

NewOcean Energy

Gas business continues to drive growth

to summarize...

- Interim net profit increased 38.7% YoY to HK\$229m for 1H FY12/12A
- Strong growth of interim on gas station consolidation and industry clients
- Anticipating slightly higher 2H results than 1H on seasonal factor
- Expecting HK gas sales to commence in 2013, the major driver next year
- Current valuation at 6.2x and 4.4x P/E base on Bloomberg consensus

Interim net profit increased 38.7% YoY to HK\$229m for 1H FY12/12A.

NewOcean Energy announced interim results earlier in Aug. Revenue increased 9.4% YoY to HK\$5,978m for 1H FY12/12A, of which LPG business continued to contribute 90%+. While the management tends to minimize use of currency hedging from 2012 onwards, LPG gross profit reached HK\$498m in the period largely on higher contribution of high margin auto-gas refueling and industrial clients. On a per ton basis, gross profit per ton increased 90% YoY to HK\$608 per ton, up from HK\$300 to HK\$400 per ton in the last 5 years. Table 1 shows a summary of LPG profitability. Net profit increased 39% YoY to HK\$229m from HK\$165m a year ago.

Table 1. LPG segment profitability on the rise

HK\$m	1H 11A	2H 11A	1H 12A	YoY
Total revenue	5,467	4,650	5,978	+9.4%
LPG revenue	5,023	4,152	5,442	+8.3%
LPG operating gross profit before derivatives	176	186	496	+182%
Net exchange gain on matching transaction	83.4	109	1.1	--
LPG adjusted gross profit	262	295	498	+90%
Gross profit per ton (HK\$)	370	398	608	+64%
Sales volume (ton)	709,000	741,000	819,100	+16%

Source: SBI E2-Capital

Strong growth of interim on gas station consolidation and industry clients.

Back in 1H 2011A before auto-gas stations consolidation, the company has 97m tons auto-gas wholesale and HK\$82m income from entrusted loan. With the 17 acquired gas refueling stations in Guangzhou in 2012A, there was a shift of 97m wholesale auto-gas towards 117m retail auto gas refueling in 1H 2012A compared to a year ago. Table 2 shows changes in sales mix in volume for 1H 2012A. Higher margin sales of down-stream auto-gas refueling as well as sales to industrial customers increased significantly which boosted overall profitability. While total sales volume was up only 16% YoY to 819m tons for 1H 2012A, on new sales volume mix 2 sub-segments were basically up from zero and up 51% respectively.

Table 2. Sales mix in volume of 1H 2012A

k tons	1H 2011A	Subtotal	1H 2012A	subtotal
Retail auto-gas refueling	0		117	
Retail bottle LPG	111	111	135	251
Wholesale industrial customers	184		278	
Wholesale overseas customers	249		219	
Wholesale others terminals	73		63	
Wholesale auto-gas operators	97	598	8	568
Total	709	709	819	819

Source: SBI E2-Capital

Ticker	0342 HK
Rating	Not Rated
Price (HK\$)	2.13
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.25 - 2.24
Market cap. (US\$m)	356.6
Daily t/o (US\$m)	1.0
Free float (%)	50.5

Financial summary

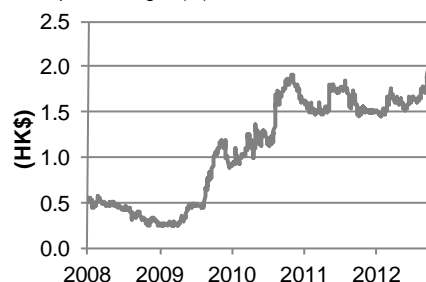
Year to Dec	09A	10A	11A
Turnover (RMBm)	6,483	8,478	10,117
Net Profit (RMBm)	112	137	306
EPS (RMB)	0.115	0.114	0.231
P/E (x)	18.5	18.7	9.2
P/B (x)	2.7	1.9	1.5
EV/EBITDA (x)	12.0	14.4	9.5
Yield (%)	0.5	0.5	1.1
ROE (%)	11.1	9.3	16.8
ROCE (%)	20.3	12.8	20.6
N. Gear. (%)	47.6	79.7	115.8

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (HK\$)	0.343	0.483	0.490
Previous earnings (HK\$m)	329	--	--
Previous EPS (HK\$)	0.252	--	--

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	18.6	22.3	18.1
Actual price changes (%)	22.4	32.3	39.2



Source: Bloomberg

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Anticipating slightly higher 2H results than 1H – 2012 outlook. We believe there is still room for further increase in sales volume in 2H compared to 1H this year. As the management points out, due to geographical reason, average temperature of Guangzhou is higher in months of Jul to Dec that buses and taxis usually consume more fuel in 2H for air-conditioning purposes. As such, sales volume of 1H to 2H for retail auto-gas refueling may go up to 143k tons in 2H. As for industrial clients, the management believes the segment would continue to grow partly on industrial customers' expansion plan. If HoH growth stays at 11% in 2H this year, segment sales volume would go up to 309k tons in 2H. Overall, assume sales volume of other segments remain unchanged, total sales volume will increase 7% HoH to 876k tons in 2H 2012F, achieving double-digit growth for full year 2012F. Assuming US\$80 per ton margin for industrial clients and US\$140 per ton margin for whole value chain of retail auto-gas refueling, there is a potential increment in profit of HK\$40m on 15% effective tax rate measurement. Thus, 2H net profit can be up to HK\$270m, representing a near HK\$500m net profit for the whole year 2012F.

Table 3. Growth illustration in 2H 2012F

k tons	1H 2011A	2H 2011A	1H 2012A	2H 2012F	Rationale
Retail auto-gas refueling	0	0	117	143	1H : 2H = 45% : 55%
Wholesale auto-gas operators	97	142	8	0	Assume zero
Wholesale industrial customers	184	250	278	309	HoH growth stayed at 11%
Others	428	349	424	424	HoH unchanged
Total	709	741	819	876	+7% HoH

Source: SBI E2-Capital

Expecting HK gas sales to commerce in 2013, the major driver next year. As for 2013F, the company targets to launch bottled LPG distribution in HK in full scale. Leveraging on logistics advantage of its Zhuhai terminal, the company has been granted licenses and expect to complete facilities structure for trial run at end of the year. At competitive pricing on higher logistics rebates offered up to HK\$80 -100 per bottle, the company expects to earn HK\$100 per bottle. While market size in HK is roughly 7.5m bottles a year, a market share of 35% will contribute HK\$260m profit by this single segment. In short-term, HK LPG distribution business is one of the key drivers for the company.

Current valuation at 6.2x and 4.4x P/E base on Bloomberg consensus. Based on Bloomberg consensus, the counter is currently trading at 6.2x and 4.4x P/E for FY12/12F and FY12/13F. Based on our previous illustration, short-term market forecast is slightly lower than ours. We expect the company to experience high growth rate in short-term. While for mid-to-longer-term beyond 2013F, future growth largely depends on HK LPG distribution business and oil business.

Table 4. Profit and loss summary

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Revenue	8,478	13,032	10,117	5,978
Cost of sales	(8,031)	(12,491)	(9,690)	(5,433)
Gross profit	447	541	427	545
SG&A	(216)	(241)	(280)	(178)
Other net gain / loss	(8)	120	330	15
EBIT	224	420	477	382
Finance Costs	(68)	(90)	(145)	(145)
Share of profit / loss of JV	0.2	0.0	0.9	1.3
EBT	155	331	333	239
Income tax expenses	(18)	(41)	(30)	(11)
Net profit	137	289	306	229
MI	0	1	(3)	(1)
EPS (HK\$)	0.114	0.222	0.231	0.173

Source: SBI E2-Capital

Table 5. Balance sheet summary

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Non-current assets	862	1,025	2,189	2,371
Property, plant and equipment	572	668	942	1,353
Land use rights	66	65	251	235
Goodwill	121	130	96	294
Other intangible assets	16	12	9	361
Entrusted loan	0	0	644	0
Other non-current assets	87	150	247	128
Current assets	3,364	4,774	8,433	9,070
Inventories	426	470	434	743
Trade and bills receivables	762	756	2,128	1,878
Other debtors, deposits and prepayments	580	446	565	1,036
Pledged deposits	1,392	2,036	4,210	4,397
Cash and cash equivalents	195	380	878	793
Entrusted loan	0	638	0	0
Other current assets	9	48	218	223
Non-current liabilities	37	275	466	496
Long-term borrowing	18	254	445	348
Other non-current assets	19	21	21	148
Current liabilities	3,173	4,046	8,308	8,909
Trade and notes payables	954	461	1,074	1,564
Other payables and accruals	139	124	294	1,090
Interest-bearing bank loans	2,053	3,341	6,783	6,140
Other current liabilities	27	120	157	115
Total equity	1,016	1,479	1,848	2,036
Shareholders' equity	1,015	1,469	1,824	2,013

Source: SBI E2-Capital

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