

Tian Lun Gas (1600 HK)

Stay optimistic in 2023

Dragged by economic downturn and higher gas costs, TLG's FY22 results slightly missed estimates. TLG's revenue slightly dropped 1.4%YoY to RMB7.54bn, and its gross profit and core net profit declined by 21.7%YoY and 35% YoY. However, in 2H22, since the dollar margin improved to RMB0.47cbm, the core profit raised by 52%, compared to 1H22. In 2023, we expect TLG's results to further improve as its C&I gas sales may increase 12% YoY, and its dollar margin may increase from RMB0.43/cbm in FY22 to RMB0.50/cbm in FY23. Meanwhile, its VAS and new energy segment will maintain resilient growth. **We slightly adjusted TP to HK\$6.06 based on HK\$0.71/share in FY23E and 7.5x 23E PE (close to 3-year hist. avg. PE). TLG is trading at FY23E 5.9x PE, lower than its peers' avg. of 8.7x PE and its 3-year hist. avg PE of 7.34x. We regard the valuation as attractive. Maintain a BUY rating.**

- **FY22 results slightly missed; expect a marked improvement in 2023.** TLG recorded revenue of RMB 7.543bn, a slight decrease of 1.4% YoY. The drop is mainly due to a 36.6% YoY decline in gas connection revenue. TLG's gross profit fell by 21.7% YoY, and gross profit margin declined by 4.8% YoY, dragged by: 1) the shrinking proportion of gas connection revenue to 18.7%; 2) higher gas cost. Additionally, core net profit fell by 35% YoY in FY22. Yet, core net profit in 2H22 soared 52% YoY, showing significant improvement. TLG maintains a stable dividend payout ratio of around 30%.
- **TLG's C&I gas sales and dollar margin may rebound in 2023.** TLG's sales revenue increased by 12.0% YoY to RMB 5.731bn. Retail gas volume rose 4.8% YoY to 1.67 bcm. In particular, due to weak gas demand and higher gas cost, C&I gas sales increased by 1.2% YoY, which was lower than our expectation. For dollar margin, TLG achieved RMB0.42/cbm in 2022 on higher gas cost and the delayed effect of the price-cross measures. In 2023, TLG targets 12-15% YoY growth for retail gas sales, and we expect retail gas sales to achieve 12.8% YoY growth in 2023 given gas demand recovery. Besides, we estimated the dollar margin would improve to RMB0.5cbm based on mgmt's guidance.
- **Gas connection continues to slow.** Gas connection revenue (excluding coal-to-gas) decreased 3.4% YoY to RMB 838mn, since the Company's rural coal-to-gas business was temporarily suspended following the adjustment on business structure. In 2022, the number of new township residential users increased by 68,136, reflecting a decrease of 80.4% YoY. In 2023, we expect the newly-added township users to drag to around 65000.
- **VAS maintained solid growth, and new energy business developed steadily.** TLG's VAS maintained stable growth, with revenue increasing by 24.1% YoY to RMB 333mn. In 2022, by the national 14th Five-Year Plan, TLG actively upgraded the "Rural Coal-to-Gas Project" in Henan to a "Rural Energy Project". By 2022, TLG participated in six distributed PV projects in Henan Province with SPIC, winning four bids, and established four joint ventures with SPIC located in Xuchang, Pingdingshan, Hebi, and Shangcheng.
- **We adjusted TLG's TP to HK\$6.06, based on FY23E EPS of HK\$0.71/share and 7.5x FY23E PE.** Considering TLG's gas connection may continue to slow and the dollar margin rebound to target of RMB0.5cbm remain challenging, we lower FY23E EPS from HK\$0.72/share to HK\$0.71/share and adjusted target PE from 8x to 7.5x in FY23E (close to 3-year hist.avg.PE). At present, TLG is trading at around 5.9x 2023 forward PE. We think the valuation is attractive, backed by C&I's positive gas sales recovery in 2023, improved dollar margin, solid value-added business, and county energy's potential growth. **Maintain a BUY rating.**

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,650	7,543	7,795	8,563	9,577
Net profit (RMB mn)	1,000.7	444.6	710.6	806.4	942.1
EPS (Reported) (RMB)	1.00	0.45	0.71	0.81	0.94
YoY growth (%)	(3.9)	(54.8)	57.1	13.5	16.8
P/E (x)	6.3	9.2	5.9	5.2	4.4
P/B (x)	1.2	0.8	0.7	0.6	0.7
ROE (%)	20.2	8.3	12.3	12.8	14.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.06
(Previous TP)	HK\$6.55)
Up/Downside	32%
Current Price	HK\$4.60

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Stock Data

Mkt Cap (HK\$ mn)	4,646.0
Avg 3 mths t/o (HK\$ mn)	4.9
52w High/Low (HK\$)	5.56/2.81
Total Issued Shares (mn)	982.8

Source: FactSet

Shareholding Structure

Tian Lun Group	50.3%
Free Float	29.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.0%	-6.5%
3-mth	22.1%	18.9%
6-mth	38.0%	17.0%

Source: FactSet

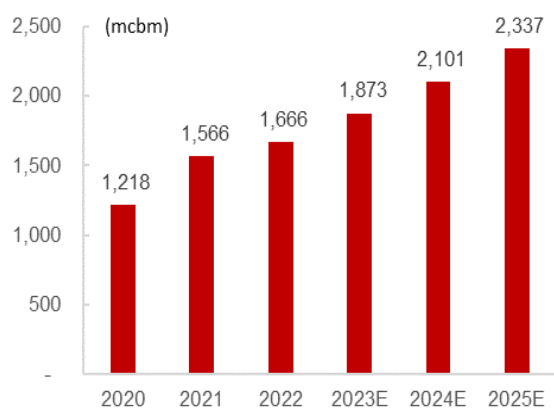
12-mth Price Performance



Source: FactSet

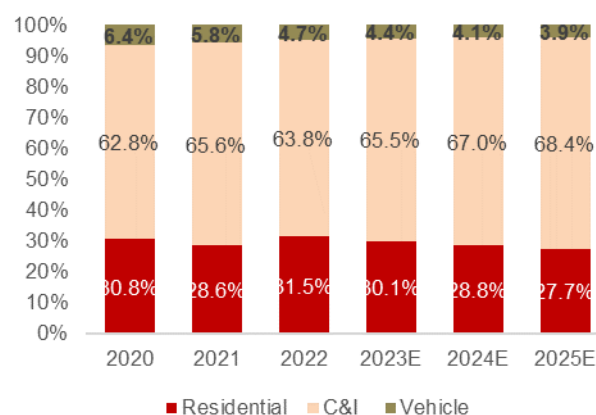
Focus charts

Figure 1: TLG's retail gas sales volume



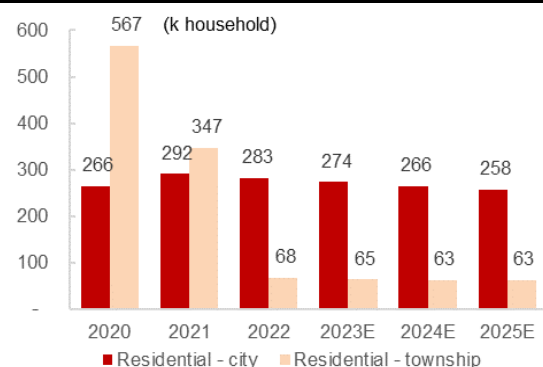
Source: Company data, CMBIS estimates

Figure 2: TLG's retail gas mix



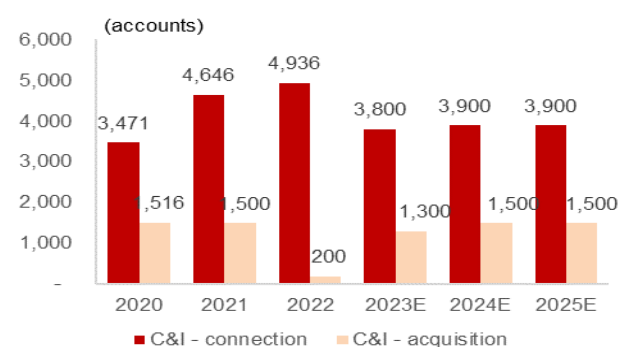
Source: Company data, CMBIGM estimates

Figure 3: TLG's city users and township users



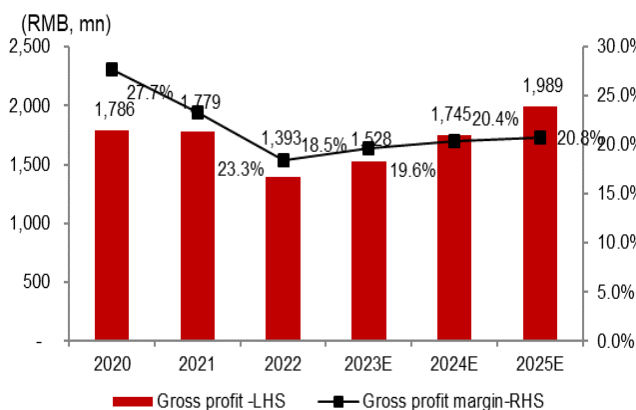
Source: Company data, CMBIGM estimates

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



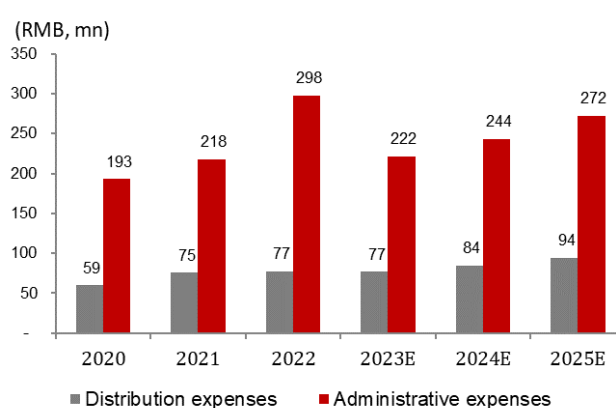
Source: Company data, CMBIGM estimates

Figure 5: Gross profit vs. gross profit margin

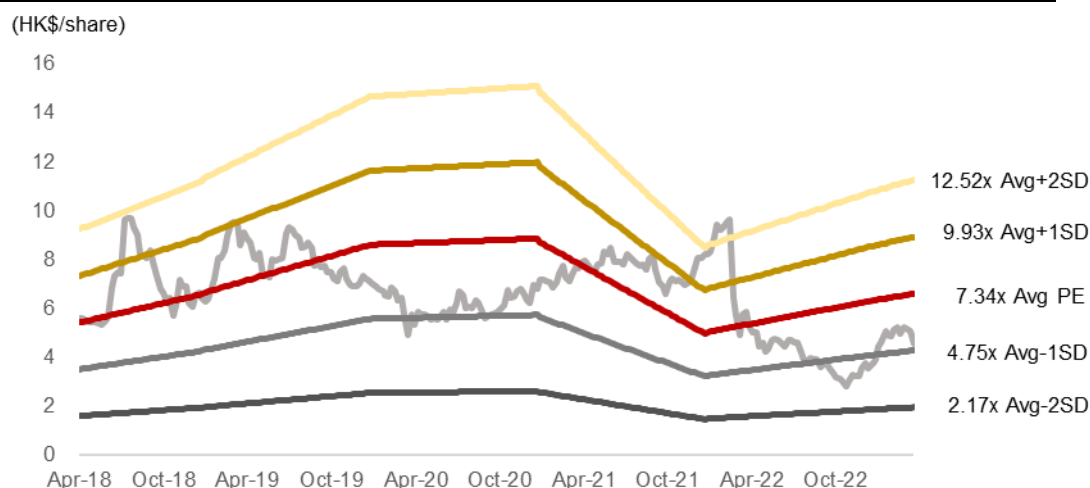


Source: Company data, CMBIGM estimates

Figure 6: Major expenses



Source: Company data, CMBIGM estimates

Figure 7: PE Band

Source: Bloomberg, CMBIGM estimates

Figure 8: Peers table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
TIAN LUN GAS HOL	1600 HK	4.60	4,646	0.71	0.81	0.94	15.1%	5.90	5.20	4.40	0.70	0.60	0.60
ENN ENERGY	2688 HK	107.10	121,139	7.65	8.34	9.33	10.4%	12.24	11.23	10.03	2.31	2.05	1.84
CHINA GAS HOLDIN	384 HK	11.10	60,388	1.27	1.44	1.60	12.4%	8.74	7.70	6.92	0.88	0.82	0.77
CHINA RES GAS	1193 HK	28.95	69,916	2.99	3.38	3.70	11.2%	9.70	8.60	7.80	1.50	1.40	1.30
TOWNGAS SMART EN	1083 HK	3.43	11,177	0.41	0.53	0.60	20.8%	8.31	6.52	5.66	0.51	0.49	0.47
KUNLUN ENERGY	135 HK	6.18	53,511	0.76	0.80	0.88	7.2%	7.10	6.73	6.18	0.73	0.69	0.64
Average								8.7	7.7	6.8	1.1	1.0	0.9

Source: Bloomberg, CMBIGM estimates

Figure 9: Revision table

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Key assumptions									
Total gas sales volume (mcbm)	2,416	2,723	3,049	2,151	2,414	2,692	-11.0%	-11.3%	-11.7%
Residential	573	626	670	563	606	648	-1.7%	-3.2%	-3.4%
C&I	1,271	1,463	1,665	1,227	1,408	1,598	-3.5%	-3.8%	-4.0%
Vehicle	91	96	101	83	87	92	-8.8%	-9.2%	-9.4%
Wholesale	480	543	613	277	313	354	-42.2%	-42.3%	-42.2%
Gas connection & construction services (Households)									
Residential	270,044	261,943	254,084	274,123	265,899	257,922	1.5%	1.5%	1.5%
C&I	3,800	3,900	3,900	3,800	3,900	3,900	0.0%	0.0%	0.0%
Financials estimation									
Revenue (Rmb mn)	8,495	9,364	10,242	7,795	8,563	9,577	-8.2%	-8.6%	-6.5%
Net Income (Rmb mn)	725	885	1,199	711	806	942	-2.0%	-8.9%	-21.4%
EPS (Rmb)	0.72	0.88	1.18	0.71	0.81	0.94	-1.3%	-8.3%	-20.1%

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	6,440	7,650	7,543	7,795	8,563	9,577
Cost of goods sold	(4,654)	(5,871)	(6,150)	(6,267)	(6,818)	(7,587)
Others	0	0	0	0	0	0
Gross profit	1,786	1,779	1,393	1,528	1,745	1,989
Operating expenses	(253)	(293)	(375)	(298)	(328)	(367)
Selling expense	(59)	(75)	(77)	(77)	(84)	(94)
Admin expense	(193)	(218)	(298)	(222)	(244)	(272)
Others	0	0	0	0	0	0
Operating profit	1,703	1,601	937	1,344	1,532	1,738
Other income	10	15	23	15	15	15
Other gains/(losses)	160	99	(104)	100	100	100
Adjusted EBITDA	1,404	1,267	565	932	1,075	1,233
Depreciation	(164)	(184)	(215)	(250)	(288)	(329)
Other amortisation	(136)	(150)	(156)	(163)	(169)	(175)
EBIT	1,703	1,601	937	1,344	1,532	1,738
Interest income	11	8	12	11	16	21
Interest expense	(250)	(236)	(325)	(363)	(375)	(388)
Net interest income/(expense)	(239)	(228)	(313)	(352)	(358)	(366)
Other income/expense	(46)	(10)	47	42	0	0
Pre-tax profit	1,418	1,363	670	1,034	1,174	1,371
Income tax	(355)	(335)	(201)	(310)	(352)	(411)
After tax profit	1,064	1,028	469	724	822	960
Minority interest	20	27	25	14	16	18
Net profit	1,044	1,001	445	711	806	942
Core net profit	895	915	445	711	806	942

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,363	5,215	5,982	5,454	6,979	4,874
Cash & equivalents	1,640	1,015	1,340	648	1,873	1,381
Restricted cash	25	177	135	250	250	250
Account receivables	1,393	1,408	1,645	1,604	1,762	0
Inventories	116	155	129	123	125	128
Financial assets at FVTPL	27	46	66	27	27	27
Other current assets	1,162	2,415	2,668	2,801	2,941	3,088
Non-current assets	8,556	9,890	9,977	11,046	10,656	11,379
PP&E	3,035	3,519	3,646	4,962	5,624	6,339
Right-of-use assets	268	272	268	312	326	340
Deferred income tax	27	27	18	34	34	34
Intangibles	4,087	5,097	4,980	4,358	4,396	4,429
Financial assets at FVTPL	62	73	140	79	79	79
Other non-current assets	1,077	902	923	1,300	197	159
Total assets	12,918	15,105	15,959	16,500	17,635	16,253
Current liabilities	4,556	4,555	5,085	4,909	5,245	3,767
Short-term borrowings	2,295	2,058	2,915	2,226	2,296	2,372
Account payables	1,364	1,419	1,162	1,567	1,705	0
Other current liabilities	436	483	430	510	608	726
Lease liabilities	4	3	2	2	2	2
Contract liabilities	458	592	576	605	635	667
Accrued expenses	0	0	0	0	0	0
Non-current liabilities	3,381	5,021	5,052	5,242	5,446	5,666
Long-term borrowings	2,770	4,248	4,288	4,417	4,556	4,706
Bond payables	0	0	0	0	0	0
Deferred income	14	13	11	13	13	13
Other non-current liabilities	597	761	752	812	877	947
Total liabilities	7,938	9,576	10,136	10,151	10,691	9,432
Share capital	8	8	9	8	8	8
Capital surplus	817	528	341	341	341	341
Retained earnings	3,317	4,145	4,440	4,882	5,380	5,257
Other reserves	556	536	719	790	870	870
Total shareholders equity	4,699	5,218	5,508	6,021	6,600	6,477
Minority interest	281	310	315	328	344	344

Total equity and liabilities	12,918	15,105	15,959	16,500	17,635	16,253
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CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,418	1,363	670	1,034	1,174	1,371
Depreciation & amortization	299	334	372	412	457	505
Tax paid	(228)	(134)	(223)	(184)	(188)	(222)
Change in working capital	(155)	(1,100)	(724)	161	(136)	(24)
Others	56	(47)	(100)	82	(15)	(14)
Net cash from operations	1,390	415	(6)	1,506	1,292	1,616
Investing						
Capital expenditure	(185)	(484)	(127)	(1,316)	(662)	(715)
Others	(680)	(1,331)	(279)	(95)	612	(535)
Net cash from investing	(865)	(1,815)	(406)	(1,411)	(50)	(1,250)
Financing						
Dividend paid	(249)	(273)	(232)	(197)	(227)	(262)
Net borrowings	(128)	1,241	897	(561)	209	226
Proceeds from share issues	(21)	(207)	57	(0)	0	(822)
Others	169	0	0	0	0	0
Net cash from financing	(230)	761	722	(758)	(18)	(858)
Net change in cash						
Cash at the beginning of the year	1,350	1,640	1,002	1,312	648	1,873
Exchange difference	(5)	0	0	0	0	0
Others	295	(638)	310	(664)	1,224	(492)
Cash at the end of the year	1,640	1,002	1,312	648	1,873	1,381
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.7%)	18.8%	(1.4%)	3.3%	9.9%	11.8%
Gross profit	4.8%	(0.4%)	(21.7%)	9.7%	14.2%	14.0%
Operating profit	18.7%	(6.0%)	(41.5%)	43.5%	14.0%	13.4%
EBIT	18.7%	(6.0%)	(41.5%)	43.5%	14.0%	13.4%
Net profit	32.2%	(4.1%)	(55.6%)	59.8%	13.5%	16.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	27.7%	23.3%	18.5%	19.6%	20.4%	20.8%
Operating margin	26.5%	20.9%	12.4%	17.2%	17.9%	18.1%
Return on equity (ROE)	na	20.2%	8.3%	12.3%	12.8%	14.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.0	1.1	1.2	1.1	1.3	1.3
Receivable turnover days	83.4	66.8	73.9	76.1	71.7	33.6
Inventory turnover days	9.1	6.5	6.9	5.9	5.3	4.8
Payable turnover days	100.6	86.5	76.6	79.5	87.6	41.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	5.2	6.3	9.2	5.9	5.2	4.4
P/B	1.2	1.2	0.8	0.7	0.6	0.7

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

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