

# UEG (467 HK)

## Acceleration of volume growth + Higher price in 2022E

We expect UEG to achieve acceleration of oil & gas production growth in 2022E-24E (from 5% to 13%), driven by fast-growing output in Iraq's Block 9 that offset the production slowdown in Pakistan and Egypt. The output growth, coupled with a 28% YoY increase in realized price based on our assumptions, will boost UEG's net profit by 83% YoY in 2022E, following an impressive growth of 132% in 2021. On the back of strong operating cash flow and the target to maintain payout ratio (>50%), we forecast dividend yield to potentially reach 9% in 2022E. We resume coverage on UEG with **BUY** rating and TP of HK\$1.4 (based on 10x 2022E P/E).

- FY21 net income surged 132% YoY to HK\$2bn.** The revenue grew 20% YoY to HK\$7.4bn, driven by 54% YoY in realized oil and gas prices. Average daily working interest production remained stable YoY at 93,097 barrels of oil equivalent per day (boed). On the cost side, operating expense dropped 3% YoY to US\$4.35/boe. This, together with a higher realized price, boosted the gross margin by 12.3ppt YoY to 45.1%. UEG announced a special dividend of HK\$0.04/share (payout ratio: 52.4%).
- Iraq asset production growth to boost acceleration of the overall output.** Iraq Block 9, the fast-growing asset, achieved working interest production growth of 63% YoY to 9.6mm boe in FY21. We expect the output growth to reach 30% p.a. in 2022E-23E. Meanwhile, we expect UEG managed to maintain stable cash flow from the mature fields in Pakistan and Egypt.
- Volume growth + realized price hike starting 2022E.** UEG targets an average daily working interest production of 94,000-101,000 boed in FY22E (our assumption: 97,370 boed, +5% YoY). We forecast volume growth to accelerate to 8%/13% in 2023E/24E. We model Brent Crude price assumptions of US\$90/barrel in 2022E-24E. Based on this assumption, we estimate the realized oil & gas price of US\$61/boe and US\$64/boe in FY22E (+28%) and FY23E (+4% YoY, due to regional mix change).
- Expect operating cash flow enough to support growing capex.** UEG's operating cash inflow in FY21 surged 124% YoY to HK\$4.28bn, higher than the net profit of HK\$2bn. We expect the upcoming operating cash flow will be enough to support its rising capex and potential M&A going forward.

### Earnings Summary

| (YE 31 Dec)         | FY20A  | FY21A | FY22E  | FY23E  | FY24E  |
|---------------------|--------|-------|--------|--------|--------|
| Revenue (HKD mn)    | 6,204  | 7,437 | 10,212 | 11,360 | 13,077 |
| YoY growth (%)      | -12.7% | 19.9% | 37.3%  | 11.2%  | 15.1%  |
| Net income (HKD mn) | 864    | 2,001 | 3,660  | 4,018  | 4,501  |
| EPS (HKD)           | 0.03   | 0.08  | 0.14   | 0.15   | 0.17   |
| YoY growth (%)      | -55%   | 132%  | 83%    | 10%    | 12%    |
| Consensus EPS (HKD) | NA     | NA    | NA     | NA     | NA     |
| P/E (x)             | 24.3   | 10.5  | 5.7    | 5.2    | 4.7    |
| P/B (x)             | 1.6    | 1.5   | 1.3    | 1.2    | 1.0    |
| Yield (%)           | 2.95   | 5.00  | 9.15   | 10.04  | 11.425 |
| ROE (%)             | 6.7%   | 14.1% | 23.8%  | 22.7%  | 22.7%  |
| Net gearing (%)     | 20.0%  | 19.7% | 16.5%  | 16.1%  | 10.6%  |

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

|               |          |
|---------------|----------|
| Target Price  | HK\$1.40 |
| Up/Downside   | 75%      |
| Current Price | HK\$0.80 |

### China Oil & Gas Sector

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#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 21,030    |
| Avg 3 mths t/o (HK\$ mn) | 34.48     |
| 52w High/Low (HK\$)      | 1.56/0.44 |
| Total Issued Shares (mn) | 26,290    |

Source: Bloomberg

#### Shareholding Structure

|                |        |
|----------------|--------|
| Zhang Hong Wei | 66.44% |
| Free Float     | 33.56% |

Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 12.8%    | 9.3%     |
| 3-mth | 12.8%    | 29.7%    |
| 6-mth | 1.1%     | 19.0%    |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

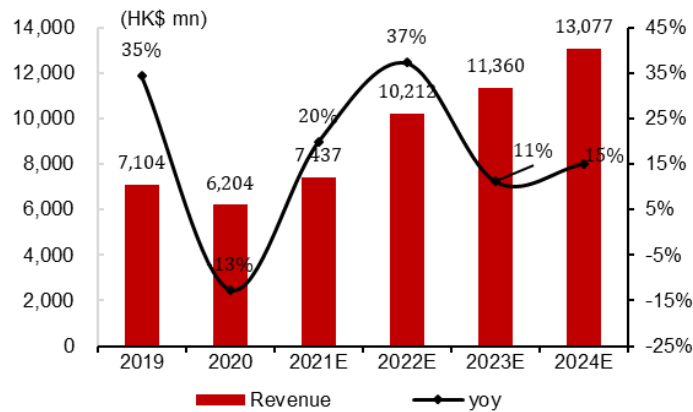
#### Auditor: RSM Hong Kong

#### Related Report:

"UEG(467 HK) a fast-growing medium-sized IOC"—14 Sep 2021

## Focus Charts

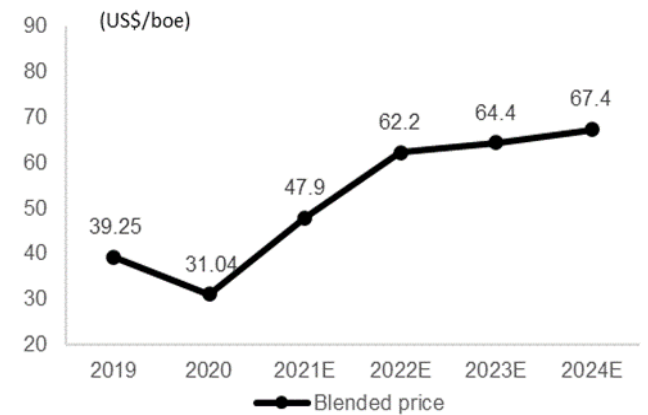
**Figure 1: Revenue projection**



Source: Company data, CMBIS estimates

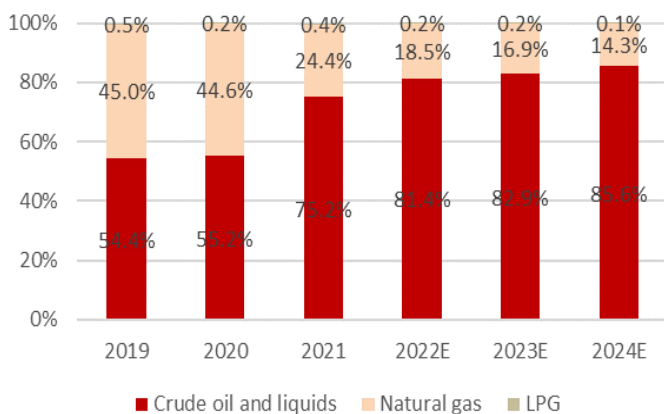
Source: Company data, CMBIGM estimates

**Figure 2: Realised oil and gas price**



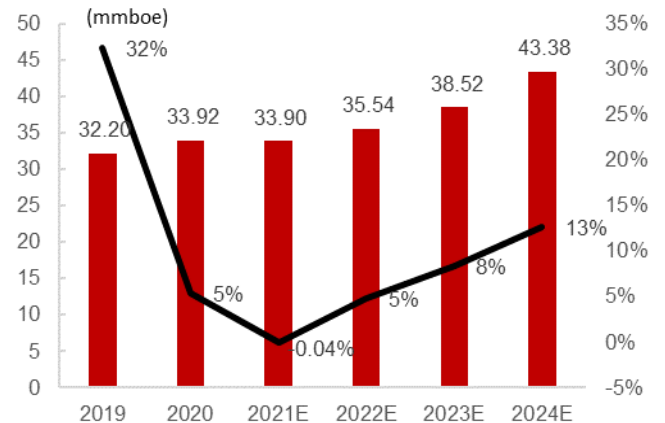
Source: Company data, CMBIGM estimates

**Figure 3: Revenue mix**



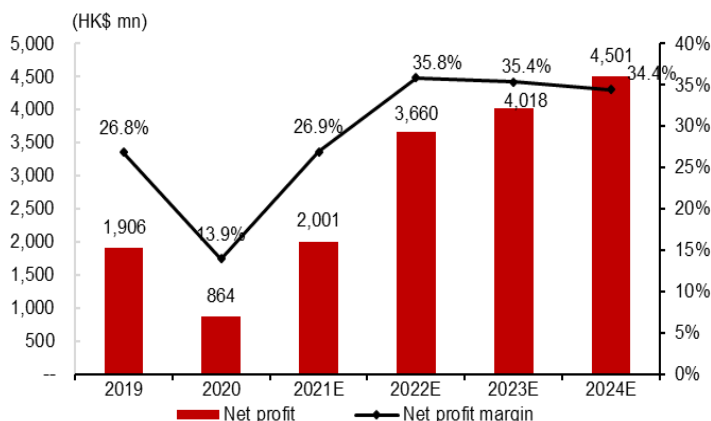
Source: Company data, CMBIGM estimates

**Figure 4: Sales volume**



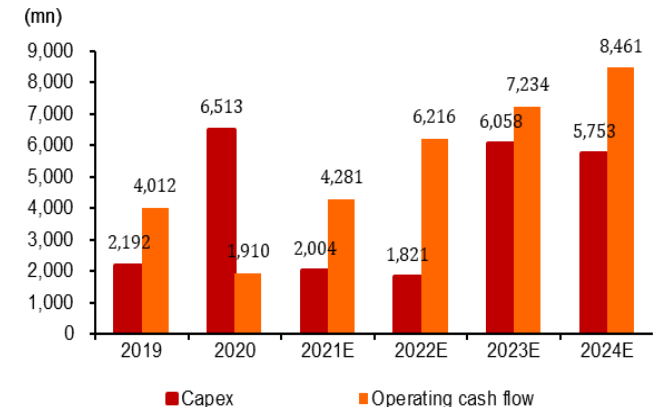
Source: Company data, CMBIGM estimates

**Figure 5: Net profit vs net profit margin**



Source: Company data, CMBIGM estimates

**Figure 6: Operating cash flow and CAPEX projection**



Source: Company data, CMBIGM estimates

## Valuation

UEG is trading at 5.7x 2022E P/E, a discount to the global peers of 6-7x and 1xSD below UEG's historical average of 16x. We set our TP at HK\$1.4, based on 10x 2022E P/E which is equivalent to 40% discount to the historical average.

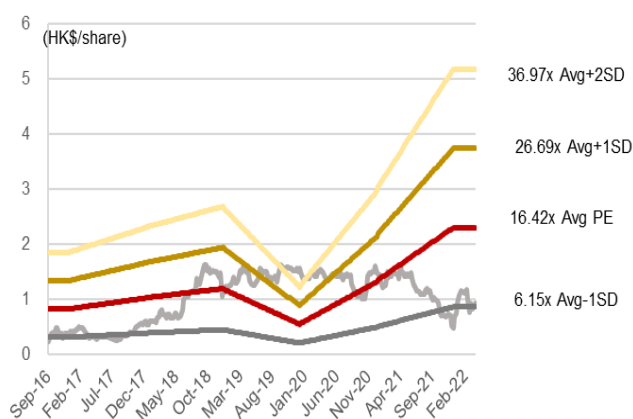
We estimate every 5% increase in Brent oil price will result in 2.5% increase in net profit on annualized basis.

**Figure 7: Peers' valuation**

| Company                              | Ticker    | PX<br>(Local<br>currency) | Mkt cap<br>(US\$mn) | PER         |            |            | PBR        |            |            |
|--------------------------------------|-----------|---------------------------|---------------------|-------------|------------|------------|------------|------------|------------|
|                                      |           |                           |                     | FY21        | FY22       | FY23       | FY21       | FY22       | FY23       |
| CONOCOPHILLIPS                       | COP US    | 101.73                    | 131,847             | 16.85       | 8.33       | 10.48      | 2.96       | 2.47       | 2.24       |
| ENI SPA-ADR                          | E US      | 30.29                     | 54,607              | 11.62       | 6.20       | 7.12       | 1.26       | 1.03       | 0.96       |
| CAN NATURAL RES                      | CNQ US    | 64.60                     | 75,206              | 13.52       | 7.08       | 9.02       | 2.60       | 2.38       | 2.20       |
| PIONEER NATURAL                      | PXD US    | 256.45                    | 62,286              | 20.01       | 8.80       | 10.29      | 2.62       | 2.29       | 1.97       |
| OCCIDENTAL PETE                      | OXY US    | 61.11                     | 57,258              | 28.65       | 7.52       | 10.39      | 4.10       | 3.12       | 2.71       |
| DEVON ENERGY CO                      | DVN US    | 63.09                     | 41,904              | 18.67       | 8.55       | 9.39       | 4.44       | 2.85       | 2.28       |
| OMV AG-ADR                           | OMV KY US | 47.05                     | 15,398              | 4.92        | 3.36       | 3.56       | N/A        | N/A        | N/A        |
| CONTL RES INC/OK                     | CLR US    | 64.02                     | 23,247              | 14.04       | 6.72       | 8.42       | 3.06       | 2.14       | 1.74       |
| APA CORP                             | APA US    | 43.17                     | 14,977              | 10.57       | 5.04       | 5.21       | N/A        | N/A        | 9.41       |
| CHESAPEAKE ENERG                     | CHK US    | 93.02                     | 11,906              | 9.92        | 8.79       | 7.95       | N/A        | N/A        | 1.72       |
| CALIFORNIA RESOU                     | CRC US    | 46.24                     | 3,609               | 57.58       | 7.72       | 6.27       | N/A        | N/A        | N/A        |
| YPF SA-ADR                           | YPF US    | 5.12                      | 2,013               | N/A         | 4.08       | 5.06       | 0.28       | 0.32       | 0.30       |
| <b>Oversea peers' average</b>        |           |                           |                     | <b>18.8</b> | <b>6.8</b> | <b>7.8</b> | <b>2.7</b> | <b>2.1</b> | <b>2.6</b> |
| PETROCHINA-H                         | 857 HK    | 3.95                      | 149,505             | 6.37        | 5.54       | 6.14       | 0.47       | 0.45       | 0.43       |
| SINOPEC CORP-H                       | 386 HK    | 3.94                      | 78,120              | 5.37        | 5.45       | 5.48       | 0.50       | 0.48       | 0.46       |
| CNOOC                                | 883 HK    | 11.06                     | 63,011              | 5.51        | 3.86       | 4.20       | 0.84       | 0.75       | 0.69       |
| UNITED ENERGY GP                     | 467 HK    | 0.80                      | 2,684               | 10.48       | 5.70       | 5.20       | 1.50       | 1.30       | 1.20       |
| ANTON OILFIELD                       | 3337 HK   | 0.45                      | 173                 | 8.50        | 5.01       | 4.06       | 0.38       | 0.36       | 0.35       |
| HILONG HOLDING                       | 1623 HK   | 0.42                      | 91                  | 6.82        | 6.82       | 4.87       | 0.18       | 0.19       | 0.18       |
| HONGHUA GROUP                        | 196 HK    | 0.26                      | 174                 | N/A         | N/A        | N/A        | N/A        | N/A        | N/A        |
| <b>China &amp; HK peers' average</b> |           |                           |                     | <b>7.2</b>  | <b>5.4</b> | <b>5.0</b> | <b>0.6</b> | <b>0.6</b> | <b>0.6</b> |
| <b>Average</b>                       |           |                           |                     | <b>14.7</b> | <b>6.4</b> | <b>6.8</b> | <b>1.8</b> | <b>1.4</b> | <b>1.8</b> |

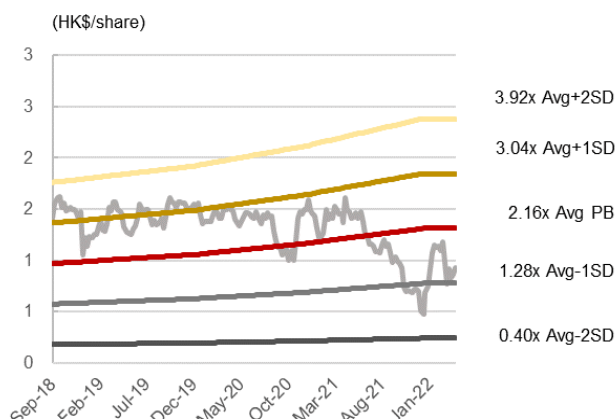
Source: Bloomberg, CMBIGM estimates

**Figure 8: 12M forward P/E band**



Source: Company data, CMBIGM estimates

**Figure 9: 12M forward P/B band**



Source: Company data, CMBIGM estimates

Figure 10: Brent crude oil price



Source: Bloomberg, CMBIGM

Figure 11: UEG's earnings sensitivity to crude price and lifting cost

|              |             | Realised price (US\$/boe) |              |              |              |              |
|--------------|-------------|---------------------------|--------------|--------------|--------------|--------------|
|              |             | 82                        | 86           | 91           | 95           | 100          |
|              | 6.37        | 3,404                     | 3,495        | <b>3,586</b> | 3,677        | 3,768        |
|              | 6.08        | 3,441                     | 3,532        | <b>3,623</b> | 3,714        | 3,805        |
| Lifting cost | <b>5.79</b> | <b>3,478</b>              | <b>3,569</b> | <b>3,660</b> | <b>3,751</b> | <b>3,842</b> |
| (Mena)       | 5.50        | 3,515                     | 3,606        | <b>3,697</b> | 3,788        | 3,879        |
|              | 5.21        | 3,552                     | 3,643        | <b>3,734</b> | 3,825        | 3,916        |

|              |             | Realised price (US\$/boe) |              |              |              |              |
|--------------|-------------|---------------------------|--------------|--------------|--------------|--------------|
|              |             | 82                        | 86           | 91           | 95           | 100          |
|              | 3.30        | 3,445                     | 3,536        | <b>3,627</b> | 3,718        | 3,809        |
|              | 3.15        | 3,461                     | 3,552        | <b>3,643</b> | 3,734        | 3,825        |
| Lifting cost | <b>3.00</b> | <b>3,478</b>              | <b>3,569</b> | <b>3,660</b> | <b>3,751</b> | <b>3,842</b> |
| (Pakistan)   | 2.85        | 3,495                     | 3,586        | <b>3,676</b> | 3,767        | 3,858        |
|              | 2.70        | 3,511                     | 3,602        | <b>3,693</b> | 3,784        | 3,875        |

Note: Mena = South Asia, Middle East &amp; North Africa

Source: CMBIGM estimates

## Financial Summary

### Income statement

| YE 31 Dec (HK\$ mn)             | FY20A          | FY21A          | FY22E          | FY23E          | FY24E          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                  | <b>6,204</b>   | <b>7,437</b>   | <b>10,212</b>  | <b>11,360</b>  | <b>13,077</b>  |
| <b>Cost of Revenue</b>          | <b>(4,171)</b> | <b>(4,080)</b> | <b>(4,698)</b> | <b>(5,329)</b> | <b>(6,337)</b> |
| <b>Gross profit</b>             | <b>2,033</b>   | <b>3,357</b>   | <b>5,514</b>   | <b>6,031</b>   | <b>6,740</b>   |
| <b>Operating expenses</b>       | <b>(724)</b>   | <b>(599)</b>   | <b>(815)</b>   | <b>(896)</b>   | <b>(1,018)</b> |
| Investment & other income       | 75             | 112            | 154            | 171            | 197            |
| Other gains and losses          | 79             | 26             | 5              | 6              | 7              |
| Impairment losses for trade     | (3)            | 57             | --             | --             | --             |
| Exploration expenses            | (340)          | (164)          | (255)          | (284)          | (327)          |
| Administrative expenses         | (440)          | (574)          | (643)          | (704)          | (798)          |
| Other operating                 | (96)           | (55)           | (75)           | (84)           | (96)           |
| <b>Operating profit</b>         | <b>584</b>     | <b>2,160</b>   | <b>3,883</b>   | <b>4,240</b>   | <b>4,704</b>   |
| Finance Cost                    | (313)          | (267)          | (293)          | (305)          | (317)          |
| Share of losses of associates   | 31             | (59)           | (59)           | (59)           | (59)           |
| <b>Profit before tax</b>        | <b>1,027</b>   | <b>2,433</b>   | <b>4,347</b>   | <b>4,772</b>   | <b>5,346</b>   |
| Income tax expense              | (163)          | (432)          | (687)          | (754)          | (845)          |
| <b>Profit for the year from</b> | <b>864</b>     | <b>2,001</b>   | <b>3,660</b>   | <b>4,018</b>   | <b>4,501</b>   |
| <b>Net profit</b>               | <b>864</b>     | <b>2,001</b>   | <b>3,660</b>   | <b>4,018</b>   | <b>4,501</b>   |

### Cash flow summary

| YE 31 Dec (HK\$ mn)        | FY20A          | FY21A          | FY22E          | FY23E          | FY24E          |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Profit after tax</b>    | <b>864</b>     | <b>2,001</b>   | <b>3,660</b>   | <b>4,018</b>   | <b>4,501</b>   |
| D&A                        | 2,835          | 2,249          | 3,138          | 3,670          | 4,212          |
| Change in working capital  | (2,572)        | (1,032)        | (690)          | (460)          | (259)          |
| Others                     | 783            | 1,063          | 109            | 7              | 7              |
| <b>Operating cash flow</b> | <b>1,910</b>   | <b>4,281</b>   | <b>6,216</b>   | <b>7,234</b>   | <b>8,461</b>   |
| CAPEX                      | (2,004)        | (1,821)        | (6,058)        | (5,753)        | (5,864)        |
| Others                     | (177)          | (673)          | (290)          | (86)           | (129)          |
| <b>Investing cash flow</b> | <b>(2,181)</b> | <b>(2,494)</b> | <b>(6,347)</b> | <b>(5,839)</b> | <b>(5,992)</b> |
| Changes in borrowings      | (477)          | (1,033)        | 1,835          | 188            | 188            |
| Dividends paid             | (619)          | (1,049)        | (1,918)        | (2,106)        | (2,360)        |
| Others                     | 1,002          | 630            | 596            | 462            | 660            |
| <b>Financing cash flow</b> | <b>(94)</b>    | <b>(1,452)</b> | <b>512</b>     | <b>(1,457)</b> | <b>(1,512)</b> |
| Net change in cash         | (365)          | 335            | 382            | (62)           | 957            |
| Cash at the beginning      | 3,35           | 3,09           | 3,17           | 3,55           | 3,49           |
| FX change, net             | 99             | (258)          | --             | --             | --             |
| <b>Cash at the end</b>     | <b>3,093</b>   | <b>3,171</b>   | <b>3,552</b>   | <b>3,490</b>   | <b>4,447</b>   |

### Balance sheet

| YE 31 Dec (HK\$ mn)            | FY20A         | FY21A         | FY22E         | FY23E         | FY24E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current assets</b>          | <b>7,280</b>  | <b>7,669</b>  | <b>9,780</b>  | <b>10,434</b> | <b>12,057</b> |
| Bank and cash balances         | 3,093         | 3,171         | 3,552         | 3,490         | 4,447         |
| Trade receivables              | 3,762         | 4,145         | 5,616         | 6,248         | 6,800         |
| Inventories                    | 331           | 287           | 511           | 568           | 654           |
| <b>Other current assets</b>    | <b>94</b>     | <b>66</b>     | <b>101</b>    | <b>128</b>    | <b>157</b>    |
| <b>Non-current assets</b>      | <b>17,661</b> | <b>17,364</b> | <b>20,492</b> | <b>22,673</b> | <b>24,471</b> |
| PPE                            | 10,847        | 10,835        | 13,637        | 16,024        | 17,984        |
| Right-of-use assets            | 585           | 530           | 535           | 539           | 544           |
| Intangible assets              | 5,701         | 5,340         | 5,452         | 5,144         | 4,832         |
| Other non-current assets       | 528           | 659           | 868           | 965           | 1,111         |
| <b>Total assets</b>            | <b>24,941</b> | <b>25,032</b> | <b>30,272</b> | <b>33,107</b> | <b>36,528</b> |
| <b>Current liabilities</b>     | <b>5,341</b>  | <b>5,093</b>  | <b>5,736</b>  | <b>6,029</b>  | <b>6,462</b>  |
| Borrowings (current)           | 1,370         | 1,761         | 1,556         | 1,619         | 1,681         |
| Due to a director              | 0             | 1             | 1             | 1             | 1             |
| Trade and bills payables       | 3,653         | 2,818         | 3,691         | 3,867         | 4,155         |
| Other current liabilities      | 319           | 514           | 488           | 543           | 625           |
| <b>Non-current liabilities</b> | <b>6,684</b>  | <b>5,699</b>  | <b>8,547</b>  | <b>9,171</b>  | <b>10,011</b> |
| Borrowings                     | 3,866         | 2,833         | 4,668         | 4,856         | 5,043         |
| Employee retirement            | 36            | 46            | --            | --            | --            |
| Trade and other payables       | --            | --            | --            | --            | --            |
| <b>Total equity</b>            | <b>12,916</b> | <b>14,240</b> | <b>15,988</b> | <b>17,907</b> | <b>20,055</b> |
| Shareholders' equity           | 12,907        | 14,234        | 15,982        | 17,901        | 20,049        |
| Non-controlling interests      | 9             | 6             | 6             | 6             | 6             |

### Key ratios

| YE 31 Dec                           | FY20A       | FY21A      | FY22E      | FY23E      | FY24E      |
|-------------------------------------|-------------|------------|------------|------------|------------|
| <b>Sales growth (%)</b>             | <b>-13%</b> | <b>20%</b> | <b>37%</b> | <b>11%</b> | <b>15%</b> |
| <b>P&amp;L ratios (%)</b>           |             |            |            |            |            |
| Operating margin                    | 21.1        | 37.1       | 46.0       | 45.2       | 43.8       |
| Pre-tax margin                      | 16.5        | 32.7       | 42.6       | 42.0       | 40.9       |
| Net margin                          | 13.9        | 26.9       | 35.8       | 35.4       | 34.4       |
| Effective tax rate                  | 15.8        | 15.8       | 15.8       | 15.8       | 15.8       |
| <b>Balance sheet ratios</b>         |             |            |            |            |            |
| Current ratio (x)                   | 1.4         | 1.5        | 1.7        | 1.7        | 1.9        |
| Quick ratio (x)                     | 1.3         | 1.4        | 1.6        | 1.6        | 1.7        |
| Payable turnover days               | 320         | 320        | 320        | 320        | 319.6      |
| Total debt / total equity ratio (%) | 104         | 88         | 99         | 94         | 90.6       |
| Total Liabilities to Assets (%)     | 48.2        | 43.1       | 47.2       | 45.9       | 45.1       |
| Net Debt / EBITDA                   | 0.6         | 0.6        | 0.3        | 0.3        | 0.2        |
| <b>Returns (%)</b>                  |             |            |            |            |            |
| ROA                                 | 3.5         | 8.0        | 12.1       | 12.1       | 12.3       |
| ROE                                 | 6.7         | 14.1       | 22.9       | 22.4       | 22.5       |
| <b>Per share</b>                    |             |            |            |            |            |
| EPS (RMB)                           | 0.03        | 0.08       | 0.14       | 0.15       | 0.17       |
| DPS (RMB)                           | 0.02        | 0.04       | 0.07       | 0.08       | 0.09       |
| BVPS (RMB)                          | 0.49        | 0.54       | 0.61       | 0.68       | 0.76       |

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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