

Direct gas sales accelerated, core profits grew significantly

Huatai Research

22 August 2022 | China (Mainland)

Interim Results Review

City Gas & Gas Distribution

Rating (Maintain): **BUY**Target price (RMB): **24.64**
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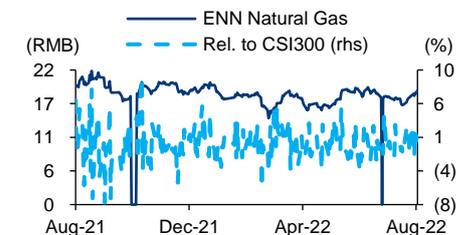
Team Introduction & Our insights



Key data

Target price (RMB)	24.64
Closing price (RMB as of 19 Aug)	18.61
Potential upside +/- (%)	32
Mkt cap (RMBmn)	57,666
6m avg daily val (RMBmn)	169.00
52wk price range (RMB)	14.13-21.85
BVPS (RMB)	4.66

Share performance



Source: Wind

Coal + direct gas sales segment jacked up core profit growth

ENN Natural Gas reported revenue/attributable NP/attributable core profit of RMB73.02/1.54/2.26bn (+41.0%/-26.1%/+48.9% yoy) for 1H22 and RMB37.67bn/780mn/1.51bn (+45.1%/-47.0%/+46.9% yoy) for 2Q22. In 1H22, the RMB540mn yoy decline in attributable NP was due mainly to RMB350mn in yoy losses from fair value changes and RMB100mn in yoy credit impairment losses. We estimate 2022E/2023E/2024E attributable NP at RMB4.77/5.58/6.18bn. Referring to the Wind consensus-based peer average of 15x 2022E PE, we value the stock at 16x, for our target price of RMB24.64. Maintain BUY.

Robust growth in direct gas sales

In 1H22, ENN's total gas sales volume was 18.84bn cbm (+7.6% yoy), with retail gas sales volume/wholesale gas volume/direct gas sales volume reaching 12.43/3.77/2.00bn cbm (+5.1/5.3/37.2% yoy). The direct sales gas margin was RMB0.35/cbm (+94.4% yoy), an increase of RMB0.04/cbm compared with 2021, largely because soaring LNG prices led to gains from overseas resales. Gross profit for ENN's direct gas sales business was RMB490mn, up 88.9% yoy. The company signed long-term purchase and sales agreements with Total and ARENA (total: 7.14mtpa), which should lay a solid foundation for its direct gas sales business. It completed a restructuring project for the Zhoushan LNG terminal, which should aid the integrated development of its natural gas industry chain.

Integrated energy business developed rapidly

In 1H22, ENN completed coal sales of 2.57mn tonnes, a sharp rise of 89% yoy. A yoy increase in market coal prices helped raise its coal selling price – together with RMB8.8mn in cost savings from peak and off-peak electricity consumption, this helped boost the proportion of revenue/gross profit from its energy production segment by 1/4pp yoy to 6/9%. In 1H22, its integrated energy business maintained rapid growth, with revenue increasing by 50.1% yoy to RMB6.13bn, mainly because integrated energy sales volume rose 34.2% yoy to 10.8bn kWh, and hydrogen production reached 7.05mn cbm. As of 1H22, ENN had a PV installed capacity of 590MW, with 177 integrated energy projects in operation (+27 compared with end-2021) and 40 under construction.

Risks: sharper natural gas rises; weaker gains from fair valuation changes.

Financials

YE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMBmn)	88,099	116,031	149,875	170,265	189,900
+/-%	550.46	31.71	29.17	13.60	11.53
Net profit (RMBmn)	2,107	4,102	4,765	5,575	6,177
+/-%	74.90	94.67	16.18	16.98	10.81
EPS (diluted, RMB)	0.68	1.32	1.54	1.80	1.99
ROE (%)	24.10	35.72	28.40	26.60	24.10
PE (x)	27.37	14.06	12.10	10.34	9.34
PB (x)	7.09	3.89	3.08	2.49	2.05
EV EBITDA (x)	7.62	6.58	5.87	5.59	4.64

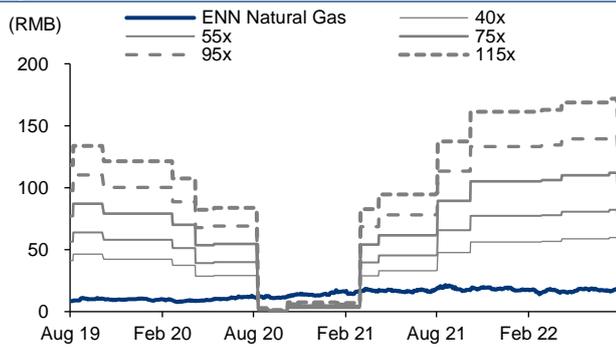
Source: Company announcements, Huatai Research estimates

Valuation method

To reflect uncertainties over income from changes in fair value, we lower our earnings forecasts, and estimate ENN's attributable NP at RMB4.77/5.58/6.18bn (previous: RMB4.89/5.70/6.20bn) for 2022E/2023E/2024E, with corresponding EPS at RMB1.54/1.80/1.99. Referring to the Wind consensus-based peer average of 15x 2022E PE, and factoring in synergies with the natural gas business upon the acquisition of the Zhoushan LNG terminal, we value the stock at 16x 2022E PE, for our target price of RMB24.64 (previous: RMB24.06, based on a 14x 2022E PE). Maintain BUY.

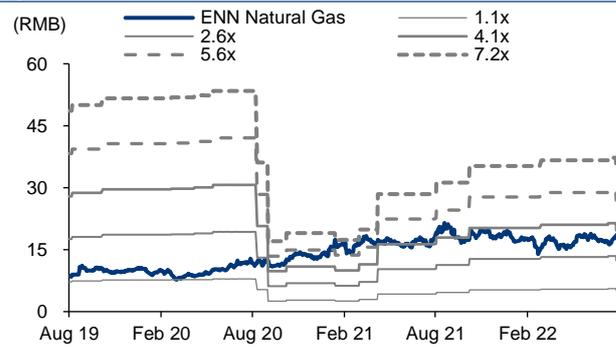
Risks: sharper natural price gas rises; weaker gains from fair valuation changes.

Fig.1: ENN Natural Gas PE-Bands



Source: Wind, Huatai Research

Fig.2: ENN Natural Gas PB-Bands



Source: Wind, Huatai Research

Full financials

Balance sheet

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
Current assets	30,943	39,834	41,897	43,230	60,796
Cash & equivalents	12,629	11,440	12,723	12,863	29,852
Account receivables	3,806	6,698	6,870	6,977	7,041
Other receivables	2,008	2,383	2,386	2,420	2,396
Prepayments	3,403	4,011	4,025	4,025	4,005
Inventories	1,999	3,138	3,564	4,009	4,433
Other current assets	7,098	12,163	12,329	12,936	13,068
Non-current assets	78,581	88,100	110,068	121,808	132,379
Long-term investment	5,560	5,996	6,593	7,112	7,579
Fixed investment	48,207	56,833	73,730	82,918	90,984
Intangible assets	8,145	10,604	12,046	13,693	15,495
Other non-curr. assets	16,669	14,667	17,699	18,085	18,320
Total assets	109,524	127,934	151,965	165,038	193,175
Current liabilities	51,055	55,393	66,246	61,952	78,324
Short-term borrowings	9,605	7,972	7,972	7,972	7,972
Account payables	9,246	11,902	15,690	15,487	19,268
Other current liabilities	32,204	35,519	42,583	38,492	51,083
Non-current liabilities	23,197	26,375	28,195	32,357	29,558
Long-term borrowings	4,718	5,698	7,518	11,680	8,881
Other non-curr. liabilities	18,479	20,677	20,677	20,677	20,677
Total liabilities	74,252	81,768	94,440	94,309	107,881
Minority interest	27,140	31,332	38,801	47,539	57,221
Share capital	2,600	2,846	3,099	3,099	3,099
Capital reserves	0.00	2,855	2,855	2,855	2,855
Retained profit	5,351	8,765	18,157	29,145	41,320
Shareholders' equity attr. to parent	8,132	14,833	18,723	23,191	28,073
Equity & liabilities	109,524	127,934	151,965	165,038	193,175

Cash flow statement

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
Operating cash flow	12,448	13,510	31,162	11,825	37,166
Net profit	7,833	10,530	12,234	14,312	15,859
Depreciation/amortization	2,860	3,190	3,825	4,694	5,655
Financial costs	377.10	505.04	587.68	766.11	953.50
Investment losses	(404.38)	(1,179)	(978.87)	(978.87)	(978.87)
Chg in working capital	1,088	(313.76)	15,578	(6,902)	15,716
Other operating activ's	693.36	777.37	(84.61)	(66.07)	(39.10)
Investing cash flow	(7,209)	(8,041)	(24,844)	(15,484)	(15,277)
Capex	(6,922)	(8,423)	(25,123)	(15,827)	(15,655)
Long-term investment	(411.71)	705.18	(597.40)	(519.22)	(466.98)
Other investing activ's	124.64	(323.71)	876.92	862.42	845.01
Financing cash flow	(4,210)	(4,701)	(5,036)	3,800	(4,900)
Short-term borrowings	6,893	(1,633)	0.00	0.00	0.00
Long-term borrowings	2,823	980.24	1,819	4,162	(2,799)
Increase in common stock	1,371	245.87	0.00	0.00	0.00
Additional paid-in capital	(1,779)	2,855	0.00	0.00	0.00
Other financing activ's	(13,517)	(7,150)	(6,855)	(362.66)	(2,101)
Net change in cash	1,054	716.59	1,282	140.45	16,989

Income statement

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
Revenue	88,099	116,031	149,875	170,265	189,900
Operating costs	71,782	96,513	125,923	142,287	158,618
Business taxes & surcharges	569.36	634.84	820.01	931.57	1,039
Operating expenses	1,210	1,446	1,868	2,122	2,366
Admin expenses	3,309	3,764	4,861	5,523	6,160
Financial costs	377.10	505.04	587.68	766.11	953.50
Asset impairment losses	(63.15)	(450.16)	0.00	0.00	0.00
P&L from fair value changes	(81.04)	456.50	0.00	0.00	0.00
Investment income	404.38	1,179	978.87	978.87	978.87
Operating profit	10,585	13,530	15,708	18,365	20,344
Non-operating income	83.20	164.57	164.57	164.57	164.57
Non-operating expenses	233.43	227.71	227.71	227.71	227.71
Total profit	10,435	13,466	15,645	18,302	20,281
Income tax expenses	2,602	2,936	3,411	3,990	4,422
Profit after tax	7,833	10,530	12,234	14,312	15,859
Minority interest	5,726	6,429	7,469	8,737	9,682
Net profit attr. to parent	2,107	4,102	4,765	5,575	6,177
EBITDA	14,334	17,539	20,096	23,635	26,368
EPS (RMB, basic)	0.82	1.46	1.54	1.80	1.99

Performance

YE 31 Dec	2020	2021	2022E	2023E	2024E
Growth (%)					
Revenue	550.46	31.71	29.17	13.60	11.53
Operating profit	738.79	27.82	16.10	16.92	10.77
Net profit attr. to parent	74.90	94.67	16.18	16.98	10.81
Profitability (%)					
Gross profit margin	18.52	16.82	15.98	16.43	16.47
Net profit margin	8.89	9.08	8.16	8.41	8.35
ROE	24.10	35.72	28.40	26.60	24.10
ROIC	32.64	32.60	38.72	34.98	59.74
Solvency					
Liabilities/assets (%)	67.80	63.91	62.15	57.14	55.85
Net gearing ratio (%)	69.38	57.36	37.59	38.40	8.81
Current ratio (x)	0.61	0.72	0.63	0.70	0.78
Quick ratio (x)	0.44	0.49	0.44	0.48	0.60
Operating capability					
Total assets t/o ratio (x)	1.32	0.98	1.07	1.07	1.06
Receivables t/o ratio (x)	32.93	22.09	22.09	24.59	27.09
Payables t/o ratio (x)	11.19	9.13	9.13	9.13	9.13
Per-share data (RMB)					
EPS (diluted)	0.68	1.32	1.54	1.80	1.99
OCFPS (diluted)	4.02	4.36	10.06	3.82	11.99
BVPS (diluted)	2.62	4.79	6.04	7.48	9.06
Valuation (x)					
PE	27.37	14.06	12.10	10.34	9.34
PB	7.09	3.89	3.08	2.49	2.05
EV EBITDA	7.62	6.58	5.87	5.59	4.64

Source: Company announcements, Huatai Research estimates

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