Deutsche Bank
Markets Research

Rating
Hold

Asia
China

Energy
Chemicals

Company
QSLI

Reuters	Bloomberg	Exchange	Ticker
000792.SZ	000792 CH	SHZ	000792

Date
31 January 2018

Company Update

Price at 30 Jan 2018 (CNY)	14.44
Price target - 12mth (CNY)	11.66
52-week range (CNY)	20.02 - 9.55
Shenzhen Index	1,997

Profit alert on massive writedown; recurring in-line with DBe

Recurring loss in-line but beat consensus

QSLI released preliminary FY17 results with net loss of RMB3.54-4.53bn vs. net profit of RMB341mn in FY16. The lower-than-expected results were attributed to: 1) assets impairment write-downs of RMB2.9-3.2bn from chemical integration project, Haina PVC, Haihong ADC and magnesium integration projects; 2) a loss in the chemical segment due to low utilization rate caused by two accidents which resulted in higher production cost and lower production volume. If we exclude impairments write-downs, recurring profit should be net loss of c.1.37-2.13bn (considering a 25% tax shield) in FY17, in-line with DBe of net loss of RMB2.1bn on low end, but beat consensus estimates of net loss of RMB2.56 by 17%.

Mixed performance

- Potash: according to our calculations, QSLI potash sales volume dropped 5% YoY in FY17 to 4.65mntons, indicating the 2H17 sales volume rebounded back since the 1H17 registered 25% YoY sales volume decline.
- Chemical: 1) high DD&A charge on magnesium integration and Haina PVC projects starting operations; 2) lower overall utilization rate attributed to a) two accidents in Haina and chemical subsidiaries; b) continuous environmental scrutiny.

Earnings, valuation and risks; maintaining Hold

We maintain Hold rating with our DCF-derived TP at RMB11.66 (assuming a 6.6% WACC and 2% terminal growth), which implies 1.2x P/B in 17-18E; we believe the risks and rewards are balanced at a current valuation of 1.2x 17E P/B vs 1.1% 17E ROE, supported by a potentially ROE-/EPS-accretive debt-to-equity swap plan. Key downside risks: 1) sluggish chemical prices and soft demand could lead to lower product sales; and 2) unfavorable government policy. Key upside risks: 1) better-than-expected potash prices; and 2) faster-than-expected demand growth.

Valuation & Risks

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Price/price relative

Performance (%)	1m	3m	12m
Absolute	3.8	-4.6	-22.2
Shenzhen Index	0.5	-4.0	-0.4

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	-0.9
Net debt/equity (%)	155.9
Book value/share (CNY)	8.73
Price/book (x)	1.7
Net interest cover (x)	1.1
Operating profit margin (%)	13.6

Source: Deutsche Bank

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	10,882.2	10,364.1	8,271.8	9,006.9	10,650.7
EBITDA (CNYm)	3,651.6	3,172.2	3,725.7	4,387.8	5,684.9
Reported NPAT (CNYm)	559.0	341.3	-208.6	268.5	953.4
Reported EPS FD(CNY)	0.23	0.12	-0.07	0.10	0.34
DB EPS FD(CNY)	0.23	0.12	-0.07	0.10	0.34
DB EPS growth (%)	–	-47.2	–	–	255.1
Price/Book (x)	3.1	2.2	1.7	1.6	1.6
PER (x)	105.2	157.9	–	149.8	42.2
EV/EBITDA (x)	24.9	29.1	20.6	17.3	13.0
DPS (net) (CNY)	0.02	0.01	0.00	0.01	0.04
Yield (net) (%)	0.1	0.1	0.0	0.1	0.3

Source: Deutsche Bank estimates, company data

Model updated: 05 September 2017

Running the numbers

Asia

China

Chemicals

QSLI

Reuters: 000792.SZ Bloomberg: 000792 CH

Hold

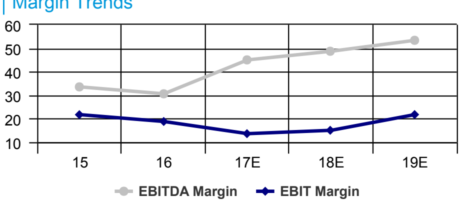
Price (30 Jan 18)	CNY 14.44
Target Price	CNY 11.66
52 Week range	CNY 9.55 - 20.02
Market cap (m)	CNYm 34,450 USDm 5,437.1

Company Profile

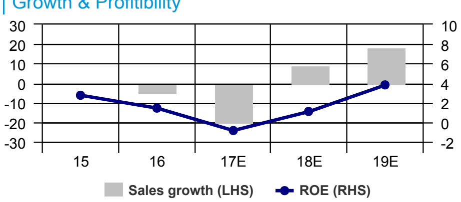
QSLI is the largest potash fertilizer (MOP) manufacturer in China with 3.5mntpa of capacity and its new 1.5mntpa capacity is expected to come on-stream for a production trial in 2H16, which would boost capacity by 43%.

Price Performance

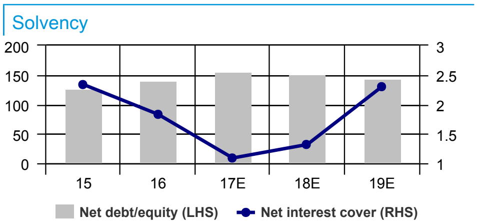
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2015	2016	2017E	2018E	2019E
Financial Summary					
DB EPS (CNY)	0.23	0.12	-0.07	0.10	0.34
Reported EPS (CNY)	0.23	0.12	-0.07	0.10	0.34
DPS (CNY)	0.02	0.01	0.00	0.01	0.04
BVPS (CNY)	8.2	8.8	8.7	8.8	9.1
Weighted average shares (m)	2,410	2,786	2,786	2,786	2,786
Average market cap (CNYm)	58,814	53,884	34,450	34,450	34,450
Enterprise value (CNYm)	90,958	92,178	76,679	75,802	74,131
Valuation Metrics					
P/E (DB) (x)	105.2	157.9	nm	149.8	42.2
P/E (Reported) (x)	105.2	157.9	nm	149.8	42.2
P/BV (x)	3.12	2.17	1.65	1.64	1.58
FCF Yield (%)	nm	nm	nm	4.6	6.0
Dividend Yield (%)	0.1	0.1	0.0	0.1	0.3
EV/Sales (x)	8.4	8.9	9.3	8.4	7.0
EV/EBITDA (x)	24.9	29.1	20.6	17.3	13.0
EV/EBIT (x)	38.5	47.2	67.9	55.8	32.0
Income Statement (CNYm)					
Sales revenue	10,882	10,364	8,272	9,007	10,651
Gross profit	5,690	4,424	3,703	4,243	5,681
EBITDA	3,652	3,172	3,726	4,388	5,685
Depreciation	1,249	1,182	2,535	2,965	3,299
Amortisation	38	39	62	64	67
EBIT	2,365	1,951	1,129	1,358	2,319
Net interest income(expense)	-1,012	-1,065	-1,036	-1,029	-1,008
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	-1,151	-956	-448	0	0
Other pre-tax income/(expense)	560	560	56	56	56
Profit before tax	762	489	-299	385	1,367
Income tax expense	218	280	-171	220	782
Minorities	-15	-132	80	-104	-368
Other post-tax income/(expense)	0	0	0	0	0
Net profit	559	341	-209	268	953
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	559	341	-209	268	953
Cash Flow (CNYm)					
Cash flow from operations	753	2,028	731	4,232	4,616
Net Capex	-5,119	-3,321	-2,800	-2,400	-2,200
Free cash flow	-4,366	-1,293	-2,069	1,832	2,416
Equity raised/(bought back)	4,862	1,482	0	0	0
Dividends paid	-2,579	-2,311	-1,036	-1,059	-1,113
Net inc/(dec) in borrowings	6,588	-1,966	-1,627	-482	-602
Other investing/financing cash flows	1,227	944	0	0	0
Net cash flow	5,732	-3,144	-4,732	291	701
Change in working capital	-3,236	-1,597	-2,774	8	-343
Balance Sheet (CNYm)					
Cash and other liquid assets	9,031	5,813	1,081	1,372	2,073
Tangible fixed assets	61,594	65,680	65,893	65,283	64,142
Goodwill/intangible assets	767	816	806	787	761
Associates/investments	563	617	617	617	617
Other assets	8,759	10,020	9,701	10,602	12,105
Total assets	80,713	82,946	78,098	78,660	79,698
Interest bearing debt	40,166	42,876	41,999	41,517	40,914
Other liabilities	16,065	13,698	9,855	10,765	11,924
Total liabilities	56,231	56,574	51,854	52,281	52,839
Shareholders' equity	22,911	24,524	24,316	24,555	25,403
Minorities	1,572	1,847	1,928	1,824	1,456
Total shareholders' equity	24,482	26,372	26,243	26,379	26,859
Net debt	31,135	37,063	40,918	40,145	38,842
Key Company Metrics					
Sales growth (%)	nm	-4.8	-20.2	8.9	18.3
DB EPS growth (%)	na	-47.2	na	na	255.1
EBITDA Margin (%)	33.6	30.6	45.0	48.7	53.4
EBIT Margin (%)	21.7	18.8	13.6	15.1	21.8
Payout ratio (%)	8.9	10.9	nm	11.0	11.0
ROE (%)	2.8	1.4	-0.9	1.1	3.8
Capex/sales (%)	47.1	32.0	33.8	26.6	20.7
Capex/depreciation (x)	4.0	2.7	1.1	0.8	0.7
Net debt/equity (%)	127.2	140.5	155.9	152.2	144.6
Net interest cover (x)	2.3	1.8	1.1	1.3	2.3

Source: Company data, Deutsche Securities estimates

Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
QSLI	000792.SZ	14.44 (CNY) 30 Jan 2018	NA

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Historical recommendations and target price. QSLI (000792.SZ)

(as of 01/30/2018)

1. 02/03/2016 Hold, Target Price Change CNY 20,00 Vitus Leung
2. 11/02/2016 Hold, Target Price Change CNY 18,50 Vitus Leung
3. 02/08/2017 Hold, Target Price Change CNY 19,10 Vitus Leung
4. 05/03/2017 Hold, Target Price Change CNY 17,50 Vitus Leung
5. 06/30/2017 Hold, Target Price Change CNY 11,66 Vitus Leung

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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.

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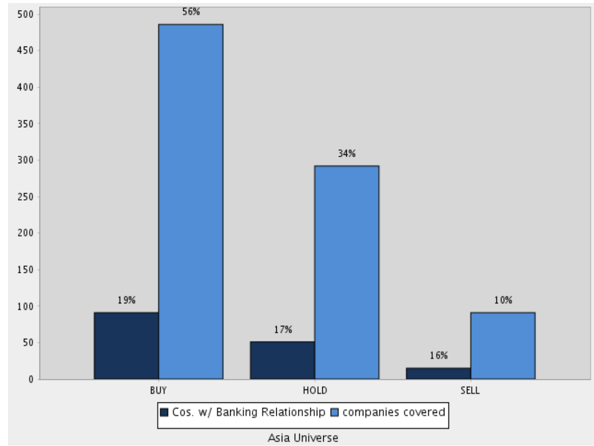
Equity rating dispersion and banking relationships



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