



Rating
Hold

Asia
China

Utilities
Utilities

Company
Towngas China
Alert

Reuters 1083.HK Bloomberg 1083 HK Exchange HKG Ticker 1083
ADR Ticker TGASY ISIN US8921511015

Date
17 March 2015

Results

Price at 17 Mar 2015 (HKD)	7.21
Price target - 12mth (HKD)	6.40
52-week range (HKD)	9.91 - 6.76
HANG SENG INDEX	23,950

Michael Tong Yingying Dong, CFA
Research Analyst Research Associate
(+852) 2203 6167 (+852) 2203 6207
michael.tong@db.com yingying.dong@db.com

Yuxiao Peng, CFA
Research Analyst
(+852) 2203 6235
yuxiao.peng@db.com

Better-than-expected FY14 but challenges lie in FY15; Hold

FY14 earnings -5% yoy; recurring earnings +23% yoy; better than DBE

Towngas China (TCCL) announced FY14 results with reported net profit down 5% yoy to HK\$1,054m. Stripping out FX loss from Rmb depreciation, recurring profit was up 23% to Rmb1,195m, mainly driven by 9% yoy higher gas sales volume and 16% yoy growth in connection income. Recurring earnings were 13.8% above DBE due to better-than-expected connection revenues vs. our flat yoy estimate. We show yoy comparisons in the table below. We believe the impact of the sharp oil price decline in late 2014 and slowdown in residential property new starts on TCCL's volume/margin/connection will be mostly seen in 2015. With weakened competitiveness versus alternative fuels, gas distributors face pressure on both volume and dollar margin despite the recent cut in incremental gas price. At 15.8x FY15E P/E, we believe the stock is fairly valued. Hold.

FY14 volume growth in line but faster connection growth

Total gas sales volume was up 9.4% yoy in FY14, with similar rates of growth for subsidiaries and JCEs/associates, a slowdown from 12% growth in FY13 and 13% growth in 1H14. However, connection income growth accelerated in 2H14 (+17% yoy vs. 1H14: +13% yoy) with a margin decline to 43.8% (1H14: 45.6%). Connection fees accounted for 61% of total segment profit in FY14 (FY13: 60%). The total number of new households connected was up 20% yoy with the average connection fee down 3% yoy to Rmb3,593. TCCL acquired nine projects in FY14, down from 14 projects in 2013.

Dollar margin decline in 2H14 on incomplete pass-through

Gas sales revenue was up 18% yoy in FY14, mainly driven by the gas tariff hike in August 2014 and 9% higher volume from the consolidated subsidiary projects. Unit gas sales margin was Rmb0.22/cm in FY14, up from Rmb0.21/cm in FY13 but down from Rmb0.25/cm in 1H14 to Rmb0.19/cm in 2H14 due to incomplete pass-through for some projects.

Stock data	
Market cap (HKDm)	18,821
Market cap (USDm)	2,424
Shares outstanding (m)	2,612.8
Major shareholders	HKG (62%)
Free float (%)	38.0
Avg daily value traded (USDm)	4.2

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	6,716	7,792	9,205
Net Profit (HKDm)	1,106.3	941.2	1,197.1
DB EPS (HKD)	0.370	0.401	0.457
PER (x)	20.1	18.0	15.8
Yield (net) (%)	1.1	1.2	1.4

Source: Deutsche Bank

Figure 1: Segment revenue and margin

By segment (HK\$ m)	1H11	1H12	1H13	1H14	FY11	FY12	FY13	FY14
Gas sales rev.	1,597	1,929	2,394	3,030	3,288	3,972	5,265	6,205
% of total	81.5%	79.1%	80.8%	82.5%	76.1%	76.6%	78.4%	78.7%
Gas sales seg. EBIT	112	148	222	273	233	308	427	471
% of total	41.4%	37.9%	44.4%	48.1%	33.9%	35.8%	40.1%	38.7%
Segmental margin	7.0%	7.7%	9.3%	9.0%	7.1%	7.7%	8.1%	7.6%
Connection rev.	363	508	568	645	1,034	1,211	1,451	1,677
% of total	18.5%	20.9%	19.2%	17.5%	23.9%	23.4%	21.6%	21.3%
Connection seg. EBIT	158	244	278	294	455	552	638	746
% of total	58.6%	62.1%	55.6%	51.9%	66.1%	64.2%	59.9%	61.3%
Segmental margin	43.5%	47.9%	48.9%	45.6%	44.0%	45.6%	44.0%	44.5%

Source: company data, Deutsche Bank

Deutsche Bank AG/Hong Kong

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=1083.HK> MCI (P) 148/04/2014.