

# UEG (467 HK)

## A mixed bag; volume growth is still the key

UEG's reported net profit in 2022 grew 30% YoY to HK\$2.6bn. Excluding the impairment loss of intangible assets and PP&E (total: HK\$829mn), the core net profit would be HK\$3.43bn which is largely in line with our forecast of HK\$3.5bn. Operating cash inflow reached HK\$7.8bn (+83% YoY) in 2022, which is 3x of the net profit. While no dividend is proposed, we believe UEG put the priority on capex (US\$0.99-1.05bn in 2023E) to boost output and repayment of debts (due to rising interest rate). Besides, while UEG's 2023E output target (-5.5% to +2.2% YoY) is conservative (due largely to Iraq assets), we expect the growth to accelerate to 16%/18% in 2024E/25E. We trim our 2023E/24E earnings forecast by 9.8%/11.6% after modelling (1) lower volume, (2) lower oil & gas price, and (3) higher depreciation expense. Our TP is revised down to HK\$1.60 from HK\$1.77 (based on unchanged target P/E of 10x, 30% discount to the historical average).

- **Volume and ASP in 2022 in line with expectations.** Oil and gas sales value in 2022 grew 55% YoY to US\$2.5bn, driven largely by: (1) 44% YoY increase in realized oil & gas price (Crude: US\$96.3/bbl, +40% YoY; Gas: US\$29.8/boe; +20% YoY), and (2) 7.7% YoY increase in sales volume. Stripping out the government royalty, windfall levy and government take, net revenue in 2022 grew 45% YoY to HK\$10.7bn. Revenue contribution from Iraq increased to 47% in 2022 from 37% in 2021.
- **Average daily working interest production in 2022 +7.7% to 100k barrels of oil equivalent per day (boed).** Iraq Block 9 remained the fast-growing asset which achieved working interest production growth of 33% YoY to 34.7k boed in 2022. Pakistan/ Egypt / Iraq Siba assets achieved -2.6%/-1.6%/+1.6% YoY change in daily working interest production in 2022.
- **Lifting cost reduction on good track; depreciation above expectation.** Lifting expense in 2022 dropped ~2% YoY to US\$4.1/boe, driven by a 9% decline in unit cost in the Middle East & North Africa (MENA), which more than offset the 5% YoY increase in Pakistan. Depreciation increased 41% YoY to HK\$4bn.
- **Improving balance sheet driven by strong operating cash flow.** UEG generated HK\$7.8bn of operating cash flow in 2022, enough to cover the investment spending of HK\$5.7bn and the net repayment of HK\$1.2bn bank loans. As of end-2022, net debt to equity ratio reduced to only 1.4% from 10% in 2021.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	7,437	10,754	11,327	12,788	14,865
YoY growth (%)	19.9	44.6	5.3	12.9	16.2
Net income (HK\$ mn)	2,001	2,601	4,199	4,373	4,853
EPS (HK\$)	0.08	0.10	0.16	0.17	0.19
YoY growth (%)	131.6	30.3	61.4	4.1	11.0
Consensus EPS (HK\$)	NA	NA	NA	NA	NA
P/E (x)	12.2	9.4	5.8	5.6	5.0
P/B (x)	1.7	1.5	1.2	1.0	0.9
Yield (%)	4.30	-	3.45	3.59	3.99
ROE (%)	14.1	16.5	20.9	18.5	17.6
Net gearing (%)	10.0	1.4	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$1.60
(Previous TP	HK\$1.77)
Up/Downside	72%
Current Price	HK\$0.93

### China Energy

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#### Stock Data

Mkt Cap (HK\$ mn)	24,450
Avg 3 mths t/o (HK\$ mn)	17.6
52w High/Low (HK\$)	1.32/0.63
Total Issued Shares (mn)	26,290

Source: Bloomberg

#### Shareholding Structure

Zhang Hong Wei	66.44%
Free Float	33.56%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	48.6%	44.8%
3-mth	39.0%	35.4%
6-mth	18.9%	0.8%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: RSM Hong Kong

#### Related Report:

1. UEG (467 HK) – On track volume growth along with good cost control – 30 Aug 2022
2. UEG (467 HK) – Acceleration of volume growth + Higher price in 2022E – 13 Apr 2022

**Figure 1: Change in key assumptions**

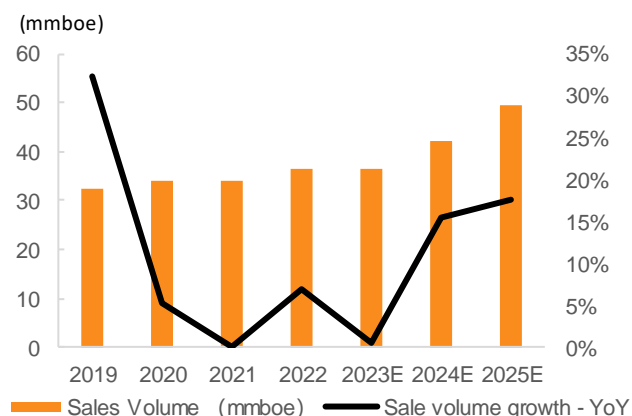
	New			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
<b>Daily output (000 boed)</b>									
Pakistan	44.0	43.5	43.0	46.0	46.0	-	-4.3%	-5.4%	-
Iraq - Block 9	39.2	56.9	79.6	44.3	59.8	-	-11.4%	-4.8%	-
Iraq - Siba	5.5	5.3	5.0	5.4	5.1	-	2.5%	2.5%	-
Egypt	12.3	11.8	11.2	10.7	9.6	-	14.9%	22.6%	-
<b>Total</b>	<b>101.1</b>	<b>117.4</b>	<b>138.8</b>	<b>106.4</b>	<b>120.5</b>	-	<b>-5.0%</b>	<b>-2.6%</b>	-
<b>Realized price</b>									
Crude (US\$/bbl)	88	86	83	90	89	-	-1.7%	-3.5%	-
Natural gas (US\$/boe)	30	28	28	30	28	-	0.0%	0.0%	-
Lifting cost (US\$/boe)	4.2	4.2	4.3	4.6	4.8	-	-9.5%	-12.7%	-
<b>(HK\$ mn)</b>									
Revenue	11,327	12,788	14,865	12,064	13,451	-	-6.1%	-4.9%	-
Gross profit	5,909	6,228	6,882	7,049	7,517	-	-16.2%	-17.1%	-
Gross margin	52.2%	48.7%	46.3%	58.4%	55.9%	-	-10.7%	-12.9%	-
Operating profit	4,523	4,509	4,899	4,868	5,113	-	-7.1%	-11.8%	-
<b>Net profit</b>	<b>4,199</b>	<b>4,373</b>	<b>4,853</b>	<b>4,653</b>	<b>4,944</b>	-	<b>-9.8%</b>	<b>-11.6%</b>	-

Source: Company data, CMBIGM estimates

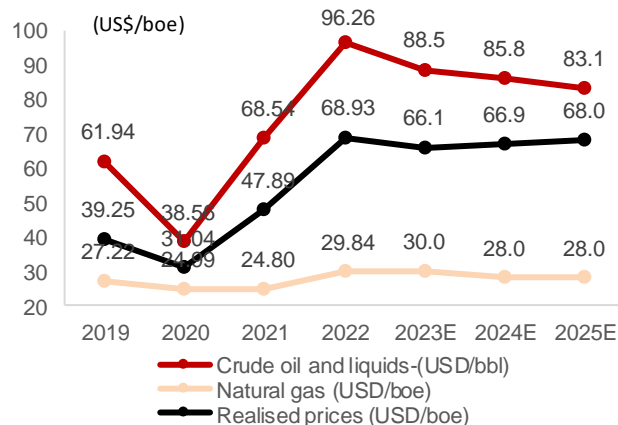
**Figure 2: Key operating assumptions**

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Daily output (000 boed)</b>							
Pakistan	66.6	55.9	48.3	47.0	44.0	43.5	43.0
Iraq - Block 9	9.8	16.1	26.2	34.7	39.2	56.9	79.6
Iraq - Siba	3.5	6.6	6.0	6.1	5.5	5.3	5.0
Egypt	14.4	14.2	12.6	12.4	12.3	11.8	11.2
<b>Total</b>	<b>94.3</b>	<b>92.8</b>	<b>93.1</b>	<b>100.2</b>	<b>101.1</b>	<b>117.4</b>	<b>138.8</b>
<b>Change (YoY)</b>							
Pakistan	0.2%	-16.0%	-13.7%	-2.6%	-6.4%	-1.1%	-1.1%
Iraq - Block 9	-	64.1%	62.6%	32.5%	13.0%	45.0%	40.0%
Iraq - Siba	-	86.4%	-8.9%	1.6%	-9.0%	-5.0%	-5.0%
Egypt	-	-1.8%	-10.9%	-1.6%	-1.0%	-4.0%	-5.0%
<b>Average</b>	<b>42.0%</b>	<b>-1.6%</b>	<b>0.3%</b>	<b>7.7%</b>	<b>0.8%</b>	<b>16.2%</b>	<b>18.2%</b>
<b>Realized price</b>							
Crude (US\$/bbl)	62	39	69	96	88	86	83
Natural gas (US\$/boe)	27	25	25	30	30	28	28
<b>Change (YoY)</b>							
Crude (US\$/bbl)	-4.4%	-37.7%	77.7%	40.4%	-8.1%	-3.0%	-3.2%
Natural gas (US\$/boe)	5.3%	-8.2%	-0.8%	20.3%	0.5%	-6.7%	0.0%
Lifting cost (US\$/boe)	4.4	4.4	4.2	4.1	4.2	4.2	4.3
Change (YoY)	17.6%	-1.7%	-3.2%	-2.1%	1.5%	0.9%	0.7%
<b>(HK\$ mn)</b>							
Revenue	7,104	6,204	7,437	10,754	11,327	12,788	14,865
Gross profit	3,478	2,033	3,357	5,513	5,909	6,228	6,882
Gross margin	49.0%	32.8%	45.1%	51.3%	52.2%	48.7%	46.3%
Operating profit	1,989	584	2,160	1,679	4,523	4,509	4,899
<b>Net profit</b>	<b>1,906</b>	<b>864</b>	<b>2,001</b>	<b>2,601</b>	<b>4,199</b>	<b>4,373</b>	<b>4,853</b>
Change (YoY)	16.4%	-54.7%	131.5%	30.0%	61.4%	4.1%	11.0%

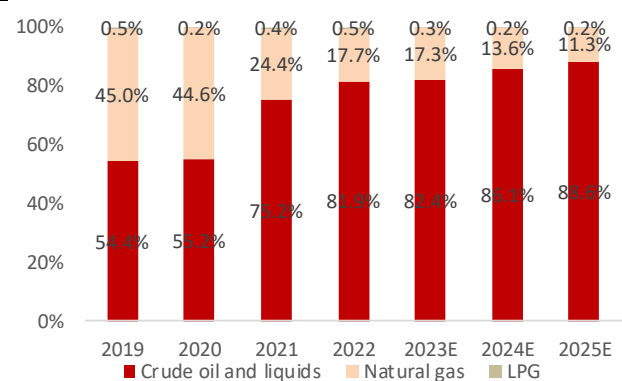
Source: Company data, CMBIGM estimates

**Figure 3: UEG's oil & gas sales volume**

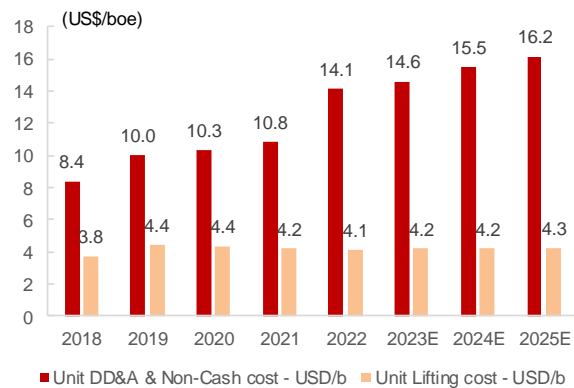
Source: Company data, CMBIGM estimates

**Figure 4: UEG's realised oil and gas price**

Source: Company data, CMBIGM estimates

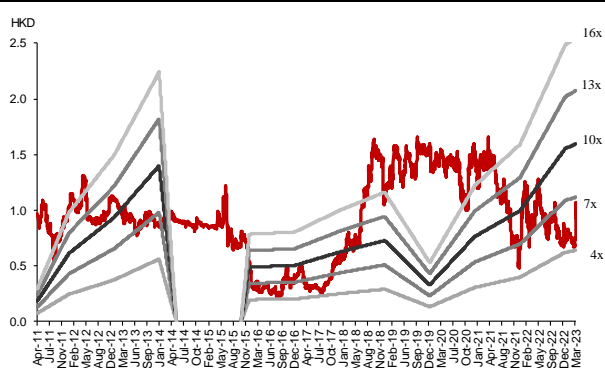
**Figure 5: Revenue mix**

Source: Company data, CMBIGM estimates

**Figure 6: UEG's unit operating cost**

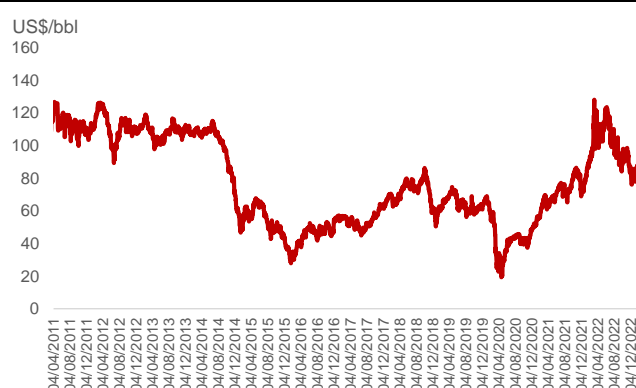
Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Brent crude oil price



Source: Bloomberg, CMBIGM

Figure 9: UEG's earnings sensitivity to crude price and lifting cost (Pakistan)

		Crude price (US\$/boe)				
		81	86	90	95	99
Lifting cost (Pakistan)	4.63	3,459	3,806	<b>4,153</b>	4,501	4,848
	4.42	3,482	3,829	<b>4,176</b>	4,523	4,871
	<b>4.21</b>	<b>3,504</b>	<b>3,852</b>	<b>4,199</b>	<b>4,546</b>	<b>4,893</b>
	4.00	3,527	3,875	<b>4,222</b>	4,569	4,916
	3.79	3,550	3,897	<b>4,245</b>	4,592	4,939

Source: CMBIGM estimates

Figure 10: UEG's earnings sensitivity to crude price and lifting cost (MENA)

		Crude price (US\$/boe)				
		81	86	90	95	99
Lifting cost (Mena)	4.43	3,446	3,794	<b>4,141</b>	4,488	4,835
	4.23	3,475	3,823	<b>4,170</b>	4,517	4,864
	<b>4.03</b>	<b>3,504</b>	<b>3,852</b>	<b>4,199</b>	<b>4,546</b>	<b>4,893</b>
	3.82	3,533	3,881	<b>4,228</b>	4,575	4,922
	3.62	3,562	3,910	<b>4,257</b>	4,604	4,952

Source: CMBIGM estimates

Note: Mena = Middle East &amp; North Africa

**Risk factors:** (1) Further decline in crude & gas price; (2) Risk of impairment loss in Pakistan assets; (3) higher-than-expected capex.

## Financial Summary

### Income statement

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>7,437</b>	<b>10,754</b>	<b>11,327</b>	<b>12,788</b>	<b>14,865</b>
Cost of revenue	(4,080)	(5,241)	(5,418)	(6,560)	(7,983)
<b>Gross profit</b>	<b>3,357</b>	<b>5,513</b>	<b>5,909</b>	<b>6,228</b>	<b>6,882</b>
<b>Operating expenses</b>	<b>(599)</b>	<b>(1,917)</b>	<b>(693)</b>	<b>(860)</b>	<b>(992)</b>
Investment & other income	112	167	193	192	223
Other gains and losses	26	(716)	--	--	--
Impairment for receivables	57	--	--	--	--
Exploration expenses	(164)	(719)	(221)	(301)	(357)
Administrative expenses	(574)	(524)	(532)	(601)	(684)
Other operating	(55)	(126)	(133)	(150)	(174)
<b>Operating profit</b>	<b>2,160</b>	<b>1,679</b>	<b>4,523</b>	<b>4,509</b>	<b>4,899</b>
Finance Cost	(267)	(388)	(310)	(266)	(238)
Share of losses of associates	(59)	(187)	(52)	(47)	(43)
<b>Profit before tax</b>	<b>2,433</b>	<b>3,021</b>	<b>4,854</b>	<b>5,055</b>	<b>5,610</b>
Income tax expense	(432)	(420)	(655)	(682)	(757)
MI	0	0	(0)	(0)	(0)
<b>Net profit</b>	<b>2,001</b>	<b>2,601</b>	<b>4,199</b>	<b>4,373</b>	<b>4,853</b>

### Cash flow summary

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit after tax</b>	<b>2,001</b>	<b>2,601</b>	<b>4,199</b>	<b>4,373</b>	<b>4,853</b>
D&A	2,972	4,152	4,897	5,555	6,025
Change in working capital	(1,032)	(587)	(165)	376	35
Others	340	1,659	52	47	43
<b>Operating cash flow</b>	<b>4,281</b>	<b>7,825</b>	<b>8,983</b>	<b>10,350</b>	<b>10,955</b>
Capex	(2,729)	(3,953)	(7,605)	(6,605)	(6,405)
Others	235	(1,754)	--	--	--
<b>Investing cash flow</b>	<b>(2,494)</b>	<b>(5,707)</b>	<b>(7,605)</b>	<b>(6,605)</b>	<b>(6,405)</b>
Changes in borrowings	(1,033)	(1,247)	(219)	(184)	(92)
Equity financing	--	--	--	--	--
Dividends paid	(619)	(1,049)	--	(840)	(875)
Others	200	226	(281)	(216)	(108)
<b>Financing cash flow</b>	<b>(1,452)</b>	<b>(2,070)</b>	<b>(500)</b>	<b>(1,240)</b>	<b>(1,075)</b>
Net change in cash	335	48	878	2,50	3,47
Cash at the beginning	3,093	3,171	3,255	4,133	6,638
FX change, net	(258)	36	--	--	--
<b>Cash at the end</b>	<b>3,171</b>	<b>3,255</b>	<b>4,133</b>	<b>6,638</b>	<b>10,114</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>7,669</b>	<b>10,005</b>	<b>11,042</b>	<b>14,177</b>	<b>18,870</b>
Bank and cash balances	3,171	3,255	4,133	6,638	10,114
Trade receivables	4,145	6,316	6,456	7,034	8,176
Inventories	287	389	408	460	535
<b>Other current assets</b>	<b>66</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>
<b>Non-current assets</b>	<b>17,364</b>	<b>17,415</b>	<b>20,114</b>	<b>21,157</b>	<b>21,530</b>
PPE	10,835	11,739	14,788	16,181	16,904
Right-of-use assets	530	565	565	565	565
Intangible assets	5,340	4,324	4,025	3,723	3,416
Other non-current assets	659	787	735	688	645
<b>Total assets</b>	<b>25,032</b>	<b>27,420</b>	<b>31,156</b>	<b>35,334</b>	<b>40,400</b>
<b>Current liabilities</b>	<b>5,093</b>	<b>7,974</b>	<b>7,687</b>	<b>8,477</b>	<b>9,621</b>
Borrowings (current)	1,761	1,886	1,605	1,389	1,281
Trade and bills payables	2,818	4,774	4,768	5,773	7,025
Lease liabilities (current)	108	171	171	171	171
Other current liabilities	407	1,144	1,144	1,144	1,144
<b>Non-current liabilities</b>	<b>5,699</b>	<b>3,638</b>	<b>3,419</b>	<b>3,235</b>	<b>3,143</b>
Borrowings	2,833	1,586	1,367	1,183	1,091
Deferred tax liabilities	1,979	1,234	1,234	1,234	1,234
Others	886	817	817	817	817
<b>Total equity</b>	<b>14,240</b>	<b>15,808</b>	<b>20,050</b>	<b>23,622</b>	<b>27,636</b>
Shareholders' equity	14,234	15,802	20,044	23,616	27,631
Non-controlling interests	6	6	6	6	6

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net revenue growth (%)</b>	20%	45%	5%	13%	16%
<b>P&amp;L ratios (%)</b>					
Operating margin	37.1	33.4	46.0	42.0	39.6
Pre-tax margin	32.7	28.1	42.9	39.5	37.7
Net margin	26.9	24.2	37.1	34.2	32.6
Effective tax rate	17.8	13.9	13.5	13.5	13.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.5	1.3	1.4	1.7	2.0
Quick ratio (x)	1.4	1.2	1.4	1.6	1.9
Net Debt / equity	10.0	1.4	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROA	8.0	9.5	13.5	12.4	12.0
ROE	14.1	16.5	20.9	18.5	17.6
<b>Per share</b>					
EPS (HK\$)	0.08	0.10	0.16	0.17	0.19
DPS (HK\$)	0.04	0.00	0.03	0.03	0.04
BVPS (HK\$)	0.54	0.60	0.76	0.90	1.05

Source: Company data, CMBIGM estimates

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