



Rating
Hold

Asia
China

Energy
Chemicals

Company
QSLI

Reuters
000792.SZ

Bloomberg
000792 CH

Exchange
SHZ

Ticker
000792

Date
21 April 2016

Results

Price at 20 Apr 2016 (CNY)	18.45
Price target - 12mth (CNY)	20.00
52-week range (CNY)	33.95 - 16.27
Shenzhen Index	2,048

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FY15 results in-line; maintaining Hold

FY15 net income down 57% YoY

In its FY15 results QSLI posted net income of RMB559mn or EPS of RMB0.35/share, down 57% YoY but in-line with our estimates and the company's guidance. QSLI declared a DPS of RMB0.031, implying a payout ratio of 10.3%, on par with 10.5% in 2014. The sharp decline in net income was driven by 1) a loss in the chemical segment, 2) impairment losses, and 3) an increase in financial and SG&A expenses. If we exclude asset impairment of RMB1,150mn (+72.5% YoY) on inventory loss of RMB989mn (vs. RMB637mn in 2014) and fixed asset impairment of RMB140mn, QSLI's operating income would have only dropped by 6% to RMB2.35bn.

Mixed bag in potash segment: GPM up but sales volume down

QSLI's potash segment GPM improved by +5.4%points YoY to 73.7% in 2015 on the back of 1) higher production volume, with continuous production during the winter season, and 2) stringent cost control. Potash revenue increased by 2% YoY to RMB7.88bn with ASP of RMB1,777/ton (+4% YoY). Stringent cost control reduced potash unit production cost by 13.3% YoY to RMB468/ton. QSLI produced 5.21mnton of potash, up 12% YoY, but recorded sales of 4.43mnton, down 3% YoY. Potash inventory as of 2015 increased by 66.52% to 1.45mnton.

Chemicals loss widened, but gross loss margin narrowed

The chemicals segment loss is a key drag on earnings. QSLI recorded a loss of RMB1.54bn for chemical integration project phase 1&2, whereas last year it reported a loss of RMB0.71bn for chemical integration project phase 1 (+116% YoY). On the bright side, chemical GPM narrowed by 0.93%points to -22.02%, thanks to a natural gas cost cut in Nov 2015. The company limited the loss in chemical projects by suspending ADC production of Salt Lake Haihong in July 2015. Conversely, its lithium carbonate production surged by 117.3% YoY and reached 3,705 tons in 2015, while production unit cost declined by 29% YoY to RMB28,966/ton.

Valuation and risks; maintaining Hold rating with PT of RMB20.0

We maintain our Hold rating with our DCF-derived PT of RMB20.0/share, implying 1.4x FY16E P/B. The stock trades at 1.30x FY16E P/B, slightly higher than -1SD below the historical average. Key risks: sluggish chemical prices and demand could lead to further inventory write-downs and asset impairments in FY16E.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.9	-6.7	-33.5
Shenzhen Index	6.6	4.4	-6.4

Source: Deutsche Bank

Stock data

Market cap (CNYm)	29,345
Market cap (USDm)	4,534
Shares outstanding (m)	1,590.5
Major shareholders	-
Free float (%)	23
Avg daily value traded (USDm)	58.6

Source: Deutsche Bank



Model updated:03 February 2016

Running the numbers

Asia
China
Chemicals

OSLI

Reuters: 000792.SZ Bloomberg: 000792 CH

Hold

Price (20 Apr 16) CNY 18.45
Target Price CNY 20.00
52 Week range CNY 16.27 - 33.95
Market Cap (m) CNYm 29,345
USDm 4,534

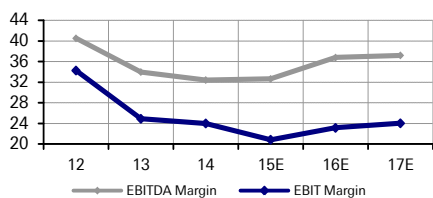
Company Profile

OSLI is the largest potash fertilizer (MOP) manufacturer in China with 3.5mntpa of capacity and its new 1.5mntpa capacity is expected to come on-stream for a production trial in 2H16, which would boost capacity by 43%.

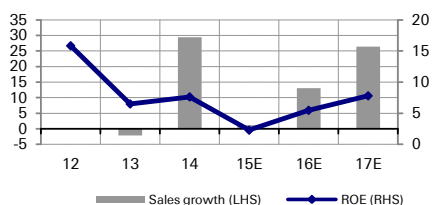
Price Performance



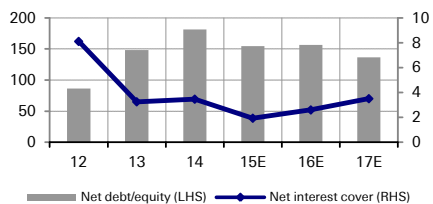
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	1.59	0.66	0.82	0.29	0.70	1.05
Reported EPS (CNY)	1.59	0.66	0.82	0.29	0.70	1.05
DPS (CNY)	0.32	0.07	0.09	0.03	0.07	0.11
BVPS (CNY)	10.0	10.3	11.1	12.4	13.0	13.9
Weighted average shares (m)	1,591	1,591	1,591	1,607	1,857	1,857
Average market cap (CNYm)	48,982	33,240	26,932	29,345	29,345	29,345
Enterprise value (CNYm)	65,456	60,968	62,879	68,470	70,808	68,077

Valuation Metrics

P/E (DB) (x)	19.4	31.6	20.7	63.6	26.5	17.5
P/E (Reported) (x)	19.4	31.6	20.7	63.6	26.5	17.5
P/BV (x)	2.61	1.61	1.95	1.49	1.42	1.32
FCF Yield (%)	nm	nm	nm	nm	nm	11.7
Dividend Yield (%)	1.0	0.3	0.5	0.1	0.4	0.6
EV/Sales (x)	7.9	7.5	6.0	6.5	5.9	4.5
EV/EBITDA (x)	19.5	22.2	18.5	19.8	16.1	12.1
EV/EBIT (x)	23.1	30.2	25.0	31.0	25.5	18.7

Income Statement (CNYm)

Sales revenue	8,271	8,095	10,474	10,596	11,975	15,132
Gross profit	4,615	4,164	5,397	5,139	6,022	7,667
EBITDA	3,351	2,751	3,397	3,460	4,405	5,631
Depreciation	479	695	844	1,211	1,594	1,954
Amortisation	37	38	38	38	38	38
EBIT	2,835	2,017	2,516	2,211	2,773	3,639
Net interest income/(expense)	-350	-619	-725	-1,140	-1,065	-1,037
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	-153	-595	-667	-896	0	0
Other pre-tax income/(expense)	887	628	597	442	-2	-20
Profit before tax	3,220	1,431	1,720	616	1,706	2,582
Income tax expense	468	365	389	139	386	583
Minorities	228	14	29	10	29	44
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,524	1,052	1,302	466	1,291	1,954
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	2,524	1,052	1,302	466	1,291	1,954

Cash Flow (CNYm)

Cash flow from operations	1,487	134	1,356	3,107	3,892	5,017
Net Capex	-9,339	-9,548	-7,498	-10,000	-5,000	-1,000
Free cash flow	-7,852	-9,414	-6,142	-6,893	-1,108	4,017
Equity raised/(bought back)	344	0	15	4,900	0	0
Dividends paid	-947	-1,948	-2,166	-1,189	-1,201	-1,242
Net inc/(dec) in borrowings	8,594	11,570	9,199	3,629	1,000	200
Other investing/financing cash flows	80	-42	-290	14	0	0
Net cash flow	219	165	615	461	-1,309	2,975
Change in working capital	-2,290	-2,876	-2,276	255	-126	-10

Balance Sheet (CNYm)

Cash and other liquid assets	2,166	2,331	3,282	3,743	2,434	5,409
Tangible fixed assets	28,425	40,946	53,118	61,907	65,313	64,358
Goodwill/intangible assets	824	786	759	721	683	644
Associates/investments	534	536	565	565	565	565
Other assets	10,492	11,009	10,176	10,092	10,772	12,328
Total assets	42,440	55,608	67,899	77,027	79,765	83,305
Interest bearing debt	17,416	29,000	38,199	41,828	42,828	43,028
Other liabilities	7,335	8,602	10,421	10,592	11,146	12,692
Total liabilities	24,751	37,603	48,619	52,419	53,973	55,720
Shareholders' equity	15,930	16,410	17,685	23,003	24,158	25,907
Minorities	1,758	1,595	1,594	1,605	1,634	1,677
Total shareholders' equity	17,689	18,005	19,280	24,607	25,792	27,585
Net debt	15,250	26,669	34,916	38,085	40,394	37,619

Key Company Metrics

Sales growth (%)	nm	-2.1	29.4	1.2	13.0	26.4
DB EPS growth (%)	na	-58.3	23.8	-64.6	139.6	51.3
EBITDA Margin (%)	40.5	34.0	32.4	32.6	36.8	37.2
EBIT Margin (%)	34.3	24.9	24.0	20.9	23.2	24.0
Payout ratio (%)	20.2	10.1	10.5	9.1	10.5	10.5
ROE (%)	15.8	6.5	7.6	2.3	5.5	7.8
Capex/sales (%)	113.0	118.3	71.6	94.4	41.8	6.6
Capex/depreciation (x)	18.1	13.1	8.5	8.0	3.1	0.5
Net debt/equity (%)	86.2	148.1	181.1	154.8	156.6	136.4
Net interest cover (x)	8.1	3.3	3.5	1.9	2.6	3.5

Source: Company data, Deutsche Bank estimates



Key financial data

Figure 1: Income statement

RMB million	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	2H15 YoY	2H15 HoH
Revenue	3,917	4,354	4,129	3,966	4,204	6,271	4,317	6,565	5%	52%
COGS	(1,511)	(2,145)	(1,872)	(2,059)	(2,049)	(3,028)	(2,225)	(2,967)	-2%	33%
Gross Profit	2,406	2,209	2,257	1,907	2,155	3,242	2,092	3,598	11%	72%
SG&A	(516)	(804)	(705)	(920)	(830)	(1,322)	(908)	(1,640)	24%	81%
Operating profit	1,890	1,405	1,552	987	1,324	1,920	1,183	1,958	2%	65%
Other Income/(loss)	(16)	291	(235)	(254)	(465)	(334)	(287)	(1,080)	223%	276%
EBIT	1,874	1,695	1,318	732	859	1,586	896	878	-45%	-2%
Interest expense	(141)	(209)	(262)	(358)	(310)	(415)	(449)	(563)	36%	25%
Pretax income	1,733	1,487	1,056	375	549	1,171	447	316	-73%	-29%
Tax expense	(273)	(195)	(163)	(202)	(112)	(277)	(106)	(112)	-59%	6%
Net profit	1,460	1,292	893	173	437	894	341	222	-75%	-35%
NP attributable to shareholders	1,311	1,213	822	230	429	873	361	198	-77%	-45%
EPS	0.82	0.76	0.52	0.14	0.27	0.55	0.23	0.12	-77%	-45%
GPM%	61%	51%	55%	48%	51%	52%	48%	55%	3% ppts	6% ppts
OPM%	48%	32%	38%	25%	32%	31%	27%	30%	-1% ppts	2% ppts
NIM%	37%	30%	22%	4%	10%	14%	8%	3%	-11% ppts	-5% ppts
SG&A as % of Revenue	13%	18%	17%	23%	20%	21%	21%	25%	4% ppts	4% ppts
Effective tax rate	16%	13%	15%	54%	20%	24%	24%	36%	12% ppts	12% ppts

Source: Deutsche Bank, company data



Operating data

Figure 2: Operating segments

Main businesses (RMB mn)	Revenue	Cost of Goods Sold	Gross Profit	Gross Margin
Potash Fertilizer	6,462	1,546	4,915	76%
Mathanol	39	92	-53	-135%
PVC	414	561	-147	-36%
Potassium hydroxide, potassium carbonate	412	389	24	6%
Urea	458	699	-241	-53%
Other chemical products	39	111	-72	-186%
Steam	36			0%
Woven bag	57	45	12	21%
Subtotal	7,916	3,443	4,473	57%
Other businesses	Revenue	Cost of Goods Sold	Gross Profit	Gross Margin
Brine	164	80	84	51%
Transportation	11	12	-1	-9%
Rent	5	0	4	97%
Mining royalties	256		256	100%
Utility and tenement	44	41	3	7%
Materials	217	205	12	5%
Commissions	26	19	7	29%
Interest	35		35	100%
Other income	4		4	100%
Subtotal	761	357	405	53%
Total	8,677	3,799	4,878	56%

Source: Deutsche Bank, company data

Figure 3: Potassium chloride

Potassium Chloride	FY13	FY14	FY15	FY15 YoY %
Revenue (RMB mn)	6,245	7,760	7,879	2%
ASP(RMB/t)	1,904	1,706	1,777	4%
Production (th tonne)	3,266	4,642	5,213	12%
Sales (th tonne)	3,280	4,566	4,434	-3%
GPM%	69%	68%	74%	5% ppts

Source: Deutsche Bank, company data



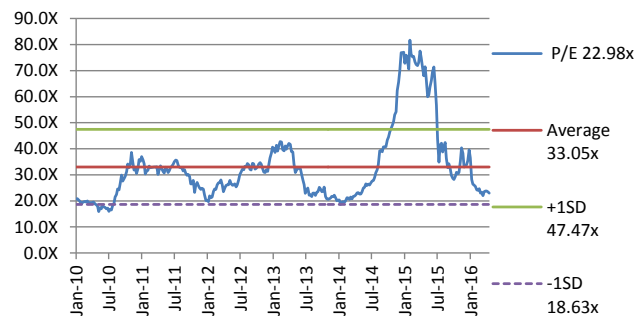
Valuation charts

Figure 4: 12-months forward P/B



Source: Deutsche Bank, company data

Figure 5: 12-months forward P/E



Source: Deutsche Bank, company data

Comp sheet

Figure 6: Comp sheet

Name	Reuters Ticker	DB Rating	19-Apr-16 Share price	Market Cap (USD mn)	P/E (x)		P/B (x)		ROE (%)		Dividend		EV/EBITDA (x)		ROIC (%)	
					FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16e	FY17e	FY16E	FY17E
China BlueChem	3983.HK	Buy	HKD 1.90	1,129	8.5	7.1	0.5	0.5	6.1	7.1	6.3	6.3	2.8	2.5	7.6	8.3
Sinofert	0297.HK	Hold	HKD 1.13	1,381	14.0	8.9	0.5	0.5	3.4	5.2	1.8	2.9	-0.9	-0.8	2.7	3.5
QSLI	000792.SZ	Hold	CNY 18.88	4,534	26.5	17.5	1.4	1.3	5.5	7.8	0.4	0.6	16.1	12.1	3.3	4.3
Global (ex-HK/China)																
Mosaic	MOS.N	NR	USD 28.22	9,139	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Industries Qatar	IQCD.QA	Buy	QAR 105.30	22,214	18.6	14.9	1.9	1.8	10.2	12.5	4.7	4.7	54.8	52.8	2.9	2.9
Yara	YAR.OL	Hold	NOK 321.60	13,339	10.6	10.0	1.1	1.1	11.0	10.9	4.7	4.8	6.2	5.9	10.3	10.1
Ma'aden	1211.SE	Hold	SAR 31.20	11,699	37.1	20.5	1.3	1.2	3.5	6.1	0.0	0.0	22.3	17.0	2.0	3.1
SAFCO	2020.SE	Hold	SAR 64.25	12,873	22.9	17.2	3.8	3.8	15.9	22.2	6.2	6.2	15.6	12.7	18.2	26.0
PTT GC	PTTGC.BK	Buy	THB 61.00	7,704	10.8	10.6	1.1	1.1	10.7	10.3	4.6	4.7	6.7	6.1	9.8	10.1
ICL	ICL.TA	Hold	ILS 17.60	8,131	9.8	8.8	1.8	1.7	19.3	20.3	7.1	8.0	8.1	7.5	10.6	11.8
PHOSAGRO	PHORq.L	Hold	USD 14.80	5,728	9.5	9.4	4.2	3.4	50.0	40.5	5.0	5.0	6.9	6.4	23.7	22.1
K + S	SDFGn.DE	Hold	EUR 20.75	6,267	12.4	9.7	0.9	0.9	7.3	9.1	5.5	6.3	8.5	7.1	6.1	7.3
UPL	UPLL.BO	Buy	INR 504.40	2,356	17.4	13.6	3.2	2.7	19.6	21.2	1.1	1.3	9.1	7.8	18.1	18.0
Chambal	CHMB.BO	Buy	INR 60.40	392	6.5	6.1	1.0	0.9	16.1	15.4	3.3	3.6	6.3	5.4	7.0	8.2
Weighted average					17.6	12.4	1.90	1.72	16.8	15.1	3.5	3.5	17.0	15.4	10.5	11.0

Source: Deutsche Bank, Bloomberg Finance LP





Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
QSLI	000792.SZ	18.45 (CNY) 20 Apr 16	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: QSLI (000792.SZ)

(as of 4/20/2016)



1.	20/01/2016:	Upgrade to Hold, Target Price Change CNY22.20	2.	03/02/2016:	Hold, Target Price Change CNY20.00
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Equity rating key

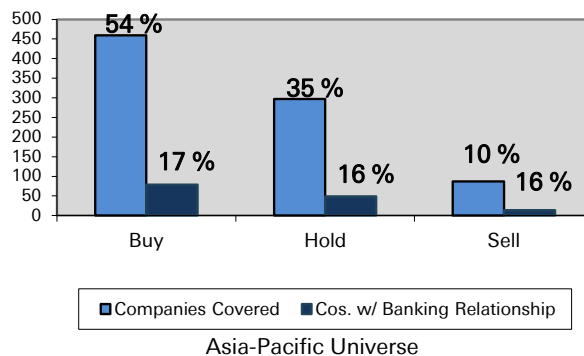
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



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