



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 INTERIM RESULTS PRESENTATION

AUGUST 2013



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Financial Highlights



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CHINA OIL AND GAS GROUP LIMITED

<i>(HK\$ million)</i>	1H 2013	1H 2012	Change
Revenue <i>(excluding the LPG segment)</i>	2,880	2,275	27%
Gross Profit	676	485	39%
Profit for the period	407	310	31%
Recurring Profit Attributable to Owners of the Company	195	124	58%
Profit Attributable to Owners of the Company	157	152	3%
EPS <i>(HK cents)</i>	3.155	3.081	2%
EBITDA	649	512	27%

<i>(HK\$ million)</i>	1H 2013	2012	Change
Total Assets	11,358	9,188	24%
Net Assets	5,328	5,027	6%

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Key Operation Data



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<i>(million m³)</i>	1H 2013	1H 2012	Change
Total Gas Sales Volume	1,057	880	20%
<i>Residential</i>	<i>271</i>	<i>260</i>	<i>4%</i>
<i>Industrial, Commercial and Other Users</i>	<i>600</i>	<i>498</i>	<i>20%</i>
<i>Gas Stations</i>	<i>186</i>	<i>122</i>	<i>52%</i>
Total Transmission Volume	926	877	6%
<i>Transmission Volume to Third Party</i>	<i>188</i>	<i>150</i>	<i>25%</i>
Total Transportation Volume	64	47	35%

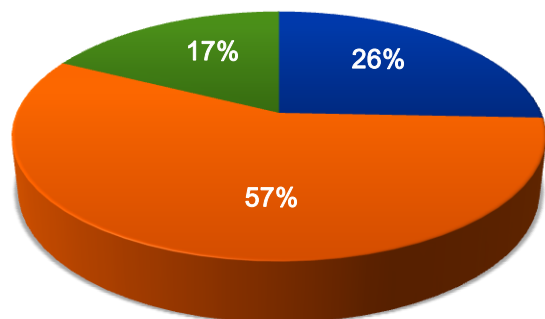
	1H 2013	2012
Blended Average Selling Price (RMB/m³)	1.78	1.74
<i>Residential</i>	<i>1.34</i>	<i>1.30</i>
<i>Industrial, Commercial and Other Users</i>	<i>1.84</i>	<i>1.80</i>
<i>Gas Stations</i>	<i>2.24</i>	<i>2.22</i>
Blended Average Purchase Price (RMB/m³)	1.32	1.25
Average Third Party Transmission Price (RMB/m³)	0.057	0.044
Average Residential Connection Fee (RMB/household)	2,750	2,550

Sales Volume Breakdown

Sales Volume Breakdown – by Customer Type

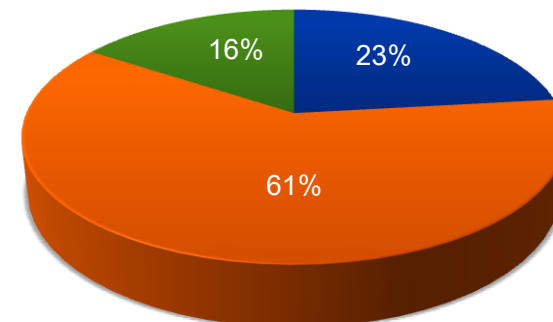
1H 2013

■ Residential ■ Industrial, Commercial and Others ■ Gas stations



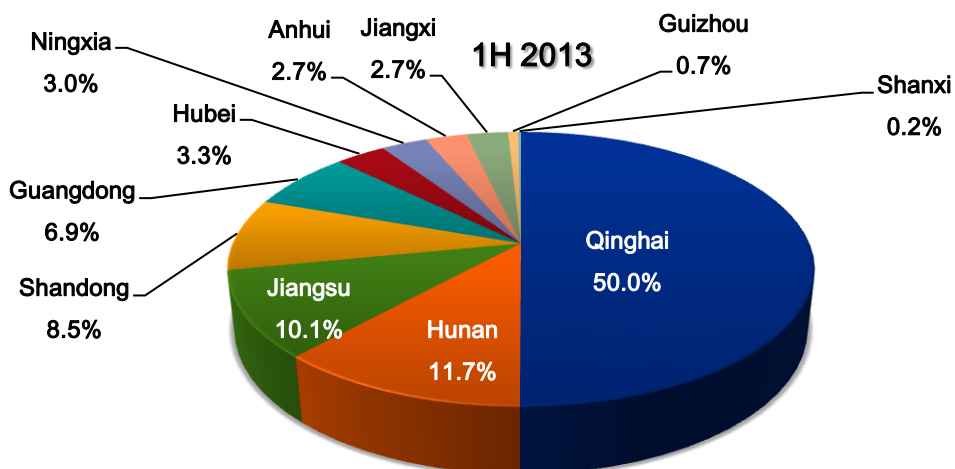
2012

■ Residential ■ Industrial, Commercial and Others ■ Gas stations

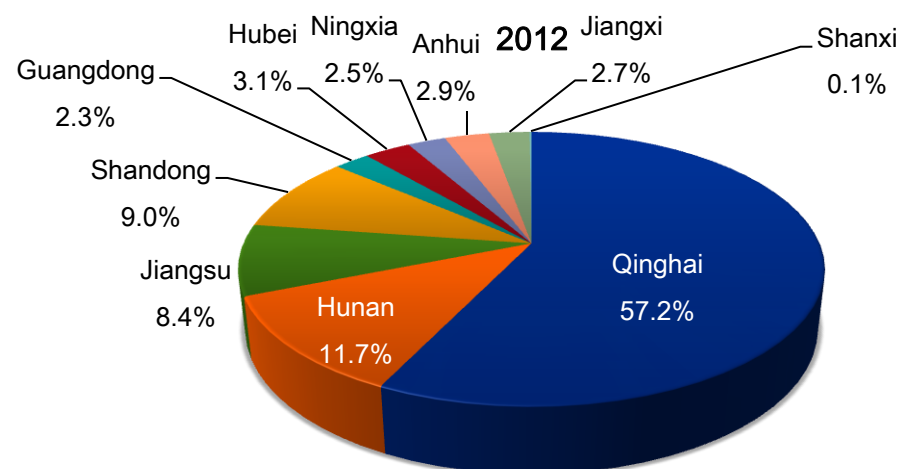


Sales Volume Breakdown – by Region

1H 2013



2012



End User Connection




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In the first half of 2013, the Company devoted into market development in order to improve market share and enhance penetration rate. It is highly effective in Hubei Province, Qinghai Province, Shandong Province, Jiangsu Province and Jiangxi Province. The increased user base will provide the basis of future growth of the Company.

RESIDENTIAL USERS

455,924 
1H 2012

523,399 
2012

596,439 
1H 2013

INDUSTRIAL, COMMERCIAL AND OTHER USERS

4,077 
1H 2012

4,690 
2012

5,036 
1H 2013

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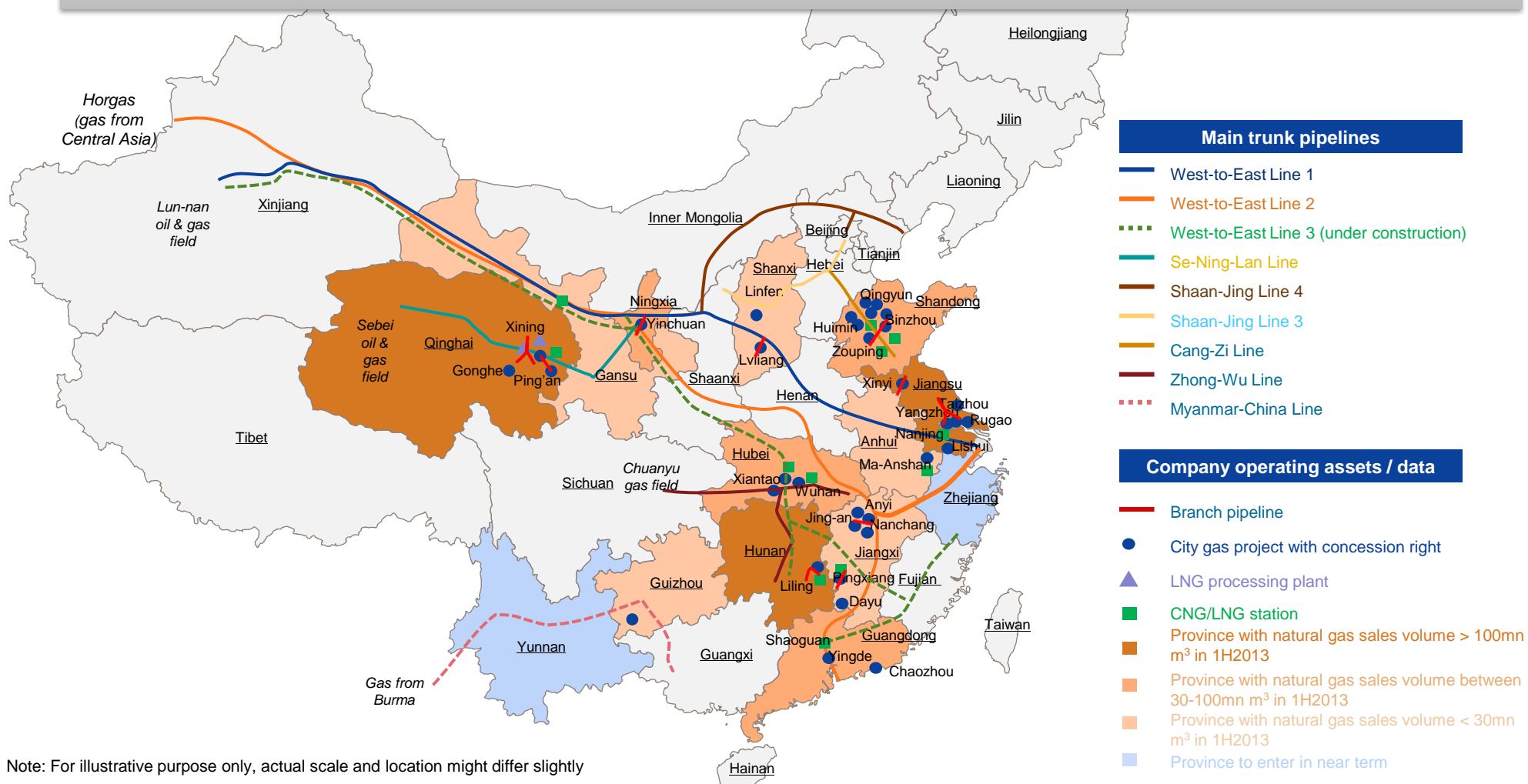
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Operating Map



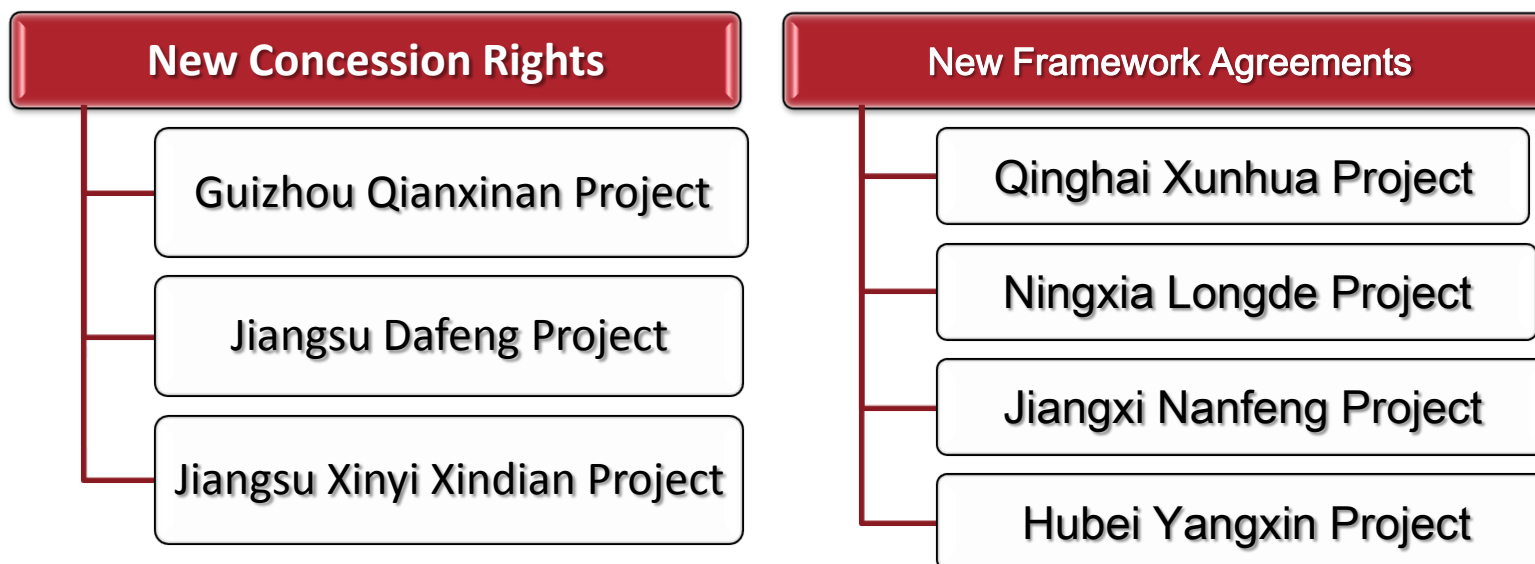
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The Company owns **54** city-gas concession rights with business operations in **14** provinces. We operate natural gas branch pipelines in **7** provinces, with total length of **872km**. We operate **38** natural gas stations, with a transportation fleet of **104** vehicles.



New Projects

In the first half of 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. The new projects would cover a potential connection of 6,000,000 population and an area of approximately 30,000 km².

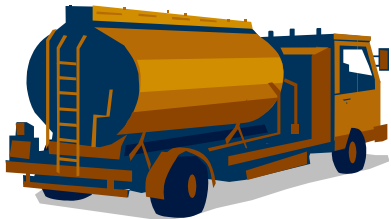


Business Development



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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 9 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 50km of new high pressure pipeline in the first half of 2013. An aggregate of 872 km has been completed, with a total designed transmission capacity exceeds 12.4 billion m³ per year.



Financial Market Development



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Successful Senior Notes Issuance

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

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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.

Morgan Stanley

June 1, 2013

China Oil and Gas Group

Significant Upside Potential:
Initiating Coverage at OW

We are bullish on COG. Compared with peers, the company has: (i) a stronger balance sheet; (ii) low concentration for exposure; (iii) higher volume growth; and (iv) support from PetroChina. Our price target offers 45% upside.

Trading at PE discount to peers: COG is trading at 17.7x and 13.1x 2013/14 PE, versus peer averages of 18.5x and 15x. Excluding the company's net cash investment balance of HK\$1.2bn, it is trading at 14.7x 2013 and 10.5x 2014 PE. We think COG offers the highest upside potential among peers.

Fundamentally, we think the discount is not justified because: (i) we estimate COG will deliver a higher earnings CAGR of 21.5% over 2013-15 versus peers' ~20%; (ii) COG is the only listed gas company with a net cash balance sheet; (iii) non-recurring transaction fees accounted for only 10% of revenues in 2012 vs peers' 17.25%; (iv) COG has strong support from PetroChina CNGC including investment financing and oil gas business JV; and (v) COG has midstream pipeline resources, which help it compete for new projects.

The discount is mainly due to limited coverage, smaller market cap and shorter track record. The situation was similar for ENN in the past. ENN's market cap has increased from US\$1.5bn in 2008 to US\$10.5bn, driven by: (i) a net profit CAGR of 25.5% over 2008-12 and (ii) a trading price 15.5x vs 16x net PE. We think COG may follow a similar path.

However, we acknowledge COG is a higher risk play versus well-established peers, given: (i) its gas volume is concentrated in Qinghai; (ii) a shorter track record; and (iii) support from PetroChina relies on COG's current management team. Similar to other gas peers, COG's biggest risk is an inability to pass through potential cost increases.

MORGAN STANLEY RESEARCH

Morgan Stanley Asia Limited

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Initiation Coverage from Major Investment Bank

Date: 7 June 2013
Stock Rating: Overweight
Target Price: HK\$ 2.05

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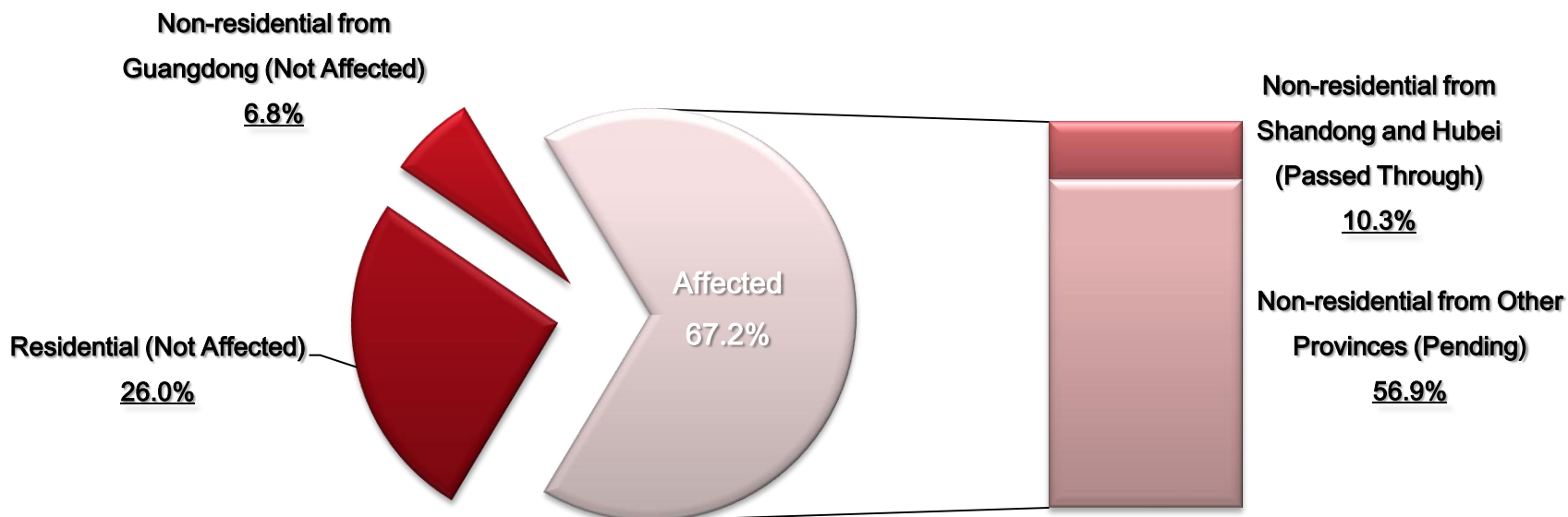
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Issue of Price Hike



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As shown in the below chart, two provinces (Shandong and Hubei) have completed end customer price hike. These two provinces show cost full pass through and can maintain overall dollar margin. Dollar margin in Shandong even slightly expanded. The largest projects in Qinghai (50% of total gas sales volume), Hunan (12% of total gas sales volume) and Jiangsu (10% of total gas sales volume) have not announced end customer tariff yet. But as indicated by the other provinces, local governments intend to protect more on the end users and make full pass through of all the cost hike. We still expect very low impact of margin squeeze from this price hike as we stated just after the NDRC announcement.



Second Half Prospect

The Board is optimistic towards the development of the Group and is fully confident of fulfilling the development targets of the year.

Strategies		2013 Targets
Capitalize on opportunities to further expand our city-gas business	<ul style="list-style-type: none">Two-pronged strategy of new market development and increasing penetration of our existing marketsMyanmar-China Gas Pipeline and Third West-East Gas Pipeline commencing operation in 2013 expected to open up Gansu, Fujian, Guizhou and Yunnan markets	<ul style="list-style-type: none">Develop 8-10 new city gas projects
Proactively develop our LNG and CNG business	<ul style="list-style-type: none">Capture market opportunities from the increasing penetration rate of CNG & LNG-fueled vehicles and vesselsFurther expand LNG processing, distribution and transportation capabilities, including LNG & CNG transportation vehicles and LNG, CNG & LCNG gas stations	<ul style="list-style-type: none">Build 15-20 gas stations
Build new branch pipelines and procure CBM to leverage new gas sources	<ul style="list-style-type: none">Focus on the construction of new branch pipelines to match new national natural gas trunk pipelinesContinue developing access to complementary gas sources such as coalbed methane	<ul style="list-style-type: none">Build 150km of new branch pipelines

Disclaimer

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