

Tian Lun Gas (1600 HK)

New acquisitions to boost 2021E earnings

TLG announced to acquire two city gas project in Jingyuan County and Datong/Huzhu County with total consideration of RMB1,066mn on 27 Dec 2020. Both projects are in Gansu Province, and has considerable population and gas sales volume. Acquisition valuation was 19.3x FY19 PER and 2.1x PBR based on book value by Jul 2020. It looked a bit expensive at first glance, but mgmt. explained the valuation can be justified based on 1) visible gas sales potential; 2) newly developed residential gas connection; and 3) synergies from operating costs saving and regional township connection projects. We estimate new projects to contribute ~RMB40mn earnings to TLG in 2021E. **Reiterate BUY with TP unchanged at HK\$8.31.**

- **Robust project growth potential.** According to mgmt., target projects has ~1mn population and realized 180mcbm gas sales in 2019. TLG expected both projects to have rapid C&I gas volume growth from local industrial park projects as well as industrial migration from Lanzhou and Baiyin City. Mgmt. also thought both projects aggregately have considerable residential connection potential from city residential and township projects for more than 60-70k households. Moreover, both projects had finished major pipeline investments, and are making positive free cash flow. Therefore, TLG thought the valuation was justified, and mgmt. expected the acquisitions to generate equity IRR above 12%.
- **Synergies from costs saving and township connection.** Mgmt. expected to boost projects earnings through costs saving measures, since target projects has SD&A ratio at ~9%, which was significantly higher than TLG's 4% level. Other than that, we also expect further synergies from the acquisition, as the Company aim to develop more township gas connection business in Gansu provinces.
- **Funding from internal resources.** For the RMB1bn acquisition funding, TLG plans to have 60-70% debt financing, and the remaining from internal resources. Based on our cash flow projection, we think TLG has no pressure for preparing those acquisition funding. Mgmt. also expected gearing to remain stable, and emphasized the acquisition will have no impact to coming dividend pay-out.
- **On track to our earnings projection.** Based on consolidation assumption of 9 months for newly acquired projects, we expect both projects sum up to contribute RMB40mn earnings in 9 months to TLG in 2021E, on track to our earnings projection. We think the acquisition continues to boost market confidence on TLG's sustainable earnings growth. TLG's share price has rebounded 12.7% since our last update in Dec 2020. We think market has realized TLG's value and we expect re-rating to continue. **Reiterate BUY with TP unchanged at HK\$8.31.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,113	6,549	6,802	7,832	8,879
Net income (RMB mn)	569	789	859	1,059	1,206
EPS (RMB)	0.58	0.80	0.86	1.06	1.21
YoY growth (%)	47.6	38.4	8.0	23.3	13.8
Consensus EPS (RMB)	N/A	N/A	0.880	1.005	1.095
P/E (x)	11.0	7.9	7.4	6.0	5.2
P/B (x)	1.93	1.63	1.40	1.20	1.03
Yield (%)	2.4	3.7	4.1	5.0	5.7
ROE (%)	17.5	20.5	19.1	20.1	19.6
Net gearing (%)	115.7	91.4	77.9	70.6	59.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$8.31**
 (Previous TP **HK\$8.31**)
 Up/Downside **+15.3%**
 Current Price **HK\$7.21**

China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	7,236
Avg 3 mths t/o (HK\$ mn)	8.04
52w High/Low (HK\$)	7.59/4.53
Total Issued Shares (mn)	1,004

Source: Wind

Shareholding Structure

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

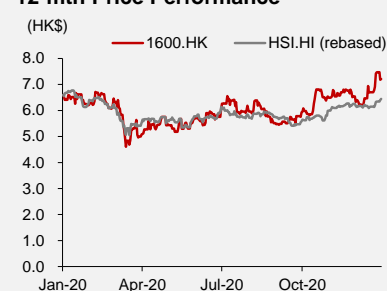
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.2%	7.0%
3-mth	25.3%	7.7%
6-mth	25.3%	15.0%
12-mth	8.7%	11.9%

Source: Wind

12-mth Price Performance



Source: Wind

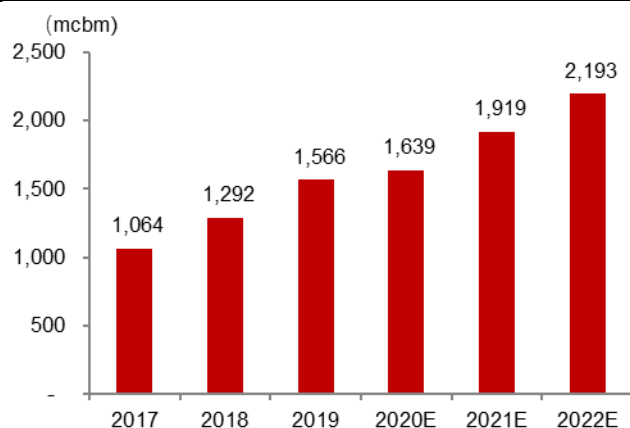
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Related Reports

1. Tian Lun Gas (1600 HK) – "Accelerating township connection from 2021E" – 8 Dec 2020
2. Tian Lun Gas (1600 HK) – "Gas sales resumed growing pace" – 24 Jun 2020
3. Tian Lun Gas (1600 HK) – "FY19 earnings miss; turning to stable growth" – 2 Apr 2020

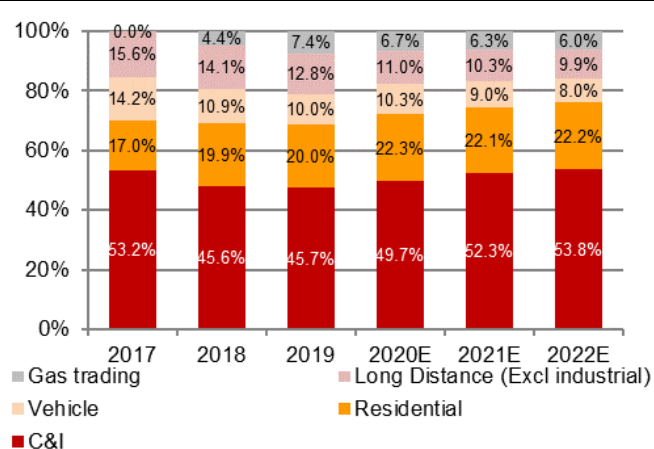
Focus charts

Figure 1: TLG's total gas sales volume



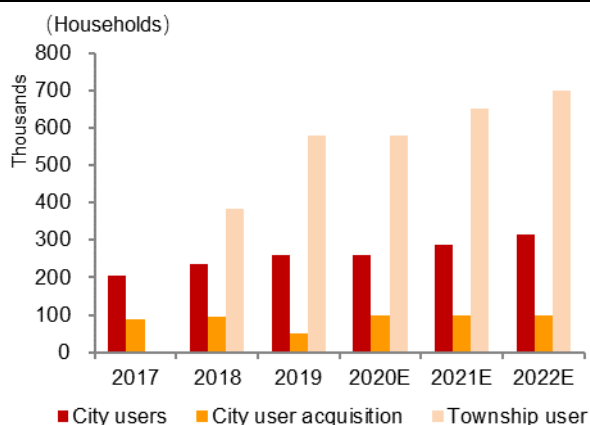
Source: Company data, CMBIS estimates

Figure 2: TLG's gas sales mix



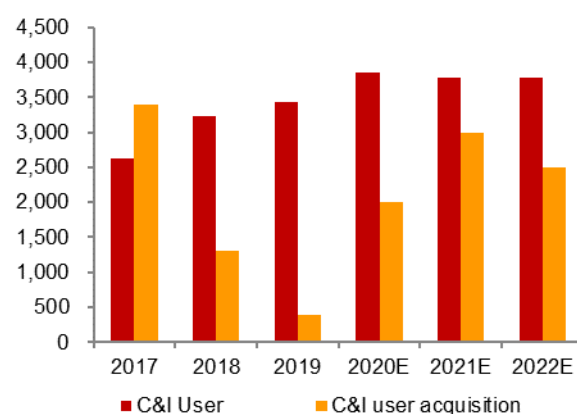
Source: Company data, CMBIS estimates

Figure 3: TLG's annual residential user connection and acquisition



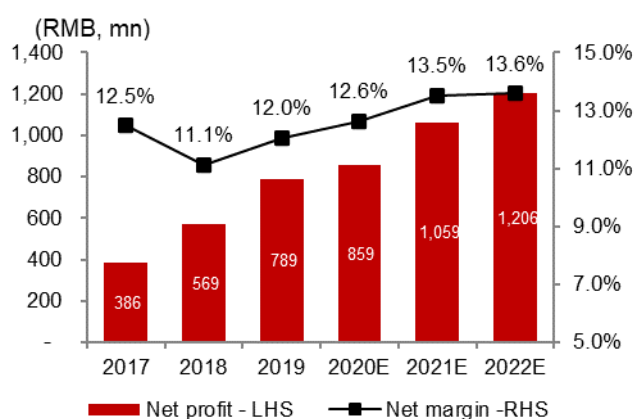
Source: Company data, CMBIS estimates

Figure 4: TLG's annual C&I user connection and acquisition



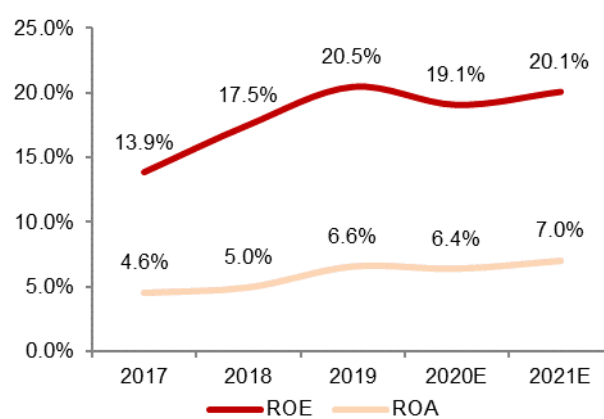
Source: Company data, CMBIS estimates

Figure 5: Net profit vs. net profit margin



Source: Company data, CMBIS estimates

Figure 6: ROE vs. ROA



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,113	6,549	6,802	7,832	8,879
Gas Sales	2,261	2,874	3,215	3,829	4,467
Transmission pipeline	909	1,188	1,045	1,104	1,168
Connection fee	679	779	776	842	917
CTG conversion	1,043	1,591	1,566	1,755	1,890
Others	137	132	199	301	437
Costs of sales	(3,685)	(4,845)	(5,037)	(5,780)	(6,550)
Gross profit	1,428	1,704	1,764	2,052	2,329
OPEX & other gains	(338)	(269)	(303)	(292)	(332)
Distribution expenses	(41)	(58)	(60)	(69)	(79)
Administration expenses	(167)	(196)	(201)	(231)	(262)
Other income	9	4	5	5	5
Other gains/loss, net	(139)	(19)	(47)	4	4
EBIT	1,091	1,435	1,462	1,760	1,997
Finance income	80	25	31	38	46
Finance expenses	(261)	(291)	(273)	(304)	(334)
Finance expenses, net	(181)	(266)	(242)	(267)	(287)
Exceptional	-	-	-	-	-
Pre-tax profit	865	1,127	1,251	1,528	1,748
Income tax	(264)	(314)	(366)	(436)	(505)
Less: Minority interests	31	24	27	33	37
Net profit	569	789	859	1,059	1,206

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	865	1,127	1,251	1,528	1,748
Depreciation and amortization	238	275	299	344	392
Change in working capital	(641)	(197)	285	(204)	(60)
Taxation	(107)	(151)	(324)	(331)	(387)
Others	108	(82)	122	(14)	(14)
Net cash from operation	463	971	1,633	1,324	1,680
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)	(245)	(287)	(339)
Others	-	-	-	-	-
Net cash from financing	998	(451)	304	304	300
Net change in cash	420	271	580	424	677
Cash at the beginning of the year	678	1,076	1,350	1,930	2,354
Exchange difference	(22)	3	-	-	-
Cash at the end of the year	1,076	1,350	1,930	2,354	3,031
Cash at balance sheet	1,076	1,350	1,930	2,354	3,031

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	7,902	8,041	9,143	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	552	579	584
Current assets	3,532	3,898	4,209	4,998	5,913
Trade and other receivables	1,462	1,548	1,188	1,519	1,722
Financial assets at fair value	305	51	51	51	51
Cash and cash equivalents	1,076	1,350	1,930	2,354	3,031
Other current assets	689	950	1,041	1,074	1,109
Current liabilities	3,467	3,313	3,467	3,835	4,217
Trade and other payables	1,245	1,202	1,259	1,387	1,506
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	4,828	5,633	6,537
Minority Interest	294	297	323	356	393
Shareholders' equity	3,250	3,891	4,505	5,277	6,144

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Gas Sales	44.2	43.9	47.3	48.9	50.3
Transmission pipeline	17.8	18.1	15.4	14.1	13.1
Connection fee	13.3	11.9	11.4	10.8	10.3
CTG conversion	20.4	24.3	23.0	22.4	21.3
Others	2.7	2.0	2.9	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	25.9	26.2	26.2
Operating margin	21.3	21.9	21.5	22.5	22.5
Pre-tax margin	16.9	17.2	18.4	19.5	19.7
Net margin	11.1	12.0	12.6	13.5	13.6
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	0.7	0.8
Debtors turnover days	76.0	83.9	73.4	63.1	66.6
Total debt / equity ratio (%)	152.9	124.0	118.9	112.4	106.6
Net debt / equity ratio (%)	115.7	91.4	77.9	70.6	59.2
Returns (%)					
ROE	17.5	20.5	19.1	20.1	19.6
ROA	5.0	6.6	6.4	7.0	7.2
Per share					
EPS (RMB)	0.58	0.80	0.86	1.06	1.21
DPS (RMB)	0.15	0.23	0.26	0.32	0.36
BVPS (RMB)	3.28	3.89	4.51	5.28	6.15

Source: Company data, CMBIS estimates

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