

China Gas Holdings (384 HK)

Gas sales to slow, but earnings remain resilient

CGH is resuming operations following local government's instruction. Mgmt. saw mild impacts on gas sales volume from Covid-19 disruption, as 1) CGH only has ~6% gas sales exposures in Hubei; 2) outside Hubei, C&I gas sales impact won't last long; and 3) residential connection is only subject to slight impact due to low season in 1Q. Warm winter and Russia supply delay also caused slight drag on gas sales. We trim CGH's earnings FY20-22E earnings outlook slightly. Reiterate BUY with TP unchanged at HK\$38.0.

- **Mild impacts from Covid-19 outbreak.** We estimate CGH will suffer 3.6% gas sales volume loss due to pandemic disruption in our base case analysis for 3 months impact in Hubei and 7 weeks recovery for C&I gas consumption outside Hubei. We also expect increasing residential gas consumption to compensate part of sales loss from C&I users. Overall, we estimate only 0.5% earnings decline from gas sales volume decline due to Covid-19 in FY20/21E.
- **Residential connection remains intact.** Mgmt. expects labor return delay will have limited impact to annual connection target in FY20/21E, as Jan-Feb is normally construction low season, and CGH 1) had fulfilled most of connection works by Dec-19 for FY20E, and 2) construction pace for FY21E can be boosted up in the following months for potential delay in Feb-Mar. In the worst case, we expect CGH to cut 300-400k household connection target in FY21E, which we estimate to bring about ~1.7% earnings decline.
- **Warm winter suppress gas consumption.** According to preliminary data, mgmt. found CTG users' gas consumption lower than expectation due to warm winter. We revise our average gas usage assumption down by 15% from 665cbm to 565cbm, and estimate it will bring about 223mcbm gas volume decline to CGH, accounting for ~1.2% of retail gas volume.
- **Russia gas experienced slight delay.** According to mgmt. the new pipeline started gas supply to Harbin City from 21 Jan, 2020, with short-term supply constrain at about 0.25mcbm. Russia gas' supply progress was slightly lagging behind due to some testing and improvement works. We expect Russia gas supply will ramp up soon, and we maintain outlook that CGH's project in NE areas will reach 900mcbm additional gas supply in FY21E.
- **Maintain BUY with TP unchanged at HK\$38.00.** We trim CGH's FY20-22E EPS outlook slightly by 0.8%/0.9%/0.7%. Factored in all the potential impacts, we expect CGH's gas sales volume growth to slow from 24% to 20% in FY20E, while FY21E gas sales outlook is largely intact. We think CGH's earnings would be resilient in a volatile market with high uncertainties.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	52,832	59,386	66,912	79,687	93,736
YoY growth (%)	65.1	12.4	12.7	19.1	17.6
Net income (HK\$ mn)	6,095	8,224	9,758	11,351	13,248
EPS (HK\$)	1.23	1.63	1.87	2.18	2.54
YoY growth (%)	45.2	32.7	14.8	16.3	16.7
P/E (x)	24.3	18.3	15.9	13.7	11.7
P/B (x)	5.2	4.4	3.6	3.0	2.5
Yield (%)	1.2	1.5	1.8	2.1	2.4
ROE (%)	21.4	24.1	22.9	22.2	21.7
Net gearing (%)	83.8	69.1	70.9	64.6	56.9

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$38.0**
 (Previous TP **HK\$38.0**)
 Up/Downside **+27.7%**
 Current Price **HK\$29.75**

China Gas Distributor

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Stock Data

Mkt Cap (HK\$ mn)	155,252
Avg 3 mths t/o (HK\$ mn)	232
52w High/Low (HK\$)	34.95/22.80
Total Issued Shares (mn)	5,219
Source: Bloomberg	

Shareholding Structure

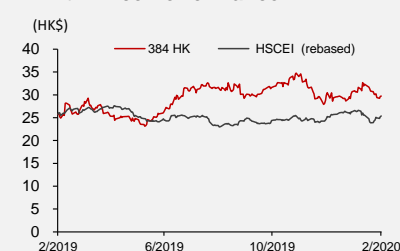
Beijing Enterprise	22.9%
Liu Minghui	20.9%
Chiu Tat Jung	18.8%
SK E&S	11.7%
Free float	24.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-3.4%	0.7%
3-mth	-12.8%	-14.4%
6-mth	-5.6%	-12.7%
12-mth	18.8%	21.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. China Gas Distributors – Scenario analysis on COVID-19's impact – 12 Feb 2020
2. China Gas Holdings (384 HK, initiation) – Leaping with “Beautiful China” – 12 Dec 2019

Figure 1: CGH's projects exposure in Hubei Province by FY18; we estimate Hubei residential/C&I accounted for 8.4%/8.4% of CGH's total residential/C&I users.

Company Name	Ticker / Project name	项目名称/project count	Residential accounts	Industrial accounts	Commercial accounts
CRG	384 HK	36	1,966,412	811	14,435
	Yichang	宜昌	388,210	108	3,505
	Xiaogan	孝感	209,012	96	1,678
	Hanchuan	漢川	71,402	147	572
	Yingcheng	應城	80,095	32	587
	Yunmeng	雲夢	61,952	38	465
	Suizhou	隨州	158,221	65	1,010
	Tianmen	天門	80,324	34	556
	Dangyang	當陽	54,747	48	506
	Wuhan Qingshan District	武漢青山區			
	Huhan Jiangnan District	武漢江南	71,881		626
	Laohekou	老河口	67,738	59	571
	Danjiangkou	丹江口	52,782	45	635
	Yuanan	遠安	12,494	15	70
	Dawu County	大悟縣	5,886	5	9
	Yun County	鄖縣	34,217	19	97
	Wuxuetian Industrial Park	武穴田工業園			
	Shiyan Wudangshan Region	十堰武當山特區	12,625	12	98
	Fang County	房縣			
	Donghu High-Tech Park	東湖高新區			
	Jianli County	監利縣			
	Honghu	洪湖市	36,999		
	Songzi	松滋市	31,933		
	Wuhan Xinzhou District	武漢市新州區	21,104		
	Wuxue	武穴市	39,842		
	Yingshan County	英山縣	13,603		
	Tuanfeng County	團風縣	17,966	88	3450
	Huangmei County Longan Lake District	黃梅縣龍感湖區	4,230	0	
	Huanggang	黃岡市	127,876		
	Laishui County	浠水縣	34,302		
	Wuxue, Meichuan Town	武穴市梅川鎮	8,945		
	Huangmei County	黃梅縣	38,253		
	Shiyan	十堰	229,773		
	Zigui County	秭歸縣			
	Huangshi Gang Industrial Park	黃石港工業園區			
	Luxi County	鄖西縣			
	Xiaogan Hith-tech Park	孝感高新區			

Source: Company data, CMBIS

Note: data extract from CGH's FY18 Annual report.

Figure 2: Earnings revision

	Old			New			Change(%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Total gas sales volume (mcbm)	28,771	36,510	45,100	27,988	35,264	43,839	-2.7%	-3.4%	-2.8%
Retail gas sales volume (mcbm)	18,364	23,501	29,489	17,841	22,834	28,922	-2.8%	-2.8%	-1.9%
Residential connection (CTG incl. mm HH)	5.57	5.47	5.22	5.57	5.47	5.22	0.0%	0.0%	0.0%
Revenue (HK\$, mn)	67,826	80,853	94,725	66,912	79,687	93,736	-1.3%	-1.4%	-1.0%
Net Income (HK\$,mn)	9,841	11,458	13,342	9,758	11,351	13,248	-0.8%	-0.9%	-0.7%
EPS (HK\$)	1.89	2.20	2.56	1.87	2.18	2.54	-0.8%	-0.9%	-0.7%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	52,832	59,386	66,912	79,687	93,736
Costs of sales	(41,161)	(45,327)	(49,571)	(59,549)	(70,495)
Gross profit	11,671	14,059	17,341	20,138	23,241
Other income	564	786	747	811	909
Other gains and losses	165	295	50	50	50
Selling and distribution	(1,616)	(1,820)	(2,051)	(2,402)	(2,779)
Administrative expenses	(1,988)	(2,442)	(2,752)	(3,237)	(3,761)
Profit from associates	497	520	517	618	727
Profit from JVs	758	1,132	1,283	1,494	1,737
Share-based payments	(644)	(63)	(200)	(200)	(200)
EBIT	9,408	12,467	14,937	17,271	19,924
Finance costs	(808)	(1,284)	(1,467)	(1,577)	(1,719)
Pre-tax profit	8,600	11,183	13,469	15,694	18,205
Income tax	(1,931)	(2,198)	(2,809)	(3,294)	(3,732)
Less: Minority interests	(574)	(760)	(902)	(1,049)	(1,225)
Net profit	6,095	8,224	9,758	11,351	13,248

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	8,600	11,183	13,469	15,694	18,205
Depreciation and	1,174	1,326	1,714	2,021	2,330
Change in working capital	(2,261)	7,038	(3,386)	460	(1,021)
Taxation	(1,580)	(1,874)	(2,780)	(3,066)	(3,525)
Others	512	(7,556)	(1,052)	(924)	(1,141)
Net cash from operating	6,446	10,117	7,966	14,185	14,848
Capex & investments	(13,175)	(11,816)	(11,628)	(14,112)	(13,296)
Others	6,007	784	-	-	-
Net cash from investing	(7,168)	(11,032)	(11,628)	(14,112)	(13,296)
Equity raised	0	3,785	451	525	612
Change of Debts	8,754	5,526	3,940	3,940	3,940
Dividend paid	(1,606)	(2,172)	(2,886)	(3,396)	(3,955)
Others	(3,240)	(804)	-	-	-
Net cash from financing	3,908	6,335	1,505	1,068	597
Net change in cash	3,186	5,419	(2,157)	1,142	2,148
Cash at the beginning of the	4,725	8,246	13,239	11,082	12,224
Exchange difference	336	(427)	-	-	-
Cash at the end of the year	8,246	13,239	11,082	12,224	14,372
Cash at balance sheet	8,246	13,239	11,082	12,224	14,372

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	57,181	68,277	78,442	90,537	101,513
Investment properties	273	556	561	566	571
PPE	34,088	42,965	51,102	58,921	66,413
Prepaid lease payments	1,997	2,148	2,525	2,855	3,153
Investment in associates	5,925	5,746	5,746	8,081	9,408
Investment in joint	6,424	8,022	9,335	10,859	12,626
Others non-current assets	8,474	8,840	9,172	9,255	9,341
Current assets	24,877	41,603	44,778	50,322	55,767
Inventories	3,069	3,412	3,881	4,610	5,415
Amount due from	3,167	-	-	-	-
Contract assets	-	7,185	10,021	11,381	11,640
Trade receivables	9,019	10,061	11,816	14,072	16,247
Bank balances and cash	8,246	13,239	11,082	12,224	14,372
Other current assets	1,376	7,706	7,978	8,036	8,093
Current liabilities	27,102	46,644	48,127	53,854	56,761
Trade and other payables	14,045	23,699	23,794	26,797	26,788
Amount due to customers	943	-	-	-	-
Contract liabilities	-	5,168	6,208	7,137	8,279
Taxation	944	1,245	1,264	1,482	1,680
Bank and other borrowings	11,079	16,408	16,736	18,312	19,888
Other current liabilities	91	125	126	126	127
Non-current liabilities	22,226	22,453	26,085	28,469	30,853
Borrowings	21,293	21,491	25,103	27,467	29,831
Deferred income tax	933	962	982	1,002	1,022
Total net assets	32,730	40,782	49,008	58,536	69,666
Minority Interest	4,274	5,461	6,363	7,412	8,637
Shareholders' equity	28,456	35,321	42,644	51,123	61,029

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Sales of piped gas	42.8	45.6	47.2	50.1	53.8
Gas connection	21.4	21.0	21.2	17.3	14.0
Sales of LPG	30.2	26.8	22.8	21.8	19.5
Value-added service	5.6	6.6	8.7	9.6	10.6
Others	-	-	-	1.1	2.2
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Operating margin	17.8	21.0	22.3	21.7	21.3
Pre-tax margin	16.3	18.8	20.1	19.7	19.4
Net margin	11.5	13.8	14.6	14.2	14.1
Effective tax rate	22.5	19.7	20.9	21.0	20.5
Balance sheet ratios					
Current ratio (x)	0.92	0.89	0.93	0.93	0.98
Quick ratio (x)	11.6	9.7	10.2	11.0	11.6
Cash ratio (x)	0.3	0.3	0.2	0.2	0.3
Inventory turnover days	16.4	19.9	19.9	19.4	19.5
Receivable turnover days	52.1	58.6	59.7	59.3	59.0
Payable turnover days	105	152	175	155	139
Total debt / equity ratio (%)	98.9	92.9	85.4	78.2	71.4
Net debt / equity ratio (%)	83.8	69.1	70.9	64.6	56.9
Returns (%)					
ROE	21.4	24.1	22.9	22.2	21.7
ROA	7.4	7.5	7.9	8.1	8.4
Per share					
EPS (HK\$)	1.23	1.63	1.87	2.18	2.54
DPS (HK\$)	0.35	0.44	0.53	0.62	0.72
BVPS (HK\$)	5.7	6.8	8.17	9.80	11.69

Source: Company data, CMBIS estimates

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