

Tian Lun Gas (1600 HK)

1H19 earnings beat; growth to sustain in 2H19

SUMMARY. TLG's 1H19 net profit beat our estimate by 7.2%. Solid performance was mainly driven by better-than-expected CTG construction and admin expenses control. We believe a robust gas distributor image with solid earnings performance will trigger TLG's re-rate. **Maintain BUY with TP raised to HK\$10.82.**

- 1H19 earnings surged 88.1% YoY.** Revenue surged 65.9% YoY to RMB3,150mn, driven by 1) higher gas ASP, 2) 22.5% city gas sales volume growth and 3) new contribution from CTG conversion. Admin costs to sales rate was managed to decline by 0.93ppt to 3.39%. Net profit was RMB405mn, up 88.1% and beat our estimates by 7.2%. TLG declared an interim dividend of RMB11.42 cents with payout ratio raised by 3ppt to 28%. We believe TLG delivered a solid 1H19 performance and reached mgmt. target guidance.
- CTG conversion is now proven sustainable.** TLG completed 250k household CTG conversion during 1H19. Mgmt. maintained 600k conversion with an average CTG connection fee of ~RMB2,700 per household target unchanged in FY19. TLG collected above RMB700mn (vs. RMB1bn CTG revenue generated in FY18) CTG receivables in 1H19. Based on ~6-9month CTG receivable turnover expectation, mgmt. saw no cash flow pressure from the business. Given TLG's prudent CTG execution pace and smooth receivables collection, we believe TLG's CTG business is sustainable in the coming 3-5 years.
- Gas sales to maintain rapid growth in 2H19.** City gas sales volume reached 475mcbm with YoY growth of 23.3%. Mgmt. attributed 18.3% growth from organic demand and the remaining ~5% from project M&A. Gas dollar margin was squeezed slightly from RMB0.56 in FY18 to RMB0.54 in 1H19 due to gas price pass through delay in Apr. For 2H19 outlook, mgmt. remains positive based on strong gas sales growth in Jul (~30%). TLG expected dollar margin to remain stable at ~RMB0.55, and reiterated full year sales volume to increase by 25%.
- Accelerating M&A for emerging opportunities.** Mgmt. raised CAPEX budget from RMB700mn to RMB1bn for M&A opportunities. We expect accelerating M&A pace will likely to boost earnings growth in 2020/21.
- Reshaping image as robust city gas Company.** We revise FY19-21E EPS estimates up by 5.2%/7.2%/9.8% to RMB0.95/1.06/1.19, respectively. We believe TLG is now reshaping image as a robust city gas distributor with national presence. **Raise TP from HK\$10.54 to HK\$10.82. Reiterate BUY rating.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	3,109	5,056	6,817	8,087	9,407
Net income (RMB mn)	404	512	940	1,049	1,179
EPS (RMB)	0.41	0.52	0.95	1.06	1.19
YoY growth (%)	30.5	26.5	83.7	11.6	12.4
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, CMBIS estimates

BUY (Maintain)

Target Price **HK\$10.82**
 (Previous TP **HK\$10.54**)
 Up/Downside **+17.5%**
 Current Price **HK\$9.21**

China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	9,160
Avg 3 mths t/o (HK\$ mn)	15.9
52w High/Low (HK\$)	9.88/5.45
Total Issued Shares (mn)	995

Source: Bloomberg

Shareholding Structure

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

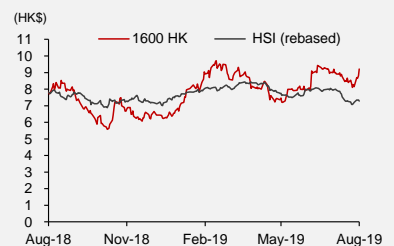
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	6.8%
3-mth	19.6%	25.9%
6-mth	-2.7%	6.1%
12-mth	7.7%	13.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "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: 1H19 results summary

(Rmb, mn)	1H18	1H19A	YoY%	1H19E	Diff %	CMBI Comments
Revenue	1,899	3,150	65.9%	2,860	10.1%	
Transportation and sales of gas	1,024	1,394	36.1%	1,366	2.1%	Strong 1H17 residential and C&I gas sales
Transmission pipeline	428	596	39.0%	483	23.3%	Higher than expected gas price
Connection fee	398	411	3.2%	369	11.5%	Residential connection beat our est.
CTG conversion construction	-	688	n/a	545	26.2%	CTG conversion was 300k higher than est.
Others	48	61	27.0%	97	-37.4%	
Costs of sales	-1,402	-2,321	65.6%	-2,063	12.5%	
Gross profit	498	829	66.6%	798	4.0%	
Gross profit margin	26.2%	26.3%	0.1ppt	27.9%	-1.6ppt	Gas dollar margin was squeezed slightly
Distribution expenses	-16	-23	40.5%	-24	-2.1%	
Administrative expenses	-65	-84	28.5%	-123	-32.0%	Admin costs rate declined 0.93ppt YoY
Other income	-	3	n/a	-	n/a	
Other gains, net	7	-12	-280.4%	2	n/a	
Operating profit	423	714	68.7%	652	9.4%	
Finance income	32	19	-41.6%	25	-26.3%	
Finance expenses	-154	-139	-9.8%	-134	4.0%	
Finance expenses, net	-123	-121	-1.5%	-109	11.0%	Finance income was lower than our est.
Share of post-tax profit of associates	10	-18	-279.1%	12	n/a	
Profit before income tax	310	575	85.5%	555	3.6%	
Income tax expense	-83	-154	85.0%	-156	-1.0%	
Effective tax rate	26.9%	26.8%	-0.1ppt	28.0%	-1.2ppt	
Profit for the year	227	421	85.7%	400	5.4%	
Less: non-controlling interests	12	16	40.9%	22	-25.6%	
Net profit	215	405	88.1%	378	7.2%	Net profit beat our est. by 7.2%

Source: CMBIS estimates

Figure 2: Earnings revision

	Old			New			Change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Key assumptions									
Total gas sales volume (mcbm)	1,594	1,964	2,368	1,613	1,994	2,427	1.2%	1.6%	2.5%
Residential	311	374	440	311	378	450	0.0%	1.3%	2.4%
C&I	583	823	1,078	583	830	1,107	0.0%	0.9%	2.7%
Transportation	143	143	143	162	162	162	13.2%	13.2%	13.2%
Wholesale	457	489	525	457	489	525	0.0%	0.0%	0.0%
Long-haul pipeline transmission (mcbm)	989	1,186	1,434	989	1,186	1,434	0.0%	0.0%	0.0%
Gas connection & construction services (Households)									
Annual residential connection	250,066	260,068	267,870	250,066	265,070	278,323	0.0%	1.9%	3.9%
Annual C&I connection	3,450	3,650	3,180	3,450	3,850	3,780	0.0%	5.5%	18.9%
Annual Coal to gas conversion	660,000	750,000	800,000	660,000	750,000	800,000	0.0%	0.0%	0.0%
Financials estimation									
Revenue (Rmb mn)	6,737	7,958	9,180	6,817	8,087	9,407	1.2%	1.6%	2.5%
Net Income (Rmb mn)	893	978	1,074	940	1,049	1,179	5.2%	7.2%	9.8%
EPS (Rmb)	0.90	0.99	1.08	0.95	1.06	1.19	5.2%	7.2%	9.8%

Source: CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	3,109	5,056	6,817	8,087	9,407
Gas Sales	1,604	2,261	3,080	3,959	4,948
Transmission pipeline	824	909	980	1,046	1,122
Connection fee	601	705	737	785	820
CTG conversion	-	1,043	1,800	2,045	2,182
Others	61	137	220	252	336
Costs of sales	(2,341)	(3,685)	(4,916)	(5,923)	(6,995)
Gross profit	768	1,371	1,901	2,164	2,412
OPEX & other gains	(131)	(195)	(279)	(334)	(390)
Distribution expenses	(29)	(41)	(60)	(71)	(82)
Administration expenses	(134)	(167)	(232)	(275)	(320)
Other income	27	9	8	8	8
Other gains/loss, net	5	4	4	4	4
EBIT	637	1,175	1,622	1,830	2,022
Finance income	47	80	54	67	71
Finance expenses	(132)	(404)	(297)	(317)	(340)
Finance expenses, net	(84)	(323)	(244)	(251)	(270)
Exceptional	-	-	-	-	-
Pre-tax profit	576	807	1,407	1,612	1,788
Income tax	(147)	(264)	(410)	(499)	(537)
Less: Minority interests	25	31	58	64	72
Net profit	404	512	940	1,049	1,179

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	576	807	1,407	1,612	1,788
Depreciation and amortization	188	238	275	308	344
Change in working capital	39	(641)	(24)	(180)	6
Taxation	(71)	(107)	(323)	(407)	(434)
Others	(290)	(16)	80	-	-
Net cash from operation	442	281	1,414	1,333	1,703
Capex & investments	(1,059)	(1,318)	(1,050)	(1,428)	(1,499)
Others	231	(82)	-	-	-
Net cash from investments	(828)	(1,399)	(1,050)	(1,428)	(1,499)
Equity raised	(0)	55	0	(0)	0
Change of Debts	279	1,551	373	390	409
Dividend paid	(78)	(90)	(192)	(263)	(295)
Others	124	-	-	-	-
Net cash from financing	325	1,516	182	127	114
Net change in cash	(62)	398	546	32	319
Cash at the beginning of the year	755	678	1,076	1,622	1,654
Exchange difference	(15)	-	-	-	-
Cash at the end of the year	678	1,076	1,622	1,654	1,972
Cash at balance sheet	678	1,076	1,622	1,654	1,972

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	6,758	7,902	8,611	9,765	10,942
Lease prepayments	224	223	255	270	284
PPE	2,354	2,679	2,960	3,265	3,596
Intangible assets	3,408	3,787	4,151	4,500	4,835
Investments	502	857	957	1,409	1,885
Other non-current assets	271	356	288	321	341
Current assets	1,714	3,532	4,353	4,875	5,534
Trade and other receivables	667	1,462	1,705	2,143	2,423
Financial assets at fair value	300	305	305	305	305
Cash and cash equivalents	678	1,076	1,622	1,654	1,972
Other current assets	69	689	722	774	834
Current liabilities	1,898	3,467	3,899	4,400	4,936
Trade and other payables	528	1,245	1,475	1,777	2,098
Advances from customers	254	375	412	454	499
Borrowings	969	1,608	1,737	1,855	1,977
Others	148	240	275	315	361
Non-current liabilities	3,456	4,423	4,716	5,041	5,385
Borrowings	2,898	3,810	4,054	4,327	4,614
Other payables	137	137	138	138	138
Deferred income	1	1	1	1	1
Deferred income tax liabilities	420	475	523	575	632
Minority Interest	339	294	352	416	488
Total net assets	2,778	3,250	3,998	4,784	5,668
Shareholders' equity	2,778	3,250	3,998	4,784	5,668

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Gas Sales	51.6	44.7	45.2	49.0	52.6
Transmission pipeline	26.5	18.0	14.4	12.9	11.9
Connection fee	19.3	13.9	10.8	9.7	8.7
CTG conversion	-	20.6	26.4	25.3	23.2
Others	2.6	2.7	3.2	3.1	3.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Operating margin	20.5	23.3	23.8	22.6	21.5
Pre-tax margin	18.5	16.0	20.6	19.9	19.0
Net margin	13.0	10.1	13.8	13.0	12.5
Effective tax rate	25.5	32.8	29.1	30.9	30.0
Balance sheet ratios					
Current ratio (x)	0.9	1.0	1.1	1.1	1.1
Quick ratio (x)	0.5	0.5	0.6	0.5	0.5
Cash ratio (x)	0.5	0.5	0.6	0.5	0.5
Debtors turnover days	74.5	76.8	84.8	86.8	88.6
Total debt / equity ratio (%)	124.0	152.9	133.2	118.9	107.1
Net debt / equity ratio (%)	103.2	115.7	90.4	83.1	77.1
Returns (%)					
ROE	14.5	15.7	23.5	21.9	20.8
ROA	4.8	4.5	7.2	7.2	7.2
Per share					
EPS (RMB)	0.41	0.52	0.95	1.06	1.19
DPS (RMB)	0.10	0.14	0.25	0.28	0.32
BVPS (RMB)	2.81	3.28	4.04	4.83	5.73

Source: Company data, CMBIS estimates

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