

Tian Lun Gas (1600 HK)

Gas sales resumed growing pace

We had a recent update with TLG. According to mgmt., in Apr and May, gas sales volume increased 15% and 10% YoY respectively, gradually getting out of the impacts from the epidemic. 5M20 gas sales increased 2.5% YoY. Other than gas sales growth recovery, we think TLG still has two highlights from realizing project M&A, and reducing financial costs through successful refinancing in low interest rate environment. At 5.5x FY20E PER, TLG's valuation is substantially lagging behind peers. Based on stable earnings growth outlook, we believe TLG deserves a re-rating. **Maintain BUY with TP unchanged at HK\$7.45.**

■ **Gas sales resumed growing pace.** According to our channel check, gas sales volume in Jan-May increased 2.5% YoY, led by significant gas sales growth recovery in Apr and May with gas sales volume surged 15% and 10% YoY respectively. In TLG's business territory, the growth was mainly sourced from industrial gas consumption, and mgmt. also mentioned that commercial gas consumption had also turned positive in Apr. We anticipated that ~80% of gas volume increment was driven by organic growth from development of old projects, while M&A projects contributed for the remaining 20%. TLG maintained FY20 gas sales growth guidance at 12-15%.

■ **Residential gas connection largely in line.** COVID-19 had brought some residential connection project delay in 1Q20, but TLG maintained its annual residential connection target unchanged, including 300k city residential connections and 600k township coal to gas connections. In view of the impacts from project delay, we trim our city residential connection by 3.5% to 287k, while we think TLG should have some buffer from its contract assets carried forward from township connections in 2019. We think overall impact on residential connection will be mild.

■ **Highlights from project M&A and costs reduction in refinancing.** TLG acquired Shenqiu project in Jan with consideration of RMB280mn. We expect there are several new acquisition targets on the pipeline, and the Company to close some within the year. Each new project acquisition could bring more than 20mcbm gas sales and considerable rooms for new residential and C&I connection. For financing costs reduction, TLG had refinanced US\$70mn in Jan at LIBOR+280bps, and mgmt. planed to have more US\$ borrowing refinancing within the year. We expect TLG's overall financing costs to be reduced by 40bps in 2020, which could compensate for the residential connection delay.

■ **Valuation still lagging behind.** We expect TLG's earnings performance to be resilient given uncertain market environment caused by COVID-19. Our EPS estimates in 2020-22E are largely unchanged. We believe TLG deserves a re-rating, and maintain TP at HK\$7.45 unchanged. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,113	6,549	7,231	8,229	9,175
Net income (RMB mn)	569	789	971	1,130	1,211
EPS (RMB)	0.58	0.80	0.97	1.13	1.21
YoY growth (%)	47.6	38.4	22.1	16.3	7.2
Consensus EPS (RMB)	N/A	N/A	0.966	1.128	1.195
P/E (x)	9.5	6.9	5.6	4.9	4.5
P/B (x)	1.64	1.39	1.17	0.99	0.86
Yield (%)	2.8	4.3	5.4	6.3	6.7
ROE (%)	17.5	20.5	21.1	20.9	19.3
Net gearing (%)	115.7	91.4	89.7	97.6	94.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.45
(Previous TP	HK\$7.45)
Up/Downside	+22.1%
Current Price	HK\$6.10

China Gas Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,098
Avg 3 mths t/o (HK\$ mn)	5.66
52w High/Low (HK\$)	9.47/4.63
Total Issued Shares (mn)	1,000
Source: Bloomberg	

Shareholding Structure

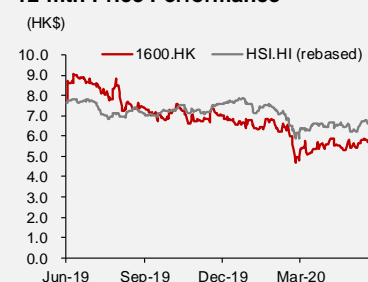
Tianlun Group	65.5%
IFC Assets Mgmt.	9.2%
Free float	25.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	12.8%	3.8%
3-mth	27.5%	11.0%
6-mth	-13.5%	-3.1%
12-mth	-20.0%	-8.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Tian Lun Gas (1600 HK) - FY19 earnings miss; turning to stable growth" - 2 Apr 2020
2. "Tian Lun Gas (1600 HK) - 1H19 earnings beat; growth to sustain in 2H19" - 23 Aug 2019

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Figure 1: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Key assumptions									
Total gas sales volume (mcbm)	1,729	2,037	2,329	1,727	2,034	2,324	-0.1%	-0.2%	-0.2%
Residential	386	466	540	385	463	535	-0.4%	-0.7%	-0.9%
C&I	562	746	914	562	746	914	0.0%	0.0%	0.0%
Transportation	158	161	163	158	161	163	0.0%	0.0%	0.0%
Wholesale	495	525	558	495	525	558	0.0%	0.0%	0.0%
Long-haul pipeline transmission (mc)	921	999	1,084	921	999	1,084	0.0%	0.0%	0.0%
Gas connection & construction services (Households)									
Annual residential connection	297,442	321,237	340,512	287,005	309,966	328,564	-3.5%	-3.5%	-3.5%
Annual C&I connection	3,850	3,780	3,780	3,850	3,780	3,780	0.0%	0.0%	0.0%
Annual Coal to gas conversion	600,000	600,000	600,000	600,000	600,000	600,000	0.0%	0.0%	0.0%
Financials estimation									
Revenue (Rmb mn)	7,261	8,266	9,218	7,231	8,229	9,175	-0.4%	-0.4%	-0.5%
Net Income (Rmb mn)	969	1,127	1,208	971	1,130	1,211	0.2%	0.2%	0.3%
EPS (Rmb)	0.97	1.13	1.21	0.97	1.13	1.21	0.2%	0.2%	0.3%

Source: CMBIS estimates

Figure 2: TLG's valuation is lagging behind peers

		Closing Price	Mkt cap	EPS				19-21E	PER			PB Ratio		
Company	Ticker	(HK\$)	(HK\$mnn)	19A	20E	21E	CAGR	19A	20E	21E	19A	20E	21E	
Cross-regional gas distributor														
CHINA GAS HOLDIN	384 HK	27.80	145,076	1.6	1.8	2.2	15.0%	16.1	15.4	12.9	4.0	3.4	2.8	
ENN ENERGY	2688 HK	92.50	104,130	5.1	5.4	6.1	10.3%	16.7	15.7	13.7	3.7	3.1	2.7	
CHINA RES GAS	1193 HK	40.95	94,759	2.3	2.4	2.7	7.0%	17.7	17.0	15.4	3.4	2.9	2.6	
KUNLUN ENERGY	135 HK	5.09	44,073	0.7	0.7	0.8	9.6%	6.9	6.6	5.8	0.8	0.7	0.7	
TOWNGAS CHINA	1083 HK	3.77	10,822	0.5	0.5	0.5	8.9%	8.2	7.4	6.9	0.6	0.5	0.5	
TIAN LUN GAS	1600 HK	6.10	6,098	0.8	1.0	1.1	18.7%	7.0	5.8	4.9	1.4	1.2	1.0	
Average								12.1	11.3	9.9	2.3	2.0	1.7	

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,113	6,549	7,231	8,229	9,175
Gas Sales	2,261	2,874	3,280	3,995	4,662
Transmission pipeline	909	1,188	1,257	1,331	1,412
Connection fee	679	779	844	902	951
CTG conversion	1,043	1,591	1,620	1,620	1,620
Others	137	132	230	380	530
Costs of sales	(3,685)	(4,845)	(5,307)	(6,036)	(6,788)
Gross profit	1,428	1,704	1,923	2,193	2,387
OPEX & other gains	(338)	(269)	(292)	(311)	(348)
Distribution expenses	(41)	(58)	(64)	(73)	(81)
Administration expenses	(167)	(196)	(216)	(246)	(275)
Other income	9	4	5	5	5
Other gains/loss, net	(139)	(19)	(17)	4	4
EBIT	1,091	1,435	1,631	1,882	2,039
Finance income	80	25	27	26	25
Finance expenses	(261)	(291)	(276)	(312)	(347)
Finance expenses, net	(181)	(266)	(248)	(286)	(322)
Exceptional	-	-	-	-	-
Pre-tax profit	865	1,127	1,415	1,630	1,756
Income tax	(264)	(314)	(413)	(465)	(507)
Less: Minority interests	31	24	30	35	37
Net profit	569	789	971	1,130	1,211

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	865	1,127	1,415	1,630	1,756
Depreciation and amortization	238	275	299	353	411
Change in working capital	(641)	(197)	(231)	(117)	(94)
Taxation	(107)	(151)	(372)	(360)	(389)
Others	108	(82)	122	(14)	(14)
Net cash from operation	463	971	1,233	1,492	1,670
Capex & investments	(1,318)	(259)	(1,557)	(2,285)	(2,007)
Others	277	9	-	-	-
Net cash from investments	(1,041)	(250)	(1,557)	(2,285)	(2,007)
Equity raised	(18)	22	0	(0)	0
Change of Debts	1,551	(226)	648	702	760
Dividend paid	(74)	(191)	(261)	(315)	(351)
Others	-	-	-	-	-
Net cash from financing	998	(451)	387	387	409
Net change in cash	420	271	63	(406)	72
Cash at the beginning of the year	678	1,076	1,350	1,413	1,007
Exchange difference	(22)	3	-	-	-
Cash at the end of the year	1,076	1,350	1,413	1,007	1,079
Cash at balance sheet	1,076	1,350	1,413	1,007	1,079

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	7,902	8,041	9,361	11,318	12,922
Lease prepayments	223	-	-	-	-
PPE	2,679	2,850	3,848	4,812	5,841
Intangible assets	3,787	3,875	3,953	4,027	4,094
Investments	857	806	989	1,885	2,387
Other non-current assets	356	509	570	593	600
Current assets	3,532	3,898	4,258	4,128	4,463
Trade and other receivables	1,462	1,548	1,753	1,996	2,225
Financial assets at fair value	305	51	51	51	51
Cash and cash equivalents	1,076	1,350	1,413	1,007	1,079
Other current assets	689	950	1,041	1,074	1,109
Current liabilities	3,467	3,313	3,559	3,949	4,355
Trade and other payables	1,245	1,202	1,327	1,449	1,561
Advances from customers	375	469	454	499	549
Borrowings	1,608	1,312	1,460	1,636	1,826
Others	240	329	319	365	419
Non-current liabilities	4,423	4,439	5,132	5,719	6,355
Borrowings	3,810	3,880	4,381	4,907	5,477
Other payables	137	-	138	138	138
Deferred income	475	547	601	661	727
Deferred income tax liabilities	1	12	12	13	13
Total Equity	3,544	4,187	4,928	5,778	6,675
Minority Interest	294	297	327	362	399
Shareholders' equity	3,250	3,891	4,601	5,416	6,276

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Gas Sales	44.2	43.9	45.4	48.6	50.8
Transmission pipeline	17.8	18.1	17.4	16.2	15.4
Connection fee	13.3	11.9	11.7	11.0	10.4
CTG conversion	20.4	24.3	22.4	19.7	17.7
Others	2.7	2.0	3.2	4.6	5.8
Total	98.4	100.2	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	27.9	26.0	26.6	26.6	26.0
Operating margin	21.3	21.9	22.6	22.9	22.2
Pre-tax margin	16.9	17.2	19.6	19.8	19.1
Net margin	11.1	12.0	13.4	13.7	13.2
Effective tax rate	30.6	27.9	29.2	28.5	28.9
Balance sheet ratios					
Current ratio (x)	1.0	1.2	1.2	1.0	1.0
Quick ratio (x)	0.5	0.5	0.5	0.4	0.3
Debtors turnover days	76.0	83.9	83.3	83.1	84.0
Total debt / equity ratio (%)	152.9	124.0	118.5	113.2	109.4
Net debt / equity ratio (%)	115.7	91.4	89.7	97.6	94.4
Returns (%)					
ROE	17.5	20.5	21.1	20.9	19.3
ROA	5.0	6.6	7.1	7.3	7.0
Per share					
EPS (RMB)	0.58	0.80	0.97	1.13	1.21
DPS (RMB)	0.15	0.23	0.29	0.34	0.36
BVPS (RMB)	3.28	3.89	4.60	5.42	6.28

Source: Company data, CMBIS estimates

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