

Tian Lun Gas (1600 HK)

Expect 2H22 result to improve, yet maintain a prudent outlook

We communicated with TLG's mgmt. about the company's 2H22E and future outlook. **The key takeaways are:** (1) TLG guided FY22E pipeline gas sales volume of 6-8% YoY growth; (2) TLG may achieve a better 2H22 dollar margin as the critical cost pass-through measures will be launched in 3Q. FY22E dollar margin target is RMB0.43/cub m; (3) slowdown of new gas connection may improve in 2H22E but still prudent for FY22E; (4) solid growth of value-added business; and (5) rapid township PV energy development, as TLG planned to install 300MW of township household PV in FY22E. **We adjusted TP to HK\$4.87 to reflect the slowdown of gas connection and narrowed gas dollar margin. However, we maintain a BUY rating considering dollar margin recovery and rapid development of value-added business.**

- **FY22E retail gas sales volume is expected to maintain 6-8% YoY growth, while 2H22 gas dollar margin tends to improve.** TLG's mgmt. gave a conservative FY22 retail gas sales volume guidance of 6-8% YoY surge due to slow retail gas growth and intensive gas supply in 1H22. In addition, given the COVID-19 epidemic prevention and control, residential gas sales volume growth will outperform C&I gas sales volume increase for FY22. Otherwise, as TLG will implement necessary pass-through measures in 3Q, dollar margin pressure may partially ease in 2H22. Thus, the company expected the FY22 dollar margin might slightly rebound to RMB0.43/cub m.
- **Gas connection business may slightly improve in 2H22; value-added business continued its robust growth momentum.** In 2H22, TLG predicts its gas connection business may improve and stabilize in 2H22, based on the assumption that more supportive real estate policies will be issued. However, we expect new gas connection of TLG will still remain slow in FY22 due to epidemic control and real estate market downturn. For value-added business, TLG guided its revenue and profit will further boost in FY22, primarily driven by increasing gas appliances revenue and improving products structures.
- **TLG actively develops new energy business leveraging its advanced residential user resources and regional lighting conditions.** TLG plans to create various new energy businesses, including distributed rooftop photovoltaics and promotion of regional energy green transformation with the "gas-electricity coordination" model in Henan. TLG guided 300MW township household PV installation in FY22. TLG also mentioned new energy business revenue will account for 10% of total revenue in 2024.
- **We resume coverage with BUY and TP of HK\$4.87.** Thanks to the conservative gas sales outlook, narrowed dollar margin, and slowdown in gas connection, we adjusted our TP to HK\$4.87. However, we have a BUY rating, as TLG is trading at 4.5x FY22E PER, substantially lower than its HK-listed peers' average of 8.6x, and the Group continued share buyback since late Aug. Meanwhile, we are still confident in TLG's outlook due to dollar margin recovery, rapid value-added business and new energy business development.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	6,440	7,650	7,767	8,635	9,583
Net profit (RMB mn)	1,043.5	1,000.7	554.9	750.9	932.9
EPS (Reported) (RMB)	1.04	1.00	0.56	0.74	0.92
YoY growth (%)	30.8	(3.9)	(43.6)	31.9	24.0
Consensus EPS (RMB)	NA	NA	0.74	0.92	1.05
P/E (x)	5.0	3.2	4.5	3.6	3.7
P/B (x)	1.2	1.2	0.6	0.5	0.5
ROE (%)	22.3	20.2	10.3	12.9	14.5
Net gearing (%)	71.8	98.0	91.6	85.5	60.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$4.87**

Up/Downside **32.0%**

Current Price **HK\$3.69**

China Energy Sector/ China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,727
Avg 3 mths t/o (HK\$ mn)	7.82
52w High/Low (HK\$)	9.41/3.32
Total Issued Shares (mn)	1,010

Source: FactSet

Shareholding Structure

Tian Lun Group	50.3%
Free Float	29.6%

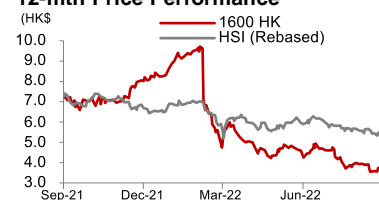
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.5%	-2.6%
3-mth	-17.8%	-5.7%
6-mth	-33.3%	-24.6%

Source: FactSet

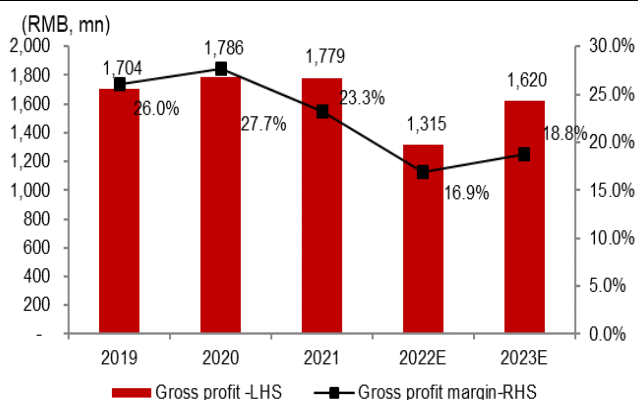
12-mth Price Performance



Source: FactSet

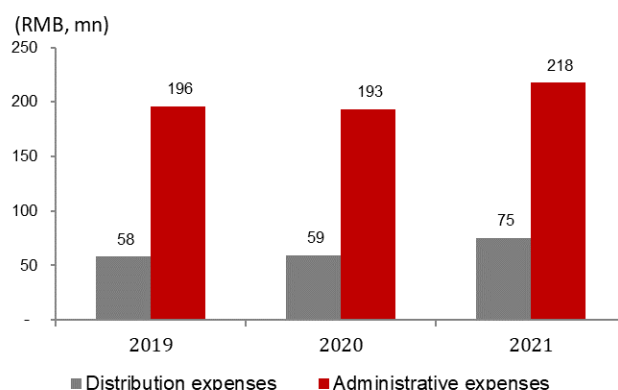
Focus charts

Figure 1: TLG's gross profit and gross profit margin



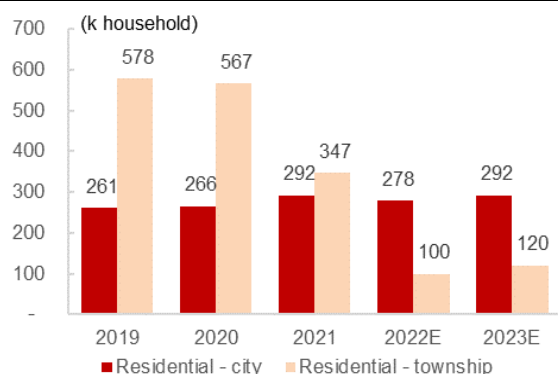
Source: Company data, CMBIGM estimates

Figure 2: TLG's major expenses



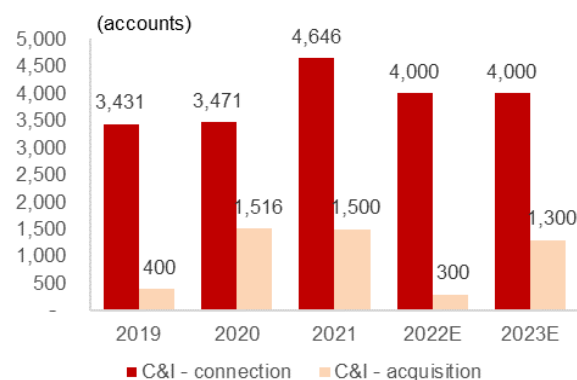
Source: Company data, CMBIGM estimates

Figure 3: TLG's annual residential user connection and acquisition



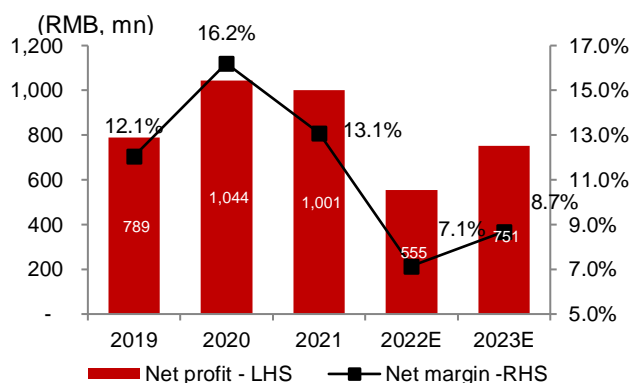
Source: Company data, CMBIGM estimates

Figure 4: TLG's annual C&I user connection and acquisition



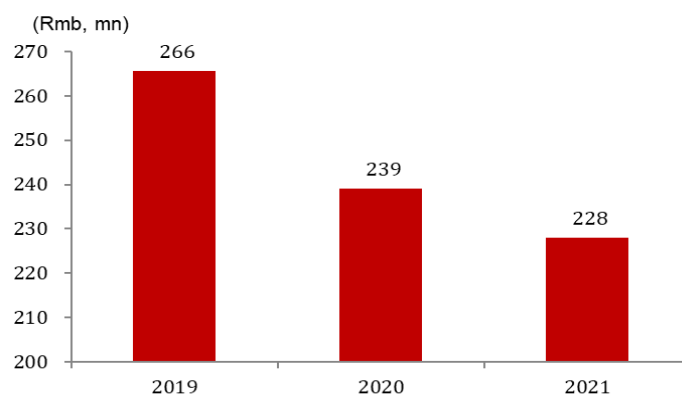
Source: Company data, CMBIGM estimates

Figure 5: Net profit vs. net profit margin



Source: Company data, CMBIGM estimates

Figure 6: Net interest expenses



Source: Company data, CMBIGM estimates

1H22 Results Highlight:

- Revenue was up 4% YoY to RMB3.74bn
- Core profit dropped by 46% YoY to RMB0.24bn
- Retailed gas sales volume rose 9.7% YoY, and total gas sales volume rose by 4.2% YoY
- Accumulated users amounted to 5.13mn, and 190k residential connection were newly-added
- Gas dollar margin squeezed to RMB0.36/cub m
- Value-added services revenue climbed 88% YoY to RMB137mn
- Interim dividend payout ratio was 31%
- Solar EPC and O&M businesses rapidly developed, and newly installation will reach 300MW. The new energy business will start to contribute revenue and net profit from FY23E.

Figure 7: TLG's 1H22 results summary

(Rmb, mn)	1H21A	2H21A	2021A	1H22A	2022E	1H22 YoY
Revenue	3,599	4,051	7,650	3,745	7,767	4.04%
Transportation and sales of gas	1,875	2,215	4,090	2,420	5,011	29.1%
Transmission pipeline	466	562	1,027	413	1,161	-11.3%
Engineering construction services	1,172	1,049	2,222	734	1,188	-37.4%
Others	46	266	312	178	407	288.2%
Costs of sales	-2,731	-3,141	-5,871	-3,139	-6,452	15.0%
Gross profit	869	910	1,779	606	1,315	-30.3%
Gross profit margin	24.1%	22.5%	23.3%	16.2%	16.9%	-8.0%
Distribution expenses	-31	-44	-75	-32	-76	1.8%
Administrative expenses	-96	-121	-218	-108	-221	12.4%
Other income	7	9	15	5	8	-29.4%
Other gains/losses, net	78	21	99	-69	5	-188.5%
Operating profit	827	775	1,601	401	1,031	-51.4%
Finance income	5	3	8	5	13	8.5%
Finance expenses	-116	-120	-236	-143	-332	23.1%
Finance expenses, net	-111	-117	-228	-137	-319	23.8%
Share of post-tax profit of associates	-10	-0	-10	7	38	-169.0%
Profit before income tax	706	657	1,363	271	750	-61.6%
Income tax expense	-175	-160	-335	-85	-184	-51.5%
Effective tax rate	24.7%	24.4%	24.6%	31.3%	24.6%	n/a
Profit for the year	531	497	1,028	186	566	-64.9%
Less: non-controlling interests	16	11	27	15	11	-4.9%
Net profit	515	485	1,001	171	555	-66.8%
Core profit	449	466	915	241	555	-46.4%

Source: Company data, CMBIGM estimates

Figure 8: Revision table

	Old			New			Change(%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Key assumptions									
Total gas sales volume (mcbm)	2,286	2,685	NA	2,153	2,443	2,759	-5.8%	-9.0%	NA
Residential	580	690	NA	525	575	629	-9.6%	-16.6%	NA
C&I	1,222	1,448	NA	1,116	1,296	1,491	-8.7%	-10.5%	NA
Vehicle	90	95	NA	87	91	96	-3.7%	-3.7%	NA
Wholesale	393	452	NA	425	480	543	8.3%	6.4%	NA
Gas connection & construction services (Households)									
Residential	292,877	307,521	NA	278,396	292,316	306,931	-4.9%	-4.9%	NA
Township	640,000	680,000	NA	100,000	120,000	130,000	-84.4%	-82.4%	NA
C&I	3,400	3,400	NA	4,000	4,000	4,000	17.6%	17.6%	NA
Financials estimation									
Revenue (Rmb mn)	8,763	10,045	NA	7,767	8,635	9,583	-11.4%	-14.0%	NA
Net Income (Rmb mn)	1,196	1,360	NA	555	751	933	-53.6%	-44.8%	NA
EPS (Rmb)	1.19	1.35	NA	0.56	0.74	0.92	-52.5%	-44.8%	NA

Source: Company data, CMBIGM estimates

Figure 9: Peers table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS					PER			PBR		
				20A	21A	22E	23E	20-22E CAGR	FY0	FY1	FY2	FY0	FY1	FY2
TIANLUN GAS	1600 HK	3.67	3706.80	1.00	1.04	0.73	0.92	-6.0%	3.18	4.49	3.60	0.60	0.53	0.48
CHINA GAS	384 HK	11.22	61040.57	1.39	2.07	1.53	1.49	-15.1%	5.42	7.34	7.52	1.20	0.93	0.88
ENN ENERGY	2688 HK	108.70	122896.05	6.88	6.32	6.89	7.68	10.2%	15.43	14.16	12.70	3.10	2.69	2.36
CRG GROUP	1193 HK	28.30	65486.56	2.82	2.72	2.78	3.03	5.5%	10.39	10.20	9.34	1.62	1.45	1.31
TOWNGAS SMART ENERGY	1083 HK	3.20	10427.57	0.42	0.57	0.42	0.49	-7.8%	5.57	7.64	6.56	0.44	0.42	0.43
KUNLUN ENERGY	135 HK	6.33	54810.21	2.66	0.58	0.71	0.73	12.3%	9.77	8.04	7.75	0.87	0.82	0.77
Average									8.3	8.6	7.9	1.3	1.1	1.0

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Revenue	6,440	7,650	7,767	8,635	9,583
Cost of goods sold	(4,654)	(5,871)	(6,452)	(7,014)	(7,637)
Others	0	0	0	0	0
Gross profit	1,786	1,779	1,315	1,620	1,947
Operating expenses	(253)	(293)	(297)	(331)	(367)
Selling expense	(59)	(75)	(76)	(85)	(94)
Admin expense	(193)	(218)	(221)	(246)	(273)
Others	0	0	0	0	0
Operating profit	1,703	1,601	1,031	1,303	1,593
Other income	10	15	8	8	8
Other gains/(losses)	160	99	5	5	5
Adjusted EBITDA	1,404	1,267	659	890	1,136
Depreciation	(164)	(184)	(215)	(250)	(288)
Other amortisation	(136)	(150)	(156)	(163)	(169)
EBIT	1,703	1,601	1,031	1,303	1,593
Interest income	11	8	13	13	23
Interest expense	(250)	(236)	(332)	(344)	(355)
Net Interest income/(expense)	(239)	(228)	(319)	(330)	(332)
Other income/expense	(46)	(10)	38	42	0
Pre-tax profit	1,418	1,363	750	1,015	1,260
Income tax	(355)	(335)	(184)	(249)	(310)
After tax profit	1,064	1,028	566	765	951
Minority interest	20	27	11	15	18
Net profit	1,044	1,001	555	751	933
Core net profit	895	915	555	751	933

BALANCE SHEET	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Current assets	4,363	5,215	5,510	5,915	7,615
Cash & equivalents	1,640	1,015	978	1,076	2,445
Restricted cash	25	177	250	250	250
Account receivables	1,393	1,408	1,598	1,777	1,972
Inventories	116	155	121	123	125
Financial assets at FVTPL	27	46	27	27	27
Other current assets	1,162	2,415	2,535	2,662	2,795
Non-current assets	8,556	9,890	10,333	11,050	10,661
PP&E	3,035	3,519	4,348	4,962	5,624
Right-of-use assets	268	272	298	312	326
Deferred income tax	27	27	33	34	34
Intangibles	4,087	5,097	4,314	4,358	4,396
Financial assets at FVTPL	62	73	79	79	79
Other non-current assets	1,077	902	1,260	1,304	201
Total assets	12,918	15,105	15,843	16,965	18,276
Current liabilities	4,556	4,555	4,758	5,099	5,482
Short-term borrowings	2,295	2,058	1,952	2,017	2,087
Account payables	1,364	1,419	1,613	1,754	1,909
Other current liabilities	436	483	568	672	797
Lease liabilities	4	3	3	4	4
Contract liabilities	458	592	622	653	685
Accrued expenses	0	0	0	0	0
Non-current liabilities	3,381	5,021	5,217	5,428	5,656
Long-term borrowings	2,770	4,248	4,383	4,529	4,686
Bond payables	0	0	0	0	0
Deferred income	14	13	13	13	13
Other non-current liabilities	597	761	821	887	958
Total liabilities	7,938	9,576	9,975	10,527	11,139
Share capital	8	8	8	8	8
Capital surplus	817	528	528	528	528
Retained earnings	3,317	4,145	4,421	4,901	5,489
Other reserves	556	536	591	666	760
Total shareholders equity	4,699	5,218	5,548	6,104	6,785
Minority interest	281	310	321	335	354
Total equity and liabilities	12,918	15,105	15,844	16,966	18,277

CASH FLOW	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Operating					
Profit before taxation	1,418	1,363	750	1,015	1,260
Depreciation & amortization	299	334	372	412	457
Tax paid	(228)	(134)	(43)	(80)	(113)
Change in working capital	(155)	(1,100)	(196)	(140)	(146)
Others	56	(47)	(4)	(15)	(14)
Net cash from operations	1,390	415	879	1,192	1,443
Investing					
Capital expenditure	(185)	(484)	(830)	(614)	(662)
Others	(680)	(1,331)	122	(497)	612
Net cash from investing	(865)	(1,815)	(707)	(1,111)	(50)
Financing					
Dividend paid	(249)	(273)	(224)	(195)	(252)
Net borrowings	(128)	1,241	29	211	228
Proceeds from share issues	(21)	(207)	(0)	0	0
Others	169	0	0	0	0
Net cash from financing	(230)	761	(195)	15	(24)
Net change in cash					
Cash at the beginning of the year	1,350	1,640	1,002	978	1,076
Exchange difference	(5)	0	0	0	0
Others	295	(638)	(23)	97	1,369
Cash at the end of the year	1,640	1,002	978	1,076	2,445
GROWTH	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Revenue	-1.7%	18.8%	1.5%	11.2%	11.0%
Gross profit	4.8%	(0.4%)	(26.1%)	23.2%	20.1%
Operating profit	18.7%	(6.0%)	(35.6%)	26.4%	22.2%
EBIT	18.7	(6.0%)	(35.6%)	26.4%	22.2%
Net profit	32.2%	(4.1%)	(44.5%)	35.3%	24.2%
PROFITABILITY	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Gross profit margin	27.7%	23.3%	16.9%	18.8%	20.3%
Operating margin	26.5%	20.9%	13.3%	15.1%	16.6%
Return on equity (ROE)	22.3%	20.2%	10.3%	12.9%	14.5%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Current ratio (x)	1.0	1.1	1.2	1.2	1.4
Receivable turnover days	83.4	66.8	70.6	71.3	71.4
Inventory turnover days	9.1	6.5	6.5	5.2	4.7
Payable turnover days	100.6	86.5	85.8	87.6	87.5
VALUATION	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
P/E	5.2	6.3	5.8	4.4	3.6
P/B	1.2	1.2	0.6	0.5	0.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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