

# Outperform

(Maintained)

## Non-ferrous Metal

# Nanjing Yunhai Special Metals Co.,Ltd

(002182.SZ)

Revised earnings forecast beat expectation, operating profit may surge

11-Jul-19

### Key Data

Jul. 08, 2019

Closing Price	7.48
Total Shares (Mn)	646.42
Shares Outstanding (Mn)	524.53
Market Cap(CNY/Mn)	4835.24
Market Float(CNY/Mn)	3923.48
Net Assets (CNY/Mn)	1874.19
Total Assets (CNY/Mn)	4641.76
BVPS	2.90

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### Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	5101	6409	7069	7849
YoY (%)	3.5%	25.6%	10.3%	11.0%
Net Profit (Mn/CNY)	330	608	440	581
YoY (%)	112.8%	84.5%	-27.6%	32.1%
Gross Margin (%)	15.3%	14.6%	14.2%	15.6%
Net Profit Margin (%)	6.5%	9.5%	6.2%	7.4%
ROE (%)	18.0%	25.7%	16.5%	18.5%
EPS (CNY)	0.51	0.94	0.68	0.90
OCFPS (CNY)	0.14	0.48	0.77	1.04

### Company Profile

Nanjing Yunhai Special Metals Co., Ltd. produces magnesium and magnesium alloy, and aluminum alloy products in China and internationally. The company manufactures and sells magnesium grains and rods, magnesium alloy ingots and extrusion sheets, and aluminum alloy ingots and billets. It also provides strontium metal and master alloy products; and magnesium and aluminum die casting and extrusion products, as well as micro channel flat tubes. The company was founded in 1993 and is based in Nanjing, China. (Source: Bloomberg)

### Comments

Nanjing Yunhai Special Metals (the company) has largely revised up its previous preliminary financial reports for H119: its net profit attributable to shareholders (NPAS) for H119 is estimated to be CNY 260-280 mn, up by 79% ~ 93% yoy.

**The company's H119 performance may remarkably overshoot expectation.**

**There are two main reasons for the company to significantly revise up its H119 earnings forecast: 1) its operating revenue improved greatly and beat expectation; 2) it has received part of relocation compensation.**

Relocation compensation is estimated to be CNY 130~150 mn. In middle June, Yunhai Metals announced that the total compensation for the projects of Honglan and Jingqiao was CNY 345 mn (after-tax), 40% of which would be paid within 10 days after signing and the rest would be paid later.

The company's H119 net profit attributable to shareholders collected from main business is expected to reach CNY 120~140 mn, up by at least 30% from the previous forecast of CNY 90 mn. The main reason for the substantial increase in earnings is magnesium price hike which leads to higher profit per ton. In H119, the average price of magnesium ingots rose by CNY 1,640 yoy to CNY 17,950/ton, while that of ferrosilicon declined by CNY 880 yoy. We estimate that the gross profit (per ton) of magnesium ingots may increase by about CNY 2,400 from the same period last year. The largely increasing profit gained from magnesium ingots boosts the company's earnings.

**We remain positive about the magnesium industry's earnings growth and the company's layout in the field of deep processing.**

With high temperature in summer approaching, the output of magnesium smelting will be gradually restricted, which can support magnesium prices and help the company's magnesium business to maintain its relatively high gross profit.

The company actively strengthens its deep processing of magnesium alloys. Furthermore, it has

brought in Baosteel Metal as its strategic shareholder. The two sides can coordinate their businesses to tap the automotive magnesium alloy market.

**Earnings forecast and investment recommendation**

We revised the company's estimated NPAS to CNY 608/440/581 mn for year 19/20/21 (the actual NPAS for 2019 may be CNY 250 mn after excluding relocation compensation); we estimate the EPS to be CNY 0.94/0.68/0.90, implying a P/E ratio of 8.0x/11.0x/8.3x (based on the closing price of July 8th, 2019). We maintain "Outperform" rating for the company.

**Potential risks:** supply and demand of magnesium may fail expectation, which may lead to a sharp decline in magnesium prices; operation of new projects may fail expectation.

## Appendix

Balance Sheet					Income Statement				
	Mn/CNY					Mn/CNY			
FY	2018A	2019E	2020E	2021E	FY	2018A	2019E	2020E	2021E
<b>Current Assets</b>	2341	2994	3591	4276	<b>Operating Income</b>	5101	6409	7069	7849
Cash and Cash Equivalent	307	633	957	1416	Operating Expense	4321	5473	6067	6626
Trading Financial Assets	0	0	0	0	Business Tax and Surcharges	38	36	39	41
Account Receivables	907	1086	1218	1345	Selling Expense	104	160	166	165
Other Receivables	21	17	21	23	Administration Expense	99	160	177	196
Inventory	786	944	1066	1157	Financial Expense	99	114	105	101
<b>Non-current Asset</b>	2186	1962	1791	1603	Asset Impairment	14	14	14	14
Available-for-sale Financial Assets	0	0	0	0	Change in Fair Value	0	-0	-0	-0
Long-term Equity Investment	220	185	196	192	Investment Income	6	300	40	10
Investment Real Estate	48	24	28	30	<b>Operating Profit</b>	410	751	541	716
Fixed Assets	1346	1303	1186	1033	Non-business Income	13	3	10	8
Construction in Progress	247	124	62	31	Non-business Expense	21	10	13	13
Oil and Gas Assets	0	0	0	0	<b>Total Profit</b>	402	744	538	711
Intangible Assets	213	212	209	207	Income Tax	74	136	99	130
<b>Total Assets</b>	4527	4957	5382	5880	Net Profit	329	608	439	580
<b>Current Liabilities</b>	2568	2521	2604	2632	Minority Interest Income	-1	-0	-1	-0
Short-term Loans	2098	1928	1984	1965	<b>Net Profit Attributable to Parent Company</b>	330	608	440	581
Notes Payable	0	1	0	0	<b>EPS(CNY)</b>	0.51	0.94	0.68	0.90
Account Payable	327	411	457	498					
Others	143	182	163	168	<b>Key Financial Ratios</b>				
<b>Non-current Liabilities</b>	130	63	114	102	<b>FY</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Long-term Loans	0	0	0	0	<b>Growth</b>				
Others	130	63	114	102	Increase Rate of Business Revenue	3.5%	25.6%	10.3%	11.0%
Total Liabilities	2698	2584	2718	2735	Increase Rate of Business Profit	148.3%	83.1%	-28.0%	32.4%
Share Capital	646	646	646	646	Net Profit Growth Rate	112.8%	84.5%	-27.6%	32.1%
Capital Reserve	466	466	466	466					
Undistributed Profit	662	1172	1446	1899	Profitability				
Minority Interest	2	2	2	1	Gross Margin Rate	15.3%	14.6%	14.2%	15.6%
<b>Total Shareholders' Equity</b>	1829	2372	2664	3145	Net Profit Margin	6.5%	9.5%	6.2%	7.4%
<b>Total Liabilities and Equity</b>	4527	4957	5382	5880	ROE	18.0%	25.7%	16.5%	18.5%
					<b>Solvency</b>				
<b>Cash Flow Statement</b>	<b>Mn/CNY</b>				Asset-liability Ratio	59.6%	52.1%	50.5%	46.5%
<b>FY</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	Current Ratio	0.91	1.19	1.38	1.62
Net Profit	330	608	440	581	Quick Ratio	0.60	0.81	0.97	1.18
Depreciation and Amortization	154	174	185	191					
Property Depreciation Preparation	14	16	9	11	<b>Operation Capacity</b>				
Amortization of Intangible Assets	7	7	7	7	Asset Turnover Ratio	123.7%	135.1%	136.7%	139.4%
Loss from Fair Value Change	0	-0	-0	-0	AR Turnover Ratio	579.2%	606.2%	578.5%	577.5%
Financial Expense	93	114	105	101					
Investment Loss	-6	-300	-40	-10	<b>Stock Info(CNY)</b>				
Minority Interest Income	-1	-0	-1	-0	EPS	0.51	0.94	0.68	0.90
Change in Working Capitals	-391	-229	-255	-190	OCFPS	0.14	0.48	0.77	1.04
<b>Cash Flows from Operating Activities</b>	90	312	500	671	NAVPS	2.83	3.67	4.12	4.86
<b>Cash Flows from Investment Activities</b>	-236	354	20	7					
<b>Cash Flows from Financing Activities</b>	169	-339	-196	-219	<b>Valuation Ratio</b>				
Net Change in Cash	28	326	325	459	PE	14.7	8.0	11.0	8.3
Beginning Balance of Cash	135	307	633	957	PB	2.6	2.0	1.8	1.5
Ending Balance of Cash	163	633	957	1416					

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### Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

### Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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