

Hilong Holding (1623 HK)

A forgotten oilfield service play set for recovery

We believe Hilong is set to benefit from the recovery of global oil & gas drilling activities, given the mismatch between the global rig counts and high oil prices. Hilong sees a good recovery trend in all of the business lines with solid backlog of RMB5bn (+10% YoY) at present. We expect recovery on both sales volume and gross margin this year. Hilong has set a target to achieve revenue of RMB5bn in three years, implying 20% CAGR in 2022E-2024E. Despite the rally since late Mar, the stock is still trading at 0.3x P/B which is way below the historical average of 0.84x.

- Oilfield equipment and manufacturing and services (41% of total revenue in 2021).** This segment includes drill pipe manufacturing, Oil Country Tubular Goods (OCTG) coating service and related components. Hilong achieved 1% YoY sales volume growth of drill pipe sales in 2021 (41.2k tonnes), following a decline for three consecutive years. Looking to 2022E, we expect 10-20% sales volume growth with gross margin expansion (36.3% in 2021) driven by ASP hike.
- Oilfield services (29% of total revenue in 2021).** Hilong generates rental income from the operation of land rigs across the globe (21 rigs at present). Hilong delivered 24% YoY segment revenue growth in 2021. This year, Hilong targets to lift the utilization rate of the rig fleet from <70% in 2021 to 80%, a key source of revenue growth and margin expansion (operating leverage).
- Line pipe technology and services (13% of total revenue in 2021).** This segment includes sales of coating materials for OCTG, Concrete Weighted Coating (CWC) services and Corrosion Resistant Alloy (CRA) line pipe as well as coating materials and services. The segment revenue grew 53% YoY in 2021, driven by line pipe coating and CWC (a product mainly for offshore projects). We expect the segment revenue growth to be 10-15% this year.
- Offshore engineering services (16% of total revenue in 2021).** Hilong mainly generates income from the pipe-laying vessel. The segment revenue grew 26% YoY to RMB478mn in 2021. Oil & gas pipe-laying / offshore wind power construction accounted for 70%/30% of the segment revenue. Looking forward, the high oil price will likely boost the spending on offshore projects, which will provide Hilong with good opportunities.

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21A
Revenue (RMB mn)	3,650	2,623	2,917
YoY growth (%)	13%	-28%	11%
Net income (RMB mn)	177	(299)	44
EPS (RMB)	0.104	(0.176)	0.026
YoY growth (%)	18.9%	n/a	n/a
Consensus EPS (RMB)	n/a	n/a	n/a
EV/EBITDA (x)	4.4	20.4	4.9
P/E (x)	5.9	n/a	22.5
P/B (x)	0.3	0.3	0.3
Yield (%)	0.0%	0.0%	0.0%
ROE (%)	5%	-9%	1%
Net gearing (%)	63%	75%	77%

Source: Company data, Bloomberg, CMBIGM

NOT RATED

Current Price

HK\$0.69

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	1,171
Avg 3 mths t/o (HK\$ mn)	30
52w High/Low (HK\$)	1.04/0.2
Total Issued Shares (mn)	1,696

Source: Bloomberg

Shareholding Structure

ZHANG Jun	60.1%
Others	39.9%

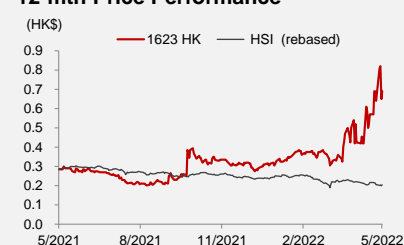
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	54.8%	70.2%
3-mth	80.6%	132.0%
6-mth	94.0%	153.6%

Source: Bloomberg

12-mth Price Performance

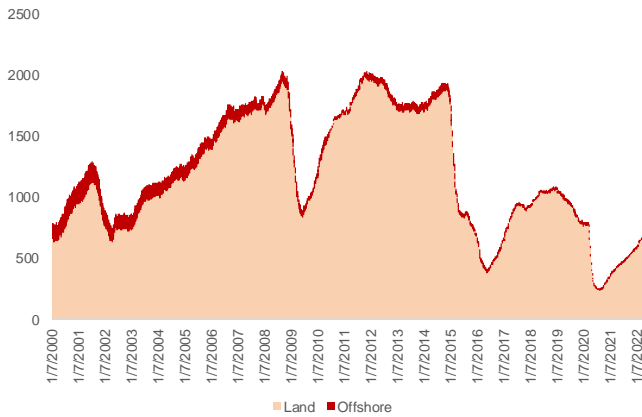


Source: Bloomberg

Auditor: PricewaterhouseCoopers

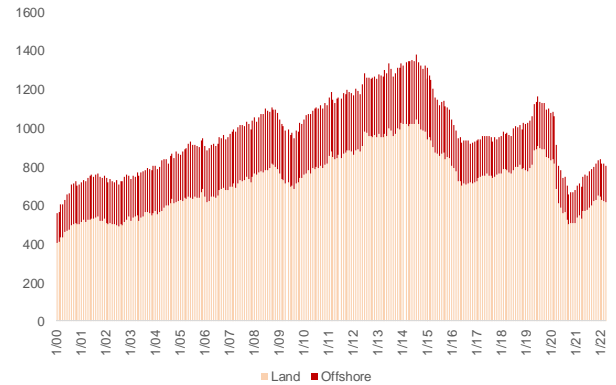
■ **Company background.** Founded in 2002 (listed on HKEX in 2011), Hilong is an integrated oilfield equipment and service provider, covering drill pipes, coating services, rig operation and offshore engineering. Overseas revenue accounted for 71% of total revenue in 2021. Hilong’s customers include both the NOCs in China, IOCs and oilfield service companies.

Figure 1: Rig counts in the US (2000-2022)



Source: Baker Hughes, CMBIGM

Figure 2: Rig counts in the international market (2000-2022)



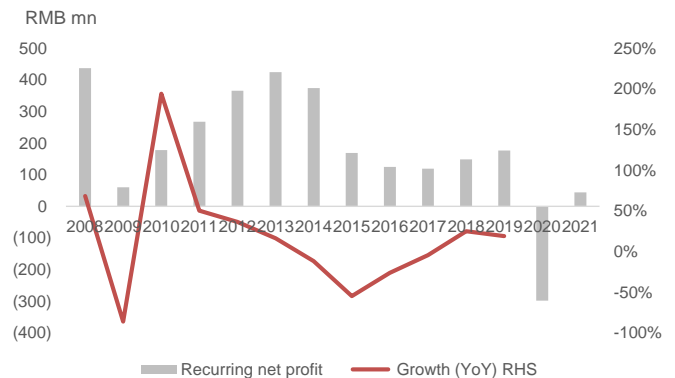
Source: Baker Hughes, CMBIGM

Figure 3: WTI crude price



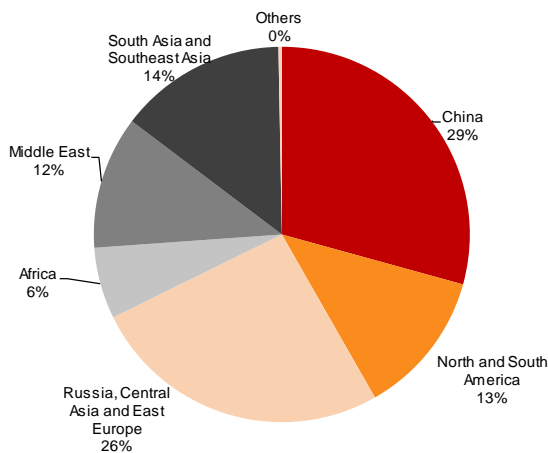
Source: Bloomberg, CMBIGM

Figure 4: Hilong’s recurring net profit trend



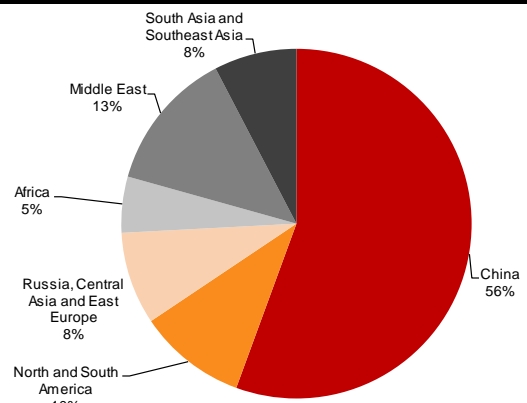
Source: Company data, CMBIGM

Figure 5: Hilong’s revenue breakdown by regions



Source: Company data, CMBIGM

Figure 6: Hilong’s non-current assets breakdown by regions



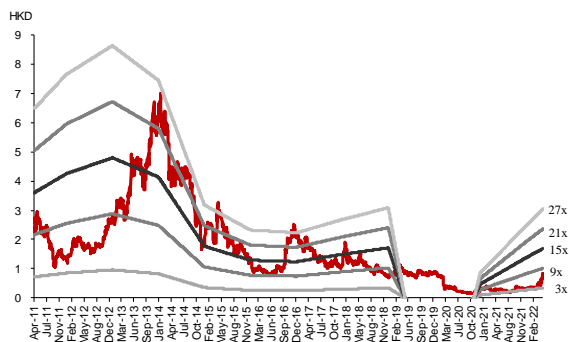
Source: Company data, CMBIGM

Figure 7: Hilong's revenue and segment profit breakdown

Segment breakdown	2013	2014	2015	2016	2017	2018	2019	2020	2021
(RMB mn)									
Oilfield equipment manufacturing and services									
Revenue	1,214	1,270	676	781	1,316	1,429	1,652	1,307	1,205
Cost of sales	-644	-696	-406	-529	-892	-950	-1,081	-830	-767
Gross profit	570	575	271	252	424	478	571	477	438
<i>Gross margin</i>	47.0%	45.3%	40.1%	32.3%	32.2%	33.5%	34.6%	36.5%	36.3%
Operating expenses	-345	-257	-124	22	-338	-198	-232	-399	-296
<i>Opex ratio</i>	28.4%	20.2%	18.3%	-2.8%	25.7%	13.8%	14.0%	30.5%	24.6%
EBIT	225	318	147	274	86	281	340	78	141
<i>EBIT margin</i>	18.5%	25.1%	21.8%	35.1%	6.5%	19.6%	20.6%	6.0%	11.7%
Line pipe technology and services									
Revenue	365	272	295	371	330	326	361	254	389
Cost of sales	-266	-184	-202	-253	-249	-216	-255	-178	-254
Gross profit	99	88	93	119	80	111	106	75	135
<i>Gross margin</i>	27.1%	32.3%	31.4%	32.0%	24.4%	33.9%	29.4%	29.7%	34.6%
Operating expenses	-41	-35	-63	-55	-66	-65	-80	-59	-14
<i>Opex ratio</i>	11.3%	12.8%	21.3%	14.9%	20.1%	19.8%	22.1%	23.1%	3.6%
EBIT	58	53	30	63	14	46	26	17	121
<i>EBIT margin</i>	15.9%	19.5%	10.2%	17.1%	4.3%	14.2%	7.3%	6.6%	31.1%
Oilfield services									
Revenue	873	1,032	923	709	881	1,134	1,283	684	845
Cost of sales	-554	-675	-571	-412	-569	-718	-826	-527	-551
Gross profit	318	357	352	296	312	417	457	156	294
<i>Gross margin</i>	36.5%	34.6%	38.1%	41.8%	35.4%	36.7%	35.6%	22.9%	34.8%
Operating expenses	-97	-115	-127	-75	-93	-120	-135	-72	-89
<i>Opex ratio</i>	11.2%	11.2%	13.7%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
EBIT	221	239	225	222	181	279	304	-95	230
<i>EBIT margin</i>	25.3%	23.1%	24.4%	31.3%	20.5%	24.6%	23.7%	-13.9%	27.2%
Offshore engineering services									
Revenue	0	2	590	68	143	333	353	378	478
Cost of sales	0	-1	-496	-68	-113	-318	-327	-393	-446
Gross profit	0	1	94	-0	30	15	27	-15	32
<i>Gross margin</i>	0.0%	70.6%	16.0%	-0.4%	20.7%	4.5%	7.6%	-4.0%	6.7%
Operating expenses	0	-11	-14	-2	-28	-9	-51	-67	-3
<i>Opex ratio</i>	0.0%	635.8%	2.4%	2.3%	19.7%	2.7%	14.3%	17.7%	0.6%
EBIT	0	-10	80	-2	1	6	-24	-82	29
<i>EBIT margin</i>	0.0%	-565.3%	13.6%	-2.7%	1.0%	1.8%	-6.7%	-21.7%	6.2%
Total									
Revenue	2,452	2,576	2,484	1,929	2,669	3,222	3,650	2,623	2,917
Cost of sales	-1,464	-1,555	-1,674	-1,262	-1,824	-2,202	-2,489	-1,929	-2,019
Gross profit	988	1,021	810	667	846	1,021	1,161	694	898
<i>Gross margin</i>	40.3%	39.6%	32.6%	34.6%	31.7%	31.7%	31.8%	26.5%	30.8%
Operating expenses	-484	-485	-385	-174	-621	-391	-497	-597	-402
<i>Opex ratio</i>	19.7%	18.8%	15.5%	9.0%	23.3%	12.1%	13.6%	22.7%	13.8%
EBIT	504	536	425	492	225	535	582	-144	460
<i>EBIT margin</i>	20.6%	20.8%	17.1%	25.5%	8.4%	16.6%	15.9%	-5.5%	15.8%

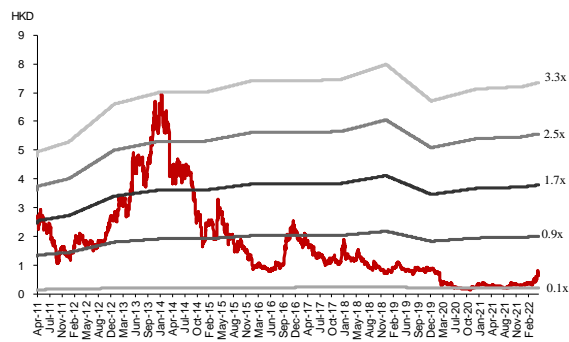
Source: Company data, CMBIGM

Figure 8: Hilong's P/E band



Source: Bloomberg, Company data, CMBIGM

Figure 9: Hilong's P/B band



Source: Bloomberg, Company data, CMBIGM

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