

# China Suntien (956 HK)

## Marginally drop in gas transmission volume and steady power generation

China Suntien's 1H23 attributable net profit dropped 10.97% YoY to RMB1,439mn and operating cash flows declined by 12.5% YoY. The miss was attributable to: 1) reduced gas transmission volume growth; 2) lower wholesales gas transmission fee; 3) feeble economic recovery; and 4) on-grid tariff fall thanks to rising electricity trading. Mgmt. stays positive in 2H23E with lower gas cost as gas sources diversity and sturdily proceeding with project constructions. Additionally, Suntien's new energy installation will speed up in 2H23 and we predict it can achieve 480MW in 2023. Thus, we lower FY23/24E earnings by 7.2%/3.9% to RMB2,195/2,699mn. Maintain BUY with TP trimmed to HK\$4.16.

- 1H23 earnings slightly missed.** Suntien's revenue slipped by 1.74% YoY and its net profit dropped by 10.97% YoY. The miss was dragged by: 1) for new energy segment, weaker wind resources lead to missed power generation growth of 1.91% to 7,719GWh; on-grid tariff declined as larger proportion of electricity trading; 2) For gas segment, the total gas transmission volume decreased by 2.9% YoY. In particular, retail gas sales and wholesales gas sales volume squeezed by 6.3% YoY and 4.9% YoY. Additionally, the declined wholesales gas transmission fee dropped from RMB0.223/cbm to RMB0.152/cbm (incl-tax) and relatively high gas cost weighed Suntien's gas segment profit.
- 2H23 to improve gas transmission volume and speed up new energy installation.** Even though 1H23 total gas sales transmission volume dropped year-on-year with higher gas cost, we are optimistic on Suntien's earnings growth in 2H23E due to continuous economic recovery and lower gas cost of gas source diversity. Additionally, the new energy installation progress was slower due to delayed quota approval in 1H23, Suntien's mgmt. states that its new energy installation progress will speed up to reach its target of 450-500MW in FY23E. We maintained our expectation of its newly installed wind power capacity of 480MW and on grid-tariff of RMB0.446/cbm in 2023.
- The Tangshan LNG project's first phase smoothly involved in operations.** Suntien's phase I of the Tangshan LNG Receiving Station project completed first LNG shipment. The projected LNG usage for the project from 2023 to 2025 is estimated to be 400-500/1500-2000/2000/3000 thous tons. As additional phases of the project become operational gradually, significant increases in profitability are anticipated.
- Maintain BUY with TP adjusted to HK\$4.16.** We revise our FY23/24E earnings outlook slightly by -7.2%/-3.9% to RMB2,195/2,699mn respectively on lower-than-expected gas transmission volume and more conservative assumption with 3.3% power generation growth in 23E. However, we think Suntien is still on track to accelerate earnings growth in FY23E. Our SOTP-based TP is cut from HK\$4.57 to HK\$4.16 after adjusting FX, reflecting 7.3x forward P/E (lower than 3-year avg. PE of 8.16x). Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	15,985	18,561	18,527	20,026	22,723
Net profit (RMB mn)	2,174.5	2,439.6	2,085.7	2,562.2	3,294.4
EPS (Reported) (RMB)	0.56	0.63	0.54	0.67	0.86
YoY growth (%)	49.1	12.2	(14.5)	22.8	28.6
Consensus EPS (RMB)	0.54	0.54	0.61	0.69	0.70
P/E (x)	6.2	5.4	5.0	4.0	3.1
P/B (x)	0.8	0.7	0.5	0.5	0.4
ROE (%)	10.7	10.0	8.0	9.2	10.9

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$4.16**  
 (Previous TP) **HK\$4.57**  
**Up/Downside** **43.0%**  
**Current Price** **HK\$2.90**

### China Energy

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### Stock Data

Mkt Cap (HK\$ mn)	290.0
Avg 3 mths t/o (HK\$ mn)	16.6
52w High/Low (HK\$)	3.88/2.69
Total Issued Shares (mn)	100.0

Source: FactSet

### Shareholding Structure

Citygroup Inc	8.7%
Brown Brothers Harriman & Co.	7.2%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.8%	9.6%
3-mth	-3.7%	-3.3%
6-mth	-15.7%	-9.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Revision table and key assumption**

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue (RMB mn)	20,148	22,130	24,997	18,523	20,022	22,720	-8.1%	-9.5%	-9.1%
Net Income (RMB mn)	2,366	2,777	3,471	2,195	2,668	3,354	-7.2%	-3.9%	-3.4%
EPS (RMB)	0.57	0.66	0.83	0.52	0.64	0.80	-7.2%	-3.9%	-3.4%

	2020	2021	2022	2023E	2024E	2025E	2026E
<b>Natural gas segment</b>							
<b>Natural gas sales volume (mcbm)</b>	<b>3,525</b>	<b>3,808</b>	<b>3,885</b>	<b>3,755</b>	<b>4,025</b>	<b>4,517</b>	<b>5,075</b>
YoY change	8.9%	8.0%	2.0%	-3.3%	7.2%	12.2%	12.3%
Wholesale	2,091.33	2,081.00	1,957.80	1,899.07	1,994.02	2,193.43	2,412.77
YoY change	4.39%	-0.49%	-6%	-3%	5%	10%	10%
Retail	1,350.93	1,632.00	1,838.00	1,782.50	1,960.75	2,254.87	2,593.10
YoY change	19.0%	20.8%	13%	-3%	10%	15%	15%
CNG/LNG	82.62	95.00	89.00	73.92	70.22	68.82	68.82
	-16.0%	15.0%	-7.4%	-16.0%	-5.0%	-2.0%	0.0%
	2020	2021	2022	2023E	2024E	2025E	2026E
<b>Power Generation</b>							
<b>WIND POWER</b>							
Utilization hours	2,420	2,501	2,485	2,450	2,500	2,500	2,500
yoy change -RHS	-2.1%	3.3%	-0.6%	-1.4%	2.0%	0.0%	0.0%
Wind power generation-LHS (GWh)	9,881	13,469	14,031	14,493	16,484	20,447	24,776
yoy change -RHS	11.9%	36.3%	4.2%	3.3%	13.7%	24.0%	21.2%
Curtailment rate (%)	7.4%						
Indicating utilization hour without curtailment	2,613						
Net power sales (GWh)	9,233	13,000	13,610	14,130	16,072	19,936	24,157
yoy change -RHS	9.3%	40.8%	4.7%	3.8%	13.7%	24.0%	21.2%
Sales to gross generation	93.4%	96.5%	97.0%	97.5%	97.5%	97.5%	97.5%
Effective capacity (MW)	4,083	5,385	5,646	5,944	6,626	8,219	9,959
Estimate difference	-7.5%	-1.6%	-0.5%	0%	0%	0%	0%
Effective new build ratio	-	-	20%	20%	20%	20%	20%
Effective capacity growth	14.3%	31.9%	4.8%	5.3%	11.5%	24.0%	21.2%
<b>SOLAR POWER</b>							
Utilization hours	1,432	1,391	1,404	1,500	1,500	1,500	1,500
Solar power generation (GWh)	169.79	165.00	166.74	181.98	210.00	360.00	510.00
yoy change -RHS	4.5%	-2.8%	1.1%	9.1%	15.4%	71.4%	41.7%
Solar power sales - GWh	164.39	140.32	163.41	178.34	205.80	352.80	499.80
Sales to gross generation	96.8%	85.0%	98.0%	98.0%	98.0%	98.0%	98.0%

Source: Company data, CMBIGM estimates

**Figure 2: Valuation**

	Target Multiple	Per share (RMB)
<b>Wind &amp; Solar segment -PBR</b>	<b>0.8x</b>	<b>1.66</b>
<b>Piped gas supply segment - PER</b>	<b>10x</b>	<b>2.12</b>
<b>Total value</b>		<b>3.78</b>
<b>Per share value (HKD)</b>		<b>4.16</b>

Source: Company data, CMBIGM estimates

Figure 3: Peers table (City Gas)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS				PER			PBR		
				23E	24E	25E	CAGR	23E	24E	25E	23E	24E	25E
CHINA GAS HOLDIN	384 HK	10.68	58102.78604	1.26	1.44	1.60	27%	8.47	7.44	6.69	0.85	0.79	0.74
ENN ENERGY	2688 HK	111.1	125665.585	7.63	8.48	9.24	21%	12.90	11.60	11.60	2.45	2.16	1.92
TIAN LUN GAS HOL	1600 HK	5.79	5685.114775	0.85	0.77	0.94	10%	6.01	6.66	6.66	1.03	0.74	na
CHINA RES GAS	1193 HK	28.85	66759.27133	2.57	2.89	3.21	25%	11.23	10.00	10.00	1.53	1.39	1.30
TOWNGAS SMART EN	1083 HK	3.92	12774.20406	0.40	0.51	0.59	47%	9.78	7.70	7.70	0.58	0.56	0.54
KUNLUN ENERGY	135 HK	7.45	64508.07272	0.78	0.83	0.87	11%	8.41	7.95	7.95	0.89	0.83	0.77
Average								9.5	8.6	8.4	1.2	1.1	0.9

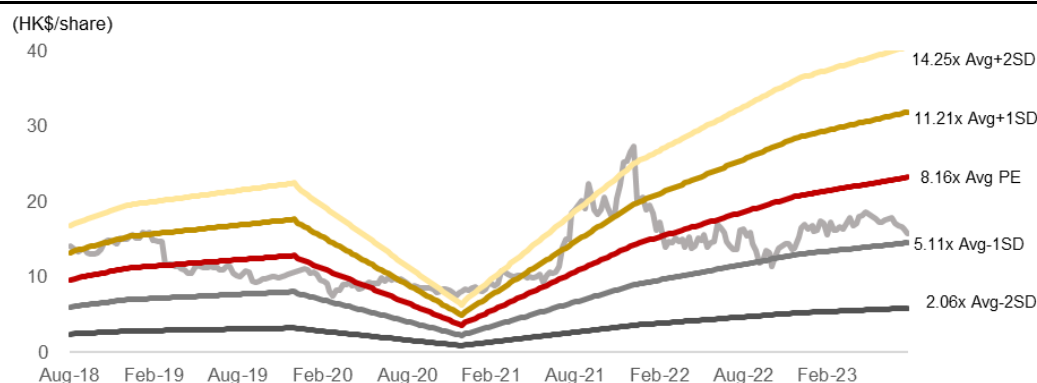
Source: Company data, CMBIGM estimates

Figure 4: Peers table (Power operators)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS				PER			PBR		
				23E	24E	25E	CAGR	23E	24E	25E	23E	24E	25E
CHINA SUNTIEN-H	1071 HK	2.90	26753.24	0.55	0.66	0.81	21.6%	4.90	4.12	3.32	0.53	0.49	0.46
CHINA POWER INTE	2380 HK	2.87	35502.33	0.31	0.45	0.56	52.4%	8.75	5.96	4.73	0.72	0.65	0.61
CHINA RES POWER	836 HK	15.84	76197.43	2.56	3.02	3.52	32.2%	6.20	5.25	4.50	0.86	0.78	0.70
CGN NEW ENERGY H	1811 HK	2.19	9396.90	0.05	0.06	0.07	0.8%	5.37	4.50	4.17	na	na	0.61
CHINA LONGYUAN-H	916 HK	6.16	126014.52	0.95	1.13	1.30	25.5%	6.03	5.07	4.41	0.65	0.58	0.52
CHINA DATANG C-H	1798 HK	2.33	16947.72	0.38	0.43	0.52	26.2%	5.66	5.00	4.18	0.86	0.74	0.64
DATANG INTL PO-H	991 HK	1.27	44965.43	0.20	0.30	0.37	na	5.90	3.94	3.19	0.33	0.30	0.28
HUANENG POWER-H	902 HK	4.06	116096.09	0.73	0.82	1.02	85.9%	5.18	4.63	3.72	0.60	0.56	0.45
HUADIAN POWER-H	1071 HK	3.17	52866.49	0.52	0.65	0.74	39.7%	5.69	4.53	3.98	0.56	0.50	0.38
CONCORD NE	1071 HK	0.64	5516.10	0.12	0.14	0.17	12.8%	4.96	4.25	3.50	0.94	0.89	0.78
Average								5.9	4.7	4.0	0.7	0.6	0.5

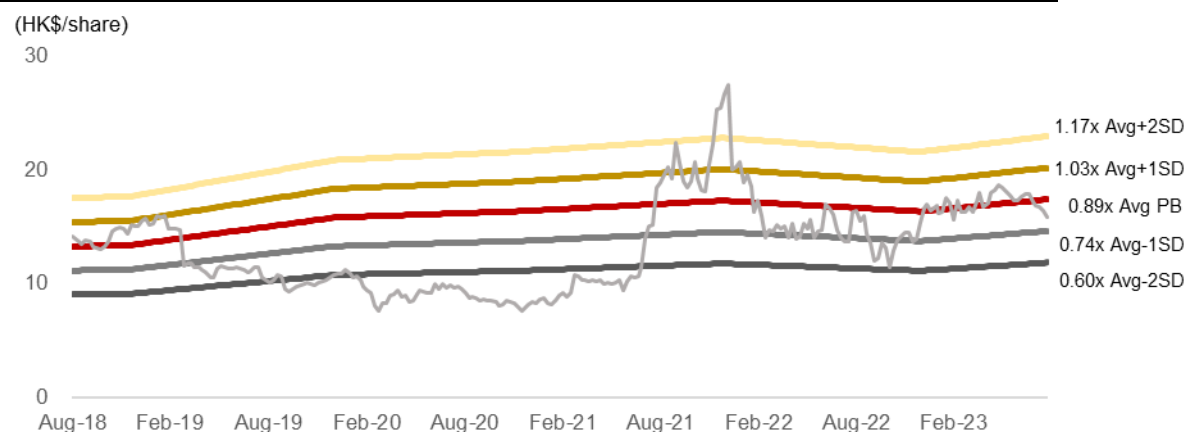
Source: Company data, CMBIGM estimates

Figure 5: PE Band



Source: Company data, CMBIGM estimates

Figure 6: PB Band



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	12,511	15,985	18,561	18,527	20,026	22,723
Cost of goods sold	(9,099)	(11,231)	(13,313)	(13,567)	(14,215)	(15,637)
Gross profit	3,412	4,754	5,248	4,960	5,811	7,086
Operating expenses	(608)	(766)	(842)	(783)	(823)	(907)
Selling expense	(1)	(1)	(1)	(1)	(1)	(1)
Admin expense	(590)	(722)	(801)	(762)	(784)	(844)
Others	(18)	(43)	(41)	(20)	(38)	(62)
Operating profit	2,803	3,988	4,406	4,177	4,988	6,179
Other expense	(925)	(1,131)	(1,152)	(1,229)	(1,306)	(1,421)
Share of (losses)/profits of associates/JV	213	263	287	312	345	381
EBITDA	2,091	3,120	3,540	3,260	4,027	5,139
Pre-tax profit	2,243	3,297	3,743	3,447	4,203	5,312
Income tax	(370)	(551)	(633)	(589)	(727)	(930)
After tax profit	1,873	2,747	3,111	2,858	3,476	4,383
Minority interest	379	494	593	694	836	1,010
Others	78	78	78	78	78	78
Net profit	1,433	2,174	2,440	2,086	2,562	3,294
Core net profit	1,433	2,174	2,440	2,086	2,562	3,294

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,634	16,006	15,085	10,902	11,894	9,256
Cash & equivalents	1,898	7,648	7,326	2,105	2,613	(1,205)
Account receivables	5,287	7,152	5,957	7,781	8,211	9,317
Inventories	58	214	105	70	74	77
Prepayment	1,391	979	534	932	984	1,054
Contract assets	0	0	0	13	13	13
Non-current assets	48,623	55,912	62,323	68,189	75,684	88,240
PP&E	39,601	45,935	51,937	58,884	65,997	78,102
Right-of-use assets	1,981	2,018	1,839	1,849	1,859	1,869
Deferred income tax	175	187	191	196	196	196
Investment in JVs & assos	27	26	25	22	21	19
Intangibles	2,210	2,179	2,150	2,017	1,952	1,886
Goodwill	39	55	97	39	39	39
Other non-current assets	4,589	5,512	6,085	5,181	5,620	6,128
Total assets	57,258	71,918	77,409	79,091	87,578	97,496
Current liabilities	13,536	17,062	19,209	16,914	19,921	22,946
Account payables	181	473	416	269	290	330
Tax payable	136	159	203	140	150	160
Other current liabilities	13,218	15,643	18,589	16,505	19,481	22,456
Lease liabilities	0	0	0	0	0	0
Accrued expenses	0	787	0	0	0	0
Non-current liabilities	27,026	31,092	33,014	35,485	38,853	43,007
Long-term borrowings	25,922	29,706	30,429	31,347	33,897	37,097
Bond payables	0	0	0	0	0	0
Other non-current liabilities	1,104	1,386	2,585	4,138	4,955	5,910
Total liabilities	40,562	48,153	52,223	52,400	58,774	65,953
Share capital	3,850	4,187	4,187	4,187	4,187	4,187
Capital surplus	1,494	1,946	1,039	1,039	1,039	1,039
Other reserves	7,821	13,552	15,239	16,470	18,303	20,700
Total shareholders equity	16,695	23,764	25,185	26,691	28,804	31,543
Minority interest	3,531	4,080	4,720	4,994	5,275	5,617
Total equity and liabilities	57,258	71,918	77,409	79,091	87,578	97,496

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Operating</b>						
Profit before taxation	2,243	3,297	3,743	3,447	4,203	5,312
Depreciation & amortization	1,461	2,029	2,484	2,925	3,323	3,767
Tax paid	(368)	(539)	(592)	(658)	(717)	(920)
Change in working capital	1,453	(364)	2,096	(3,396)	1,797	917
Others	(891)	0	52	(13)	(0)	0
<b>Net cash from operations</b>	<b>3,899</b>	<b>4,423</b>	<b>7,784</b>	<b>2,306</b>	<b>8,606</b>	<b>9,077</b>
<b>Investing</b>						
Capital expenditure	(11,332)	(6,334)	(6,002)	(6,948)	(7,113)	(12,105)
Net proceeds from disposal of short-term investments	(173)	(581)	(335)	74	(340)	(377)
Others	1,691	(2,062)	(3,469)	(1,363)	(3,268)	(3,711)
<b>Net cash from investing</b>	<b>(9,814)</b>	<b>(8,977)</b>	<b>(9,805)</b>	<b>(8,237)</b>	<b>(10,721)</b>	<b>(16,193)</b>
<b>Financing</b>						
Dividend paid	(331)	(852)	(1,202)	(1,274)	(1,285)	(1,566)
Net borrowings	7,218	5,107	4,034	2,071	3,908	4,864
Proceeds from share issues	423	4,801	497	0	0	0
Others	(1,872)	452	(906)	0	0	0
<b>Net cash from financing</b>	<b>5,438</b>	<b>9,507</b>	<b>2,422</b>	<b>797</b>	<b>2,622</b>	<b>3,299</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,358	1,887	6,839	7,240	2,105	2,613
Exchange difference	6	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>(8,580)</b>	<b>(4,542)</b>	<b>(871)</b>	<b>(7,313)</b>	<b>(2,115)</b>	<b>(7,116)</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	4.8%	27.8%	16.1%	(0.2%)	8.1%	13.5%
Gross profit	3.2%	39.3%	10.4%	(5.5%)	17.1%	22.0%
Operating profit	4.8%	42.3%	10.5%	(5.2%)	19.4%	23.9%
EBITDA	3.9%	49.2%	13.5%	(7.9%)	23.5%	27.6%
Net profit	6.6%	51.8%	12.2%	(14.5%)	22.8%	28.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	27.3%	29.7%	28.3%	26.8%	29.0%	31.2%
Operating margin	22.4%	24.9%	23.7%	22.5%	24.9%	27.2%
EBITDA margin	16.7%	19.5%	19.1%	17.6%	20.1%	22.6%
Return on equity (ROE)	9.1%	10.7%	10.0%	8.0%	9.2%	10.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	0.6	0.9	0.8	0.6	0.6	0.4
Receivable turnover days	135.2	142.0	128.9	135.3	145.7	140.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	4.6	6.2	5.4	5.0	4.0	3.1
P/B	0.5	0.8	0.7	0.5	0.5	0.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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