



Rating  
**Hold**

Asia  
China

Resources  
Metals & Mining

Company  
**Tianqi Lithium**

Reuters 002466.SZ    Bloomberg 002466 CH    Exchange SHZ    Ticker 002466

Date  
10 January 2018

Company Update

Price at 8 Jan 2018 (CNY)	58.10
Price target - 12mth (CNY)	70.70
52-week range (CNY)	81.98 - 32.71
HANG SENG INDEX	30,815

## Access China conference highlights

### Growth to continue till 2020

Mr. Bo Li, Deputy General Manager and Secretary of Tianqi Lithium's Board of Directors, attended our 2018 dbAccess China conference in Beijing this week. Mr. Li shared his view on industry development and the company's expansion plan for Tianqi. We summarize below the key highlights from the investor meetings. Maintain Hold.

### Expect relatively resilient pricing for high-quality battery grade lithium compounds in 2018

The battery grade lithium carbonate price corrected by RMB5k/t from its peak at over RMB170k/t by end-2017, but Tianqi does not expect meaningful correction of lithium compound pricing due to a supply shortage of high-quality battery grade lithium compounds with high purity levels. The company believes the incremental supply from brine extraction in Tibet/Qinghai will be limited, as several issues need to be resolved : a) utilities and infrastructure , b) access to pure water, c) extraction difficulties in high altitude, and d) SOE ownership in mining rights.

### Better margin performance compared to industry peers

Tianqi exhibits a superior gross margin at 70% vs. other industry players due to: a) in-house high quality spodumene supply from the Greenbushes mine, b) high exposure in battery grade lithium compounds, which charges a pricing premium compared to industrial grade or subpar battery grade lithium compounds, and c) onshore lithium pricing premium at RMB10-20k/t in China due to strong end demand. As the quality of battery grade lithium compounds is directly linked to the stability and performance of lithium batteries, Tianqi believes lithium compound converters that can provide meaningful and stable volume output will be the major beneficiaries riding the EV tide.

### Kwinana expansion in Western Australia to fuel production volume growth till 2020

The 24ktpa Kwinana phase 1 lithium hydroxide plant is on track to commence production by YE18 with spodumene ore grading at 2.4%, with the utilization rate expected to reach 80% in 8-10 months after commencement and full capacity in 24 months. Another 24ktpa lithium hydroxide plant in Kwinana phase 2 is scheduled to complete construction by YE19 with spodumene ore grading at 1.7%. Coupled with the 20ktpa lithium carbonate capacity addition in Suining, Tianqi targets the company's total processing capacity to reach 110ktpa in

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.7	-18.4	63.4
HANG SENG INDEX	7.9	9.1	37.0

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	39.4
Net debt/equity (%)	13.2
Book value/share (CNY)	6.56
Price/book (x)	8.8
Net interest cover (x)	39.2
Operating profit margin (%)	59.5

Source: Deutsche Bank

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2020, and lithium compound production volume to surpass 80kt (on LCE basis), implying a 3-year CAGR of near 40% from 32kt in 2017.

#### Open to asset acquisition opportunities overseas

Although the annual volume of Greenbushes' spodumene should nearly double to 1.34mt in 2019 from 740kt this year, the in-house spodumene volume might not be fully sufficient for Tianqi in 2020. The scheduled rapid production ramp-up has compelled the company to continually look for high-quality lithium resources overseas. After SQM turned down outside offers, Tianqi's 2.1% SQM stake is currently considered to be a financial investment only. The company will seek more brine-based opportunities, potentially in South America.

Forecasts and ratios					
Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	1,866.9	3,904.6	5,214.0	6,486.9	8,840.2
EBITDA (CNYm)	780.8	2,512.0	3,382.1	3,788.4	5,032.0
EBIT(CNYm)	614	2,312	3,104	3,429	4,530
Reported EPS FD(CNY)	0.25	1.52	2.20	2.56	3.07
Reported NPAT (CNYm)	247.9	1,512.1	2,192.2	2,543.7	3,508.9
DB EPS growth (%)	26.0	503.5	45.0	16.0	20.0
DB EPS FD(CNY)	0.25	1.52	2.20	2.56	3.07
PER (x)	79.5	25.9	26.2	22.6	18.8
EV/EBITDA (x)	28.0	16.3	17.2	14.6	10.9
DPS (net) (CNY)	0.08	0.18	0.26	0.30	0.36
Yield (net) (%)	0.4	0.5	0.5	0.5	0.6

Source: Deutsche Bank estimates, company data



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Tianqi Lithium	002466.SZ	57.73 (CNY) 9 Jan 2018	NA

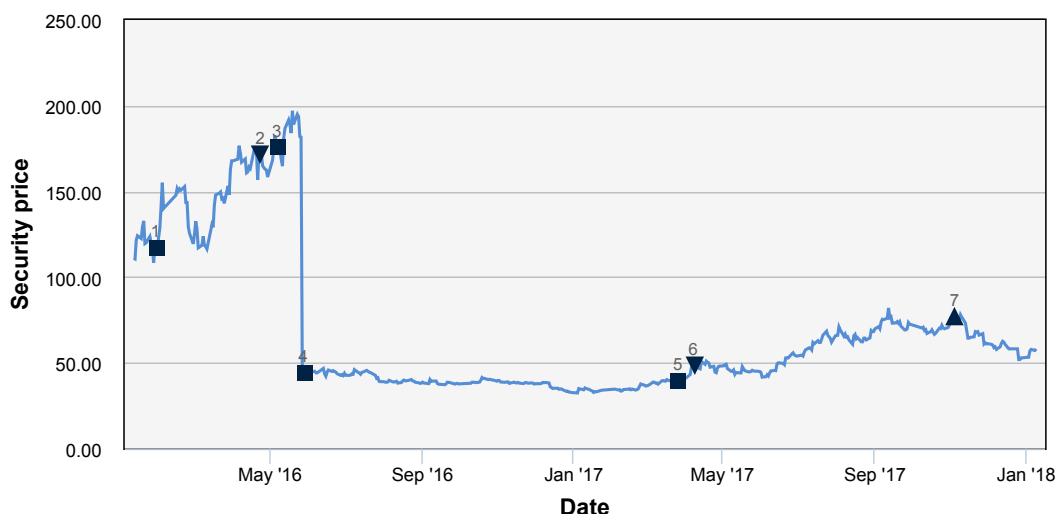
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## Historical recommendations and target price. Tianqi Lithium (002466.SZ)

(as of 01/09/2018)



### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	01/31/2016	Buy, Target Price Change CNY 149,90 James Kan	5.	03/27/2017	Hold, Target Price Change CNY 41,00 James Kan
2.	04/24/2016	Downgraded to Hold, Target Price Change CNY 149,90 James Kan	6.	04/09/2017	Downgraded to Sell, Target Price Change CNY 41,00 James Kan
3.	05/08/2016	Hold, Target Price Change CNY 162,20 Mathew Hocking**	7.	11/05/2017	Upgraded to Hold, Target Price Change CNY 70,70 James Kan
4.	05/29/2016	Hold, Target Price Change CNY 42,20 James Kan			



## Equity Rating Key

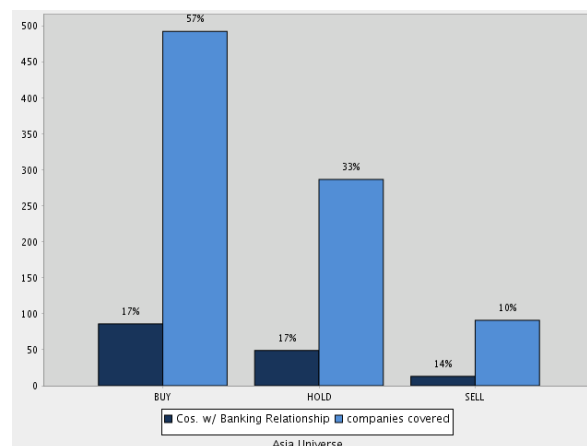
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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