

Tian Lun Gas (1600 HK)

FY20 results in line; on track to earnings acceleration in 2021E

TLG realized core net profit of RMB895mn in FY20, up 10.4% YoY, in line with mgmt. guidance and our estimates. In 2021E, TLG guided core earnings to increase 15% with more than 800k household residential customer growth and 25% retail gas volume expansion. We think TLG's earnings growth has high visibility. On the back of new projects' acquisition and new business opportunities for township project synergies in Gansu Province, it seems the guidance was a bit conservative. TLG's valuation is catching up but still with an obvious gap with leading peers. **We lift our TP by 19.1% to HK\$9.90 based on 8x forward P/E. Maintain BUY.**

- **Core profit surged 10.4% YoY.** TLG realized FY20 revenue of RMB6,440mn, flat as FY19. GP was RMB1,786mn with a GPM of 27.7%, up 1.7ppt YoY. Major expenses maintained in good control while other gains recorded RMB160mn mainly on FX gain. TLG read net profit of RMB1,044mn, up 32.2% YoY. Stripping out non-recurring items, core profit was RMB895mn, up 10.4% YoY. TLG declared a final dividend of RMB0.153 per share, making full year dividend of RMB0.267, reflecting 30% dividend pay-out to core profit.
- **Gas sales volume to resume rapid growth pace.** TLG reclassified gas sales categories following the same standard as gas distributing peers. Overall retail gas sale volume increased 7.9% YoY to 1,218mcbm, led by residential/C&I gas sales volume growth of 20%/4.9% YoY, respectively. In 2021E, mgmt. guided retail gas sales to increase 25% YoY. On the back of new projects acquisition from Gansu province as well as low base in 2020, we expect retail/C&I gas sales volume to surge 27.4%/29.0% respectively, leading to an overall retail gas volume increase of 27.3% YoY in 2021E.
- **Connection business still a key growth driver.** TLG connected 835.7k accounts during 2020, of which city residential accounted for 265.6k households, township connection accounted for 566.6k household, and C&I connection also read 3,471 accounts. In 2021E, mgmt. guided total connection not less than 800k accounts. Considering increasing township connection supports in Henan and potential project acquisition synergies for township connection opportunities in Gansu, we think the target would be a bit conservative. We expect TLG will have total connection to reach above 867k in 2021E.
- **Lift TP to HK\$9.90, maintain BUY.** Based on mgmt. guidance update for more optimistic gas sales volume and margin as well as more conservative connection outlook, our earnings forecasts in FY21/22E is trimmed slightly by 2.4%/0.8%. We still see high earnings visibility for TLG with 18.7-19.0% ROE in 2021-23E. **Based on 8x FY21E P/E, our TP is lifted by 19.1% to HK\$9.90, maintain BUY.**

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------|-------|-------|-------|-------|--------|
| Revenue (RMB mn) | 6,549 | 6,440 | 7,478 | 8,763 | 10,045 |
| Net income (RMB mn) | 789 | 1,044 | 1,034 | 1,196 | 1,360 |
| EPS (RMB) | 0.80 | 1.04 | 1.03 | 1.19 | 1.35 |
| YoY growth (%) | 38.4 | 30.8 | -1.2 | 15.4 | 13.5 |
| Consensus EPS (RMB) | N/A | N/A | 1.031 | 1.15 | 1.3 |
| P/E (x) | 8.3 | 6.3 | 6.4 | 5.6 | 4.9 |
| P/B (x) | 1.70 | 1.41 | 1.22 | 1.06 | 0.92 |
| Yield (%) | 3.5 | 4.0 | 4.7 | 5.4 | 6.1 |
| ROE (%) | 20.5 | 22.3 | 19.0 | 19.0 | 18.7 |
| Net gearing (%) | 91.4 | 71.8 | 69.2 | 54.5 | 42.0 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$9.90**
 (Previous TP **HK\$8.31**)
 Up/Downside **+24.2%**
 Current Price **HK\$7.97**

China Gas Sector

Robin Xiao
 (852) 3900 0849
 robinxiao@cmbi.com.hk

Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 7,999 |
| Avg 3 mths t/o (HK\$ mn) | 11.0 |
| 52w High/Low (HK\$) | 8.25/5.35 |
| Total Issued Shares (mn) | 1,004 |

Source: Wind

Shareholding Structure

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

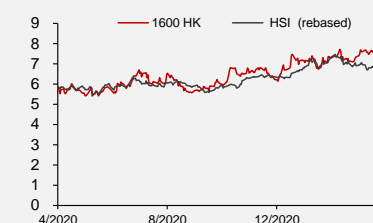
Source: HKEx

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 9.3% | 11.9% |
| 3-mth | 10.8% | 7.8% |
| 6-mth | 30.4% | 9.6% |
| 12-mth | 44.4% | 22.3% |

Source: Wind

12-mth Price Performance



Source: Bloomberg

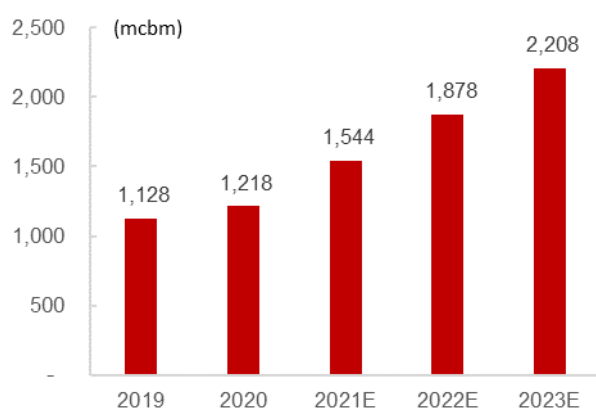
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Related Reports

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

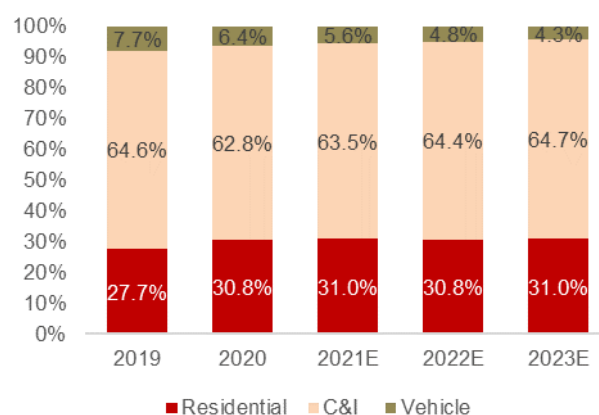
Focus charts

Figure 1: TLG's total gas sales volume



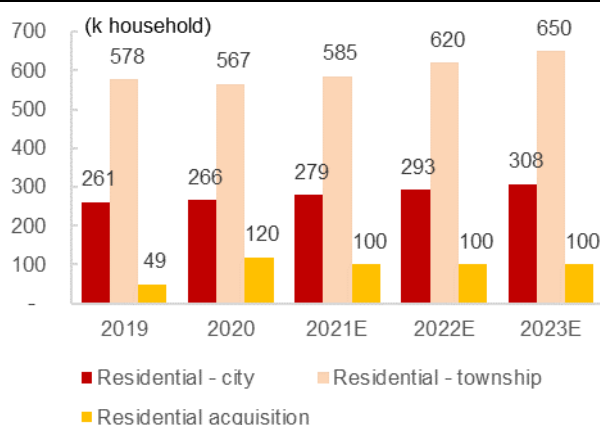
Source: Company data, CMBIS estimates

Figure 2: TLG's gas sales mix



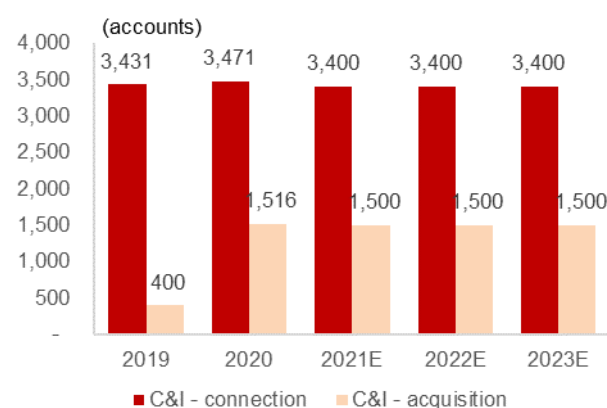
Source: Company data, CMBIS estimates

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



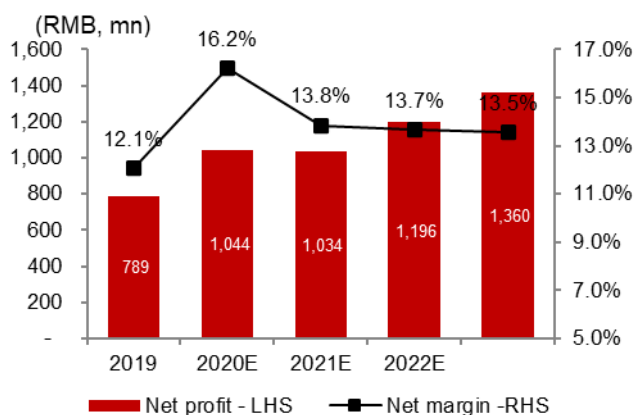
Source: Company data, CMBIS estimates

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



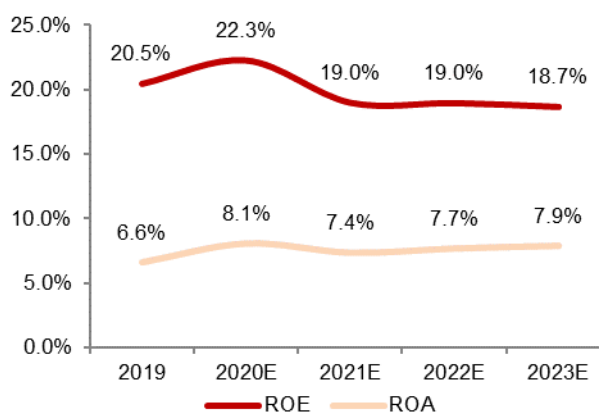
Source: Company data, CMBIS estimates

Figure 5: Net profit vs. net profit margin



Source: Company data, CMBIS estimates

Figure 6: ROE vs. ROA



Source: Company data, CMBIS estimates

Figure 7: Net profit vs. net profit margin

| (Rmb, mn) | 1H19 | 2H19 | 2019 | 1H20A | 2H20E | 2020 | FY20 YoY | FY20E | Diff |
|--|------------|------------|--------------|------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 3,150 | 3,398 | 6,549 | 2,996 | 3,444 | 6,440 | -1.7% | 6,802 | -5.3% |
| Transportation and sales of gas | 1,495 | 1,485 | 2,980 | 1,462 | 1,599 | 3,061 | 2.7% | 3,215 | -4.8% |
| Transmission pipeline | 495 | 586 | 1,081 | 323 | 351 | 674 | -37.7% | 1,045 | -35.5% |
| Engineering construction services | 1,099 | 1,256 | 2,355 | 1,142 | 1,408 | 2,550 | 8.3% | 2,342 | 8.9% |
| Others | 61 | 71 | 132 | 69 | 87 | 155 | 17.9% | 199 | -22.1% |
| Costs of sales | -2,321 | -2,524 | -4,845 | -2,159 | -2,495 | -4,654 | -3.9% | -5,037 | -7.6% |
| Gross profit | 829 | 874 | 1,704 | 836 | 950 | 1,786 | 4.8% | 1,764 | 1.2% |
| Gross profit margin | 26.3% | 25.7% | 26.0% | 27.9% | 27.6% | 27.7% | 1.7ppt | 25.9% | 1.8ppt |
| Distribution expenses | -23 | -35 | -58 | -24 | -36 | -59 | 2.6% | -60 | -1.2% |
| Administrative expenses | -84 | -112 | -196 | -87 | -107 | -193 | -1.4% | -201 | -3.7% |
| Other income | 3 | 2 | 5 | 2 | 8 | 10 | 108.2% | 5 | 108.2% |
| Other gains/losses, net | -12 | -7 | -19 | -48 | 208 | 160 | -928.1% | -47 | -444.5% |
| Operating profit | 714 | 722 | 1,435 | 680 | 1,023 | 1,703 | 18.7% | 1,462 | 16.5% |
| Finance income | 19 | 7 | 25 | 4 | 7 | 11 | -55.6% | 31 | -63.5% |
| Finance expenses | -139 | -152 | -291 | -132 | -119 | -250 | -13.9% | -273 | -8.4% |
| Finance expenses, net | -121 | -145 | -266 | -128 | -111 | -239 | -10.0% | -242 | -1.4% |
| Share of post-tax profit of associates | -18 | -25 | -42 | -14 | -32 | -46 | 8.4% | 32 | -243.6% |
| Profit before income tax | 575 | 552 | 1,127 | 539 | 880 | 1,418 | 25.8% | 1,251 | 13.4% |
| Income tax expense | -154 | -160 | -314 | -151 | -204 | -355 | 13.0% | -366 | -3.0% |
| Effective tax rate | 26.8% | 28.9% | 27.8% | 28.0% | 23.2% | 25.0% | -2.8ppt | 29.2% | -4.2ppt |
| Profit for the year | 421 | 642 | 1,064 | 388 | 676 | 1,064 | 0.0% | 421 | 152.5% |
| Less: non-controlling interests | 16 | 8 | 24 | 12 | 8 | 20 | -17.0% | 27 | -24.1% |
| Net profit | 405 | 384 | 789 | 375 | 668 | 1,044 | 32.2% | 859 | 21.5% |
| Adjusted net profit (Ex FX impacts) | 410 | 401 | 811 | 424 | 471 | 895 | 10.4% | 859 | 4.2% |

Source: Company data, CMBIS estimates

Figure 8: Net profit vs. net profit margin

| | Old | | New | | Change(%) | |
|--|--------------|--------------|--------------|--------------|-------------|--------------|
| | 2021E | 2022E | 2021E | 2022E | 2021E | 2022E |
| Key assumptions | | | | | | |
| Total gas sales volume (mcbm) | 1,798 | 2,060 | 1,892 | 2,286 | 5.2% | 10.9% |
| Residential | 424 | 488 | 478 | 580 | 12.7% | 19.0% |
| C&I | 734 | 901 | 986 | 1,222 | 34.3% | 35.6% |
| Vehicle | 172 | 176 | 86 | 90 | -50.1% | -48.6% |
| Wholesale | 467 | 495 | 341 | 393 | -27.0% | -20.7% |
| Gas connection & construction services (Households) | | | | | | |
| Residential | 287,005 | 315,706 | 278,930 | 292,877 | -2.8% | -7.2% |
| Township | 650,000 | 700,000 | 585,000 | 640,000 | -10.0% | -8.6% |
| C&I | 3,780 | 3,780 | 3,400 | 3,400 | -10.1% | -10.1% |
| Financials estimation | | | | | | |
| Revenue (Rmb mn) | 7,832 | 8,879 | 7,478 | 8,763 | -4.5% | -1.3% |
| Net Income (Rmb mn) | 1,059 | 1,206 | 1,034 | 1,196 | -2.4% | -0.8% |
| EPS (Rmb) | 1.06 | 1.21 | 1.03 | 1.19 | -2.9% | -1.5% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 6,549 | 6,440 | 7,478 | 8,763 | 10,045 |
| City gas sales | 2,980 | 3,061 | 4,006 | 4,892 | 5,769 |
| Wholesale | 1,081 | 674 | 785 | 903 | 1,039 |
| Engineering services | 2,355 | 2,550 | 2,471 | 2,681 | 2,856 |
| Others | 132 | 155 | 215 | 286 | 381 |
| Costs of sales | (4,845) | (4,654) | (5,580) | (6,590) | (7,601) |
| Gross profit | 1,704 | 1,786 | 1,898 | 2,172 | 2,444 |
| OPEX & other gains | (269) | (83) | (279) | (328) | (378) |
| Distribution expenses | (58) | (59) | (66) | (78) | (89) |
| Administration expenses | (196) | (193) | (224) | (262) | (301) |
| Other income | 5 | 10 | 8 | 8 | 8 |
| Other gains/loss, net | (19) | 160 | 4 | 4 | 4 |
| EBIT | 1,435 | 1,703 | 1,620 | 1,844 | 2,066 |
| Finance income | 25 | 11 | 19 | 19 | 27 |
| Finance expenses | (291) | (250) | (268) | (276) | (286) |
| Finance expenses, net | (266) | (239) | (249) | (257) | (260) |
| Exceptional | - | - | - | - | - |
| Pre-tax profit | 1,127 | 1,418 | 1,405 | 1,626 | 1,849 |
| Income tax | (314) | (355) | (351) | (407) | (462) |
| Less: Minority interests | 24 | 20 | 20 | 23 | 26 |
| Net profit | 789 | 1,044 | 1,034 | 1,196 | 1,360 |
| Core profit | 811 | 895 | 1,034 | 1,196 | 1,360 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|----------------|----------------|----------------|
| Pre-tax profit | 1,127 | 1,418 | 1,405 | 1,626 | 1,849 |
| Depreciation and amortization | 275 | 299 | 334 | 372 | 412 |
| Change in working capital | (197) | (155) | (284) | (56) | (58) |
| Taxation | (151) | (228) | (229) | (261) | (293) |
| Others | (82) | 26 | (36) | (15) | (14) |
| Net cash from operation | 971 | 1,360 | 1,191 | 1,665 | 1,896 |
| Capex & investments | (259) | (671) | (1,494) | (1,028) | (1,111) |
| Others | 9 | - | - | - | - |
| Net cash from investments | (250) | (671) | (1,494) | (1,028) | (1,111) |
| Equity raised | (56) | (21) | (0) | 0 | 0 |
| Change of Debts | (226) | (128) | 187 | 201 | 216 |
| Dividend paid | (114) | (249) | (288) | (334) | (383) |
| Others | - | - | - | - | - |
| Net cash from financing | (451) | (398) | (102) | (133) | (166) |
| Net change in cash | 271 | 291 | (405) | 503 | 619 |
| Cash at the beginning of the year | 1,076 | 1,350 | 1,640 | 1,235 | 1,738 |
| Exchange difference | 3 | (0) | - | - | - |
| Cash at the end of the year | 1,350 | 1,640 | 1,235 | 1,738 | 2,357 |
| Cash at balance sheet | 1,350 | 1,640 | 1,235 | 1,738 | 2,357 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|--------------|--------------|--------------|---------------|---------------|
| Non-current assets | 8,041 | 8,556 | 9,660 | 10,337 | 11,056 |
| Lease prepayments | - | - | - | - | - |
| PPE | 2,850 | 3,035 | 3,778 | 4,348 | 4,962 |
| Intangible assets | 3,875 | 4,087 | 4,264 | 4,314 | 4,358 |
| Investments | 806 | 784 | 1,024 | 1,063 | 1,105 |
| Other non-current assets | 509 | 649 | 593 | 612 | 630 |
| Current assets | 3,898 | 4,363 | 4,390 | 5,221 | 6,169 |
| Trade & other receivables | 1,548 | 1,393 | 1,539 | 1,803 | 2,067 |
| Financial assets at fair | 51 | 27 | 27 | 27 | 27 |
| Cash and cash equivalents | 1,350 | 1,640 | 1,235 | 1,738 | 2,357 |
| Other current assets | 950 | 1,302 | 1,589 | 1,652 | 1,718 |
| Current liabilities | 3,313 | 4,556 | 3,969 | 4,400 | 4,857 |
| Trade & other payables | 1,202 | 1,364 | 1,395 | 1,648 | 1,900 |
| Advances from customers | 469 | 458 | 481 | 505 | 530 |
| Borrowings | 1,312 | 2,295 | 1,575 | 1,636 | 1,701 |
| Others | 329 | 440 | 517 | 611 | 726 |
| Non-current liabilities | 4,439 | 3,381 | 4,335 | 4,527 | 4,734 |
| Borrowings | 3,880 | 2,770 | 3,676 | 3,816 | 3,968 |
| Other payables | - | - | - | - | - |
| Deferred income | 547 | 593 | 641 | 692 | 747 |
| Deferred income tax | 12 | 18 | 18 | 19 | 19 |
| Total Equity | 4,187 | 4,980 | 5,746 | 6,631 | 7,635 |
| Minority Interest | 297 | 281 | 301 | 324 | 351 |
| Shareholders' equity | 3,891 | 4,699 | 5,445 | 6,307 | 7,284 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| City gas sales | 45.5 | 47.5 | 53.6 | 55.8 | 57.4 |
| Wholesale | 16.5 | 10.5 | 10.5 | 10.3 | 10.3 |
| Engineering services | 36.0 | 39.6 | 33.1 | 30.6 | 28.4 |
| Others | 2.0 | 2.4 | 2.9 | 3.3 | 3.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| P&L ratios (%) | | | | | |
| Gross profit margin | 26.0 | 27.7 | 25.4 | 24.8 | 24.3 |
| Operating margin | 21.9 | 26.5 | 21.7 | 21.0 | 20.6 |
| Pre-tax margin | 17.2 | 22.0 | 18.8 | 18.6 | 18.4 |
| Net margin | 12.1 | 16.2 | 13.8 | 13.7 | 13.5 |
| Effective tax rate | 27.8 | 25.0 | 25.0 | 25.0 | 25.0 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.2 | 1.0 | 1.1 | 1.2 | 1.3 |
| Quick ratio (x) | 0.5 | 0.4 | 0.5 | 0.5 | 0.9 |
| Debtors turnover days | 83.9 | 83.4 | 71.6 | 69.6 | 70.3 |
| Total debt / equity ratio (%) | 124.0 | 101.7 | 91.4 | 82.2 | 74.2 |
| Net debt / equity ratio (%) | 91.4 | 71.8 | 69.2 | 54.5 | 42.0 |
| Returns (%) | | | | | |
| ROE | 20.5 | 22.3 | 19.0 | 19.0 | 18.7 |
| ROA | 6.6 | 8.1 | 7.4 | 7.7 | 7.9 |
| Per share | | | | | |
| EPS (RMB) | 0.80 | 1.04 | 1.03 | 1.19 | 1.35 |
| DPS (RMB) | 0.23 | 0.27 | 0.31 | 0.36 | 0.40 |
| BVPS (RMB) | 3.89 | 4.68 | 5.41 | 6.26 | 7.21 |

Source: Company data, CMBIS estimates

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|------------------|---|
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| | |
|-----------------------|---|
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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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