

# China Gas (384.HK)

## Downstream business will rapidly expand

Bloomberg | Reuters | POEMS  
0384 HK | 0384.HK | 0384.HK  
Industry: Oil & Gas

Phillip Securities Research Pte Ltd

28 December 2012

### Annual Report Review

Rating: Accumulate | Closing Price: HKD6.14 | Target Price: HKD6.85

#### Company profile

China Gas Holdings Limited is a provider of natural gas operation service listed in Hong Kong Stock Exchange, mainly engaged in investment, operation and management of urban gas pipeline infrastructure, transmission of natural gas to residents and industrial users, construction and operation of gas and petroleum stations as well as development and application of oil and gas relevant technologies. Gas supply covers nearly an urban population of 100 million. With over 50,000km high pressure and medium pressure grid and courtyard pipe network, China Gas is China's largest cross-regional urban gas distributor and gas operator integrating pipeline natural gas and LPG distribution.

#### Investment overview

The Company has entered into a strategic cooperative framework agreement with Sinopec to jointly launch a joint venture for exploration of the LPG market and large urban pipeline gas projects.

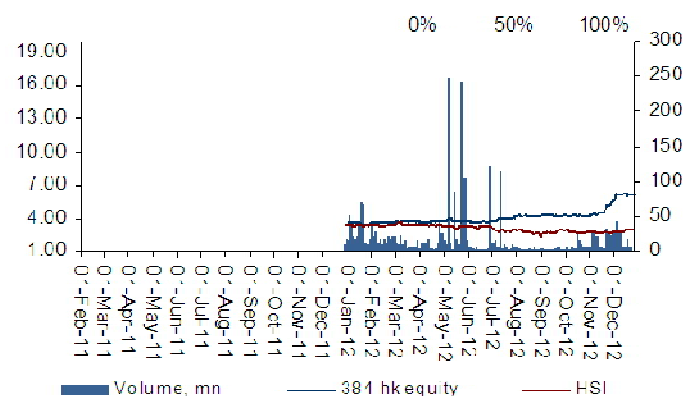
The successful acquisition of Fortune Gas is expected to further extend the corporate downstream gas business to LNG and non-conventional natural gas sectors including coal-bed methane, as well as further expand its downstream gas business market share including urban pipeline gas and natural gas stations.

With the issuing of the 12th Five-Year Plan for natural gas, upstream enterprises may raise the ex-factory price of natural gas. We believe, however, gas price will pass down to end users in a timely manner and will not cause big cost pressure on downstream distributors.

Overall, we embrace strong optimistic expectations about the Company future performance outlook, and the Company share price has continuously come high. We believe that it still has room for increase, and set its 6-month target price as HK\$6.85, equivalent to 29.78-time P/E for 2013, hence granting "accumulate" rating.

#### ChinaGas

|                                  |              |                   |
|----------------------------------|--------------|-------------------|
| <b>Rating</b>                    | <b>2.00</b>  | <b>Accumulate</b> |
| - Previous Rating                | 2.00         | Accumulate        |
| <b>Target Price (HKD)</b>        | <b>6.85</b>  |                   |
| - Previous Target Price (HKD)    | 6.85         |                   |
| Closing Price (HKD)              | 6.14         |                   |
| Expected Capital Gains (%)       | 11.6%        |                   |
| Expected Dividend Yield (%)      | 0.7%         |                   |
| <b>Expected Total Return (%)</b> | <b>12.3%</b> |                   |
| Raw Beta (Past 2yrs weekly data) | 0.82         |                   |
| Market Cap. (HKD mn)             | 27,984       |                   |
| 52 week range (HKD)              | 3.46 - 6.43  |                   |
| Closing Price in 52 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   | 29.8   | 31.3   |
| BVPS (HKD)                | 1.23   | 2.00   | 2.76   | 3.19   |
| P/B (X)                   | 1.9    | 1.7    | 2.5    | 2.4    |
| DPS (HKD)                 | 0.02   | 0.04   | 0.05   | 0.07   |
| Div. Yield (%)            | 0.6%   | 1.1%   | 0.7%   | 0.9%   |

Source: Bloomberg.

\*All multiples & yields based on current market price

#### Valuation Method

EV

#### Analyst

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## Financial Statements and Predictions

| Project (HKD million)              | 2010   | 2011   | 2012F  | 2013F  |
|------------------------------------|--------|--------|--------|--------|
| Total revenue                      | 17,336 | 25,398 | 32,891 | 41,482 |
| Business cost                      | 5,745  | 8,848  | 12,097 | 14,892 |
| Gross Profit                       | 11,591 | 16,550 | 20,794 | 26,590 |
| Other business revenue             | 43     | 42     | 57     | 32     |
| Operating expenses                 | 5,376  | 8,626  | 11,056 | 12,385 |
| Transaction gain (loss)            | 6,258  | 7,966  | 9,795  | 14,237 |
| Pre-tax profit                     | 8,344  | 10,450 | 14,027 | 18,926 |
| Income tax expenses                | 2,009  | 2,281  | 3,902  | 5,173  |
| Profit before unusual project      | 6,335  | 8,169  | 10,125 | 13,753 |
| Net profit                         | 4,194  | 5,609  | 8,089  | 11,092 |
| Basic EPS before unusual project   | 0.59   | 0.78   | 0.97   | 1.19   |
| Basic EPS                          | 0.59   | 0.78   | 0.96   | 1.17   |
| Diluted EPS before unusual project | 0.58   | 0.77   | 0.96   | 1.16   |
| Diluted EPS                        | 0.58   | 0.78   | 0.97   | 1.17   |
| Dividend per share                 | 0.14   | 0.22   | 0.29   | 0.37   |
|                                    |        |        |        |        |
| 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  | 29.78  | 31.25  |
| PB ratio                           | 1.91   | 1.67   | 2.48   | 2.35   |

Source: Bloomberg, Phillip Securities

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