

Tian Lun Gas (1600 HK)

FY19 earnings miss; turning to stable growth

TLG's FY19 net profit was RMB789mn, up 38.7% YoY, but 15.7% lower than our estimates. Earnings miss was mainly due to 1) township coal to gas connection less than expected; 2) city gas sales GPM declined by 1.3ppt YoY; and 3) city gas sales volume was slightly lower than our estimates. Though FY19 earnings miss estimates, we still find TLG's overall performance satisfactory as earnings were on track at an accelerating pace during FY17-19. Looking forward, we expect TLG's earnings growth to turn stable but more sustainable. At 4.9x FY20E P/E, we think valuation has room to catch up peers. **We cut TP to HK\$7.45, maintain BUY.**

- Earnings surged 38.7% YoY.** Revenue reached RMB6.5bn, up 28.1% YoY, and gross profit realized RMB1.7bn with GPM declined 1.9ppt YoY to 26.0%. Both figures were lower than our estimates mainly due to lower township coal to gas connection figures and less-than-expected C&I gas sales in 2H19. Dollar margin declined 2.5% YoY to RMB0.55/cbm, which led to a slight squeeze to piped gas sales GPM by 1.3ppt. Major expenses and finance costs maintained good control. Net profit was RMB789mn, up 38.7% YoY. Final dividend would be RMB0.12, boosting payout ratio from 26.7% to 29.4%.
- FY20 guidance: turning to stable growth.** After 2-yr's earnings acceleration backed by township gas connection, mgmt. decides to shift gear to stable growth mode, through 1) stabilizing annual township gas user connection scale to 600k per year, while 2) maintaining active to pursue high quality M&A opportunities, and 3) continue to develop existing project through organic growth. For FY20, mgmt. aims to connect 900k city residential and township households, achieve 12-15% gas sales volume growth, and raise value added service revenue to RMB200mn with a GP contribution of RMB100mn.
- COVID-19 impacts to be mild.** Mgmt. sets core earnings growth target at 12-15% in FY20E, which we think is a little bit conservative based on operating guidance. Mgmt. disclosed that gas sales volume declined 6% YoY in 1Q20 due to COVID-19, and gas sales volume has been recovering in Mar. Mgmt. see mild impact for annual gas sales. Given various economy stimulus policies, mgmt. is confident that gas sales growth will resume in the rest of the year.
- Not demanding valuation.** Based on updated operating target and considering impacts from COVID-19, we cut 1) township connection by 20/25%, 2) C&I gas sales by 32.3/32.7% in FY20/21E, respectively. As TLG has improving expenses structure and well controlled finance costs, our EPS for FY20/21E revision is trimmed only 7.6%/4.4% respectively to RMB0.97/1.13. We also revise down P/E multiples for city gas business in our SOTP valuation from 15x to 8x to reflects weak market sentiment. **We cut TP by 31.1% to HK\$7.45. At 4.9x FY20E P/E, valuation has room to catch up peers. Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,113	6,549	7,261	8,266	9,218
Net income (RMB mn)	569	789	969	1,127	1,208
EPS (RMB)	0.58	0.80	0.97	1.13	1.21
YoY growth (%)	47.6	38.4	21.8	16.3	7.1
Consensus EPS (RMB)	N/A	N/A	1.09	1.29	1.51
P/E (x)	19.0	15.0	8.2	7.3	6.5
P/B (x)	2.76	2.36	1.92	1.60	1.35
Yield (%)	1.3	1.8	3.2	3.6	4.1
ROE (%)	14.5	15.7	23.5	21.9	20.8
Net gearing (%)	103.2	115.7	90.4	83.1	77.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.45
(Previous TP)	HK\$10.82)
Up/Downside	+40.6%
Current Price	HK\$5.30

China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,298
Avg 3 mths t/o (HK\$ mn)	15.9
52w High/Low (HK\$)	9.88/4.74
Total Issued Shares (mn)	1,000

Source: Bloomberg

Shareholding Structure

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

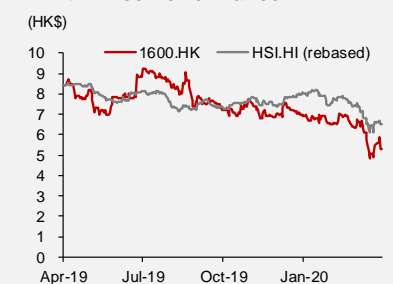
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.5%	-4.9%
3-mth	-24.1%	-6.1%
6-mth	-26.4%	-16.9%
12-mth	-41.2%	-24.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Tian Lun Gas (1600 HK) - 1H19 earnings beat; growth to sustain in 2H19" - 23 Aug 2019
- "Tian Lun Gas (1600 HK) - Growth momentum to maintain in 1H19" - 23 Jul 2019
- "Tian Lun Gas (1600 HK) - Coal to gas conversion to accelerate in 2019" - 2 Apr 2019

Figure 1: FY19 results summary

(Rmb, mn)	2018	1H19	2H19	2019	YoY change(%)	2019E	Diff(%)	CMBI Comments
Revenue	5,113	3,150	3,398	6,549	28.1%	6,817	-3.9%	
City gas sales	2,318	1,394	1,479	2,874	24.0%	3,080	-6.7%	C&I Gas sales lower than est.
Long-haul pipeline sales	909	596	592	1,188	30.6%	980	21.2%	
Connection	1,748	1,099	1,256	2,355	34.7%	2,537	-7.2%	
All other segments	137	61	71	132	-3.9%	220	-40.2%	
Costs of sales	-3,685	-2,321	-2,524	-4,845	31.5%	-4,922	-1.6%	
Gross profit	1,428	829	874	1,704	19.3%	1,895	-10.1%	Lower than expected connection and gas margin
Gross profit margin	27.9%	26.3%	25.7%	26.0%	-1.91ppt	27.8%	-1.78ppt	Gas sales margin declined 1.3ppt
Distribution expenses	-41	-23	-35	-58	40.2%	-60	-2.7%	
Administrative expenses	-167	-84	-112	-196	17.4%	-232	-15.4%	
Other income	9	3	2	5	-50.0%	8	-41.0%	
Other gains, net	4	-12	-7	-19	-618.5%	4	-583.6%	
Operating profit	1,233	714	722	1,435	16.4%	1,616	-11.2%	
Finance income	80	19	7	25	-68.5%	54	-52.9%	
Finance expenses	-404	-139	-152	-291	-28.0%	-297	-2.2%	Finance expense maintained good control;
Finance expenses, net	-323	-121	-145	-266	-17.9%	-244	9.0%	
Share profit/loss	-45	-18	-25	-42	-5.8%	29	-245.2%	
Exceptional	-	575	-575	-	n/a	-	n/a	
Profit before income tax	865	575	552	1,127	30.4%	1,401	-19.5%	
Income tax expense	-264	-154	-160	-314	18.7%	-408	-23.1%	
Effective tax rate	30.6%	26.8%	28.9%	27.8%	-2.73ppt	29.1%	-1.27ppt	
Profit for the year	600	421	392	813	35.5%	993	-18.1%	
Less: non-controlling interests	31	16	8	24	-22.2%	57	-57.7%	
Net profit	569	405	384	789	38.7%	936	-15.7%	Earnings miss est.

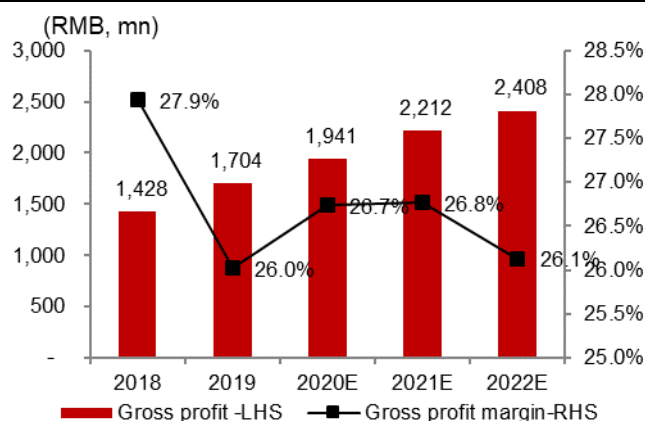
Source: Company data, CMBIS estimates

Figure 2: FY19 operating summary

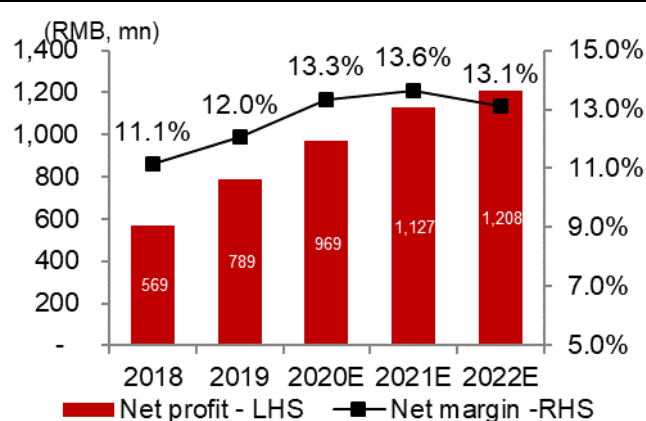
Operating performance	2018	1H19	2H19	2019	change(%)	2019E	Diff (%)
Gas sales (mcbm)	1,292	741	825	1,566	21.2%	1,613	-2.9%
City gas sales	805	475	509	984	22.2%	988	-0.4%
Residential	257	152	160	313	21.7%	311	0.5%
C&I	407	258	257	515	26.5%	583	-11.7%
Transportation	141	65	91	156	10.7%	162	-3.5%
Gas trading	57	36	79	115	101.3%	100	15.4%
Wholesale gas	430	230	237	467	8.6%	457	2.2%
Industrial wholesale	248	135	132	267	7.6%	209	27.5%
Citygas wholesale	182	95	106	200	10.0%	248	-19.2%
Gas dollar margin	0.56	0.54	0.56*	0.55	-2.5%	0.57	-3.1%
Gas connection							
City gas users (k HH)	236	141	120	261	10.6%	250	4.3%
Township coal to gas users (k HH)	383	250	328	578	51.1%	578	0.0%
C&I users	3,228	1,152	2,279	3,431	6.3%	3,450	-0.6%
Connection fee (RMB/HH)							
City gas users	2,654	n/a	n/a	2,606	-1.8%	2,700	-3.5%
Township coal to gas users	2,727	n/a	n/a	2,752	0.9%	2,727	0.9%

Source: Company data, CMBIS estimates

Note: *2H19 dollar margin is CMBIS estimates

Figure 3: Gross profit vs. gross profit margin

Source: Company data, CMBIS estimate

Figure 4: Net profit vs. net margin

Source: Company data, CMBIS estimate

Figure 5: Earnings revision

	Old		New		Change(%)	
	2020	2021	2020	2021	2020	2021
Key assumptions						
Total gas sales volume (mcbm)	1,994	2,427	1,729	2,037	-13.3%	-16.1%
Residential	378	450	386	466	2.0%	3.4%
C&I	830	1,107	562	746	-32.3%	-32.7%
Transportation	162	162	158	161	-2.4%	-0.8%
Wholesale	489	525	495	525	1.3%	0.1%
Long-haul pipeline transmission (mcbm)	1,186	1,434	921	999	-22.4%	-30.3%
Gas connection & construction services (Households)						
Annual residential connection	265,070	278,323	297,442	321,237	12.2%	15.4%
Annual C&I connection	3,850	3,780	3,850	3,780	0.0%	0.0%
Annual Coal to gas conversion	750,000	800,000	600,000	600,000	-20.0%	-25.0%
Financials estimation						
Revenue (Rmb mn)	8,087	9,407	7,261	8,266	-10.2%	-12.1%
Net Income (Rmb mn)	1,049	1,179	969	1,127	-7.6%	-4.4%
EPS (Rmb)	1.06	1.19	0.97	1.13	-8.5%	-5.3%

Source: CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,113	6,549	7,261	8,266	9,218	Pre-tax profit	865	1,127	1,412	1,626	1,750
Gas Sales	2,261	2,874	3,283	4,003	4,674	Depreciation and amortization	238	275	299	353	411
Transmission pipeline	909	1,188	1,257	1,331	1,412	Change in working capital	(641)	(197)	(235)	(118)	(95)
Connection fee	679	779	871	932	982	Taxation	(107)	(151)	(398)	(361)	(390)
CTG conversion	1,043	1,591	1,620	1,620	1,620	Others	108	(83)	122	(14)	(14)
Others	137	132	230	380	530	Net cash from operation	463	970	1,200	1,485	1,662
Costs of sales	(3,685)	(4,845)	(5,320)	(6,054)	(6,810)	Capex & investments	(1,318)	(259)	(1,557)	(2,285)	(2,007)
Gross profit	1,428	1,704	1,941	2,212	2,408	Others	(82)	-	-	-	-
OPEX & other gains	(338)	(269)	(293)	(312)	(349)	Net cash from investments	(1,399)	(259)	(1,557)	(2,285)	(2,007)
Distribution expenses	(41)	(58)	(64)	(73)	(82)	Equity raised	(18)	22	0	0	(0)
Administration expenses	(167)	(196)	(217)	(247)	(276)	Change of Debts	1,551	(226)	648	702	760
Other income	9	4	5	5	5	Dividend paid	(74)	(191)	(261)	(314)	(350)
Other gains/loss, net	(139)	(19)	(17)	4	4	Others	-	-	-	-	-
EBIT	1,091	1,435	1,648	1,900	2,059	Net cash from financing	1,458	(395)	387	388	410
Finance income	80	25	27	25	24	Net change in cash	522	316	31	(412)	65
Finance expenses	(261)	(291)	(295)	(334)	(372)	Cash at the beginning of the year	678	1,076	1,350	1,380	969
Finance expenses, net	(181)	(266)	(268)	(309)	(348)	Exchange difference	(124)	(42)	-	-	-
Exceptional	-	-	-	-	-	Cash at the end of the year	1,076	1,350	1,380	969	1,034
Pre-tax profit	865	1,127	1,412	1,626	1,750	Cash at balance sheet	1,076	1,350	1,380	969	1,034
Income tax	(264)	(314)	(412)	(464)	(505)						
Less: Minority interests	31	24	30	35	37						
Net profit	569	789	969	1,127	1,207						

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	7,902	8,041	9,361	11,318	12,923	Sales mix (%)					
Lease prepayments	223	-	-	-	-	Gas Sales	44.2	43.9	45.2	48.4	50.7
PPE	2,679	2,850	3,848	4,812	5,841	Transmission pipeline	17.8	18.1	17.3	16.1	15.3
Intangible assets	3,787	3,875	3,953	4,027	4,094	Connection fee	13.3	11.9	12.0	11.3	10.7
Investments	857	806	989	1,885	2,387	CTG conversion	20.4	24.3	22.3	19.6	17.6
Other non-current assets	356	509	570	594	600	Others	2.7	2.0	3.2	4.6	5.7
Current assets	3,532	3,898	4,233	4,098	4,429	Total	98.4	100.2	100.0	100.0	100.0
Trade and other receivables	1,462	1,548	1,761	2,005	2,235	P&L ratios (%)					
Financial assets at fair value	305	51	51	51	51	Operating margin	21.3	21.9	22.7	23.0	22.3
Cash and cash equivalents	1,076	1,350	1,380	969	1,034	Pre-tax margin	16.9	17.2	19.4	19.7	19.0
Other current assets	689	950	1,041	1,074	1,109	Net margin	11.1	12.0	13.3	13.6	13.1
Current liabilities	3,467	3,313	3,563	3,953	4,360	Effective tax rate	30.6	27.9	29.2	28.5	28.9
Trade and other payables	1,245	1,202	1,330	1,453	1,566	Balance sheet ratios					
Advances from customers	375	469	454	499	549	Current ratio (x)	1.0	1.2	1.2	1.0	1.0
Borrowings	1,608	1,312	1,460	1,636	1,826	Quick ratio (x)	0.5	0.5	0.5	3.8	0.3
Others	240	329	319	365	419	Cash ratio (x)	0.5	0.5	0.5	3.8	0.3
Non-current liabilities	4,423	4,439	5,106	5,690	6,323	Debtors turnover days	76.0	83.9	83.2	83.1	83.9
Borrowings	3,810	3,880	4,381	4,907	5,477	Total debt / equity ratio (%)	152.9	124.0	118.6	113.3	109.5
Other payables	137	-	138	138	138	Net debt / equity ratio (%)	115.7	91.4	90.4	98.4	95.2
Deferred income	475	547	575	632	695	Returns (%)					
Deferred income tax liabilities	1	12	12	13	13	ROE	17.5	20.5	21.1	20.8	19.3
Total Equity	3,544	4,187	4,926	5,774	6,668	ROA	5.0	6.6	7.1	7.3	7.0
Minority Interest	294	297	327	361	399	Per share					
Shareholders' equity	3,250	3,891	4,599	5,412	6,270	EPS (RMB)	0.58	0.80	0.97	1.13	1.21
						DPS (RMB)	0.15	0.23	0.29	0.34	0.36
						BVPS (RMB)	3.28	3.89	4.60	5.41	6.27

Source: Company data, CMBIS estimates

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