

United Energy (467 HK)

Overhang on share price due to uncertain financial condition of controlling shareholder

Orient Group (600811 CH, NR) announced last week that it was not able to withdraw deposits from Orient Finance, a sister company of Orient Group, as Orient Finance is facing financial difficulties. As at 17 Jun 2024, Orient Group's total deposit amount in Orient Finance was RMB1.64bn while the total borrowing was RMB666mn (net deposit: RMB974mn). ZHANG Hong Wei, the major shareholder of the Orient Group, Orient Finance as well as United Energy (UEG), agreed to improve the financial condition of Orient Finance, through the disposal of UEG's shares over the coming 3-6 months. In addition, ZHANG agreed to utilise the cash from his pledged UEG's shares to support Orient Finance. ZHANG has pledged ~1.86bn shares of UEG for ~RMB2.35bn of borrowings.

Given that the financial situation of Orient Finance is unknown at this stage, we believe such arrangement suggests substantial uncertainties and creates an overhang on the stock price of UEG, at least over the coming 3-6 months. While our earnings forecast remains unchanged, we revise down our TP to HK\$0.3, benchmarking to the current price and implying 2.5x 2024E P/E (Our Brent price assumption in 2024E is US\$87 per barrel). Downgrade to **HOLD** from Buy. We will be more constructive on UEG when the incident at the controlling shareholder level has a positive development.

- **Upside risks:** 1) An improvement of financial condition of Orient Finance; 2) potential disposal of shares to strategic investors; 3) potential sizeable share buyback.
- **Downside risks:** 1) High volatility of share price due to potential share sales; 2) low visibility on trading business; 3) decline in crude & gas price; 4) further impairment loss; 5) rising receivables.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	10,754	13,591	15,707	17,570	18,964
YoY growth (%)	44.6	26.4	15.6	11.9	7.9
Adjusted net profit (HK\$ mn)	2,601.2	(1,707.4)	3,151.0	3,463.6	3,570.5
EPS (Reported) (HK\$ cents)	9.94	(6.53)	12.05	13.24	13.65
YoY growth (%)	30.3	na	na	9.9	3.1
P/E (x)	3.0	ns	2.5	2.3	2.2
P/B (x)	0.5	0.6	0.5	0.4	0.4
Yield (%)	13.4	0.0	8.0	8.8	9.1
ROE (%)	17.3	(11.9)	21.7	19.6	17.3
Net gearing (%)	1.4	(4.2)	(11.2)	(17.8)	(25.9)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price **HK\$0.30**

(Previous TP) HK\$0.96

Up/Downside **0.0%**

Current Price **HK\$0.30**

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Stock Data

Mkt Cap (HK\$ mn)	7,812.2
Avg 3 mths t/o (HK\$ mn)	123.6
52w High/Low (HK\$)	1.25/0.30
Total Issued Shares (mn)	26040.5

Source: FactSet

Shareholding Structure

Zhang Hong Wei 56.1%

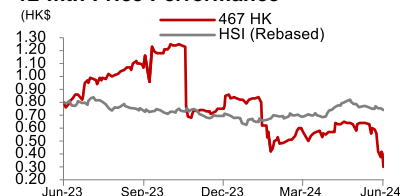
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-48.3%	-45.0%
3-mth	-47.4%	-51.3%
6-mth	-60.0%	-62.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

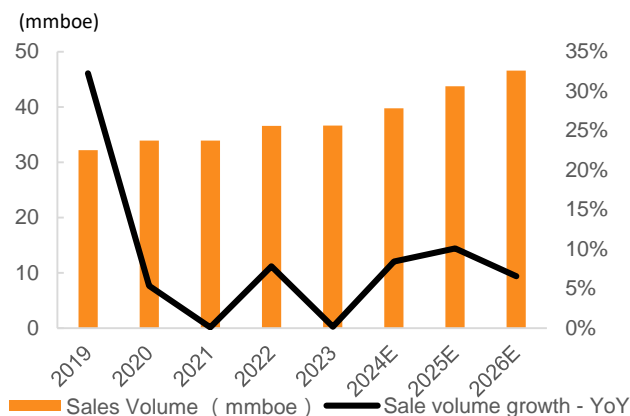
1. UEG – Expect volume growth to accelerate in 2024E – 6 May 2024
2. UEG – Limited operational risk in the Middle East; Beneficiary of higher crude price -16 Oct 2023
3. UEG – A mixed bag; volume growth is still the key – 2 Apr 2023

Figure 1: Key operating assumptions

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Daily output (000 boed)								
Pakistan	66.6	55.9	48.3	47.0	43.0	40.0	37.0	36.0
Iraq - Block 9	9.8	16.1	26.2	34.7	38.0	51.3	66.7	76.7
Iraq - Siba	3.5	6.6	6.0	6.1	7.4	7.1	6.7	6.4
Egypt	14.4	14.2	12.6	12.4	12.0	11.7	11.5	11.3
Total	94.3	92.8	93.1	100.2	100.4	110.1	121.9	130.3
Change (YoY)								
Pakistan	0.2%	-16.0%	-13.7%	-2.6%	-8.5%	-7.0%	-7.5%	-2.7%
Iraq - Block 9	-	64.1%	62.6%	32.5%	9.5%	35.0%	30.0%	15.0%
Iraq - Siba	-	86.4%	-8.9%	1.6%	22.5%	-5.0%	-5.0%	-5.0%
Egypt	-	-1.8%	-10.9%	-1.6%	-3.8%	-1.8%	-2.0%	-2.0%
Average	42.0%	-1.6%	0.3%	7.7%	0.2%	9.7%	10.7%	6.9%
Realized price								
Crude (US\$/bbl)	62	39	69	96	79	86	86	86
Natural gas (US\$/boe)	27	25	25	30	31	27	28	28
Change (YoY)								
Crude (US\$/bbl)	-4.4%	-37.7%	77.7%	40.4%	-18.3%	9.0%	0.3%	0.1%
Natural gas (US\$/boe)	5.3%	-8.2%	-0.8%	20.3%	3.5%	-12.6%	3.7%	0.0%
DD&A & Non-cash cost (US\$/boe)								
Total	10.0	10.3	10.8	14.0	16.0	17.6	18.5	19.2
Pakistan	9.3	9.3	9.3	11.8	12.0	12.0	12.0	12.0
Mena	9.2	11.2	11.8	15.8	18.9	20.1	20.7	21.3
Change (YoY)								
Total	19.2%	3.4%	4.9%	29.4%	14.0%	10.0%	5.4%	3.9%
Pakistan	11.6%	-0.5%	-0.2%	27.2%	2.1%	0.0%	0.0%	0.0%
MENA	-	21.1%	6.0%	33.5%	19.9%	6.0%	3.0%	3.0%
Lifting cost (US\$/boe)								
Total	4.4	4.4	4.2	4.1	4.5	4.7	4.7	4.8
Pakistan	3.5	3.1	3.9	4.1	4.6	4.7	4.7	4.7
MENA	5.7	5.9	4.3	4.2	4.5	4.6	4.6	4.6
Change (YoY)								
Total	17.6%	-1.7%	-3.2%	-2.8%	9.1%	5.8%	0.4%	0.2%
Pakistan	-7.2%	-11.3%	25.5%	4.8%	11.5%	2.0%	0.6%	0.4%
MENA	-	3.9%	-26.6%	-3.9%	7.7%	2.9%	0.0%	0.0%
(HK\$ mn)								
Revenue	7,104	6,204	7,437	10,754	13,591	15,707	17,570	18,964
Gross profit	3,478	2,033	3,357	5,513	4,439	5,184	5,655	5,869
Gross margin	49.0%	32.8%	45.1%	51.3%	32.7%	33.0%	32.2%	30.9%
Operating profit	2,733	1,309	2,759	3,596	(1,731)	3,953	4,277	4,382
Net profit	1,906	864	2,001	2,601	(1,707)	3,151	3,464	3,571
Change (YoY)	16.4%	-54.7%	131.5%	30.0%	n/a	n/a	9.9%	3.1%

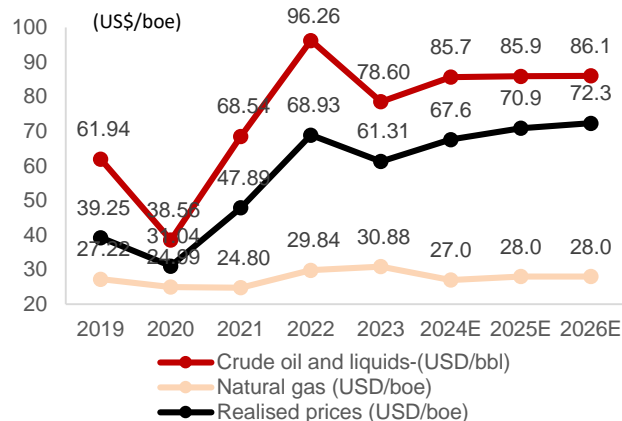
Source: Company data, CMBIGM estimates

Figure 2: UEG’s oil & gas sales volume



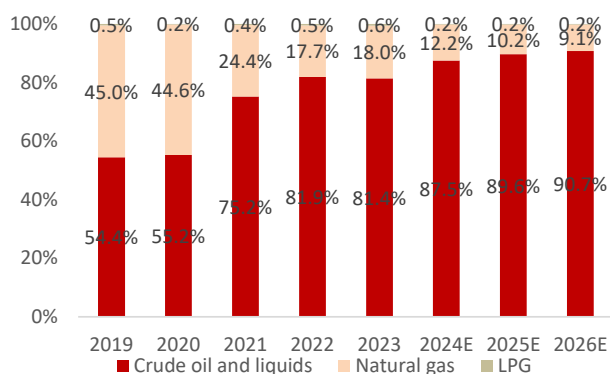
Source: Company data, CMBIGM estimates

Figure 3: UEG’s realised oil and gas price



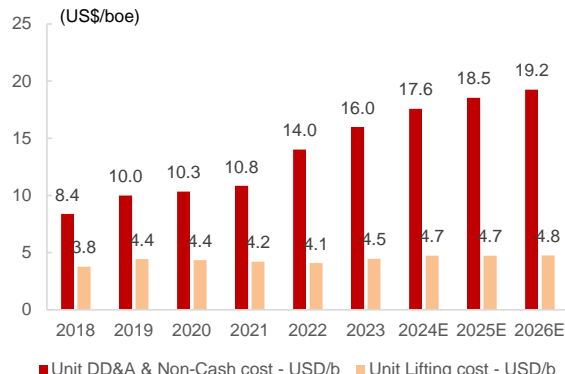
Source: Company data, CMBIGM estimates

Figure 4: Revenue mix



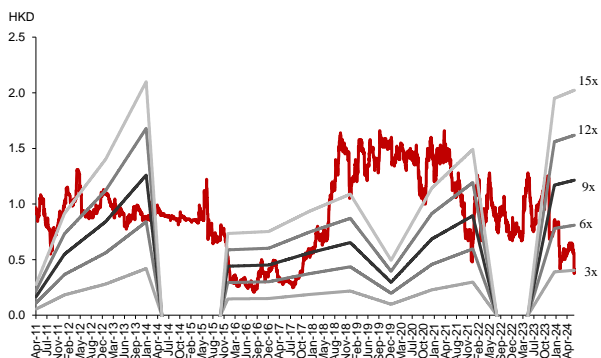
Source: Company data, CMBIGM estimates

Figure 5: UEG’s unit operating cost



Source: Company data, CMBIGM estimates

Figure 6: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: Brent crude oil price



Source: Bloomberg, CMBIGM

Figure 8: UEG’s earnings sensitivity to crude price and lifting cost (Pakistan)

		Crude price (US\$/boe)				
		77	81	86	90	94
	5.12	2,320	2,713	3,105	3,498	3,891
	4.88	2,343	2,736	3,128	3,521	3,913
Lifting cost	4.65	2,366	2,759	3,151	3,544	3,936
(Pakistan)	4.42	2,389	2,781	3,174	3,566	3,959
	4.19	2,412	2,804	3,197	3,589	3,982

Source: CMBIGM estimates
Note: Net profit in 2024E

Figure 9: UEG’s earnings sensitivity to crude price and lifting cost (MENA)

		Crude price (US\$/boe)				
		77	81	86	90	94
	5.06	2,285	2,677	3,070	3,462	3,855
	4.83	2,325	2,718	3,110	3,503	3,895
Lifting cost	4.60	2,366	2,759	3,151	3,544	3,936
(Mena)	4.37	2,407	2,799	3,192	3,584	3,977
	4.14	2,447	2,840	3,232	3,625	4,017

Source: CMBIGM estimates
Note 1: Net profit in 2024E
Note 2: Mena = Middle East & North Africa

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	7,437	10,754	13,591	15,707	17,570	18,964
Cost of goods sold	(4,080)	(5,241)	(9,152)	(10,523)	(11,915)	(13,095)
Gross profit	3,357	5,513	4,439	5,184	5,655	5,869
Admin expense	(574)	(524)	(676)	(785)	(878)	(948)
Others	(25)	(1,393)	(5,494)	(446)	(499)	(539)
Operating profit	2,759	3,596	(1,731)	3,953	4,277	4,382
Share of (losses)/profits of associates/JV	(59)	(187)	4	(50)	(43)	(42)
EBITDA	5,731	7,813	3,117	9,641	10,558	11,488
Depreciation	2,972	4,218	4,848	5,688	6,281	7,106
Interest expense	(267)	(388)	(294)	(239)	(206)	(189)
Pre-tax profit	2,433	3,021	(2,020)	3,664	4,028	4,152
Income tax	(432)	(420)	313	(513)	(564)	(581)
Minority interest	0	0	0	(0)	(0)	(0)
Net profit	2,001	2,601	(1,707)	3,151	3,464	3,571
Adjusted net profit	2,001	2,601	(1,707)	3,151	3,464	3,571
Gross dividends	1,052	1,052	0	630	693	714
BALANCE SHEET						
YE 31 Dec (HK\$ mn)						
Current assets	7,669	10,005	11,659	13,981	16,531	19,903
Cash & equivalents	3,171	3,255	3,327	4,212	5,607	7,716
Account receivables	4,145	6,316	8,048	9,424	10,542	11,758
Inventories	287	389	253	314	351	398
Financial assets at FVTPL	12	9	9	9	9	9
Other current assets	53	36	22	22	22	22
Non-current assets	17,364	17,415	14,170	15,830	16,937	17,175
PP&E	10,835	11,739	11,224	13,277	14,773	15,406
Deferred income tax	1	23	437	437	437	437
Investment in JVs & assos	475	395	280	230	187	145
Intangibles	5,340	4,324	1,619	1,277	930	578
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	713	933	610	610	610	610
Total assets	25,032	27,420	25,829	29,812	33,468	37,078
Current liabilities	5,093	7,974	8,987	9,959	10,836	11,666
Short-term borrowings	1,761	1,886	306	239	219	200
Account payables	2,818	4,774	6,644	7,682	8,579	9,428
Other current liabilities	515	1,315	2,038	2,038	2,038	2,038
Non-current liabilities	5,699	3,638	4,006	3,672	3,492	3,313
Long-term borrowings	2,833	1,586	2,488	2,155	1,975	1,796
Other non-current liabilities	2,865	2,051	1,518	1,518	1,518	1,518
Total liabilities	10,792	11,612	12,993	13,631	14,328	14,979
Share capital	263	263	260	260	260	260
Retained earnings	13,971	15,539	12,570	15,915	18,874	21,837
Total shareholders equity	14,234	15,802	12,831	16,175	19,134	22,098
Minority interest	6	6	5	5	5	5
Total equity and liabilities	25,032	27,420	25,829	29,812	33,468	37,082

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	2,001	2,601	(1,707)	3,151	3,464	3,571
Depreciation & amortization	2,972	4,218	4,848	5,688	6,281	7,106
Change in working capital	(1,032)	(587)	672	(399)	(258)	(413)
Others	340	1,593	3,514	50	43	42
Net cash from operations	4,281	7,825	7,327	8,490	9,530	10,305
Investing						
Capital expenditure	(2,729)	(5,392)	(6,670)	(7,205)	(7,305)	(7,305)
Acquisition of subsidiaries/ investments	(10)	108	(120)	0	0	0
Others	245	(422)	246	0	0	0
Net cash from investing	(2,494)	(5,707)	(6,543)	(7,205)	(7,305)	(7,305)
Financing						
Dividend paid	(620)	(1,052)	(1,052)	0	(630)	(693)
Net borrowings	(642)	(1,122)	(678)	(400)	(200)	(199)
Others	(190)	103	1,092	0	0	0
Net cash from financing	(1,452)	(2,070)	(638)	(400)	(830)	(892)
Net change in cash						
Cash at the beginning of the year	3,093	3,171	3,255	3,327	4,212	5,607
Exchange difference	(258)	36	(73)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	3,171	3,255	3,327	4,212	5,607	7,716

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

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