

China Gas Holdings (384 HK)

Long term courses to remain despite short term incident shocks

CGH released FY21 earnings. Net profit was HK\$10,479mn, up 14.0% YoY but 3.8% lower than consensus estimates. We expect investors may also find CGH's cash flow performance a bit disappointing. Regarding Shiyang gas explosion incident, mgmt. admitted management responsibility of the project company and made sincere apology during results briefing. CGH intends to boost safety operation budget to enhance HSE management and restore investors' confidence. Overall, we believe the impacts and concerns of the incident are largely priced in. We trim FY22/23E EPS by 4.5/4.0%, and cut TP by 10% to HK\$31.34.

- FY21 results missed consensus estimates.** Revenue surged 17.5% YoY to HK\$70bn on the back of strong piped gas sales, value-added services, and RMB appreciation, while gas connection revenue was lower than expectation. Share profit from JVs and Associates exhibited significant growth driven by increasing project investments. Dollar margin maintained largely stable at RMB0.61/cbm, slightly lower than guidance due to surging LNG costs during winter heating season. Major expenses were largely in line, and finance cost maintained in good control. CGH made net profit of HK\$10,479mn in FY21, up 14.0% YoY. The figure was 1.8%/3.8% lower than our and consensus estimates mainly due to a drag from unexpected low micro-smart grid connection. CGH declared a final dividend of HK\$0.45/shr.
- Safety will be the priority in FY22-23E.** CGH learnt a hard way from its HSE oversight in the Shiyang gas explosion incident. The cause of the incident has yet to be finally confirmed by the government-led investigation team. Mgmt. made sincere apology for the incident during results briefing, and admitted CGH's management responsibility of the Shiyang Gas restructure project. CGH intends to boost safety operation budget to above 2.1% of annual revenue (i.e. HK\$1.94bn in FY22E), and enhance HSE management and enforcement in FY22-23E. According to mgmt. disclosure, CGH has reached medium PE pipe penetration rate of 95.6% and we think increasing HSE CAPEX will bring only mild impact to earnings, while relative measures would help restore investor confidence.
- Read positive free cash flow.** Free cash flow turned positive and read HK\$768mn in FY21. We think market may still find it a bit disappointing, since HoH cash flow improvement was not strong enough, while mgmt. also disclosed township connection receivables was below expectation. We also believe CGH had made initial investment for micro smart grid projects as well as residential gas heating projects, which may have brought short-term cash flow impacts.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	59,540	69,975	84,365	97,342	111,086
Net income (HK\$ mn)	9,188	10,479	12,701	15,134	17,520
EPS (HK\$)	1.76	2.01	2.35	2.64	2.99
YoY growth (%)	8.2	14.1	16.8	12.5	13.3
Consensus EPS (HK\$)	n/a	2.07	2.40	2.73	N/A
P/E (x)	14.4	12.6	10.8	9.6	8.5
P/B (x)	3.3	2.5	1.9	1.8	1.5
Yield (%)	2.0	2.2	2.6	3.0	3.4
ROE (%)	23.2	20.2	18.0	18.4	18.0
Net gearing (%)	81.5	81.1	33.9	20.8	11.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$31.34
(Previous TP)	HK\$34.82)
Up/Downside	+23.9%
Current Price	HK\$25.30

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Stock Data

Mkt Cap (HK\$ mn)	141,257
Avg 3 mths t/o (HK\$ mn)	636.12
52w High/Low (HK\$)	35.0/20.43
Total Issued Shares (mn)	5,583

Source: Bloomberg

Shareholding Structure

Beijing Enterprise	22.1%
Liu Minghui	12.9%
Chiu Tat Jung	10.8%
Free float	47.1%

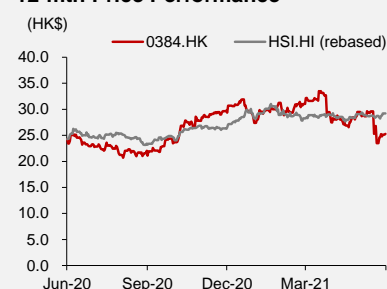
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.2%	-14.7%
3-mth	-18.5%	-21.1%
6-mth	-15.0%	-23.5%
12-mth	-5.1%	-20.4%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Deloitte

Related Reports

- China Gas Sector – Earnings growth to accelerate with extensive M&A and southern heating projects – 4 May 2021
- China Gas Sector – City Gas 3.0: Differentiating Growth Paths – 8 Dec 2020

- **Long-term development still on track.** We think CGH will not adjust course for its long-term development due to the unfortunate incident. Mgmt. still place strategic focus on residential life improvement through township gas connection, rural Smart MicroGrid projects, and gas heating projects along the Yangtze River areas. We still believe those consumer focus utility projects will bring long term payoff to CGH and investors.
- **Core profit to increase 15% YoY in FY22E.** For FY22E outlook, mgmt. guides 1) 15-20% retails gas volume growth; 2) 5mn household residential gas connection, including ~3.4mn city residential connection and 0.8mn township and Smart MicroGrid connection respectively; 3) residential gas heating areas of 16mn sqm; and 4) value-added service gross profit to increase by 30% YoY. Adding those target up, mgmt. expects core net profit in FY22E to increase 15% YoY. Based on our model estimates, we think the earnings guidance would be a bit conservative.
- **Cut TP by 10% to HK\$31.34; maintain BUY.** Based on management guidance update and our operating assumptions revisions, we trimmed FY22/23E EPS by 4.5%/4.0% to HK\$2.35/2.64 respectively. Our SOTP TP is cut by 10% to HK\$31.34 to reflect more conservative connection outlook and slower project development pace in the Northeastern China areas. We believe the impacts and concerns of the incident are largely priced in. We remain optimistic on CGH's long-term outlook. Maintain BUY rating.

Figure 1: FY21 results summary vs. our estimates

(HK\$, mn)	1H20	2H20	FY 20	1H21	2H21	FY 21	FY 21 YoY	Act vs. Est. FY 21E	Diff
Revenue	27,926	31,614	59,540	27,165	42,810	69,975	17.5%	66,999	4.4%
Sales of piped gas	12,418	14,635	27,053	12,467	23,469	35,936	32.8%	33,163	8.4%
Reconciled gas connection	6,790	6,897	13,687	6,354	6,802	13,156	-3.9%	14,184	-7.2%
Sales of LPG	6,510	7,264	13,774	4,963	8,201	13,164	-4.4%	11,858	11.0%
Value-added service	2,208	2,817	5,025	3,381	4,339	7,720	53.6%	7,795	-1.0%
Cost of sales	-19,755	-22,688	-42,443	-18,479	-33,395	-51,873	22.2%	-47,773	8.6%
Gross profit	8,171	8,926	17,097	8,686	9,416	18,102	5.9%	19,226	-5.8%
<i>Gross profit margin</i>	<i>29.3%</i>	<i>28.2%</i>	<i>28.7%</i>	<i>32.0%</i>	<i>22.0%</i>	<i>25.9%</i>	<i>-2.8ppt</i>	<i>28.7%</i>	<i>-2.8ppt</i>
Other income	259	381	640	400	524	923	44.3%	710	30.0%
Other gains and losses	-2	-178	-180	-42	107	65	-135.9%	50	29.2%
Selling and distribution costs	-913	-1,060	-1,973	-1,072	-1,366	-2,439	23.6%	-2,187	11.5%
Administrative expenses	-1,139	-1,308	-2,447	-1,181	-1,569	-2,751	12.4%	-2,720	1.1%
Share of results of associates	389	16	405	412	481	893	120.4%	565	58.0%
Share of results of joint ventures	557	14	571	438	277	715	25.3%	625	14.4%
EBIT	7,321	6,792	14,113	7,640	7,869	15,509	9.9%	16,220	-4.4%
Finance costs	-731	-656	-1,388	-757	-662	-1,419	2.2%	-1,411	0.6%
Profit before taxation	6,590	6,135	12,725	6,883	7,207	14,090	10.7%	14,809	-4.9%
Taxation	-1,157	-1,307	-2,464	-1,245	-1,172	-2,418	-1.9%	-2,962	-18.4%
<i>effective tax rate</i>	<i>17.6%</i>	<i>21.3%</i>	<i>19.4%</i>	<i>18.1%</i>	<i>16.3%</i>	<i>17.2%</i>	<i>-2.2ppt</i>	<i>20.0%</i>	<i>-2.8ppt</i>
Profit for the period	5,433	4,828	10,261	5,638	6,035	11,672	13.8%	11,847	-1.5%
Less: Non-controlling interests	523	549	1,072	548	646	1,194	11.3%	1,179	1.3%
Net profit	4,910	4,279	9,188	5,090	5,389	10,479	14.0%	10,669	-1.8%
<i>Net margin</i>	<i>17.6%</i>	<i>13.5%</i>	<i>15.4%</i>	<i>18.7%</i>	<i>12.6%</i>	<i>15.0%</i>	<i>-0.5ppt</i>	<i>15.9%</i>	<i>-0.9ppt</i>

Source: Company data, CMBIS estimates

Figure 2: Operating performance summary vs. our estimates

	1H20	2H20	FY20	1H21	2H21	FY21E	FY21 YoY	Act vs. Est. FY21E	Diff
Operating performance									
City gas sales - mcbm	6,874	8,757	15,631	7,595	11,104	18,699	19.6%	18,808	-0.6%
Residential	1,621	3,306	4,927	1,941	4,166	6,107	24.0%	6,530	-6.5%
Industrial	3,669	3,749	7,418	4,028	4,990	9,018	21.6%	8,722	3.4%
Commercial	1,077	1,209	2,286	1,130	1,419	2,549	11.5%	2,529	0.8%
Vehicle	507	494	1,001	496	528	1,024	2.4%	1,026	-0.2%
Whole sale gas - mcbm	4,962	4,779	9,741	5,232	7,280	12,512	28.4%	10,119	23.6%
Gas dollar margin - RMB/cbm	0.620		0.610	0.650		0.610		0.610	
LPG sales - k tonnes	1,967	1,860	3,827	1,947	2,301	4,248	11.0%	4,018	5.7%
Retail	426	672	1,098	350	372	722	-34.2%	1,205	-40.1%
Wholesale	1,541	1,187	2,729	1,596	1,929	3,526	29.2%	2,813	25.4%
Total residential connection - k HH	2,934	2,493	5,427	2,824	2,225	5,048	-7.0%	5,709	-11.6%
City residential connection - k HH	1,717	1,015	2,732	2,124	1,237	3,361	23.0%	3,609	-6.9%
Tow nship residential connection - k HH	1,217	1,479	2,696	700	977	1,678	-37.8%	1,600	4.8%
Smart micro pipe - k HH	-	-	-	n/a	n/a	10	n/a	500	-98.0%
Industrial connection - #	1,431	840	2,271	901	1,467	2,368	4.3%	2,393	-1.1%
Commercial connection - #	14,314	19,736	34,050	18,110	14,667	32,777	-3.7%	35,184	-6.8%

Source: Company data, CMBIS estimates

Figure 3: Segment profit summary

(HK\$, mn)	1H20	2H20	FY20	1H21	2H21	FY21
Segment profit summary						
Segment profit	6,011	4,044	10,054	6,402	6,723	13,125
Sales of piped gas	1,722	1,259	2,981	1,943	2,016	3,959
Reconcile gas connection	3,381	2,166	5,546	3,178	2,981	6,159
Sales of LPG	23	101	124	75	188	263
Value-added service	677	468	1,145	1,000	1,321	2,321
Others	209	51	260	205	217	423
Segment profit margin						
Sales of piped gas	13.9%	8.6%	11.0%	15.6%	8.6%	11.0%
Reconcile gas connection	49.8%	31.4%	40.5%	50.0%	43.8%	46.8%
Sales of LPG	0.3%	1.4%	0.9%	1.5%	2.3%	2.0%
Value-added service	30.6%	16.6%	22.8%	29.6%	30.5%	30.1%
Others	n/a	n/a	n/a	n/a	n/a	n/a

Source: Company data, CMBIS estimates

Figure 4: Earnings revision

	Old		New		Change(%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Total gas sales volume (mcbm)	33,642	38,558	36,770	42,885	9.3%	11.2%
Retail gas sales volume (mcbm)	23,017	27,402	22,382	26,339	-2.8%	-3.9%
Residential connection (CTG incl. mm HH)	5.95	6.12	5.08	5.21	-14.5%	-14.9%
Revenue (HK\$, mn)	80,020	93,045	84,365	97,342	5.4%	4.6%
Net Income (HK\$,mn)	13,302	15,770	12,701	15,134	-4.5%	-4.0%
EPS (HK\$)	2.46	2.75	2.35	2.64	-4.5%	-4.0%

Source: CMBIS estimates

Figure 5: Our SOTP TP for CGH

SOTP valuation (HK\$)	
Organic gas distribution	27.10
NE business value@30% discount	4.23
Our target price for CGH	31.34
Implied PER multiples (x)	
FY22E	13.3
FY23E	11.9

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	59,540	69,975	84,365	97,342	111,08
Costs of sales	(42,443)	(51,873)	(61,451)	(70,677)	(80,728)
Gross profit	17,097	18,102	22,914	26,664	30,358
Other income	640	923	821	1,058	1,227
Other gains and losses	(180)	65	50	50	50
Selling and distribution costs	(1,973)	(2,439)	(2,953)	(3,358)	(3,777)
Administrative expenses	(2,447)	(2,751)	(3,274)	(3,729)	(4,200)
Profit from associates	405	893	965	1,151	1,356
Profit from JVs	571	715	815	888	1,008
Share-based payments	-	-	(50)	(50)	(50)
EBIT	14,113	15,509	19,288	22,674	25,972
Finance costs	(1,388)	(1,419)	(1,643)	(1,695)	(1,740)
Pre-tax profit	12,725	14,090	17,645	20,978	24,232
Income tax	(2,464)	(2,418)	(3,529)	(4,196)	(4,846)
Less: Minority interests	(1,072)	(1,194)	(1,415)	(1,649)	(1,866)
Net profit	9,188	10,479	12,701	15,134	17,520

Cash flow summary

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pre-tax profit	12,725	14,090	17,645	20,978	24,232
D&A	1,591	1,911	2,267	2,558	2,848
Change in working capital	(8,091)	(4,682)	4,437	5,776	3,142
Taxation	(2,245)	(2,762)	(2,952)	(3,886)	(4,544)
Others	2,506	(279)	392	(275)	(294)
Net cash from operating	6,486	8,279	21,788	25,152	25,385
Capex & investments	(5,989)	(18,000)	(12,323)	(13,007)	(13,266)
Others	(950)	-	-	-	-
Net cash from investing	(6,939)	(18,000)	(12,323)	(13,007)	(13,266)
Equity raised	(3)	(146)	11,604	-	-
Change of Debts	1,790	9,300	1,820	1,353	1,353
Dividend paid	(2,934)	(3,203)	(3,980)	(4,840)	(5,457)
Others	(1,100)	-	-	-	-
Net cash from financing	(2,246)	5,951	9,444	(3,488)	(4,105)
Net change in cash	(2,700)	(3,770)	18,909	8,656	8,014
Cash at the beginning of the year	13,239	7,119	8,294	27,203	35,859
Exchange difference	(3,420)	4,945	-	-	-
Cash at the end of the year	7,119	8,294	27,203	35,859	43,873
Cash at balance sheet	7,119	8,294	27,203	35,859	43,873

Balance sheet

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	72,558	90,326	99,753	110,21	120,64
Investment properties	524	565	571	571	566
PPE	46,128	56,909	63,981	70,745	77,206
Prepaid lease payments	2,458	4,247	4,479	4,811	5,096
Investment in associates	7,063	8,765	10,530	12,480	14,636
Investment in JVs	7,815	9,052	9,867	11,205	12,663
Others non-current assets	8,570	10,787	10,325	10,401	10,473
Current assets	39,509	50,394	68,976	75,971	84,292
Inventories	3,246	5,302	6,412	7,398	8,443
Amount due from customers	-	-	-	-	-
Contract assets	12,751	16,925	14,404	9,007	5,006
Trade receivables	9,893	14,555	15,286	18,019	21,266
Bank balances and cash	7,119	8,294	27,203	35,859	43,873
Other current assets	6,500	5,319	5,672	5,688	5,705
Current liabilities	49,347	46,313	53,533	57,359	60,385
Trade and other payables	17,700	19,409	21,508	23,323	24,218
Amount due to customers	-	-	-	-	-
Contract liabilities	5,998	8,037	9,043	10,193	11,470
Taxation	1,246	1,021	1,588	1,888	2,181
Bank and other borrowings	24,121	17,272	20,810	21,361	21,912
Other current liabilities	282	574	584	594	604
Non-current liabilities	16,936	34,543	32,885	33,746	34,608
Borrowings	15,568	31,717	29,999	30,801	31,602
Deferred income tax	1,368	2,826	2,886	2,946	3,006
Total net assets	45,783	59,864	82,312	95,078	109,94
Minority Interest	6,178	7,927	9,343	10,992	12,858
Shareholders' equity	39,605	51,937	72,969	84,087	97,082

Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of piped gas	45.4	51.4	52.7	53.6	54.5
Gas connection	23.0	18.8	16.4	14.7	13.5
Sales of LPG	23.1	18.8	19.0	18.3	18.3
Value-added service	8.4	11.0	11.9	12.7	12.7
Others	-	-	0.0	2.4	1.0
Total	100.0	100.0	100.0	101.7	100.0
P&L ratios (%)					
Operating margin	23.7	22.2	22.9	23.3	23.4
Pre-tax margin	21.4	20.1	20.9	21.6	21.8
Net margin	15.4	15.0	15.1	15.5	15.8
Effective tax rate	19.4	17.2	20.0	20.0	20.0
Balance sheet ratios					
Current ratio (x)	0.80	1.09	1.29	1.32	1.40
Quick ratio (x)	10.2	10.9	11.7	13.4	14.9
Cash ratio (x)	0.2	0.2	0.5	0.6	0.7
Inventory turnover days	20.4	22.3	25.3	25.9	26.0
Receivable turnover days	61.2	63.8	64.6	62.4	64.5
Payable turnover days	178	131	122	116	107
Total debt / equity ratio (%)	87.2	84.7	63.9	56.8	50.4
Net debt / equity ratio (%)	81.5	81.1	33.9	20.8	11.2
Returns (%)					
ROE	23.2	20.2	18.0	18.4	18.0
ROA	8.2	7.4	7.5	8.1	8.5
Per share					
EPS (HK\$)	1.76	2.01	2.35	2.64	2.99
DPS (HK\$)	0.50	0.55	0.67	0.75	0.85
BVPS (HK\$)	7.60	9.96	13.02	14.4	16.58

Source: Company data, CMBIS estimates

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