

# Kunlun Energy (HK.0135)



Phillip Securities (Hong Kong) Ltd  
Phillip Securities Research

TP reached again, maintain 'Accumulate' rating

Bloomberg | Reuters | POEMS

0135 HK | 0135.HK | 0135.HK

Industry: Oil & Gas

31 January 2013

## Annual report review

Rating: Accumulate Closing price:16.48 Target price:18.1

## Company profile

Kunlun Energy Company is an international energy company focusing on exploration of oil and gas field, natural gas pipeline, terminal sales and comprehensive utilization, and the development of new energy etc, whose parent company, PetroChina, is the largest manufacturer and supplier of gas and natural gas in mainland China. The company's business of gas exploration and development is distributed throughout the mainland China, The Republic of Kazakhstan, Oman, Peru, Thailand, Azerbaijan and Indonesia etc., and its business of natural gas is mainly scattered in mainland China.

## Investment Summary

Natural gas in the Twelfth Five-Year Plan has been officially published and the natural gas market has gradually switched from government guidance price to the pricing methods based on market supply and demand. Once the perfect internal market mechanism is established, the company's performance will grow continually and strongly.

The proportion of upstream oil exploration and production in company's business is still declining, and such business proportion in the company's total operating revenue in 2012 is expected to be less 20%. From the long-term development strategy of the company, it doesn't have much new funds and projects input in exploration and production segment. So the business may lack of new performance point in the future.

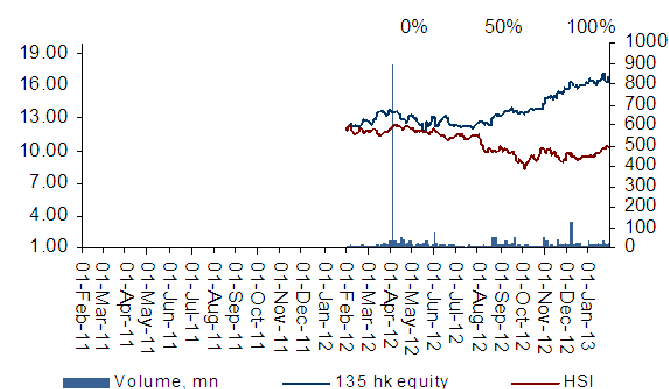
The company's downstream distribution businesses of natural gas currently still focus on the city gas pipeline, and will move to LNG stations in the future. The company planned to double the quantity of current LNG stations benefiting from large natural gas network and source advantages of its parent company, PetroChina.

Currently natural gas is only 4% in China's energy consumption, and it reaches to 24.1% in the world energy consumption. The market of natural gas has great potential of development in China, and it is the trend that natural gas would instead of liquefied petroleum gas in future, therefore the company would also have larger potential of expansion.

The company's performance is better than our expectation, and the target price has been achieved ahead. Currently the P/E ratio is quite high, and there is no much room for the increase of price due to the large demand of adjustments in the short run. However, the price should go up continually in the medium and long term based on strong supports coming from the company's performance and great development prospects. In summary, we continue increase the company's estimated EPS to HK\$0.97 in 2013, with the latest target price of HK\$18.1, maintain 'Accumulate' rating.

## Kunlun Energy

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>18.10</b>	
- Previous Target Price (HKD)	15.40	
Closing Price (HKD)	16.48	
Expected Capital Gains (%)	9.8%	
Expected Dividend Yield (%)	1.7%	
<b>Expected Total Return (%)</b>	<b>11.5%</b>	
Raw Beta (Past 2yrs weekly data)	0.86	
Market Cap. (HKD mn)	132,687	
52 week range (HKD)	11.54 - 17.32	
Closing Price in 52 week range		



## Key Financial Summary

FYE	2010	2011	2012F	2013F
Revenue (HKD mn)	17,336	25,398	38,912	41,482
Net Profit, adj. (HKD mn)	4,194	5,609	8,089	11,092
EPS, adj. (HKD)	0.58	0.78	0.97	1.17
P/E (X), adj.	20.5	14.1	18.7	17.1
BVPS (HKD)	5.46	4.25	5.09	5.87
P/B (X)	2.2	2.6	3.6	3.4
DPS (HKD)	0.14	0.22	0.31	0.37
Div. Yield (%)	1.2%	2.0%	1.7%	1.9%

Source: Bloomberg.

\*All multiples & yields based on current market price

## Valuation Method

EV

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## Financial Statements and Predictions

Project (HKD million)	Annually(As of December 31)				
	2009	2010	2011	2012F	2013F
Total revenue	6,164	17,336	25,398	38,912	41,482
Business cost	3,075	5,745	8,848	12,097	14,892
Gross Profit	3,089	11,591	16,550	26,815	26,590
Other business revenue	49	43	42	57	32
Operating expenses	1,597	5,376	8,626	11,056	12,385
Transaction gain (loss)	1,541	6,258	7,966	15,816	14,237
Pre-tax profit	1,960	8,344	10,450	14,828	18,926
Income tax expenses	420	2,009	2,281	3,902	5,173
Profit before unusual project	1,540	6,335	8,169	10,926	13,753
Net profit	1,234	4,194	5,609	8,089	11,092
Basic EPS before unusual project	0.28	0.59	0.78	0.98	1.19
Basic EPS	0.27	0.59	0.78	0.98	1.17
Diluted EPS before unusual project	0.27	0.58	0.77	0.96	1.16
Diluted EPS	0.27	0.58	0.78	0.97	1.17
Sales per capita	1,303,998	1,976,063	1,783,693	2,184,812	2,617,391
Dividend per share	0.07	0.14	0.22	0.31	0.37
Total current asset	9,118	11,128	16,548	20,825	28,471
Total fixed asset	15,546	52,265	67,521	81,093	97,173
Total asset	24,664	63,393	84,069	101,918	125,644
Total current liability	4,455	11,900	12,509	18,902	27,648
Total fixed liability	2,768	13,066	25,973	31,938	36,841
Total liability	7,223	24,966	38,482	50,840	64,489
Total shareholder's equity	17,441	38,427	45,587	51,078	61,155
Book value per share	2.99	5.46	4.25	5.09	5.87
PE ratio	37.58	20.54	14.10	18.66	17.09
PB ratio	3.45	2.21	2.60	3.56	3.41

Source: Bloomberg, Phillip Securities

#### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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