

Company Flash

China Print Power Group

HKEx:6828 SGX-ST:B3C

Diversify into China gas business

- China Print Power Group is diversifying into the fast expanding natural gas sector in China.
- The group has signed an S&P for a gas project in Shandong Province and two MOUs for gas project acquisitions in Liaoning Province, Guizhou Province and Jiangsu Province.
- Currently the company's valuation is below the average level of the oil & gas companies listed in HK; it deserves a re-rating

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Stock Data (6828 HK)

Rating	Not Rated
Price (HKD)	2.86
Target Price (HKD)	n.a.
12m Price Range (HKD)	0.85-2.98
Market cap. (HKD m)	597.9
3M average Daily t/o (HKD m)	6.9
Free float (%)	56.5

Source: Bloomberg

Financial Summary

Year to Dec	10A	11A	12A
Turnover (HK\$ '000)	201,677	257,859	191,874
Gross profit (HK\$ '000)	59,444	56,152	29,461
Net profit (HK\$ '000)	22,012	1,142	-14,734
EPS (HK\$ cents)	18	0.8	-8.8
P/E (x)	15.9	357.5	N.A
P/B (x)	2.0	2.1	2.3

Source: Bloomberg

Background. Established in 2000, China Print Power's group has been engaging in the provision of printing services, such as printing of books, manufacturing of specialized printed products such as pop-up children books and stationery. The group was listed on SGX-ST in May 2007 and dual-listed on the HKEx in July 2011.

What's New. Since the global conventional printing industry has been hit by the prevalence of electronic media such as e-book application software, free internet content and electronic reading device, as well as rising costs and weak demand, the group decided to diversify its business to the fast expanding natural gas supply sector in China, in order to boost shareholders' return. As an initial step, the group has signed an S&P for a gas project in Shandong Province and two MOUs for gas project acquisitions in Liaoning Province, Guizhou Province and Jiangsu Province.

Figure 1: Description of the three projects

Project	Description	Announcement date	Purchaser	Vendor
Shandong	Acquisition of 60% interests in Focus On Group Limited, whose indirect non-wholly owned subsidiary's assets in Shandong include one CNG Main Station and one CNG Satellite Station. Focus On Group Limited will expand its business scope to processing, storage, and sales of CNG and LNG in Shandong	25-Nov-13	Goldlink Capital Limited (wholly-owned subsidiary of China Print Power Group)	Mr. Xiao
Liaoning	Acquisition of approximately 79.0% interests in Benxi Co, which is interested in a project involving in natural gas business in Xihu District in Benxi City	29-Jul-13	Goldlink Capital Limited (wholly-owned subsidiary of China Print Power Group)	New Topic Limited
Guizhou and Jiangsu	Acquisition of up to 100% of the issued share capital of Shine Great Investments Limited, a wholly-owned subsidiary of New Time. Shine Great has natural gas projects located in projects are located in the cities of Liupanshui and Zunyi in Guizhou Province, and the cities of Xuzhou and Huaian in Jiangsu Province.	8-Feb-13	Goldlink Capital Limited (wholly-owned subsidiary of China Print Power Group)	Total Belief Limited, a wholly-owned subsidiary of New Times Corporation (0166 HK)

Data provided by the Company

Project details

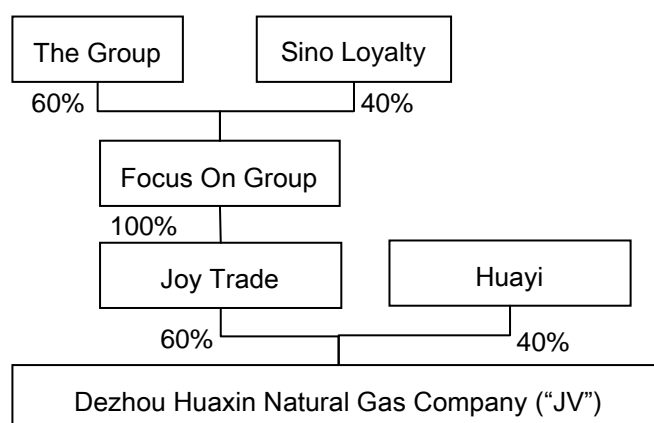
Project in Shandong

Acquisition of Focus On Group Limited. On 25 November 2013, Goldlink Capital Limited, an indirect wholly owned subsidiary of the company, entered into an S&P agreement with Mr. Xiao Gangming. Under the agreement, the company agreed to purchase from Mr. Xiao 60% of the controlling interest in Focus On Group Limited, for a total consideration of HKD55m, payable in cash.

Focus On Group Limited is an investment holding company holding 60% controlling interest in Dezhou Huaxin Natural Gas Company Limited ("JV") through Joy Trade (See fig. 2), which is also an investment holding company.

On 6 November 2013, the net asset value of Dezhou Huaxin Natural Gas Company Limited was approximately RMB28.0m (equivalent to approximately HKD35.6m). As the group will effectively hold 36% interest in Dezhou Huaxin Natural Gas Company Limited, the total consideration of the M&A represents approximately 4.3x P/book ratio.

Figure 2: Shareholding structure of Dezhou Huaxin Natural Gas Company Limited



Data provided by the Company

Dezhou Huaxin Natural Gas Company Limited is a Chinese foreign equity JV hold by both Joy Trade and Huayi. Its main business is to provide promotion and consultation services of natural gas business. It is expected that it will expand its business scope to processing, storage, and sales of CNG and LNG ("Gas Business") in Shandong, upon the completion of the transaction and after Joy Trade has fulfilled the outstanding registered capital requirement in the amount of USD2.42m in the future.

Upon the completion and before obtaining the relevant approval for the operation of the gas business, Huayi, the company holding 40% interest in the JV with a business scope involving processing, storage and sales of CNG and LNG, will operate and manage the Gas Business on behalf of the JV without any consideration under the Operator Agreement. All profits generated from the Gas Business as operated and managed by Huayi during the period would belong to the JV. The JV will terminate the agreement once it obtained all relevant approvals and is ready to engage in the Gas Business. It is expected that the relevant approval for the gas business will be obtained on or before the end of 2014.

Figure 3: CNG gas stations of project in Shandong



Picture provided by the Company

Huayi also has entered into an agreement with the JV that the former agreed to i) lease to the JV the leased land for the operation of the Gas Business; ii) lease to the JV leased buildings; and iii) procure the purchase of natural gas products for the JV after the JV has obtained the relevant approval and Joy Trade has fulfilled the registered capital requirement. Details of the JV agreement are set out in figure 4 below:

Figure 4: Details of the JV agreement

JV agreement	Detail
lease to the JV the Leased Land for the operation of the Gas Business	the Leased Land (with an area of 24,526 square meters) would be leased by Huayi to the JV at an annual rental of RMB88,000 (equivalent to approximately HKD111,760) for a term from the date of the lease agreements to 30 June 2033.
lease to the JV the Leased Buildings	the Leased Buildings would be leased by Huayi to the JV at an annual rental of RMB60,000 (equivalent to approximately HKD76,200) for a term from the date of the lease agreements to 30 June 2033.
procure the purchase of natural gas products for the JV	Huayi is appointed by the JV to procure the purchase of the natural gas for a period from 20 November 2013 to 21 August 2029 at a service fee equivalent to 0.1% of the purchase cost of CNG products incurred to Huayi so as to ensure stable supply of gas products for the Gas Business

Data provided by the Company

Currently the assets held by the JV include one CNG Main Station and one CNG Satellite Station which the JV will use to operate the gas business, including processing, storage and sales of CNG and LNG products, after the relevant approval has been obtained. As at 6 November 2013, the net asset value of the JV was approximately RMB28.0m (equivalent to HKD35.6m). There is no revenue generated since its incorporation, as it still has not commenced any business. However, we believe there will be revenue contribution from Huayi's gas business upon the completion of the M&A transaction.

Project in Liaoning

In July 2013, China Print Power and New Topic Ltd. entered into a MOU in relation to a possible acquisition of 100% interests in Cloud Decade Limited, which holds approximately 79.0% interests in Benxi Co. (Benxi Liaoyou Xinshidai Ranqi Company Ltd). Benxi Co. is interested in a project involving the construction of natural gas facilities in Xihu District in Benxi City (See fig. 5) and the operation of those facilities upon the completion of the construction.

Figure 5: The construction of natural gas facilities in Xihu District in Benxi City

- 1) Nature gas pipeline network in the commercial and industrial area of Dongfenghu Steel Deep Processing Industrial Park, and related facilities, including a natural gas station at the industrial park with annual gas supply capacity of 150m cubic meters per annum.
- 2) One liquefied natural gas ("LNG") main station or compressed natural gas ("CNG") main station and five LNG or CNG satellite stations within Xihu District
- 3) LNG or CNG station for the truck and public transportation of Huolianzha in Xihu District
- 4) Gas supply hub for Huolianzhai New Building Materials Industrial Park
- 5) Gas supply hub for Benxihu Resources General Utilisation Industrial Park
- 6) Facilities for the supply of LNG or CNG to a market of 52,500 households of residents in Xihu District

Data provided by the Company

Benxi is a provincial-level city located in the eastern part of Liaoning Province and in the southeast of Shenyang, with a total population of 1.5m as at the end of 2012, according to "Benxi's National Economic and Social Development Statistics in 2012" released by the local government in May 2013. In fact, Benxi is also the hometown of Benxi Iron and Steel Company, one of the largest steel enterprises in China. We expect Benxi Co.'s gas projects in Xihu can benefit the local industrial park, households, business, and vehicles.

Projects in Guizhou & Jiangsu

In February 2013, the company and New Times Co. Ltd. (Stock code: 0166 HK) entered into a MOU in relation to the proposed acquisition of up to 100% of the issued share capital of Shine Great Investments Limited, a wholly-owned subsidiary of New Times. Shine Great, through its subsidiaries in the PRC, is mainly engaged in natural gas business, including i) gas and gas related equipment, materials and pipelines; ii) consultancy services in relation to the operation and management of natural gas refilling stations and related technology; and iii) development of natural gas integrated utilization technology. Currently, its projects are located in the cities of Liupanshui and Zunyi in Guizhou Province, and the cities of Xuzhou and Huai'an in Jiangsu Province.

Project in Guizhou. The project portfolio in Liupanshui includes 13 natural gas refilling sub-stations (2 of which are currently operating), 2 natural gas refilling primary stations, 5 natural gas provision projects for industrial parks, and 4 residential natural gas provision networks. For the Zunyi project, the portfolio includes 4 natural gas refilling sub-stations, a natural gas refilling primary station, a natural gas provision project for industrial parks and a high-pressure pipeline project.

Figure 6: Shuicheng Industrial Park



Picture provided by the Company

Project in Jiangsu. In Xuzhou, the project portfolio includes 4 natural gas refilling sub-stations and a residential natural gas provision network. In Huai'an, the project portfolio includes 1 natural gas refilling sub-station and a residential natural gas provision network.

The following table shows the project summary of the Guizhou and Jiangsu:

Figure 7: Project Summary in Guizhou and Jiangsu

	Guizhou		Jiangsu	
	Liupanshui	Zunyi	Xuzhou	Huai'an
Project Summary	13 natural gas refilling sub-stations, 2 natural gas refilling primary stations, 5 natural gas provision projects for industrial parks, and 4 residential natural gas provision networks	4 natural gas refilling sub-stations, a natural gas refilling primary station, a natural gas provision project for industrial parks and a high-pressure pipeline project	4 natural gas refilling sub-stations and a residential natural gas provision network	1 natural gas refilling sub-station and a residential natural gas provision network

Data provided by the Company

Fund raising history in HKEx

China Print Power Group was listed on HKEx by issuing 30m new shares at HK\$1.48 and raised HK\$39.5m in July 2011. In May 2012, the group raised HK\$20.2m by issuing 22.0m shares at HK\$0.95 per share. In March 2013, the group placed 34.84m new shares at HK\$0.98 per share and raised net proceeds of about HK\$33.3m. As at the end of June 2013, the group was in a net cash position of about HK\$13.8m.

Peer comparison & Valuation

There is no P/E comparison for China Print Power Group as it incurred a loss last year. As for P/Book ratio, the company is trading at a 2.3x, which is actually far less than the average level of 3.8x that the oil and gas companies are trading currently (See fig. 8). Obviously the market still has not priced in the three projects mentioned above as the transactions are still in an initial stage. We believe the company deserves a much higher valuation (as shown in fig. 8, oil and gas companies are on average trading at a prospective P/E of 20.2x for FY13) upon the completion of the transactions.

Figure 8: Valuation Comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2012E P/E (x)	2013E P/E (x)	P/book (x)	FY09-FY12 CAGR of revenue (%)	2009-2012 CAGR of net profit (%)	ROE (%)	Dvd Yield (%)
China Gas	384 HK	53541.20	86.51	22.18	21.48	3.95	44.13	109.53	18.92	0.79
NewOcean Energy	342 HK	7595.00	16.14	11.95	9.94	2.06	24.32	93.17	33.76	0.74
China Resources Gas	1193 HK	55711.52	73.37	27.21	25.51	4.34	73.57	54.97	17.99	0.64
ENN Energy	2688 HK	56146.26	127.39	29.41	24.59	4.88	28.92	22.78	17.82	0.84
China Oil & Gas	603 HK	6900.99	28.95	18.47	17.25	2.09	41.63	40.49	12.00	0.47
Tian Lun Gas	1600 HK	5969.34	3.79	31.37	22.32	5.68	58.71	23.13	19.89	0.00
Avg		30,977.39	56.02	23.43	20.18	3.83	45.21	57.35	20.06	0.58

Data provided by Bloomberg

Figure 9: Business Comparison

Company	Ticker	Major Business	LPG			CNG & LNG					
			no. of LPG station	network coverage	FY12 Sales volume (tons)	Piped Gas		Gas Station			FY12 total Sales volume (m³)
						Network coverage	FY12 Sales volume (m3)	no. of CNG & LNG station	Network coverage	FY12 Sales volume (m³)	
China Gas	384 HK	Construction and operation of city gas pipelines, and transmission of natural gas and sale of LPG in China.	N.A.	11 provinces	0.9m	22 provinces and 3 autonomous	5.1b	170	36 cities	0.5b	5.6b
NewOcean Energy	342 HK	Sales and distribution of LPG, oil products and electronic products	17	Guangdong	1.7m	N.A.	N.A.	N.A.	N.A.	N.A.	N.A
China Resources Gas	1193 HK	Gas connection and sales and distribution of gas fuel	N.A.	N.A.	N.A.	20 provinces	8.2b	176	11 provinces, 1 municipal and 1 autonomous	1.1b	9.3b
ENN Energy	2688 HK	Gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, wholesale of gas, distribution of bottledLPG and sales of gas appliances and materials.	N.A.	N.A.	17,785	14 provinces	5.3b	376	71 cities	0.9b	6.2b
China Oil & Gas	603 HK	Investments in natural gas and energy related businesses	N.A.	N.A	N.A	10 provinces	1.6m	36	7 provinces	0.3m	1.9b
Tian Lun Gas	1600 HK	Gas pipeline connections, distribution and sales of gases including natural gas and CNG, and production and sales of LNG	N.A.	N.A.	N.A.	6 provinces	9.7m	18	5 provinces	5.7m	15.5m

Data provided by Bloomberg

Financials

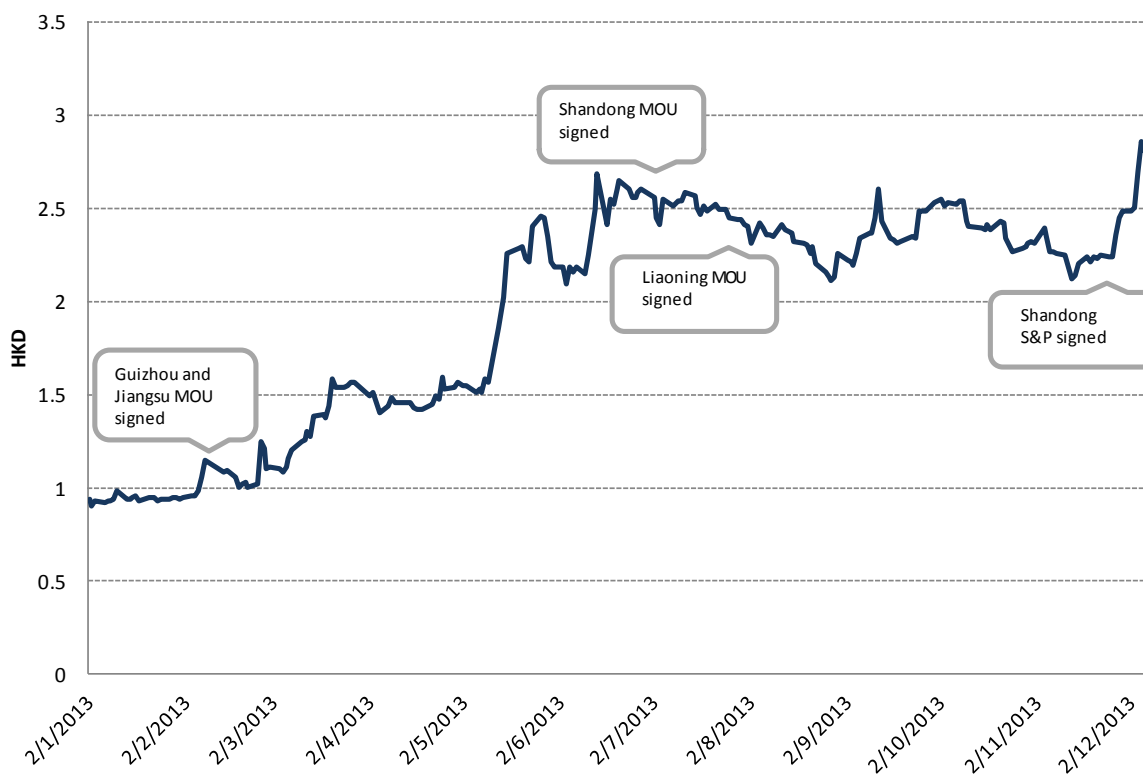
Figure 10: Profit and loss items

HK\$'000	FY12/10	FY12/11	FY12/12
Revenue	201,677	257,859	191,874
Cost of Sales	-142,233	-201,707	-162,413
Gross profit	59,444	56,152	29,461
SG&A	-33,762	-39,877	-36,378
Other operating expenses	-1,801	-2,947	-6,919
Operating profit	23,881	13,328	-13,836
Other income	2,912	1,781	1,485
Finance costs	-2,051	-1,617	-1,443
Listing expenses	0	-8,890	0
Income tax expenses	-2,730	-3,460	-940
Profit attributable to shareholders	22,012	1,142	-14,734
Basic EPS (HK cents)	18.0	0.8	-8.8

Data provided by the Company

Share price performance

Figure 11: Share price performance of China Print Power Group (Year-to-date)



Data provided by Bloomberg

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