

China Gas stock seen to rally 40% over 12 months



China's concerted chase for blue skies is making China Gas Holdings a hot stock as the gas distributor carries out an ambitious strategy to convert villages from burning coal to using the cleaner fuel. The stock is poised to rally 40% over the 12 months, according to the consensus of more than 20 analysts surveyed by Bloomberg. That gap over its current share price is the biggest since at least 2004 and is the most among its domestic peers. Shares of Chinese gas distributors have been on a roll, aided by President Xi Jinping's battle against air pollution by curbing the nation's reliance on sooty coal, and China Gas stands out for its rural connectivity strategy.

Fuel substitution in villages will drive the connected household growth, according to Goldman Sachs Group Inc, adding the government will extend environmental protection policies to new cities over the next three years. "Gas distributors continue to connect new customers at a transformational pace, leading to acceleration in both earnings and cash flows," Goldman analysts including Mark Wiseman said in an Aug 31 note. "Rural investment is a differentiator" for China Gas, they wrote. Shares of China Gas have gained 8.3% this year to close at HK\$23.40 on Friday in Hong Kong, compared with a 12-month target price of HK\$32.69. Of the 26 analysts covering the stock, 13 have the equivalent of a buy rating, while eight recommend holding and five calling for a sell, data compiled by Bloomberg show. The company began targeting rural areas in northern China since the central government strengthened anti-pollution measures by pushing for provinces to switch from coal to gas last year.

Other distributors such as ENN Energy Holdings and China

Resources Gas Group Ltd have devoted less resources to rural projects as they're worried about the low margins. China Gas' focus on rural connections may make it vulnerable to changes in policies, such as lower subsidies or tighter restrictions for those projects, according to Jefferies Group LLC and Daiwa Securities Co. Hebei province said in July that new conversion projects will only begin when suppliers are able to confirm gas availability, which could slow the rate of customer switching. Those concerns might be unjustified, said Citigroup Inc, which has China Gas on its "Top Buys" list.