

# CR Gas (1193 HK)

## Sound operating data in Aug with steady growth outlook

CRG's operating performance showed better recovery, with retailed/residential/industrial/commercial gas sales up by 10%/13%/10%/17% YoY in Aug. In Jan-Aug 2023, the retailed gas sales growth recorded 7.1% YoY. For dollar margin, CRG achieved RMB0.58/cbm in Aug and RMB0.52-0.53/cbm in Jan-Aug. We regard CRG can reach the target of gas sales growth of 8% YoY and a dollar margin of RMB0.5/cbm. Additionally, the strategic partnership with CNPC will strengthen gas supply and the solid comprehensive service business growth will support CRG's better performance. **We maintained our assumption and our TP of HK\$35.48. Reiterate BUY.**

- **Retailed gas sales recorded sound growth in Aug, expected CRG can reach the full-year gas sales target of 8% YoY.** For Jan-Aug, retail gas sales rose by 7.1% YoY. In particular, residential gas sales boosted by 10% YoY, maintaining steady growth, and industrial/commercial gas sales rose by over 6%/8%YoY thanks to the gas demand recovery and low base in 2H22. In Aug 2023, the operating data performed well, with residential/industrial/commercial gas sales ascended by 13%/10%/17% YoY. For 2023, CRG's mgmt. previously guided its retailed gas sales growth will achieve 8%YoY. We believe CRG will reach the target as: 1) the gas sales recovery continues monthly; 2) better gas demand with improved economy; 3) low base of 2H22; 4) the gas sales structure optimizes as the higher proportion of commercial gas sales, leading to higher profit.
- **CRG achieved a dollar margin of RMB0.52cbm in Jan-Aug 2023 with RMB0.58cbm in Aug.** For Jan-Aug 2023, CRG recorded a dollar margin rise of RMB0.09 to around RMB0.52-0.53cbm, thanks to the positive implementation of price pass-through measures. CRG's dollar margin improved to RMB0.58cbm in Aug 2023 and residential price pass-through completed around 60%, and CRG believed it will achieve 70% for 2023. Even though higher winter gas price may weigh on 4Q dollar margin, we believe CRG will slightly beat its dollar margin target of RMB0.5cbm backed by active gas price pass-through measures implementation in several regions, delivering the cost to the end-users.
- **CRG secured long-term gas supply through a strategic partnership with CNPC natural gas sales branch.** In late Aug, CRG entered into a "Strategic Framework Agreement" and "Medium to Long-Term Contract" with CNPC natural gas sales branch. They will provide medium to long-term and stable natural gas resources of 40bn cbm to CRG with a 10-year contract term. The cooperation will strengthen CRG's gas supply and business extension.
- **Slower but steady gas connection and anticipated fast-growing CSB.** (comprehensive service business). Given the loose property policies gradually introduced, we believe the pace of gas connection will tend to be steady. We maintained our residential connection in 2023 unchanged at 3.47mn. Otherwise, the gas appliance sales delivered favourable results during the promotion activities of "9.15". We believe CRG's CSB will maintain the revenue growth target of over 18% YoY.
- **Maintain TP unchanged. Reiterate BUY.** CRG is trading at 9x FY23E PE, lower than its 3-year avg. PE -1SD of 10xPE. We believe the valuation is attractive. We maintained our key assumption and TP of HK\$35.48 unchanged. We stayed optimistic about CRG's steady gas sales growth, improved dollar margin, and solid CSB development. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	78,175	94,338	95,912	98,573	104,413
Net profit (HK\$ mn)	6,395.1	4,733.5	6,189.6	7,225.6	7,706.0
EPS (Reported) (HK\$)	2.82	2.09	2.73	3.19	3.40
Consensus EPS (HK\$)	na	2.77	3.03	3.39	3.61
P/E (x)	15.5	15.2	8.6	7.3	6.9
P/B (x)	2.4	1.8	1.3	1.2	1.1
ROE (%)	12.7	8.9	11.2	12.0	11.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$35.48**  
 (Previous TP) **HK\$35.48**  
**Up/Downside** **57.7%**  
**Current Price** **HK\$22.50**  
**China Energy**

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### Stock Data

Mkt Cap (HK\$ mn)	52,065.3
Avg 3 mths t/o (HK\$ mn)	80.0
52w High/Low (HK\$)	34.68/19.03
Total Issued Shares (mn)	2,314

Source: FactSet

### Shareholding Structure

CR Company Ltd	61.5%
JPMorgan Chase & Co.	5.1%

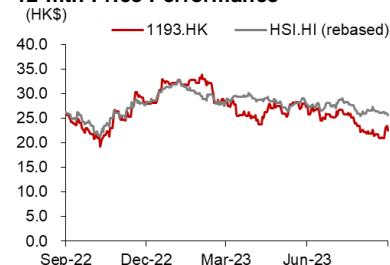
Source: HKEx

### Share Performance

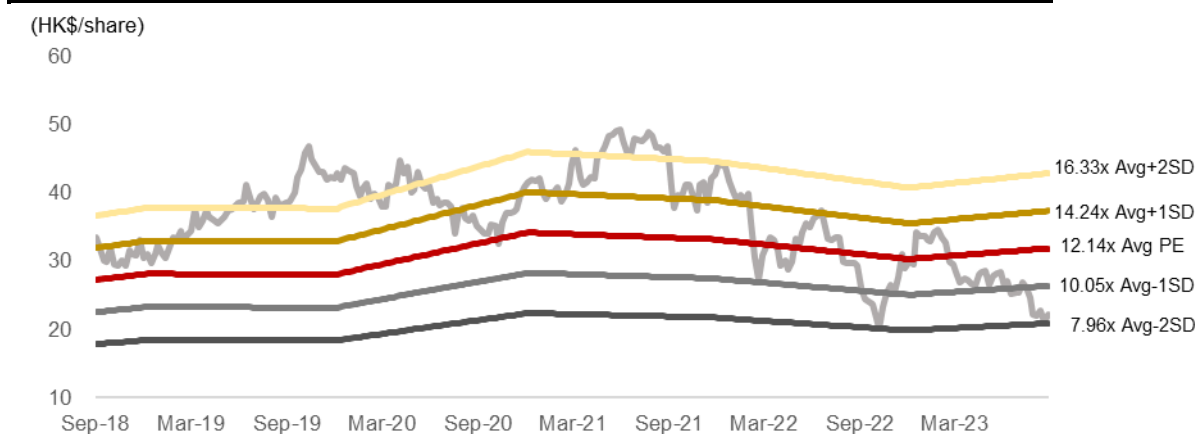
	Absolute	Relative
1-mth	1.6%	1.4%
3-mth	-17.8%	-10.5%
6-mth	-20.8%	-13.6%

Source: FactSet

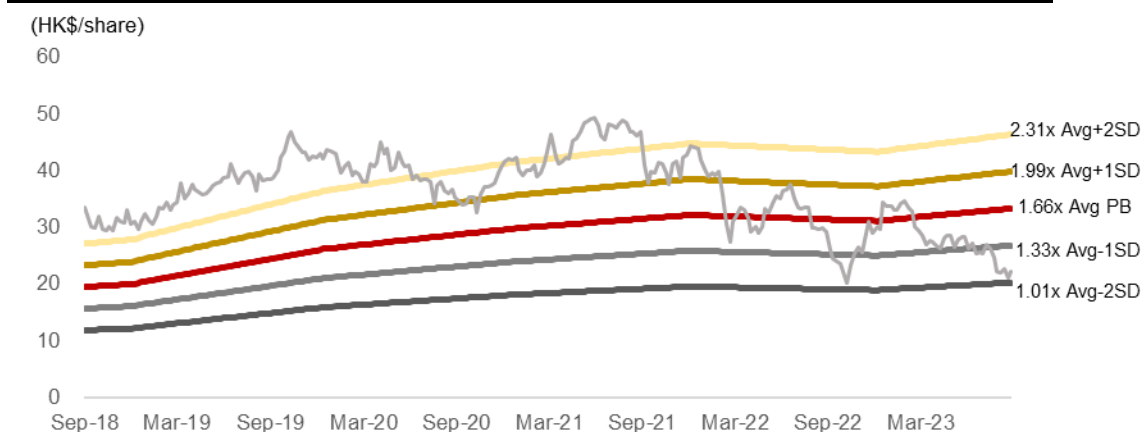
### 12-mth Price Performance



Source: FactSet

**Figure 1: PE Band**

Source: Company data, CMBIGM estimates

**Figure 2: PB Band**

Source: Company data, CMBIGM estimates

**Figure 3: Peers table**

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS				PER			PBR		
				23E	24E	25E	CAGR	23E	24E	25E	23E	24E	25E
CHINA RES GAS	1193 HK	22.50	52065.29	2.50	2.68	2.95	8.6%	9.01	8.40	7.64	1.20	1.09	1.01
TIAN LUN GAS HOL	1600 HK	3.56	3495.51	0.66	0.75	NA	NA	5.05	5.05	3.78	0.60	0.49	NA
CHINA GAS HOLDIN	384 HK	7.64	41527.78	1.14	1.09	1.22	3.4%	6.70	6.70	6.26	0.62	0.66	0.63
ENN ENERGY	2688 HK	63.75	72115.24	6.74	7.42	8.04	9.2%	8.83	8.83	7.41	1.52	1.34	1.19
TOWNGAS SMART EN	1083 HK	3.28	11002.76	0.45	0.51	0.50	5.7%	7.27	7.27	6.51	0.48	0.46	0.44
KUNLUN ENERGY	135 HK	6.72	58187.15	0.75	0.83	0.91	10.1%	8.40	8.40	6.94	0.84	0.78	0.72
Average								7.5	7.4	6.4	0.9	0.8	0.8

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	55,864	78,175	94,338	95,912	98,573	104,413
Cost of goods sold	40,837	59,880	76,256	77,242	78,481	83,578
Gross profit	15,027	18,295	18,082	18,669	20,092	20,834
Operating expenses	(7,900)	(9,594)	(10,189)	(9,498)	(9,170)	(9,087)
Selling expense	(4,664)	(5,758)	(6,303)	(5,755)	(5,422)	(5,221)
Admin expense	(3,167)	(3,825)	(3,883)	(3,741)	(3,746)	(3,863)
Others	(69)	(11)	(3)	(3)	(3)	(3)
Operating profit	7,128	8,701	7,892	9,171	10,922	11,747
Other income	1,398	1,774	771	1,439	1,479	1,566
EBITDA	10,644	13,144	11,359	12,934	14,366	15,431
Depreciation	2,054	2,592	2,598	2,217	1,862	2,019
Other amortisation	65	77	99	108	103	98
EBIT	8,525	10,475	8,663	10,610	12,401	13,314
Interest income	(449)	(382)	(557)	(566)	(582)	(617)
Others	915	1,091	510	673	692	733
Pre-tax profit	8,991	11,183	8,616	10,717	12,510	13,430
Income tax	(2,278)	(2,744)	(2,307)	(2,626)	(3,065)	(3,290)
After tax profit	6,713	8,440	6,309	8,091	9,445	10,139
Minority interest	(1,561)	(2,044)	(1,575)	(1,901)	(2,220)	(2,433)
Net profit	5,152	6,395	4,733	6,190	7,226	7,706

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	30,641	30,565	28,073	30,267	31,508	33,855
Cash & equivalents	13,442	7,563	6,437	10,923	11,612	12,788
Restricted cash	12	2,527	1	1	1	1
Account receivables	12,646	15,705	17,042	17,327	17,807	18,862
Inventories	1,007	1,142	1,307	(1,324)	(1,345)	(1,432)
Prepayment	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	3,534	3,628	3,285	3,340	3,433	3,636
Non-current assets	63,229	75,571	83,979	88,520	93,945	100,619
PP&E	40,933	47,349	48,109	51,865	56,159	60,671
Right-of-use assets	2,816	3,254	3,188	3,576	3,956	4,349
Deferred income tax	345	463	509	517	532	563
Investment in JVs & assos	12,115	12,992	17,073	17,358	17,840	18,897
Intangibles	2,816	3,254	3,188	3,576	3,956	4,349
Goodwill	904	1,274	2,540	2,582	2,654	2,811
Financial assets at FVTPL	153	165	2,226	2,263	2,326	2,464
Other non-current assets	3,147	6,820	7,146	6,783	6,522	6,516
Total assets	93,871	106,136	112,052	118,787	125,453	134,475
Current liabilities	39,023	48,698	46,234	47,949	48,731	51,328
Short-term borrowings	2,548	616	7,696	7,696	7,696	7,696
Account payables	20,193	26,185	27,046	28,569	29,027	30,913
Tax payable	934	969	880	894	919	973
Other current liabilities	74	5,620	22	22	23	24
Lease liabilities	99	122	103	104	107	114
Contract liabilities	15,174	15,186	10,489	10,664	10,959	11,609
Non-current liabilities	7,980	3,401	13,277	13,321	13,395	13,558
Long-term borrowings	299	296	10,021	10,021	10,021	10,021
Deferred income	1,196	1,317	1,566	1,592	1,636	1,733
Other non-current liabilities	6,486	1,788	1,691	1,708	1,738	1,804
Total liabilities	47,002	52,099	59,511	61,270	62,126	64,885
Share capital	36,274	41,257	39,335	42,410	46,000	49,829
Total shareholders equity	46,868	54,038	52,540	57,517	63,327	69,589
Minority interest	10,594	12,781	13,206	15,107	17,327	19,760
Total equity and liabilities	93,871	106,136	112,052	118,787	125,453	134,475

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	6,713	8,440	6,309	8,091	9,445	10,139
Depreciation & amortization	2,118	2,669	2,696	2,324	1,965	2,117
Change in working capital	(642)	221	(2,592)	4,006	230	1,426
Others	(3,153)	(4,214)	3,124	(417)	(705)	(1,547)
<b>Net cash from operations</b>	<b>5,036</b>	<b>7,115</b>	<b>9,537</b>	<b>14,004</b>	<b>10,935</b>	<b>12,136</b>
<b>Investing</b>						
Capital expenditure	(5,613)	(5,978)	(6,258)	(6,363)	(6,539)	(6,927)
<b>Net cash from investing</b>	<b>(5,613)</b>	<b>(5,978)</b>	<b>(6,258)</b>	<b>(6,363)</b>	<b>(6,539)</b>	<b>(6,927)</b>
<b>Financing</b>						
Dividend paid	(2,076)	(2,347)	(2,382)	(3,114)	(3,636)	(3,877)
Others	(38)	(30)	(2,022)	(42)	(71)	(156)
<b>Net cash from financing</b>	<b>(2,114)</b>	<b>(2,377)</b>	<b>(4,404)</b>	<b>(3,156)</b>	<b>(3,707)</b>	<b>(4,033)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	13,237	13,442	7,563	6,438	10,923	11,612
Others	206	(5,879)	(1,125)	4,485	689	1,176
<b>Cash at the end of the year</b>	<b>13,442</b>	<b>7,563</b>	<b>6,438</b>	<b>10,923</b>	<b>11,612</b>	<b>12,788</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	na	39.9%	20.7%	1.7%	2.8%	5.9%
Gross profit	na	21.7%	(1.2%)	3.2%	7.6%	3.7%
Operating profit	na	22.1%	(9.3%)	16.2%	19.1%	7.6%
EBITDA	na	23.5%	(13.6%)	13.9%	11.1%	7.4%
EBIT	na	22.9%	(17.3%)	22.5%	16.9%	7.4%
Net profit	na	24.1%	(26.0%)	30.8%	16.7%	6.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	26.9%	23.4%	19.2%	19.5%	20.4%	20.0%
Operating margin	12.8%	11.1%	8.4%	9.6%	11.1%	11.3%
EBITDA margin	19.1%	16.8%	12.0%	13.5%	14.6%	14.8%
Return on equity (ROE)	na	12.7%	8.9%	11.2%	12.0%	11.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Current ratio (x)	0.8	0.6	0.6	0.6	0.6	0.7
Receivable turnover days	82.6	73.3	65.9	65.9	65.9	65.9
Inventory turnover days	9.0	7.0	6.3	6.3	6.3	6.3
Payable turnover days	180.5	159.6	129.5	135.0	135.0	135.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	16.9	15.5	15.2	8.6	7.3	6.9
P/E (diluted)	16.9	15.5	15.2	8.6	7.3	6.9
P/B	2.4	2.4	1.8	1.3	1.2	1.1

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

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