

# Tian Lun Gas (1600 HK)

## Controlling holder to purchase shares from IFC

TLG announced on 17 May that controlling shareholder of the Company, Mr. Zhang Yincen, entered into a share purchase agreement with International Finance Corporation ("IFC") for 141mn shares at HK\$7.50 per share. According to TLG, the transaction is mainly due to IFC's need to withdraw as the fund is getting close to maturity for this investment. We are optimistic on the transaction, as 1) we think IFC had made considerable return (annualized ~5%) through the investment; and 2) we believe increasing shareholding by controlling shareholder will strengthen market confidence in TLG. According to TLG, preliminary business data showed 4M21 retail gas volume surged by more than 30% YoY, on track to our projections. **We maintain BUY with TP unchanged at HK\$9.90.**

- **Controlling holder increased shareholdings.** Mr. Zhang Yincen, controlling shareholder and Chairman of TLG, entered into share purchase agreement with IFC for 141mn share at HK\$7.50 per share. IFC's investment was dated back to 2015 for 181.7mn shares at HK\$6.4 (total consideration: HK\$1.16bn). After the transaction, Mr. Zhang's shareholding will increase from 53.87% to 67.92%, while IFC's shareholding will decrease from 17.7% to 3.67%. The arrangement of the transaction avoids triggering a general offer.
- **IFC made satisfactory return.** Prior to this transaction, IFC reduced ~0.65mn shares in 2019 at average share price of HK\$8.89 in Apr 2019 when share price was doing well. TLG explained the transaction was made mainly based on IFC's need to withdraw as the investment is getting close to maturity. We estimate IFC will realize an annualized return of ~5% from the investment, of which 2.7% will come from annualized holding period return and the remaining from dividend payment.
- **The deal will strengthen market confidence.** We think Chairman's increase in shareholding suggested two implications: 1) controlling shareholder has confidence in TLG's future development; and 2) setting a share price floor at HK\$7.5 in short term. We believe the move will boost market confidence in the Company.
- **Recent development on track to our projections.** According to preliminary data, mgmt. disclosed that 4M21 retail gas sales volume surged above 30% YoY, ahead of annual guidance of 25% YoY in 2021E, and residential and township connection was also on course. We expect TLG to be on track to achieve 15.5% YoY core earnings growth in 2021E.
- **Maintain BUY with TP unchanged at HK\$9.90.** TLG's share price was largely flat during the past month. Trading at only 6.3x 2021E PER, TLG's valuation is attractive, in our view. We also expect Chairman's increase in shareholding to be a short-term catalyst to TLG. Our TP remains unchanged at HK\$9.90. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	6,549	6,440	7,478	8,763	10,045
Net income (RMB mn)	789	1,044	1,034	1,196	1,360
EPS (RMB)	0.80	1.04	1.03	1.19	1.35
YoY growth (%)	38.4	30.8	-1.2	15.4	13.5
Consensus EPS (RMB)	N/A	N/A	1.031	1.15	1.3
P/E (x)	8.2	6.3	6.3	5.5	4.8
P/B (x)	1.67	1.39	1.20	1.04	0.90
Yield (%)	3.6	4.1	4.7	5.5	6.2
ROE (%)	20.5	22.3	19.0	19.0	18.7
Net gearing (%)	91.4	71.8	69.2	54.5	42.0

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$9.90**  
 (Previous TP **HK\$9.90**)  
 Up/Downside **+26.1%**  
 Current Price **HK\$7.85**

### China Gas Sector

**Robin Xiao**  
 (852) 3900 0849  
 robinxiao@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	7,617
Avg 3 mths t/o (HK\$ mn)	11.87
52w High/Low (HK\$)	8.25/5.35
Total Issued Shares (mn)	1,004

Source: Wind

### Shareholding Structure

Tianlun Group	65.5%
IFC	17.7%
Free float	25.3%

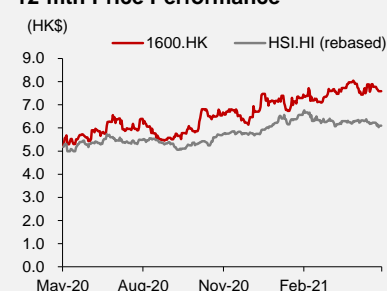
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-4.0%	-0.8%
3-mth	2.0%	11.9%
6-mth	13.8%	7.1%
12-mth	46.6%	24.4%

Source: Wind

### 12-mth Price Performance



Source: Wind

**Auditor: PwC**

### Related Reports

1. Tian Lun Gas (1600 HK) – "FY20 results in line; on track to earnings acceleration in 2021E" – 12 Apr 2021
2. Tian Lun Gas (1600 HK) – "Accelerating township connection from 2021E" – 8 Dec 2020
3. Tian Lun Gas (1600 HK) – "Gas sales resumed growing pace" – 24 Jun 2020

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>6,549</b>	<b>6,440</b>	<b>7,478</b>	<b>8,763</b>	<b>10,045</b>
City gas sales	2,980	3,061	4,006	4,892	5,769
Wholesale	1,081	674	785	903	1,039
Engineering services	2,355	2,550	2,471	2,681	2,856
Others	132	155	215	286	381
<b>Costs of sales</b>	<b>(4,845)</b>	<b>(4,654)</b>	<b>(5,580)</b>	<b>(6,590)</b>	<b>(7,601)</b>
<b>Gross profit</b>	<b>1,704</b>	<b>1,786</b>	<b>1,898</b>	<b>2,172</b>	<b>2,444</b>
<b>OPEX &amp; other gains</b>	<b>(269)</b>	<b>(83)</b>	<b>(279)</b>	<b>(328)</b>	<b>(378)</b>
Distribution expenses	(58)	(59)	(66)	(78)	(89)
Administration expenses	(196)	(193)	(224)	(262)	(301)
Other income	5	10	8	8	8
Other gains/loss, net	(19)	160	4	4	4
<b>EBIT</b>	<b>1,435</b>	<b>1,703</b>	<b>1,620</b>	<b>1,844</b>	<b>2,066</b>
Finance income	25	11	19	19	27
Finance expenses	(291)	(250)	(268)	(276)	(286)
Finance expenses, net	(266)	(239)	(249)	(257)	(260)
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,418</b>	<b>1,405</b>	<b>1,626</b>	<b>1,849</b>
Income tax	(314)	(355)	(351)	(407)	(462)
Less: Minority interests	24	20	20	23	26
<b>Net profit</b>	<b>789</b>	<b>1,044</b>	<b>1,034</b>	<b>1,196</b>	<b>1,360</b>
<b>Core profit</b>	<b>811</b>	<b>895</b>	<b>1,034</b>	<b>1,196</b>	<b>1,360</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,418</b>	<b>1,405</b>	<b>1,626</b>	<b>1,849</b>
Depreciation and amortization	275	299	334	372	412
Change in working capital	(197)	(155)	(284)	(56)	(58)
Taxation	(151)	(228)	(229)	(261)	(293)
Others	(82)	26	(36)	(15)	(14)
<b>Net cash from operation</b>	<b>971</b>	<b>1,360</b>	<b>1,191</b>	<b>1,665</b>	<b>1,896</b>
Capex & investments	(259)	(671)	(1,494)	(1,028)	(1,111)
Others	9	-	-	-	-
<b>Net cash from investments</b>	<b>(250)</b>	<b>(671)</b>	<b>(1,494)</b>	<b>(1,028)</b>	<b>(1,111)</b>
Equity raised	(56)	(21)	(0)	0	0
Change of Debts	(226)	(128)	187	201	216
Dividend paid	(114)	(249)	(288)	(334)	(383)
Others	-	-	-	-	-
<b>Net cash from financing</b>	<b>(451)</b>	<b>(398)</b>	<b>(102)</b>	<b>(133)</b>	<b>(166)</b>
<b>Net change in cash</b>	<b>271</b>	<b>291</b>	<b>(405)</b>	<b>503</b>	<b>619</b>
Cash at the beginning of the year	1,076	1,350	1,640	1,235	1,738
Exchange difference	3	(0)	-	-	-
<b>Cash at the end of the year</b>	<b>1,350</b>	<b>1,640</b>	<b>1,235</b>	<b>1,738</b>	<b>2,357</b>
<b>Cash at balance sheet</b>	<b>1,350</b>	<b>1,640</b>	<b>1,235</b>	<b>1,738</b>	<b>2,357</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>8,041</b>	<b>8,556</b>	<b>9,660</b>	<b>10,337</b>	<b>11,056</b>
Lease prepayments	-	-	-	-	-
PPE	2,850	3,035	3,778	4,348	4,962
Intangible assets	3,875	4,087	4,264	4,314	4,358
Investments	806	784	1,024	1,063	1,105
Other non-current assets	509	649	593	612	630
<b>Current assets</b>	<b>3,898</b>	<b>4,363</b>	<b>4,390</b>	<b>5,221</b>	<b>6,169</b>
Trade & other receivables	1,548	1,393	1,539	1,803	2,067
Financial assets at fair value	51	27	27	27	27
Cash and cash equivalents	1,350	1,640	1,235	1,738	2,357
Other current assets	950	1,302	1,589	1,652	1,718
<b>Current liabilities</b>	<b>3,313</b>	<b>4,556</b>	<b>3,969</b>	<b>4,400</b>	<b>4,857</b>
Trade & other payables	1,202	1,364	1,395	1,648	1,900
Advances from customers	469	458	481	505	530
Borrowings	1,312	2,295	1,575	1,636	1,701
Others	329	440	517	611	726
<b>Non-current liabilities</b>	<b>4,439</b>	<b>3,381</b>	<b>4,335</b>	<b>4,527</b>	<b>4,734</b>
Borrowings	3,880	2,770	3,676	3,816	3,968
Other payables	-	-	-	-	-
Deferred income	547	593	641	692	747
Deferred income tax	12	18	18	19	19
<b>Total Equity</b>	<b>4,187</b>	<b>4,980</b>	<b>5,746</b>	<b>6,631</b>	<b>7,635</b>
<b>Minority Interest</b>	<b>297</b>	<b>281</b>	<b>301</b>	<b>324</b>	<b>351</b>
<b>Shareholders' equity</b>	<b>3,891</b>	<b>4,699</b>	<b>5,445</b>	<b>6,307</b>	<b>7,284</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
City gas sales	45.5	47.5	53.6	55.8	57.4
Wholesale	16.5	10.5	10.5	10.3	10.3
Engineering services	36.0	39.6	33.1	30.6	28.4
Others	2.0	2.4	2.9	3.3	3.8
<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>					
Gross profit margin	26.0	27.7	25.4	24.8	24.3
Operating margin	21.9	26.5	21.7	21.0	20.6
Pre-tax margin	17.2	22.0	18.8	18.6	18.4
Net margin	12.1	16.2	13.8	13.7	13.5
Effective tax rate	27.8	25.0	25.0	25.0	25.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.2	1.0	1.1	1.2	1.3
Quick ratio (x)	0.5	0.4	0.5	0.5	0.5
Debtors turnover days	83.9	83.4	71.6	69.6	70.3
Total debt / equity ratio (%)	124.0	101.7	91.4	82.2	74.2
Net debt / equity ratio (%)	91.4	71.8	69.2	54.5	42.0
<b>Returns (%)</b>					
ROE	20.5	22.3	19.0	19.0	18.7
ROA	6.6	8.1	7.4	7.7	7.9
<b>Per share</b>					
EPS (RMB)	0.80	1.04	1.03	1.19	1.35
DPS (RMB)	0.23	0.27	0.31	0.36	0.40
BVPS (RMB)	3.89	4.68	5.41	6.26	7.21

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.