

# China Gas Holdings (384 HK)

## Strong winter gas sales to enhance market confidence

We had an update on winter gas sales with mgmt. recently. CGH read strong gas sales volume during winter heating season, as consolidated project gas sales volume growth reached 30-35% in Dec-Feb. We believe CGH's winter gas sales performance would likely to outperform peers, and we think that will boost market confidence on earnings to meet or exceed mgmt.'s full year guidance. In view of volatile capital market, we see CGH a defensive pick, and we believe good earnings performance will help market to better realize it. **CGH is our top pick of the sector. Maintain BUY with TP unchanged at HK\$37.12.**

- **Strong winter gas sales.** According to mgmt., preliminary operating data from consolidated projects indicate 30%/35% gas sales growth volume in Dec/Jan. Mgmt. attributes strong gas volume to 1) township gas consumption with increasing user number; 2) active industrial activities; 3) recovery of commercial business; 4) low base impact due to COVID-19; and 5) cold winter which boosted gas consumption. In Feb-Mar, mgmt. expects gas volume growth to sustain at ~30% on the back of continuing low base. We lift our retail gas projection up by 2.3% to 18.8bcm in FY21E, and we expect FY21E retail gas volume growth to reach 20.3% YoY, exceeding mgmt. guidance of 15% in interim results briefing.
- **Government policies reaffirm township infrastructure development.** On 21 Feb, China released its rural development policy for 2021. The policy emphasized infrastructure development in rural areas and mentioned about promoting township gas and constructing safe and reliable rural gas storage stations and micro-pipe network gas supply systems. We think CGH once again seizes first mover advantages in micro-pipe network development, and government policy reaffirms the Company's strategic foresight.
- **Cooperation with Sinopec to enhance long term growth prospects.** CGH signed framework agreement with Sinopec (386 HK/600028 CH), leveraging each other's resources and sales network in city gas business, LNG sourcing and import facilities, and LPG industry chain. To CGH, we think key advantage of the agreement would be securing natural gas supply with competitive pricing through Sinopec's natural gas output and LNG terminals.
- **A defensive pick in volatile market.** We think recent volatile market will boost market sentiment on gas distributing sector. CGH is our sector top pick. We believe strong gas sales figures in winter will boost market confidence on the Company, while major shareholder Mr. Liu Minghui and Mr. Daniel Chiu's recent shareholding increase will also enhance market view. **Our TP remains unchanged at HK\$37.12. Maintain BUY.**

### Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	59,386	59,540	66,999	80,020	93,045
YoY growth (%)	12.4	0.3	12.5	19.4	16.3
Net income (HK\$ mn)	8,224	9,188	10,669	13,206	15,568
EPS (HK\$)	1.63	1.76	2.04	2.53	2.93
YoY growth (%)	32.7	8.1	16.1	23.8	15.7
Consensus EPS (HK\$)	n/a	n/a	2.06	2.38	2.65
P/E (x)	18.6	17.2	14.8	12.0	10.4
P/B (x)	4.5	4.0	3.3	2.7	2.4
Yield (%)	1.5	1.7	1.9	2.4	2.8
ROE (%)	24.1	23.2	22.4	22.9	22.9
Net gearing (%)	69.1	81.5	69.0	45.8	28.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$37.12**  
 (Previous TP **HK\$37.12**)  
 Up/Downside **+22.50%**  
 Current Price **HK\$30.30**

### China Gas Distributor

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### Stock Data

Mkt Cap (HK\$ mn)	157,935
Avg 3 mths t/o (HK\$ mn)	166.49
52w High/Low (HK\$)	32.35/20.43
Total Issued Shares (mn)	5,212

Source: Bloomberg

### Shareholding Structure

Beijing Enterprise	23.7%
Liu Minghui	22.1%
Chiu Tat Jung	19.0%
Free float	35.2%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	3.9%	6.8%
3-mth	6.3%	-2.0%
6-mth	35.7%	17.1%
12-mth	5.6%	-3.3%

Source: Bloomberg

### 12-mth Price Performance



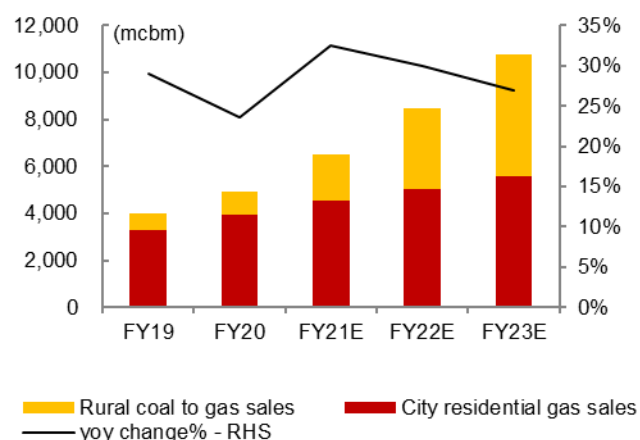
Source: Wind

**Auditor: Deloitte**

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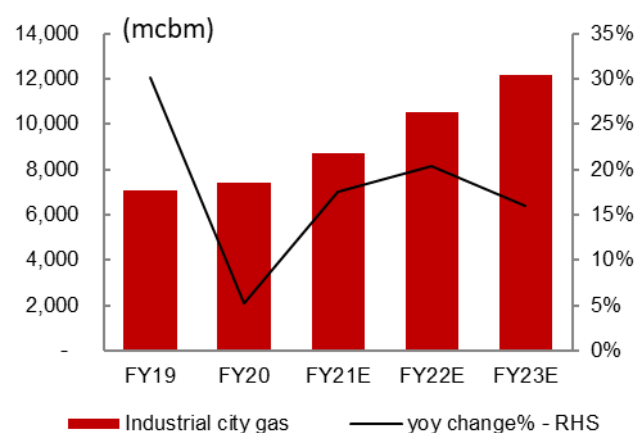
1. China Gas Sector – City Gas 3.0: Differentiating Growth Paths – 8 Dec 2020
2. China Gas Holdings (384 HK) – Outstanding 1HFY21 performance – 30 Nov 2020
3. China Gas Holdings (384 HK) – initiation) – LPG micro grid: a new growth engine – 29 Jun 2020

**Figure 1: We expect residential gas sales to accelerate as rural users' consumption potential releases**



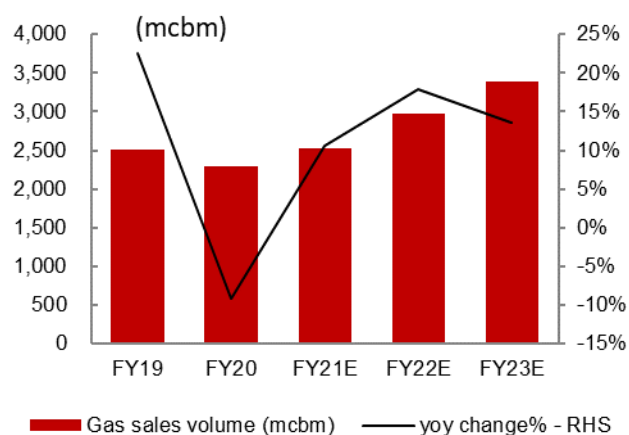
Source: Company data, CMBIS estimates

**Figure 2: Retail industrial gas sales volume to maintain rapid growth in FY20-22E**



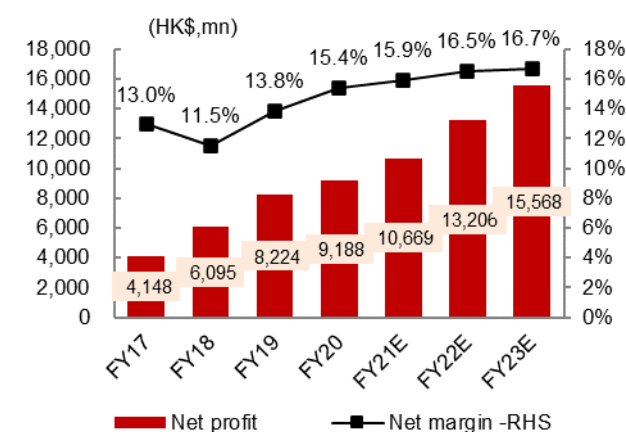
Source: Company data, CMBIS estimates

**Figure 3: Commercial gas sales volume growth, although slightly slower than industrial, but still maintain mid-high teens growth rate**



Source: Company data, CMBIS estimates

**Figure 4: We expect CGH to deliver 19.2% earnings CARG in FY20-22E**



Source: Company data, CMBIS estimates

**Figure 5: 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	28,927	33,642	38,558	1.8%	2.1%	2.2%
Retail gas sales volume (mcbm)	18,381	22,433	26,660	18,808	23,017	27,402	2.3%	2.6%	2.8%
Residential connection (CTG incl. mm HH)	5.71	5.95	6.12	5.71	5.95	6.12	0.0%	0.0%	0.0%
Revenue (HK\$, mn)	66,567	78,480	90,805	66,999	80,020	93,045	0.6%	2.0%	2.5%
Net Income (HK\$,mn)	10,620	13,140	15,486	10,669	13,206	15,568	0.5%	0.5%	0.5%
EPS (HK\$)	2.04	2.52	2.91	2.04	2.53	2.93	0.5%	0.5%	0.5%

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>59,386</b>	<b>59,540</b>	<b>66,999</b>	<b>80,020</b>	<b>93,045</b>
<b>Costs of sales</b>	<b>(45,327)</b>	<b>(42,443)</b>	<b>(47,773)</b>	<b>(56,582)</b>	<b>(65,899)</b>
<b>Gross profit</b>	<b>14,059</b>	<b>17,097</b>	<b>19,226</b>	<b>23,438</b>	<b>27,146</b>
Other income	786	640	710	866	1,177
Other gains and losses	295	(180)	50	50	50
Selling and distribution costs	(1,820)	(1,973)	(2,187)	(2,572)	(2,944)
Administrative expenses	(2,442)	(2,447)	(2,720)	(3,208)	(3,684)
Profit from associates	520	405	565	572	574
Profit from JVs	1,132	571	625	613	637
Share-based payments	(63)	-	(50)	(50)	(50)
<b>EBIT</b>	<b>12,467</b>	<b>14,113</b>	<b>16,220</b>	<b>19,709</b>	<b>22,906</b>
Finance costs	(1,284)	(1,388)	(1,411)	(1,529)	(1,615)
<b>Pre-tax profit</b>	<b>11,183</b>	<b>12,725</b>	<b>14,809</b>	<b>18,180</b>	<b>21,291</b>
Income tax	(2,198)	(2,464)	(2,962)	(3,636)	(4,258)
Less: Minority interests	(760)	(1,072)	(1,179)	(1,338)	(1,465)
<b>Net profit</b>	<b>8,224</b>	<b>9,188</b>	<b>10,669</b>	<b>13,206</b>	<b>15,568</b>

### Cash flow summary

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Pre-tax profit</b>	<b>11,183</b>	<b>12,725</b>	<b>14,809</b>	<b>18,180</b>	<b>21,291</b>
D&A	1,326	1,591	1,910	2,203	2,495
Change in working capital	7,038	(8,091)	1,337	4,624	2,877
Taxation	(1,874)	(2,245)	(3,093)	(3,323)	(3,968)
Others	(7,556)	(1,001)	(145)	(280)	(184)
<b>Net cash from operating</b>	<b>10,117</b>	<b>2,979</b>	<b>14,817</b>	<b>21,405</b>	<b>22,511</b>
Capex & investments	(11,816)	(5,989)	(12,228)	(10,912)	(10,889)
Others	784	(950)	-	-	-
<b>Net cash from investing</b>	<b>(11,032)</b>	<b>(6,939)</b>	<b>(12,228)</b>	<b>(10,912)</b>	<b>(10,889)</b>
Equity raised	3,785	-	-	-	-
Change of Debts	5,526	1,790	4,158	2,755	2,288
Dividend paid	(2,172)	(2,937)	(3,199)	(3,941)	(4,763)
Others	(804)	(1,100)	-	-	-
<b>Net cash from financing</b>	<b>6,335</b>	<b>(2,246)</b>	<b>959</b>	<b>(1,186)</b>	<b>(2,475)</b>
<b>Net change in cash</b>	<b>5,419</b>	<b>(6,207)</b>	<b>3,548</b>	<b>9,308</b>	<b>9,147</b>
Cash at the beginning of the year	8,246	13,239	7,119	10,668	19,976
Exchange difference	(427)	(450)	-	-	-
<b>Cash at the end of the year</b>	<b>13,239</b>	<b>6,582</b>	<b>10,668</b>	<b>19,976</b>	<b>29,122</b>
<b>Cash at balance sheet</b>	<b>13,239</b>	<b>7,119</b>	<b>10,668</b>	<b>19,976</b>	<b>29,122</b>

### Balance sheet

YE 31 Mar (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>68,277</b>	<b>72,558</b>	<b>82,851</b>	<b>91,569</b>	<b>99,975</b>
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
<b>Current assets</b>	<b>41,603</b>	<b>39,509</b>	<b>44,767</b>	<b>53,842</b>	<b>63,605</b>
Inventories	3,412	3,246	3,653	4,203	4,701
Amount due from customers	-	-	-	-	-
Contract assets	7,185	12,751	12,146	9,434	7,301
Trade receivables	10,061	9,893	11,657	13,609	15,824
Bank balances and cash	13,239	7,119	10,668	19,976	29,122
Other current assets	7,706	6,500	6,645	6,621	6,657
<b>Current liabilities</b>	<b>46,644</b>	<b>49,347</b>	<b>47,324</b>	<b>49,935</b>	<b>53,679</b>
Trade and other payables	23,699	17,700	19,109	21,501	23,065
Amount due to customers	-	-	-	-	-
Contract liabilities	5,168	5,998	6,816	7,815	8,780
Taxation	1,245	1,246	1,333	1,636	1,916
Bank and other borrowings	16,408	24,121	19,773	18,679	19,604
Other current liabilities	125	282	293	303	314
<b>Non-current liabilities</b>	<b>22,453</b>	<b>16,936</b>	<b>25,273</b>	<b>29,182</b>	<b>30,605</b>
Borrowings	21,491	15,568	24,073	27,923	29,285
Deferred income tax	962	1,368	1,200	1,260	1,320
<b>Total net assets</b>	<b>40,782</b>	<b>45,783</b>	<b>55,022</b>	<b>66,294</b>	<b>79,297</b>
<b>Minority Interest</b>	<b>5,461</b>	<b>6,178</b>	<b>7,357</b>	<b>8,695</b>	<b>10,160</b>
<b>Shareholders' equity</b>	<b>35,321</b>	<b>39,605</b>	<b>47,664</b>	<b>57,599</b>	<b>69,137</b>

### Key ratios

YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Sales of piped gas	45.6	45.4	49.5	50.5	51.6
Gas connection	21.0	23.0	21.2	18.5	16.2
Sales of LPG	26.8	23.1	17.7	17.5	16.7
Value-added service	6.6	8.4	11.6	12.1	13.1
Others	-	-	-	1.4	2.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Operating margin	21.0	23.7	24.2	24.6	24.6
Pre-tax margin	18.8	21.4	22.1	22.7	22.9
Net margin	13.8	15.4	15.9	16.5	16.7
Effective tax rate	19.7	19.4	20.0	20.0	20.0
<b>Balance sheet ratios</b>					
Current ratio (x)	0.89	0.80	0.95	1.08	1.18
Quick ratio (x)	9.7	10.2	11.5	12.9	14.2
Cash ratio (x)	0.3	0.2	0.2	0.4	0.6
Inventory turnover days	19.9	20.4	18.8	17.9	17.5
Receivable turnover days	58.6	61.2	58.7	57.6	57.7
Payable turnover days	152	178	141	131	123
Total debt / equity ratio (%)	92.9	87.2	80.2	70.8	62.1
Net debt / equity ratio (%)	69.1	81.5	69.0	45.8	28.3
<b>Returns (%)</b>					
ROE	24.1	23.2	22.4	22.9	22.9
ROA	7.5	8.2	8.4	9.1	9.5
<b>Per share</b>					
EPS (HK\$)	1.63	1.76	2.04	2.53	2.93
DPS (HK\$)	0.44	0.50	0.58	0.72	0.83
BVPS (HK\$)	6.77	7.59	9.13	11.04	12.8

Source: Company data, CMBIS estimates

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