

ChinaGas (HK.0384)

Short-term investment requires adjustment and long-term depends on potential

Bloomberg | Reuters | POEMS

0384 HK | 0384.HK | 0384.HK

Industry: Oil & Gas



Phillip Securities
Phillip Securities Research

18 March 2013

Annual report review

Rating: Accumulate Closing price: 7.34 Target price: 8.03

Company profile

China Gas Holdings Limited is a natural gas services operator listed on the main board of Hong Kong Stock Exchange Limited. It engages principally in the investment, operation and management of city gas pipeline infrastructure, distribution of natural gas to residential, commercial and industrial users, construction and operation of gas stations, and development and application of natural gas related technologies in Mainland China.

Investment Overview

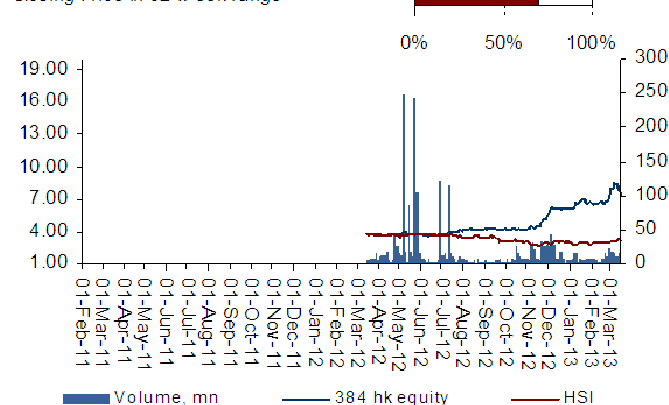
On February 28, Beijing Enterprises Group Company Limited (Hereinafter referred to as Beijing Enterprise Group) increased its over-the-counter holding of 75 million shares of China Gas, through which the shareholding ratio of Beijing Enterprises Group had increased from 19.48% to 21.12%, becoming the largest shareholder of China Gas. It has been the fifth time that Beijing Enterprises Group increased its shareholding of China Gas, indicating its great confidence in the Company's prospects for development.

"The 12th Five-Year Plan" in respect of natural gases aims to form a market-oriented pricing mechanism as soon as possible. It is expected that upstream enterprises will increase the ex-factory prices of natural gas, while its end-user prices will be intervened by governments, thus significant increase will be difficult to be seen in the short period of time. Nevertheless, considering that residential customers account for a smaller share of the natural gas market, the impacts of governments' price-fixing arrangements will be limited, instead the downstream distribution companies will have certain pricing power over industrial users. Management of China Gas also expected to transfer the additional costs to end users in a timely manner.

It was also mentioned in the plan that greater efforts would be made to the development of unconventional natural gases, aiming to break the monopoly of large state-owned oil companies on the natural gas network. In December 2012, China Gas acquired Fortune Oil with U.S.D400 million in cash and the current share capital of not more than 5.5% of the shares. Its downstream gas business has been successfully extended to LNG and coal bed methane as well as other unconventional natural gas fields. Meanwhile its market share of urban pipeline gas and natural gas filling stations as well as other downstream natural gas businesses will also be further expanded.

China Gas

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (HKD)	8.03	
- Previous Target Price (HKD)	6.85	
Closing Price (HKD)	7.34	
Expected Capital Gains (%)	9.4%	
Expected Dividend Yield (%)	0.9%	
Expected Total Return (%)	10.3%	
Raw Beta (Past 2yrs weekly data)	1.00	
Market Cap. (HKD mn)	33,539	
52 w week range (HKD)	3.52 - 8.99	
Closing Price in 52 w week range		



Key Financial Summary

FYE	2010	2011	2012F	2013F
Revenue (HKD mn)	10,212	15,862	19,034	23,671
Net Profit, adj. (HKD mn)	876	626	890	953
EPS, adj. (HKD)	0.15	0.21	0.23	0.24
P/E (X), adj.	16.6	23.4	34.9	33.4
BVPS (HKD)	1.23	2.00	2.76	3.19
P/B (X)	1.9	1.7	2.9	2.5
DPS (HKD)	0.02	0.04	0.05	0.07
Div. Yield (%)	0.6%	1.1%	0.6%	0.9%

Source: Bloomberg.

*All multiples & yields based on current market price

Valuation Method

EV

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China Gas has entered into a strategic cooperation framework agreement with Sinopec, in which a joint-venture company will be set up to develop LPG market and major urban pipeline gas projects. We believe that China Gas will benefit from Sinopec's extensive distribution network in the future. Taking full advantage of Sinopec's LPG resources, the future profitability and market share of China Gas's LPG business will experience a huge potential for improvement. For natural gas business, Sinopec will also assist China Gas in the construction of distribution network, and ensure the upstream supply.

Overall, we are strongly optimistic about the prospect of China Gas's natural gas business, and its share price has been far beyond our previous target price. As part of China Gas's potential favorable factors have been basically absorbed by the market, its share price will be difficult to see ongoing rise in short-term or will fall properly, but the favorable trend in the middle and long-term may continuously exist. By taking all these factors into consideration, we slightly increase China Gas's six-month target price to HKD 8.03, and give "Accumulate" rating.

Financial Statements and Predictions

Project (HKD million)	2010	2011	2012F	2013F
Total revenue	10,212	15,862	19,034	23,671
Business cost	8,096	12,951	15,103	18,026
Gross Profit	2,116	2,910	3,931	5,645
Other business revenue	188	178	203	154
Operating expenses	1,133	1,456	1,849	2,592
Transaction gain (loss)	1,171	1,633	1,879	2,899
Pre-tax profit	1,174	1,097	1,475	1,702
Income tax expenses	158	316	483	576
Profit before unusual project	1,016	781	992	1,126
Net profit	876	626	890	953
Basic EPS before unusual project	0.16	0.22	0.24	0.25
Basic EPS	0.16	0.22	0.24	0.25
Diluted EPS before unusual project	0.14	0.20	0.22	0.23
Diluted EPS	0.15	0.21	0.23	0.24
Dividend per share	0.02	0.04	0.05	0.07
Total current asset	7,082	10,499	12,657	15,083
Total fixed asset	15,915	20,400	24,905	28,048
Total asset	22,998	30,899	37,562	43,131
Total current liability	8,923	12,302	13,593	15,084
Total fixed liability	8,844	8,257	9,024	10,965
Total liability	17,767	20,559	22,617	26,049
Total shareholder's equity	5,230	10,340	14,945	17,082
Book value per share	1.23	2.00	2.76	3.19
PE ratio	16.65	23.42	34.91	33.46
PB ratio	1.91	1.67	2.91	2.52

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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