



Rating
Buy

Asia
China

Energy
Chemicals

Company
Wanhua Chemical

Reuters 600309.SS Bloomberg 600309 CH Exchange SHH Ticker 600309

Date
23 August 2017

Company Update

| | |
|----------------------------|---------------|
| Price at 22 Aug 2017 (CNY) | 36.37 |
| Price target - 12mth (CNY) | 42.00 |
| 52-week range (CNY) | 36.37 - 19.12 |
| Shanghai Composite | 3,287 |

Polymeric MDI distribution ASP hiked by 21%; reiterate Buy

Raising polymeric MDI price to RMB29,000/ton

On 22 August Wanhua Chemical (WHC), announced it was raising its MDI price, hiking its polymeric MDI distribution price by 21%, or +RMB5,000/ton, to RMB29,000/ton. In our view, the price surge has been driven by the tight supply situation on the back of: 1) a force majeure on MDI production in BorsodChem; 2) low domestic inventory levels; 3) several plants under maintenance period including Tosoh's 200ktpa MDI plants starting on 10 September; and 4) continuous environmental inspection. Hence, we believe these factors will continue to support the MDI price at a high level in the near term and therefore reiterate our Buy rating on WHC, which is the largest MDI producer in the world.

Strong MDI price further expanded MDI spreads

Given the high MDI price level while benzene / oil prices were relatively stable, current MDI-benzene spreads pushed up further to USD3,336/ton on 18 August, +45% YTD compared to c.USD2,298/ton at the beginning of 2017. On our analysis, WHC's share price has a 0.72 correlation with MDI spreads, and the WHC spread could expand further thanks to the recently announced MDI price hike.

Valuation and risks; target price RMB42.0

We base our RMB42.0 target price on 8.0x EV/EBITDA, at an 18% discount to its historical average of 9.7x. Our target price implies 4.7x 2017-18E P/B; we believe the premium to global peers is justified as its ROE averages 38% in 2017-18E, which is at a 137% premium over the MDI peers. At the current price the share trades at 6.6x 12-month forward EV/EBITDA, 3.6x 12-month forward P/B and 12-month forward 11.3x P/E. The 6.6x forward EV/EBITDA and forward 11.3x P/E represent 31% and 20% discounts to historical averages, respectively. Key risks: 1) unplanned maintenance turnaround; 2) fluctuations in oil and chemical product prices; 3) lower-than-expected GDP growth; and 4) unexpected corporate actions with a demanding valuation.

Valuation & Risks

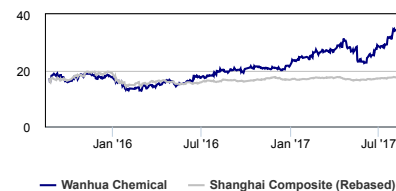
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Price/price relative



| Performance (%) | 1m | 3m | 12m |
|--------------------|------|------|------|
| Absolute | 14.3 | 57.0 | 85.8 |
| Shanghai Composite | 1.5 | 6.9 | 6.6 |

Source: Deutsche Bank

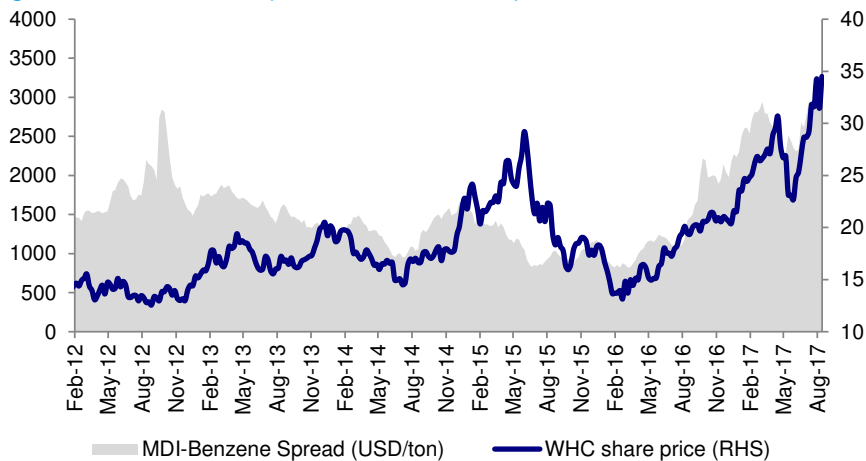
Key indicators (FY1)

| | |
|-----------------------------|------|
| ROE (%) | 41.0 |
| Net debt/equity (%) | 48.7 |
| Book value/share (CNY) | 8.16 |
| Price/book (x) | 4.5 |
| Net interest cover (x) | 15.1 |
| Operating profit margin (%) | 30.2 |

Source: Deutsche Bank



Figure 1: MDI-Benzene Spread vs. WHC share price (RHS)



Source: Bloomberg Finance LP, WIND, Deutsche Bank

Forecasts and ratios

| Year End Dec 31 | 2015A | 2016A | 2017E | 2018E | 2019E |
|----------------------|----------|----------|----------|----------|----------|
| Sales (CNYm) | 19,492.4 | 30,099.9 | 41,397.8 | 46,413.4 | 52,903.3 |
| EBITDA (CNYm) | 4,636.7 | 8,108.0 | 15,827.7 | 17,748.6 | 19,757.5 |
| Reported NPAT (CNYm) | 1,609.7 | 3,679.4 | 7,609.7 | 8,804.5 | 10,057.5 |
| Reported EPS FD(CNY) | 0.62 | 1.42 | 2.79 | 3.22 | 3.68 |
| DB EPS FD(CNY) | 0.62 | 1.42 | 2.79 | 3.22 | 3.68 |
| DB EPS growth (%) | - | 128.6 | 96.7 | 15.4 | 14.2 |
| Price/Book (x) | 4.0 | 3.8 | 4.5 | 3.6 | 3.0 |
| PER (x) | 34.2 | 12.5 | 13.0 | 11.3 | 9.9 |
| EV/EBITDA (x) | 17.6 | 8.7 | 7.4 | 6.4 | 5.5 |
| DPS (net) (CNY) | 0.17 | 0.44 | 0.98 | 1.29 | 1.47 |
| Yield (net) (%) | 0.8 | 2.5 | 2.7 | 3.5 | 4.0 |

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

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|----------------------|-----------|-------------------------|------------|
| Company | Ticker | Recent price* | Disclosure |
| Wanhua Chemical | 600309.SS | 36.37 (CNY) 22 Aug 2017 | NA |

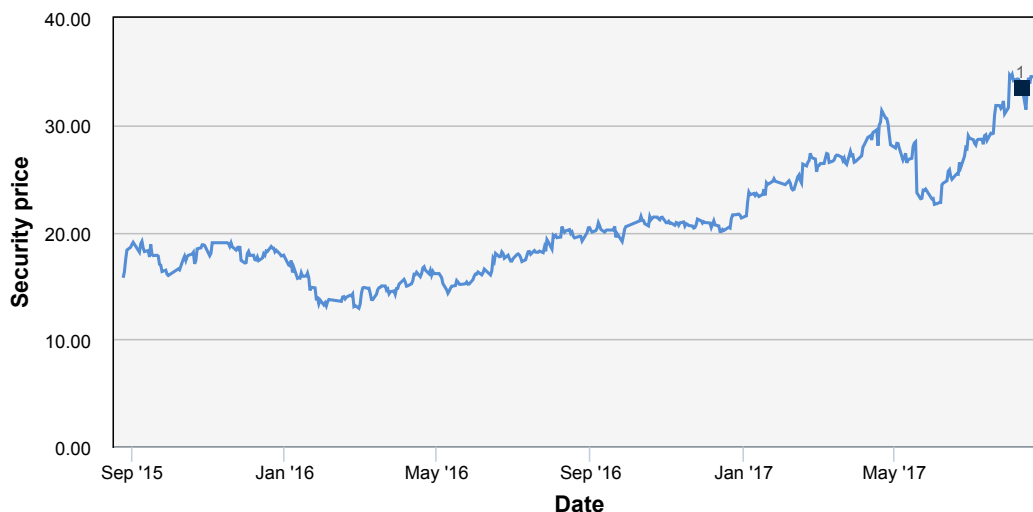
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Historical recommendations and target price. Wanhua Chemical (600309.SS)

(as of 08/22/2017)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1. 08/11/2017 Buy, Target Price Change CNY 42,00 Vitus Leung



Equity Rating Key

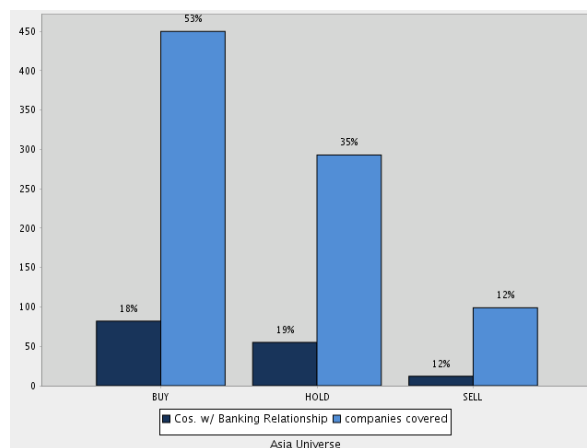
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