

Tian Lun Gas (1600 HK)

Resilient 1H20 earnings; 2H to resume growth

TLG delivered resilient 1H20 results. Core earnings stripping out FX impact increased 3.5% YoY to RMB424mn. The resilient performance was driven by stable connection (139k households) and expanded gas dollar margin (+RMB2 cents/cbm) during 1H20. Cash flow performance was also impressive with RMB260mn free cash inflow and well controlled township connection receivables collection. We trim FY20-22E EPS forecast by 3.8-6.6% based on guidance update and more conservative assumptions. At FY20/21E 6.2/5.3x PER, we see valuation undemanding with attractive dividend yield (FY20E:4.9%). **Maintain BUY with TP unchanged at HK\$7.45.**

- **Resilient 1H20 performance.** Gas sales volume declined 3.6% YoY, dragged by 0.9%/25.4% decline in C&I/wholesale gas, but largely offset by 16.2%/4.0% increase in residential and vehicle gas volume. Overall gas sales leaned to higher margin business, which boosted gas dollar margin by RMB2 cents/cbm. Residential connection remained stable at 379k households (city/township at 139k/240k), down 2.9% only, significantly outperforming peers connection. Major expenses maintained well control with interest costs declined 5.4%. Net profit was RMB375mn, down 7.4% YoY. If stripping out FX losses and non-recurring items, core profit was RMB424mn, up 3.5% YoY. TLG declared interim dividend of RMB0.114 per share, representing 30.4% 1H20 payout ratio.
- **Impressive cash flow performance.** TLG recorded RMB260mn free cash in 1H20, continuing its good cash flow performance from 2H19. Strong cash flow was mainly driven by township connection receivables, as the Company collected RMB318mn in 1H20, and received another RMB366mn in Aug. Since Yuzi Fund has sufficient funding support, TLG expects to collect RMB1.3-1.5bn township related receivable, well enough to cover CAPEX budget of RMB1bn in 2020. We expect TLG's free cash flow to remain strong in 2H20.
- **Mgmt. trimmed FY20 guidance.** Mgmt. revised FY20 guidance in view of uncertainties with COVID-19, including 1) gas volume growth from 12-15% to 10%; and 2) core earnings growth from 12-15% to 10%, while maintaining 900k households and dividend payout ratio at 29% unchanged. On the back of improving gas sales structure, TLG also expects gas dollar margin to expand slightly on a YoY basis. Based on expanding dollar margin and stable connection outlook, we think it will be easy for TLG to achieve the earnings goal.
- **Undemanding valuation with attractive yield.** We saw qualitative improvement following TLG's several half year results from 2H18. Strong cash flow performance and stable earnings release had proved TLG's sustainable growth. Trading at FY20/21E 6.2/5.3x PER, we see valuation undemanding and offering attractive dividend yield at FY20E 4.9%. Maintain BUY with TP unchanged at HK\$7.45. Our TP reflects FY20/21E PER of 7.4/6.4x.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,113	6,549	7,013	7,919	8,830
Net income (RMB mn)	569	789	907	1,062	1,165
EPS (RMB)	0.58	0.80	0.91	1.06	1.17
YoY growth (%)	47.6	38.4	14.0	17.1	9.7
Consensus EPS (RMB)	N/A	N/A	0.966	1.128	1.195
P/E (x)	9.7	7.0	6.1	5.3	4.8
P/B (x)	1.70	1.43	1.23	1.05	0.91
Yield (%)	2.8	4.2	4.9	5.7	6.3
ROE (%)	17.5	20.5	20.0	20.0	19.0
Net gearing (%)	115.7	91.4	76.4	69.4	59.0

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.45
(Previous TP)	HK\$7.45)
Up/Downside	+22.1%
Current Price	HK\$6.10

China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,931
Avg 3 mths t/o (HK\$ mn)	6.54
52w High/Low (HK\$)	8.23/4.63
Total Issued Shares (mn)	1,004

Source: Bloomberg

Shareholding Structure

Tianlun Group	65.5%
IFC Assets Mgmt.	9.2%
Free float	25.3%

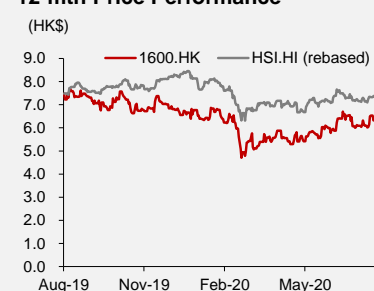
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.5%	-4.9%
3-mth	4.6%	-4.4%
6-mth	-7.5%	-2.8%
12-mth	-25.5%	-25.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Tian Lun Gas (1600 HK) – "Gas sales resumed growing pace" – 24 Jun 2020
2. Tian Lun Gas (1600 HK) – "FY19 earnings miss; turning to stable growth" – 2 Apr 2020
3. 'Tian Lun Gas (1600 HK) - 1H19 earnings beat; growth to sustain in 2H19' - 23 Aug 2019

Figure 1: 1H20 results summary and our comments

(Rmb, mn)	1H19	2H19	2019	1H20A	YoY	Our Comments
Revenue	3,150	3,398	6,549	2,996	-4.9%	
Transportation and sales of gas	1,495	1,379	2,874	1,462	-2.2%	Gas volume declined 3.9%
Transmission pipeline	495	693	1,188	323	-34.8%	Transmission volume declined
Engineering construction services	1,099	1,256	2,355	1,142	3.9%	Largely flat with new supporting facilities construction
Others	61	71	132	69	13.0%	
Costs of sales	-2,321	-2,524	-4,845	-2,159	-7.0%	Lower gas costs
Gross profit	829	874	1,704	836	0.8%	Mainly driven by gas dollar margin expansion
Gross profit margin	26.3%	25.7%	26.0%	27.9%	1.6ppt	
Distribution expenses	-23	-35	-58	-24	3.9%	
Administrative expenses	-84	-112	-196	-87	3.5%	
Other income	3	1	4	2	-30.4%	
Other gains/losses, net	-12	-7	-19	-48	298.3%	
Operating profit	714	721	1,435	680	-4.7%	
Finance income	19	7	25	4	-79.0%	
Finance expenses	-139	-152	-291	-132	-5.4%	
Finance expenses, net	-121	-145	-266	-128	5.9%	Interest rate for US\$ borrowings decline in 1H20
Share of post-tax profit of associates	-18	-25	-42	-14	-21.7%	
Profit before income tax	575	551	1,127	539	-6.4%	
Income tax expense	-154	-160	-314	-151	-2.2%	
Effective tax rate	26.8%	29.0%	27.9%	28.0%	1.2ppt	
Profit for the year	421	514	935	388	-8.0%	
Less: non-controlling interests	16	8	24	12	-23.6%	
Net profit	405	384	789	375	-7.4%	Net profit beat our est. by 7.2%
Adjusted net profit (Ex FX impacts)	410	401	811	424	3.5%	Core profit added back net FX loss impacts

Source: Company data, CMBIS

Figure 2: 1H20 operating measures and segment results

Operating measures					
Gas sales volume -mcbm	741	825	1,566	715	-3.6%
Residential	152	160	313	177	16.2%
C&I	361	154	515	358	-0.9%
Vehicle	35	121	156	36	4.0%
Wholesale gas volume	193	274	467	144	-25.4%
Retail gas dollar margin - (RMB VAT excl.)	0.54	0.56	0.55	0.56	3.7%
Gas connection	392	451	843	380	-2.9%
City gas users (k HH)	141	120	261	139	-1.2%
Township coal to gas users (k HH)	250	328	578	240	-3.8%
C&I users	1,152	2,279	3,431	1,177	2.2%
Connection fee (RMB/HH)					
City gas users	2,605	n/a	2,606	2,592	-0.5%
Township coal to gas users	2,752	n/a	2,752	2,752	0.0%
Segment results					
Transportation and sales of gas	159	180	339	172	7.8%
Transmission pipeline	48	39	87	20	-58.0%
Engineering construction services	489	496	986	506	3.5%
Others	32	21	54	36	11.2%
Segment profit margin					
Transportation and sales of gas	10.7%	13.0%	11.8%	11.7%	1.1ppt
Transmission pipeline	9.7%	5.7%	7.4%	6.3%	-3.5ppt
Engineering construction services	44.5%	39.5%	41.8%	44.3%	-0.2ppt
Others	53.1%	30.2%	40.8%	52.3%	-0.8ppt

Source: Company data, CMBIS

Figure 3: Assumptions and earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Key assumptions									
Total gas sales volume (mcbm)	1,727	2,034	2,324	1,670	1,982	2,267	-3.3%	-2.5%	-2.4%
Residential	385	463	535	385	463	535	0.0%	0.0%	0.0%
C&I	562	746	914	597	781	951	6.2%	4.8%	4.0%
Transportation	158	161	163	158	172	176	0.0%	7.2%	7.7%
Wholesale	495	525	558	420	445	473	-15.1%	-15.2%	-15.3%
Long-haul pipeline transmission (mcbm)	921	999	1,084	800	991	1,077	-13.2%	-0.8%	-0.7%
Gas connection & construction services (Households)									
Annual residential connection	287,005	309,966	328,564	287,005	309,966	328,564	0.0%	0.0%	0.0%
Annual C&I connection	3,850	3,780	3,780	3,850	3,780	3,780	0.0%	0.0%	0.0%
Annual Coal to gas conversion	600,000	600,000	600,000	600,000	600,000	600,000	0.0%	0.0%	0.0%
Financials estimation									
Revenue (Rmb mn)	7,231	8,229	9,175	7,013	7,919	8,830	-3.0%	-3.8%	-3.8%
Net Income (Rmb mn)	971	1,130	1,211	907	1,062	1,165	-6.6%	-6.0%	-3.8%
EPS (Rmb)	0.97	1.13	1.21	0.91	1.06	1.17	-6.6%	-6.0%	-3.8%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,113	6,549	7,013	7,919	8,830
Gas Sales	2,261	2,874	3,358	4,046	4,711
Transmission pipeline	909	1,188	992	1,049	1,111
Connection fee	679	779	844	902	951
CTG conversion	1,043	1,591	1,620	1,620	1,620
Others	137	132	199	301	437
Costs of sales	(3,685)	(4,845)	(5,171)	(5,860)	(6,562)
Gross profit	1,428	1,704	1,842	2,059	2,267
OPEX & other gains	(338)	(269)	(311)	(295)	(330)
Distribution expenses	(41)	(58)	(62)	(70)	(78)
Administration expenses	(167)	(196)	(207)	(234)	(260)
Other income	9	4	5	5	5
Other gains/loss, net	(139)	(19)	(47)	4	4
EBIT	1,091	1,435	1,531	1,763	1,937
Finance income	80	25	31	38	47
Finance expenses	(261)	(291)	(273)	(304)	(334)
Finance expenses, net	(181)	(266)	(242)	(266)	(287)
Exceptional	-	-	-	-	-
Pre-tax profit	865	1,127	1,321	1,532	1,689
Income tax	(264)	(314)	(386)	(437)	(488)
Less: Minority interests	31	24	28	33	36
Net profit	569	789	907	1,062	1,165

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	865	1,127	1,321	1,532	1,689
Depreciation and amortization	238	275	299	344	392
Change in working capital	(641)	(197)	280	(197)	(50)
Taxation	(107)	(151)	(345)	(332)	(369)
Others	108	(82)	122	(14)	(14)
Net cash from operation	463	971	1,678	1,333	1,648
Capex & investments	(1,318)	(259)	(1,357)	(1,204)	(1,302)
Others	277	9	-	-	-
Net cash from investments	(1,041)	(250)	(1,357)	(1,204)	(1,302)
Equity raised	(18)	22	0	0	0
Change of Debts	1,551	(226)	548	592	639
Dividend paid	(74)	(191)	(252)	(295)	(334)
Others	-	-	-	-	-
Net cash from financing	998	(451)	297	297	305
Net change in cash	420	271	618	426	651
Cash at the beginning of the year	678	1,076	1,350	1,968	2,393
Exchange difference	(22)	3	-	-	-
Cash at the end of the year	1,076	1,350	1,968	2,393	3,045
Cash at balance sheet	1,076	1,350	1,968	2,393	3,045

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	7,902	8,041	9,144	10,031	10,948
Lease prepayments	223	-	-	-	-
PPE	2,679	2,850	3,648	4,401	5,207
Intangible assets	3,787	3,875	3,953	4,027	4,094
Investments	857	806	989	1,024	1,063
Other non-current assets	356	509	553	579	584
Current assets	3,532	3,898	4,284	5,054	5,917
Trade and other receivables	1,462	1,548	1,225	1,536	1,713
Financial assets at fair value	305	51	51	51	51
Cash and cash equivalents	1,076	1,350	1,968	2,393	3,045
Other current assets	689	950	1,041	1,074	1,109
Current liabilities	3,467	3,313	3,500	3,854	4,220
Trade and other payables	1,245	1,202	1,293	1,406	1,509
Advances from customers	375	469	454	499	549
Borrowings	1,608	1,312	1,435	1,583	1,743
Others	240	329	319	365	419
Non-current liabilities	4,423	4,439	5,057	5,561	6,107
Borrowings	3,810	3,880	4,306	4,749	5,229
Other payables	137	-	138	138	138
Deferred income	475	547	601	661	727
Deferred income tax liabilities	1	12	12	13	13
Total Equity	3,544	4,187	4,871	5,671	6,538
Minority Interest	294	297	325	357	393
Shareholders' equity	3,250	3,891	4,546	5,313	6,144

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Gas Sales	44.2	43.9	47.9	51.1	53.4
Transmission pipeline	17.8	18.1	14.1	13.3	12.6
Connection fee	13.3	11.9	12.0	11.4	10.8
CTG conversion	20.4	24.3	23.1	20.5	18.3
Others	2.7	2.0	2.8	3.8	4.9
Total	98.4	100.2	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	27.9	26.0	26.3	26.0	25.7
Operating margin	21.3	21.9	21.8	22.3	21.9
Pre-tax margin	16.9	17.2	18.8	19.3	19.1
Net margin	11.1	12.0	12.9	13.4	13.2
Effective tax rate	30.6	27.9	29.2	28.5	28.9
Balance sheet ratios					
Current ratio (x)	1.0	1.2	1.2	1.3	1.4
Quick ratio (x)	0.5	0.5	0.6	0.8	0.8
Debtors turnover days	76.0	83.9	72.1	63.6	67.2
Total debt / equity ratio (%)	152.9	124.0	117.9	111.7	106.6
Net debt / equity ratio (%)	115.7	91.4	76.4	69.4	59.0
Returns (%)					
ROE	17.5	20.5	20.0	20.0	19.0
ROA	5.0	6.6	6.8	7.0	6.9
Per share					
EPS (RMB)	0.58	0.80	0.91	1.06	1.17
DPS (RMB)	0.15	0.23	0.27	0.32	0.35
BVPS (RMB)	3.28	3.89	4.55	5.32	6.15

Source: Company data, CMBIS estimates

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