

Investors meeting takeaways**China Utilities****Panva Gas (1083 HK, HK\$4.72)****Not Rated**

Background. Panva Gas will acquire equity interests in 10 piped gas companies and the shareholder loans of HK\$568.1m owed by these companies from HK&CG (3 HK, HK\$17.20, NR) for the consideration of HK\$3,230.7m. The consideration will be satisfied by the issuance and allotment of 773m new shares at HK\$4.18 each by Panva Gas to HK&CG. Following the completion of the transaction, HK&CG, Enerchina and the public will have 45.0%, 30.0% and 25.0% stake in Panva Gas, respectively.

Assets to be acquired. Among the 10 piped gas projects that will be acquired by Panva Gas, 2 projects are situated in Anhui provinces while 8 projects are located in Shandong. Collectively, the 10 projects serve 8 cities with 519,350 end users. The 10 projects sold 235m cubic meters of gas in 1H 2006.

Post-acquisition size. Following the completion of the proposed acquisition, Panva Gas will have an asset portfolio of 35 piped gas projects in 32 cities across 8 provinces serving 1.7m users in China. Combined piped gas sales volume in 1H FY12/06A would leap 178.0% to 367m cubic meters.

Client base of the 10 projects. It is worth noting that collectively, the targeted project companies' average sales per user (calculated as volume sold divided by number of users) was 4.5 cubic meters, four-fold more than that of Panva Gas's 1.1 cubic meters. Unlike Panva Gas, which its customer base consists mostly of residual consumers, the clientele of the targeted project companies is mainly commercial and industrial customers. It is worth noting that gas sold to commercial sector commands the highest gross profit margin, follow by residential sector and industrial sector. Nevertheless, industrial consumers tend to consume more gas than commercial consumers and residential consumers.

Synergies. Synergies are expected to emerge between the two utility companies. Panva Gas is a relatively young company, compared with HK&CG's over 140-year operating history. Panva Gas can leverage on HK&CG's technical expertise in the development of its pipeline networks in China. Besides, Panva Gas can share the management resources with HK&CG. Materials costs are also expected to be contained through integrated procurement.

Change of board for Panva. Upon the completion of the acquisition, Enerchina will no longer be the major shareholder of Panva Gas. Instead, it will become a passive investor. However, management has indicated that Enerchina does not intend to reduce its stake again in Panva Gas in the near future. HK&CG will appoint 4 persons to the board of Panva Gas. On the other hand, 3 persons from Enerchina will resign from the board. Mr. Ou Yaping, the current Chairman of both Panva Gas and Enerchina will step down and HK&CG will appoint Mr. Chan Wing Kin, Alfred as the new Chairman of Panva Gas. Despite this, most of the senior management of Panva Gas will be retained.

Role of Panva Gas to HK&CG. Management emphasized that HK&CG intends to support Panva Gas as an acquisition platform for future piped gas projects in China. It is noteworthy that the projects that will be injected into Panva Gas only represent 25%-30% of HK&CG's gas assets in China in terms of volume sold. HK&CG still retains 25 projects in hands. Nevertheless, whether there will be further assets injections from HK&CG into Panva Gas is not known at this juncture. Panva Gas will focus on the development of downstream gas distribution projects.

Valuation. Methodologies and explicit benchmarks for the acquisition have not been disclosed. Circular regarding the deal will be dispatched by the end of next week. Panva Gas is trading at respective P/E of 17.0x and 14.2x for FY12/07F and FY12/08F, compared with the sector average of 16.0x and 13.6x respectively. Following the seal of the deal, Panva Gas's EV/project is estimated to be HK\$264m, compared with China Gas's

estimated EV/project of HK\$112m and Xinao Gas's estimated EV/project of HK\$211m. In terms of value per user, Panva Gas's EV/user is estimated to be HK\$17,758.4, compared with China Gas's estimated HK\$6,909.7 and Xinao Gas's estimated HK\$12,224.1. Further assets injection from HK&CG remains the key investment theme of the counter.

Table 1: Peer group comparisons

Company	Ticker	Year End	Price (HK\$)	Market Cap (US\$m)	P/E (x) FY07F	P/E (x) FY08F	3-yr EPS CAGR (%)
Panva Gas	1083 HK	Dec	4.72	574	17.0	14.2	26.2
China Gas	384 HK	Mar	1.55	613	14.8	12.9	29.4
Zhengzhou Gas	8099 HK	Dec	0.86	138	8.3	7.4	15.4
Xinao Gas	2688 HK	Dec	8.7	1,056	17.2	14.5	27.0
Average					16.0	13.6	26.7

Source: Bloomberg