

## NewOcean Energy

### Sign of harvest ahead

to summarize...

- Expect strong growth in 1H FY12/11F to be announced in mid of next month
- Slightly revise up our reference target price to HK\$2.22 at 10.0x FY12/11F P/E
- Acquisition to contribute interest income in 2011 before consolidation in 2012
- Expect synergy to emerge since 1H FY12/11F which boosts sales volume
- Expect minimal CAPEX in coming 1-2 years after TDR issue

**Interim results to show both organic and M&A growth.** NewOcean Energy is to announce interim results in mid of Aug. Basically we retain our positive view and our estimates generally remain the same except minor changes. Table 1 and Table 2 are quick summaries for key assumptions and key figures. Although the company does not issue a profit alert, we believe profit jump in the coming interim would be as much as 100%+ to HK\$135.2m on interest income for 2011 due to the acquisition and existing business recovery since 2H FY12/10A. We expect further improvement would be seen in 2H, boosting full year earnings to HK\$289m, in our view.

**Table 1. Key figures forecast for 2011 and 2012 on yearly basis**

HK\$ m	FY12/10A	FY12/11F	FY12/12F
Revenue	8,478	13,032	15,861
Gross profit	447	541	741
Interest income from acquisition	0	120	0
Profit for the period	137	289	329
EPS (HK\$)	0.114	0.242	0.275
Sales volume (m tonne)	1.22	1.39	1.50
Avg GP per tonne of current LPG business (US\$)	47	50	49
Avg GP per tonne LPG import-to-station sales (US\$)	--	--	130

**Table 2. Key figures forecast for 2011 and 2012 on half-yearly basis**

HK\$m	1H FY12/10A	2H FY12/10A	1H FY12/11F	2H FY12/11F
Revenue	3,796	4,682	6,190	6,842
Gross profit	172.8	274.0	257.1	284.2
Interest from acquisition	0.0	0.0	60.0	60.0
Profit for the period	63.5	73.1	135.2	154.2

Source: SBI E2-Capital

**Growth driver beyond 2010.** On Oct last year, the company entered into an agreement to acquire 17 auto gas refueling stations in Guangzhou at a total consideration of HK\$583m. As we have previously discussed, the pricing is attractive at 4.9x upon it reaches net profit of HK\$120m with the new pricing mechanism in Guangzhou since 2009. Beyond 2011, synergy would be seen. We currently estimate that the company would supply the 17 stations with 240,000 tonnes LPG in 2011 and 280,000 tonnes in 2012 from 100,000 tonnes in 2010 prior to acquisition. Given good proximity, LPG and CNG are reasonable replacement of gasoline / diesel especially in coastal area and west China respectively. We still believe there are potentially additional cities in Guangdong to adopt LPG vehicles to reduce carbon emission.

<b>Ticker</b>	<b>0342 HK</b>
<b>Rating</b>	<b>Not Rated</b>
Price (HK\$)	1.74
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.12-1.95
Market cap. (US\$m)	291.3
Daily t/o (US\$m)	0.9
Free float (%)	52.5

#### Financial summary

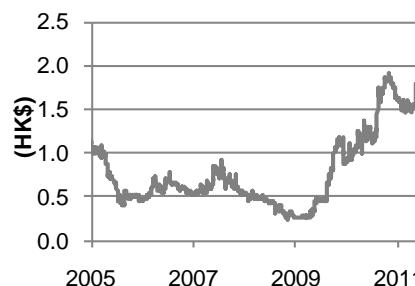
Year to Dec	08A	09A	10A
Turnover (RMBm)	6,159	6,483	8,478
Net Profit (RMBm)	52.9	112.5	137
EPS (RMB)	0.085	0.115	0.114
P/E (x)	19.7	14.4	14.6
P/B (x)	2.5	2.0	1.4
EV/EBITDA (x)	10.7	9.7	11.9
Yield (%)	0.18	0.60	0.60
ROE (%)	8.0	12.3	11.0
ROCE (%)	14.7	14.3	8.4
N. Gear. (%)	66.9	47.6	80.3

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (RMB)	-	-	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(2.4)	22.7	40.6
Actual price changes (%)	(0.6)	13.0	52.6



Source: Bloomberg

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**Business history and pricing mechanism.** The principal business of the company is sales and distribution of LPG and sales of electronics products. The company initially involved the retail sales of bottled LPG to domestic users of China. It subsequently expanded to the import, re-export, wholesale and retail of LPG business after its acquisition of the NewOcean Sea Terminal in Zhuhai in 2004, which has a berth that can handle large LGP ships up to 50,000 tonnes capacity. As a LPG importer, exporter and wholesaler, the NewOcean Sea Terminal has ranked number 1 in China since 2008 in terms of through-put volume. Normally the company buys LPG at a reference price linked to Argus Far East Index of the current month and sells on dollar-plus-cost basis to customers. Once the actual figure of the particular month is finalized, the company would settle the difference with suppliers and customers, which essentially eliminate price risk. Table 3 shows our estimation of gross profit for different sales channels. For instance, sales through refueling stations essentially capture dollar profit of sales to refueling stations plus sales at refueling stations.

**Table 3. Pricing mechanism - our revised estimates on per ton gross profit**

US\$ per tonne	FY12/09A	FY12/10A	FY12/11F	FY12/12F
Re-export sales	10.0	10.0	10.0	10.0
Domestic sales of imports to industrial and retail	62.5	57.5	60.0	60.0
Domestic sales of imports through refueling stations	0.0	0.0	0.0	130.0
Domestic sales of local purchases	57.5	55.0	57.5	57.5

Source: SBI E2-Capital

**Sales volume and gross profit forecast for 2011 and 2012.** Table 4 shows our estimates on sales volume while Table 5 shows estimates on gross profit breakdown for the coming 2 years. In addition to capturing larger share within the value chain through refueling station operations, growth in volume in 2011 and 2012 mainly reflects our assumption of increased supply proportion to the 17 self-owned refueling stations. With an estimated demand of 400,000 tonnes in Guangzhou, our estimation represents 25%, 60% and 70% market share in 2010, 2011 and 2012 respectively. That said, total sales volume would increase 14.0% YoY in 2011 and further 7.9% YoY in 2012 in addition to profits from station operations.

**Table 4. Sales volume breakdown**

Tonnes	FY12/09A	FY12/10A	FY12/11F	FY12/12F
Re-export sales	264,000	227,000	232,675	238,492
Domestic sales of imports to industrial and retail	534,000	258,000	404,450	199,561
Domestic sales of imports through refueling stations	0	0	0	280,000
Domestic sales of local purchases	262,000	734,000	752,350	781,159
Total	1,060,000	1,219,000	1,389,475	1,499,212

**Table 5. Rough gross profit breakdown**

HK\$ m	FY12/09A	FY12/10A	FY12/11F	FY12/12F
Re-export sales	20	18	18	18
Domestic sales of imports to industrial and retail	259	115	188	93
Domestic sales of imports through refueling stations	0	0	0	282
Domestic sales of local purchases	117	314	335	348
Total	396	446	541	741

Source: SBI E2-Capital

**Profit and loss forecasts.** Table 6 shows our preliminary forecast on profit and loss for 2011 and 2012 on yearly-basis while Table 7 gives a half-yearly view. We believe gross profit and net profit would be HK\$257.1m and HK\$135.2m for 1H FY12/11F.

**Table 6. Preliminary profit and loss forecast (Full-year)**

HK\$ m	FY12/10A	FY12/11F	FY12/12F
Revenue	8,478	13,032	15,861
Cost of sales	(8,031)	(12,491)	(15,119)
Gross profit	447	541	741
SG&A	(216)	(241)	(260)
Other net gain / loss	(8)	120	0
EBIT	224	420	482
Finance Costs	(68)	(90)	(105)
Share of profit / loss of JV	0.2	0.0	0.0
EBT	155	331	376
Income tax expenses	(18)	(41)	(47)
Net profit	137	289	329
EPS (HK\$)	0.114	0.222	0.252

Source: SBI E2-Capital

**Table 7. Preliminary profit and loss forecast (Half-year)**

HK\$ m	1H FY12/10A	2H FY12/10A	1H FY12/11F	2H FY12/11F
Revenue	3,796	4,682	6,190	6,842
Cost of sales	(3,623)	(4,408)	(5,933)	(6,558)
Gross profit	172.8	274.0	257.1	284.2
SG&A	(88.3)	(127.3)	(117.8)	(123.1)
Other net gain / loss	28.8	(36.5)	60.0	60.0
EBIT	113.3	110.2	199.4	221.1
Finance Costs	(43.2)	(25.2)	(44.9)	(44.9)
Share of profit / loss of JV	0.2	0.1	0.0	0.0
EBT	70.3	85.1	154.5	176.2
Income tax expenses	(6.8)	(11.2)	(19.3)	(22.0)
Net profit	63.5	73.1	135.2	154.2

Source: SBI E2-Capital

**Reference target price slightly revised up to HK\$2.22 on 10.0x FY12/11F P/E from HK\$2.02.** Stock price has stayed between HK\$1.70 and HK\$1.80 over the past 2 months despite weak market sentiment. Based on our net profit estimations at HK\$289m and HK\$329m for FY12/11F and FY12/12F, the company is trading at 7.9x and 6.9x P/E respectively. While the company is to issue TDR and thus subject to dilution, we believe the company is still at good value especially comparing to forward P/E range between 13.3x and 20.3x. We currently price the company at HK\$2.22 at a reference target of 10.0x and 8.8x P/E for FY12/11F and FY12/12F based on HK\$289m and HK\$329m net profit respectively.

**Table 8. Hong Kong listed Peers comparison**

Company name	Ticker	Fiscal year	Mkt cap (US\$m)	His P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	PB (x)	ROE (%)
ENN ENERGY	2688 HK	12/2010	3,614.9	23.1	18.4	15.2	3.9	18.2
CHINA RES GAS	1193 HK	12/2010	2,657.4	22.3	20.3	15.7	3.7	18.1
CHINA GAS	384 HK Equity	03/2011	1,691.4	19.7	13.3	11.0	1.5	9.7
CHINA OIL AND GAS	603 HK Equity	12/2010	463.3	21.8	15.5	10.4	1.5	8.1
NEWOCEAN ENERGY	342 HK Equity	12/2010	291.3	15.0	n.a.	n.a.	1.6	11.0
Average:					16.9	13.1		

Source: Bloomberg

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Disclosure of interests: SBI E2-Capital Securities Limited, a parent company of SBI E2-Capital Financial Services Limited, acted as sub-placing agent for NewOcean Energy (stock code: 0342 HK) in November 2010.

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**SELL** : absolute downside of >10% over the next six months

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