

Tian Lun Gas (1600 HK)

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Initial Coverage

BUY

Close price: HK\$8.27

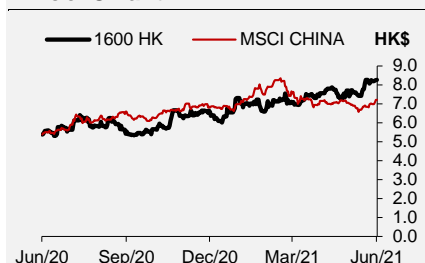
Target Price: HK\$10.50 (+27.0%)

Key Data

HKEx code	1600 HK
12 Months High (HK\$)	8.56
12 Month Low (HK\$)	5.47
3M Avg Dail Vol. (mn)	1.65
Issue Share (mn)	1,003.62
Market Cap (HK\$mn)	8,299.90
Fiscal Year	12/2020
Major shareholder (s)	Tian Lun Group(69.72%)

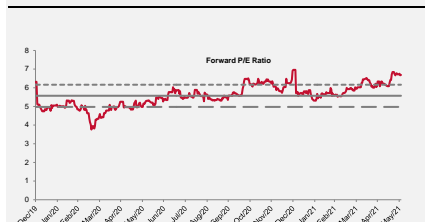
Source: Company data, Bloomberg, OP Research
Closing price are as of 2/6/2021

Price Chart



	1mth	3mth	6mth
Absolute %	7.3	18.9	29.3
Rel. MSCI CHINA %	5.1	20.6	24.3

PE



Company Profile

Tian Lun Gas is principally engaged in urban gas operation, long-haul pipelines and industrial user gas supply, refilling stations operation and LNG plants. Currently, it operated 67 urban gas projects, 51 gas refilling stations in operation and 1 LNG plants projects

Attractively valued with solid outlook

- Retail gas sales volume expected to grow 25% yoy in FY21E on increasing adoption of gas and contributions of M&A
- Highly viable model to unlock opportunities in rural gas market
- Tian Lun Group endorsed Tian Lun Gas outlook through increasing equity stake recently
- 13.8% 3 years CAGR in net profit, initiate with Buy

Better gas sales outlook as most of Tian Lun Gas urban gas projects are still in growth stage which underpinned by lower-than-peers' penetration rate of residential household. Tian Lun Gas is confident to double customer base by 2025. Tian Lun Gas management said retail gas sales up 30% yoy in 4M21. This make us upbeat that the Company could achieve the 25% growth target in retail gas sales volume this year solely on organic growth of its current urban gas projects, including sizable contribution from the newly acquired projects in Gansu and Qinghai in Dec 20.

Tian Lun Gas approach to jointly develop rural "Coal-to-gas" project with local government investment vehicles is less risky and more replicable. The Company has been participating in rural gas projects in Henan and Gansu since 2018 and 2020. In addition to JV investment, it also provides gas construction services for the JV, which is more attractive in terms of risk reward. For instance, in Henan case, we estimate Tian Lun Gas has recouped RMB 1.3 bn profit from construction services for the JV in 3 years, at the cost of RMB400 mn JV capital commitment.

Initiate with Buy with TP of HKD10.50 which represents 8.3x/7.4x FY21E/22E PER. On the back of visible income stream, Tian Lun Gas FY21E valuation at 6.5x PER, compared to peers 8.9-18.3x PER, is unwarranted. Moreover, we think Tian Lun Gas could accelerate its earnings growth through M&A (expected to acquire 4-5 projects this year) given strong operating cash flow of >RMB 1.6 bn. Moreover, parent Company Tian Lun Group showed confidence on the Company that it bought most of the shareholding owned by IFC at HK\$7.50 in mid-May. It also mitigated investors' concern on share price pressure from the sizable stake reduction by IFC.

Risks. (1) Shortfall of construction orders from rural gas project JVs ;(2) slower "Coal-to-gas" transition; (3) decline in dollar margin

Exhibit 1: Forecast and Valuation

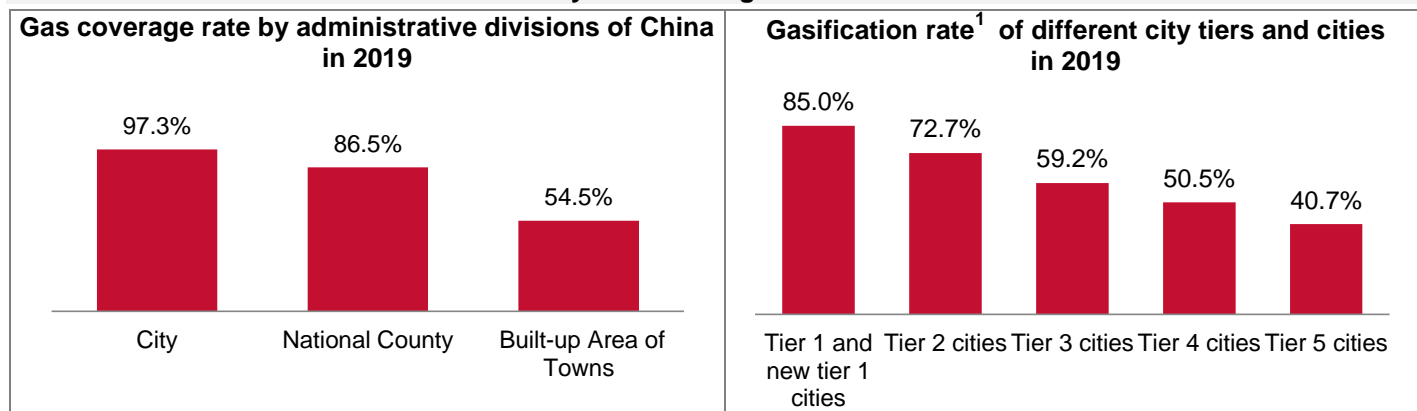
Year to Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,549	6,440	7,876	8,787	9,662
Growth (%)	28.1	-1.7	22.3	11.6	10.0
Adjusted net profit	811	895	1,062	1,203	1,320
Growth (%)	20.6	10.3	18.6	13.3	9.7
Diluted and adjusted EPS (HK\$)	0.98	1.07	1.27	1.44	1.58
Adjusted EPS growth (%)	15.6	8.9	18.6	13.3	9.7
Consensus EPS (HK\$)			1.24	1.37	1.50
Change to previous EPS (%)					
ROE (%)	20.4	22.8	19.2	18.3	17.6
P/E (x)	8.4	7.7	6.5	5.7	5.2
P/B (x)	1.8	1.5	1.2	1.1	0.9
Yield (%)	3.2	3.7	4.6	5.2	5.7
DPS (HK\$)	0.262	0.307	0.38	0.43	0.47

Source: Bloomberg, OP Research

Vigorous growth prospect in lower-tier cities

Unlike urban gas projects in 1-2 tier cities which are mature with stable consumption growth, 3-5 tiers cities usually have lower gasification rate.

Exhibit 2: Towns and lower tier Cities usually have lower gasification rate

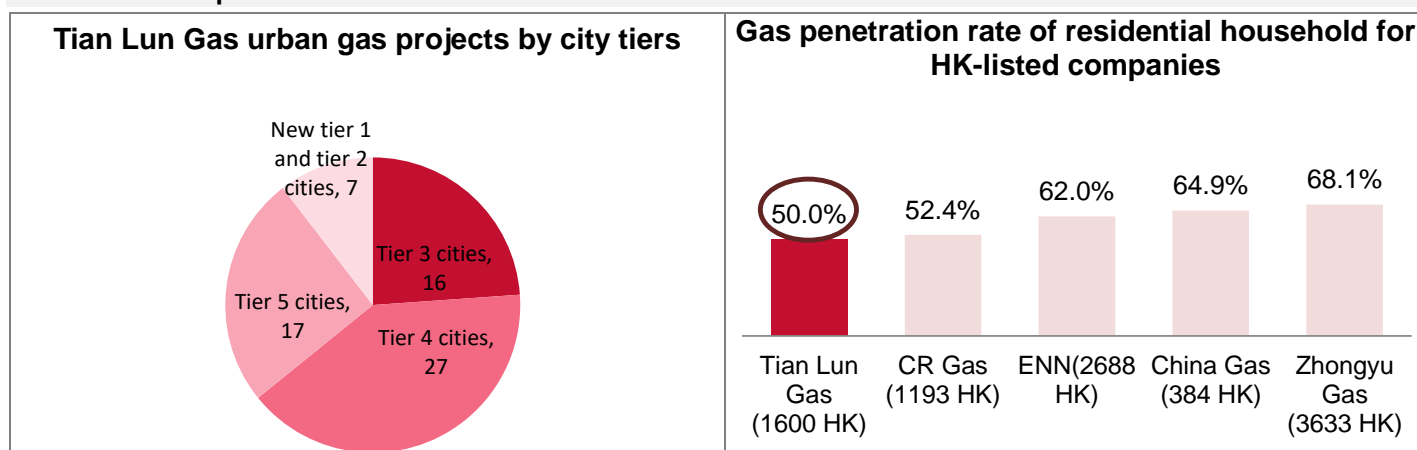


Source: Ministry of Housing and Urban-rural development of PRC, OP research

Tian Lun Gas urban gas projects are mainly located in 3-5 tiers cities or county/village/new economic zones in higher tier cities. We understand that the gas penetration rate of residential household under Tian Lun Gas coverage is just around 50%.

We believe Tian Lun Gas has better growth outlook for gas sales in the next few years on the ground that: (1) its respective gas market is far from saturated, and (2) some lower-tier cities stand to benefit from manufacturing relocation towards inland cities.

Exhibit 3: Tian Lun Gas mostly serves lower-tier cities, thereby it has lower gas penetration rate for residential household than peers



Source: Tian Lun Gas, CR Gas, ENN, China Gas, Zhongyu Gas, OP research

¹ Gasification rate = Population with Access to Gas/ Urban District Population
Data sources: Ministry of Housing and Urban-rural development of PRC.

Visible and replicable business model to un-tap opportunities of rural gas market

Jointly develop rural “Coal-to-gas” projects with local governments. Tian Lun Gas partners with provincial investment vehicles to jointly develop rural gas market in Henan and Gansu. Although these projects lack government subsidies, we see Tian Lun Gas's approach is (1) less risk taking, (2) less initial capital commitment, (3) could recoup capital earlier by providing construction services for the JV.

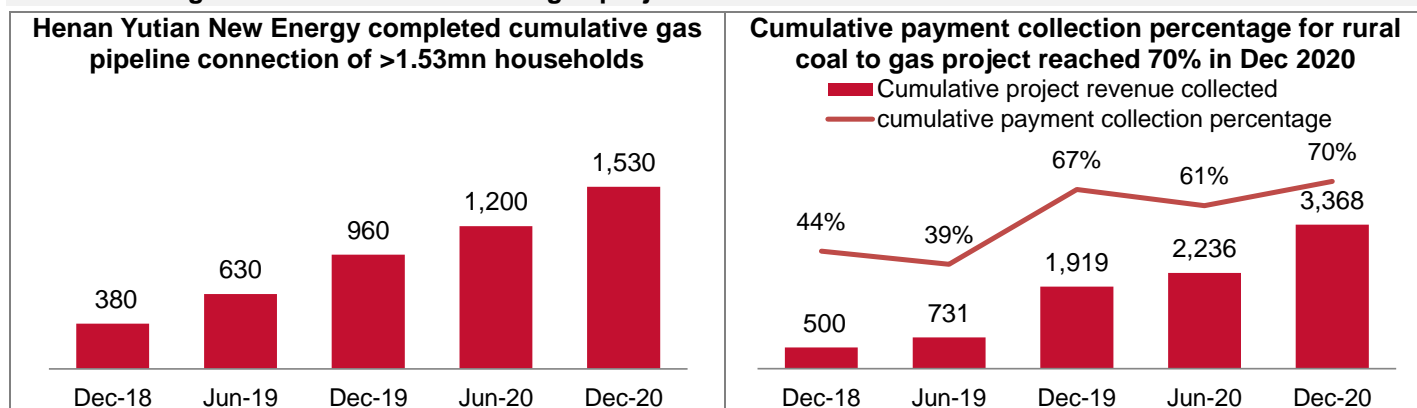
Exhibit 4: Tian Lun Gas participation in rural “Coal-to-gas” projects

Province	Henan	Gansu
Year to establish the project	2018	2020
Partners	Zhongyuan Yuzi ² (中原豫資投資控股)	Hualong Nengchuang(華隴能創股份有限公司)
Name of JV	Henan Yutian New Energy(河南豫天新能源)	Gansu Longtian Urban and Rural Gas (甘肅隴天城鄉燃氣)
Tian Lun Gas contribution	RMB 400mn	RMB 200mn
Ownership in the JV	40%	20%
JV's constructions which will outsource to Tian Lun Gas	All	Some, not all

Sources: Company, OP Research

In Henan's case, Tian Lun Gas captured 92% of cumulative project revenue in FY18-20 through providing construction services for the JV. We estimate it cumulatively earned ~RMB 1.3bn profit from providing construction services to the JV (please refer to Exhibit 7), recouping the capital commitment into the JV (RMB400mn).

Exhibit 5: Progress in Henan rural coal to gas projects

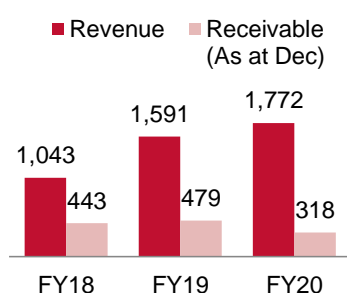


Sources: Company, OP Research

² Zhongyuan Yuzi Investment Company(中原豫資投資控股) has good financial health. According to Bloomberg, (1) As at Sep 20, the company has total capital of RMB 278.3bn with tangible common equity ratio of 20%, (2) Moody and Fitch have assigned A2 and A rating for Zhongyuan Yuzi

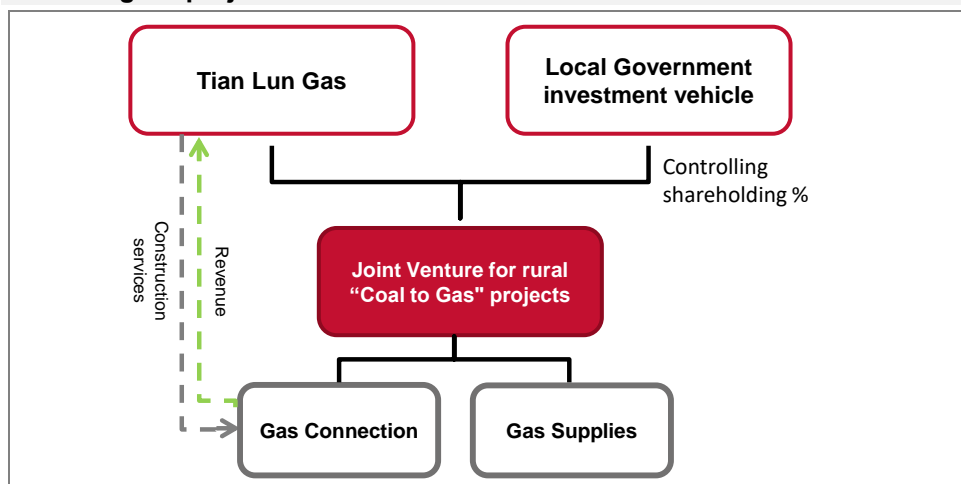
We see Tian Lun Gas could manage risks of the Henan's JV, given that,
(1) Tian Lun Gas understands the financial situation of the JV, and (2) the outstanding receivable as at Dec 20 only accounts for 20% of JV revenue.

Tian Lun Gas revenue and receivables from Henan Yutian New Energy



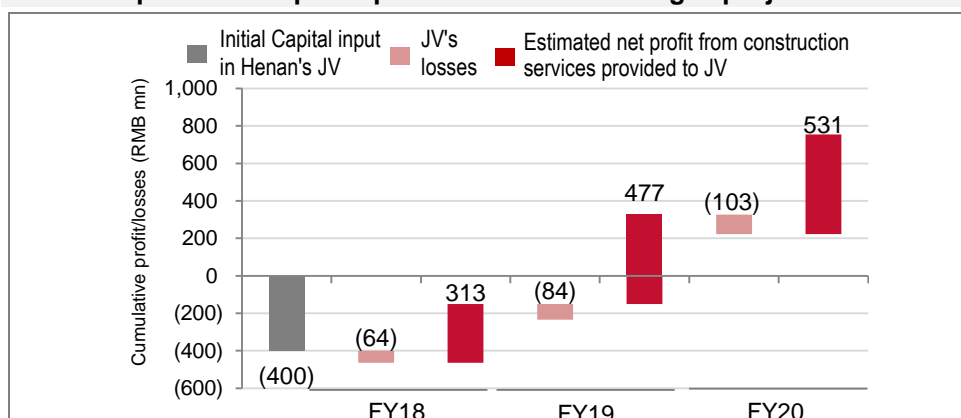
Sources: Company, OP Research

Exhibit 6: Tian Lun Gas(1600 HK) approach to participation in rural "Coal-to-gas" projects



Sources: Company, OP research

Exhibit 7: We estimate Tian Lun Gas has recouped all the initial capital input and made profit for its participation in Henan's rural gas projects



*We assume NPM for construction services provided to Henan's JV is 30%. This is based on the segment profit margin of Engineering construction services (44.9%, 41.8%, 40.3%) between FY18 and FY20 and the effective tax rate of 25%

Sources: Company, OP Research

We expect the rural "Coal-to-gas" projects to continue generating sizable revenue for the engineering construction services, which could in turn offset losses from Henan's rural gas JV in the next few years.

Henan Government targets to connect 10 mn rural households to gas network when it put forward the "Coal to Gas" transition in Henan's rural towns during the 14th Five Period (2021-25), in which 2 mn rural households will be connected into gas network this year. We expect Yutian New Energy will speed up gas connection across rural towns in 2021 and Tian Lun Gas will be a direct beneficiary.

We think Tian Lun Gas approach to develop rural gas market is better than China Gas (384 HK) approach. While China Gas has to bear all the receivable risks of rural gas projects, the payment collection risk is contained within Tian Lun Gas JV.

Exhibit 8: Strategy comparison between Tian Lun Gas(1600 HK) and China Gas(384 HK) on rural gas market development

	Tian Lun Gas(1600 HK)	China Gas(384 HK)
Strategy	Form JV with local government investment vehicles (holds minority share interests)	Solely by China Gas
Region to focus	Henan	Northern China
Cumulative household completion	1.53mn (As at Dec 20)	5.53mn (As at Mar 20)
Capital input	RMB 400 mn for JV	RMB 16.7 bn (As at Mar 20) for gas connection
Source of revenue	1. Construction service for the JV 2. Profit(loss) sharing from the JV	1. Gas connection and sales 2. Government subsidies
Payment collection rate for gas pipeline connections	61%(As at Jun 20) 70%(As at Dec 20)	44%(As at Mar 20)
Pros	1. Capture revenue from gas connection while shifting the payment collection risk to JV 2. Less capital input to yield higher initial return 3. Lower cost of capital for the JV	1. Capture all revenue from the entire gas project
Cons	1. No control on JV 2. The JV <u>may accept gas projects with lower IRR</u> given the goal to promote use of gas in rural towns	1. High capital requirement at early stage 2. Payment collection risk and receivable risk of government subsidies
Remarks	No Government subsidies for the JV	

Sources: Tian Lun Gas, China Gas, OP research

Better outlook, big discount

Despite Tian Lun Gas relatively small scale, we argue Tian Lun Gas has better growth potential given its focus in lower-tier cities. Also, it has better than peer's average profit margins due to higher contribution from gas connection and engineering services.

Tian Lun Gas is trading at deep discount to peers and its current PE is well-below its 5-year average. We reckon this is mainly due to investors' wary on the profitability of rural "coal-to-gas" JV due to lack of government subsidies. However, investors also overlook an early payback period for the JV investment thanks to earnings from the construction services to the JV.

Exhibit 9: Peer Group Comparison 1³

Name	Tian Lun Gas	ENN	China Gas	CR Gas	Towngas China	Zhongyu Gas
Stock Code	1600 HK	2688 HK	384 HK	1193 HK	1083 HK	3633 HK
Mkt Cap(HK\$)	8.3bn	161.0bn	162.8bn	112.7bn	15.0bn	17.8bn
Gas business						
Total users	4.2mn	23.2mn	35.4mn	41.8mn	14.1mn	1.9 mn
Penetration rate of residential household	~50%	62.0%	64.9%	52.4%	N/A	68.1%
Retail gas sales volume (m ³)	1.2bn	22.0bn	25.4bn	29.0bn	12.0bn	2.0 bn
% to residential/ Industrial & commercial users	31%/63%	19%/77%	32%/62%	24%/71%	22%/76%	31%/69%
Financial performance						
Revenue	RMB6.4bn	RMB 71.6bn	RMB 59.5bn	HK\$55.9bn	HK\$12.8bn	HK\$8.5bn
% from gas sales	58%	57%	45%	80%	83%	72%
% from gas connection	40%	16%	23%	18%	17%	7%
Dollar Margin (per M ³)	0.56	0.60	City project: 0.605 RCG project:0.45	0.59	N/A	0.51(20 H1)
Ratio						
NPM	16.2%	8.8%	15.4%	9.2%	11.3%	12.4%
ROE	22.8%	22.3%	23.2%	16.3%	7.4%	19.6%
Net debt/equity	77.5%	31.5%	71.6%	Net cash	40.7%	146.7%
Growth CARG(FY15-20)						
Retail gas sales	18.4%	18.3%	23.1%	15.5%	12.8%	26.4%
Revenue	23.4%	17.4%	13.5%	12.0%	10.7%	21.1%
Net profit	29.7%	21.9%	21.5%	12.0%	12.4%	49.3%
Valuation						
Current P/E Ratio	7.7	21.0	16.2	21.1	10.2	16.9
5 years average PE Ratio	11.3	17.7	19.0	16.6	11.2	26.5

Source: Company, Bloomberg, OP Research

³ Unless specified, all operating data are from the latest annual result.

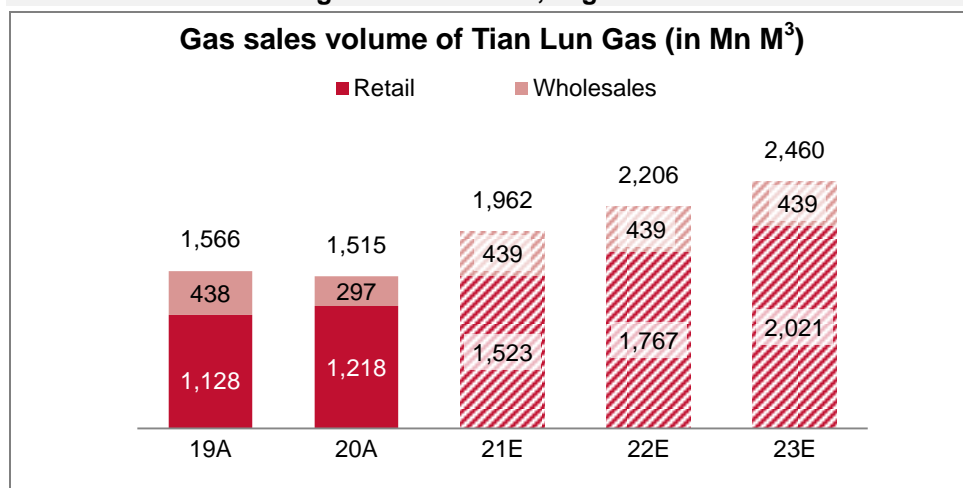
Initiate BUY on robust cash flow and 3 year CAGR of 13.8%

We forecast 13.8% 3 years CAGR in net profit to RMB 1.31bn by FY23E, on the back of 14.5% CAGR in revenue to RMB9.65bn.

We believe Tian Lun Gas could sustain 25%/16%/14% annual growth in retail gas sales volume between FY21E-23E thanks to (1) organic growth of urban gas project underpinned by lower gas penetration rate of residential household, and (2) contributions from the newly acquired urban cities project in 2020.

In particular, the newly acquired projects in Gansu and Qinghai (expect to consolidate this year) sold 190mn m³ gas in 2019 which was equivalent to ~15.8% of retail gas sales volume of Tian Lun Gas in FY20.

Exhibit 10: Forecast on gas sales volume, segmental revenue and GPM



Source: Company, OP Research

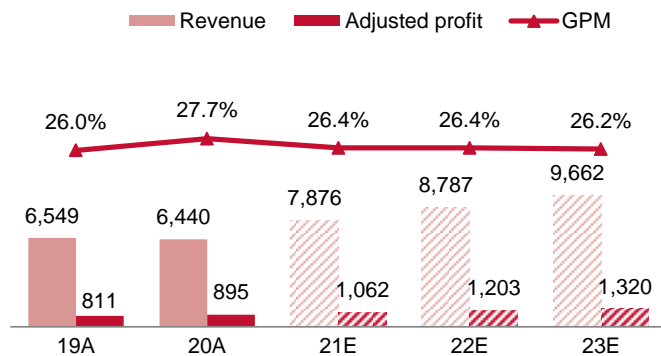
Exhibit 11: Our view on Tian Lun Gas business segment

	Sales of LNG cylinders				Sales of LNG in bulk				Engineering construction services				Valued-added business			
	Revenue		GPM		Revenue		GPM		Rev from urban gas projects		Rev from rural gas projects		Revenue		GPM	
Our Revenue and GPM forecast (FY20A-23E)	16.5%	16.4%	16.5%	16.5%	11.3%	10.0%	10.0%	10.0%	44.3%	44.0%	44.0%	44.0%	57.0%	50.0%	50.0%	50.0%
	3,061	3,847	4,467	5,107	674	996	996	996	2,550	2,815	3,019	3,131	155	218	305	426
	20A	21E	22E	23E	20A	21E	22E	23E	20A	21E	22E	23E	20A	21E	22E	23E
Revenue CAGR assumption (FY20A-23E)	19%				14%				7% Of which, Rural "Coal-to-gas" :10% Urban gas projects :0%				40%			
Our views	<u>Growth drivers</u> 1. Growing penetration rate of residential household 2. Contribution from newly acquired projects <u>Other assumptions</u> 1. Dollar margin stable at around RMB0.56/m ³ .				Gas sales volume in FY21 recover to FY19 level, then stay constant				<u>Growth drivers</u> 1. Accelerating adoption of natural gas especially in rural towns during the 14th five year period				<u>Growth drivers</u> 1. Expansion of gas network 2. Increasing penetration of value-added services			

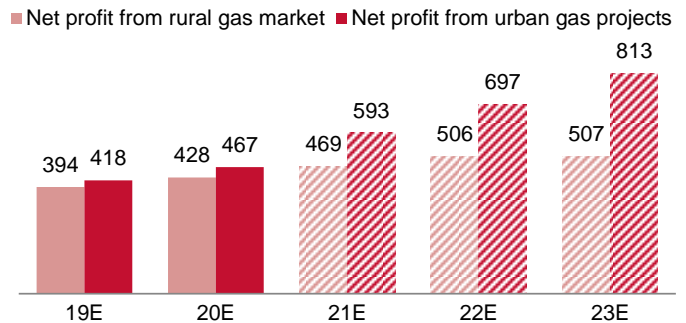
Source: Company, OP Research

Exhibit 12: Key financials forecast for Tian Lun Gas : Profitability driven growth

Revenue, adjusted net profit and GPM projection



Our estimate on profit contribution from rural gas market and urban gas projects



Sources: Company, OP research

Trading at 6.5x/5.8x FY21E/22E PER, the valuation of Tian Lun Gas is un-demanding as the market over-emphasis the risk of rural “Coal-to-Gas” JVs while overlook the Company's strong operating cash flow (~RMB1.6-2.0bn between FY21E-23E) and the much higher than peers dividend yield at ~4.0%. Moreover, parent Company Tian Lun Group bought most of the shareholding owned by IFC at HK\$7.50 in mid-May which mitigated investors' concern on share price pressure from the sizable stake reduction by IFC.

We project profits from participation in rural “Coal-to-gas” projects and urban gas projects to contribute RMB469mn/RMB593mn of net profit in FY21E. We assign PER 5.0x for Tian Lun Gas rural “Coal-to-Gas” projects while 12.2x FY21E net profit (20% discount to the average forward PER) for urban gas and other businesses. Our SOTP target price at HK\$10.50 represents 8.3x/7.4x FY21E/22E PER.

Exhibit 13: SOTP Valuation

	Methodology	Reasons	Value (RMB bn)	Per share (HK\$)
Rural gas projects	PER of 5.0x based on net profit in FY21E	We believe rural gas projects could make significant earnings contribution at least during the 14th Five year (2021-25)	2.34	2.8
Urban gas and other businesses	Peers average forward PER ⁴ with 20% discount	To factor (1) the smaller-business size and (2) weaker dollar margin	6.43	7.7
				10.5

Source: OP Research

⁴ Remarks: (1) We refer to the FY21E PER of Towngas China(1083 HK), CR Gas(1193 HK) and ENN(2688 HK) and FY22E PER of China Gas(384 HK) owing to the difference in fiscal year end date (China Gas ends its fiscal year in March while others end in Dec). (2) gas peers average forward PER is 13.6x; (3) Data sources : Bloomberg

Financial Summary

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Income Statement (RMB mn)					
Sales of LNG cylinders	2,980	3,061	3,847	4,467	5,107
Sales of LNG in bulk	1,081	674	996	996	996
Engineering construction services	2,355	2,550	2,815	3,019	3,131
others	132	155	218	305	426
Turnover	6,549	6,440	7,876	8,787	9,662
YoY%	28.1%	-1.7%	22.3%	11.6%	10.0%
COGS	(4,845)	(4,654)	(5,798)	(6,470)	(7,130)
Gross profit	1,704	1,786	2,078	2,317	2,531
Gross margin	26.0%	27.7%	26.4%	26.4%	26.2%
Other income	(15)	170	23	25	26
Selling & distribution	(58)	(59)	(71)	(79)	(87)
Admin	(196)	(193)	(236)	(264)	(290)
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	(254)	(253)	(307)	(343)	(377)
Operating profit (EBIT)	1,435	1,703	1,794	1,999	2,180
Operating margin	21.9%	26.5%	22.8%	22.7%	22.6%
Provisions	0	0	0	0	0
Interest Income	25	11	11	11	11
Finance costs	(291)	(250)	(280)	(280)	(280)
Profit after financing costs	1,170	1,464	1,525	1,730	1,912
Associated companies & JVs	(42)	(46)	(71)	(82)	(103)
Pre-tax profit	1,127	1,418	1,455	1,648	1,808
Tax	(314)	(355)	(364)	(412)	(452)
Minority interests	(24)	(20)	(29)	(33)	(36)
Net profit	789	1,044	1,062	1,203	1,320
YoY%	39	32	2	13	10
Adjusted net profit	811	895	1,062	1,203	1,320
YoY%	21	10	19	13	10
Adjusted net margin	12.4%	13.9%	13.5%	13.7%	13.7%
EBITDA	1,681	1,979	2,108	2,330	2,528
EBITDA margin	25.7%	30.7%	26.8%	26.5%	26.2%
EPS (RMB)	0.819	0.892	1.058	1.199	1.315
YoY%	16	9	19	13	10
DPS (HK\$)	0.262	0.307	0.381	0.431	0.474

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow (RMB mn)					
EBITDA	1,681	1,979	2,108	2,330	2,528
Chg in working cap	- 234	- 155	- 84	- 161	- 151
Others	197	- 173	0	0	0
Operating cash	1,644	1,651	2,024	2,169	2,377
Tax	- 170	- 261	- 355	- 364	- 412
Net cash from operations	1,294	1,390	1,669	1,806	1,965
Capex	- 317	- 281	-1,500	- 600	- 600
Investments	- 272	- 407	0	0	0
Dividends received	0	0	0	0	0
Interest received	16	7	11	11	11
Others	323	- 183	- 50	- 50	- 50
Investing cash	- 250	- 865	-1,539	- 639	- 639
FCF	1,044	525	130	1,167	1,326
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Interests paid	- 233	- 291	- 250	- 280	- 280
Dividends paid	- 212	- 235	- 299	- 319	- 361
Net change in bank loans	- 322	65	400	0	0
Others	- 6	231	0	0	0
Financing cash	- 773	- 230	- 150	- 599	- 641
Net change in cash	271	295	- 19	568	685
Exchange rate or other Adj	3	- 5	0	0	0
Opening cash	1,076	1,350	1,640	1,621	2,189
Closing cash	1,350	1,640	1,621	2,189	2,875
CFPS (HK\$)	0.328	0.353	-0.023	0.679	0.820

Source: Company, OP Research

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Ratios					
Gross margin (%)	26.0	27.7	26.4	26.4	26.2
Operating margin (%)	21.9	26.5	22.8	22.7	22.6
Net margin (%)	12.1	16.2	13.5	13.7	13.7
Selling & dist'n exp/Sales (%)	0.9	0.9	0.9	0.9	0.9
Admin exp/Sales (%)	3.0	3.0	3.0	3.0	3.0
Payout ratio (%)	26.7	28.7	30.0	30.0	30.0
Effective tax (%)	26.8	24.2	25.0	25.0	25.0
Total debt/equity (%)	135.2	110.9	98.1	85.3	74.7
Net debt/equity (%)	97.3	77.5	71.1	53.7	38.5
Current ratio (x)	1.2	1.0	1.0	1.1	1.3
Quick ratio (x)	1.1	0.9	0.9	1.1	1.2
Inventory T/O (days)	15	9	9	9	9
AR T/O (days)	86	79	70	70	70
AP T/O (days)	91	107	98	98	98
Cash conversion cycle (days)	11	(19)	(19)	(19)	(19)
Asset turnover (x)	0.6	0.5	0.6	0.6	0.6
Financial leverage (x)	3.0	2.7	2.5	2.3	2.2
EBIT margin (%)	21.9	26.5	22.8	22.7	22.6
Interest burden (x)	0.8	0.8	0.8	0.8	0.8
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Return on equity (%)	20.4	22.8	19.2	18.3	17.6

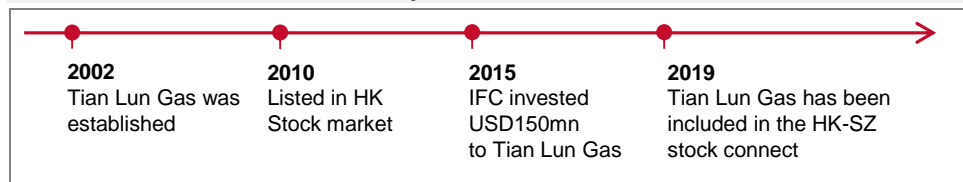
Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Balance Sheet (RMB mn)					
Fixed assets	2,850	3,035	4,331	4,709	5,070
Intangible assets	3,875	4,087	3,993	3,902	3,812
Financial assets	806	784	784	784	784
Right-of-use assets	252	268	305	341	375
Other non-current assets	258	382	629	543	437
Non-current assets	8,041	8,556	10,042	10,278	10,478
Inventories	205	116	143	160	176
AR	1,548	1,393	1,511	1,685	1,853
Contracted assets	509	1,162	1,295	1,444	1,588
Prepayments & deposits	0	0	0	0	0
Other current assets	286	52	52	52	52
Cash	1,350	1,640	1,621	2,189	2,875
Current assets	3,898	4,363	4,621	5,530	6,543
AP	1,202	1,364	1,557	1,737	1,914
Tax	320	398	364	412	452
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,781	2,753	2,753	2,753	2,753
CB & othe debts	0	0	0	0	0
Other current liabilities	9	42	42	42	42
Current liabilities	3,313	4,556	4,715	4,944	5,161
Bank loans & leases	3,880	2,770	3,233	3,233	3,233
CB & othe debts	0	0	0	0	0
Deferred tax & others	559	611	611	611	611
Non-current liabilities	4,439	3,381	3,844	3,844	3,844
Total net assets	4,187	4,980	6,103	7,020	8,016
Shareholder's equity	3,891	4,699	5,691	6,575	7,534
Share capital	1,038	826	826	826	826
Reserves	2,853	3,873	4,865	5,749	6,708
MI	297	281	335	367	403
BVPS (HK\$)	4.71	5.62	6.80	7.86	9.01

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Key assumptions					
Gas sales volume(Mn M ³)	1,566	1,515	1,962	2,206	2,460
yoy %	21	-3	30	12	12
Retail gas sales volume(Mn M ³)	1,128	1,218	1,523	1,767	2,021
yoy %	7	8	25	16	14
Gas sales ASP (M ³)	2.64	2.51	2.53	2.53	2.53
Dollar Margin(M ³)	0.55	0.56	0.56	0.56	0.56

Appendix I –Tian Lun Gas profile

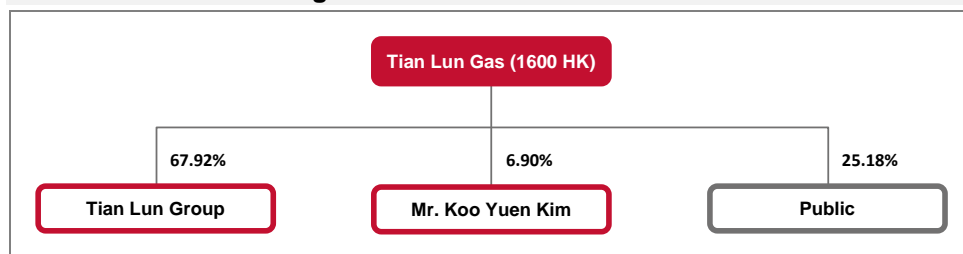
Tian Lun Gas, found in 2002, is an earlier mover private enterprise entering into domestic urban gas business. The business scope of Tian Lun Gas covers urban gas operation, long-haul pipeline and industrial user gas supply, refilling stations operation and LNG plants business.

Exhibit 14: Tian Lun Gas History



Source: Company, OP Research

Exhibit 15: Shareholding structure



Sources: Company, OP Research

Tian Lun Group recently acquired 141mn shares from IFC Global Infrastructure Fund ("IFC") at HK\$7.50.

We see it demonstrates Tian Lun Group's confidence on Tian Lun Gas, while also mitigated market concern on the sizable reduction of stake by IFC.

Exhibit 16: Management profile

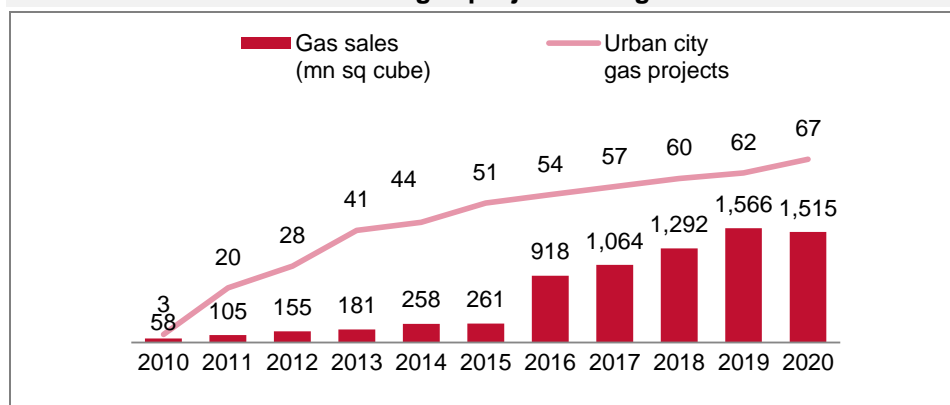
Name	Age	Position	Description
Mr. Zhang Yingcen	58	Executive Director, Chairman	Mr. Zhang is the founder of the Tian Lun Gas. He is responsible for the overall strategic planning and has involved in leading the development and investment of the business in the PRC. Mr. Zhang has more than 24 years of management experience, including 19 years of experience in the management of gas enterprises. He obtained certificate of EMBA from Tsinghua University in 2018.
Mr. Xian Zhenyuan	46	Executive Director, Chief Executive	Mr. Xian joined the Group in 2003 and served as a director and general manager of certain subsidiaries of the Company successively. He obtained a master's degree majoring in Accounting from Macquarie University in Australia in 2003.
Mr. Liu Min	47	Executive Director, General Manager	Mr. Liu was appointed as an executive Director and the general manager of the Company in June 2019. Mr. Liu has years of experience in clean energy industry, financial management, investment and financing management, asset acquisition, project development, product marketing and business operations.
Mr. Feng Yi	42	Executive Director	Mr. Feng joined the Group in 2006 and acted as the assistant to the general manager, deputy general manager and director of Henan Tian Lun Gas Group Limited successively. Mr. Feng has 19 years of experience in corporate investment and financing. He obtained EMBA in Guanghua School of Management in Peking University in the PRC in 2015.
Ms. Li Tao	49	Executive Director, Deputy general manager	Ms. Li joined the Group in April 2011 and is responsible for the financial management of the Group. She has years of experience in corporate finance management. She is a senior accountant and a Certified Public Accountant in the PRC.

Source: Company, OP Research

Appendix II – Urban gas projects and recent M&A

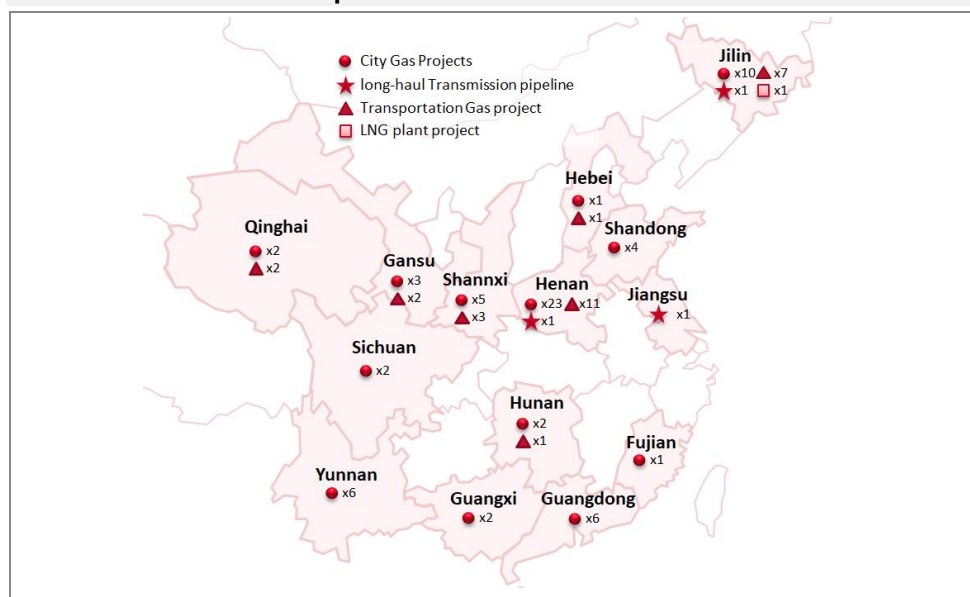
Tian Lun Gas operates 67 urban gas projects, 51 gas refilling stations in operation and 1 LNG plants projects in 16 provinces. In particular, most of the urban gas projects are situated in cities with lower gasification rate.

Exhibit 17: Tian Lun Gas urban gas projects and gas sales



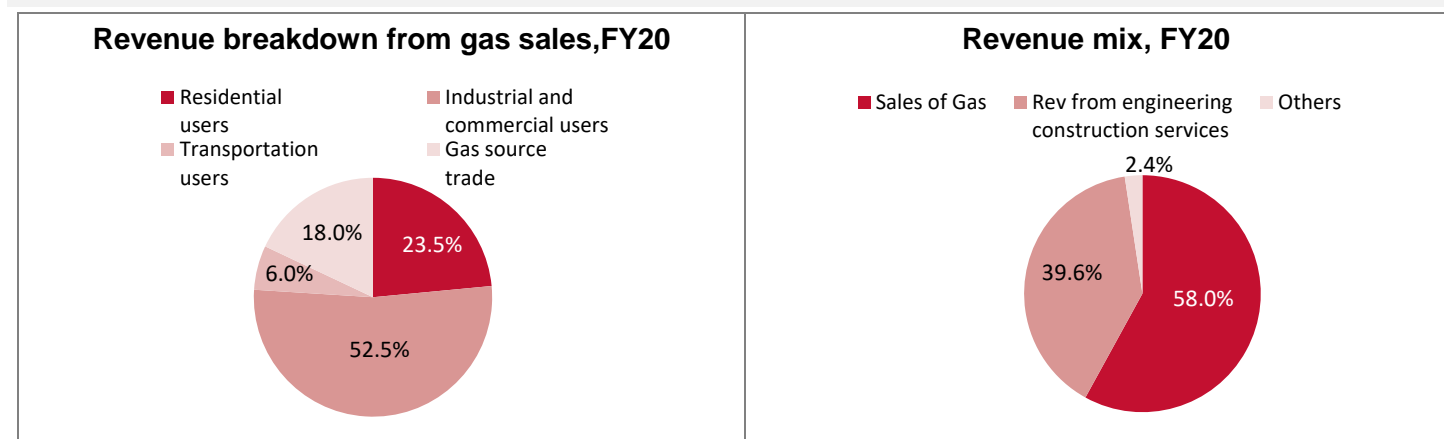
Source: Company, OP Research

Exhibit 18: Tian Lun Gas presence as at Dec 20



Source: Company, OP Research

Exhibit 19: Revenue breakdown



Source: Company, OP Research

M&A accelerated in FY20. Tian Lun Gas spent >RMB 1.4 bn to acquire 5 urban gas projects in FY20. We reckon newly acquired gas projects in Dec 2020 will significantly boost gas sales of the Company in FY21. These projects sold ~190mn m³ gas in 2019, which was equivalent to ~15.8% of retail gas sales volume of Tian Lun Gas in FY20.

Exhibit 20: Tian Lun Gas M&A in FY20

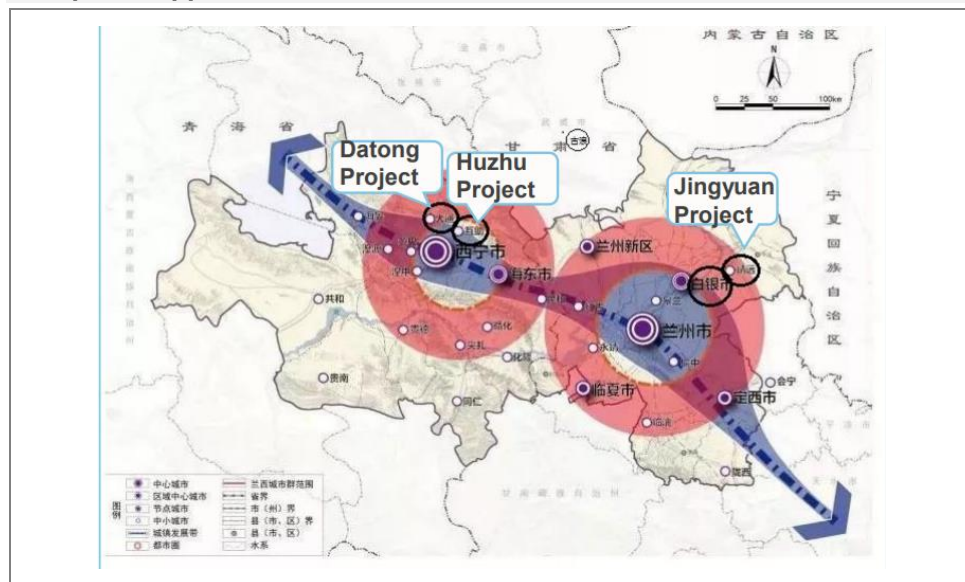
Date	Consideration	P/E	Location	Gas sales in 2019 (% of the Company retail gas sales volume)
Jan22	RMB280mn	-	Shenqiu County, Zhoukou City, Henan	22.0mn m ³ (~1.9%)
Sep2	RMB108mn	-	Zizhou County in Yulin City, Shaanxi	17.1mn (~1.5%)
Dec 27	RMB233.3mn	30.8x	Jingyuan County in Baiyin City, Gansu	~40 mn (~3.5%)
Dec 27	RMB832.8mn	17x	Datong County in Xining City and Huzhu County in Haidong City, Qinghai	153mn (~13.6%)

Source: Company, OP Research

Tian Lun Gas highlighted the catalysts for the newly acquired projects in Gansu and Qinghai

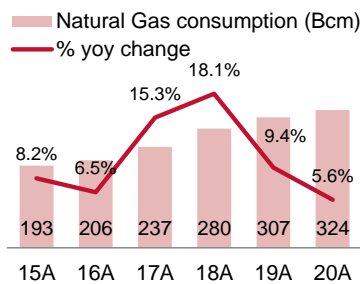
1. High-quality gas source ensures growth of new users
2. Large potential in industrial gas demand
3. Stable connection business and value-added business
4. Mature operations and healthy cash flow

Exhibit 21: Tian Lun Gas acquired projects in Lanzhou-Xining city clusters to explorer opportunities in the Northwest market



Source: Company, OP Research

China's natural gas consumption in 2015-20



Sources: NRDC

Even natural gas is a kind of fossil fuel, it emits ~50% less CO₂ than coal when generating electricity

Sources: EIA

China's timetable to reduce carbon emission

Target	By 2025	By 2030
Per GDP energy consumption	-13.5%	-
Per GDP carbon emission	-18%	-65% (Compared to 2005)

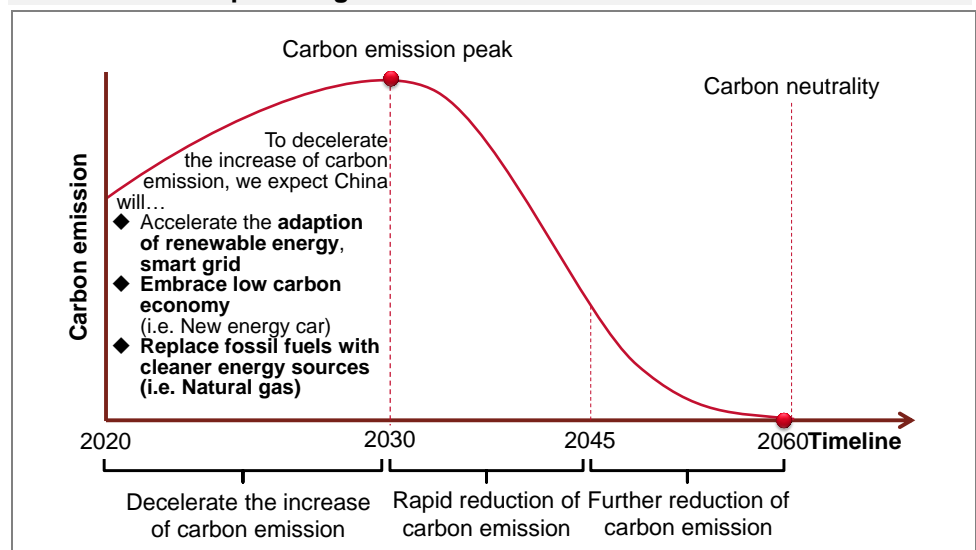
Sources: People's Daily

Appendix III – Gas industry in the 14th Five Year period

Natural gas consumption grew only 5.6% yoy in 2020 due to pandemic but still outperformed other fossil energy. We expect growing gas consumption to pick up in 2021 thanks to acceleration of “Coal-to-gas” transition to tackle air pollution and reduce carbon emission. Gas will still be an important energy component for China in the next 10-15 years. BP projects that gas consumption in China during 2019-25 will grow at CAGR of 8.4%.

China's efforts to reduce carbon emission will boost the consumption of natural gas after it pledged to achieve “Carbon emission peak” and “Carbon neutrality” in 2030 and 2060 respectively. China has outlined an aggressive target for carbon reduction and natural gas to play a more prominent role to substitute coal (represents 56.8% of China's total energy consumption in 2020) and to supplement the intermittent solar and wind power generation.

Exhibit 22: We expect an increase usage of natural gas for China in this decade with an aim to lower the consumption of other fossil fuels to meet carbon emission peak target in 2030



Source: Open sources, OP research

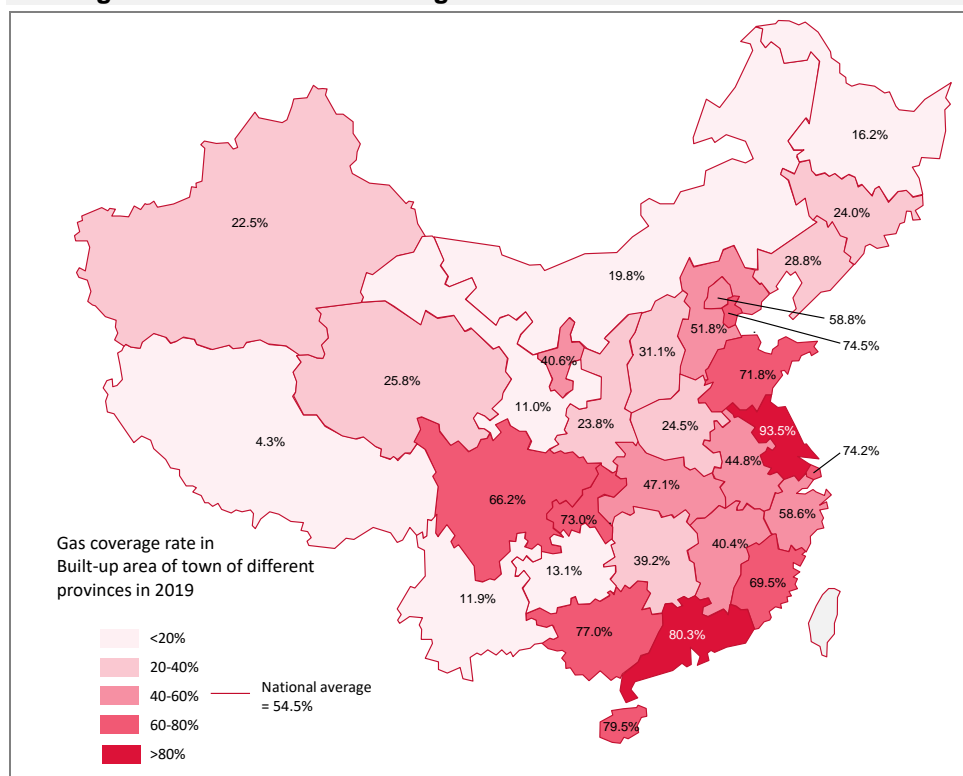
We see the following catalysts will boost the use of natural gas, including: (1) **More industrial users and residents in rural area turn to use natural gas** as a result of new environmental policies, (2) **more diversified and stable natural gas supply** (thus reducing likelihood for supply shortage in winter) thanks to broadening gas sourcing (e.g. Russia began to supply gas through the “China–Russia East-Route Natural Gas pipeline” from 2020), and (3) **expected decline in the cost of natural gas** under the natural gas pricing reform.

Rural gas market the next growth catalyst. China government is looking to accelerate gas coverage in rural towns, with aims to revitalize rural economy and to tackle with air pollution. According to the No 1 central document released by China this year, the central government clearly stated that it will “increase gasification rate, support the building of micro-grid system, and gas-storage facilities in rural towns”.

After years of effort, we see significant increase of gas coverage in built-up area of town for Hebei and Shandong thanks to government’s efforts to tackle pollution in “2+26 cities”⁵. On the other hand, we also see that gas coverage rate in Northern and Western provinces (like Henan, Jilin, Gansu) still staying below the national average in 2019.

We expect many provinces will offer more incentives for rural gas projects given the government policy mandate. We expect provinces with major gas pipelines nearby (i.e. Henan, Gansu, Heilongjiang, Jilin) will accelerate development of rural gas network.

Exhibit 23: Towns in Northern and Western China has much lower gas coverage rate than national average



Source: Ministry of Housing and Urban-rural development of PRC, OP Research

⁵ Including Beijing, Tianjin, and 26 cities of Hebei, Shandong, Henan and Shannxi.

Exhibit 24: Peer Group Comparison

												Div		Div																	
					PER	PER	EPS	EPS	3-Yr	net p		yld	yld	P/B	P/B	EV/	EV/	Net	Gross	Net	ROE	ROE									
			Mkt cap	3-mth avg	PER	FY1	FY2	FY1	FY2	rofit	Cagr	PEG	Hist	FY1	Hist	FY1	Ebitda	Ebitda	Cur	gearing	margin	Hist	margin	Hist	FY1	Sh px	Sh px				
Company	Ticker	Price	(US\$m)	t/o (US\$m)	Hist (x)	(x)	(x)	YoY%	YoY%	(%)	(x)	(%)	(%)	(x)	(x)	Hist	Yr	Hist (%)	(%)	Hist (%)	(%)	(%)	1-mth %	3-mth %							
Tian Lun Gas	1600 HK	8.27	1,070	1.7	7.7	6.5	5.7	18.6	12.3	13.5	0.48	3.7	4.6	1.47	1.22	6.1	6.0	77.5	27.7	16.2	22.8	19.2	7.3	18.9							
HSI		29,297.62			13.7	12.7	11.3	8.3	11.9	10.4	1.22	2.4	2.8	1.19	1.25						8.7	9.9	2.0	0.7							
HSCEI		10,951.84			14.4	10.6	9.4	36.3	12.5	19.4	0.54	2.5	3.0	1.22	1.27						8.5	12.1	1.2	(3.6)							
CSI300		5,289.97			17.8	15.4	13.6	15.7	13.0	13.6	1.1	1.7	2.0	2.3	2.1						12.7	13.6	3.2	(1.1)							
Adjusted sector avg					15.5	13.1	12.3	16.0	11.3	13.4	1.1	1.8	2.6	2.6	2.3	12.1	9.7	31.6	23.9	10.4	16.7	16.9	7.7	21.3							
Kunlun Energy	135 HK	6.49	7,242	21.6	7.6	6.0	8.6	27.0	(30.5)	(2.3)	N/A	44.1	3.3	0.9	0.9	6.2	6.2	14.3	N/A	5.5	11.7	15.5	11.9	26.9							
China Gas Holdin	384 HK	29.05	20,982	70.9	16.5	13.8	12.1	19.4	14.7	15.8	0.9	1.7	2.0	3.4	3.1	13.8	11.8	71.6	28.7	15.4	23.2	23.6	3.6	(1.7)							
Towngas China	1083 HK	5.05	1,932	3.3	10.2	8.9	8.3	14.6	7.0	11.7	0.8	3.0	3.5	0.7	0.7	10.3	9.1	40.7	N/A	11.3	7.4	7.9	35.8	53.8							
China Res Gas	1193 HK	48.70	14,523	15.6	21.1	18.3	16.7	15.1	9.9	11.8	1.6	1.9	2.3	3.1	2.9	11.5	10.0	0.0	26.9	9.2	16.3	16.0	15.5	26.8							
Enn Energy	2688 HK	142.60	20,754	36.7	21.0	18.2	16.1	15.0	13.6	14.4	1.3	1.7	1.9	4.3	3.7	14.1	11.5	31.5	17.2	8.8	22.3	21.6	8.0	22.7							
Zhongyu Gas Hold	3633 HK	6.74	2,298	0.6	16.9	N/A	N/A	N/A	N/A	N/A	N/A	0.6	N/A	3.0	N/A	10.9	N/A	146.7	22.8	12.4	19.6	N/A	(0.4)	(0.9)							

* Outliners and "N/A" entries are excl. from the calculation of averages

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
25/05/2021	Yeahka	9923	Narrowed valuation premium on revised growth outlook	HOLD	Kevin Tam
20/05/2021	China Edu Sector	-	Policy risk on private higher education eased	-	John Siah
17/05/2021	AAC Tech	2018	Acoustic and optics led strong rebound in 21Q1	BUY	John Siah
12/05/2021	HKTv	1137	Convincing long term prospect despite sluggish near term GMV	BUY	Kevin Tam
30/04/2021	China Edu Group	839	Ready for more M&A	BUY	John Siah
22/04/2021	New Higher Edu	2001	More visible growth path	BUY	John Siah
22/04/2021	Edvantage Group	382	Fascinating growth story set to take off	BUY	John Siah
21/04/2021	Innovent Bio	1801	More convincing pipeline development	BUY	Kevin Tam
15/04/2021	AAC Tech	2018	Optical segment beginning to shine	BUY	John Siah
31/03/2021	HKTv	1137	FY20 bottom line fell short on fulfillment cost	BUY	Kevin Tam
29/03/2021	361 Degrees	1361	Encouraging recovery in 2H20, visible growth for FY21E	BUY	Kevin Tam
25/03/2021	Greentown Mgmt	9979	Pure cash cow with surprise on dividend	BUY	John Siah
23/03/2021	Yeahka	9923	Payment driven growth thesis remains compelling	BUY	Kevin Tam
17/03/2021	Yidu Tech	2158	Digging the healthcare big data goldmine	BUY	Kevin Tam
22/02/2021	Razer	1337	A year of harvest	NR	John Siah
04/02/2021	HKTv	1137	Flat Jan GMV, but still upbeat on growth prospect	BUY	Kevin Tam
19/01/2021	Yeahka	9923	More conviction on marketing services driven growth	BUY	Kevin Tam
18/01/2021	Xtep Intl	1368	Channel inventory improvement on track	BUY	Megan Jin
15/01/2021	New Higher Edu	2001	More visible and stellar growth	BUY	John Siah
15/01/2021	Anta Sports	2020	More positive Anta brand FY21E outlook	HOLD	Megan Jin
06/01/2021	HKTv	1137	E commerce solution business moving forward	BUY	Kevin Tam/Megan Jin
30/12/2020	New Oriental Edu	9901	Tutoring elephant continues to fly	BUY	Kevin Tam
23/12/2020	Anta Sports	2020	Precor disposal in plan of Amer brands restructuring	HOLD	Megan Jin
21/12/2020	Scholar Edu	1769	Extraordinary growth expected to continue	NR	John Siah
14/12/2020	CG Services	6098	Placement for strategic deployment	BUY	Megan Jin
09/12/2020	Edvantage Group	382	Expansion begins	BUY	Megan Jin
08/12/2020	HKTv	1137	Satisfactory November GMV	BUY	Kevin Tam/Megan Jin

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