

CR Gas (1193 HK)

Expect 2023 profit rebound ahead; attractive valuation

CRG has announced its FY22 results. CRG recorded HK\$94.34bn revenue, with total gas sales volume up by 5.3%YoY. Dragged by higher gas costs, its pre-tax profit dropped by 25.3% YoY. However, CRG achieved 4.08mn new residential users, beating consensus. CRG's comprehensive service achieved a rapid surge and the Company continued to invest in its business expansion. For 2023, considering the economic recovery and lower gas cost, we forecast the total gas sales volume will achieve low-double-digit growth and dollar margin will rebound to RMB0.5cbm. Additionally, we expect CRG's comprehensive service to continue a solid growth. **CRG is trading at 9.7x PE in FY23E, close to -1SD of its 3-year historical average PE. The valuation is attractive. We maintain our TP at HK\$39, based on 13x FY23E PE (~close to 3-year avg. PE) and rolling FY23E EPS of HK\$2.99/share. Reiterate a BUY rating.**

- **Total gas sales volume up by 5.3%YoY in 2022; aiming to rebound to a low-double-digit in 2023.** In 2022, due to the high upstream gas prices and the economic weakness, CRG's total gas sales volume rose by 5.3%YoY (mgmt.'s prev. guidance of 8-10%YoY). Yet, CRG achieved double-digit growth in residential and commercial gas sales volume. In addition, CRG continued to acquire high-quality projects and extend its business scale, adding seven projects to 273. We expect CRG's overall gas sales volume to rebound by 12.6% YoY in 2023. CRG continues acquiring high-quality projects, offering a solid foundation for its future growth.
- **Dollar margin slightly missed at RMB0.45cbm in FY22; estimated to improve to RMB0.5cbm in FY23.** The lower-than-expected dollar margin was dragged by: 1) a rise of high upstream gas cost to RMB 3.07cbm (~RMB2.41cbm in FY21); and 2) the relatively lagging effect of residential price-through measures. In 2023, the lower gas cost and positive price-cross measure will improve CRG's dollar margin to RMB0.5cbm.
- **New residential users beat consensus in 2022.** In 2022, CRG acquired 4.1mn new residential users, up by 15.7%YoY. In particular, CRG had 3.6mn new connected users due to accelerated completion of real estate projects, which beat market expectations. The number of cumulative connected users exceeded 54.37bn. CRG expects to achieve around 3.5mn new connected users in 2023.
- **The comprehensive service business witnessed rapid growth; CRG actively promotes integrated-energy business.** CRG's comprehensive service business revenue was up 42.5% YoY to HK\$3.19bn, and its profit contribution climbed by 60.4% YoY to HK\$1.15bn. The Company's existing market share surged from 6.5% to 8%, with great growth potential in the future. In addition, CRG is actively developing its integrated-energy business, expanding the low-carbon business around its core gas business.
- **We maintain TP unchanged at HK\$39, based on 13x PE for FY23E (close to its three-year historical average PE) and rolling FY23E EPS of HK\$2.99/share.** However, residential gas connection guidance is 3.5mn lower than our expectation and residential price-cross measures take longer cycle, we lower FY23E EPS from HK\$3.32 to HK\$2.99/share. In addition, to reflect total gas sales recovery and dollar margin improvement, as well as the resilient comprehensive service growth in 2023, our target PE remains 13x in FY23E. CRG is now trading at 9.7x FY23 forward PE, close to -1SD of its 3-year historical average PE. The valuation is attractive; **maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	78,175	94,338	102,389	108,317	116,640
Net profit (HK\$ mn)	6,395.1	4,733.5	6,775.4	7,661.9	8,384.5
EPS (Reported) (HK\$)	2.82	2.09	2.99	3.38	3.70
Diluted EPS (HK\$)	2.82	2.09	2.99	3.38	3.70
Consensus EPS (HK\$)	na	2.77	3.03	3.39	3.61
P/E (x)	15.5	15.2	9.7	8.6	7.8
P/B (x)	2.4	1.8	1.5	1.4	1.3
ROE (%)	12.7	8.9	12.3	12.5	12.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$39.00
(Previous TP)	HK\$39.00)
Up/Downside	34.7%
Current Price	HK\$28.95

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Stock Data

Mkt Cap (HK\$ mn)	69,916.0
Avg 3 mths t/o (HK\$ mn)	32.3
52w High/Low (HK\$)	38.00/20.10
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

CR Company Ltd	61.5%
The Capital Group	5.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.5%	-15.2%
3-mth	-1.2%	-4.2%
6-mth	16.0%	-2.0%

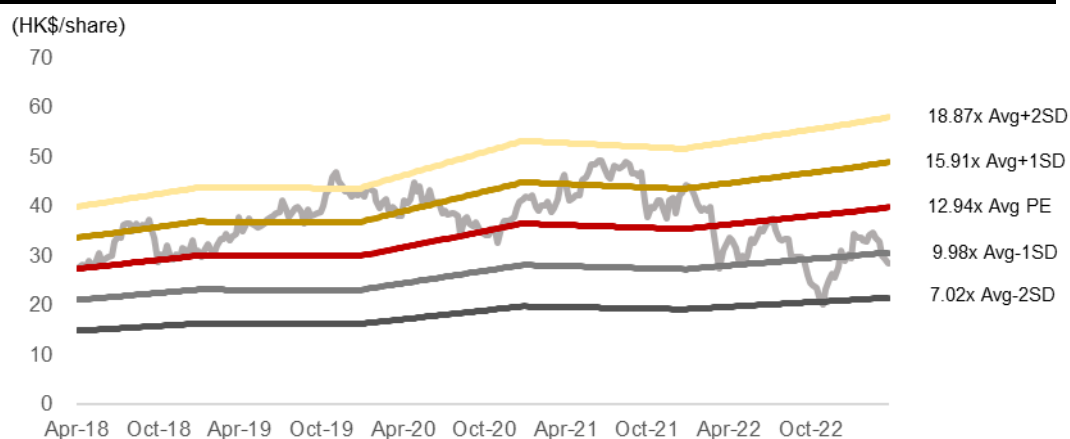
Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Forward PE band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Peers table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA RES GAS	1193 HK	28.95	69,916	2.99	3.38	3.70	11.2%	9.70	8.60	7.80	1.50	1.40	1.30
ENN ENERGY	2688 HK	107.10	121,139	7.65	8.34	9.33	10.4%	12.24	11.23	10.03	2.31	2.05	1.84
CHINA GAS HOLDIN	384 HK	11.10	60,388	1.27	1.44	1.60	12.4%	8.74	7.70	6.92	0.88	0.82	0.77
TIAN LUN GAS HOL	1600 HK	4.60	4646.00	0.71	0.81	0.94	15.1%	5.90	5.20	4.40	0.70	0.60	0.60
TOWNGAS SMART EN	1083 HK	3.43	11,177	0.41	0.53	0.60	20.8%	8.31	6.52	5.66	0.51	0.49	0.47
KUNLUN ENERGY	135 HK	6.18	53,511	0.76	0.80	0.88	7.2%	7.10	6.73	6.18	0.73	0.69	0.64
Average								8.7	7.7	6.8	1.1	1.0	0.9

Source: Company data, Bloomberg, CMBIGM estimates

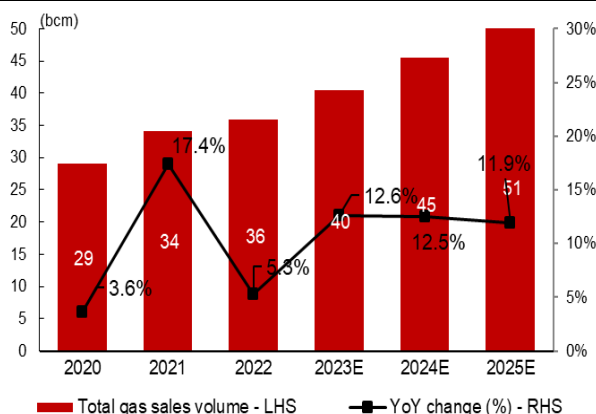
Figure 2: Revision table

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2024E
Total gas sales volume (mcbm)	42,990	48,471	54,256	40,402	45,471	50,886	-6.0%	-6.2%	-6.2%
Residential	9840.29	10997.17	12184.53	9199.87	9895.84	10594.49	-6.5%	-10.0%	-13.0%
C&I	31962.51	36265.20	40840.24	30125.39	34477.52	39173.51	-5.7%	-4.9%	-4.1%
L/CNG	8983.31	10422.88	11983.71	8819.26	10232.55	11764.87	-1.8%	-1.8%	-1.8%
Revenue (HK\$, mn)	110,986	121,343	130,676	102,389	108,317	116,640	-7.7%	-10.7%	-10.7%
Piped gas sales	91,199	100,977	109,659	82,132	87,622	95,119	-9.9%	-13.2%	-13.3%
Gas connection	12,050	12,057	12,123	11,622	10,608	10,513	-3.6%	-12.0%	-13.3%
Sales of gas appliances	3,457	3,975	4,571	4,778	6,211	7,143	38.2%	56.3%	56.3%
Net Income (HK\$,mn)	7,525	8,562	9,599	6,775	7,662	8,384	-10.0%	-10.5%	-12.7%
EPS (HK\$)	3.32	3.77	4.23	2.99	3.38	3.70	-10.0%	-10.4%	-12.6%

Source: Company data, Bloomberg, CMBIGM estimates

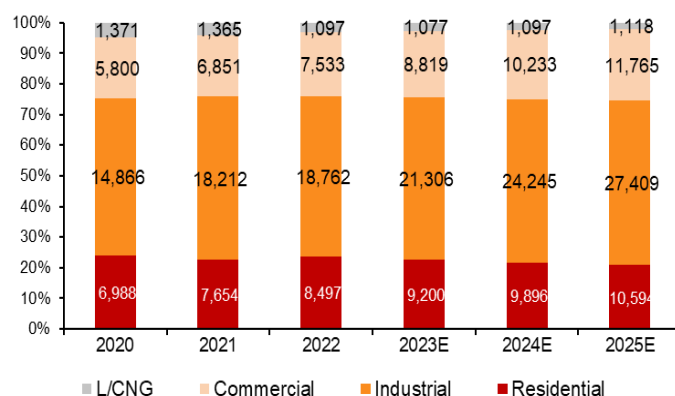
Focus charts

Figure 3: CRG's total gas sales volume (2020-25E)



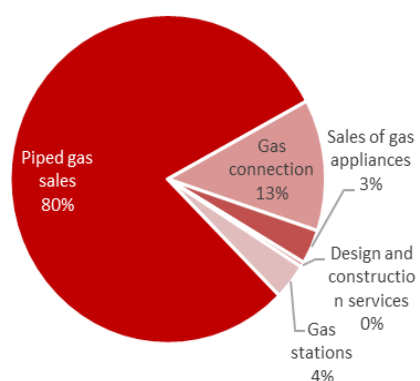
Source: Company data, CMBIGM estimates

Figure 4: CRG's gas sales volume mix (2020-25E)



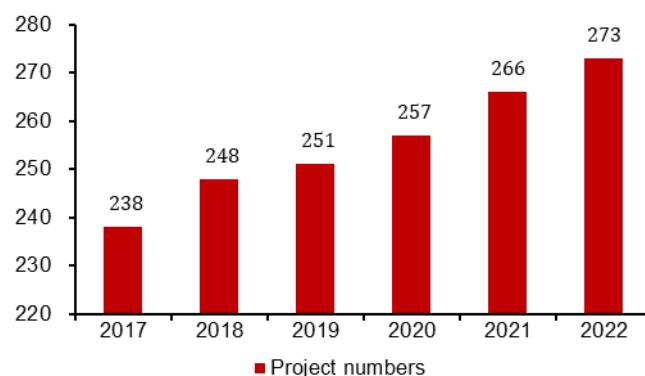
Source: Company data, CMBIGM estimates

Figure 5: FY22 revenue mix



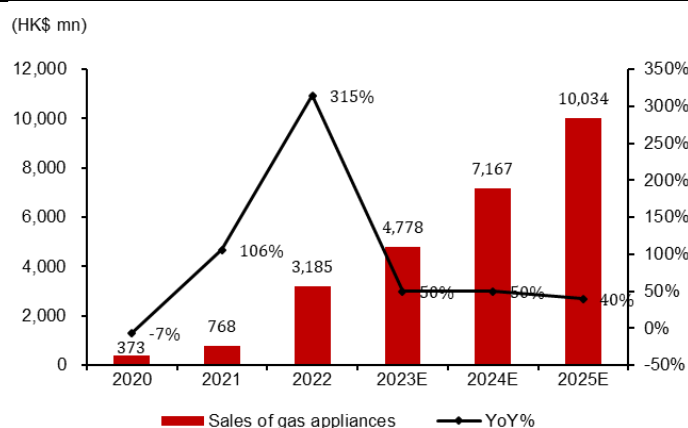
Source: Company data, CMBIGM estimates

Figure 6: Project numbers (2017-2022)



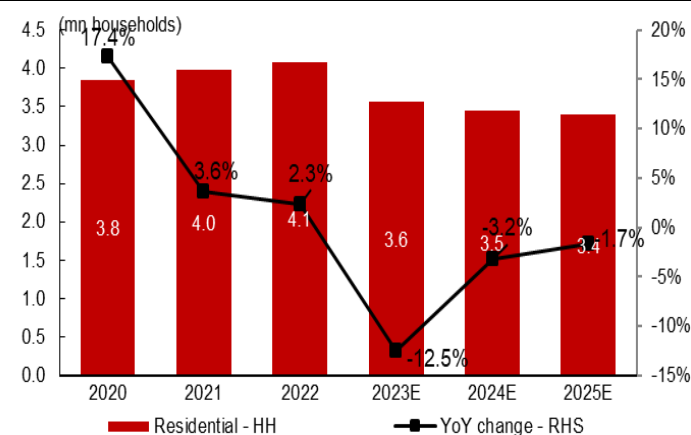
Source: Company data, CMBIGM estimates

Figure 7: Revenue of gas appliance



Source: Company data, CMBIGM estimates

Figure 8: Annual residential gas connection



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	55,864	78,175	94,338	102,389	108,317	116,640
Cost of goods sold	40,837	59,880	76,256	81,184	85,679	92,730
Gross profit	15,027	18,295	18,082	21,205	22,638	23,910
Operating expenses	(7,900)	(9,594)	(10,189)	(10,259)	(10,203)	(10,287)
Selling expense	(4,664)	(5,758)	(6,303)	(6,143)	(5,957)	(5,832)
Admin expense	(3,167)	(3,825)	(3,883)	(4,112)	(4,242)	(4,452)
Others	(69)	(11)	(3)	(3)	(3)	(3)
Operating profit	7,128	8,701	7,892	10,946	12,435	13,623
Other income	1,398	1,774	771	836	885	953
EBITDA	10,644	13,144	11,359	14,115	15,309	16,740
Depreciation	2,054	2,592	2,598	2,225	1,886	2,066
Other amortisation	65	77	99	108	103	98
EBIT	8,525	10,475	8,663	11,782	13,320	14,575
Interest income	(449)	(382)	(557)	(605)	(640)	(689)
Others	915	1,091	510	553	585	630
Pre-tax profit	8,991	11,183	8,616	11,731	13,266	14,517
Income tax	(2,278)	(2,744)	(2,307)	(2,874)	(3,250)	(3,557)
After tax profit	6,713	8,440	6,309	8,857	10,016	10,960
Minority interest	(1,561)	(2,044)	(1,575)	(2,081)	(2,354)	(2,576)
Net profit	5,152	6,395	4,733	6,775	7,662	8,384

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	30,641	30,565	28,073	30,675	32,295	34,659
Cash & equivalents	13,442	7,563	6,437	10,003	10,423	11,114
Restricted cash	12	2,527	1	1	1	1
Account receivables	12,646	15,705	17,042	18,497	19,568	21,071
Inventories	1,007	1,142	1,307	(1,391)	(1,468)	(1,589)
Prepayment	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	3,534	3,628	3,285	3,565	3,772	4,062
Non-current assets	63,229	75,571	83,979	91,010	98,100	106,332
PP&E	40,933	47,349	48,109	52,246	57,104	62,312
Right-of-use assets	2,816	3,254	3,188	3,615	4,053	4,514
Deferred income tax	345	463	509	552	584	629
Investment in JVs & assos	12,115	12,992	17,073	18,531	19,603	21,110
Intangibles	2,816	3,254	3,188	3,615	4,053	4,514
Goodwill	904	1,274	2,540	2,757	2,916	3,140
Financial assets at FVTPL	153	165	2,226	2,416	2,556	2,753
Other non-current assets	3,147	6,820	7,146	7,278	7,230	7,361
Total assets	93,871	106,136	112,052	121,685	130,395	140,991
Current liabilities	39,023	48,698	46,234	50,196	52,580	56,202
Short-term borrowings	2,548	616	7,696	7,696	7,696	7,696
Account payables	20,193	26,185	27,046	30,027	31,689	34,297
Tax payable	934	969	880	955	1,010	1,087
Other current liabilities	74	5,620	22	23	25	27
Lease liabilities	99	122	103	111	118	127
Contract liabilities	15,174	15,186	10,489	11,384	12,043	12,968
Non-current liabilities	7,980	3,401	13,277	13,501	13,666	13,898
Long-term borrowings	299	296	10,021	10,021	10,021	10,021
Deferred income	1,196	1,317	1,566	1,699	1,798	1,936
Other non-current liabilities	6,486	1,788	1,691	1,781	1,848	1,942
Total liabilities	47,002	52,099	59,511	63,697	66,247	70,101
Share capital	36,274	41,257	39,335	42,701	46,508	50,674
Total shareholders equity	46,868	54,038	52,540	57,988	64,149	70,890
Minority interest	10,594	12,781	13,206	15,287	17,641	20,216
Total equity and liabilities	93,871	106,136	112,052	121,685	130,395	140,991

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	6,713	8,440	6,309	8,857	10,016	10,960
Depreciation & amortization	2,118	2,669	2,696	2,333	1,989	2,165
Change in working capital	(642)	221	(2,592)	4,925	1,184	1,949
Others	(3,153)	(4,214)	3,124	(2,132)	(1,570)	(2,204)
Net cash from operations	5,036	7,115	9,537	13,982	11,619	12,870
Investing						
Capital expenditure	(5,613)	(5,978)	(6,258)	(6,792)	(7,186)	(7,738)
Net cash from investing	(5,613)	(5,978)	(6,258)	(6,792)	(7,186)	(7,738)
Financing						
Dividend paid	(2,076)	(2,347)	(2,382)	(3,409)	(3,855)	(4,219)
Others	(38)	(30)	(2,022)	(215)	(158)	(222)
Net cash from financing	(2,114)	(2,377)	(4,404)	(3,624)	(4,013)	(4,441)
Net change in cash						
Cash at the beginning of the year	13,237	13,442	7,563	6,438	10,003	10,423
Others	206	(5,879)	(1,125)	3,566	420	691
Cash at the end of the year	13,442	7,563	6,438	10,003	10,423	11,114
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	39.9%	20.7%	8.5%	5.8%	7.7%
Gross profit	na	21.7%	(1.2%)	17.3%	6.8%	5.6%
Operating profit	na	22.1%	(9.3%)	38.7%	13.6%	9.5%
EBITDA	na	23.5%	(13.6%)	24.3%	8.5%	9.3%
EBIT	na	22.9%	(17.3%)	36.0%	13.1%	9.4%
Net profit	na	24.1%	(26.0%)	43.1%	13.1%	9.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	26.9%	23.4%	19.2%	20.7%	20.9%	20.5%
Operating margin	12.8%	11.1%	8.4%	10.7%	11.5%	11.7%
EBITDA margin	19.1%	16.8%	12.0%	13.8%	14.1%	14.4%
Return on equity (ROE)	na	12.7%	8.9%	12.3%	12.5%	12.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	0.8	0.6	0.6	0.6	0.6	0.6
Receivable turnover days	82.6	73.3	65.9	65.9	65.9	65.9
Inventory turnover days	9.0	7.0	6.3	6.3	6.3	6.3
Payable turnover days	180.5	159.6	129.5	135.0	135.0	135.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	16.9	15.5	15.2	9.7	8.6	7.8
P/E (diluted)	16.9	15.5	15.2	9.7	8.6	7.8
P/B	2.4	2.4	1.8	1.5	1.4	1.3

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

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