

CR Gas (1193 HK)

1H23 results slightly beat; continue to implement “1+2+N” strategy

CR Gas's 1H23 net profit rose by 16% YoY to HK\$3,545mn, beating market expectation. The strong earnings growth was mainly driven by gas sales volume growth of 6.9% YoY on the back of rebound of residential and commercial gas sales, which contributed 12.0%/6.9% volume growth respectively. Looking ahead in 2H23E, CR Gas expects gas consumption to continue to recover gradually, with dollar margin of RMB0.5/cbm. As gas peers are actively seeking for new growth, CR Gas has actively implemented “1+2+N” business development strategy. We think the market also has high expectation on CR Gas's new business. **We adjusted our TP to HK\$35.48. Maintain BUY.**

- **1H23 results inline and modestly beat.** Revenue grew 0.6% YoY to HK\$48.4bn, driven by piped gas sales and comprehensive service (CSB) revenue growth. GP was mirrored last year's data, with GPM declined slightly by 4.2ppt to 18%, as gas dollar margin improved to RMB0.5/cbm. The acquisition of Chongqing Gas led to additional results of JVs and associates in 2H23. Net profit was HK\$3,545mn, up 16% YoY, beating market expectation of HK\$3,361mn. CR Gas maintained stable interim dividend at HK\$0.15/share.
- **Inline retailed gas sales and improved dollar margin.** Gas sales growth reached 6.9% YoY to 19.8bcm. In particular, industrial and commercial gas volume growth of 4.9%/6.9%YoY was largely inline since gas demand may be restored. We adjusted the gas sales growth outlook estimates from 13% YoY (~prev. guidance of 8-10% YoY) to 7.6% YoY as further recovery in C&I gas demand may take time. Additionally, CR Gas recorded improved dollar margin of RMB0.50cbm in 1H23. We maintained the full-year dollar margin expectation unchanged of RMB0.5cbm.
- **Gas connection continued to slow down as expected.** Residential connection declined 22% YoY to 1.34mn households in 1H23. Mgmt. guided 2023 residential connection guidance of 3-3.5mn unchanged. Based on the downward trend in new construction of property projects, we maintained our residential connection in 2023 unchanged of 3.47mn.
- **CR Gas persistently carried out “1+2+N” business development strategy.** CR Gas's CSBturnover rose by 8% YoY to HK\$1.47bn. Contribution increased by 11.4% YoY to HK\$0.62bn. CR Gas's existing market share of electricity-gas-heat and insurance products have a lot of potential for growth and space in the future. In addition, CR Gas actively developed its integrated-energy (IE) business, expanding its green and low-carbon business around its core business.
- **Adjusted TP to HK\$35.48 and maintain BUY.** We slash CR Gas's FY23E earnings from HK\$6,775mn to HK\$6,190mn since C&I gas demand was still awaiting further recovery as slow economic revival. We trimmed our TP to HK\$35.48/share. CR Gas is currently trading at FY23E 8.78x forward P/E, lower than -2sd.below avg.PE. The valuation is attractive and we stay bullish for CRG's future growth under “1+2+N” strategy. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	78,175	94,338	95,912	98,573	104,413
Net profit (HK\$ mn)	6,395.1	4,733.5	6,189.6	7,225.6	7,706.0
EPS (Reported) (HK\$)	2.82	2.09	2.73	3.19	3.40
Consensus EPS (HK\$)	na	2.77	3.03	3.39	3.61
P/E (x)	15.5	15.2	8.2	7.0	6.6
P/B (x)	2.4	1.8	1.2	1.1	1.0
ROE (%)	12.7	8.9	11.2	12.0	11.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$35.48**

(Previous TP) **HK\$39.0)**

Up/Downside **58.7%**

Current Price **HK\$22.35**

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Stock Data

Mkt Cap (HK\$ mn)	51,718.19
Avg 3 mths t/o (HK\$ mn)	78.3
52w High/Low (HK\$)	35.35/20.10
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	-16.0%	-9.1%
3-mth	-17.4%	-13.7%
6-mth	-34.7%	-27.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1H23 results summary

YE Dec 31 (HK\$ mn)	1H23	1H23 YoY
Revenue	48,369.60	0.6%
Piped gas sales	41,236.70	5.3%
Gas connection	4,254.61	-22.7%
Sales of gas appliances	1,470.50	7.7%
Design and construction services	326.97	-5.6%
Gas stations	1,080.82	-37.8%
Cost of sales	-39,550.74	0.7%
Gross profit	8,818.87	-0.1%
<i>Gross profit margin</i>	<i>18%</i>	<i>-0.1ppt</i>
Other income	1,208.21	200.2%
Selling and distribution costs	-2,812.06	-2.3%
... as% to revenue	6%	
Administrative expenses	-1,617.14	3.6%
... as% to revenue	3%	
Impairment losses on financial assets, net		
Share of results of JVs	197.78	-46.6%
Share of results of Associates	230.29	9.4%
EBIT	6,026.04	12.2%
<i>EBIT margin</i>	<i>12%</i>	<i>1.3ppt</i>
Finance costs	-433.88	93.9%
Profit before taxation	5,592.07	8.6%
Taxation	-1,034.52	-15.0%
<i>effective tax rate</i>	<i>18%</i>	<i>-5.2ppt</i>
Profit for the year	4,557.55	16.0%
Less: Non-controlling interests	1,012.29	14.5%
Net profit	3,545.256	16.4%
<i>Net margin</i>	<i>7%</i>	<i>1.0ppt</i>
EPS-HK\$	1.56	16.4%

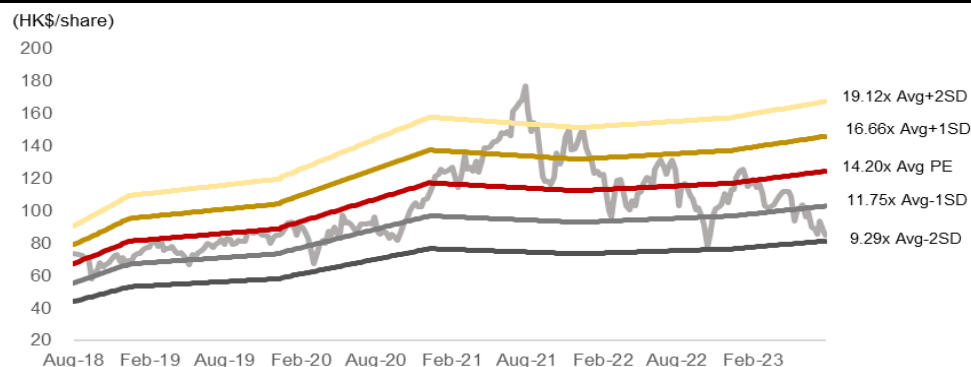
Source: Company data, CMBIGM estimates

Figure 2: Revision table

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Total gas sales volume (mcbm)	40,402	45,471	50,886	38,574	42,233	46,515	-4.5%	-7.1%	-8.6%
Residential connection (CTG incl. mm HH)	3.57	3.45	3.40	3.47	3.18	3.09	-2.8%	-7.9%	-8.9%
Revenue (HK\$, mn)	102,389	108,317	116,640	95,912	98,573	104,413	-6.3%	-9.0%	-10.5%
Net Income (HK\$,mn)	6,775	7,662	8,384	6,190	7,226	7,706	-8.6%	-5.7%	-8.1%
EPS (HK\$)	2.99	3.38	3.70	2.73	3.19	3.40	-8.6%	-5.7%	-8.1%

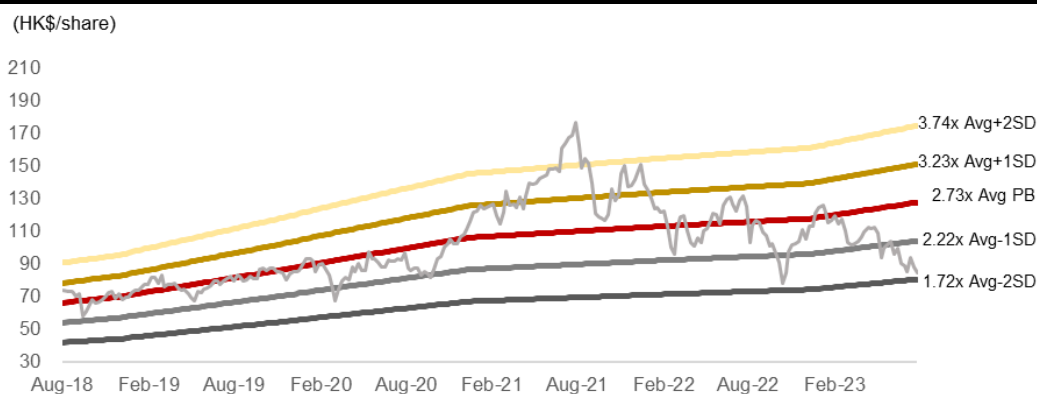
Source: Company data, CMBIGM estimates

Figure 3: PE Band



Source: Company data, CMBIGM estimates

Figure 4: PB Band



Source: Company data, CMBIGM estimates

Figure 5: Peers table

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA RES GAS	1193 HK	22.35	51718.19	2.55	2.80	3.12	10.6%	8.78	7.99	7.17	1.19	1.08	1.01
TIAN LUN GAS HOL	1600 HK	4.28	4202.47	0.71	0.82	NA	NA	5.63	5.63	3.86	0.73	0.56	NA
CHINA GAS HOLDIN	384 HK	7.76	42217.01	1.14	1.08	1.21	3.2%	6.81	6.81	6.40	0.63	0.67	0.65
ENN ENERGY	2688 HK	65.70	74321.11	7.01	7.77	8.48	10.0%	8.71	8.71	7.20	1.56	1.38	1.23
TOWNGAS SMART EN	1083 HK	3.06	10264.77	0.43	0.45	0.51	9.1%	7.18	7.18	6.04	0.46	0.44	0.42
KUNLUN ENERGY	135 HK	5.56	48142.94	0.75	0.80	0.86	6.8%	6.88	6.88	6.04	0.70	0.65	0.61
Average								7.3	7.2	6.1	0.9	0.8	0.8

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	95,912	98,573	104,413
Cost of goods sold	40,837	59,880	76,256	77,242	78,481	83,578
Gross profit	15,027	18,295	18,082	18,669	20,092	20,834
Operating expenses	(7,900)	(9,594)	(10,189)	(9,498)	(9,170)	(9,087)
Selling expense	(4,664)	(5,758)	(6,303)	(5,755)	(5,422)	(5,221)
Admin expense	(3,167)	(3,825)	(3,883)	(3,741)	(3,746)	(3,863)
Others	(69)	(11)	(3)	(3)	(3)	(3)
Operating profit	7,128	8,701	7,892	9,171	10,922	11,747
Other income	1,398	1,774	771	1,439	1,479	1,566
EBITDA	10,644	13,144	11,359	12,934	14,366	15,431
Depreciation	2,054	2,592	2,598	2,217	1,862	2,019
Other amortisation	65	77	99	108	103	98
EBIT	8,525	10,475	8,663	10,610	12,401	13,314
Interest income	(449)	(382)	(557)	(566)	(582)	(617)
Others	915	1,091	510	673	692	733
Pre-tax profit	8,991	11,183	8,616	10,717	12,510	13,430
Income tax	(2,278)	(2,744)	(2,307)	(2,626)	(3,065)	(3,290)
After tax profit	6,713	8,440	6,309	8,091	9,445	10,139
Minority interest	(1,561)	(2,044)	(1,575)	(1,901)	(2,220)	(2,433)
Net profit	5,152	6,395	4,733	6,190	7,226	7,706

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	30,641	30,565	28,073	30,267	31,508	33,855
Cash & equivalents	13,442	7,563	6,437	10,923	11,612	12,788
Restricted cash	12	2,527	1	1	1	1
Account receivables	12,646	15,705	17,042	17,327	17,807	18,862
Inventories	1,007	1,142	1,307	(1,324)	(1,345)	(1,432)
Prepayment	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Contract assets	3,534	3,628	3,285	3,340	3,433	3,636
Non-current assets	63,229	75,571	83,979	88,520	93,945	100,619
PP&E	40,933	47,349	48,109	51,865	56,159	60,671
Right-of-use assets	2,816	3,254	3,188	3,576	3,956	4,349
Deferred income tax	345	463	509	517	532	563
Investment in JVs & assos	12,115	12,992	17,073	17,358	17,840	18,897
Intangibles	2,816	3,254	3,188	3,576	3,956	4,349
Goodwill	904	1,274	2,540	2,582	2,654	2,811
Financial assets at FVTPL	153	165	2,226	2,263	2,326	2,464
Other non-current assets	3,147	6,820	7,146	6,783	6,522	6,516
Total assets	93,871	106,136	112,052	118,787	125,453	134,475
Current liabilities	39,023	48,698	46,234	47,949	48,731	51,328
Short-term borrowings	2,548	616	7,696	7,696	7,696	7,696
Account payables	20,193	26,185	27,046	28,569	29,027	30,913
Tax payable	934	969	880	894	919	973
Other current liabilities	74	5,620	22	22	23	24
Lease liabilities	99	122	103	104	107	114
Contract liabilities	15,174	15,186	10,489	10,664	10,959	11,609
Non-current liabilities	7,980	3,401	13,277	13,321	13,395	13,558
Long-term borrowings	299	296	10,021	10,021	10,021	10,021
Deferred income	1,196	1,317	1,566	1,592	1,636	1,733
Other non-current liabilities	6,486	1,788	1,691	1,708	1,738	1,804
Total liabilities	47,002	52,099	59,511	61,270	62,126	64,885
Share capital	36,274	41,257	39,335	42,410	46,000	49,829
Total shareholders equity	46,868	54,038	52,540	57,517	63,327	69,589
Minority interest	10,594	12,781	13,206	15,107	17,327	19,760
Total equity and liabilities	93,871	106,136	112,052	118,787	125,453	134,475

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	6,713	8,440	6,309	8,091	9,445	10,139
Depreciation & amortization	2,118	2,669	2,696	2,324	1,965	2,117
Change in working capital	(642)	221	(2,592)	4,006	230	1,426
Others	(3,153)	(4,214)	3,124	(417)	(705)	(1,547)
Net cash from operations	5,036	7,115	9,537	14,004	10,935	12,136
Investing						
Capital expenditure	(5,613)	(5,978)	(6,258)	(6,363)	(6,539)	(6,927)
Net cash from investing	(5,613)	(5,978)	(6,258)	(6,363)	(6,539)	(6,927)
Financing						
Dividend paid	(2,076)	(2,347)	(2,382)	(3,114)	(3,636)	(3,877)
Others	(38)	(30)	(2,022)	(42)	(71)	(156)
Net cash from financing	(2,114)	(2,377)	(4,404)	(3,156)	(3,707)	(4,033)
Net change in cash						
Cash at the beginning of the year	13,237	13,442	7,563	6,438	10,923	11,612
Others	206	(5,879)	(1,125)	4,485	689	1,176
Cash at the end of the year	13,442	7,563	6,438	10,923	11,612	12,788
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	39.9%	20.7%	1.7%	2.8%	5.9%
Gross profit	na	21.7%	(1.2%)	3.2%	7.6%	3.7%
Operating profit	na	22.1%	(9.3%)	16.2%	19.1%	7.6%
EBITDA	na	23.5%	(13.6%)	13.9%	11.1%	7.4%
EBIT	na	22.9%	(17.3%)	22.5%	16.9%	7.4%
Net profit	na	24.1%	(26.0%)	30.8%	16.7%	6.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	26.9%	23.4%	19.2%	19.5%	20.4%	20.0%
Operating margin	12.8%	11.1%	8.4%	9.6%	11.1%	11.3%
EBITDA margin	19.1%	16.8%	12.0%	13.5%	14.6%	14.8%
Return on equity (ROE)	na	12.7%	8.9%	11.2%	12.0%	11.6%
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	0.7
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	8.2	7.0	6.6
P/E (diluted)	16.9	15.5	15.2	8.2	7.0	6.6
P/B	2.4	2.4	1.8	1.2	1.1	1.0

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

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