

COMPANY RESULTS

Jiutian Chemical Group (JIUC SP)

1Q22: Achieved High ASPs On Limited Industry Supply

Jiutian's 1Q22 strong net profit of Rmb201.1m (+122.7% yoy) came from higher revenue of Rmb772.3m (+75.8% yoy), as ASPs for DMF and MA remained elevated. The industry supply shortage is expected to keep feedstock ASPs high for 2022 and 2023, which would lead to positive operating leverage and solid free cashflow generation for Jiutian. Maintain BUY with a higher target price of S\$0.18 (from S\$0.168), after raising our forward assumptions for product ASPs.

1Q22 RESULTS

Year to 31 Dec (Rmbm)	1Q22	1Q21	yoy % chg	4Q21	qoq % chg
Revenue	772.3	439.3	+75.8	869.4	(11.2)
Gross profit	270.5	138.1	+95.8	319.2	(15.2)
Gross margin (%)	35.0	31.5	+3.6ppt	36.7	(1.7ppt)
Net profit	201.1	90.3	+122.7	219.1	(8.2)
Net margin (%)	26.0	20.6	+5.5ppt	25.2	0.8ppt

Source: Jiutian, UOB Kay Hian

RESULTS

- Stark improvement in 1Q22 financials.** Jiutian Chemical Group's (Jiutian) 2021 net profit of Rmb201.1m (+122.7% yoy) was attributable to higher revenue of Rmb772.3m (+75.8% yoy), which came mainly from elevated product ASPs. Operating cash flow in 1Q22 reversed into positive territory at Rmb29.4m (1Q21: negative Rmb73.2m), despite a build-up of inventories arising from movement restrictions for delivery of finished goods. The strong set of results came amid the seasonally slow quarter, as well as lower production volume in Jan 22 due to COVID-19 related restrictions affecting logistics. An interim DPS of 0.75 S cents was declared, 114% higher than 0.35 S cents in 1Q21.
- Product ASPs remained elevated.** Prices of dimethylformamide (DMF) and methylamine (MA) spiked to Rmb16,166/tonne (+73% yoy) and Rmb20,055/tonne (+116% yoy) respectively. DMF and MA prices have been holding at elevated levels since May-Jun 20. This is due to the surge in demand for products from downstream users (eg electric vehicle batteries, electronics, pharmaceutical and animal feeds). Also, supply remains capped as applications for new capacity in the industry remain on hold without any follow-ups by the Chinese government, with environmental concerns remaining at the forefront of policies.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	1,146	2,173	2,411	2,408	2,403
EBITDA	286	645	827	812	841
Operating profit	259	616	797	782	810
Net profit (rep./act.)	174	310	519	507	520
Net profit (adj.)	174	310	519	507	520
EPS (fen)	8.7	15.6	26.1	25.5	26.1
PE (x)	5.5	3.1	1.8	1.9	1.8
P/B (x)	1.8	1.2	0.8	0.6	0.5
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	0.0	6.5	15.3	15.1	15.3
Net margin (%)	15.2	14.3	21.5	21.1	21.6
Net debt/(cash) to equity (%)	(20.9)	(86.6)	(85.3)	(88.9)	(95.8)
Interest cover (x)	38.4	127.0	101.1	68.1	39.7
ROE (%)	42.0	46.8	52.2	37.0	29.9
Consensus net profit	-	-	396	333	335
UOBKH/Consensus (x)	-	-	1.31	1.53	1.55

Source: Jiutian, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.099
Target Price	S\$0.180
Upside	+81.8%
(Previous TP)	S\$0.168)

COMPANY DESCRIPTION

Jiutian is a producer of chemicals such as DMF and sodium hydrosulphite. It is also involved in the processing and sale of consumable carbon dioxide and oxygen. The group sells its products wholly in China to manufacturers of downstream products that use methanol, methylamine and DMF.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	JIUC SP
Shares issued (m):	1,988.4
Market cap (S\$m):	198.8
Market cap (US\$m):	142.8
3-mth avg daily t'over (US\$m):	2.6

Price Performance (%)

52-week high/low S\$0.105/S\$0.067

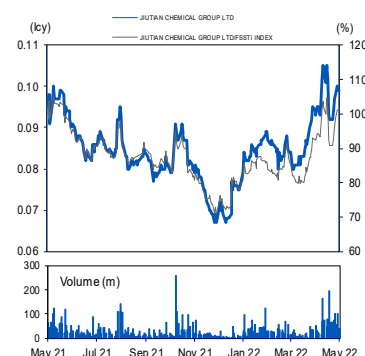
1mth	3mth	6mth	1yr	YTD
5.3	12.4	25.0	0.0	31.6

Major Shareholders

Anyang Longyu (HK) Devt	25.3
(Subsidiary of Henan Energy and Chemical Industry Group)	

FY22 NAV/Share (Rmb)	0.60
FY22 Net Cash/Share (Rmb)	0.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Elevated ASPs sustainable.** We continue to maintain our view that any significant new increase in DMF supply will be capped, and this will support prices in 2022 and 2023. Even if the Chinese government gives approval for new supply, it would still require a minimum of 9-12 months for trials and further approvals, before the new capacity can come on-stream to the market
- **Continued rise in gross margin.** Averaging 15% in 2016-20, gross margin is expected to more than double to 33.9% in 2022 due to better ASPs of DMF and MA. This is despite a higher raw material cost assumption of 12%, which is conservative given that methanol prices have been kept in check due to ample supply. This implies a widening spread in gross profitability for Jiutian Chemical, and we expect 2022 financials to reflect a significant scale-up in gross margin and operating leverage.

EARNINGS REVISION/RISK

- We have lifted our 2022-24 revenue estimates by 8.1% across the three years after revising our assumptions for DMF prices in 2022-24 from Rmb11,000/tonne to Rmb12,000/tonne.
- Accordingly, 2022-24 net profit estimates were lifted by an average 32.2% to Rmb519.5m, Rmb507.2m and Rmb519.6m, from Rmb392.9, Rmb381.0 and Rmb395.4m respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$0.18.** The target price is pegged to 3.5x 2022F PE, or -1SD of its historical 10-year average. We deem its current valuation at 1.9x 2022F PE as attractive, and believe share price is supported by an estimated 2022F dividend yield of 15.7%.

SHARE PRICE CATALYST

- Higher-than-expected DMF prices and factory utilisation rates.
- Dividend payment upon reversal of retained losses.

PEER COMPARISON

Company	Ticker	Price	Market	PE			PB			EV/EBITDA			ROE
		10 May 22 (lcy)	Cap. (US\$m)	2021 (x)	2022F (x)	2023F (x)	Curr (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)	2022F (%)
Jiutian Chemical	JIUC SP	0.099	144	2.3	1.9	1.9	1.2	0.8	0.6	0.4	(0.0)	(0.5)	33.1
China Sunsine	CSSC SP	0.44	315	4.1	4.2	4.0	0.7	0.6	0.5	0.9	n.a.	n.a.	14.6
Shandong Hualu	300121 CH	29.73	46,545	7.5	8.0	7.4	2.6	2.2	1.7	5.9	6.0	5.2	27.3
Baiksang Co	LXS GR	12,100.00	216,929	15.1	8.5	6.6	2.0	1.7	1.3	6.4	n.a.	n.a.	21.4
Lotte Fine Chemical	AKE FP	79,200.00	1,507,236	3.5	5.7	5.9	0.9	0.8	0.7	3.3	3.2	3.2	15.4
Saudi Kayan Petrochemical	AKE FP	18.04	19,960	12.9	18.9	17.2	1.6	1.5	1.4	10.5	9.1	8.0	9.0
Global average				9.7	10.3	9.3	1.8	1.5	1.3	6.5	6.1	5.5	18.3

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	2,173.3	2,410.5	2,407.9	2,403.1
EBITDA	645.4	826.7	812.3	840.8
Deprec. & amort.	29.0	29.8	30.3	30.8
EBIT	616.4	796.9	782.0	810.1
Associate contributions	(14.6)	0.0	0.0	0.0
Net interest income/(expense)	(5.1)	(8.2)	(11.9)	(21.2)
Pre-tax profit	470.6	788.7	770.1	788.9
Tax	(160.7)	(269.3)	(262.9)	(269.3)
Minorities	0.4	0.0	0.0	0.0
Net profit	310.3	519.5	507.2	519.6
Net profit (adj.)	310.3	519.5	507.2	519.6

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	197.6	183.5	163.8	143.7
Other LT assets	51.6	51.0	50.3	49.7
Cash/ST investment	922.1	1,622.4	2,255.8	3,008.3
Other current assets	706.1	1,135.2	1,131.8	1,014.0
Total assets	1,877.5	2,992.0	3,601.7	4,215.6
ST debt	178.2	557.4	827.2	1,113.8
Other current liabilities	841.2	1,188.9	1,167.1	1,120.4
LT debt	49.9	49.9	49.9	49.9
Other LT liabilities	8.8	8.4	9.6	9.2
Shareholders' equity	801.6	1,189.7	1,550.0	1,924.5
Minority interest	(2.3)	(2.3)	(2.3)	(2.3)
Total liabilities & equity	1,877.5	2,992.0	3,601.7	4,215.6

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	655.8	466.8	519.8	620.4
Pre-tax profit	470.6	788.7	770.1	788.9
Tax	(63.0)	(182.8)	(266.6)	(264.2)
Deprec. & amort.	28.3	29.1	29.7	30.1
Working capital changes	183.0	(168.2)	(13.5)	65.5
Non-cash items	36.9	0.0	0.0	0.0
Investing	(27.7)	(14.4)	(9.4)	(9.4)
Capex (growth)	(22.3)	(15.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(5.4)	0.6	0.6	0.6
Financing	(110.9)	287.7	111.1	120.3
Dividend payments	(33.4)	(83.3)	(146.8)	(145.1)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(116.1)	379.2	269.8	286.5
Others/interest paid	38.7	(8.2)	(11.9)	(21.2)
Net cash inflow (outflow)	517.2	740.2	621.5	731.3
Beginning cash & cash equivalent	454.1	922.1	1,622.4	2,255.8
Changes due to forex impact	(49.2)	(40.0)	11.9	20.3
Ending cash & cash equivalent	922.1	1,622.4	2,255.8	3,007.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	29.7	34.3	33.7	35.0
Pre-tax margin	21.7	32.7	32.0	32.8
Net margin	14.3	21.5	21.1	21.6
ROA	18.7	21.3	15.4	13.3
ROE	46.8	52.2	37.0	29.9
Growth				
Turnover	89.6	10.9	(0.1)	(0.2)
EBITDA	125.8	28.1	(1.7)	3.5
Pre-tax profit	94.1	67.6	(2.4)	2.4
Net profit	78.7	67.4	(2.4)	2.4
Net profit (adj.)	78.7	67.4	(2.4)	2.4
EPS	78.7	67.4	(2.4)	2.4
Leverage				
Debt to total capital	22.2	33.8	36.2	37.7
Debt to equity	28.5	51.1	56.6	60.5
Net debt/(cash) to equity	(86.6)	(85.3)	(88.9)	(95.8)

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