

China Gas Holdings (384 HK)

Expecting bottoming out

CGH released FY23 earnings. Net profit was HK\$4,293mn, down 44% YoY which was lower than consensus and our estimates. However, its cash flow turned positive to HK\$10.03bn. Based on the recent announcement of spin-off of "Smart Living" and mgmt's optimistic FY24 guidance on gas sales business, we believe CGH's FY24E results performance will be improve and its potential value will be unlocked afterwards. **We trim FY24/25E EPS by 15/7%, and cut TP by 12% to HK\$11.78, based on 11x FY24E PE. Maintain BUY.**

■ **FY23 results missed consensus estimates. For FY23**, CGH's revenue increased by 4.3% YoY to HK\$91.99bn, driven by stable piped gas sales and value-added services, while gas connection revenue was lower than expectation. CGH made net profit of HK\$4,293mn in FY23, down 44% YoY. The net profit was mainly dragged by following factors: 1) gas sales volume's growth only achieved 7% YoY (lower than our estimate of 10%); 2) dollar margin recorded RMB0.42/cbm (vs our estimate ~RMB0.5/cbm) due to delayed cost-through measures and higher gas cost; 3) share profit from JVs and Associates exhibited a drop owing to the weak operation and higher cost; Major expenses were largely in line; CGH declared a final dividend of HK\$0.50/share.

■ **Expecting a profit increase of over 30% YoY in FY24E.** For FY24E outlook, mgmt. guides: 1) 10% YoY increase in city & township gas sales volume; 2) 1.8-2.0mn household new residential gas connection; 3) dollar margin improves to RMB0.56/cbm; and 4) value-added service gross profit achieved 25% YoY. Adding those targets up, CGH's mgmt. expects net profit in FY24E to increase 30% YoY. Based on our model estimation, we predicted the net profit will up by 34.4%YoY, attributable to total gas sales volume up by 11.9%YoY, dollar margin will achieve RMB0.56cbm;LPG sales volume expect to reach 4.15mn tonnes; VAS segment will record gross profit of 25%.

■ **Cutting TP by 12% to HK\$11.78; maintain BUY.** Based on mgmt.'s guidance and our operating assumptions revisions, we cut CGH's FY24/25E EPS by 15%/7% to HK\$1.07/1.15 respectively, as we estimated annual city gas connected users will drop by 2%YoY to 1.97mn, and gas connection revenue adjust to HK\$5,852mn in FY24E; industrial gas sales growth lower to 12.7%YoY. Our TP is cut by 12% to HK\$11.78, based on 11x FY24E PE to reflect gas connection slowdown and cost-through measures may still take time to implement. Additionally, China Gas previously announced 'Smart Living' had been approved by the SEHK to enter the spin-off listing process, thus, we believe the potential value of China Gas's value-added business will be further unlocked. We stay optimistic on CGH's dollar margin improvement and long-term development. **Maintain BUY rating.**

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	88,225	91,988	99,872	106,362	114,204
YoY growth (%)	26.1	4.3	8.6	6.5	7.4
Net profit (HK\$ mn)	7,662.0	4,293.5	5,818.7	6,268.1	6,748.1
YoY growth (%)	(26.9)	(44.0)	35.5	7.7	7.7
EPS (Reported) (HK\$)	1.42	0.80	1.07	1.15	1.24
YoY growth (%)	(29.5)	(43.7)	34.4	7.8	7.7
Consensus(HK\$)	1.39	1.20	1.40	1.65	1.9
P/E (x)	14.5	13.4	6.5	5.7	7.6
P/B (x)	1.8	1.0	0.6	0.6	0.7
ROE (%)	11.6	6.3	8.6	8.7	8.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$11.78

(Previous TP HK\$13.20)

Up/Downside 25%

Current Price HK\$9.40

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Stock Data

Mkt Cap (HK\$ mn)	49800.0
Avg 3 mths t/o (HK\$ mn)	67.2
52w High/Low (HK\$)	12.86/6.96
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Beijing Enterprise	23.4%
China Gas Group	10.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.6%	-5.9%
3-mth	-14.1%	-8.4%
6-mth	-1.8%	-4.0%

Source: FactSet

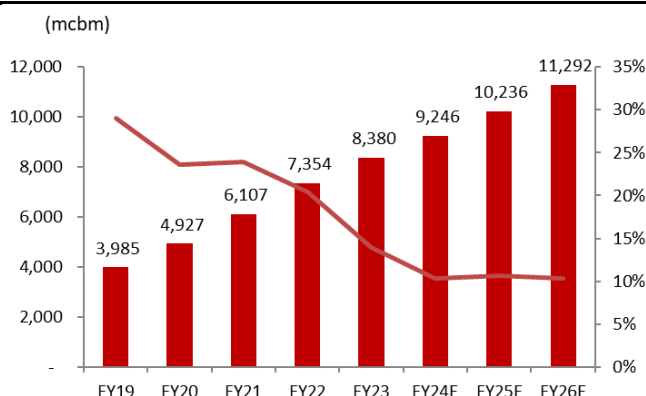
12-mth Price Performance



Source: FactSet

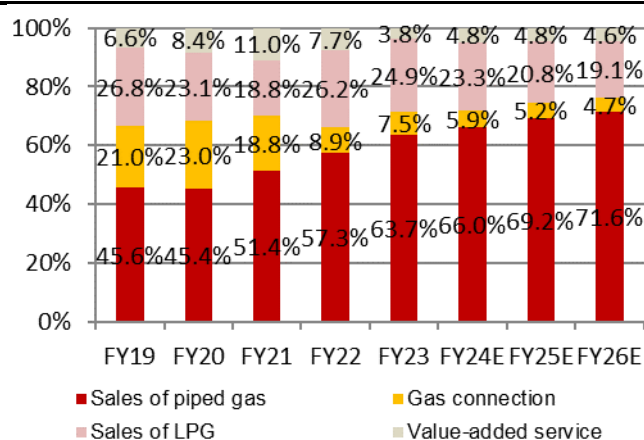
Focus charts

Figure 1: Residential gas sales (FY19-26E)



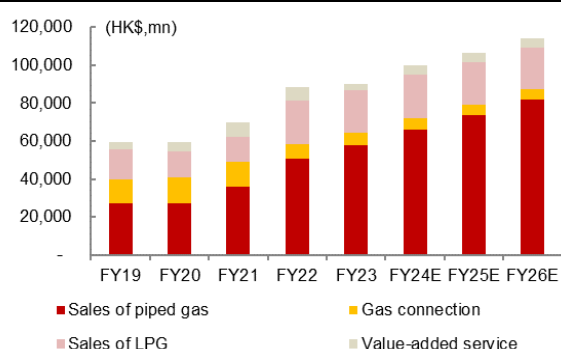
Source: Company data, CMBIGM estimates

Figure 2: CGH's gas sales volume mix (FY19-26E)



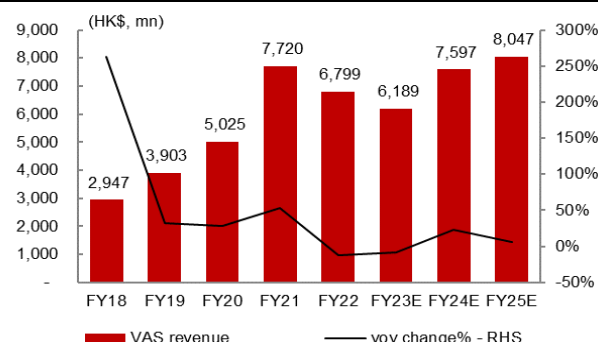
Source: Company data, CMBIGM estimates

Figure 3: CGH's revenue mix (FY19-26E)



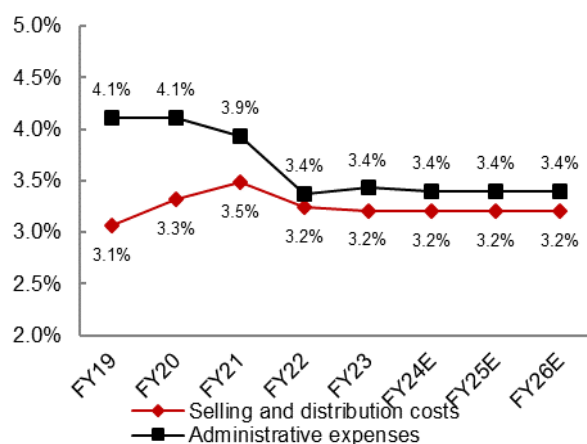
Source: Company data, CMBIGM estimates

Figure 4: CGH's VAS revenue (FY19-26E)



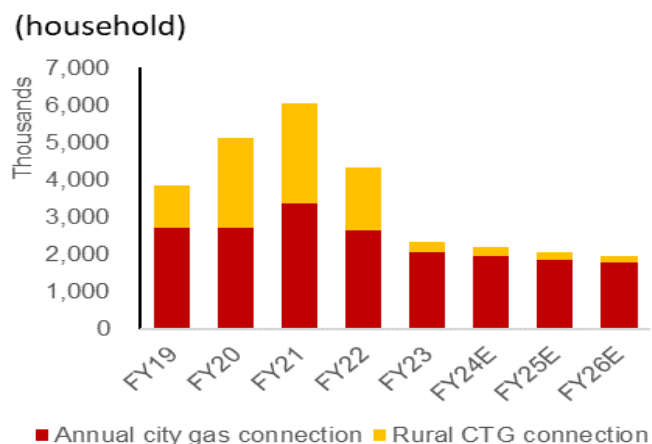
Source: Company data, CMBIGM estimates

Figure 5: CGH's S&A expenses as % to revenue



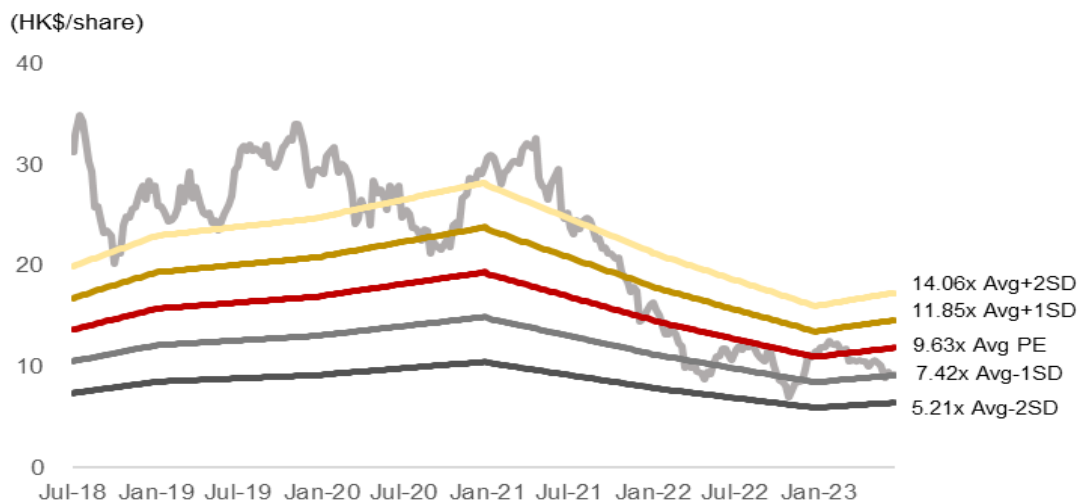
Source: Company data, CMBIGM estimates

Figure 6: Annual residential connection - City + rural



Source: Company data, CMBIGM estimates

Figure 7: Forward PE band



Source: Company data, CMBIGM estimates

Figure 8: Peers table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA GAS HOLDIN	384 HK	8.67	47167.71	1.14	1.33	1.52	33.2%	7.61	6.50	5.71	0.69	0.64	0.61
ENN ENERGY	2688 HK	95.45	107964.01	7.60	8.27	9.22	21.3%	11.51	10.58	9.49	2.20	1.93	1.71
TIAN LUN GAS HOL	1600 HK	5.35	5253.09	0.82	0.82	1.03	25.2%	5.96	5.96	4.76	0.90	0.69	0.58
CHINA RES GAS	1193 HK	26.15	60511.44	2.57	2.86	3.21	24.8%	10.16	9.13	8.14	1.39	1.26	1.18
TOWNGAS SMART EN	1083 HK	3.28	10688.62	0.43	0.52	0.59	36.9%	7.56	6.37	5.52	0.49	0.46	0.44
KUNLUN ENERGY	135 HK	5.85	50653.99	0.78	0.83	0.85	8.0%	6.84	6.45	6.33	0.72	0.68	0.63
Average								8.3	7.5	6.7	1.1	0.9	0.9

Source: Company data, CMBIGM estimates

Figure 8: Key assumption table

Key Assumption(FY24E)	
Total gas sales volume	11.9%YoY
Dollar margin	RMB0.56cbm
LPG sales volume	4.15mn tonnes
VAS segment	Gross profit of 25%
Annual gas connected users	dropped by 2% to 1.97mn
Gas connection revenue	HK\$5,852mn
Industrial gas sales growth	12.7%YoY

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Revenue	69,975	88,225	91,988	99,872	106,362	114,204
Cost of goods sold	(51,873)	(72,486)	(79,954)	(85,051)	(91,107)	(98,022)
Others	na	na	na	na	0	0
Gross profit	18,102	15,739	12,035	14,821	15,255	16,182
Operating expenses	(3,581)	(4,399)	(5,860)	(5,842)	(6,020)	(6,237)
Selling expense	(2,439)	(2,861)	(2,950)	(3,196)	(3,404)	(3,655)
Admin expense	(2,751)	(2,973)	(3,154)	(3,396)	(3,616)	(3,883)
Others	1,608	1,435	244	750	1,000	1,300
Operating profit	15,509	12,244	7,893	10,414	10,669	11,379
Other income	923	1,378	1,374	1,374	1,374	1,374
Other gains/(losses)	65	(474)	345	60	60	60
EBITDA	17,420	14,511	10,451	13,260	13,768	14,728
Depreciation	1,911	2,267	2,558	2,846	3,098	3,349
EBIT	15,509	12,244	7,893	10,414	10,669	11,379
Interest expense	(1,419)	(1,457)	(1,855)	(1,885)	(1,923)	(1,961)
Pre-tax profit	14,090	10,787	6,038	8,528	8,746	9,417
Income tax	(2,418)	(2,004)	(924)	(1,611)	(1,565)	(1,686)
After tax profit	11,672	8,783	5,114	6,918	7,181	7,731
Minority interest	1,194	1,121	821	1,099	913	983
Net profit	10,479	7,662	4,293	5,819	6,268	6,748
Core net profit	na	na	na	na	0	0
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Current assets	50,394	55,423	52,220	52,970	53,603	55,012
Cash & equivalents	8,294	10,011	10,439	830	520	72
Account receivables	504	542	474	474	474	474
Inventories	5,302	5,701	5,655	7,590	8,084	8,680
Prepayment	0	0	0	0	0	0
Other current assets	19,369	22,032	22,945	25,915	26,578	28,106
Contract assets	16,925	17,138	12,707	18,160	17,948	17,681
Non-current assets	90,326	107,723	105,071	120,977	130,219	139,537
PP&E	56,909	68,065	66,891	76,084	81,184	86,013
Deferred income tax	489	705	1,012	519	529	539
Investment in JVs & assos	9,052	12,223	12,045	12,125	13,667	15,347
Goodwill	3,298	3,473	3,230	3,698	3,798	3,898
Total assets	140,721	163,146	157,291	173,946	183,822	194,549
Current liabilities	46,313	54,287	51,780	64,264	67,718	71,604
Short-term borrowings	17,272	22,143	21,908	24,845	25,336	25,827
Account payables	19,409	21,079	19,557	28,067	30,065	32,347
Tax payable	1,021	1,269	806	725	704	759
Other current liabilities	364	140	228	228	228	228
Lease liabilities	210	214	201	211	221	231
Contract liabilities	8,037	9,443	9,080	10,189	11,164	12,213
Non-current liabilities	34,543	36,790	40,721	39,046	39,817	40,589
Long-term borrowings	31,717	33,986	38,103	36,368	37,080	37,791
Other non-current liabilities	2,826	2,804	2,617	2,677	2,737	2,797
Total liabilities	80,857	91,077	92,501	103,310	107,535	112,193
Share capital	52	54	54	54	54	54
Other reserves	51,885	63,523	57,846	62,307	66,856	71,754
Total shareholders equity	59,864	72,069	64,790	70,350	75,811	81,693
Minority interest	7,927	8,491	6,890	7,989	8,901	9,885
Total equity and liabilities	140,721	163,146	157,291	173,660	183,346	193,886

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	14,090	10,787	6,038	8,478	8,696	9,367
Depreciation & amortization	1,911	2,267	2,558	2,846	3,098	3,349
Change in working capital	(4,682)	1,682	2,236	(1,714)	3,005	2,523
Others	(6,457)	2,294	(268)	(5,667)	(2,294)	13,297
Net cash from operations	8,279	13,126	9,343	9,132	12,945	13,297
Investing						
Capital expenditure	(10,781)	(11,156)	1,173	(9,193)	(5,101)	(4,828)
Others	(7,219)	(9,512)	(1,351)	(8,893)	(7,231)	(7,828)
Net cash from investing	(18,000)	(20,668)	(178)	(18,086)	(12,331)	(12,656)
Financing						
Dividend paid	(3,203)	(3,643)	(3,080)	(1,857)	(2,126)	(2,291)
Net borrowings	9,300	7,140	3,882	1,203	1,203	1,203
Others	(146)	6,505	(9,724)	(1)	0	0
Net cash from financing	5,951	10,001	(8,922)	(655)	(924)	(1,089)
Net change in cash						
Cash at the beginning of the year	7,119	8,294	10,011	10,439	830	520
Exchange difference	4,945	0	0	0	0	0
Others	(3,770)	2,460	243	(9,609)	(310)	(448)
Cash at the end of the year	8,294	10,753	10,254	830	520	72
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	17.5%	26.1%	4.3%	8.6%	6.5%	7.4%
Gross profit	5.9%	(13.1%)	(23.5%)	23.2%	2.9%	6.1%
Operating profit	9.9%	(21.1%)	(35.5%)	31.9%	2.5%	6.6%
EBITDA	10.9%	(16.7%)	(28.0%)	26.9%	3.8%	7.0%
EBIT	9.9%	(21.1%)	(35.5%)	31.9%	2.5%	6.6%
Net profit	14.0%	(26.9%)	(44.0%)	35.5%	7.7%	7.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	25.9%	17.8%	13.1%	14.8%	14.3%	14.2%
Operating margin	22.2%	13.9%	8.6%	10.4%	10.0%	10.0%
EBITDA margin	24.9%	16.4%	11.4%	13.3%	12.9%	12.9%
Return on equity (ROE)	19.8%	11.6%	6.3%	8.6%	8.7%	8.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Current ratio (x)	1.1	1.0	1.0	0.8	0.8	0.8
Receivable turnover days	63.8	63.7	66.6	65.4	66.7	65.5
Inventory turnover days	22.3	22.8	23.0	24.2	26.9	26.8
Payable turnover days	130.6	101.9	92.8	102.2	116.4	116.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	13.2	14.5	13.4	6.5	5.7	7.6
P/B	2.7	1.8	1.0	0.6	0.6	0.7
Div yield (%)	2.1	2.7	2.1	3.2	3.5	3.8

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

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