

Tian Lun Gas (1600 HK)

Rapid recovery in C&I's gas sales; county new energy business continues to heat up

We had a company visit to TLG in Henan. Critical takeaways are as follow: 1) C&I's gas sales has recovered rapidly since Dec 2022, thanks to the relaxed epidemic controls; 2) dollar margins continued to improve; TLG has strong belief to reach its goal of RMB0.43cbm in FY22 as 3Q22 dollar margin achieved RMB0.5cbm and 2H22 dollar margin went back to a similar level of previous year; 3) county household photovoltaic business developed slower than expected, but it still showed a great business growth potential given TLG's solid rural resident base and advanced gas-electric synergy model; and 4) continued share buyback reveals the managements' solid confidence. **We lift our TP to HK\$6.55 (based on rollover 8x 23E PE and rolling EPS for 23E), reflecting C&I's positive gas sales recovery, robust value-added business and great growth potential of county energy. Maintain BUY rating.**

- **C&I gas sales has shown a rapid recovery since Dec 2022, and potentially suppressed gas demand for C&I may further release in 2023.** As TLG's C&I segment accounts for more than 60% of its total gas sales volume, C&I's gas demand recovery is vital to TLG. We investigated Xuchang, a specific area of Tian Lun Gas (the second area that owns the city gas franchise after the Hebi area). In particular, we visited Wanda Plaza and found out its inner shops' operations have recovered since epidemic control relaxed in Dec 2022. Given the relaxation of the epidemic controls policy started to drive an economic revival in late 2022, we expect the growth rate of C&I's gas sales volume to reach double digits in 2023. In addition, as a better economy may also strengthen enterprises' ability to accept rising gas prices, the potentially suppressed C&I gas demand due to higher gas prices will further release.
- **Dollar margin continues to improve.** As TLG implemented active price-cross measures and diversified its gas source, the Group's dollar margin improved to around RMB0.5cbm in 3Q22, and the dollar margin in 2H22 went back to a similar level to previous years. In addition, we believe TLG's dollar margin can be further improved, as TLG's C&I segment accounts for more than 60% of its total gas sales volume and C&I segment typically takes less time on price-cross measures than the residential segment. Thus, we estimated TLG can reached RMB0.43cbm in 2022 as its guidance, and improved to RMB0.48cbm in 2023.
- **Great development potential for TLG's rural household PV business with the gas-electric synergy model.** During our field trip, it is revealed that TLG has obvious regional advantages on rural household PV construction: 1) 2mn households rural gasification users and a mature localized operation team; 2) great lighting conditions; 3) rural users have a solid willingness to rent the roofs; 4) Gas-electric Synergy Model brings mutual benefits to partners and enables TLG to invest in light assets with great flexibility. Although TLG's photovoltaic business expansion was partially affected by epidemic controls, TLG has targeted 64,000 to 65,000 rural users to construct rooftop photovoltaics as planned in 2022. The more related revenue is expected to deliver in 2023.
- **We raised TP from HK\$4.87 to HK\$6.55 by rolling EPS of RMB0.72/share in FY23 and 8x 23E PE (close to +1SD of 3-year hist.avg.PE). Maintain BUY rating.** At present, TLG is trading at around 6x 2023 forward PE. Given C&I's positive gas sales recovery in 2023, better dollar margin, solid value-added business, and county energy's potential growth space, we think the valuation is demanding. In addition, the Group's management continued share buyback, implying a strong belief in the company's business. Maintain BUY rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	6,440	7,650	7,709	8,495	9,364
Net profit (RMB mn)	1,043.5	1,000.7	551.0	725.3	885.4
EPS (Reported) (RMB)	1.04	1.00	0.56	0.72	0.88
YoY growth (%)	na	(3.9)	(44.0)	28.3	21.8
Consensus EPS (RMB)	na	na	0.59	0.75	0.88
P/E (x)	5.2	4.1	7.2	5.7	4.8
P/B (x)	1.2	1.2	0.8	0.7	0.6
Payout ratio(%)	26%	28%	28%	28%	30%
ROE (%)	na	20.2	10.2	12.5	13.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$6.55

(Previous TP) HK\$4.87)

Up/Downside 33%

Current Price HK\$4.90

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Stock Data

Mkt Cap (HK\$ mn)	4,909.0
Avg 3 mths t/o (HK\$ mn)	3.8
52w High/Low (HK\$)	9.71/2.81
Total Issued Shares (mn)	982.8

Source: FactSet

Shareholding Structure

Tian Lun Group	50.3%
Free Float	29.6%

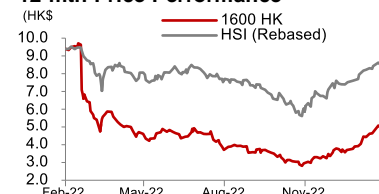
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	25.0%	16.3%
3-mth	68.4%	19.2%
6-mth	32.1%	20.5%

Source: FactSet

12-mth Price Performance

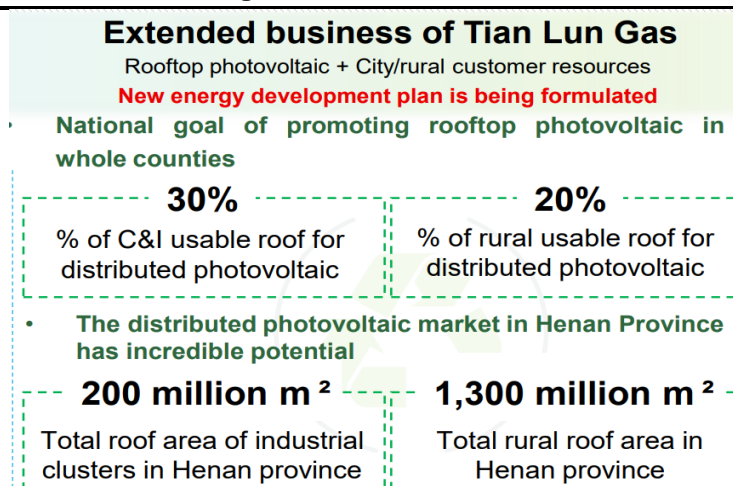


Source: FactSet

TLG's rural rooftop PV business

According to TLG's estimation, as the national goal of promoting rooftop PV in whole countries required 20% of rural usable roofs for distributed PV, Henan accumulated total rural roof area of 1,300mn m². As TLG has around 2mn rural household users, we estimated TLG has a total rural roof area of roughly 200-300mn m² (based on the assumption of each rural users' rooftop area occupied about 10-15 m²). Therefore, we predicted that TLG has outstanding rural rooftop resources and accounts for approximately 7% of total rural roof PV area in Henan (assumed rural PV installed rate as around 2% for reference).

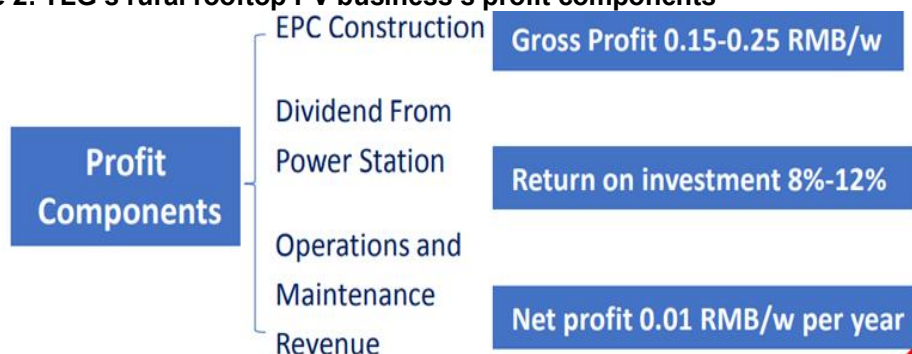
Figure 1: 2016-2021 new PV Power market in Henan (Market size of distributed photovoltaic in Henan-exceeding RMB200bn)



Source: Company data, CMBIGM estimates

In addition, in 1H22, TLG was guided to develop at least 100,000 new users/year; each new user estimated to construct around 3KW. Thus, TLG plans to construct 300MW, 1000MW, 1500MW, and 2000MW in 2022-2025. As TLG guided the gross profit of EPC construction was RMB0.15-0.25/W, TLG expect to have a total gross profit of nearly RMB45mn, 150mn, 225mn, and 300mn in PV construction during 2022-2025. For PV operation and maintenance, TLG plans to expand its scale to 2000MW, 6000MM, 12000MW, and 20000MW from 2022 to 2025. Based on the net profit of RMB0.01/w per year, TLG will earn RMB20mn, 60mn, 120mn, and 200mn net profit of PV operation and maintenance in 2022-2025. Besides, TLG will also receive a dividend from the power station in long-term.

Figure 2: TLG's rural rooftop PV business's profit components

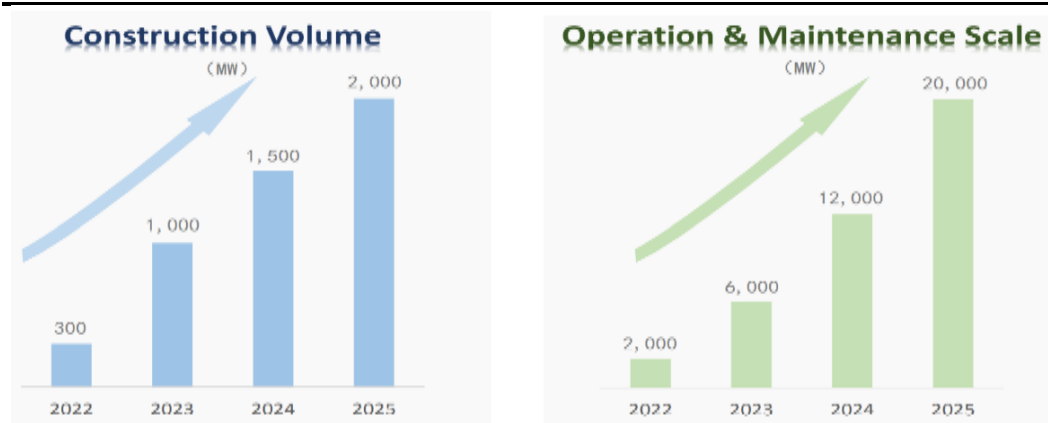


Source: Company data, CMBIGM estimates

Considering the above, TLG's rooftop photovoltaic business shows strong profitability and significant growth potentials.

However, as TLG's rural PV construction was partially affected by epidemic controls last year, the construction progress in 2022 may be slower than expected. TLG cooperated with SPIC and JinKo to construct rural rooftop PV with a unique Gas-electric Synergy Model. In particular, TLG acted as a household PV Carrier in charge of resources development, EPC construction, and Photovoltaic O&M. In our view, 2022-2023 was the explore phases of rooftop PV construction for TLG, as Gas-electric Synergy Model may take time to practice and improve. Thus, stable and specific revenue, as previously guided, may postpone to deliver in a later few years.

Figure 3: TLG's rural rooftop PV construction volume and maintenance scale in 2022-2025



Source: Company data, CMBIGM estimates

Valuation

■ **We lift TP to HK\$6.55 and maintain BUY rating.** As coal-to-gas slows down and the company enters into county new energy business development, we adjusted newly-added rural resident users' growth to 80,000 in 2023E and 60,000 in 2024E. Besides, as C&I's gas demand was affected by epidemic controls in 2022, we also lowered number of newly-added C&I user to 3,400 in 2022E. Thus, we slightly adjusted net profit in 2022-24E by -1%,-3% and -5%. We raised TP from HK\$4.87 (~based on 7.5x PE for FY22E) to HK\$6.55 by rolling EPS of RMB0.72/share in FY23 and 8x 23E PE (close to +1SD of 3-year hist.avg.PE). At present, TLG is trading at around 6x 2023 forward PE. Given C&I's positive gas sales recovery in 2023, better dollar margin, solid value-added business, and county energy's potential growth space, we think the valuation is demanding (~vs peers' valuation of around 8x PE). In addition, the Group's management continued share buyback, implying a strong belief in the company's business. Maintain BUY rating.

Figure 4: Peers' table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS				22-24E CAGR	PER			PBR		
				22E	23E	24E			22E	23E	24E	22E	23E	24E
TIAN LUN GAS HOL	1600 HK	4.90	4949.13	0.59	0.75	0.88	22.5%		7.20	5.68	4.80	0.70	0.63	0.58
ENN ENERGY	2688 HK	115.70	130866.74	6.91	7.59	8.44	10.5%		14.46	13.18	11.84	2.77	2.43	2.16
CHINA GAS HOLDIN	384 HK	12.48	67895.39	1.53	1.27	1.44	-3.0%		8.18	9.86	8.69	1.04	0.99	0.92
CHINA RES GAS	1193 HK	33.90	78445.04	2.74	3.03	3.39	11.1%		12.35	11.21	10.01	1.75	1.61	1.48
TOWNGAS SMART EN	1083 HK	3.88	12643.86	0.43	0.45	0.53	10.8%		9.07	8.55	7.39	0.52	0.53	0.51
KUNLUN ENERGY	135 HK	6.24	54030.92	0.71	0.76	0.78	4.3%		7.56	7.13	6.95	0.78	0.73	0.69
Average									9.0	8.1	7.3	0.9	0.9	0.8

Source: Company data, CMBIGM estimates

Figure 5: Revision table

	Old			New			Change(%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Key assumptions									
Total gas sales volume (mcbm)	2,153	2,443	2,759	2,134	2,416	2,723	-0.9%	-1.1%	-1.3%
Residential	525	575	629	525	573	622	-0.1%	-0.3%	-1.1%
C&I	1,116	1,296	1,491	1,098	1,271	1,463	-1.7%	-1.9%	-1.9%
Vehicle	87	91	96	87	91	96	0.0%	0.4%	-0.1%
Wholesale	425	480	543	425	480	543	0.0%	0.1%	0.0%
Gas connection & construction services (Households)									
Residential	278,396	292,316	306,931	278,396	270,044	261,943	0.0%	-7.6%	-14.7%
Township	100,000	120,000	130,000	100,000	120,000	130,000	0.0%	0.0%	0.0%
C&I	4,000	4,000	4,000	3,400	3,800	3,900	-15.0%	-5.0%	-2.5%
Financials estimation									
Revenue (Rmb mn)	7,767	8,635	9,583	7,709	8,495	9,364	-0.7%	-1.6%	-2.3%
Net Income (Rmb mn)	555	751	933	551	725	885	-0.7%	-3.4%	-5.1%
EPS (Rmb)	0.56	0.74	0.92	0.56	0.72	0.88	0.1%	-2.8%	-4.8%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Revenue	6,440	7,650	7,709	8,495	9,364
Cost of goods sold	(4,654)	(5,871)	(6,401)	(6,915)	(7,489)
Others	0	0	0	0	0
Gross profit	1,786	1,779	1,308	1,581	1,874
Operating expenses	(253)	(293)	(295)	(325)	(359)
Selling expense	(59)	(75)	(76)	(84)	(92)
Admin expense	(193)	(218)	(219)	(242)	(266)
Others	0	0	0	0	0
Operating profit	1,703	1,601	1,025	1,268	1,529
Other income	10	15	8	8	8
Other gains/(losses)	160	99	5	5	5
Adjusted EBITDA	1,404	1,267	654	856	1,072
Depreciation	(164)	(184)	(215)	(250)	(288)
Other amortisation	(136)	(150)	(156)	(163)	(169)
EBIT	1,703	1,601	1,025	1,268	1,529
Interest income	11	8	13	13	22
Interest expense	(250)	(236)	(332)	(344)	(355)
Net Interest income/(expense)	(239)	(228)	(319)	(331)	(333)
Other income/expense	(46)	(10)	38	42	0
Pre-tax profit	1,418	1,363	744	980	1,196
Income tax	(355)	(335)	(183)	(241)	(294)
After tax profit	1,064	1,028	562	739	903
Minority interest	20	27	11	14	17
Net profit	1,044	1,001	551	725	885
Core net profit	895	915	551	725	885

BALANCE SHEET	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Current assets	4,363	5,215	5,496	5,867	7,518
Cash & equivalents	1,640	1,015	976	1,056	2,393
Restricted cash	25	177	250	250	250
Account receivables	1,393	1,408	1,586	1,748	1,927
Inventories	116	155	121	123	125
Financial assets at FVTPL	27	46	27	27	27
Other current assets	1,162	2,415	2,535	2,662	2,795
Non-current assets	8,556	9,890	10,333	11,049	10,660
PP&E	3,035	3,519	4,348	4,962	5,624
Right-of-use assets	268	272	298	312	326
Deferred income tax	27	27	33	34	34
Intangibles	4,087	5,097	4,314	4,358	4,396
Financial assets at FVTPL	62	73	79	79	79
Other non-current assets	1,077	902	1,260	1,303	200
Total assets	12,918	15,105	15,828	16,916	18,177
Current liabilities	4,556	4,555	4,745	5,074	5,445
Short-term borrowings	2,295	2,058	1,952	2,017	2,087
Account payables	1,364	1,419	1,600	1,729	1,872
Other current liabilities	436	483	568	672	797
Lease liabilities	4	3	3	4	4
Contract liabilities	458	592	622	653	685
Accrued expenses	0	0	0	0	0
Non-current liabilities	3,381	5,021	5,217	5,428	5,656
Long-term borrowings	2,770	4,248	4,383	4,529	4,686
Bond payables	0	0	0	0	0
Deferred income	14	13	13	13	13
Other non-current liabilities	597	761	821	887	958
Total liabilities	7,938	9,576	9,962	10,502	11,102
Share capital	8	8	8	8	8
Capital surplus	817	528	528	528	528
Retained earnings	3,317	4,145	4,418	4,879	5,435
Other reserves	556	536	591	663	752
Total shareholders equity	4,699	5,218	5,545	6,079	6,724
Minority interest	281	310	321	335	352
Total equity and liabilities	12,918	15,105	15,828	16,916	18,178

CASH FLOW	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)					
Operating					
Profit before taxation	1,418	1,363	744	980	1,196
Depreciation & amortization	299	334	372	412	457
Tax paid	(228)	(134)	(41)	(72)	(97)
Change in working capital	(155)	(1,100)	(196)	(135)	(141)
Others	56	(47)	(3)	(15)	(14)
Net cash from operations	1,390	415	876	1,171	1,400
Investing					
Capital expenditure	(185)	(484)	(830)	(614)	(662)
Others	(680)	(1,331)	122	(497)	612
Net cash from investing	(865)	(1,815)	(707)	(1,111)	(50)
Financing					
Dividend paid	(249)	(273)	(224)	(191)	(241)
Net borrowings	(128)	1,241	29	211	228
Proceeds from share issues	(21)	(207)	(0)	0	0
Others	169	0	0	0	0
Net cash from financing	(230)	761	(195)	20	(14)
Net change in cash					
Cash at the beginning of the year	1,350	1,640	1,002	976	1,056
Exchange difference	(5)	0	0	0	0
Others	295	(638)	(26)	80	1,337
Cash at the end of the year	1,640	1,002	976	1,056	2,393
GROWTH	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Revenue	(1.7%)	18.8%	0.8%	10.2%	10.2%
Gross profit	4.8%	(0.4%)	(26.5%)	20.9%	18.6%
Operating profit	18.7%	(6.0%)	(36.0%)	23.7%	20.5%
EBIT	18.7%	(6.0%)	(36.0%)	23.7%	20.5%
Net profit	32.2%	(4.1%)	(44.9%)	31.6%	22.1%
PROFITABILITY	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Gross profit margin	27.7%	23.3%	17.0%	18.6%	20.0%
Operating margin	26.5%	20.9%	13.3%	14.9%	16.3%
Return on equity (ROE)	na	20.2%	10.2%	12.5%	13.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
Current ratio (x)	1.0	1.1	1.2	1.2	1.4
Receivable turnover days	83.4	66.8	70.9	71.6	71.6
Inventory turnover days	9.1	6.5	6.5	5.2	4.8
Payable turnover days	100.6	86.5	86.1	87.9	87.7
VALUATION	2020A	2021A	2022E	2023E	2024E
YE 31 Dec					
P/E	5.2	4.1	7.2	5.7	4.8
P/B	1.2	1.2	0.8	0.7	0.6

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

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