

ENN Natural Gas (600803 CH)

1H22 Report: Core Profit Increased Substantially, LNG Terminal Reorganization was Approved

Investment Focus

Maintain **OUTPERFORM**

Rating	OUTPERFORM
Current Price	Rmb21.34
Target Price	Rmb24.32
MSCI ESG Rating	BB
<i>Source: MSCI ESG Research LLC. Reproduced by permission; no further distribution</i>	
Market cap	Rmb66.13bn / US\$9.58bn
Daily traded value (3mth)	US\$27.38mn
Shares outstanding	3,099mn
Free float (%)	46%
1 yr high - low	Rmb21.85-Rmb14.13

Note: Current Price Rmb21.34 is the close price on 5 Sep 2022



Source: Factset

	1mth	3mth	12mth
Absolute	28.9%	16.1%	8.7%
Absolute USD	26.2%	12.2%	1.7%
Relative to MSCI China	31.5%	22.0%	40.8%

(Rmb mn)	Dec-21A	Dec-22E	Dec-23E	Dec-24E
Revenue	116,031	135,175	153,296	174,866
(+/-)	32%	16%	13%	14%
Net profit	4,102	4,720	5,748	6,523
(+/-)	95%	15%	22%	13%
EPS(Rmb)	1.32	1.52	1.85	2.10
GPM	16.8%	20.0%	19.6%	19.3%
ROE	27.7%	18.6%	17.5%	15.8%
P/E	16	14	12	10

Source: Company data, HTI

(This note is the English translation of a note that was originally written in Chinese and published on 05 Sep 2022. The original version should prevail.)

- In 1H22, the core profit was RMB2.26bn, with a YoY increase of 49%.** In 1H22, the company achieved revenue of Rmb73.020bn (+41.04% YoY) and core profit of Rmb2.259bn (+48.85% YoY). The main reasons for the growth of the company's core profit are: (1) the profit contributed by direct selling gas business has increased much YoY; (2) The profit contributed by coal business increased much YoY, due to the substantial increase in sales volume and in unit price.
- Integrate layout of upstream and downstream to build an intelligent ecological operator of natural gas industry.** The company has strong downstream distribution capabilities. By end of June 2022, there were a total of 254 urban gas projects covering 20 provinces across the country, most of which were based on economically developed areas along the southeast coast. In 1H22, the company's total gas sales volume reached 18.836bn cubic meters, accounting for ~10.4% of the apparent consumption of China LNG Group. With the deepening of the dual-carbon policies, the market share will further expand. At the same time, in terms of upstream resource acquisition, the company promotes the flexible interaction and integrated operation of international and domestic, long-term and spot, gas and liquid, land-based and sea gas resources, and optimizes resource pools as a whole. Domestically, the company deepened its strategic cooperation with large companies such as PetroChina, Sinopec, and CNOOC, obtained an increase in pipeline gas contracts, and strengthened ecological cooperation in resource and facility exchange, thus stabilized its resource base. At the same time, the company has built stable cooperation with unconventional resource providers in Shanxi, Shaanxi, Sichuan and Chongqing, getting an accumulative volume of 3mn+ cubic meters of unconventional resources per day, and has formed a variety of cooperation modes in Hebei, Shandong and other regions to achieve complementary and balanced resources. Based on the digital and intelligent products of Haqi.com and smart express, the company had obtained 600 vehicles/day of domestic LNG plant resources. In terms of the construction of the G-Resources Group pool, in 1H22, the company newly signed 4.8mn tons of international LNG resources, and the accumulated long-term contract volume has reached 7.14mn tons, which increased the stability of resources.

Junjun Zhu
 jj.zhu@htisec.com

Xin Hu
 x.hu@htisec.com

- **The assets reorganization of Xinao Zhoushan LNG terminal has been successfully completed.** The restructuring of Zhoushan Terminal was approved by the CSRC in Aug 2022, and the transfer and IPO of targets assets were completed. The actual processing capacity of the first and second phases of the Xinao Zhoushan LNG Terminal can reach 7.5mn tons per year, ranking among the top in the industry, with outstanding scale advantages, and efficient processing capacity closely connected to the huge consumption in East China such as Zhejiang, Jiangsu, Jiangxi and Shanghai. Market and customer needs, forming a flexible linkage between domestic and international markets, and building a channel covering the import of LNG resources in North China, East China, and South China through ecological cooperation methods such as window exchange and tripartite window period use, and building Zhoushan receiving station as an important platform for global allocation of LNG resources, so as to realize the dynamic adjustment of overseas LNG resources procurement, and form a more stable and market-competitive resource pool. In addition, ENN can conduct new business such as window trading, tank capacity leasing, LNG ship refueling, offshore bonded warehouse, and LNG tank sea-land intermodal transportation through Zhoushan Terminal, providing more possibilities for creating flexible and diversified domestic and international sales channels.
- **Earnings forecast and investment advice.** Since the company issued shares to purchase assets in Aug, 2022, adding 252,808,988 shares equity, we lowered our EPS estimates to RMB1.52, RMB1.85 and RMB2.10 respectively (the original forecast FY22-24 EPS was RMB1.73, RMB2.00 and RMB2.28). With reference to the valuation of comparable companies, we assign the company 16 x PE in 2022, corresponding to a target price of RMB24.32, and maintains the "Outperform" rating.
- **Risks.** The prices of major products fluctuated greatly; the growth rate of natural gas consumption has dropped significantly.

Table 1 Peers' Valuations

Tickers	Companies	Total market cap	EPS (RMB)			PE (X)		
			2021	2022E	2023E	2021	2022E	2023E
601139.SH	Shenzhen Gas Corporation	227.26	0.47	0.47	0.59	16.78	16.89	13.30

Notes: the share price is the close one on 31 5 Sept, 2022, and the EPS is from Wind
Source: Wind, HTI

Financial statement analysis and earnings forecast

Key ratios	2021	2022E	2023E	2024E	IS (RMB mn)	2021	2022E	2023E	2024E
Indicator (per share, RMB)					Total revenue	116031	135175	153296	174866
EPS	1.32	1.52	1.85	2.10	COGS	96533	108177	123203	141037
BVPS	4.79	8.21	10.61	13.28	GPM (%)	16.8%	20.0%	19.6%	19.3%
Operating cash flow per share	4.36	4.85	6.25	6.93	Business tax and surcharges	635	811	1073	1224
DPS	0.00	0.00	0.00	0.00	Tax rate (%)	0.5%	0.6%	0.7%	0.7%
Valuations (x)					Sales expense	1446	1622	1840	2098
P/E	16.12	14.01	11.51	10.14	Sales expense ratio (%)	1.2%	1.2%	1.2%	1.2%
P/B	4.46	2.60	2.01	1.61	G&A expense	3764	4866	6132	7344
P/S	0.52	0.49	0.43	0.38	G&A expense ratio (%)	3.2%	3.6%	4.0%	4.2%
EV/EBITDA	4.51	4.05	2.91	1.73	EBIT	12619	19023	20282	22288
Dividend yield %	0.0%	0.0%	0.0%	0.0%	Finance expense	505	1553	618	622
Profitability (%)					Finance expense ratio (%)	0.4%	1.1%	0.4%	0.4%
GPM	16.8%	20.0%	19.6%	19.3%	Assets impairment loss	-450	0	0	0
NPM	3.5%	3.5%	3.7%	3.7%	Investment profit	1179	811	690	787
ROE	27.7%	18.6%	17.5%	15.8%	Operating profit	13530	18416	20507	22628
ROA	3.2%	3.1%	3.0%	3.2%	Exceptional income-net	-63	20	20	20
ROIC	12.8%	15.3%	12.6%	12.9%	Pre-tax profit	13466	18436	20527	22648
Revenue growth (%)					EBITDA	15951	19438	20707	22719
Revenue growth	31.7%	16.5%	13.4%	14.1%	Taxation	2936	3687	4105	4530
EBIT growth	18.6%	50.8%	6.6%	9.9%	Tax rate (%)	21.8%	20.0%	20.0%	20.0%
Net profit growth rate	94.7%	15.1%	21.8%	13.5%	Minority interests	6429	10029	10674	11596
Solvency ratios					Net income to ord. equity	4102	4720	5748	6523
Asset/liability ratio	63.9%	56.5%	55.0%	48.7%					
Liquidity ratio	0.72	0.86	1.09	1.34	Balance Sheet (RMB mn)	2021	2022E	2023E	2024E
Quick ratio	0.54	0.68	0.93	1.15	Cash	11440	20000	50000	60000
Cash ratio	0.21	0.33	0.64	0.82	Accounts receivable	7023	7777	8820	10061
Operating efficiency					Inventory	3138	4446	5063	5796
AR days	21.07	20.00	20.00	20.00	Other current assets	18232	19709	20905	22321
Inventory days	11.87	15.00	15.00	15.00	Total current assets	39834	51932	84788	98177
Total asset turnover	0.91	0.88	0.81	0.86	Long-term equity investment	5996	5996	5996	5996
Fixed asset turnover	2.04	2.11	2.34	2.61	Fixed assets	56833	64032	65610	67077
					Construction in progress	4477	5377	5677	5827
					Intangible assets	10604	15804	15854	15904
					Total non-current assets	88100	101789	104122	106195
Cash flow (RMB mn)	2021	2022E	2023E	2024E	Total assets	127934	153721	188910	204372
Net profit	4102	4720	5748	6523	Short-term debts	7972	9430	21021	10119
Minority interests	6429	10029	10674	11596	Accounts payable	13163	14226	16202	18547
Non-cash expenses	3917	415	425	431	Prepayments	0	0	0	0
Non-operating income	-623	-278	-91	-185	Other current liabilities	34258	36887	40384	44536
Change in working capital	-314	153	2618	3108	Total current liabilities	55393	60543	77607	73203
Operating cash flow	13510	15040	19373	21472	Long-term debts	5698	6698	7698	8698
Assets	-8201	-12466	-1030	-730	Other long-term liabilities	20677	19677	18677	17677
Investment	-18	-5	-5	-5	Total non-current liabilities	26375	26375	26375	26375
Others	179	811	690	787	Total liabilities	81768	86918	103983	99578
Investment cash flow	-8041	-11660	-345	52	Common stocks	2846	3099	3099	3099
Increase in debts	27155	2458	12591	-10902	Equity attributable to owners of the parent company	14833	25441	32892	41163
Proceeds from issue of shares	3324	253	0	0	Minority interests	31332	41362	52036	63631
Others	-35181	2469	-1618	-622	Total liabilities and equities	127934	153721	188910	204372
Financing cash flow	-4701	5180	10972	-11524					
Net cash inflow	717	8560	30000	10000					

Notes: (1) The closing price date of the valuation index calculated in the table is 5 Sept, 2022. (2) All the above tables are brief ones.

Source: Company's annual report (2021), HTI

APPENDIX

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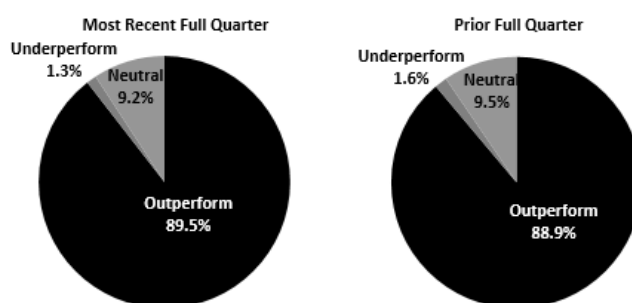
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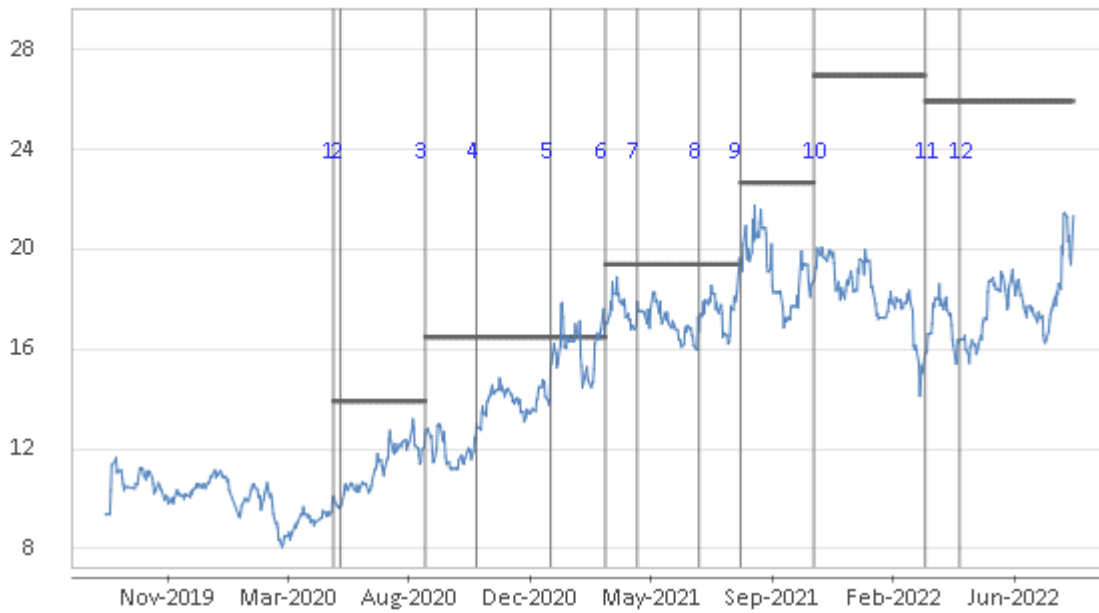
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Recommendation Chart

ENN Natural Gas - 600803 CH



1. 20 May 2020 OUTPERFORM at 10.0 target 13.92.
2. 28 May 2020 OUTPERFORM at 10.0 target 13.92.
3. 1 Sep 2020 OUTPERFORM at 12.07 target 16.49.
4. 29 Oct 2020 OUTPERFORM at 12.4 target 16.49.
5. 21 Jan 2021 OUTPERFORM at 13.96 target 16.49.
6. 24 Mar 2021 OUTPERFORM at 16.62 target 19.4.
7. 29 Apr 2021 OUTPERFORM at 16.99 target 19.4.
8. 8 Jul 2021 OUTPERFORM at 17.28 target 19.4.
9. 24 Aug 2021 OUTPERFORM at 19.46 target 22.68.
10. 15 Nov 2021 OUTPERFORM at 18.41 target 26.98.
11. 21 Mar 2022 OUTPERFORM at 15.06 target 25.95.
12. 30 Apr 2022 OUTPERFORM at 16.25 target 25.95.

Source: Company data Bloomberg, HTI estimates