



Rating
Buy

Asia
China

Energy

Company
**Sinopec Yizheng
Chemical Alert**

Reuters
1033.HK

Bloomberg
1033 HK

Exchange
HKG
Ticker
1033

Date
4 March 2015

Company Update

Price at 4 Mar 2015 (HKD)	2.70
Price target - 12mth (HKD)	2.78
52-week range (HKD)	3.97 - 1.55
HANG SENG INDEX	24,703

Completion of A-share placement

Sinopec Yizheng issues 1,333mn A-shares at RMB4.50/per share

Sinopec Yizheng Chemical released an announcement in relation to the non-public issuance of A-shares after the market close on March 4, marking the completion of Yizheng's restructuring. The company raised RMB6bn through the issuance of 1,333mn A-shares at RMB4.50/per share, representing a premium of approximately 112% to the closing price of HKD2.67 per H Share as quoted on the Stock Exchange on the date of the Issuance (March 3). It also translated into a discount of 30% to the closing price of RMB6.44 per A Share as quoted on the SSE on the date of the Issuance. Seven out of 25 investors who submitted bids were selected. All subscribers are subjected to a lockup period of 12 months starting from 4 March 2015.

Earnings impact and the use of proceeds

Post the transaction, H-share investors will be subject to a dilution of 9.5% on FY15E EPS, largely in line with our expectation. (In our published model, we assumed share placement at RMB4.05/share, translating to EPS dilution of 10.4%). Company's net gearing will improve by 25ppts to c.20% in FY15, based on our calculation. According to the announcement, the proceeds will be used in the following areas: 1) Overseas operational high-end equipment (RMB1.6b); 2) Ocean engineering equipment (RMB0.8bn); 3) Shale gas operation equipment (RMB0.3bn); 4) Pipeline construction equipment (RMB0.5b) and 5) Working capital (RMB2.8b).

Recap of Yizheng's reorganization and SSC's backdoor listing

The proposed backdoor listing of Sinopec Oilfield Services (SSC) was announced in Sept 2014. The reason for the backdoor listing was due to 2.5 years of consecutive losses by Sinopec Yizheng Chemical Fibre. According to A-share listing rules, Yizheng risked having to delist if it suffered losses three years in a row. The restructuring involved three transactions: 1) Yizheng transfers loss-making chemical assets to Sinopec (386.HK); 2) Yizheng issues shares to buy oilfield service assets (SSC) from Sinopec Group; 3) SSC issues A-shares to raise RMB6bn for the purchase of specialized equipment and to replenish working capital.

What to do with the stock?

We believe SSC will be able to leverage its market leading positions and improve its operational efficiency post the transaction. We prefer SSC over the independents, given assured orders from the parent and the likelihood of margin expansion. Maintain Buy with TP of HKD2.78/sh.

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Stock data

Market cap (HKDm)	34,584
Market cap (USDm)	4,460
Shares outstanding (m)	12,809.0
Major shareholders	Sinopec (42%)
Free float (%)	52
Avg daily value traded (USDm)	4.8

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	89,729	81,704	86,892
Net Profit (CNYm)	1,515.4	2,427.1	3,510.0
DB EPS (CNY)	0.12	0.19	0.25
PER (x)	9.3	11.5	8.9
Yield (net) (%)	0.0	0.6	4.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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