

# Tian Lun Gas (1600 HK)

## Share award scheme to boost future growth

TLG reported 1H21 core profit of RMB449mn, up 5.9% YoY. The results looks a bit sluggish compared with peers, but still in line with our estimates (1H21E: RMB462mn). Retails gas volume surged 30.1% YoY to 742mcbm, while gas dollar margin experienced a squeeze to RMB0.51/cbm due to gas costs hike during winter and delayed gas costs pass-through to the residential clients. Mgmt. guided down core earnings outlook from 15% to 10-12% YoY on conservative gas margin expectation. We are not too concerned on the guide down, as we think TLG's project M&A progress is still on track, and newly announced share incentive scheme is likely to boost future earnings growth. Trading at 6.1/5.9x FY21/22E PER, TLG's valuation is not demanding and still have ample room to re-rate. **Maintain BUY with TP unchanged at HK\$9.90.**

- 1H21 core earnings increased by 5.9% YoY.** Revenue ascended 20.2% YoY to RMB3.6bn, mainly driven by piped gas sales. COGS surged 26.5% YoY, faster than top line movement, driven by gas cost hike caused gas dollar margin squeeze. Major expenses were in line, and TLG recognized RMB78mn non-recurring gains from FX and fair value adjustment. Net profit was RMB547mn, up 37.4% YoY. TLG declared interim dividend of RMB0.134/share, reflecting core EPS payout ratio increase to 30.2%.
- Rapid gas volume growth to sustain in 2H21E.** Retail gas sales volume surged 30.1% YoY, driven by strong gas demand which is led by C&I gas sales growth of 36.1% YoY during the period. TLG maintained FY21E retails gas volume target at 25% growth, implying strong performance to sustain in 2H21E.
- Residential connection pace to pick up.** TLG connected 287k new gas users, down 24.6% YoY, mainly due to connection decline from township users. The Connection pace was a bit lagging behind, however, connection revenue contribution remained flat as 1H20. Mgmt. explained the Company made some ancillary pipeline construction for township projects, and maintained full year connection target unchanged at 5mn users by year end, implying connection pace to accelerate in 2H21E.
- Share award scheme to boost future earnings.** TLG plans to purchase up to 5% issued shares for share award for directors, senior management and employees. We believe the share award scheme implies 1) TLG to buy back shares from the market; and 2) future earnings growth to accelerate as management interest is in line with shareholder value.
- Maintain BUY with TP unchanged at HK\$9.90.** We think TLG made significant corporate action in 2021, including introducing Zhuhai Port (000507 CH, NR) as strategic investors and adopting share award incentives. We are still optimistic on TLG's growth momentum though 1H21 earnings was a bit sluggish. We think valuation is attractive with ample room for a re-rating.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	6,549	6,440	7,536	8,672	9,928
Net income (RMB mn)	789	1,044	1,078	1,181	1,370
EPS (RMB)	0.80	1.04	1.07	1.17	1.36
YoY growth (%)	38.4	30.8	3.0	9.3	15.8
Consensus EPS (RMB)	N/A	N/A	1.022	1.14	1.25
P/E (x)	8.3	6.4	6.2	5.7	4.9
P/B (x)	1.71	1.42	1.22	1.06	0.92
Yield (%)	3.5	4.0	4.8	5.3	6.1
ROE (%)	20.5	22.3	19.7	18.7	18.8
Net gearing (%)	91.4	71.8	67.9	54.0	41.6

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$9.90
(Previous TP)	HK\$9.90)
Up/Downside	+23.75%
Current Price	HK\$8.00

### China Gas Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	8,029
Avg 3 mths t/o (HK\$ mn)	11.00
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%

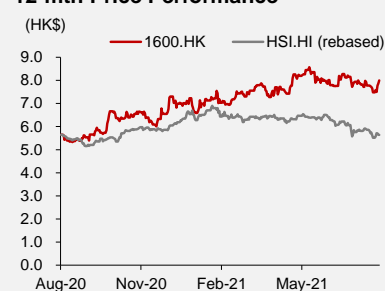
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	3.6%	2.3%
3-mth	-3.0%	11.2%
6-mth	13.8%	29.8%
12-mth	37.1%	36.4%

Source: Wind

#### 12-mth Price Performance



Source: Wind

#### Auditor: PwC

#### Related Reports

- Tian Lun Gas (1600 HK) – “Strategic cooperation with Zhuhai Port” – 26 Jul 2021
- 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

Figure 1: TLG's 1H21 results summary

(Rmb, mn)	1H20	2H20	2020	1H21A	2H21E	2021E	1H21 YoY	1H21E	Diff
<b>Revenue</b>	2,996	3,444	6,440	3,599	3,937	7,536	20.2%	3,483	3.3%
Transportation and sales of gas	1,462	1,599	3,061	1,875	2,087	3,962	28.2%	1,891	-0.8%
Transmission pipeline	323	351	674	466	425	891	44.3%	369	26.1%
Engineering construction services	1,142	1,408	2,550	1,172	1,296	2,469	2.7%	1,125	4.3%
Others	69	87	155	46	169	215	-33.5%	99	-53.7%
<b>Costs of sales</b>	-2,159	-2,495	-4,654	-2,731	-2,920	-5,651	26.5%	-2,611	4.6%
Gross profit	836	950	1,786	869	1,016	1,885	3.9%	872	-0.4%
Gross profit margin	27.9%	27.6%	27.7%	24.1%	25.8%	25.0%	-3.8ppt	25.0%	2.7ppt
Distribution expenses	-24	-36	-59	-31	-36	-67	29.3%	-26	17.0%
Administrative expenses	-87	-107	-193	-96	-129	-226	10.9%	-96	-0.1%
Other income	2	8	10	7	2	8	203.9%	2	170.8%
Other gains/losses, net	-48	208	160	78	-	78	-263.2%	2	4379.1%
<b>Operating profit</b>	<b>680</b>	<b>1,023</b>	<b>1,703</b>	<b>827</b>	<b>853</b>	<b>1,679</b>	21.6%	<b>754</b>	9.7%
Finance income	4	7	11	5	14	19	26.9%	9	-47.1%
Finance expenses	-132	-119	-250	-116	-152	-268	-12.0%	-134	-13.6%
Finance expenses, net	-128	-111	-239	-111	-138	-249	-13.2%	-125	-11.1%
Share of post-tax profit of associates	-14	-32	-46	-10	45	35	-28.8%	14	-169.7%
<b>Profit before income tax</b>	<b>539</b>	<b>880</b>	<b>1,418</b>	<b>706</b>	<b>759</b>	<b>1,465</b>	31.1%	<b>643</b>	9.8%
Income tax expense	-151	-204	-355	-175	-192	-366	15.7%	-169	3.5%
Effective tax rate	28.0%	23.2%	25.0%	24.7%	25.2%	25.0%	-3.3ppt	26.2%	-1.2ppt
<b>Profit for the year</b>	<b>388</b>	<b>676</b>	<b>1,064</b>	<b>531</b>	<b>568</b>	<b>1,099</b>	37.1%	<b>474</b>	12.0%
Less: non-controlling interests	12	8	20	16	5	21	28.0%	12	28.0%
<b>Net profit</b>	<b>375</b>	<b>668</b>	<b>1,044</b>	<b>515</b>	<b>563</b>	<b>1,078</b>	<b>37.4%</b>	<b>462</b>	<b>11.6%</b>
<b>Core profit</b>	<b>424</b>	<b>471</b>	<b>895</b>	<b>449</b>	<b>542</b>	<b>991</b>	<b>5.9%</b>	<b>462</b>	<b>-2.7%</b>

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
<b>Key assumptions</b>									
<b>Total gas sales volume (mcbm)</b>	<b>1,892</b>	<b>2,286</b>	<b>2,685</b>	<b>1,910</b>	<b>2,250</b>	<b>2,641</b>	<b>1.0%</b>	<b>-1.5%</b>	<b>-1.6%</b>
Residential	478	580	690	478	580	690	0.0%	0.0%	0.0%
C&I	986	1,222	1,448	986	1,166	1,381	0.0%	-4.6%	-4.6%
Vehicle	86	90	95	90	94	99	4.5%	4.5%	4.5%
Wholesale	341	393	452	356	410	471	4.3%	4.3%	4.3%
<b>Gas connection &amp; construction services (Households)</b>									
Residential	278,930	292,877	307,521	278,930	292,877	307,521	0.0%	0.0%	0.0%
Township	585,000	640,000	680,000	585,000	640,000	680,000	0.0%	0.0%	0.0%
C&I	3,400	3,400	3,400	3,400	3,400	3,400	0.0%	0.0%	0.0%
<b>Financials estimation</b>									
Revenue (Rmb mn)	7,478	8,763	10,045	7,536	8,672	9,928	0.8%	-1.0%	-1.2%
Net Income (Rmb mn)	1,034	1,196	1,360	1,078	1,181	1,370	4.3%	-1.3%	0.7%
EPS (Rmb)	1.03	1.19	1.35	1.07	1.17	1.36	4.3%	-1.3%	0.7%

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>6,549</b>	<b>6,440</b>	<b>7,536</b>	<b>8,672</b>	<b>9,928</b>
City gas sales	2,980	3,061	3,962	4,683	5,516
Wholesale	1,081	674	891	1,024	1,178
Engineering services	2,355	2,550	2,469	2,678	2,853
Others	132	155	215	286	381
<b>Costs of sales</b>	<b>(4,845)</b>	<b>(4,654)</b>	<b>(5,651)</b>	<b>(6,525)</b>	<b>(7,476)</b>
<b>Gross profit</b>	<b>1,704</b>	<b>1,786</b>	<b>1,885</b>	<b>2,146</b>	<b>2,451</b>
<b>OPEX &amp; other gains</b>	<b>(269)</b>	<b>(83)</b>	<b>(206)</b>	<b>(323)</b>	<b>(372)</b>
Distribution expenses	(58)	(59)	(67)	(77)	(88)
Administration expenses	(196)	(193)	(226)	(260)	(297)
Other income	5	10	8	8	8
Other gains/loss, net	(19)	160	78	5	5
<b>EBIT</b>	<b>1,435</b>	<b>1,703</b>	<b>1,679</b>	<b>1,823</b>	<b>2,079</b>
Finance income	25	11	19	20	27
Finance expenses	(291)	(250)	(268)	(276)	(286)
Finance expenses, net	(266)	(239)	(249)	(256)	(260)
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,418</b>	<b>1,465</b>	<b>1,605</b>	<b>1,862</b>
Income tax	(314)	(355)	(366)	(401)	(466)
Less: Minority interests	24	20	21	23	27
<b>Net profit</b>	<b>789</b>	<b>1,044</b>	<b>1,078</b>	<b>1,181</b>	<b>1,370</b>
<b>Core profit</b>	<b>811</b>	<b>895</b>	<b>991</b>	<b>1,181</b>	<b>1,370</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,418</b>	<b>1,465</b>	<b>1,605</b>	<b>1,862</b>
Depreciation and amortization	275	299	334	372	412
Change in working capital	(197)	(155)	(278)	(59)	(67)
Taxation	(151)	(228)	(244)	(256)	(297)
Others	(82)	26	(36)	(15)	(14)
<b>Net cash from operation</b>	<b>971</b>	<b>1,390</b>	<b>1,241</b>	<b>1,647</b>	<b>1,896</b>
Capex & investments	(259)	(671)	(1,494)	(1,028)	(1,111)
Others	9	-	-	-	-
<b>Net cash from investments</b>	<b>(250)</b>	<b>(865)</b>	<b>(1,494)</b>	<b>(1,028)</b>	<b>(1,111)</b>
Equity raised	(56)	(21)	(0)	0	0
Change of Debts	(226)	(128)	187	201	216
Dividend paid	(114)	(249)	(295)	(339)	(382)
Others	-	-	-	-	-
<b>Net cash from financing</b>	<b>(451)</b>	<b>(230)</b>	<b>(108)</b>	<b>(138)</b>	<b>(166)</b>
<b>Net change in cash</b>	<b>271</b>	<b>295</b>	<b>(361)</b>	<b>481</b>	<b>620</b>
Cash at the beginning of the year	1,076	1,350	1,640	1,279	1,760
Exchange difference	3	(5)	-	-	-
<b>Cash at the end of the year</b>	<b>1,350</b>	<b>1,640</b>	<b>1,279</b>	<b>1,760</b>	<b>2,380</b>
<b>Cash at balance sheet</b>	<b>1,350</b>	<b>1,640</b>	<b>1,279</b>	<b>1,760</b>	<b>2,380</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>8,041</b>	<b>8,556</b>	<b>9,660</b>	<b>10,337</b>	<b>11,055</b>
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	611	630
<b>Current assets</b>	<b>3,898</b>	<b>4,363</b>	<b>4,446</b>	<b>5,223</b>	<b>6,168</b>
Trade & other receivables	1,548	1,393	1,551	1,785	2,043
Financial assets at fair value	51	27	27	27	27
Cash and cash equivalents	1,350	1,640	1,279	1,760	2,380
Other current assets	950	1,302	1,589	1,652	1,718
<b>Current liabilities</b>	<b>3,313</b>	<b>4,556</b>	<b>3,986</b>	<b>4,383</b>	<b>4,825</b>
Trade & other payables	1,202	1,364	1,413	1,631	1,869
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
<b>Non-current liabilities</b>	<b>4,439</b>	<b>3,381</b>	<b>4,335</b>	<b>4,527</b>	<b>4,734</b>
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
<b>Total Equity</b>	<b>4,187</b>	<b>4,980</b>	<b>5,784</b>	<b>6,649</b>	<b>7,664</b>
<b>Minority Interest</b>	<b>297</b>	<b>281</b>	<b>302</b>	<b>325</b>	<b>351</b>
<b>Shareholders' equity</b>	<b>3,891</b>	<b>4,699</b>	<b>5,482</b>	<b>6,325</b>	<b>7,313</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
City gas sales	45.5	47.5	52.6	54.0	55.6
Wholesale	16.5	10.5	11.8	11.8	11.9
Engineering services	36.0	39.6	32.8	30.9	28.7
Others	2.0	2.4	2.9	3.3	3.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	26.0	27.7	25.0	24.7	24.7
Operating margin	21.9	26.5	22.3	21.0	20.9
Pre-tax margin	17.2	22.0	19.4	18.5	18.8
Net margin	12.1	16.2	14.3	13.6	13.8
Effective tax rate	27.8	25.0	25.0	25.0	25.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.2	1.0	1.1	1.2	1.3
Quick ratio (x)	0.5	0.4	5.8	0.5	9.3
Debtors turnover days	83.9	83.4	71.3	70.2	70.4
Total debt / equity ratio (%)	124.	101.	90.8	82.0	74.0
Net debt / equity ratio (%)	91.4	71.8	67.9	54.0	41.6
<b>Returns (%)</b>					
ROE	20.5	22.3	19.7	18.7	18.8
ROA	6.6	8.1	7.6	7.6	8.0
<b>Per share</b>					
EPS (RMB)	0.80	1.04	1.07	1.17	1.36
DPS (RMB)	0.23	0.27	0.32	0.35	0.41
BVPS (RMB)	3.89	4.68	5.45	6.28	7.24

Source: Company data, CMBIS estimates

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