

ChinaGas (0384.HK)



Phillip Securities (Hong Kong)
Phillip Securities Research

Target price has been reached, maintain 'accumulate' rating

Bloomberg | Reuters | POEMS

0384 HK | 0384.HK | 0384.HK

Industry: Oil & Gas

20 May 2013

Annual report review

Rating: Accumulate Closing price: 7.99 Target price: 9.17

Company profile

China Gas Holdings Limited is a natural gas services operator listed on the Hong Kong Stock Exchange. It engages principally in investment, operation, and management of urban gas pipeline infrastructure, distribution of natural gas to residential and industrial users, construction and operation of oil stations and gas stations, and development and application of technologies related to oil and natural gas in mainland China. It has been named China's largest cross-regional urban gas distributor and gas operator integrating the distribution of pipeline-based natural gas and liquefied petroleum gas (LPG).

Investment Overview

For the year 2012, the Company reached an operation revenue of HK\$18.934 billion, representing an increase of 19.4% when compared to HK\$15.862 billion in 2011, and the net profit significantly increased by 52.4% to HK\$954 million from HK\$626 million in 2011; amount to a basic earnings per share for HK\$0.22.

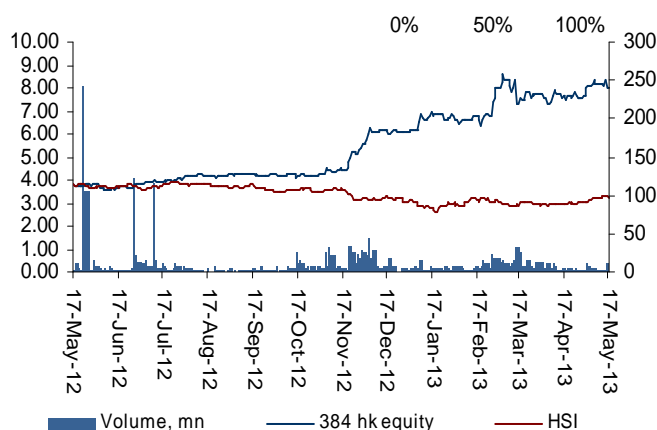
The sales revenue of pipeline gas business rose by 37.2% to HK\$7.662 billion, and the proportion of the Company's total revenue increased to 40.5%. In 2012, the Company's total sales of natural gas reached 5.563 billion m³, up 25% over the previous year. Gases used for industrial, commercial, residential, and CNG automobile purposes respectively accounted for 66.6%, 11.5%, 12.7% and 9.2% of the Company's sales.

The Company's LPG business in 2012 recorded the sales revenue of HK\$7.993 billion, increasing by 20.1%; the operating earnings turned from deficits to profit, growing from the loss of HK\$22.4 million in 2011 to the profit of HK\$80.7 billion. The LPG sales fell by 9.2% to 894,000 tons.

The "Twelfth Five-year" plan for natural gas has shown that the market-oriented pricing mechanism will be formed as soon as possible. It is expected that the upstream enterprises will raise the factory price of natural gas, while the end-user price of natural gas will not experience a sharp increase in the short period of time subject to the intervention of the government. Nevertheless, as residential users share a small share of the natural gas market, the influences from the government's price fixing policy will not be obvious, making the downstream distribution enterprises have somewhat pricing power. Management also expected to transfer additional costs to the end users in a timely manner.

China Gas

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (HKD)	9.17	
- Previous Target Price (HKD)	8.03	
Closing Price (HKD)	7.99	
Expected Capital Gains (%)	14.8%	
Expected Dividend Yield (%)	0.3%	
Expected Total Return (%)	15.1%	
Raw Beta (Past 2yrs weekly data)	0.82	
Market Cap. (HKD mn)	36,536	
52 week range (HKD)	3.52 - 8.99	
Closing Price in 52 week range		



Key Financial Summary

FYE	2011	2012	2013F	2014F
Revenue (HKD mn)	15,862	18,934	22,974	26,783
Net Profit, adj. (HKD mn)	626	954	1,370	1,659
EPS, adj. (HKD)	0.15	0.21	0.29	0.36
P/E (X), adj.	23.4	17.2	31.6	27.8
BVPS (HKD)	2.00	2.24	3.08	3.44
P/B (X)	1.9	1.7	3.0	2.9
DPS (HKD)	0.02	0.04	0.03	0.06
Div. Yield (%)	0.6%	1.1%	0.3%	0.6%

Source: Bloomberg.

*All multiples & yields based on current market price

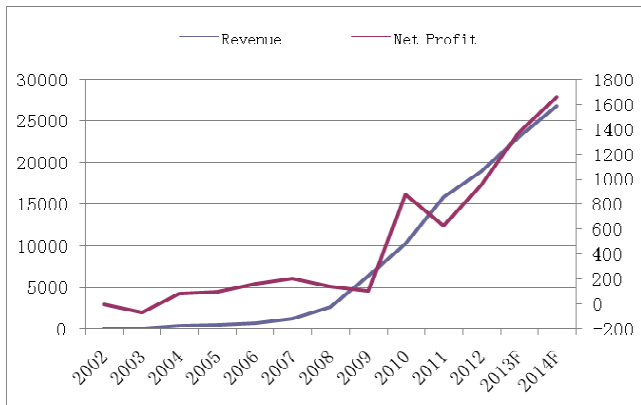
Valuation Method

EV

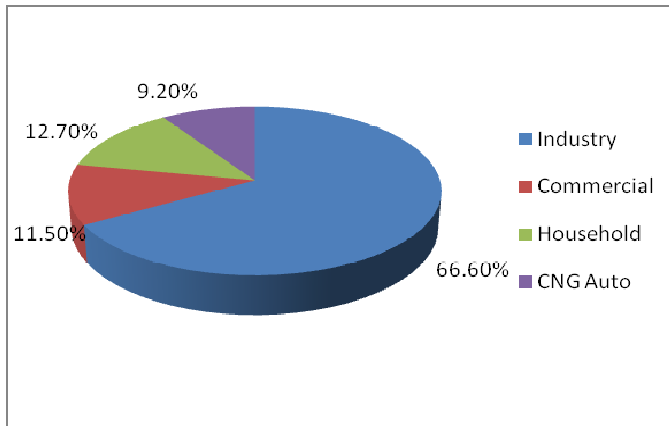
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A strategic cooperation framework agreement has been entered into between the Company and Sinopec, according to which a joint venture company will be set up to expand the LPG market and operate a gas pipeline project for large cities. We believe that the Company will benefit from the huge distribution network of Sinopec, by giving full play to which the future profit margin and market share of the Company' s LPG business will have a big room for improvement. For natural gas business, Sinopec will also help the Company to build its distribution network, and ensure the upstream supply.

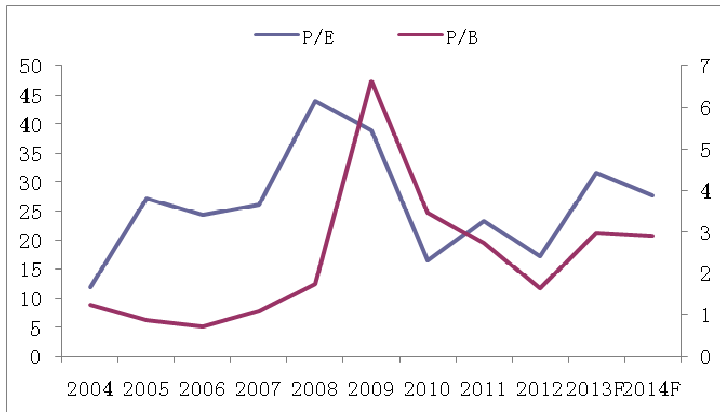
The Company's steadily increasing performance has lived up to our expectation, and its share price has also reached the target price that we have set previously. On the whole, we remain strongly optimistic about the Company' s performance in 2013. All things considered, we raise the Company's six-month target price to HK\$9.17 and maintain an "Accumulate" rating.



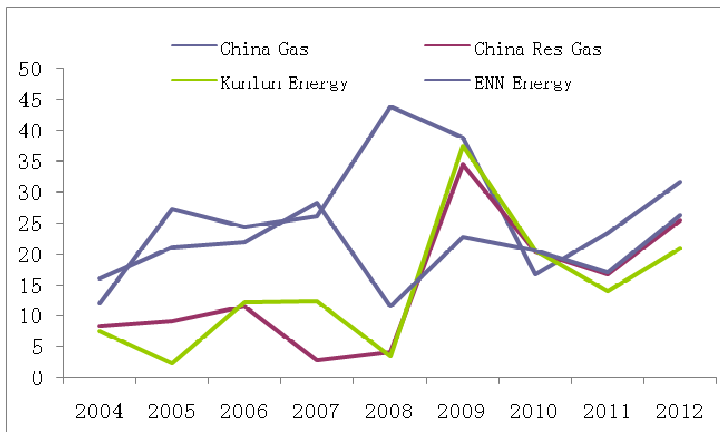
Source: Bloomberg, Phillip Securities



Source: Bloomberg, Phillip Securities



Source: Bloomberg, Phillip Securities



Source: Bloomberg, Phillip Securities

Financial Statements and Predictions

Project (HKD million)	2011	2012	2013F	2014F
Total revenue	15,862	18,934	22,974	26,783
Business cost	12,951	15,328	17,891	20,392
Gross Profit	2,910	3,606	5,083	6,391
Other business revenue	178	304	238	349
Operating expenses	1,456	1,668	1,849	2,592
Transaction gain (loss)	1,633	2,242	2,996	3,450
Pre-tax profit	1,097	1,620	2,234	2,793
Income tax expenses	316	479	578	713
Profit before unusual project	781	1,142	1,656	2,080
Net profit	626	954	1,370	1,659
Basic EPS before unusual project	0.16	0.22	0.31	0.38
Basic EPS	0.16	0.22	0.31	0.38
Diluted EPS before unusual project	0.14	0.20	0.28	0.35
Diluted EPS	0.15	0.21	0.29	0.36
Dividend per share	0.02	0.04	0.03	0.06
Total current asset	10,499	10,784	12,657	13,083
Total fixed asset	20,400	21,090	24,905	28,048
Total asset	30,899	31,874	37,562	41,131
Total current liability	12,302	14,064	15,029	15,084
Total fixed liability	8,257	6,934	9,024	10,965
Total liability	20,559	20,998	24,053	26,049
Total shareholder's equity	10,340	10,876	13,509	15,082
Book value per share	2.00	2.24	3.08	3.44
PE ratio	23.42	17.19	31.62	27.77
PB ratio	1.91	1.67	2.98	2.91

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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