

Analyst: Paul Sham

Main Board Listing – Research

蘇創燃氣股份有限公司

Suchuang Gas Corporation Limited (01430)

Sole Sponsor and Sole Global Coordinator : BNP Paribas
Joint Bookrunners and Joint Lead Managers : BNP Paribas, Haitong

Sector : Utilities

Business : Gas distributor in Taicang of Jiangsu Province

<p>Total share offer: <u>200,000,000*</u> shares (25.00% of the enlarged share capital)</p> <p>Public Offer: 20,000,000 shares (10%)</p> <p>Placing: 180,000,000 shares (90%)</p> <p>Greenshoe: 30,000,000 shares</p> <p>* All 200,000,000 shares are New Shares</p>	<p><u>Business of Suchuang Gas Corporation Limited (“Suchuang Gas” or the “Company”)</u></p> <p>Suchuang Gas is the dominant piped natural gas operator in Taicang of Jiangsu Province, with an exclusive right under the Concession to sell and transmit piped natural gas to users for an initial term of 30 years ending 31 August 2043. Taicang is a major industrial county-level city of Jiangsu Province adjacent to Suzhou, Kunshan, Changshu and Shanghai, and the operating area of Suchuang Gas represented more than 70% of Taicang’s total area as at 18th February 2015.</p> <p>For 2011, 2012, 2013 and the nine months ended 30 September 2014, sale and transmission of piped natural gas was the core business of Suchuang Gas, representing 87.6%, 83.9%, 82.9% and 87.8%, respectively, of its total revenue for the respective periods.</p> <p>The piped natural gas of Suchuang Gas was mainly sold to customers on a retail basis (i.e. natural gas purchased from the Company for users’ own consumption), with non-residential users (comprising industrial and commercial users) as its major customers in terms of revenue and sale volume. Revenue derived from the sale of natural gas to non-residential users, in aggregate, accounted for 90.9%, 92.9%, 90.9% and 81.6%, respectively, of its total sale of natural gas for 2011, 2012, 2013 and the nine months ended 30 September 2014</p>
<p>Price: HK\$2.08 – HK\$2.92 per share</p> <p>Market Capitalization: HK\$1,664 million – HK\$2,336 million</p> <p>Pro-forma fully diluted 2014 P/E: 11.9x – 16.7x</p> <p>Adjusted NTA per share: HK\$1.14 – HK\$1.34</p> <p>Staffing: 150 (as of 30th September 2014)</p>	
<p>HK Public Offer period: 27th February 2015 – 4th March 2015 noon</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 11th March 2015</p>	

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**Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Fung Yu Holdings, owned as to:	
– 70% by Mr. Su Aping, the Chairman and an Executive Director of Suchuang Gas;	
– 30% by Ms. Zhu Yaying, an Executive Director of Suchuang Gas and the wife of Mr. Su Aping	51.3075%
Action East – wholly owned by Prax Capital China Growth Fund III, L.P., a private equity fund	20.6925%
Jade Deluxe – wholly owned by Ms. Guo Yan, an independent third party	3.0000%
Public shareholders	25.0000%
	100.0000%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$451.5 million (based on the mid-point of the indicative Offer Price of HK\$2.5 and assuming the over-allotment option is not exercised)

	HK\$ million
For acquiring three CNG/LNG refuelling stations from Suzhou Suling Automobile Service and constructing around nine CNG/LNG refuelling stations for the sale of CNG/LNG for vehicular use	112.9
For expanding its pipeline network and the sale of piped natural gas to customers in the existing market	158.0
For acquiring controlling interests in natural gas operators outside Taicang for distribution and sale of natural gas in cities other than Taicang.	135.5
For working capital and other general corporate purposes	45.1

Financial Highlights

	Year ended 31 December			Nine months ended 30 Sept	
	2011	2012	2013	2013	2014
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	474,224	522,980	663,663	481,690	575,730
Gross profit	126,017	151,106	200,075	141,474	140,023
Attributable profit	59,424	71,025	106,703	75,833	84,704
Gross margin	26.6%	28.9%	30.1%	29.4%	24.3%
Net margin	12.5%	13.6%	16.1%	15.7%	14.7%

Breakdown of Revenue

(RMB '000)	Year ended 31 December						Nine months ended 30 Sept			
	2011		2012		2013		2013		2014	
Sale and transmission of piped natural gas	415,335	87.6%	438,779	83.9%	550,345	82.9%	391,484	81.3%	505,653	87.8%
Construction and connection of gas pipelines	55,513	11.7%	81,731	15.6%	110,898	16.7%	88,568	18.4%	67,623	11.7%
Others	3,376	0.7%	2,470	0.5%	2,420	0.4%	1,638	0.3%	2,454	0.4%
Total	474,224	100.0%	522,980	100.0%	663,663	100.0%	481,690	100.0%	575,730	100.0%

**Peer valuation comparison**

Name	Code	Market Cap (HK\$ million)	Gross Margin	2014E P/E
Beijing Enterprises	00392	73,529	19.7%	14.6x
China Gas	00384	60,733	19.2%	18.7x
ENN Energy	02688	44,514	21.1%	16.2x
China Resources Gas	01193	42,434	33.0%	16.4x
Towngas China	01083	18,534	35.0%	15.8x
			Average:	16.3x
Suchuang Gas	01430	1,664 – 2,336	24.3%	11.9x – 16.7x

Strengths/Opportunities

- ✓ The government regulates the gas pipeline construction through gas source distribution, price approval, new projects approval and concession system, which create a barrier for new investors to conduct cross-regional operations. Therefore, gas distributors like Suchuang Gas faces very limited competition in operating region.
- ✓ The PRC government has formulated policies encouraging the use of natural gas vehicles in China. For example, in the “Guiding Opinions on the Establishment of a Low Carbon Transportation System” issued by the Ministry of Transport and the 12th Five-year Plan on Energy Saving and Emission Reduction on Land and Water Transport, it is the government’s policy that the use of natural gas vehicles will be promoted, old vehicles will be replaced with newly purchased natural gas vehicles, and in areas with suitable conditions, transportation companies will be encouraged to use vehicles running on natural gas or hybrid fuel. Since the demand of natural gas vehicle is expected to be huge in the future, gas refuelling stations could be another growth driver of Suchuang Gas.

Weaknesses/Threats

- × Natural gas constitutes the major raw material for Suchuang Gas’ piped natural gas business. Due to the highly regulated nature of natural gas supply industry in the PRC, PetroChina was its principal natural gas supplier. The price at which Suchuang Gas purchases natural gas from its suppliers, principally PetroChina, is determined by the NDRC, which the Company has limited control. Any dispute between Suchuang Gas and PetroChina will materially affect the business of the Company.
- × Shares of Suchuang Gas are offered at 14.3x 2014E P/E at its mid-point of the offer price range which is slightly lower than the sector average of 16.3x 2014E P/E. Nevertheless, in view of its much smaller market capitalization and operating scale, the valuation of Suchuang Gas does not sound particularly attractive.

Recommendation: Neutral



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