



GREAT ROC

CAPITAL SECURITIES LIMITED

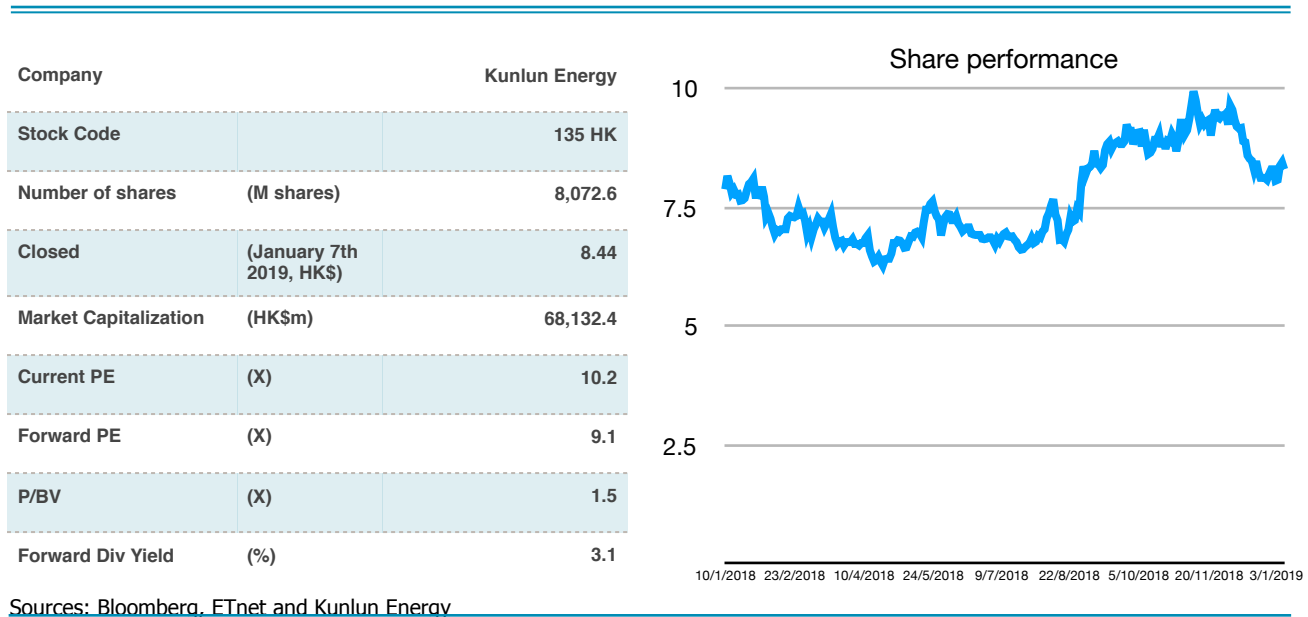
鴻鵬資本證券有限公司

A Wholly-owned subsidiary of UKF (Holdings) Limited (HKEX stock code 1468)
英策(控股)有限公司之全資附屬公司(香港交易所上市編號1468)

Kunlun Energy(135 HK)

Research Note

Tuesday, 8 January 2019



- We adopt positive outlook for natural gas sector in China on projected rise in gas consumption in the country driven by supporting policies and well-developed LNG storage and transmission infrastructure.
- In 2017, natural gas only accounted for about 6.6% of China's total primary energy consumption, which was far lower than the world average of 23.4%, according to 2018 BP Statistical Review of World Energy. To reduce CO2 emission and diversify energy sources, public sectors in China has been promoting natural gas as major source of energy.
- According to the National Plan on Climate Change (2014–2020), by 2020, China aims to lower CO2 emissions per unit of GDP by 40.0% to 45.0% from the level of 2005. In the light of the projection provided in Action Plan on Energy Development Strategy (2014–2020) by State Council, share of natural gas consumption in China primary energy consumption is expected to expand to 10% by 2020 and 15% by 2030.
- Developed gas transmission and transportation infrastructures also enhance accessibility of natural gas in China. As of the end of 2017, length of long-distance gas transmission pipeline network in China was about 77,000.0km. In light of "Mid to Long Term planning on Development of Gas Transmission Pipeline Network" by NDRC and National Energy Administration, by the end of 2020 and 2025, length of long-distance gas transmission pipeline network in China would reach 169,000Km and 250,000Km, respectively. As of the end of 2017, China had 17 operating LNG terminals, 3 LNG terminal ready for operation, and 6 LNG terminals are under construction.
- Output and consumption of natural gas in China increased at five-year CAGR of 5.8% and 9.8%, respectively, from 111.8b cubic meters and 150.9b cubic meters in 2012, to 148.0 cubic meters and 241.2b cubic meters in 2017. It is projected that natural gas consumption in China would grow at a four-year CAGR of 11.1% in 2018E and 2022F, reaching 415.3 b cubic meters per annum.
- We like Kunlun Energy's highly vertically integrated platform covering transmission pipeline network, city gas projects; LNG receiving, processing, storage and transportation; LNG/CNG terminals, natural gas power generation as well as distributed energy, allowing it to profit from all segments along the natural gas supply chain and strengthen its leading position in the industry.
- Kunlun's parent PetroChina owned and controlled 69.0% of the natural gas transmission pipeline network in China as of the end of 2017. As PetroChina flagship in mid-to-downstream natural gas business, Kunlun secures stable gas supply, and perhaps has access to projects which are located adjacent consumers with strong demand for gas and funding with lower cost. Stable gas supplies, strategic geographic location and low cost of funding allow the group's projects yield higher return than its peers', probably.
- Kunlun Energy's below average consensual three-year earnings CAGR of 16.4% is justifiable by its attractive valuation in terms of one-year forward PE of 9.1x and PEG of 0.55x. In addition, the group's one-year forward PE is just 30.0% only of its five-year average PE of 29.1x.



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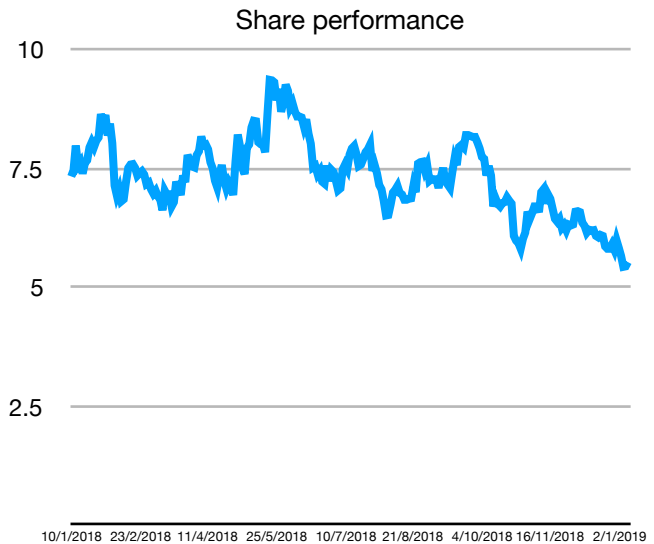
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CIMC ENRIC(3899 HK)

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Company		CIMC ENRIC
Stock Code		3899 HK
Number of shares	(M shares)	1,997.0
Closed	(January 7th 2019, HK\$)	5.44
Market Capitalization	(HK\$m)	10,863.7
Current PE	(X)	13.3
Forward PE	(X)	10.3
P/BV	(X)	1.6
Forward Div Yield	(%)	2.2



Sources: Bloomberg, FTnet and CIMC Enric

- We also like CIMC Enric on its leading position in China LNG equipment market. The group design, develop, produce and sell wide spectrum of transportation, storage and processing equipment for the clean energy, chemical and environmental, as well as liquid food industries. It provides equipment maintenance services and industrial solution for the aforementioned industries too. It operates in three segments, namely energy equipment and engineering, chemical equipment and Liquid food equipment and engineering.
- The group's energy equipment and engineering division provides NG products and solution such as LNG trailers, storage tanks and on-vehicle fuel tanks, compressed natural gas trailers and seamless pressure cylinders, natural gas refueling station systems, natural gas compressors, EPC service for the natural gas liquefaction plant, EPC service for the natural gas cryogenic storage and transportation terminal, IOT based platform, small and medium-sized liquefied multi-gas carriers, LNG bunkering vessels, LNG powered ships as well as marine liquefied-gas tanks and LNG marine fuel tanks
- In our view, CIMC Enric is set to benefit from the shortage of gas reserve and storage facilities in China. By estimation, currently, working gas reserve in underground storage facilities in China covers about 3.0% only of the consumption, substantially lower than that the international average of 12.0%-15.0%. Reserve at storage tankers in China LNG terminals covers only 2.2% of consumption, lower than that of 15.0% in Japan and Korea. Reserve in natural gas storage facilities in China merely meet the country's consumption for three days.
- State Council of PRC set its targets regarding gas reserve and storage in its commentary on "Further Reformation of Oil and Gas System". According to which, natural gas operators and providers in China should have natural gas storage facilities that are capable to reserve 10.0% of contractual sales volume. Further, by 2020, administrative regions in China should have gas reserve for three days consumption ready. Gas operators in town and cities should establish gas reserve equivalent to 5.0% of their annual consumption. To develop gas reserves, more storage tanks would be needed, implying more orders to CIMC Enric.
- In addition, CIMC Enric would benefit from the development of distributed energy in China. Distributed energy system is decentralized, modular, and flexible power generation and storage system that is located close to the consumers with capacities of 10 MW or less. Given its low emission and high efficiency and flexibility, distributed energy emerged as an alternative generation system to large-scale conventional generation plants that require long-distance power transmission. As distributed energy become prevailing in China, orders for the equipment to CIMC Enric would increase. The development of LNG powered vessels in China would boost the group's sales of LNG fueled vessels.
- CIMC Enric's three-year earnings CAGR at 37.1% outstrips the sector's average three-year earnings CAGR of 24.9%. In contrast to sectoral one-year forward PE at 10.6x, traded at 10.3x of its projected FY19F earnings and 0.28x of its projected three-year earnings CAGR, CIMC Enric's valuation is undemanding, considering its outstanding projected three-year earnings CAGR.

		Curr.	YTD	5-yr		1-yr	12m	Est.	3-yr	Fwd
		Mkt	Price	Avg	Cur.	Fwd	Div.	Div.	Earnings	1-yr
		Cap.	Chg	PE	PE	PE	Yield	Yield	CAGR	ROE
Company	(HK\$m)	(%)	(X)	(X)	(X)	(%)	(%)	(%)	(%)	(%)
3899 HK Equity	CIMC ENRIC HLDG	10,863.7	(9.2)	-	13.3	10.3	1.5	2.3	37.1	13.6
384 HK Equity	CHINA GAS HOLDIN	131,351.0	(7.2)	20.9	16.8	14.4	1.4	1.8	21.8	24.6
2688 HK Equity	ENN ENERGY	78,118.2	0.1	20.4	15.8	13.4	1.6	2.1	27.9	22.9
1193 HK Equity	CHINA RES GAS	66,164.4	(4.0)	18.8	14.8	13.2	1.8	2.3	19.0	19.0
135 HK Equity	KUNLUN ENERGY	68,132.4	1.7	29.1	10.2	9.1	3.1	3.4	16.4	14.0
3633 HK Equity	ZHONGYU GAS HOLD	16,119.8	(3.1)	26.3	0.0	15.5	0.8	1.3	-	24.2
1083 HK Equity	TOWNGAS CHINA	16,017.2	(1.9)	15.9	11.1	9.9	2.6	2.9	8.5	9.1
1600 HK Equity	TIAN LUN GAS	6,234.6	(2.2)	21.0	8.8	5.6	1.0	3.2	48.3	27.0
956 HK Equity	CHINA SUNTIEN-H	7,281.7	(3.0)	13.2	5.1	4.5	6.4	7.5	20.0	14.3

Sources: Bloomberg

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