

Binhai Investment (02886)

Gas prices expect to fall in 2H, drive financial performance for the year
China | Utilities | Natural Gas Supplier

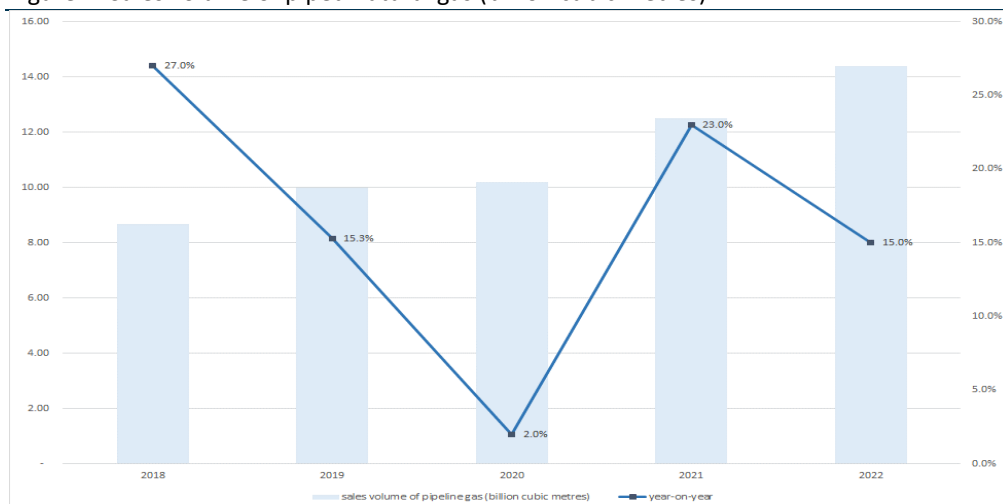
12 September 2023

Binhai Investment Company Limited (Binhai) is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service and gas passing through service. The natural gas business of Binhai Investment and its subsidiaries is distributed in seven provinces and two cities across the country, with a total of 40 gas project companies. At present, the largest shareholder of Binhai Investment is Tianjin TEDA Investment Holding Company, holding 40.00% of Binhai's shares, and the second largest shareholder is Sinopec Great Wall Gas Investment Company, holding 29.99% of Binhai's shares.

Suffer from rising purchase cost of natural gas in 2022, 1H margins under pressure

In FY2022, total revenue of Binhai amounted to HK\$6102 million (FY2021: HK\$4843 million), representing an increase of 26.0% YoY. Profit attributable to equity owners of the Company was HK\$326 million (FY2021: HK\$400 million), representing a decrease of 18.5% YoY. Profit attributable to equity owners of the company excluding the net foreign exchange loss recognized (FY2022: net exchange loss of HK\$84 million) in profit or loss amounted to HK\$410 million, representing an increase of 9% YoY. The number of regular customers from the construction and installation of gas engineering works of the company increased by 106 thousand, down by 35% YoY, and the aggregate number of customers amounted to 2299 thousand. The recorded sales volume of piped natural gas was 2.03 billion cubic metres, up by 3% YoY, among which the sales volume of pipeline gas amounted for 1.44 billion cubic metres, up by 15% YoY, and achieved 0.59 billion cubic metres of natural gas pipeline transmission for the year, down by 17% YoY. Gross profit was HK\$727 million (FY2021: HK\$855 million) and the gross profit margin was 11.9% (FY2021: 17.7%). The decrease in gross profit margin was mainly due to the increase in purchase cost of natural gas.

Figure 1: Sales volume of piped natural gas (billion cubic metres)



Source: Binhai, PSHK

In 1HFY2023, total revenue of Binhai amounted to HK\$3119 million (1HFY2021: HK\$3047 million), representing an increase of 2.4% YoY. As the high price of gas supply last year was extended to the 1Q of 2023, caused the cost increased, and the real estate industry continued to operate at a low level, which affected the performance of the connection business. During the period, the gross profit fell by 11.4% YoY to HK\$384 million; the gross profit margin dropped to 12.3% (1HFY2022: 14.2%). The profit attributable to owners of the company was HK\$166 million during the period, representing a decrease of 35.5% YoY. Such decrease was mainly because of the decrease of gross profit and the increase of finance costs. Basic EPS were HK\$12.31 cents, representing a decrease of HK\$6.78 cents for the corresponding period last year.

Buy

CMP HKD1.50
(Closing price as of 7 September)
Target HKD 2.20 (46.7%)

COMPANY DATA

O/S SHARES (MN) : 1,352.942917
MARKET CAP (HKD MN) : 2029.4
52 - WK HI/LO (HKD): 1.74/1.18

SHARE HOLDING PATTERN, %

Tianjin TEDA Investment Holding Company 40.00%
SINOPEC (00386) 29.99%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY21	FY22	FY23E	FY24E
Revenue	4,842.9	6,102.6	6,261.1	6,591.4
Net profit	399.7	325.8	303.0	392.2
Reported EPS	0.296	0.241	0.224	0.290
P/E ratio, x	5.1	6.2	6.7	5.2
Dividend Yield, %	6.0%	6.7%	5.4%	6.5%

Source: Company reports, Phillip Securities Est.

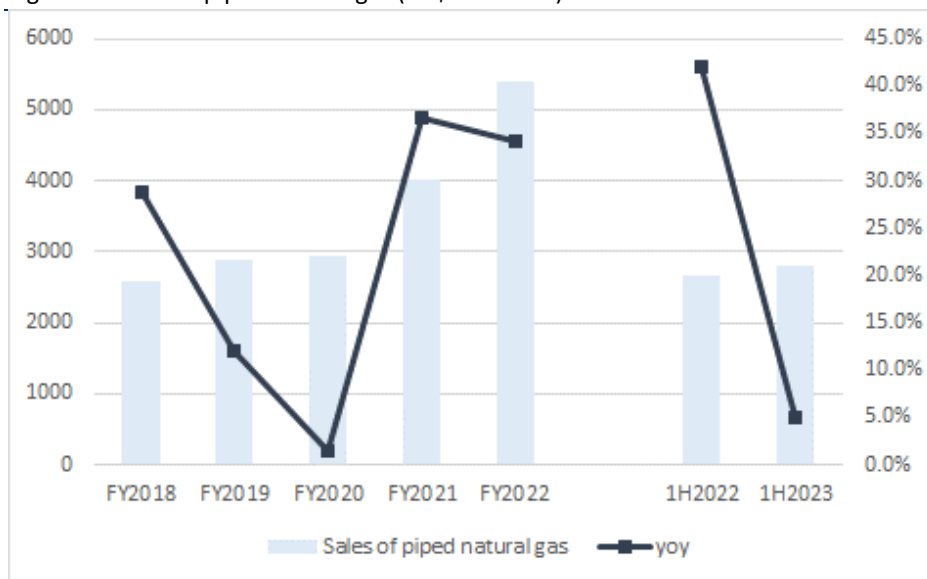
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In terms of operating segments, sales of piped natural gas amounted to HK\$2790 million, representing an increase of 5%, accounting for about 89.6% of total revenue, due to the increase in natural gas sales volume and the increase in unit price of sales. During the Period, the sales volume of piped natural gas by domestic and industrial users was approximately 183 million cubic meters and 581 million cubic meters respectively, consumption of piped natural gas amounted to 6,433 x 10⁶ and 20,408 x 10⁶ mega-joules respectively, a slight decrease of 0.8% and an increase of 10.0% YoY. The overall pipeline gas sales volume was 764 million cubic meters, a YoY increase of about 7.2%, and has reached about 50% of the FY2023 target. In terms of gross difference, it has increased by RMB 0.03 YoY in 1HFY2023, and increased by RMB 0.05 MoM, indicating that the recovery of gross difference is optimistic.

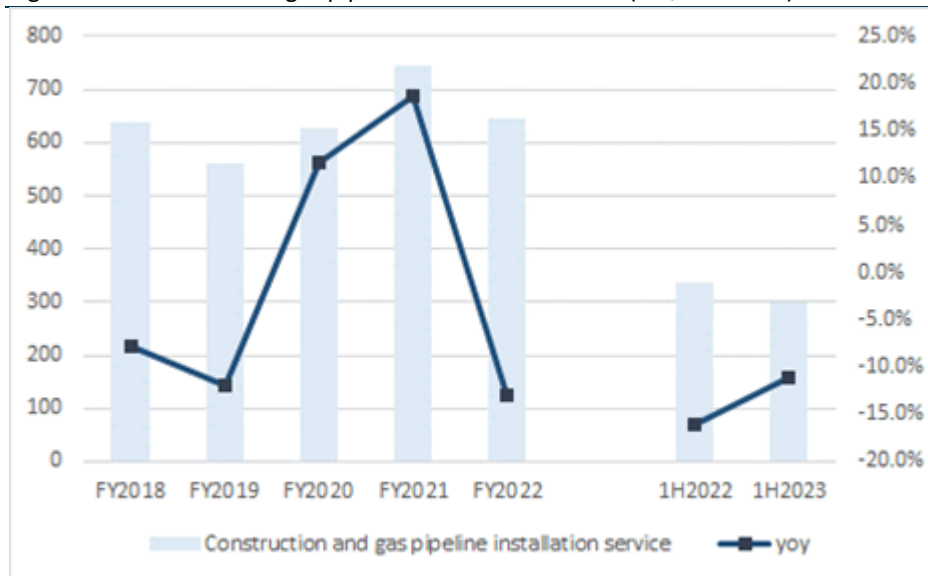
Figure 2: Sales of piped natural gas (HK\$ in million)



Source: Binhai, PSHK

Income from construction and gas pipeline installation service (constructs gas pipelines for its clients and connects such pipelines to the company's main gas pipeline networks. The company then charges construction and gas pipeline installation service fees from industrial and commercial customers, property developers and property management companies) amounted to approximately HK\$300 million, representing a decrease of 11% YoY, accounting for about 9.6% of total revenue. During the period, the number of new customer contracts increased by exceeded 61,000, and the cumulative number of customers exceeded 2.36 million, representing a 4.5% YoY growth. As at 30 June 2023, the aggregate length of city medium-pressure gas pipeline networks was 3,825 kilometers, representing an increase of 104 kilometers, while the aggregate length of high-pressure and sub-high-pressure gas pipeline networks was 649 kilometers, representing an increase of 1 kilometer from the length of 648 kilometers as at 31 December 2022.

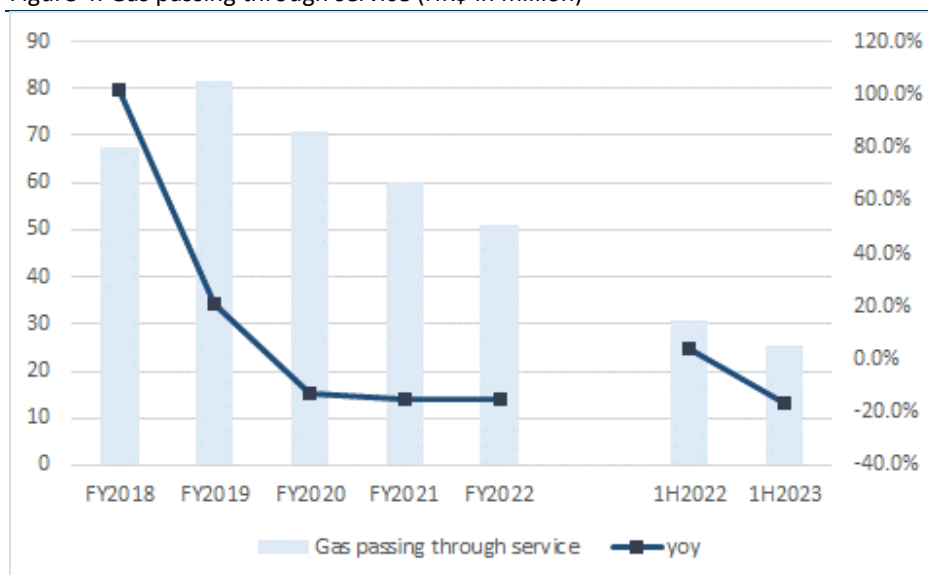
Figure 3: Construction & gas pipeline installation service (HK\$ in million)



Source: Binhai, PSHK

For the gas passing through service, the company transports gases for clients through gas pipeline networks and charges passing through fees. During the Period, the volume of gases transported by the company for its clients amounted to 313 million cubic meters and gas passing through service income amounted to HK\$26 million, representing a decrease of 17%, accounting for about 0.8% of total revenue.

Figure 4: Gas passing through service (HK\$ in million)



Source: Binhai, PSHK

Gas prices continue to fall in 2H, drive financial performance for the year

In the first half of 2023, national natural gas consumption reached 194.1 billion cubic meters, representing a year-on-year increase of 5.6%. In its quarterly Natural Gas Market Report, the International Energy Agency indicated that it expects China's natural gas consumption to grow by more than 6% in 2023, providing support to the Asia region's overall natural gas consumption growth of nearly 3%. Last year, the industry was plagued by the problem of low dollar margins and the high price of gas supply was extended to the first quarter of this year. Nevertheless, Binhai managed to stabilize its dollar margins in the first half of the year through by the recovery of domestic consumption and favorable policies for the industry. The average monthly Henry Hub Natural Gas Spot Price in the US fell by 34% in the first half of 2023, while the price of natural gas in Europe fell by more than 60% this year. Looking ahead to the second half of the year, gas prices will continue to fall, and the rebound in gross profit will be supported by the increase in gas sales prices. Coupled with the resilience of the company's business income, the rebound in gross profit is expected to drive the Binhai's financial performance for the year as a whole.

Investment Thesis

Since the beginning of the year, a lot of places in China have been promoting the improvement of the upstream and downstream price linkage mechanism for natural gas. Since June, the local development and reform commissions have successively introduced policies for residents to follow the price. As of August 2023, A total of 11 subsidiaries of the company in Hebei, Shandong and Jiangsu have completed price adjustments, ranging from RMB 0.16 to RMB 0.47, with an increase ranging from 5.7% to 19.2%. It is expected to have a certain boost to further repairing the gross difference in the 2H of 2023. The improvement of the price adjustment mechanism is conducive to the recovery and stability of natural gas price differentials, and it eases the procurement pressure of city fuel enterprises. In addition, Sinopec Natural Gas has also agreed to support the Group in lowering the cost of natural gas procurement through trading and the formation of a profit model for the trading business through its superiority in upstream resources, assist the company to meet the requirements of relevant natural gas storage and peak-shaving policy requirements and the development of gas trading business, and help the company connect upstream resources and downstream markets to open up the industrial chain. In the future, there will still be room for natural gas price rationalization adjustment, and the consumption attributes of natural gas will continue to be strengthened. In terms of business expansion, the company stated that it is accelerating the development of the integrated energy business. In addition to provide comprehensive customized development and utilization solutions for new and clean energy such as photovoltaic and geothermal energy in the TEDA Science and Technology Innovation City. Binhai Investment (Tianjin) and Sinopec New Star (Tianjin) New Energy Company Limited entered into the Cooperation Framework Agreement for Integrated Energy Project to cooperate closely in the fields of energy integrated management, integrated energy development, distributed energy planning, construction, and operation; Meanwhile, the company also entered into a strategic framework agreement with Tianjin Capital Environmental Protection Group on the heating service of the energy supply project in Balitai Town, and jointly promote the comprehensive energy heating method that combines regenerative water source heat pumps and gas boilers. We expect FY2023E-FY2024E EPS to be HK\$0.224 and HK\$0.290 respectively, with PT of HK\$2.20, implies a FY2023E P/E of 9.9x (~5-yrs historical average). Our investment rating is "Buy".

Risk factors

1) Natural gas procurement costs rise more than expected; 2) Large fluctuations in RMB; 3) Economic recovery momentum slower than expected.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,653.9	4,842.9	6,102.6	6,261.1	6,591.4
COGS	(3,050.5)	(3,987.5)	(5,375.3)	(5,489.5)	(5,670.6)
Gross Profit	603.4	855.4	727.3	771.6	920.7
Other income	20.2	29.5	63.4	88.4	48.3
Net impairment reversal/(losses)	42.4	(25.2)	30.7	34.8	34.9
General & Admin exp	(279.8)	(305.9)	(314.8)	(288.9)	(305.4)
Other (losses)/gains, net	149.0	33.9	(18.6)	(79.9)	(52.1)
Operating Profit	535.2	587.7	488.0	526.0	646.5
Finance costs, net	(103.2)	(100.9)	(106.6)	(158.1)	(146.2)
Share of result of associates and JV	7.2	8.5	7.0	7.3	7.3
Profit before tax	439.2	495.3	388.4	375.2	507.6
Income tax	(78.3)	(85.3)	(55.7)	(65.8)	(106.5)
Shareholders Net profit	354.9	399.7	325.8	303.0	392.2
Reported EPS, Basic	0.290	0.296	0.241	0.224	0.290
DPS	0.079	0.090	0.100	0.081	0.098
Payout ratio	27%	30%	41%	36%	34%

Key Financial Data

Dec Y/E	FY20	FY21	FY22	FY23E	FY24E
Valuation Ratio					
P/S ratio, x	0.5	0.4	0.3	0.3	0.3
P/E ratio, x	5.2	5.1	6.2	6.7	5.2
Dividend Yield, %	5.3%	6.0%	6.7%	5.4%	6.5%

Per share data (HKD)

EPS	0.290	0.296	0.241	0.224	0.290
BVPS	1.589	1.666	1.643	1.495	1.705
DPS (HKD)	0.079	0.090	0.100	0.081	0.098

Growth & Margin

Growth					
Revenue Growth	2.7%	32.5%	26.0%	2.6%	5.3%
Gross Profit Growth	15.0%	41.8%	-15.0%	6.1%	19.3%
Operating Profit Growth	90.7%	9.8%	-17.0%	7.8%	22.9%
Net Profit Growth	337.6%	12.6%	-18.5%	-7.0%	29.4%
Margin					
Gross Profit Margin	16.5%	17.7%	11.9%	12.3%	14.0%
Operating Profit Margin	14.6%	12.1%	8.0%	8.4%	9.8%
Net Profit Margin	9.7%	8.3%	5.3%	4.8%	5.9%

Key Ratios

ROE	21.1%	18.5%	14.1%	13.7%	17.5%
ROA	5.4%	5.2%	3.9%	3.6%	4.4%

Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
Non Current Asset					
PPE	5,246.8	5,893.2	5,845.4	5,712.2	6,076.8
Others	493.9	585.8	789.5	790.6	793.7
Total Non Current Assets	5,740.8	6,479.0	6,634.9	6,502.8	6,870.5
Current Asset					
Inventory	146.6	144.3	138.9	170.2	206.6
Trade and other receivables	312.4	327.8	336.5	434.8	493.0
Bank balance and cash	407.7	742.2	845.3	647.5	623.3
Others	487.4	486.4	615.2	761.9	920.9
Total Current Assets	1,354.1	1,700.7	1,935.8	2,014.4	2,243.9
Total Assets	7,094.9	8,179.6	8,570.7	8,517.2	9,114.4
Non Current Liabilities					
Long-term debt	1,055.5	2,239.0	2,328.4	2,567.8	2,665.4
Other Non-current Liabilities	206.0	217.6	167.3	157.8	148.3
Total Non-current Liabilities	1,261.5	2,456.5	2,495.7	2,725.6	2,813.6
Current Liabilities					
Interest-bearing Borrowings	1,308.5	885.8	1,575.9	1,695.6	1,793.1
Trade and other payables	1,575.9	1,494.1	1,282.0	1,081.5	1,234.8
Others	949.1	1,020.5	931.1	921.2	887.3
Total Current Liabilities	3,833.6	3,400.3	3,789.0	3,698.2	3,915.2
Equity					
Shareholders' equity	1,941.8	2,252.4	2,221.0	2,021.9	2,305.1
Non-controlling interests	58.0	70.4	65.0	71.5	80.4
Total equity	1,999.8	2,322.8	2,286.0	2,093.4	2,385.5
Total Liabilities and Equity	7,094.9	8,179.6	8,570.7	8,517.2	9,114.4

Consolidated Statement of Cash Flow

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
CFO					
Profit before income tax	439.2	495.3	388.4	375.2	507.6
D&A add-back	158.7	175.6	184.7	188.4	174.4
Others	(162.7)	29.6	18.0	92.4	39.7
Net (inc)/dec working capital	337.1	(214.3)	(240.9)	(486.8)	(134.2)
Net cash flow from operating activities	772.3	486.2	350.3	169.2	587.5
CFI					
Purchase of PP&E	(869.4)	(690.9)	(635.8)	(418.8)	(536.1)
Others	(103.0)	77.5	(166.6)	(13.9)	(15.6)
Net cash flow from investing activities	(972.3)	(613.4)	(802.4)	(432.8)	(551.7)
CFE					
Dividends paid	(41.1)	(106.8)	(121.7)	(135.2)	(109.0)
Others	(72.3)	551.6	738.8	201.0	49.0
Net cash flows from financing activities	(113.4)	444.8	617.1	65.8	(60.0)
Net Change in Cash	(313.5)	317.6	165.0	(197.7)	(24.2)
Cash and CE at Y/E	407.7	742.2	845.3	647.5	623.3

Current Price as of: September 7

Source: PSHK Est.

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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