



Rating
Buy

Asia
Hong Kong

Energy
Chemicals

Company
China BlueChemical

Reuters 3983.HK Bloomberg 3983 HK Exchange HSI Ticker 3983

Date
11 July 2018

Forecast Change

Price at 10 Jul 2018 (HKD)	2.77
Price target - 12mth (HKD)	3.40
52-week range (HKD)	3.00 - 2.00
HANG SENG INDEX	28,682

Leave no stone unturned; reiterate Buy

A good combo for lasting earnings recovery; revised TP to HK\$3.4

On the back of improved methanol and urea fundamentals, we expect China BlueChem (CBC) EBITDA to achieve 18% CAGR in 2017-20E (or 178% CAGR on net profit). Methanol and urea prices in China improved by 16% and 20% yoy in 1H18 while CBC's cost remains stable and is a cost leader in China. Moreover, urea prices will be more resilient after the winter / spring trade period on the back of tighter supply-demand. Near term catalyst would be its strong 1H18E earnings recovery; conversely, we see limited risks on further assets write-down with a commodity price recovery. Thus, we lift our TP to HK\$3.4 to reflect our revised methanol and urea prices forecasts, up by 13% and 11% and earnings by 10% in 2018E; reiterate our Buy rating.

Strong methanol cycle to continue

With our global oil price deck upgrade, Brent price should average US\$80/bbl in 2H18E and US\$76/bbl in 2019E; we thus lift China methanol prices forecasts by 13% and 24% in 2018E and 2019E. China methanol prices went up by 16% yoy in 1H18 along with a 15% surge in ethylene prices. We expect strong correlations between methanol and ethylene prices ahead given the new methanol demand is largely driven by MTO capacity ramp up. We estimate another 3.1mntpa of new MTO capacity in 2017-19E in China, equal to 5% of China's 2017 capacity.

Urea supply-demand in China tightening

We note China urea utilization rate will improve to 82% in 2020E from 76% in 2017 driven by capacity removals, outpacing the global utilization rate improvement (from 81% in 2017 to 83% in 2020E). We reckon another 9mnton capacity in China will fade out in 2018-20E after 4.5/3.5/3.0 mnton in 2015/16/17, and total 20mnton of capacity removal in 2015-20. The stringent environmental law has been pivotal and will be long lasting (see our [Asia Petrochemical report](#) in 22 Mar 2018 for details), in our view. On the export side, China export volume is set to drop further from 4.7mntons in 2017 to c.2.0mntons in 2018E (1Q18 export dropped by 52% yoy) driven by higher production cost and domestic ASPs premium. On the demand side, we see flat demand growth in 2018-20E while longer term demand would be boosted by government's intension to adopt a nationwide ethanol-10 (E-10) gasoline policy by 2020 which urea is essential fertilizer to boost corn yield for ethanol production.

Valuation and risks

We derive our new TP of HK\$3.4 with a DCF model, assuming WACC of 10.6% (Risk free: 3.9%; Equity Risk Premium: 5.6%; Beta:1.2) and terminal growth of

Valuation & Risks

Vitus Leung

Research Analyst
+852-2203 6158

Johnson Wan

Research Analyst
+852-2203 6163

Eric Cui

Research Associate
+852-2203 7443

Key changes

TP	3.10 to 3.40	↑	9.7%
Sales (FYE)	10,797 to 11,113	↑	2.9%
Op prof margin (FYE)	12.7 to 13.9	↑	9.4%
Net profit (FYE)	776.0 to 856.4	↑	10.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.3	30.0	39.9
HANG SENG INDEX	-7.4	-6.7	12.5

Source: Deutsche Bank



0% as fertilizer long term demand growth is zero according to government long term policy. Our TP implies 0.94x 2018E P/B and 3.1x EV/EBITDA. CBC trades at 0.7x 2018E P/B, 35% below its historical average and at a 65% discount to global peers. Risks include: 1) faster-than-expected depletion at gas fields in the South China Sea; 2) feestock supply disruption; and 3) the volatility in the prices of main products.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	8,503.8	9,799.7	11,112.8	11,611.7	11,500.6
EBITDA (CNYm)	759.9	2,110.2	2,527.8	2,811.5	2,766.0
Reported NPAT (CNYm)	-215.5	50.2	856.4	1,070.0	1,084.5
Reported EPS FD(CNY)	-0.05	0.01	0.19	0.23	0.24
DB EPS FD(CNY)	-0.05	0.01	0.19	0.23	0.24
OLD DB EPS FD(CNY)	-0.05	0.01	0.17	0.21	0.25
% Change	-0.0%	0.0%	10.4%	11.4%	-5.4%
DB EPS growth (%)	-	-	1,604.9	24.9	1.4
Price/Book (x)	0.6	0.8	0.8	0.8	0.7
PER (x)	-	183.6	12.6	10.1	9.9
EV/EBITDA (x)	2.9	1.7	1.9	1.3	1.1
DPS (net) (CNY)	0.05	0.07	0.09	0.12	0.12
Yield (net) (%)	3.5	3.5	4.0	5.0	5.0

Source: Deutsche Bank estimates, company data



Key changes

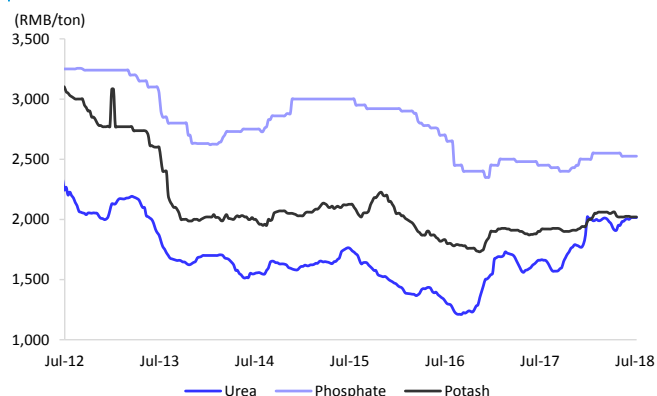
Figure 1: Summary of changes

Business assumptions	New			Old			Change		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Urea									
Capacity (tpa - 300 working days)	2,360,000	2,360,000	2,360,000	2,360,000	2,360,000	2,360,000	0%	0%	0%
Total production volume (tpa)	2,126,000	2,319,152	2,345,152	2,245,879	2,345,152	2,345,152	-5%	-1%	0%
Total sales volume (tpa)	2,128,600	2,375,879	2,399,752	2,297,879	2,401,879	2,345,152	-7%	-1%	2%
Overall ASP (RMB/t)	1,632	1,652	1,682	1,477	1,587	1,619	11%	4%	4%
Methanol									
Capacity (tpa - 365 working days)	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	0%	0%	0%
Total production volume (tpa)	1,524,000	1,504,000	1,514,000	1,584,000	1,584,000	1,474,000	-4%	-5%	3%
Total sales volume (tpa)	1,524,000	1,504,000	1,514,000	1,584,000	1,584,000	1,474,000	-4%	-5%	3%
Overall ASP (RMB/t)	3,098	3,116	2,789	2,730	2,512	2,630	13%	24%	6%
Phosphate									
Designed Capacity (tpa)	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	0%	0%	0%
Total production volume (tpa)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0%	0%	0%
Total sales volume (tpa)	850,000	807,500	850,000	854,250	854,250	854,250	0%	-5%	0%
Overall ASP (RMB/t)	2,280	2,462	2,585	2,428	2,719	2,855	-6%	-9%	-9%
Ratio									
ROA	4.4%	5.4%	5.2%	4.0%	4.9%	5.6%	0.4%	0.5%	-0.4%
ROE	5.9%	6.9%	6.7%	5.3%	6.3%	7.2%	0.5%	0.6%	-0.5%
ROIC	13.6%	16.2%	16.2%	12.0%	13.2%	14.9%	1.6%	3.0%	1.3%
Net gearing (%)	-42%	-48%	-52%	-41%	-40%	-43%	-1.4%	-7.9%	-8.4%
Income statement (RMB mn)									
Revenue	11,113	11,612	11,501	10,797	11,168	11,114	3%	4%	3%
Gross Profit	2,555	2,876	2,811	2,270	2,519	2,774	13%	14%	1%
GPM (%)	23%	25%	24%	21%	23%	25%	2.0%	2.2%	-0.5%
Net income	856	1,070	1,085	776	960	1,146	10%	11%	-5%
EPS (RMB/share)	0.186	0.232	0.235	0.168	0.208	0.249	10%	11%	-5%
DPS (RMB/share)	0.093	0.116	0.118	0.084	0.104	0.124	10%	11%	-5%
Payout (%)	50%	50%	50%	50%	50%	50%	0%	0%	0%
Target Price (HKD)	3.40			3.10			10%		

Source: Deutsche Bank estimates

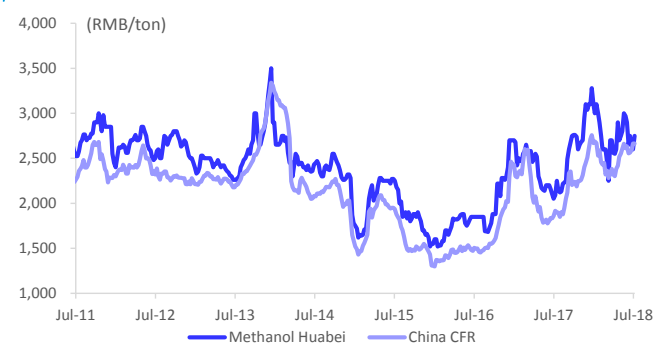
Key commodity prices

Figure 2: China fertilizer prices



Source: Bloomberg Finance L.P., Deutsche bank

Figure 3: China methanol prices



Source: Bloomberg Finance L.P., Deutsche bank



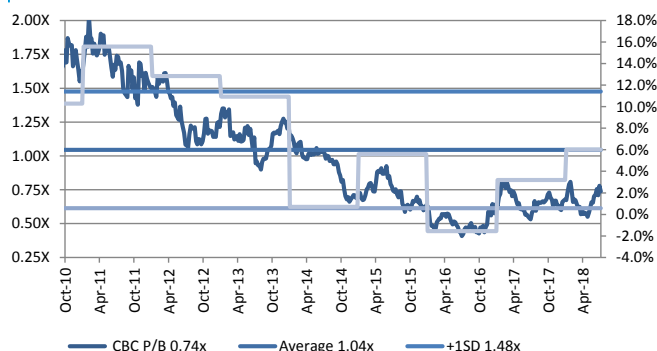
Comps sheet and valuation charts

Figure 4: Global Fertilizer Comps

Name	Reuters Ticker	DB Rating	Trading Ccy	10-Jul Price	Mkt Cap (USD mn)	P/E (x)		P/B (x)		ROE (%)		Dvd yield (%)		EV/EBITDA (x)		ROIC (%)	
						FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
China - H Listed																	
China BlueChem	3983.HK	Buy	HKD	2.77	1,627	13.9	11.2	0.8	0.8	5.8	6.9	3.6	4.5	2.1	2.0	11.3	13.2
Sinofert	0297.HK	Hold	HKD	0.96	859	54.1	11.2	0.8	0.8	1.5	7.2	0.5	2.3	9.2	3.8	1.6	7.7
Weighted average						24.6	10.2	0.8	0.8	5.7	8.2	2.8	3.9	6.1	4.0	6.8	9.7
China - A Listed																	
QSLI	000792.SZ	Hold	CNY	12.71	3,896	NA	131.9	1.3	1.3	-0.8	1.0	NA	0.1	10.2	8.7	-29%	27%
Shandong Kingenta	002470.SZ	NR	CNY	7.81	3,028	16.6	13.0	1.8	1.6	11.5	12.9	1.9	2.4	10.5	8.5	NA	NA
Yunnan Yuntianhua	600096.SS	NR	CNY	4.95	999	33.5	21.8	1.8	1.6	3.5	7.2	NA	NA	9.9	9.5	NA	NA
Hualu-Hengsheng	600426.SS	NR	CNY	18.84	4,095	10.4	8.4	2.3	1.9	22.8	21.7	1.6	1.8	6.6	5.9	NA	NA
Shenzhen Batian	002170.SZ	NR	CNY	3.25	460	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Hubei Xingfa	600141.SS	NR	CNY	12.23	1,233	13.9	11.1	1.3	1.2	8.9	10.1	2.2	2.4	8.1	7.5	NA	NA
Weighted average						9.3	35.2	1.7	1.4	12.9	13.1	1.9	2.2	6.5	5.6	-0.3	0.3
Global (ex-HK/China)																	
Industries Qatar	IQCD.QA	NR	QAR	114.75	18,314	15.9	15.7	1.9	1.8	12.1	11.8	4.5	4.5	59.1	56.2	1.6	1.6
Ma'aden	1211.SE	NR	SAR	57.30	17,854	49.9	37.6	2.4	2.3	5.0	6.3	0.0	0.0	19.4	17.5	3.2	3.6
Yara	YAR.OL	Hold	NOK	326.00	11,112	20.8	13.1	1.2	1.1	5.7	8.8	2.6	3.7	9.6	7.5	1.2	7.1
PTT GC	PTTGC.BK	Buy	THB	78.00	10,615	8.7	8.8	1.2	1.1	14.2	13.1	2.8	2.8	5.4	5.2	11.6	10.6
K + S	SDFGn.DE	Hold	EUR	21.11	4,747	18.4	12.4	0.9	0.9	5.2	7.4	2.4	3.6	10.3	8.7	4.2	5.4
Coromandel Int'l	CORF.BO	Buy	INR	425.85	1,812	18.7	15.6	4.0	3.4	22.1	23.6	1.5	2.0	11.9	9.6	15.2	17.4
Weighted average						22.0	17.9	2.0	1.9	13.1	13.1	2.7	3.0	21.8	20.3	9.0	6.6

Source: Bloomberg Finance L.P., Deutsche Bank estimates; Note: Bloomberg Finance L.P. consensus estimates for non-rated (NR) companies

Figure 5: CBC 12-month forward P/B



Source: Company data, Bloomberg Finance L.P., Deutsche Bank estimates

Figure 6: CBC 12-month forward EV/EBITDA



Source: Company data, Bloomberg Finance L.P., Deutsche Bank estimates



Model updated: 11 July 2018

Running the numbers

Asia

Hong Kong

Chemicals

China BlueChemical

Reuters: 3983.HK

Bloomberg: 3983 HK

Buy

Price (10 Jul 18) HKD 2.77

Target Price HKD 3.40

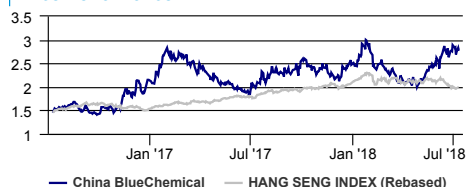
52 Week range HKD 2.00 - 3.00

Market cap (m) HKDm 12,770
USDm 1,627.1

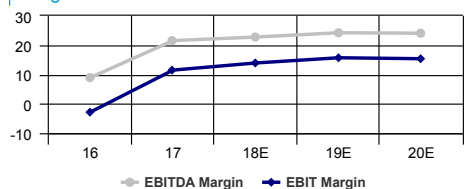
Company Profile

China BlueChemical Limited, a subsidiary of CNOOC Group, is principally engaged in the development, production, sales, and export of urea and phosphate fertilizers and chemical products.

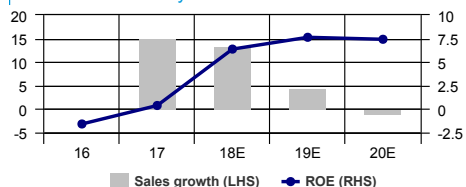
Price Performance



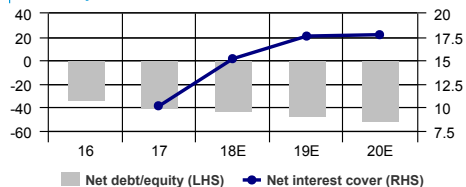
Margin Trends



Growth & Profitability



Solvency



Vitus Leung

+852 2203 6158

vitus.leung@db.com

Fiscal year end 31-Dec

Financial Summary

	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	-0.05	0.01	0.19	0.23	0.24
Reported EPS (CNY)	-0.05	0.01	0.19	0.23	0.24
DPS (CNY)	0.05	0.07	0.09	0.12	0.12
BVPS (CNY)	2.9	2.9	3.0	3.1	3.2
Weighted average shares (m)	4,610	4,610	4,610	4,610	4,610
Average market cap (CNYm)	6,643	9,223	10,766	10,766	10,766
Enterprise value (CNYm)	2,196	3,553	4,728	3,741	2,937

Valuation Metrics

P/E (DB) (x)	nm	183.6	12.6	10.1	9.9
P/E (Reported) (x)	nm	183.6	12.6	10.1	9.9
P/BV (x)	0.64	0.75	0.79	0.75	0.72
FCF Yield (%)	13.6	17.0	13.8	15.2	14.0
Dividend Yield (%)	3.5	3.5	4.0	5.0	5.0
EV/Sales (x)	0.3	0.4	0.4	0.3	0.3
EV/EBITDA (x)	2.9	1.7	1.9	1.3	1.1
EV/EBIT (x)	nm	3.2	3.1	2.1	1.7

Income Statement (CNYm)

Sales revenue	8,504	9,800	11,113	11,612	11,501
Gross profit	1,300	2,669	3,535	3,865	3,809
EBITDA	760	2,110	2,528	2,811	2,766
Depreciation	975	954	962	971	980
Amortisation	26	30	19	19	19
EBIT	-241	1,127	1,547	1,822	1,768
Net interest income/(expense)	-154	-111	-102	-104	-100
Associates/affiliates	-2	-35	0	0	0
Exceptionals/extraordinary	58	-442	0	0	0
Other pre-tax income/(expense)	9	-48	0	-1	-4
Profit before tax	-330	490	1,446	1,717	1,663
Income tax expense	-93	383	361	429	416
Minorities	-21	57	228	218	163
Other post-tax income/(expense)	0	0	0	0	0
Net profit	-216	50	856	1,070	1,085
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	-216	50	856	1,070	1,085

Cash Flow (CNYm)

Cash flow from operations	1,115	1,699	1,833	2,035	1,957
Net Capex	-213	-130	-350	-400	-450
Free cash flow	902	1,569	1,483	1,635	1,507
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-231	-231	-323	-428	-535
Net inc/(dec) in borrowings	-810	-785	0	0	-25
Other investing/financing cash flows	523	338	-2,116	-1	-4
Net cash flow	385	892	-955	1,205	943
Change in working capital	549	-63	-231	-244	-293

Balance Sheet (CNYm)

Cash and other liquid assets	5,698	6,590	7,186	8,391	9,333
Tangible fixed assets	9,014	7,661	7,578	7,008	6,478
Goodwill/intangible assets	1,102	757	1,035	1,016	998
Associates/investments	625	982	982	982	982
Other assets	3,228	3,258	3,579	3,772	3,987
Total assets	19,667	19,249	20,360	21,169	21,778
Interest bearing debt	879	810	810	810	785
Other liabilities	4,474	4,191	4,540	4,489	4,411
Total liabilities	5,353	5,001	5,350	5,299	5,196
Shareholders' equity	13,317	13,155	13,689	14,331	14,880
Minorities	997	1,092	1,320	1,538	1,701
Total shareholders' equity	14,314	14,248	15,010	15,869	16,582
Net debt	-4,820	-5,780	-6,376	-7,581	-8,548

Key Company Metrics

Sales growth (%)	nm	15.2	13.4	4.5	-1.0
DB EPS growth (%)	na	na	1,604.9	24.9	1.4
EBITDA Margin (%)	8.9	21.5	22.7	24.2	24.1
EBIT Margin (%)	-2.8	11.5	13.9	15.7	15.4
Payout ratio (%)	nm	642.4	50.0	50.0	50.0
ROE (%)	-1.6	0.4	6.4	7.6	7.4
Capex/sales (%)	2.5	1.3	3.1	3.4	3.9
Capex/depreciation (x)	0.2	0.1	0.4	0.4	0.5
Net debt/equity (%)	-33.7	-40.6	-42.5	-47.8	-51.6
Net interest cover (x)	nm	10.2	15.2	17.6	17.7

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
China BlueChemical	3983.HK	2.77 (HKD) 10 Jul 2018	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 <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Vitus Leung

Historical recommendations and target price. China BlueChemical (3983.HK)

(as of 07/10/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	11/02/2016	Buy, Target Price Change HKD 1.91	Vitus Leung	4.	08/29/2017	Buy, Target Price Change HKD 3.20	Vitus Leung
2.	02/08/2017	Buy, Target Price Change HKD 3.20	Vitus Leung	5.	04/11/2018	Buy, Target Price Change HKD 3.10	Johnson Wan
3.	05/03/2017	Buy, Target Price Change HKD 3.00	Johnson Wan				



Equity Rating Key

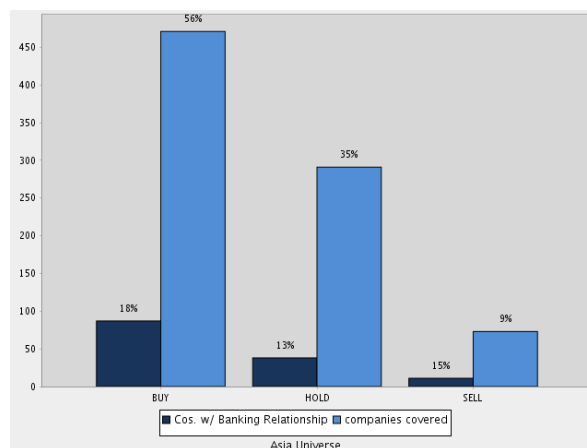
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





Additional Information

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Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
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Anthony Klarman
Global Head of
Debt Research

Paul Reynolds
Head of EMEA
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Dave Clark
Head of APAC
Equity Research

Pam Finelli
Global Head of
Equity Derivatives Research

Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
and QIS Research

International Production Locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
