

# China BlueChemical

## Significant downside risk to 2015F consensus

### Consensus earnings estimates still look too high

We lower our 2015 EPS estimate by 15% given: 1) long maintenance work at China BlueChemical's (CBC) two plants in H115 (one urea and one methanol plant); 2) higher-than-expected administrative and selling expenses due to phosphate transportation; and 3) some units have started purchasing expensive gas from CNOOC's (CBC's sister company) new gas adjustment projects. These more than offset our slightly more positive outlook on China's domestic urea prices. Our 2015/2016 EPS estimates are 28%/22% below Reuters consensus. We believe better buying opportunities for CBC's shares might emerge after consensus expectations are materially reset.

### Urea price recovery was stronger than expected

Urea contributes to around 60% of CBC's total gross profit (2015E), and urea prices have been recovering steadily since reaching a trough in mid-2014. A favorable export tariff policy, a fertiliser gas price hike of Rmb0.2/cum, the removal of electricity subsidies, and very low market inventory have continued to push up urea prices since April 2015. Given healthy supply and demand, we think strong urea prices can be maintained.

### Methanol to recover with oil prices

Methanol contributes around 30% of CBC's total gross profit (2015E). We believe Q115 should have marked a trough for methanol prices. Given the launch of methanol-to-olefins units in China in 2015-16E, methanol prices should show a strong correlation with oil prices going forward, and might recover moderately together with oil prices over the next three to four years.

### Valuation: maintain Neutral rating; new price target of HK\$3.20

We raise our price target from HK\$2.80 to HK\$3.20 as we lower our capex assumptions for the forecast period given CBC has not seriously considered any new projects yet. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool (assuming a WACC of 7.4%). Our price target implies 10.8x 2015E PE and 0.7x 2015E P/BV.

### Equities

China  
Chemicals, Commodity

12-month rating **Neutral**

12m price target **HK\$3.20**  
Prior: HK\$2.80

Price **HK\$3.04**

RIC: 3983.HK BBG: 3983 HK

#### Trading data and key metrics

52-wk range HK\$4.24-2.50

Market cap. HK\$14.0bn/US\$1.81bn

Shares o/s 4,610m (ORD)

Free float 38%

Avg. daily volume ('000) 9,053

Avg. daily value (m) HK\$29.5

Common s/h equity (12/15E) Rmb15.4bn

P/BV (12/15E) 0.7x

Net debt / EBITDA (12/15E) NM

#### EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/15E	0.24	0.20	-14.98	0.28
12/16E	0.23	0.24	2.47	0.30
12/17E	0.25	0.26	4.49	0.30

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Highlights (Rmbm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	10,739	10,724	10,797	9,661	10,528	10,825	10,983	11,140
EBIT (UBS)	2,655	2,400	1,742	1,302	1,470	1,612	1,593	1,643
Net earnings (UBS)	1,810	1,647	105	937	1,089	1,205	1,207	1,254
EPS (UBS, diluted) (Rmb)	0.39	0.36	0.02	0.20	0.24	0.26	0.26	0.27
DPS (Rmb)	0.15	0.14	0.12	0.08	0.09	0.10	0.10	0.10
Net (debt) / cash	2,579	2,934	3,436	4,721	5,491	6,217	6,780	7,439

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	24.7	22.4	16.1	13.5	14.0	14.9	14.5	14.7
ROIC (EBIT) %	24.2	20.2	14.9	11.4	12.6	13.7	13.3	13.4
EV/EBITDA (core) x	5.1	4.8	4.5	3.9	3.5	2.6	3.9	3.8
P/E (UBS, diluted) x	10.9	10.5	NM	12.0	10.3	9.3	9.3	9.0
Equity FCF (UBS) yield %	6.8	6.0	11.1	9.4	10.9	10.6	9.5	10.4
Net dividend yield %	3.5	3.7	4.0	3.2	3.7	4.1	4.1	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of HK\$3.04 on 17 Jun 2015 22:39 HKT

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# Investment Thesis

## China BlueChemical

### Investment case

We believe China BlueChemical's (CBC) steadily rising natural gas costs (nearly 40% of its total COGS) is a key concern. In addition to the normal inflation set in the connected transaction with its sister company, CNOOC, the gas contract for the Fudao I plant (about 10% of the company's total gas usage) is subject to renewal in 2015, and we think a 60% price hike is possible. We also expect the price of non-CNOOC supplied gas to continue to rise. The price is now capped by the government and is well below the price of gas sold to other customers, but we think the government is likely to raise the cap. This would effectively limit any potential upside on margins, although we factor in a mild recovery in the average selling prices (ASP) of methanol and urea due to a gradual improvement in supply-demand dynamics. We think the current valuation is fair.

### Upside scenario

In our upside scenario, we assume methanol and urea prices will be 6% higher than our base case estimates due to stronger-than-expected supply-demand dynamics. In this case, we would estimate a valuation of HK\$3.80/share, 20% above our base case forecast.

### Downside scenario

In our downside scenario, we assume methanol and urea prices will be 5% lower than our base case estimates due to weaker-than-expected supply-demand dynamics. In this case, we would estimate a valuation of HK\$2.70/share, 16% below our base case forecast.

### Upcoming catalysts

We think the key potential catalysts include: 1) strong methanol prices until the peak winter season; and 2) sustained momentum for urea prices given healthy demand and low inventory. However, if oil prices fall meaningfully, methanol prices could face pressure. In addition, consensus downgrades could serve as a potential risk as we believe consensus estimates remain too high.

12-month rating

Neutral

12m price target

HK\$3.20

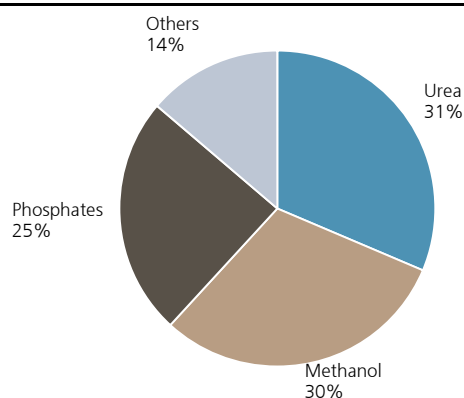
### Business description

China BlueChemical is one of the largest fertilizer and methanol producers in China. It has 1,840kt of gas-based urea production capacity and 1,600kt of gas-based methanol production capacity. The company aims to bring its 520kt of coal-based urea unit on-stream in H215. In addition, China BlueChemical has 1,000kt of phosphate production capacity.

### Industry outlook

China's fertiliser industry could see moderate supply-demand rebalancing in the next three years, following significant capacity additions over the past three to four years. This could lead to a moderate recovery in prices. For methanol, given a stronger link between methanol and oil prices, we expect prices to rise over the next few years, but to lag a recovery in oil prices, since growing demand for olefins, an oil derivative, effectively caps the upside potential for methanol prices. However, as CBC's gas input costs are based on a connected transaction with its sister company CNOOC, and is well below the price CNOOC charges other customers, we think its gas costs could continue to rise.

### Revenue by product segment (2014)



Source: Company data

### Gross profit by product segment

(Rmb m)	2013	2014	2015E	2016E	2017E
Urea	1,619	1,195	1,363	1,398	1,372
Methanol	1,470	1,153	592	763	950
Phosphates	146	329	166	147	147
Others	(12)	8	125	125	125
<b>Total</b>	<b>3,223</b>	<b>2,686</b>	<b>2,246</b>	<b>2,432</b>	<b>2,594</b>

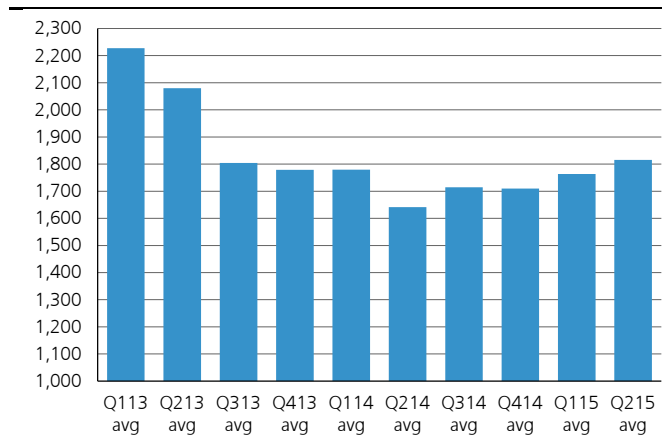
Source: Company data, UBS estimates

## Urea recovering

After a three-year bear cycle, urea prices reached a trough in mid-2014. With prices falling below more marginal producers' cash costs in 2014, China's urea production fell 3% YoY last year. Meanwhile, low prices made Chinese cargo attractive in the export market.

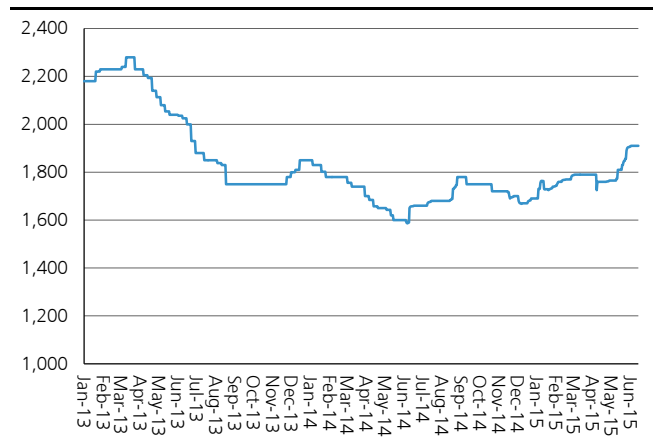
As China's domestic demand has been stable, the depletion of market inventory was needed to balance the big increase in export volume. Therefore, since mid-2014, China's domestic urea inventory has been trending downwards and current inventory levels are less than half of that for the same period last year.

**Figure 1: Quarterly South China urea prices (Rmb/t)**



Source: Wind

**Figure 2: Daily South China urea prices (Rmb/t)**



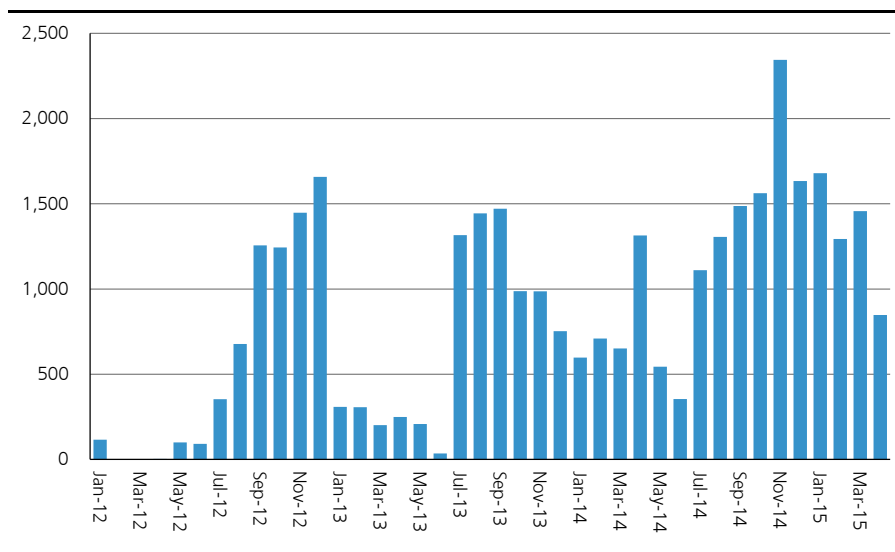
Source: Wind

Q115 urea prices were supported by continued tight supply in China. The removal of electricity subsidies in early Q215 is considered to be the trigger for the current round of urea price hikes in China. During Q215, several rounds of urea import bidding by some Southeast Asia countries (including India) also further confirmed resilient demand in the export market for Chinese urea producers.

Chinese gas costs for fertiliser production could continue to increase in late 2015 or early 2016, which would effectively lift the production costs for marginal producers (i.e. gas-based urea producers) and give domestic urea prices some support.

Over the next one to three years, we expect urea prices to hover within a narrow range near the Rmb1,700/t level (Shandong ex-work price, and near the current trading level). Any further price hikes would either release some volume from idle capacity or speed up construction of new projects in the pipeline.

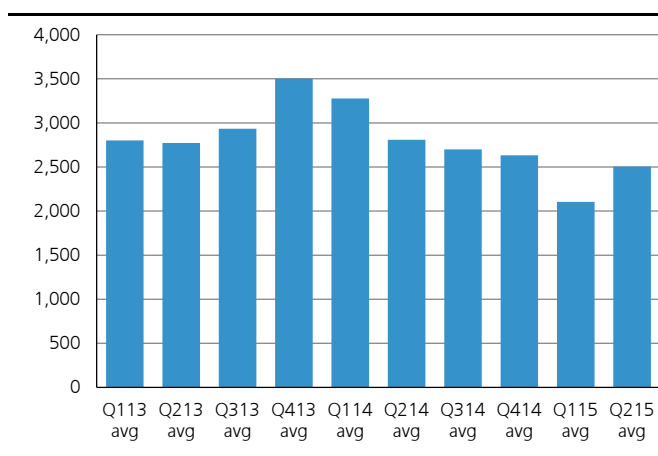
**Figure 3: China monthly urea exports (kt)**



Source: Wind

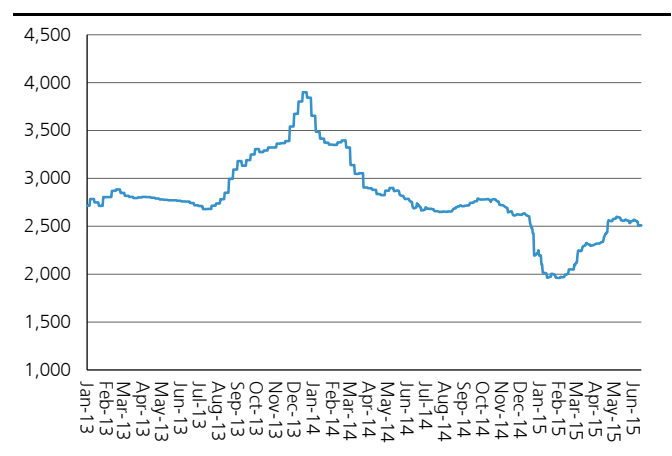
## Methanol has passed the trough

**Figure 4: Quarterly South China methanol prices (Rmb/t)**



Source: Wind

**Figure 5: Daily South China methanol prices (Rmb/t)**

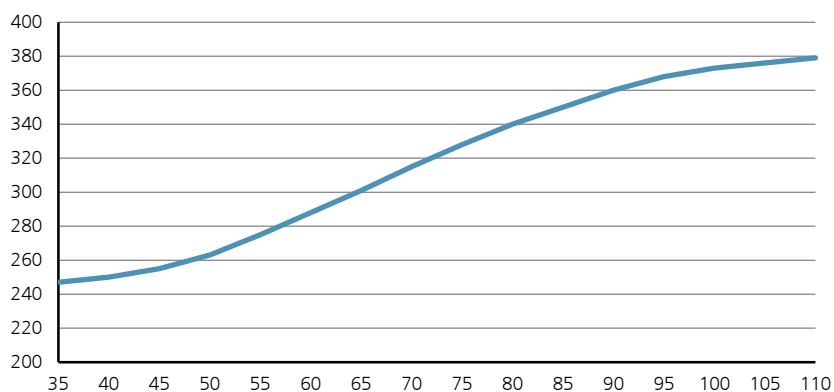


Source: Wind

We expect methanol prices to show an upward trend over the next four to five years as oil and olefin prices continue to recover.

We believe methanol prices will have an increasingly strong link with oil prices, especially at US\$55-90/bbl. Methanol-to-olefins (MTO) demand for methanol as a percentage of total methanol demand in China could increase from 9% in 2014 to 27%/36% at US\$70/US\$90 per bbl long-term oil prices in 2019E.

**Figure 6: We expect an 'S' curve—sensitivity of methanol prices (US\$/t) to crude oil prices (US\$/bbl)**



Source: UBS estimates

**Figure 7: China non-CTO integrated methanol supply-demand**

('000 t)	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
Capacity	20,019	26,357	33,039	37,925	42,419	49,389	57,034	60,934	65,909	66,459	66,759	66,759
Production (L-T US\$90/bbl oil)	12,548	10,913	15,337	18,020	21,973	26,100	29,463	32,217	35,875	38,207	39,023	40,922
Production (L-T US\$70/bbl oil)								32,217	35,875	38,207	36,728	36,332
Production (L-T US\$50/bbl oil)								32,217	35,875	38,207	36,559	35,995
Utilization rate (L-T US\$90/bbl oil)	63%	41%	46%	48%	52%	53%	52%	53%	54%	57%	58%	61%
Utilization rate (L-T US\$70/bbl oil)								53%	54%	57%	55%	54%
Utilization rate (L-T US\$50/bbl oil)								53%	54%	57%	55%	54%
Domestic demand (L-T US\$90/bbl oil)	13,698	16,016	20,182	23,706	26,513	30,024	33,712	38,845	45,465	50,283	53,873	57,772
Domestic demand (L-T US\$70/bbl oil)								38,845	45,465	50,283	51,578	53,182
Domestic demand (L-T US\$50/bbl oil)								38,845	45,465	50,283	51,409	52,845
MTO/MTP (L-T US\$90/bbl oil)	0	0	0	61	383	1,258	2,866	6,146	10,748	13,553	16,016	18,480
MTO/MTP (L-T US\$70/bbl oil)								6,146	10,748	13,553	13,721	13,890
MTO/MTP (L-T US\$50/bbl oil)								6,146	10,748	13,553	13,553	13,553
Other demand	13,698	16,016	20,182	23,645	26,210	28,766	30,846	32,699	34,717	36,729	37,856	39,292
Import	1,514	5,110	4,865	5,716	5,262	4,414	4,599	6,828	9,790	12,176	15,000	17,000
Export	364	7	20	30	50	610	350	200	200	100	150	150

Source: IHS CMAI, UBS estimates

## Phosphate profitability to remain low

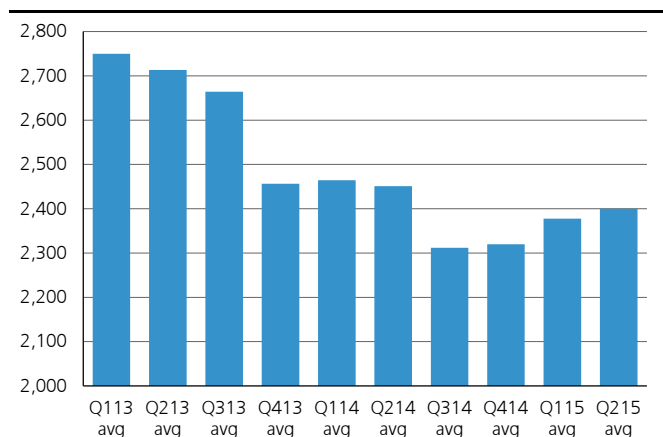
The phosphate industry's utilisation rate has dropped to around 60% due to overcapacity. Like other oversupplied chemicals' prices, over the last three to four years, phosphate prices have fallen to marginal cost levels and most Chinese producers have struggled to break even.

Similar to urea, the phosphate market benefits from the favourable new export tariff as well as the significant increase in export volume of key products (DAP and MAP) since H214 and their continued expected increase in 2015. Phosphate exports have risen around 76% in 2015 YTD.

With support from the export market and a high cost base, we think phosphate prices are unlikely to see meaningful downside. However, the upside is limited as well given stable demand and oversupply.

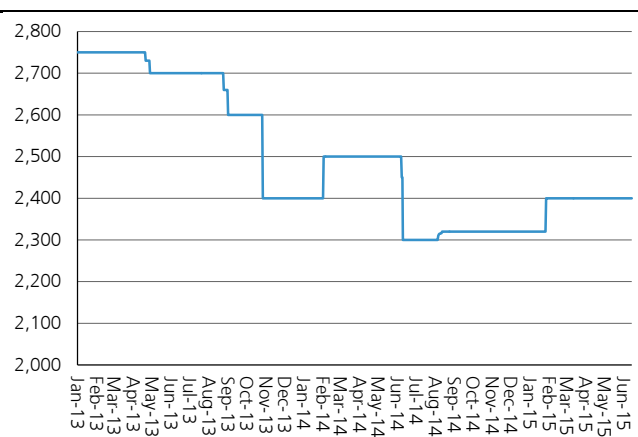
Therefore, we do not expect the phosphate business to be a meaningful profit contributor for CBC.

Figure 8: Quarterly South China phosphate prices (Rmb/t)



Source: Wind

Figure 9: Daily South China phosphate prices (Rmb/t)



Source: Wind

## Valuation

We raise our price target from HK\$2.80 to HK\$3.20 mainly due to our lower capex forecasts over the next five years. This explains around 70% of our price target upgrade. Given a backdrop of state-owned enterprise (SOE) reform and the focus returning to asset returns, we think CBC could avoid some inefficient capex in the future.

Figure 10: China BlueChemical VCAM Valuation Summary [3983.HK]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	1,302	1,470	1,612	1,593	1,643	1,364	1,304	1,241	1,176	1,107
D&A*	801	875	908	973	1,024	1,023	1,043	1,064	1,085	1,107
Capex	(800)	(800)	(1,000)	(1,200)	(1,200)	(1,591)	(1,594)	(1,596)	(1,598)	(1,599)
Chg. in wkg. cap.	(148)	(20)	(16)	(0)	(7)	9	(0)	(0)	(0)	0
Tax (operating)	(307)	(347)	(381)	(376)	(388)	(341)	(326)	(310)	(294)	(277)
Other	34	(26)	(9)	(5)	(5)	(7)	(7)	(7)	(7)	(7)
Free Cash Flow	882	1,151	1,115	984	1,067	457	420	392	362	331
<i>growth</i>		30.6%	-3.2%	-11.7%	8.4%	-57.2%	-8.0%	-6.8%	-7.6%	-8.6%

Valuation	
PV of explicit cash flow	6,981
PV of terminal value (yr. 20)	1,636
<b>Enterprise Value</b>	<b>8,616</b>
<i>% terminal</i>	<i>19%</i>
Associates & other	213
- Minority interests	1,378
Surplus cash**	5,999
- Debt***	2,090
<b>Equity value</b>	<b>11,360</b>
Shares outstanding [m]	4,610.0
<b>Equity per share (HK\$/sh)</b>	<b>3.08</b>
Cost of equity	7.4%
Dividend yield	3.4%
<b>1-year Price Target (HK\$/sh)</b>	<b>3.20</b>

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	2.0%	2.0%	2.0%
EBIT margin	9.0%	4.6%	4.0%
Capex/sales	13.0%	7.0%	5.0%
ROIC	5.5%	2.8%	3.0%

Valuation-Implied Metrics			
Fiscal year	2015E	2016E	1-yr Fwd.
EV / EBITDA	4.1x	3.7x	3.9x
EV / EBIT	6.6x	5.9x	6.2x
FCF Yield	10.2%	13.4%	11.7%
P / E (PV)	12.1x	10.4x	11.3x
P / E (Target)	12.6x	10.8x	11.7x

WACC	
Risk free rate	4.19%
ERP	5.0%
Beta	0.64
Debt / equity**	16.7%
Marg. tax rate	26.8%
Cost of equity	7.4%
Cost of debt	5.3%
<b>WACC</b>	<b>7.4%</b>

Terminal Assumptions	
VCH (years)	20
Impl. FCF gr.	1.5%
Incr. ROIC	7.5%
EV / EBITDA	4.5x

Figures in Rmb m, unless noted otherwise.

\* Depreciation and non-goodwill amortization

\*\* The portion of cash not required to maintain operations

\*\*\* Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS-VCAM



## China BlueChemical (3983.HK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
<b>Income statement (Rmbm)</b>										
<b>Revenues</b>	<b>10,739</b>	<b>10,724</b>	<b>10,797</b>	<b>9,661</b>	<b>-10.5</b>	<b>10,528</b>	<b>9.0</b>	<b>10,825</b>	<b>10,983</b>	<b>11,140</b>
Gross profit	3,306	3,223	2,686	2,246	-16.4	2,432	8.3	2,594	2,594	2,664
<b>EBITDA (UBS)</b>	<b>3,449</b>	<b>3,225</b>	<b>2,598</b>	<b>2,103</b>	<b>-19.0</b>	<b>2,345</b>	<b>11.5</b>	<b>2,520</b>	<b>2,566</b>	<b>2,667</b>
Depreciation & amortization	(794)	(825)	(856)	(801)	-6.4	(875)	9.2	(908)	(973)	(1,024)
<b>EBIT (UBS)</b>	<b>2,655</b>	<b>2,400</b>	<b>1,742</b>	<b>1,302</b>	<b>-25.3</b>	<b>1,470</b>	<b>12.9</b>	<b>1,612</b>	<b>1,593</b>	<b>1,643</b>
Associates & investment income	0	(10)	(478)	0	-	0	-	0	0	0
Other non-operating income	(49)	(51)	(1,150)	0	-	0	-	0	0	0
Net interest	1	8	(1)	33	-	82	148.6	105	127	144
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>2,608</b>	<b>2,347</b>	<b>113</b>	<b>1,335</b>	<b>NM</b>	<b>1,552</b>	<b>16.3</b>	<b>1,717</b>	<b>1,720</b>	<b>1,786</b>
Tax	(624)	(554)	(16)	(315)	NM	(366)	-16.3	(405)	(406)	(422)
<b>Profit after tax</b>	<b>1,984</b>	<b>1,793</b>	<b>97</b>	<b>1,020</b>	<b>NM</b>	<b>1,186</b>	<b>16.3</b>	<b>1,312</b>	<b>1,314</b>	<b>1,365</b>
Preference dividends and Minorities	(173)	(146)	8	(83)	-	(97)	-16.3	(107)	(107)	(111)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>1,810</b>	<b>1,647</b>	<b>105</b>	<b>937</b>	<b>NM</b>	<b>1,089</b>	<b>16.3</b>	<b>1,205</b>	<b>1,207</b>	<b>1,254</b>
<b>Net earnings (UBS)</b>	<b>1,810</b>	<b>1,647</b>	<b>105</b>	<b>937</b>	<b>NM</b>	<b>1,089</b>	<b>16.3</b>	<b>1,205</b>	<b>1,207</b>	<b>1,254</b>
Tax rate (%)	23.9	23.6	14.3	23.6	65.4	23.6	0.0	23.6	23.6	23.6
<b>Per share (Rmb)</b>										
EPS (UBS, diluted)	0.39	0.36	0.02	0.20	NM	0.24	16.3	0.26	0.26	0.27
EPS (local GAAP, diluted)	0.39	0.36	0.02	0.20	NM	0.24	16.3	0.26	0.26	0.27
EPS (UBS, basic)	0.39	0.36	0.02	0.20	NM	0.24	16.3	0.26	0.26	0.27
Net DPS (Rmb)	0.15	0.14	0.12	0.08	-35.6	0.09	16.3	0.10	0.10	0.10
Book value per share	2.87	3.07	2.95	3.34	13.1	3.48	4.4	3.64	3.70	3.89
Average shares (diluted)	4,610.00	4,610.00	4,610.00	4,610.00	0.0	4,610.00	0.0	4,610.00	4,610.00	4,610.00
<b>Balance sheet (Rmbm)</b>										
Cash and equivalents	2,579	2,934	5,526	6,812	23.3	7,581	11.3	8,307	8,870	9,530
Other current assets	2,607	2,153	2,128	2,640	24.1	2,879	9.1	2,939	2,991	3,026
<b>Total current assets</b>	<b>5,186</b>	<b>5,087</b>	<b>7,654</b>	<b>9,451</b>	<b>23.5</b>	<b>10,461</b>	<b>10.7</b>	<b>11,247</b>	<b>11,861</b>	<b>12,556</b>
Net tangible fixed assets	10,031	10,811	9,909	10,421	5.2	10,420	0.0	10,545	10,837	11,064
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	1,915	2,638	2,377	2,377	0.0	2,377	0.0	2,377	2,377	2,377
<b>Total assets</b>	<b>17,132</b>	<b>18,536</b>	<b>19,939</b>	<b>22,249</b>	<b>11.6</b>	<b>23,258</b>	<b>4.5</b>	<b>24,169</b>	<b>25,075</b>	<b>25,997</b>
Trade payables & other ST liabilities	2,230	2,667	2,754	3,203	16.3	3,440	7.4	3,497	3,548	3,581
Short term debt	0	0	139	139	0.0	139	0.0	139	139	139
<b>Total current liabilities</b>	<b>2,230</b>	<b>2,667</b>	<b>2,894</b>	<b>3,342</b>	<b>15.5</b>	<b>3,579</b>	<b>7.1</b>	<b>3,636</b>	<b>3,687</b>	<b>3,720</b>
Long term debt	0	0	1,951	1,951	0.0	1,951	0.0	1,951	1,951	1,951
Other long term liabilities	275	368	345	345	0.0	345	0.0	345	329	329
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>2,505</b>	<b>3,035</b>	<b>5,190</b>	<b>5,638</b>	<b>8.6</b>	<b>5,875</b>	<b>4.2</b>	<b>5,932</b>	<b>5,967</b>	<b>6,001</b>
Common s/h equity	13,209	14,156	13,600	15,378	13.1	16,053	4.4	16,800	17,056	17,945
Minority interests	1,417	1,345	1,150	1,233	7.2	1,329	7.8	1,436	2,051	2,051
<b>Total liabilities &amp; equity</b>	<b>17,132</b>	<b>18,536</b>	<b>19,939</b>	<b>22,249</b>	<b>11.6</b>	<b>23,258</b>	<b>4.5</b>	<b>24,169</b>	<b>25,075</b>	<b>25,997</b>
<b>Cash flow (Rmbm)</b>										
Net income (before pref divs)	1,810	1,647	105	937	NM	1,089	16.3	1,205	1,207	1,254
Depreciation & amortization	794	825	856	801	-6.4	875	9.2	908	973	1,024
Net change in working capital	(7)	8	51	45	-11.4	(20)	-	(16)	0	(7)
Other operating	205	190	1,603	66	-95.9	80	20.3	90	90	95
<b>Operating cash flow</b>	<b>2,803</b>	<b>2,671</b>	<b>2,615</b>	<b>1,850</b>	<b>-29.3</b>	<b>2,023</b>	<b>9.4</b>	<b>2,187</b>	<b>2,269</b>	<b>2,365</b>
Tangible capital expenditure	(1,477)	(1,645)	(1,059)	(800)	24.4	(800)	0.0	(1,000)	(1,200)	(1,200)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	0	0	0	0	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>(1,477)</b>	<b>(1,645)</b>	<b>(1,059)</b>	<b>(800)</b>	<b>24.4</b>	<b>(800)</b>	<b>0.0</b>	<b>(1,000)</b>	<b>(1,200)</b>	<b>(1,200)</b>
Equity dividends paid	(738)	(691)	(645)	(553)	14.3	(356)	35.6	(414)	(458)	(459)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	(388)	21	(409)	789	-	(97)	-	(48)	(48)	(47)
Change in debt & pref shares	(425)	0	2,090	0	-	0	-	0	0	0
<b>Financing cash flow</b>	<b>(1,551)</b>	<b>(670)</b>	<b>1,036</b>	<b>236</b>	<b>-77.2</b>	<b>(453)</b>	<b>-</b>	<b>(462)</b>	<b>(506)</b>	<b>(506)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>(224)</b>	<b>355</b>	<b>2,592</b>	<b>1,286</b>	<b>-50.4</b>	<b>770</b>	<b>-40.1</b>	<b>726</b>	<b>563</b>	<b>659</b>
FX / non cash items	0	0	0	0	-	0	-	0	0	0
<b>Balance sheet inc/(dec) in cash</b>	<b>(224)</b>	<b>355</b>	<b>2,592</b>	<b>1,286</b>	<b>-50.4</b>	<b>770</b>	<b>-40.1</b>	<b>726</b>	<b>563</b>	<b>659</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.



## China BlueChemical (3983.HK)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	10.9	10.5	NM	12.0	10.3	9.3	9.3	9.0
P/E (UBS, diluted)	10.9	10.5	NM	12.0	10.3	9.3	9.3	9.0
P/CEPS	7.6	7.0	14.5	6.5	5.7	5.3	5.1	4.9
Equity FCF (UBS) yield %	6.8	6.0	11.1	9.4	10.9	10.6	9.5	10.4
Net dividend yield (%)	3.5	3.7	4.0	3.2	3.7	4.1	4.1	4.2
P/BV x	1.5	1.2	1.0	0.7	0.7	0.7	0.7	0.6
EV/revenues (core)	1.7	1.4	1.1	0.8	0.8	0.6	0.9	0.9
EV/EBITDA (core)	5.1	4.8	4.5	3.9	3.5	2.6	3.9	3.8
EV/EBIT (core)	6.7	6.5	6.8	6.3	5.6	4.1	6.2	6.1
EV/OpFCF (core)	4.8	4.5	4.2	3.6	3.3	2.4	3.6	3.5
EV/op. invested capital	1.6	1.3	1.0	0.7	0.7	0.6	0.8	0.8
<b>Enterprise value (Rmbm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Market cap.	19,455	17,113	14,031	11,225	11,225	11,225	11,225	11,225
Net debt (cash)	(2,479)	(2,756)	(3,185)	(4,078)	(4,078)	(5,854)	(2,660)	(2,660)
Buy out of minorities	1,424	1,381	1,150	1,233	1,329	1,436	1,543	1,654
Pension provisions/other	0	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>18,401</b>	<b>15,738</b>	<b>11,996</b>	<b>8,379</b>	<b>8,476</b>	<b>6,807</b>	<b>10,108</b>	<b>10,219</b>
Non core assets	(654)	(214)	(213)	(213)	(213)	(213)	(213)	(213)
<b>Core enterprise value</b>	<b>17,746</b>	<b>15,524</b>	<b>11,783</b>	<b>8,166</b>	<b>8,262</b>	<b>6,594</b>	<b>9,894</b>	<b>10,006</b>
<b>Growth (%)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Revenue	10.1	-0.1	0.7	-10.5	9.0	2.8	1.5	1.4
EBITDA (UBS)	-2.7	-6.5	-19.5	-19.0	11.5	7.5	1.8	4.0
EBIT (UBS)	-0.9	-9.6	-27.4	-25.3	12.9	9.7	-1.2	3.1
EPS (UBS, diluted)	-8.8	-9.0	-93.6	NM	16.3	10.6	0.1	3.9
Net DPS	-6.2	-6.7	-14.3	-35.6	16.3	10.6	0.1	3.9
<b>Margins &amp; Profitability (%)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Gross profit margin	30.8	30.1	24.9	23.2	23.1	24.0	23.6	23.9
EBITDA margin	32.1	30.1	24.1	21.8	22.3	23.3	23.4	23.9
EBIT margin	24.7	22.4	16.1	13.5	14.0	14.9	14.5	14.7
Net earnings (UBS) margin	16.9	15.4	1.0	9.7	10.3	11.1	11.0	11.3
ROIC (EBIT)	24.2	20.2	14.9	11.4	12.6	13.7	13.3	13.4
ROIC post tax	18.4	15.5	14.4	8.7	9.6	10.5	10.2	10.3
ROE (UBS)	14.3	12.0	0.8	6.5	6.9	7.3	7.1	7.2
<b>Capital structure &amp; Coverage (x)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Net debt / EBITDA	(0.7)	(0.9)	(1.3)	(2.2)	(2.3)	(2.5)	(2.6)	(2.8)
Net debt / total equity %	(17.6)	(18.9)	(23.3)	(28.4)	(31.6)	(34.1)	(35.5)	(37.2)
Net debt / (net debt + total equity) %	(21.4)	(23.3)	(30.4)	(39.7)	(46.2)	(51.7)	(55.0)	(59.2)
Net debt/EV %	(14.5)	(18.9)	(29.2)	(57.8)	(66.5)	(94.3)	(68.5)	(74.4)
Capex / depreciation %	186.0	199.3	123.7	99.9	91.5	110.1	123.3	117.1
Capex / revenue %	13.7	15.3	9.8	8.3	7.6	9.2	10.9	10.8
EBIT / net interest	NM	NM	NM	NM	NM	NM	NM	NM
Dividend cover (UBS)	2.6	2.6	0.2	2.6	2.6	2.6	2.6	2.6
Div. payout ratio (UBS) %	38.2	39.2	NM	38.0	38.0	38.0	38.0	38.0
<b>Revenues by division (Rmbm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Others	10,739	10,724	10,797	9,661	10,528	10,825	10,983	11,140
<b>Total</b>	<b>10,739</b>	<b>10,724</b>	<b>10,797</b>	<b>9,661</b>	<b>10,528</b>	<b>10,825</b>	<b>10,983</b>	<b>11,140</b>
<b>EBIT (UBS) by division (Rmbm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Others	2,655	2,400	1,742	1,302	1,470	1,612	1,593	1,643
<b>Total</b>	<b>2,655</b>	<b>2,400</b>	<b>1,742</b>	<b>1,302</b>	<b>1,470</b>	<b>1,612</b>	<b>1,593</b>	<b>1,643</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

### Forecast returns

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Forecast price appreciation	+5.3%
Forecast dividend yield	3.2%
Forecast stock return	+8.5%
Market return assumption	9.2%
Forecast excess return	-0.7%

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### Statement of Risk

We believe the recent volatility in oil prices could lead to significant fluctuations in methanol prices. The market dynamics for urea, including the export situation for China, could also move urea prices meaningfully.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	45%	37%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	43%	33%
<b>Sell</b>	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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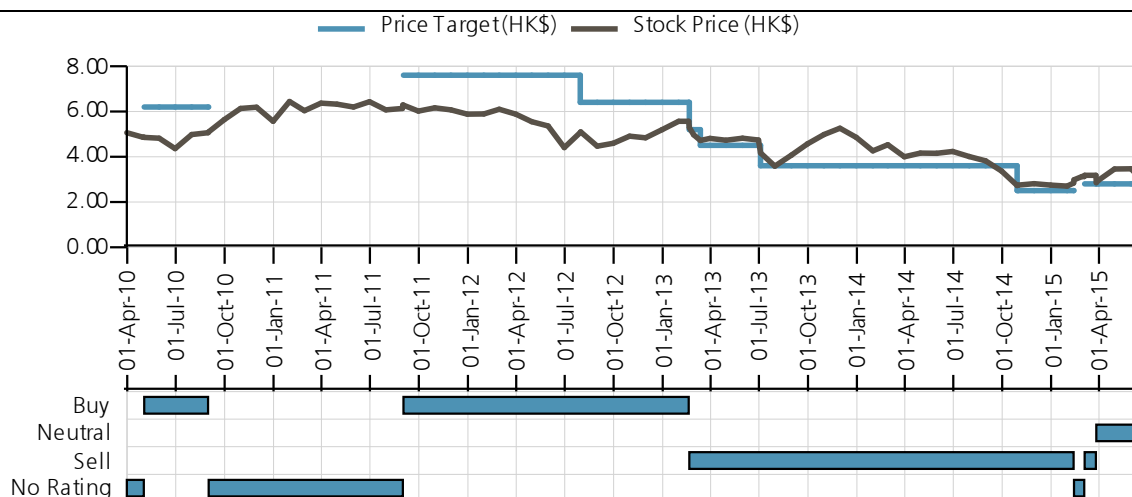
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
China BlueChemical	3983.HK	Neutral	N/A	HK\$3.04	17 Jun 2015

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### China BlueChemical (HK\$)



Source: UBS; as of 17 Jun 2015

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