

Core Profitability Robust, Asset Disposal Income Stellar

Huatai Research

17 August 2024 | China (Mainland)

Interim Results Review

City Gas & Gas Distribution

Rating (Maintain): **BUY**Target price (RMB): **33.46**

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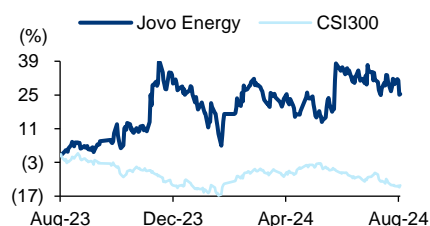
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Key data

Target price (RMB)	33.46
Closing price (RMB as of 15 Aug)	27.45
Potential upside +/- (%)	22
Mkt cap (RMBmn)	17,447
6m avg daily val (RMBmn)	168.69
52wk price range (RMB)	22.51-30.85
BVPS (RMB)	13.63

Share performance



Source: Wind

1H24 attributable NP rose 55% yoy, earnings forecasts/TP maintained

Jovo Energy has released interim report, logging revenue of RMB11,267mn (+2% yoy), attributable NP of RMB1,106mn (+55% yoy), and recurring NP of RMB788mn (+1.8% yoy), below the lower limit of its profit alert (RMB813mn) in 1H24. The company registered revenue/attributable NP/recurring NP of RMB4,934/626/326mn (+8/+140/+0.5% yoy) for 2Q24. We estimate its 2024/2025/2026 attributable NP of RMB1,518/1,790/2,097mn. The company's gas distribution/specialty gas peers trade at 11x/21x 2024E PE on average per Wind consensus. As our forecast for the company's 2024-2026 NP CAGR is higher/lower than its gas distribution/specialty gas peers' average per Wind consensus, we value the stock at 14x 2024E PE. Our target price is RMB33.46 (consistent with the previous value after share capital adjustment). Maintain BUY.

Clean energy: complementary offshore and onshore gas resources

For 1H24, Jovo Energy increased its spot procurement of offshore gas to optimize costs, achieving self-controlled LNG capacity of 700k tonnes and production of 330k tonnes. Industrial terminal sales rallied 20% yoy, while sales volume to gas-fired power plants rose notably yoy. In 1H24, Jovo Energy strengthened its presence in the LPG market for chemical raw materials, leading to yoy growth in segment sales volume, while integrating LPG resources and expanding its market share in Southeast Asia.

Energy operation services advanced alongside logistics services

For 1H24, the volume of natural gas recovery and processing reached 180k tonnes (1H23: 190k tonnes), with per-tonne earnings remaining largely stable. Utilization of midstream assets improved, with the company's LNG/LPG ships providing 17/24 voyages of external transportation services, respectively. LNG terminal service volumes reached 194mn cubic meters. Additionally, the company optimized and adjusted its shipping capacity, selling an LNG ship for asset disposal income of RMB336mn in 1H24.

On-site specialty gas production & retail supply to boost upside

In 1H24, Jovo Energy sold 150k cubic meters of high-purity helium (1H23: 130k cubic meters). The "domestic gas helium + imported liquid helium" dual resource pool was gradually established, with the company collaborating with the Aerospace Information Research Institute for helium supply, completing the first delivery. The on-site hydrogen gas production project operated well in 1H24, with hydrogen sales volumes reaching 54.34mn cubic meters, showing steady yoy growth. Profitability of specialty gases significantly outperformed its clean energy business, and is likely in our view to support its earnings upside in the future.

Risks: falling GPM of specialty gases; lower LNG/LPG sales volume than we expect; disappointing commercial space project progress.

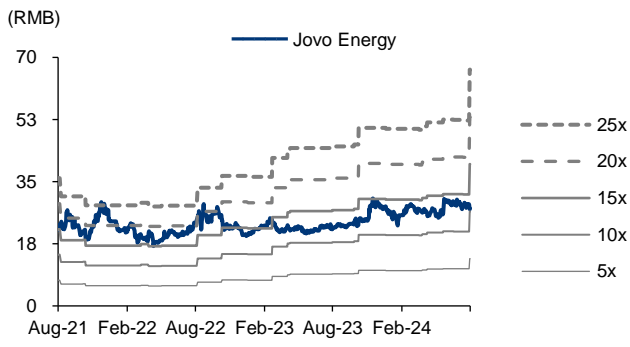
Financials

YE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMBmn)	23,954	26,566	27,073	27,699	28,373
+/-%	29.56	10.91	1.91	2.31	2.43
Net profit (RMBmn)	1,090	1,306	1,518	1,790	2,097
+/-%	75.87	19.81	16.25	17.92	17.13
EPS (diluted, RMB)	1.71	2.05	2.39	2.82	3.30
ROE (%)	17.19	17.75	18.26	18.85	19.25
PE (x)	16.74	13.97	12.02	10.19	8.70
PB (x)	2.63	2.35	2.06	1.80	1.57
EV EBITDA (x)	10.55	9.15	8.80	6.66	5.44

Source: Company announcements, Huatai Research estimates

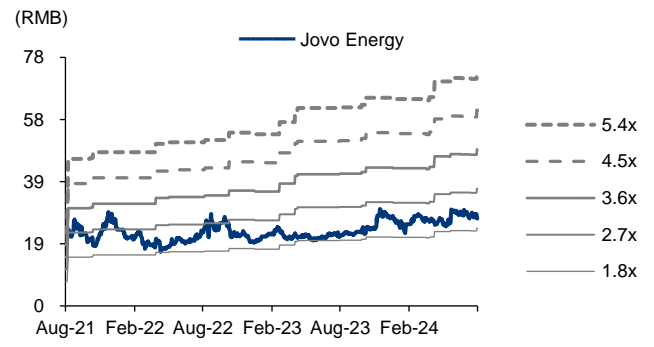


Fig.1: Jiangxi Jovo Energy PE-Bands



Source: Wind, Huatai Research

Fig.2: Jiangxi Jovo Energy PB-Bands



Source: Wind, Huatai Research

Full financials

Balance sheet						Income statement					
YE 31 Dec (RMBmn)	2022	2023	2024E	2025E	2026E	YE 31 Dec (RMBmn)	2022	2023	2024E	2025E	2026E
Current assets	6,419	8,032	8,275	10,045	10,578	Revenue	23,954	26,566	27,073	27,699	28,373
Cash & equivalents	4,633	5,463	5,567	7,233	7,793	Operating costs	22,397	24,489	24,735	25,067	25,416
Account receivables	221.97	466.42	366.61	556.69	389.07	Business taxes & surcharges	19.65	30.37	30.95	31.66	32.43
Other receivables	75.49	26.96	77.45	29.38	80.04	Operating expenses	204.60	204.44	243.66	249.29	255.36
Prepayments	223.81	335.43	234.48	348.60	248.67	Admin expenses	166.77	297.67	303.35	310.36	317.91
Inventories	988.17	974.88	1,224	1,108	1,256	Financial costs	(115.26)	(17.45)	(75.66)	(107.35)	(149.39)
Other current assets	277.31	765.35	806.16	769.30	810.43	Asset impairment losses	(47.27)	(92.63)	(94.40)	(96.58)	(98.93)
Non-current assets	4,890	6,378	6,430	6,496	6,542	P from fair value changes	(12.86)	(18.41)	0.00	0.00	0.00
Long-term investment	462.95	620.96	742.31	883.38	1,054	Investment income	7.86	(23.16)	0.00	0.00	0.00
Fixed investment	2,245	2,699	2,883	2,999	3,032	Operating profit	1,245	1,488	1,730	2,040	2,389
Intangible assets	280.00	297.82	324.93	357.60	393.59	Non-operating income	27.04	3.60	3.60	3.60	3.60
Other non-curr. assets	1,902	2,759	2,479	2,256	2,063	Non-operating expenses	1.15	4.65	4.65	4.65	4.65
Total assets	11,309	14,409	14,705	16,541	17,120	Total profit	1,270	1,487	1,729	2,039	2,388
Current liabilities	2,591	3,054	2,422	3,116	2,347	Income tax expenses	177.65	172.43	200.45	236.38	276.88
Short-term borrowings	913.30	938.78	1,047	938.78	938.78	Profit after tax	1,093	1,315	1,529	1,803	2,111
Account payables	378.73	849.02	0.00	879.53	12.27	Minority interest	2.83	9.08	10.56	12.45	14.58
Other current liabilities	1,299	1,266	1,376	1,298	1,396	Net profit attr. to parent	1,090	1,306	1,518	1,790	2,097
Non-current liabilities	1,538	3,201	3,040	2,879	2,717	EBITDA	1,550	1,845	1,902	2,226	2,594
Long-term borrowings	222.90	793.00	632.27	471.43	308.54	EPS (RMB, basic)	1.76	2.11	2.39	2.82	3.30
Other non-curr. liabilities	1,315	2,408	2,408	2,408	2,408						
Total liabilities	4,128	6,255	5,463	5,995	5,063						
Minority interest	239.35	379.41	389.96	402.41	416.99	Performance					
Share capital	625.41	629.23	635.58	635.58	635.58	YE 31 Dec	2022	2023	2024E	2025E	2026E
Capital reserves	3,163	3,286	3,286	3,286	3,286	Growth (%)					
Retained profit	2,982	3,917	4,942	6,141	7,547	Revenue	29.56	10.91	1.91	2.31	2.43
Shareholders' equity attr. to parent	6,942	7,775	8,853	10,143	11,640	Operating profit	63.19	19.60	16.24	17.91	17.12
Equity & liabilities	11,309	14,409	14,705	16,541	17,120	Net profit attr. to parent	75.87	19.81	16.25	17.92	17.13
						Profitability (%)					
						Gross profit margin	6.50	7.82	8.64	9.50	10.42
						Net profit margin	4.56	4.95	5.65	6.51	7.44
						ROE	17.19	17.75	18.26	18.85	19.25
						ROIC	25.56	24.68	23.65	31.65	33.01
						Solvency					
						Liabilities/assets (%)	36.50	43.41	37.15	36.25	29.57
						Net gearing ratio (%)	(28.59)	(14.58)	(14.44)	(31.00)	(33.13)
						Current ratio (x)	2.48	2.63	3.42	3.22	4.51
						Quick ratio (x)	1.99	2.18	2.78	2.73	3.83
						Operating capability					
						Total assets t/o ratio (x)	2.51	2.07	1.86	1.77	1.69
						Receivables t/o ratio (x)	62.21	77.18	65.00	60.00	60.00
						Payables t/o ratio (x)	86.44	39.89	58.27	57.00	57.00
						Per-share data (RMB)					
						EPS (diluted)	1.71	2.05	2.39	2.82	3.30
						OCFPS (diluted)	2.67	3.40	1.28	4.23	2.48
						BVPS (diluted)	10.92	12.23	13.93	15.96	18.31
						Valuation (x)					
						PE	16.74	13.97	12.02	10.19	8.70
						PB	2.63	2.35	2.06	1.80	1.57
						EV EBITDA	10.55	9.15	8.80	6.66	5.44

Source: Company announcements, Huatai Research estimates



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NEUTRAL: Performance of the industry index is expected to be in line with the benchmark

UNDERWEIGHT: The industry index is expected to significantly underperform the benchmark

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BUY: The stock price is expected to outperform the benchmark by more than 15%

OVERWEIGHT: The stock price is expected to outperform the benchmark by 5%~15%

HOLD: The performance of the stock relative to that of the benchmark is expected to be within -15%~5%

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