

Tian Lun Gas (1600 HK)

Introducing Zhuhai Port as strategic investor

TLG announced to introduce Zhuhai Port Holdings (000507 CH, NR) as strategic investor through Chairman and controlling shareholder, Mr. Zhang Yingcen's transaction of 120mn existing shares at HK\$7.68. Those shares were originally sourced from IFC's investment exit through transaction with Mr. Zhang in May (141mn at HK\$7.50). We are optimistic about TLG's introduction of SOE background investor, and we also look forward to the two parties' future collaboration in clean energy business development. We think the transaction will boost market sentiment on TLG. Maintain BUY with TP unchanged at HK\$9.90.

- Introducing Zhuhai Port as strategic investor.** According to TLG announcement, Chairman Zhang had entered into agreement with Zhuhai Port Holdings (ZHP) for selling 120mn shares (11.96% of TLG's shares) at HK\$7.68. Those shares were originally acquired by Mr. Zhang in May from the investment exit of IFC (141mn at HK\$7.50). According to our discussion with mgmt., we expect ZHP will act like a strategic investor. As to net of both transactions, Mr. Zhang still increased ~2.1% share holdings in TLG to 55.96%.
- Who's the buyer? A SOE determined to invest in clean energy.** ZHP is controlled by Zhuhai Port Group which is governed by Zhuhai SASAC. ZHP has key business focuses on shipping logistics, **new energy**, and high-end manufacturing. ZHP has gas distribution projects in west Zhuhai City, including Hengqin District (橫琴新區) and Zhuhai West District (珠海西部城區). ZHP has been accelerating clean energy business expansion through active M&A of considerable shares of listing assets, including wind farm, wind and solar component/material manufacturers since 2020.
- SOE investments to unlock future growth potentials.** We are positive about TLG's introduction of SOE strategic investor. Based on ZHP's recent move into its clean energy business, we think there are future collaboration opportunities between TLG and ZHP, such as LNG import, hydrogen business, as well as integrated energy business.
- Re-rating to continue.** TLG's share price surged ~13% in the past month. We think investors are shifting focus from leading players to smaller names in view of rich valuation for leading players. In terms of valuation, TLG is trading at 6.9x FY21E PER, still lagging behind peers. We think the introduction of ZHP as strategic investor will likely boost market sentiment, and trigger further re-rating. **We maintain optimistic outlook for TLG with TP of HK\$9.90. Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	6,549	6,440	7,478	8,763	10,045
Net income (RMB mn)	789	1,044	1,034	1,196	1,360
EPS (RMB)	0.80	1.04	1.03	1.19	1.35
YoY growth (%)	38.4	30.8	-1.2	15.4	13.5
Consensus EPS (RMB)	N/A	N/A	1.031	1.15	1.3
P/E (x)	8.9	6.8	6.9	6.0	5.3
P/B (x)	1.83	1.52	1.31	1.14	0.99
Yield (%)	3.3	3.8	4.3	5.0	5.7
ROE (%)	20.5	22.3	19.0	19.0	18.7
Net gearing (%)	91.4	71.8	69.2	54.5	42.0

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$9.90
(Previous TP)	HK\$9.90)
Up/Downside	+15.5%
Current Price	HK\$8.57

China Gas Sector

Robin Xiao
 (852) 3900 0849
 robinxiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	8,601
Avg 3 mths t/o (HK\$ mn)	13.1
52w High/Low (HK\$)	8.85/5.47
Total Issued Shares (mn)	1,004

Source: Wind

Shareholding Structure

Tianlun Group	46.9%
Free float	28.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.2%	9.5%
3-mth	20.7%	19.7%
6-mth	33.9%	22.4%
12-mth	46.2%	25.9%

Source: Wind

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Tian Lun Gas (1600 HK) – "Controlling holder to purchase shares from IFC" – 17 May 2021
- Tian Lun Gas (1600 HK) – "FY20 results in line; on track to earnings acceleration in 2021E" – 12 Apr 2021

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Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,549	6,440	7,478	8,763	10,045
City gas sales	2,980	3,061	4,006	4,892	5,769
Wholesale	1,081	674	785	903	1,039
Engineering services	2,355	2,550	2,471	2,681	2,856
Others	132	155	215	286	381
Costs of sales	(4,845)	(4,654)	(5,580)	(6,590)	(7,601)
Gross profit	1,704	1,786	1,898	2,172	2,444
OPEX & other gains	(269)	(83)	(279)	(328)	(378)
Distribution expenses	(58)	(59)	(66)	(78)	(89)
Administration expenses	(196)	(193)	(224)	(262)	(301)
Other income	5	10	8	8	8
Other gains/loss, net	(19)	160	4	4	4
EBIT	1,435	1,703	1,620	1,844	2,066
Finance income	25	11	19	19	27
Finance expenses	(291)	(250)	(268)	(276)	(286)
Finance expenses, net	(266)	(239)	(249)	(257)	(260)
Exceptional	-	-	-	-	-
Pre-tax profit	1,127	1,418	1,405	1,626	1,849
Income tax	(314)	(355)	(351)	(407)	(462)
Less: Minority interests	24	20	20	23	26
Net profit	789	1,044	1,034	1,196	1,360
Core profit	811	895	1,034	1,196	1,360

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pre-tax profit	1,127	1,418	1,405	1,626	1,849
Depreciation and amortization	275	299	334	372	412
Change in working capital	(197)	(155)	(284)	(56)	(58)
Taxation	(151)	(228)	(229)	(261)	(293)
Others	(82)	26	(36)	(15)	(14)
Net cash from operation	971	1,360	1,191	1,665	1,896
Capex & investments	(259)	(671)	(1,494)	(1,028)	(1,111)
Others	9	-	-	-	-
Net cash from investments	(250)	(671)	(1,494)	(1,028)	(1,111)
Equity raised	(56)	(21)	(0)	0	0
Change of Debts	(226)	(128)	187	201	216
Dividend paid	(114)	(249)	(288)	(334)	(383)
Others	-	-	-	-	-
Net cash from financing	(451)	(398)	(102)	(133)	(166)
Net change in cash	271	291	(405)	503	619
Cash at the beginning of the year	1,076	1,350	1,640	1,235	1,738
Exchange difference	3	(0)	-	-	-
Cash at the end of the year	1,350	1,640	1,235	1,738	2,357
Cash at balance sheet	1,350	1,640	1,235	1,738	2,357

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	8,041	8,556	9,660	10,337	11,056
Lease prepayments	-	-	-	-	-
PPE	2,850	3,035	3,778	4,348	4,962
Intangible assets	3,875	4,087	4,264	4,314	4,358
Investments	806	784	1,024	1,063	1,105
Other non-current assets	509	649	593	612	630
Current assets	3,898	4,363	4,390	5,221	6,169
Trade & other receivables	1,548	1,393	1,539	1,803	2,067
Financial assets at fair value	51	27	27	27	27
Cash and cash equivalents	1,350	1,640	1,235	1,738	2,357
Other current assets	950	1,302	1,589	1,652	1,718
Current liabilities	3,313	4,556	3,969	4,400	4,857
Trade & other payables	1,202	1,364	1,395	1,648	1,900
Advances from customers	469	458	481	505	530
Borrowings	1,312	2,295	1,575	1,636	1,701
Others	329	440	517	611	726
Non-current liabilities	4,439	3,381	4,335	4,527	4,734
Borrowings	3,880	2,770	3,676	3,816	3,968
Other payables	-	-	-	-	-
Deferred income	547	593	641	692	747
Deferred income tax	12	18	18	19	19
Total Equity	4,187	4,980	5,746	6,631	7,635
Minority Interest	297	281	301	324	351
Shareholders' equity	3,891	4,699	5,445	6,307	7,284

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
City gas sales	45.5	47.5	53.6	55.8	57.4
Wholesale	16.5	10.5	10.5	10.3	10.3
Engineering services	36.0	39.6	33.1	30.6	28.4
Others	2.0	2.4	2.9	3.3	3.8
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	26.0	27.7	25.4	24.8	24.3
Operating margin	21.9	26.5	21.7	21.0	20.6
Pre-tax margin	17.2	22.0	18.8	18.6	18.4
Net margin	12.1	16.2	13.8	13.7	13.5
Effective tax rate	27.8	25.0	25.0	25.0	25.0
Balance sheet ratios					
Current ratio (x)	1.2	1.0	1.1	1.2	1.3
Quick ratio (x)	0.5	0.4	5.6	0.5	9.2
Debtors turnover days	83.9	83.4	71.6	69.6	70.3
Total debt / equity ratio (%)	124.0	101.7	91.4	82.2	74.2
Net debt / equity ratio (%)	91.4	71.8	69.2	54.5	42.0
Returns (%)					
ROE	20.5	22.3	19.0	19.0	18.7
ROA	6.6	8.1	7.4	7.7	7.9
Per share					
EPS (RMB)	0.80	1.04	1.03	1.19	1.35
DPS (RMB)	0.23	0.27	0.31	0.36	0.40
BVPS (RMB)	3.89	4.68	5.41	6.26	7.21

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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