

Tian Lun Gas (1600 HK)

Strategic cooperation with Zhuhai Port

TLG completed the introduction of Zhuhai Port (ZHP, 000507 CH, NR) as a strategic investor. The Company entered strategic cooperation with ZHP right after the transaction, exhibiting wider future business development opportunities in its path towards net-zero emission, and we expect a short-term focus on distributed PV farm developments in county level in Henan. For recent rainstorm in Henan, TLG's gas supply business is performing normally, and Company is monitoring situation closely to ensure operation and safety. Based on preliminary business update in 1H21E, we expect TLG to deliver more than 20% YoY earnings growth on the back of more than 30% retails gas volume increment. **Maintain BUY with TP unchanged at HK\$9.90.**

- Entering strategic cooperation with Zhuhai Port.** Chairman Zhang's share transfer to ZHP was completed on Jul 15. ZHP now becomes TLG's strategic investor holding 11.9% shares. Both companies entered a strategic cooperation agreement right after the share transfer, intending to explore new energy business together in the next 5 years, including PV farm, energy storage, and hydrogen energy. According to mgmt., the cooperation details with ZHP is under discussion, but we still see opportunities to boost TLG's valuation through exciting potential new business development.
- Distributed solar could be a key direction in near term.** TLG had accumulated quite some township project experiences and more than 1.5mn household township users. We think these could be valuable assets for both TLG and ZHP to develop distributed solar farm assets on the back of NEA's recent policy on promoting PV projects throughout counties in China. Given short-term county level distributed PV project competition outlook, we expect TLG's cooperation with ZHP in distributed PV will kick off soon.
- Good earnings quality in 1H21E.** We expect TLG to deliver more than 30% retail gas sales volume growth, significantly faster than national average of 21.2% released by Chongqing Petroleum and Gas Exchange. Based on conservative gas dollar margin outlook and gas connection figures, we estimate 1H21E net profit to reach RMB463mn, up 23.1% YoY. On the back of new project acquisitions consolidated since Feb 2021, we expect TLG's gas sales performance to continue outperform national average, implying sustainable earnings outlook and good earnings quality.
- Maintain BUY with TP unchanged at HK\$9.90.** TLG is trading at only 6.5x/5.7x 2021/22 PER while providing attractive ROE at 19% and 4.6% dividend yield. Supported by ZHP, we think the Company is growing with widening path with more future development options. The Company is going to release 1H21 earnings in late Aug. We think interim results announcement could be a short term catalyst. Reiterate BUY with TP unchanged at HK\$9.90.

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	1.022	1.14	1.25
P/E (x)	8.6	6.6	6.7	5.8	5.1
P/B (x)	1.76	1.47	1.27	1.10	0.95
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 **+21.5%**
 Current Price **HK\$8.15**

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%

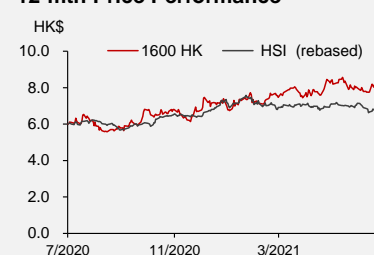
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.1%	9.5%
3-mth	9.5%	16.6%
6-mth	15.3%	27.2%
12-mth	34.3%	21.4%

Source: Wind

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Tian Lun Gas (1600 HK) – "Introducing Zhuhai Port as strategic investor" – 9 Jun 2021
- Tian Lun Gas (1600 HK) – "Controlling holder to purchase shares from IFC" – 17 May 2021

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Figure 1: We expect 1H21E earnings to surge more than 20%

(Rmb, mn)	1H20	2020	1H20%	1H21E	2021E	est. 1H21%	1H21E YoY
Revenue	2,996	6,440	46.5%	3,483	7,478	46.6%	16.3%
Transportation and sales of gas	1,462	3,061	47.8%	1,891	4,006	47.2%	29.3%
Transmission pipeline	323	674	47.9%	369	785	47.0%	14.4%
Engineering construction services	1,142	2,550	44.8%	1,125	2,471	45.5%	-1.5%
Others	69	155	44.3%	99	215	46.0%	43.6%
Costs of sales	-2,159	-4,654	46.4%	-2,611	-5,580	46.8%	20.9%
Gross profit	836	1,786	46.8%	872	1,898		4.3%
Gross profit margin	27.9%	27.7%	n/a	25.0%	25.4%	n/a	-2.9ppt
Distribution expenses	-24	-59	40.3%	-26	-66	40.0%	10.5%
Administrative expenses	-87	-193	44.8%	-96	-224	43.0%	11.0%
Other income	2	10	21.8%	2	8	30.0%	12.2%
Other gains/losses, net	-48	160	-30.0%	2	4	50.0%	-103.6%
Operating profit	680	1,703	39.9%	754	1,620	46.5%	10.8%
Finance income	4	11	34.7%	9	19	50.0%	140.0%
Finance expenses	-132	-250	52.6%	-134	-268	50.0%	1.8%
Finance expenses, net	-128	-239	53.4%	-125	-249	50.0%	-2.4%
Share of post-tax profit of associates	-14	-46	29.9%	14	35	40.0%	-202.1%
Profit before income tax	539	1,418	38.0%	643	1,405	45.7%	19.4%
Income tax expense	-151	-355	42.5%	-169	-351	48.0%	11.8%
Effective tax rate	28.0%	25.0%	n/a	26.2%	25.0%	n/a	-1.8ppt
Profit for the year	388	1,064	36.4%	474	1,054	45.0%	22.3%
Less: non-controlling interests	12	20	61.8%	12	20	62.2%	0.0%
Net profit	375	1,044	36.0%	462	1,034	44.7%	23.1%

Source: Company data, CMBIS estimates

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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