

# China Resources Gas (1193 HK)

## 1H21 results beat; accelerating new business growth

CRG recorded 1H21 net profit of HK\$3,250mn, up 35.6% YoY, beat market expectation. Strong earnings growth was mainly driven by gas sales volume growth of 29.5% YoY on the back of outstanding industrial and commercial gas sales, which contributed 41.3%/36.7% volume growth respectively. Looking ahead in 2H21E, CRG expects gas consumption to remain strong but tightening gas supply could be a challenge during winter heating season. As gas peers are actively seeking new growth, we think market is expecting high on CRG's new business, but the Company is a bit lagging behind. **We raised TP by 7.1% to HK\$48.2, reflecting a more optimistic gas sales growth outlook. Maintain Hold rating.**

- 1H20 results beat expectation.** Revenue grew 52.5% YoY to HK\$34.4bn, supported by all segments and mainly from piped gas sales. GP increased 44.4% YoY with GPM declined slightly by 1.4ppt to 25.5%, as gas dollar margin declined slightly by RMB0.02/cbm to RMB0.58/cbm. Finance costs read a decline of 19.7% YoY to HK\$201mn. Net profit was HK\$3,250mn, up 35.6% YoY, beat market expectation. CRG maintained stable interim dividend at HK\$0.15/share.
- Outstanding C&I gas sales.** Gas sales growth reached 29.5% YoY to 17.2bcm, which was mainly driven by industrial and commercial gas volume growth of 41.3%/36.7% YoY. Mgmt. attributed the stunning performance to strong industrial clients' demand and commercial activities boom with post-COVID recovery. CRG read high demand growth to maintain in Jul, and expects the trajectory likely to sustain in 2H21. Mgmt. saw tightening supply a challenge in winter, and that could bring some pressure to dollar margin in 2H21. We lifted CRG's overall gas sales volume outlook by 3.9% in FY21, reflecting a full year gas sales volume growth of 22.5% YoY.
- Pursuing 1+2+N strategy in 14th FYP.** Mgmt. highlighted "1+2+N" strategy in the coming 5 years. "1" means core gas sales business focus on industrial gas sales; "2" reflects value added services(VAS) and integrated energy business(IE); and "N" includes new business opportunities such as hydrogen refueling stations and EV charging station. CRG made some reorganization in business structure to fit the new strategy, and we expect the Company to accelerate development in VAS and IE.
- Lifted TP to HK\$48.2, maintain HOLD.** We raised FY21-23 earnings by 2.8-6.8% to reflect optimistic gas sales outlook. We think market is expecting high for VAS and IE business growth, but CRG is a bit lagging behind peers. Trading at 15.5x FY22 PER vs. 13.3% earnings CARG in 2020-23E, we think CRG is fairly priced. We think VAS and IE growth acceleration could be reflection point, but we also think CRG still needs time to prove that.

### Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	56,976	55,864	74,399	80,029	85,989
Net income (HK\$ mn)	5,043	5,152	6,339	6,856	7,497
EPS (HK\$)	2.32	2.31	2.85	3.08	3.37
YoY growth (%)	13.3	-0.3	23.6	8.2	9.4
Consensus EPS (HK\$)	N/A	N/A	2.70	3.06	3.10
P/E (x)	20.6	20.7	16.7	15.5	14.1
P/B (x)	4.0	3.0	2.72	2.5	2.2
Yield (%)	1.8	2.0	2.4	2.6	2.9
ROE (%)	19.2	14.7	16.3	15.9	15.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

**HOLD (Maintain)**

Target Price **HK\$48.20**  
 (Target Price **HK\$45.0**)  
 Up/Downside **+1.0%**  
 Current Price **HK\$47.70**

### China Gas Distribution Sector

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### Stock Data

Mkt Cap (HK\$ mn)	110,378
Avg 3 mths t/o (HK\$ mn)	116..76
52w High/Low (HK\$)	52.25/1.57
Total Issued Shares (mn)	2,314

Source: Bloomberg

### Shareholding Structure

CR Company Ltd	61.5%
The Capital Group	9.80%
Free float	28.8%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-1.9%	7.7%
3-mth	4.8%	19.9%
6-mth	22.2%	50.7%
12-mth	30.2%	29.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

### Related report

China Gas Sector – "City Gas 3.0: Differentiating Growth Paths" – 8 Dec 2020 ([link](#))

Figure 1: 1H21 results summary

YE Dec 31 (HK\$ mn)	1H20	2H20	2020	1H21	2H21E	2021E	1H21 YoY	2021E YoY
<b>Revenue</b>	<b>22,572</b>	<b>33,292</b>	<b>55,864</b>	<b>34,416</b>	<b>39,871</b>	<b>74,287</b>	<b>52.5%</b>	<b>33.0%</b>
Piped gas sales	18,490	23,358	41,848	27,809	29,922	57,731	50.4%	38.0%
Gas connection	2,574	7,395	9,969	4,296	6,856	11,152	66.9%	11.9%
Sales of gas appliances	95	277	373	303	89	392	217.2%	5.0%
Design and construction services	202	490	692	281	753	1,033	39.3%	49.4%
Gas stations	1,211	1,771	2,982	1,728	2,252	3,979	42.7%	33.4%
Cost of sales	-16,489	-24,348	-40,837	-25,631	-29,737	-55,368	55.4%	35.6%
<b>Gross profit</b>	<b>6,083</b>	<b>8,944</b>	<b>15,027</b>	<b>8,785</b>	<b>10,134</b>	<b>18,919</b>	<b>44.4%</b>	<b>25.9%</b>
<i>Gross profit margin</i>	<i>26.95%</i>	<i>26.87%</i>	<i>26.90%</i>	<i>25.53%</i>	<i>25.42%</i>	<i>25.47%</i>	<i>-1.4ppt</i>	<i>-1.4ppt</i>
Other income	558	840	1,398	682	935	1,617	22.3%	15.7%
Selling and distribution costs	-1,911	-2,753	-4,664	-2,733	-3,320	-6,053	43.1%	29.8%
... as% to revenue	8.5%	8.3%	8.3%	7.9%	8.3%	8.1%	-0.5ppt	-0.2ppt
Administrative expenses	-995	-2,173	-3,168	-1,460	-2,403	-3,863	46.7%	21.9%
... as% to revenue	4.4%	6.5%	5.7%	4.2%	6.0%	5.2%	-0.2ppt	-0.5ppt
Impairment losses on financial assets, net	0	-69	-69	0	-82	-82	n/a	
Share of results of JVs	375	282	657	419	247	666	11.8%	1.4%
Share of results of Associates	128	130	258	180	99	278	40.4%	7.7%
<b>EBIT</b>	<b>4,238</b>	<b>5,202</b>	<b>9,440</b>	<b>5,872</b>	<b>5,611</b>	<b>11,483</b>	<b>38.6%</b>	<b>21.6%</b>
<i>EBIT margin</i>	<i>18.8%</i>	<i>15.6%</i>	<i>16.9%</i>	<i>17.1%</i>	<i>14.1%</i>	<i>15.5%</i>	<i>-1.7ppt</i>	<i>-1.4ppt</i>
Finance costs	-250	-200	-449	-201	-313	-513	-19.7%	14.2%
<b>Profit before taxation</b>	<b>3,988</b>	<b>5,002</b>	<b>8,990</b>	<b>5,672</b>	<b>5,298</b>	<b>10,969</b>	<b>42.2%</b>	<b>22.0%</b>
Taxation	-925	-1,353	-2,278	-1,429	-1,313	-2,742	54.5%	20.4%
<i>effective tax rate</i>	<i>23.19%</i>	<i>27.05%</i>	<i>25.34%</i>	<i>25.20%</i>	<i>24.79%</i>	<i>25.00%</i>	<i>2.0ppt</i>	<i>-0.3ppt</i>
<b>Profit for the year</b>	<b>3,063</b>	<b>3,649</b>	<b>6,712</b>	<b>4,242</b>	<b>3,985</b>	<b>8,227</b>	<b>38.5%</b>	<b>22.6%</b>
Less: Non-controlling interests	667	894	1,561	992	900	1,892	48.8%	21.2%
<b>Net profit</b>	<b>2,397</b>	<b>2,755</b>	<b>5,152</b>	<b>3,250</b>	<b>3,085</b>	<b>6,335</b>	<b>35.6%</b>	<b>23.0%</b>
<i>Net margin</i>	<i>10.62%</i>	<i>8.28%</i>	<i>9.22%</i>	<i>9.44%</i>	<i>7.74%</i>	<i>8.53%</i>	<i>-1.2ppt</i>	<i>-0.7ppt</i>
EPS-HK\$	1.09	1.22	2.31	1.43	1.42	2.85	31.2%	23.5%
DPS-HK\$	0.15	0.78	0.93	0.15	1.00	1.15	0.0%	23.5%

Source: Company data, CMBIS estimates

Figure 2: FY20 operating summary

YE Dec 31 (HK\$ mn)	1H20	2H20	2020	1H21	2H21E	2021E	1H21 YoY	2021E YoY
<b>Operating figures</b>								
<b>City gas sales - mcbm</b>	<b>13,253</b>	<b>15,771</b>	<b>29,024</b>	<b>17,162</b>	<b>18,388</b>	<b>35,550</b>	<b>29.5%</b>	<b>22.5%</b>
Residential	3,885	3,103	6,988	4,195	3,410	7,605	8.0%	8.8%
Industrial	5,926	8,940	14,866	8,374	10,299	18,673	41.3%	25.6%
Commercial	2,863	2,937	5,800	3,913	3,806	7,719	36.7%	33.1%
Vehicle(LNG+CNG)	579	791	1,370	680	873	1,553	17.4%	13.4%
Residential connection - k HH	992	2,061	3,053	1,296	1,920	3,216	30.7%	5.4%
Gas dollar margin	0.60	0.58	0.58	0.58	0.58	0.58	-3.3%	0.0%

Source: CMBIS estimates

Figure 3: DCF valuation for CRG

DCF Valuation	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
<b>Key operating forecasts</b>									
City gas sales volume (mcbm)	39,158	42,687	46,216	49,913	53,906	57,141	60,569	64,203	68,055
YoY change (%)	10.1%	9.0%	8.3%	8.0%	8.0%	6.0%	6.0%	6.0%	6.0%
Annual residential connection	3.35	3.32	3.29	3.06	2.84	2.65	2.46	2.29	2.13
YoY change (%)	4.3%	-1.1%	-0.8%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%
Accumulated residential customer	48.1	51.4	54.7	57.7	60.6	63.2	65.7	68.0	70.1
<b>Turnover (HK\$ mn)</b>	<b>80,029</b>	<b>85,989</b>	<b>91,947</b>	<b>96,669</b>	<b>99,901</b>	<b>101,449</b>	<b>101,203</b>	<b>99,142</b>	<b>95,346</b>
Turnover growth (%)	7.6%	7.4%	6.9%	5.1%	3.3%	1.5%	-0.2%	-2.0%	-3.8%
<b>EBIT (HK\$ mn)</b>	<b>12,195</b>	<b>13,296</b>	<b>14,559</b>	<b>14,733</b>	<b>14,632</b>	<b>14,256</b>	<b>13,620</b>	<b>12,754</b>	<b>11,699</b>
EBIT margin	15.2%	15.5%	15.8%	15.2%	14.6%	14.1%	13.5%	12.9%	12.3%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
DD&A - HK\$ mn	2,809	3,033	3,267	3,629	3,950	4,214	4,406	4,515	4,532
CAPEX (HK\$ mn)	-5,986	-6,244	-6,515	-6,646	-6,779	-6,914	-7,052	-7,194	-7,337
Invest in working capital	558	217	621	-236	-162	-77	12	103	190
<b>Free cash flow</b>	<b>6,527</b>	<b>6,978</b>	<b>8,292</b>	<b>7,796</b>	<b>7,983</b>	<b>7,914</b>	<b>7,581</b>	<b>6,990</b>	<b>6,159</b>
<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Discount factor	0.94	0.87	0.82	0.76	0.71	0.67	0.62	0.58	0.55
Discount free cash flow	6,103	6,101	6,779	5,959	5,705	5,289	4,737	4,083	3,364
<b>Terminal value</b>									<b>120,879</b>
<b>Terminal perpetual growth</b>									<b>2%</b>
<b>Terminal EV/EBITDA</b>									<b>7.45</b>

Valuations (HK\$ mn)		WACC Calculations	
Terminal value	120,879	Cost of debt	5.0%
Terminal perpetual growth	1.5%	Tax rate	25.0%
Terminal EV/EBITDA	7.45	After tax cost of debt	3.8%
Total discount FCF	48,120	Cost of equity	8.02%
Discount terminal value	66,030	Adjusted beta	0.56
Firm value	114,150	Market risk premium	11.1%
Discount FCF(% of total)	57.8%	Risk free rate	1.8%
Terminal value (% of total)	42.2%	% of debt financing	25.0%
Add: Cash & cash equivalent	17,793	<b>WACC</b>	<b>6.9%</b>
Less: Debt	8,418		
Non-controlling interest	12,014		
Equity Value - (HK\$, mn)	111,510		
Number of shares	2,314		
<b>Share fair value (HK\$)</b>	<b>48.20</b>		
<b>2021E PER</b>	<b>16.9</b>		
<b>2022E PER</b>	<b>15.6</b>		

Source: CMBIS estimates

**Figure 4: Earnings revision**

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Total gas sales volume (mcbm)	34,200	37,658	41,044	35,550	39,158	42,687	3.9%	4.0%	4.0%
Residential connection (CTG incl. mm HH)	3.22	3.35	3.32	3.22	3.35	3.32	0.0%	0.0%	0.0%
Revenue (HK\$, mn)	71,390	77,213	82,853	74,399	80,029	85,989	4.2%	3.6%	3.8%
Net Income (HK\$,mn)	5,933	6,670	7,279	6,339	6,856	7,497	6.8%	2.8%	3.0%
EPS (HK\$)	2.67	3.00	3.27	2.85	3.08	3.37	6.8%	2.8%	3.0%
<b>Consensus estimates</b>							<b>CMBIS vs. Consensus</b>		
Net Income (HK\$,mn)				6,120	6,747	7,409	3.6%	1.6%	1.2%
EPS (HK\$)				2.70	3.06	3.10	5.7%	0.8%	8.7%

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>56,976</b>	<b>55,864</b>	<b>74,399</b>	<b>80,029</b>	<b>85,989</b>	<b>Profit before tax</b>	<b>8,422</b>	<b>8,990</b>	<b>10,976</b>	<b>11,872</b>	<b>12,982</b>
<b>Costs of sales</b>	<b>(42,763)</b>	<b>(40,837)</b>	<b>(55,457)</b>	<b>(60,319)</b>	<b>(65,048)</b>	Depreciation and amortization	1,922	2,114	2,459	2,809	3,033
<b>Gross profit</b>	<b>14,214</b>	<b>15,027</b>	<b>18,942</b>	<b>19,710</b>	<b>20,941</b>	Change in working capital	3,035	(1,042)	3,525	558	217
Other income	1,550	1,398	1,616	1,803	1,980	Taxation	(2,024)	(2,070)	(2,612)	(2,869)	(3,126)
Selling and distribution costs	(4,550)	(4,664)	(6,062)	(6,361)	(6,663)	Others	(2,863)	628	(1,884)	(2,048)	(2,239)
Administrative expenses	(2,917)	(3,168)	(3,869)	(3,841)	(3,870)	<b>Operating cash flow</b>	<b>8,491</b>	<b>8,620</b>	<b>12,464</b>	<b>10,321</b>	<b>10,867</b>
Impairment losses, net	(80)	(69)	(82)	(86)	(90)	Capex & investments	(5,603)	(13,084)	(7,307)	(5,986)	(6,244)
<b>Operating profit</b>	<b>8,216</b>	<b>8,524</b>	<b>10,545</b>	<b>11,225</b>	<b>12,298</b>	Others	1,728	-	-	-	-
Finance costs	(533)	(449)	(513)	(323)	(314)	<b>Investment cash flow</b>	<b>(3,875)</b>	<b>(13,084)</b>	<b>(7,307)</b>	<b>(5,986)</b>	<b>(6,244)</b>
Share of results of JVs	502	657	666	682	699	Equity raised	(652)	1,575	0	-	-
Share of results of Asso	236	258	278	288	299	Change of Debts	(487)	478	16	(3,807)	(181)
<b>Pre-tax profit</b>	<b>8,422</b>	<b>8,990</b>	<b>10,976</b>	<b>11,872</b>	<b>12,982</b>	Dividend paid	(1,677)	(1,902)	(2,068)	(2,554)	(2,763)
Income tax	(1,922)	(2,278)	(2,744)	(2,968)	(3,245)	Others	1,203	4,895	1,246	1,574	1,712
Less: minority interests	1,456	1,561	1,893	2,048	2,239	<b>Financing cash flow</b>	<b>(1,613)</b>	<b>5,046</b>	<b>(806)</b>	<b>(4,787)</b>	<b>(1,232)</b>
<b>Net profit</b>	<b>5,043</b>	<b>5,152</b>	<b>6,339</b>	<b>6,856</b>	<b>7,497</b>	<b>Net change in cash</b>	<b>3,004</b>	<b>582</b>	<b>4,350</b>	<b>(452)</b>	<b>3,390</b>
						Cash at the beginning	10,393	13,502	13,442	17,793	17,340
						Exchange difference	106	(642)	-	-	-
						<b>Cash at the end of the year</b>	<b>13,502</b>	<b>13,442</b>	<b>17,793</b>	<b>17,340</b>	<b>20,731</b>
						Add: Acquired cash	-	-	-	-	-
						<b>Cash at balance sheet</b>	<b>13,502</b>	<b>13,442</b>	<b>17,793</b>	<b>17,340</b>	<b>20,731</b>
Balance sheet						Key ratios					
YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>52,154</b>	<b>63,229</b>	<b>67,946</b>	<b>71,143</b>	<b>74,374</b>	<b>Sales mix (%)</b>					
Fixed asset	33,940	40,933	46,039	48,729	51,447	Piped gas sales	72.7	74.9	77.6	79.1	80.5
Right of use assets	2,526	2,816	2,661	2,721	2,777	Gas connection	18.7	17.8	15.0	13.7	12.5
Investment in Joint	9,231	12,115	12,408	12,708	13,016	Sales of gas appliances	0.7	0.7	0.7	0.7	0.8
Investment in Associates	3,811	4,082	4,235	4,393	4,558	Design and construction	1.2	1.2	1.4	1.4	1.4
Others	2,645	3,284	2,603	2,591	2,577	Gas stations	6.6	5.3	5.3	5.1	4.9
<b>Current assets</b>	<b>29,67</b>	<b>30,64</b>	<b>36,25</b>	<b>36,46</b>	<b>40,55</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Trade and other receivables	11,768	12,646	14,737	15,473	16,256	<b>P&amp;L ratios (%)</b>					
Contract assets	3,386	3,534	2,735	2,684	2,623	Gross profit margin	24.9	26.9	25.5	24.6	24.4
Cash & equivalents	13,502	13,442	17,793	17,340	20,731	Operating margin	14.4	15.3	14.2	14.0	14.3
Others	1,013	1,019	985	967	948	Pre-tax margin	14.8	16.1	14.8	14.8	15.1
<b>Current liabilities</b>	<b>38,290</b>	<b>39,023</b>	<b>49,244</b>	<b>44,719</b>	<b>45,532</b>	Net margin	8.9	9.2	8.5	8.6	8.7
Trade and other payables	22,099	20,193	26,296	27,738	28,998	Effective tax rate	22.8	25.3	25.0	25.0	25.0
Contract liabilities	13,23	15,17	13,67	13,40	13,02	<b>Balance sheet ratios</b>					
Borrowings	2,031	2,548	2,178	1,960	1,764	Current ratio (x)	0.77	0.79	0.74	0.82	0.89
Others	923	1,107	7,100	1,612	1,745	Quick ratio (x)	0.75	0.76	0.72	0.79	0.87
<b>Non-current liabilities</b>	<b>7,712</b>	<b>7,980</b>	<b>2,393</b>	<b>4,491</b>	<b>4,590</b>	Cash ratio (x)	0.35	0.34	0.36	0.39	0.46
Borrowings	285	299	242	218	196	Debtors turnover days	72.8	79.8	67.2	68.9	67.3
Senior notes	5,545	5,536	-	2,000	2,000	Total debt / equity ratio (%)	30.7	24.0	20.8	10.2	8.9
Others	1,882	2,146	2,151	2,273	2,394	Net debt / equity ratio (%)	N.C	N.C	N.C	N.C	N.C
<b>Minority Interest</b>	<b>9,027</b>	<b>10,594</b>	<b>12,014</b>	<b>13,550</b>	<b>15,230</b>	<b>Returns (%)</b>					
<b>Shareholders' equity</b>	<b>26,795</b>	<b>36,274</b>	<b>40,545</b>	<b>44,847</b>	<b>49,581</b>	ROE	18.82	14.20	15.63	15.29	15.12
<b>Total Equity</b>	<b>35,822</b>	<b>46,868</b>	<b>52,560</b>	<b>58,397</b>	<b>64,811</b>	ROA	6.16	5.49	6.08	6.37	6.52
						<b>Per share</b>					
						EPS(HK\$)	2.32	2.31	2.85	3.08	3.37
						DPS(HK\$)	0.87	0.93	1.15	1.24	1.36
						BVPS(HK\$)	12.0	15.6	17.5	19.3	21.4

Source: Company data, CMBIS estimates

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