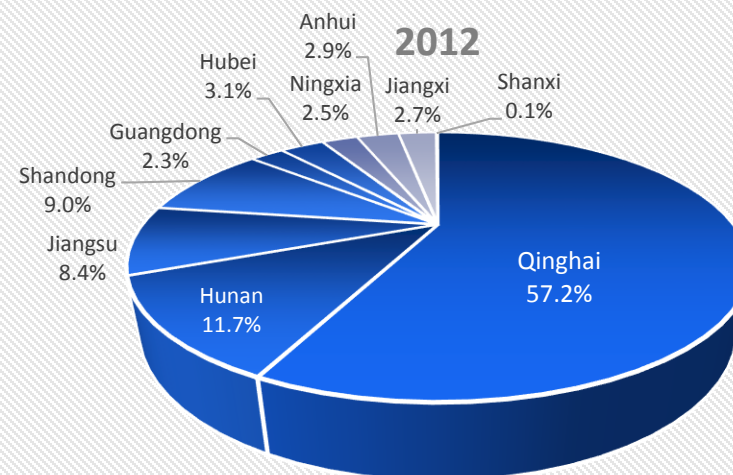


Sales Volume Breakdown – by Region

2013



2012



End User Connection



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Since the second half of 2012, the Company has devoted into market promotion to enhance penetration rate in existing areas. It is highly effective in Hubei, Jiangxi, Qinghai, Jiangsu and Shandong in 2013. The increased user base will further generate stable cash flow and support the future growth of the Company.

Residential Users



Industrial, Commercial and Other Users

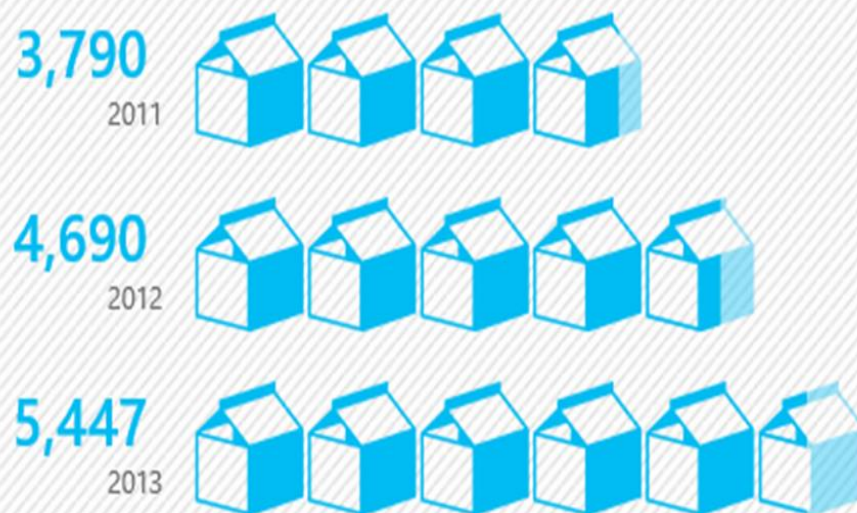


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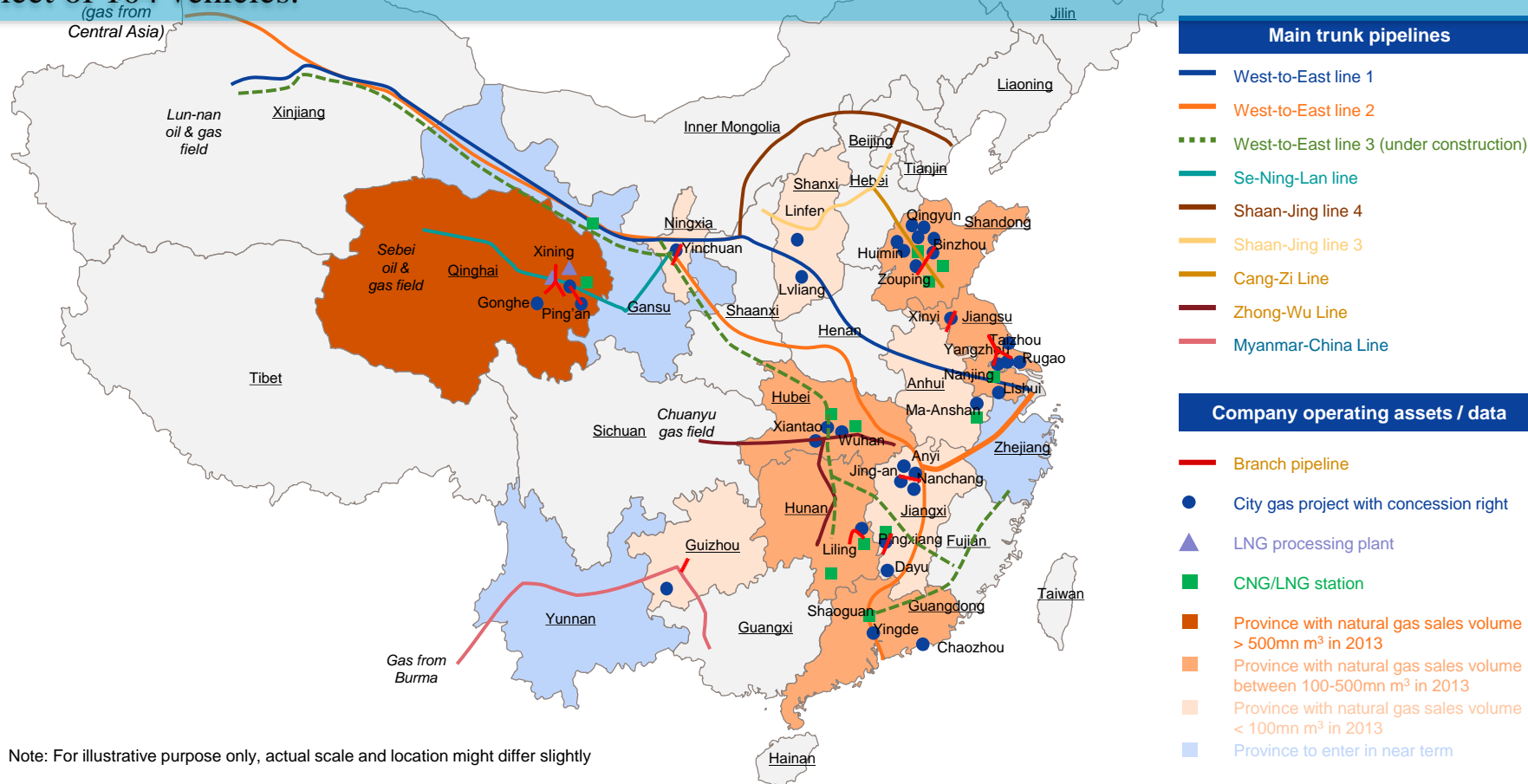
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Operating Map



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The Company owns 60 city-gas concession rights with business operations in 14 provinces. We operate natural gas branch pipelines in 8 provinces, with total length of 930km. We also have total 4,901km city network pipelines. We operate 44 natural gas stations (36 CNG/6 LNG/2 L-CNG), with a transportation fleet of 104 vehicles.



Note: For illustrative purpose only, actual scale and location might differ slightly

New Projects

In 2013, the Group has conducted research and development in respect of projects peripheral to the natural gas stem pipelines including the Myanmar-China Gas Pipeline and the Third West-East Gas Pipeline on top of its existing operations. We successfully step into Guizhou Province targeting the Myanmar-China Pipeline resources. We also obtained new concession rights expanding existing business areas.

New Concession Rights

Jiangsu Xinyi Xindian Project

Guizhou Anlong Project

Guizhou Pu'an Project

Guizhou Ceheng Project

Guizhou Qinglong Project

Jiangsu Dafeng Project

Ningxia Longde Project

Shandong Qingyun Yanwu Project

Shandong Qingyun Cuikou Project

Business Development

Promotion of LNG business



- The Group's project for "Converting vessels to natural gas" in Jiangsu and the basins of Gan River in Jiangxi has completed conversion of 14 vessels, providing a successful example and experience for reference by promotion of vessel conversion in different regions.
- The Group has also acquired a number of LNG transport vehicles with an aggregate of 104 to further scale up its existing transportation fleet.

Branch Pipeline Construction

- The Company has added approximately 108km of new high pressure pipeline in 2013. An aggregate of 930 km has been completed, with a total designed transmission capacity exceeds 13.0 billion m³ per year. We now have branch pipelines in 8 provinces with entering Guizhou province. The branch pipelines greatly drive the development and expansion of surrounding projects.



Management Enhancement



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The year 2013 is the Company's "Management Enhancement Year". The Company implemented a series of management enhancement measures.

- Establish and complete dozens of management regimes, standardizing business processes and elevating internal control
- Form the management structure of five business divisions and three regional companies, emphasizing key businesses and areas development
- Build up market-level remuneration system, increasing employees' value simultaneously with the company's development
- Set up video conference system, lowering administrative cost and improving efficiency

Financial Market Development

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ISSUANCE OF US\$350,000,000 5.25% SENIOR NOTES DUE 2018

Reference is made to the announcement of the Company dated 9 April 2013 in respect of the Notes Issue.

On 18 April 2013, the Company and the Subsidiary Guarantors entered into the Purchase Agreement with Deutsche Bank and Morgan Stanley in connection with the Notes Issue.

The estimated net proceeds of the Notes Issue, after deduction of the underwriting commissions and any deductible fees and expenses, will amount to approximately US\$344,000,000. The Company intends to use the proceeds of the Notes Issue to fund its capital expenditures, to repay its existing indebtedness and for other general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and reallocate the use of proceeds.

The Company will seek a listing of the Notes on the Stock Exchange. A confirmation of the eligibility of the listing of the Notes has been received from the Stock Exchange. Admission of the Notes to the Stock Exchange is not to be taken as an indication of the merits of the Company or the Notes.

Initiation Coverage from Major Investment Banks

Morgan Stanley

China Oil and Gas Group
Significant Upside Potential:
Initiating Coverage at OW

Key Ratios and Statistics

Ratio	Value	Peer Average
EV/EBITDA	10.2x	12.5x
EV/EBIT	12.1x	14.5x
EV/EBITDA (excl. cash)	11.8x	14.2x
EV/EBIT (excl. cash)	13.5x	15.8x
EV/EBITDA (excl. cash & debt)	11.5x	13.8x
EV/EBIT (excl. cash & debt)	13.2x	15.2x
EV/EBITDA (excl. cash & debt & minority interest)	11.2x	13.5x
EV/EBIT (excl. cash & debt & minority interest)	13.0x	15.0x

20 August 2013 | 24 pages (Last 10/10)

China Oil & Gas Group (0603.HK)
Initiate at Buy; Benefits from SOE Ties and Private Ownership

- Summary** - We initiate coverage on China Oil & Gas (COG) with a Buy rating and a target price of HK\$188. COG is a state-owned oil and gas company, which is 51% owned by the Chinese government. COG is a state-owned oil and gas company, which is 51% owned by the Chinese government. COG is a state-owned oil and gas company, which is 51% owned by the Chinese government.
- Strong support from PetroChina Group** - PetroChina Group (PTR) is a state-owned oil and gas company, which is 51% owned by the Chinese government. PTR is a state-owned oil and gas company, which is 51% owned by the Chinese government. PTR is a state-owned oil and gas company, which is 51% owned by the Chinese government.
- High EPS growth likely in FY12-15E** - We forecast COG's FY12-15E EPS growth of +25%, driven by 20% gas sales volume growth, though FY13E EPS growth may be curtailed by incremental interest expense from its bond issuance in April. Impact of the 10 July city gas price hike appears limited with marginally passing through to end users. New share issuances look low with 2013E net DCF ratio at only 12%.
- Attractive valuations** - COG's 12.2x FY12E P/B ratio looks attractive versus 22% FY12-15E EPS CAGR. We expect its FY13 net profit (reporting on 28 Aug) to +7% to HK\$102m in FY13, due to lack of disposal gain (vs. HK\$28m in FY12).

Statistical Abstract

Year	Net Profit	Dividend	EPS	P/E	P/B	ROE	Yield
2011	208	1.04	2.08	12.5	1.1	16.1	6.2
2012	208	1.04	2.08	12.5	1.1	16.1	6.2
2013E	208	1.04	2.08	12.5	1.1	16.1	6.2
2014E	208	1.04	2.08	12.5	1.1	16.1	6.2
2015E	208	1.04	2.08	12.5	1.1	16.1	6.2



The Global Utilities Specialist

HONG KONG

China Oil & Gas Group
High-growth gas distributor with attractive valuation

603 HK Outperform HK\$137

Price HK\$137.00 (2013-08-01)

12-month target HK\$137.00

Upside Potential % +25.0

Dividend Yield % 2.5

EV/EBITDA 10.2x

EV/EBIT 12.1x

EV/EBITDA (excl. cash) 11.8x

EV/EBIT (excl. cash) 13.5x

EV/EBITDA (excl. cash & debt) 11.5x

EV/EBIT (excl. cash & debt) 13.2x

EV/EBITDA (excl. cash & debt & minority interest) 11.2x

EV/EBIT (excl. cash & debt & minority interest) 13.0x

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Successful Senior Notes Issuance

Date: 25 April 2013
Proceeds: USD 350 million
Coupon: 5.25%
Over-subscription: 13x
Ratings: BB+ (S&P); Ba1 (Moody's)

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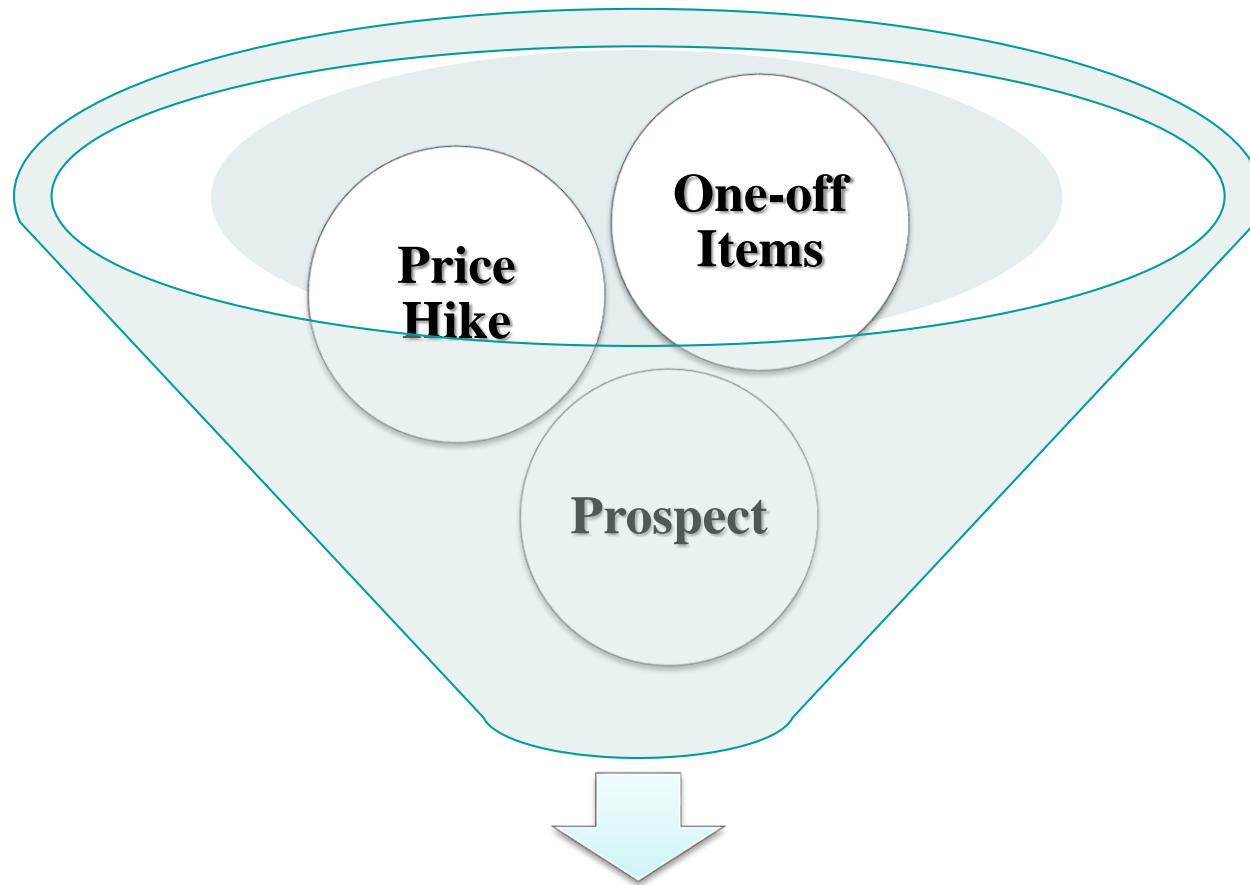


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Hot Issues



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Issue of Price Hike



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The price hike is aimed at further optimizing energy structure and promoting effective usage of natural gas. The price hike will stimulate upstream supply and benefit the downstream distributors.

We delivered full cost pass through to all our projects with industrial and commercial users except projects in Qinghai. The average price hike for non-residential users in passed through areas is c. RMB 0.22/m³, which is c. 10% increase. We see little impact on margin changes. For Qinghai projects, we have done proactive communication with local government and got promise for solving the issue soon. Under our estimation, the margin squeeze for non-residential sales volume c. 400 million m³ in Qinghai in 2H2013 is c. RMB 0.145/m³ which effectively affects our 2013 profit attributable to owners of the Company c. HKD 30.1 million. We are confident to pass through the cost hike when we receive official documents to recover the earnings.

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