

China Gas Holdings (384 HK)

Outstanding 1HFY20 performance

CGH reported 1HFY20 core earnings of HK\$5,193mn, up 5.5% YoY. Retail gas volume was up 10.5% to 7.6bcm, while residential connection read only a slight decline of 3.5% YoY to 2.83mn household. Cash flow performance was one of the key highlights in 1HFY20, as free cash flow turned positive and reached ~HK\$3.8bn. We think CGH's outstanding 1HFY20 performance will continue to strengthen market confidence on its future growth. Mgmt. maintained major operating guidance unchanged, and reiterate core earnings growth to reach 15-20% in FY21E. We maintain BUY on CGH with TP unchanged at HK\$37.12.

- **Outstanding 1HFY20 results.** CGH managed to delivered earnings growth of 3.7% though operating environment was extremely challenging due to pandemic impacts. Stripping out non-recurring items, core earnings was HK\$5,193mn, up 5.5% YoY. Adding back period FX depreciation, earnings growth could accelerate to 7.8% YoY. The Company declared HK\$10 cents interim dividend, flat as last year.
- **Retail gas sales to accelerate in 2HFY21.** City gas/wholesale gas sales volume increased 10.5%/5.4% YoY to 7,595/5,232mcbm, respectively. Residential gas volume recorded a strong jump by 19.7% YoY, followed by industrial gas volume growth of 9.8%. Commercial gas was in a relatively sluggish recovery pace due to pandemic control. Looking ahead in 2HFY21, mgmt. expect gas sales volume growth to reach above 1.7bcm, through 1) 0.7bcm contribution from new CTG users; 2) 0.3bcm from NE China market; and 3) 0.7-0.9bcm organic gas volume growth from existing projects. We think CGH has high visibility to reach its 15% city gas volume growth.
- **Shifting residential connection structure.** CGH adjusted CTG connection pace due to its cash flow drag impacts caused by receivable collection delay. 1HFY20 township connection declined 42.5% YoY to 0.7mn household only, but largely offset by city residential connection growth of 23.7% to 2.1mn household. We are not too concerned about the structural change, as mgmt. confirmed LPG Smart Micro Grid projects in Southeast China would replace CTG projects in Northern China, with lighter investments and significant better cash flow performance. CGH maintained FY21E residential connection at 5.5-6.0mn households.
- **VAS maintained strong momentum.** VAS revenue surged 53.1% YoY to HK\$3.38bn, with GP surging even faster at 65.4% to HK\$1.36bn. The segment contributed HK\$1bn operating profit to CGH, accounting for 15.6% of the total OP of the Company. In terms of residential user value development, we estimate 1HFY21 ARPU of HK\$89.1, up 31.6% YoY.

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	59,386	59,540	66,471	79,360	92,248
YoY growth (%)	12.4	0.3	11.6	19.4	16.2
Net income (HK\$ mn)	8,224	9,188	10,620	13,140	15,486
EPS (HK\$)	1.63	1.76	2.04	2.52	2.91
YoY growth (%)	32.7	8.1	15.6	23.7	15.6
Consensus EPS (HK\$)	N/A	N/A	2.06	2.38	2.65
P/E (x)	17.1	15.8	13.7	11.1	9.6
P/B (x)	4.1	3.7	3.1	2.5	2.2
Yield (%)	1.6	1.8	2.1	2.6	3.0
ROE (%)	24.1	23.2	22.3	22.9	22.9
Net gearing (%)	69.1	81.5	69.7	46.3	28.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$37.12**
 (Previous TP **HK\$37.12**)
 Up/Downside **+33.0%**
 Current Price **HK\$27.90**

China Gas Distributor

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Stock Data

Mkt Cap (HK\$ mn)	145,425
Avg 3 mths t/o (HK\$ mn)	206.9
52w High/Low (HK\$)	32.14/20.50
Total Issued Shares (mn)	5,212

Source: Bloomberg

Shareholding Structure

Beijing Enterprise	23.7%
Liu Minghui	20.9%
Chiu Tat Jung	18.8%
Free float	36.6%

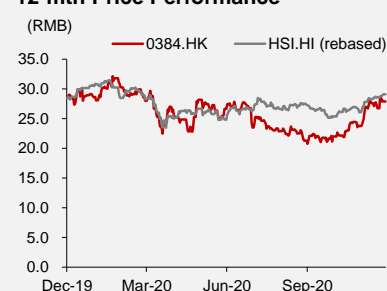
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.0%	6.9%
3-mth	31.0%	23.8%
6-mth	4.7%	-10.6%
12-mth	-2.1%	-4.1%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Deloitte

Related Reports

1. China Gas Holdings (384 HK · initiation) – LPG micro grid: a new growth engine – 29 Jun 2020
2. China Gas Holdings (384 HK · initiation) – COVID-19 to have impacts on FY20 results – 20 Apr 2020

- **Free cash flow turned positive.** Free cash flow read HK\$3.8bn during 1H FY21, driven by strong operating cash flow growth of HK\$2.6bn and CAPEX declined from less PPE and M&A investment. CTG receivables were collected at HK\$3.45bn in 1H FY20 (vs. HK\$4.9bn in FY20). As CGH had another 1.5mn households ignited piped gas operation, mgmt. maintained full year CTG receivable collection of HK\$8-9bn unchanged with high confidence. Supported by strong cash flow performance in 1H FY21 and accelerating receivable collections, we think it won't be difficult to maintain positive free cash flow for FY21E, and we expect that will boost market sentiment on CGH.
- **Earnings revision.** Based on 1H FY21 performance, we trim CGH's FY21 EPS slightly by 0.5%. Since CGH had retail gas dollar margin expanded by RMB3cent/cbm, in an abundant gas supply environment, we lift CGH's future gas dollar margin outlook. Our FY22/23E EPS projection is lifted by 4.1/4.2% respectively to HK\$2.52/2.91 respectively.
- **Re-rating to continue.** The Company has experienced continued share price decline due to cash flow performance and gas sales volume concerns since FY20 results announcement. We think market sentiment has been improving on economic and social activities recovery from Oct, and we think strongly improved cash flow will further strengthen market sentiment on CGH. The Company is currently trading at 13.7x/11.1x FY21/22E PER, significantly lower than peers. We expect the recent re-rating trend to continue with CGH. **Maintain BUY with DCF based TP unchanged at HK\$37.12. Our TP reflects 18.2/14.7x FY21/22E PER.**

Figure 1: 1HFY21 results summary

(HK\$, mn)	1H20	2H20	FY20	1H20/ FY20	1H21	2H21E	FY21E	1H21 YoY
Revenue	27,926	31,614	59,540	46.9%	27,165	39,306	66,471	-2.7%
Sales of piped gas	12,418	14,635	27,053	45.9%	12,467	20,167	32,634	0.4%
Reconciled gas connection	6,790	6,897	13,687	49.6%	6,354	7,830	14,184	-6.4%
Sales of LPG	6,510	7,264	13,774	47.3%	4,963	6,895	11,858	-23.8%
Value-added service	2,208	2,817	5,025	43.9%	3,381	4,414	7,795	53.1%
Others	-	-	-	n/a	-	-	-	n/a
Cost of sales	-19,755	-22,688	-42,443	46.5%	-18,479	-28,871	-47,349	-6.5%
Gross profit	8,171	8,926	17,097	47.8%	8,686	10,435	19,121	6.3%
<i>Gross profit margin</i>	<i>29.3%</i>	<i>28.2%</i>	<i>28.7%</i>	<i>n/a</i>	<i>32.0%</i>	<i>26.5%</i>	<i>28.8%</i>	<i>2.7ppt</i>
Other income	259	381	640	40.5%	400	310	709	54.3%
Other gains and losses	-2	-178	-180	1.1%	-42	92	50	2004.9%
Selling and distribution costs	-913	-1,060	-1,973	46.3%	-1,072	-1,097	-2,170	17.4%
Administrative expenses	-1,139	-1,308	-2,447	46.6%	-1,181	-1,517	-2,698	3.7%
Share of results of associates	389	16	405	96.0%	412	153	565	5.8%
Share of results of joint ventures	557	14	571	97.5%	438	187	625	-21.3%
Share-based payments	-	-	-	N/A	-	-50	-50	n/a
EBIT	7,321	6,792	14,113	51.9%	7,640	8,514	16,153	4.3%
Finance costs	-731	-656	-1,388	52.7%	-757	-654	-1,411	3.5%
Profit before taxation	6,590	6,135	12,725	51.8%	6,883	7,859	14,742	4.4%
Taxation	-1,157	-1,307	-2,464	46.9%	-1,245	-1,703	-2,948	7.6%
<i>effective tax rate</i>	<i>17.6%</i>	<i>21.3%</i>	<i>19.4%</i>	<i>n/a</i>	<i>18.1%</i>	<i>21.7%</i>	<i>20.0%</i>	<i>0.5ppt</i>
Profit for the period	5,433	4,828	10,261	52.9%	5,638	6,156	11,794	3.8%
Less: Non-controlling interests	523	549	1,072	48.8%	548	625	1,173	4.7%
Net profit	4,910	4,279	9,188	53.4%	5,090	5,531	10,620	3.7%
<i>Net margin</i>	<i>17.6%</i>	<i>13.5%</i>	<i>15.4%</i>	<i>n/a</i>	<i>18.7%</i>	<i>14.1%</i>	<i>16.0%</i>	<i>1.2ppt</i>

Source: Company data, CMBIS estimates

Figure 2: FY20 operating performance summary

	1H20	2H20	FY20	1H20/ FY20	1H21	2H21	FY21E	1H21/ FY21E	1H21 YoY
Operating performance									
City gas sales - mcbm	6,874	8,757	15,631	44.0%	7,595	10,908	18,503	41.0%	10.5%
Residential	1,621	3,306	4,927	32.9%	1,941	4,507	6,448	30.1%	19.7%
Industrial	3,669	3,749	7,418	49.5%	4,028	4,523	8,551	47.1%	9.8%
Commercial	1,077	1,209	2,286	47.1%	1,130	1,347	2,477	45.6%	4.9%
Vehicle	507	494	1,001	50.7%	496	530	1,026	48.3%	-2.2%
Whole sale gas - mcbm	4,962	4,779	9,741	50.9%	5,232	4,792	10,024	52.2%	5.4%
LPG sales - k tonnes	1,967	1,860	3,827	51.4%	1,947	2,072	4,018	48.4%	-1.0%
Retail	426	672	1,098	38.8%	350	855	1,205	29.1%	-17.8%
Wholesale	1,541	1,187	2,729	56.5%	1,596	1,216	2,813	56.8%	3.6%
Total residential connection - k HH	2,934	2,493	5,427	54.1%	2,830	2,878	5,709	49.6%	-3.5%
City residential connection - k HH	1,717	1,015	2,732	62.9%	2,124	1,485	3,609	58.8%	23.7%
Township residential connection - k HH	1,217	1,479	2,696	45.1%	700	900	1,600	43.8%	-42.5%
Smart micro pipe - k HH	-	-	-	n/a	7	494	500	1.3%	n/a
Industrial connection - #	1,431	840	2,271	63.0%	901	1,492	2,393	37.6%	-37.0%
Commercial connection - #	14,314	19,736	34,050	42.0%	18,110	17,074	35,184	51.5%	26.5%

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

	Old			New			Change(%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Total gas sales volume (mcbm)	28,404	32,958	37,711	28,526	33,160	37,991	0.4%	0.6%	0.7%
Retail gas sales volume (mcbm)	18,381	22,433	26,660	18,503	22,635	26,940	0.7%	0.9%	1.1%
Residential connection (CTG incl. mm HH)	5.93	5.99	6.07	5.71	5.95	6.12	-3.7%	-0.6%	0.7%
Revenue (HK\$, mn)	66,567	78,480	90,805	66,471	79,360	92,248	-0.1%	1.1%	1.6%
Net Income (HK\$,mn)	10,670	12,626	14,862	10,620	13,140	15,486	-0.5%	4.1%	4.2%
EPS (HK\$)	2.04	2.42	2.79	2.04	2.52	2.91	-0.5%	4.1%	4.2%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	59,386	59,540	66,471	79,360	92,248
Costs of sales	(45,327)	(42,443)	(47,349)	(56,054)	(65,262)
Gross profit	14,059	17,097	19,121	23,306	26,986
Other income	786	640	709	860	1,169
Other gains and losses	295	(180)	50	50	50
Selling and distribution	(1,820)	(1,973)	(2,170)	(2,551)	(2,919)
Administrative expenses	(2,442)	(2,447)	(2,698)	(3,182)	(3,652)
Profit from associates	520	405	565	572	574
Profit from JVs	1,132	571	625	613	637
Share-based payments	(63)	-	(50)	(50)	(50)
EBIT	12,467	14,113	16,153	19,618	22,794
Finance costs	(1,284)	(1,388)	(1,411)	(1,529)	(1,615)
Pre-tax profit	11,183	12,725	14,742	18,089	21,179
Income tax	(2,198)	(2,464)	(2,948)	(3,618)	(4,236)
Less: Minority interests	(760)	(1,072)	(1,173)	(1,331)	(1,457)
Net profit	8,224	9,188	10,620	13,140	15,486

Cash flow summary

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pre-tax profit	11,183	12,725	14,742	18,089	21,179
Depreciation and	1,326	1,591	1,910	2,203	2,495
Change in working capital	7,038	(8,091)	1,161	4,587	2,851
Taxation	(1,874)	(2,245)	(3,086)	(3,307)	(3,948)
Others	(7,556)	(1,001)	(671)	(933)	(900)
Net cash from operating	10,117	2,979	14,056	20,641	21,677
Capex & investments	(11,816)	(5,989)	(12,228)	(10,912)	(10,889)
Others	784	(950)	-	-	-
Net cash from investing	(11,032)	(6,939)	(12,228)	(10,912)	(10,889)
Equity raised	3,785	537	587	666	729
Change of Debts	5,526	1,790	4,158	2,755	2,288
Dividend paid	(2,172)	(2,937)	(3,280)	(3,836)	(4,739)
Others	(804)	(1,100)	-	-	-
Net cash from financing	6,335	(1,710)	1,465	(415)	(1,723)
Net change in cash	5,419	(5,670)	3,293	9,313	9,065
Cash at the beginning	8,246	13,239	7,119	10,412	19,725
Exchange difference	(427)	(450)	-	-	-
Cash at the end of the year	13,239	7,119	10,412	19,725	28,791
Cash at balance sheet	13,239	7,119	10,412	19,725	28,791

Balance sheet

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	68,277	72,558	82,851	91,569	99,975
Investment properties	556	524	566	571	571
PPE	42,965	46,128	55,163	62,291	69,114
Prepaid lease payments	2,148	2,458	2,673	2,958	3,215
Investment in associates	5,746	7,063	7,628	8,201	8,775
Investment in JVs	8,022	7,815	7,963	8,606	9,273
Others non-current assets	8,840	8,570	8,858	8,943	9,028
Current assets	41,603	39,509	44,391	53,445	63,098
Inventories	3,412	3,246	3,624	4,168	4,661
Amount due from	-	-	-	-	-
Contract assets	7,185	12,751	12,146	9,434	7,301
Trade receivables	10,061	9,893	11,565	13,497	15,689
Bank balances and cash	13,239	7,119	10,412	19,725	28,791
Other current assets	7,706	6,500	6,645	6,621	6,657
Current liabilities	46,644	49,347	47,085	49,647	53,350
Trade and other payables	23,699	17,700	18,940	21,301	22,842
Amount due to customers	-	-	-	-	-
Contract liabilities	5,168	5,998	6,753	7,736	8,684
Taxation	1,245	1,246	1,327	1,628	1,906
Bank and other borrowings	16,408	24,121	19,773	18,679	19,604
Other current liabilities	125	282	293	303	314
Non-current liabilities	22,453	16,936	25,273	29,182	30,605
Borrowings	21,491	15,568	24,073	27,923	29,285
Deferred income tax	962	1,368	1,200	1,260	1,320
Total net assets	40,782	45,783	54,884	66,185	79,118
Minority Interest	5,461	6,178	7,352	8,683	10,140
Shareholders' equity	35,321	39,605	47,532	57,502	68,978

Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Sales of piped gas	45.6	45.4	49.1	50.1	51.1
Gas connection	21.0	23.0	21.3	18.7	16.4
Sales of LPG	26.8	23.1	17.8	17.7	16.9
Value-added service	6.6	8.4	11.7	12.2	13.2
Others	-	-	-	1.4	2.4
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Operating margin	21.0	23.7	24.3	24.7	24.7
Pre-tax margin	18.8	21.4	22.2	22.8	23.0
Net margin	13.8	15.4	16.0	16.6	16.8
Effective tax rate	19.7	19.4	20.0	20.0	20.0
Balance sheet ratios					
Current ratio (x)	0.89	0.80	0.94	1.08	1.18
Quick ratio (x)	9.7	10.2	11.4	12.8	14.1
Cash ratio (x)	0.3	0.2	0.2	0.4	0.6
Inventory turnover days	19.9	20.4	18.9	17.9	17.5
Receivable turnover days	58.6	61.2	58.9	57.6	57.7
Payable turnover days	152	178	141	131	123
Total debt / equity ratio (%)	92.9	87.2	80.4	70.9	62.3
Net debt / equity ratio (%)	69.1	81.5	69.7	46.3	28.8
Returns (%)					
ROE	24.1	23.2	22.3	22.9	22.9
ROA	7.5	8.2	8.3	9.1	9.5
Per share					
EPS (HK\$)	1.63	1.76	2.04	2.52	2.91
DPS (HK\$)	0.44	0.50	0.58	0.72	0.83
BVPS (HK\$)	6.77	7.59	9.11	11.02	12.7

Source: Company data, CMBIS estimates

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