Deutsche Bank
Research

Rating
Hold

Asia
China

Energy
Chemicals

Company
QSLI

Reuters	Bloomberg	Exchange	Ticker
000792.SZ	000792 CH	SHZ	000792

Date
27 June 2018

Forecast Change

Price at 26 Jun 2018 (CNY)	10.78
Price target - 12mth (CNY)	11.40
52-week range (CNY)	20.02 - 9.55
Shenzhen Index	1,669

Spending for future in lithium; potash recovery limited; Hold

Fivefold expansion in lithium carbonate
Lithium carbonate (Li2CO3) could be a new medium term growth driver for QSLI as the company started construction of two new battery-grade lithium carbonate projects with a total capacity of 50ktpa. The first one (30ktpa) is under Qinghai Salt Lake BYD Resource Development Co (49.5% held by QSLI). The second one (20ktpa) is an expansion under Lanke Lithium (51.4% held by QSLI). In 2017, Lanke Lithium produced 8kt of lithium carbonate with most being industry-grade, and expect to reach full capacity at 10kton in 2018E. The new projects are expected to be completed by the end of 2019. With the new capacity starting to contribute, we expect Li2CO3 segment profit to increase by 40% CAGR during 2017-20E while the potash segment profit should increase by 12% CAGR.

Strolling on funding pressure
The two Li2CO3 projects will continue to add pressure on QSLI's stretched balance sheet. The two projects require a total capex of RMB8.0bn and under 70% / 30% debt- equity structure, meaning a c.RMB2.4bn of equity and c.RMB1.7bn for QSLI on a consolidated basis. QSLI is issuing RMB1.5bn of Commercial Paper with coupon rate inquiry range of 5.4-6.7%. We expect its net gearing ratio to increase to 140%/ 144% in 2018-2019E vs. 128% in 2017.

Balanced potash outlook; limited recovery
Global potash operating rates will remain flat ahead, hovering at a c.75%-77% level in 2018-22E. We expect demand CAGR to be c.3% driven by emerging markets, but it could be volatile, as potash application can be deferred for several years without causing short-term detrimental impact on yields (known as potash holiday). On the supply side, we expect potash capacity to increase by 2.3% CAGR largely driven by brownfield projects, and a few greenfields. Most of the new capacities would be from Canada, Russia, and Belarus.

Valuation and risks; maintaining Hold
We cut 2018E/19E EPS to RMB-0.16/0.06, from RMB0.25/0.28 on lower potash ASP in RMB and higher financial costs (due to high operating and financial leverages). We revised our TP to RMB11.4 based on a DCF (assuming a 7.0% WACC and 2% terminal growth). Our TP implies 1.4x P/B in with 0.8% ROE in 2019E. We see longer term risks and rewards are balanced at a current valuation, supported by a potentially ROE accretive debt-to-equity swap plan and long term structural growth of EV batteries. Key downside risks: 1) sluggish chemical prices and soft demand could lead to lower product sales; and 2) unfavorable

Valuation & Risks

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Key changes

TP	11.66 to 11.40	↓	-2.2%
Sales (FYE)	9,007 to 12,025	↑	33.5%
Op prof margin (FYE)	15.1 to 9.3	↓	-38.2%
Net profit (FYE)	268.5 to -438.7	↓	-263.4%

Source: Deutsche Bank

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-13.8	-12.4	0.3
Shenzhen Index	-11.8	-10.9	-15.9

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	-2.2
Net debt/equity (%)	198.6
Book value/share (CNY)	7.11
Price/book (x)	1.5
Net interest cover (x)	0.8
Operating profit margin (%)	9.3

Source: Deutsche Bank

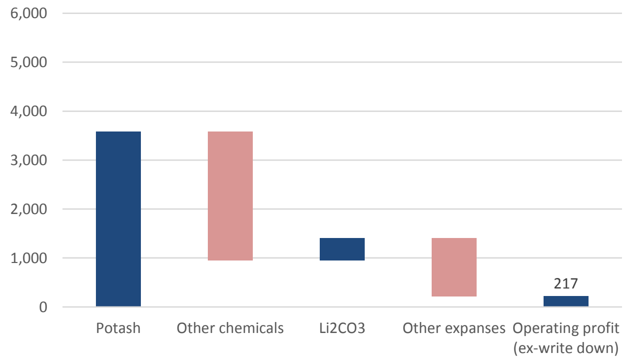
government policy. Key upside risks: 1) better-than-expected potash prices; and 2) faster-than-expected demand growth.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	10,364.1	11,699.4	12,024.7	13,480.7	15,528.8
EBITDA (CNYm)	3,172.2	3,421.9	3,857.0	4,737.9	5,696.2
Reported NPAT (CNYm)	339.6	-4,159.2	-438.7	175.7	555.4
Reported EPS FD(CNY)	0.12	-1.49	-0.16	0.06	0.20
DB EPS FD(CNY)	0.12	-1.49	-0.16	0.06	0.20
OLD DB EPS FD(CNY)	0.12	-0.07	0.10	0.34	–
% Change	-0.5%	1893.8%	-263.4%	-81.6%	–
DB EPS growth (%)	-47.5	–	89.5	–	216.1
Price/Book (x)	2.2	1.9	1.5	1.5	1.5
PER (x)	158.7	–	–	171.0	54.1
EV/EBITDA (x)	29.1	24.8	18.3	15.2	12.5
DPS (net) (CNY)	0.01	0.00	0.00	0.00	0.00
Yield (net) (%)	0.1	0.0	0.0	0.0	0.0

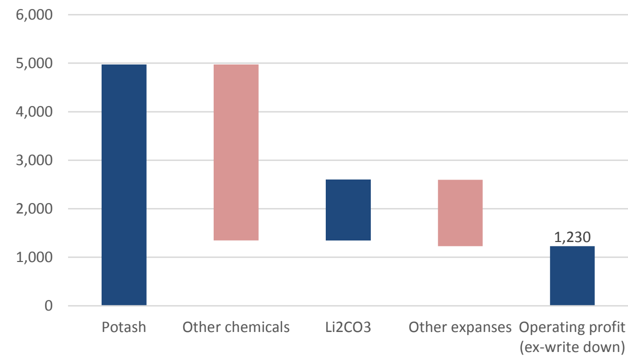
Source: Deutsche Bank estimates, company data

Figure 1: QSLI operating profit movement, 2017 (RMB mn)



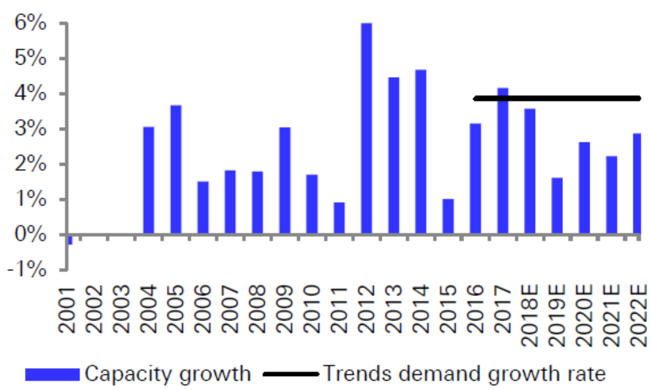
Source: Company data, Deutsche Bank estimates

Figure 2: QSLI operating profit movement, 2020E (RMB mn)



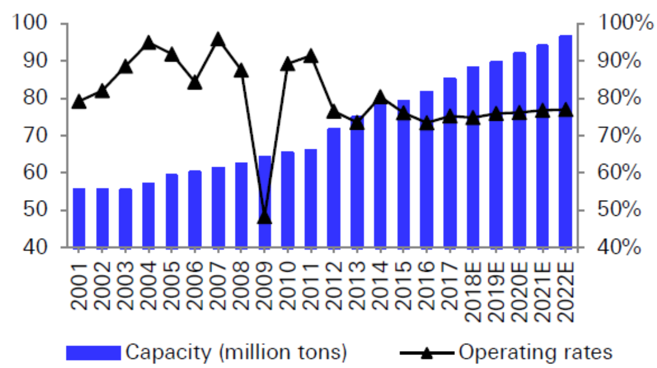
Source: Company data, Deutsche Bank estimates

Figure 3: Global Potash capacity growth (%)



Source: Deutsche Bank estimates, Fertecon, K+S

Figure 4: Global Potash capacity vs. operating rates



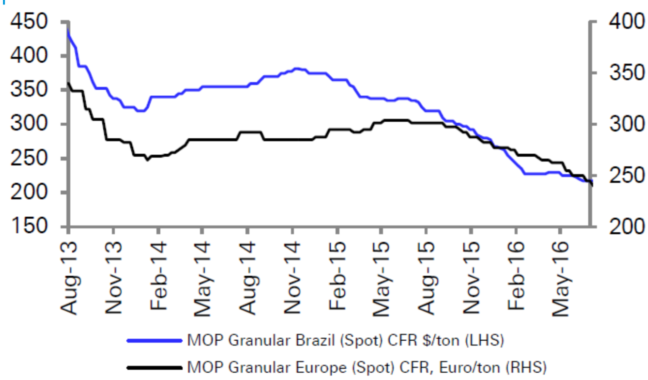
Source: Deutsche Bank estimates, Fertecon, K+S

Figure 5: Global potash supply demand

Potash	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Capacity (mntpa)	60.1	61.2	62.3	64.2	65.3	65.9	71.6	74.8	78.3	79.1	81.6	85.0	88.0	89.5	91.8	93.9	96.6
Capacity growth	1.5%	1.8%	1.8%	3.0%	1.7%	0.9%	8.6%	4.5%	4.7%	1.0%	3.2%	4.2%	3.6%	1.6%	2.6%	2.2%	2.9%
Demand	50.7	58.7	54.5	31.0	58.3	60.2	54.8	58.7	68.4	65.7	65.6	69.9	72.0	74.2	76.4	78.7	81.0
Demand growth	-6.8%	15.8%	-7.2%	-43.1%	88.1%	3.3%	-9.0%	7.1%	16.5%	-3.9%	-0.2%	6.6%	3.0%	3.1%	3.0%	3.0%	2.9%
Operating rates	84.3%	95.9%	87.5%	48.3%	89.3%	91.4%	76.5%	73.5%	80.4%	76.1%	73.4%	75.2%	74.8%	75.9%	76.2%	76.8%	76.9%

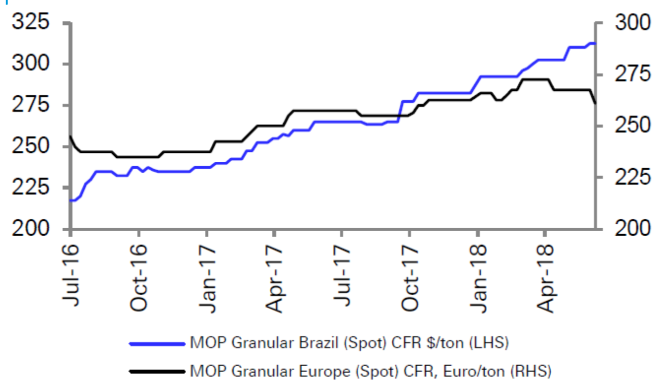
Source: Deutsche Bank estimates, Fertecon, K+S

Figure 6: Potash prices declined through August 2013-June 2016…



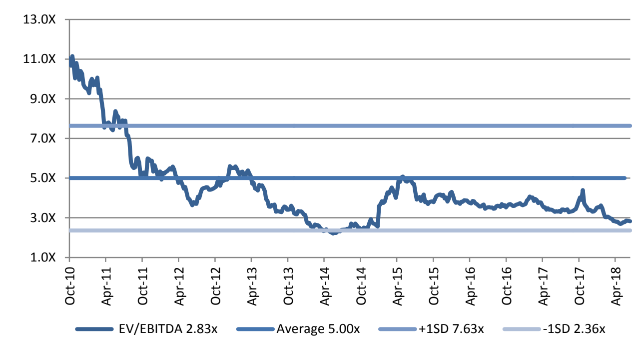
Source: Deutsche Bank, Argus media

Figure 7: … but started increasing starting July 2016



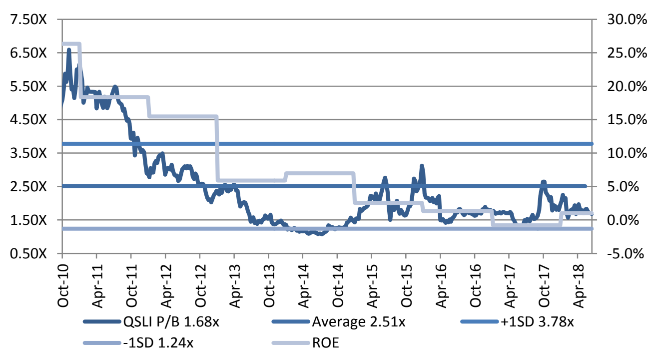
Source: Deutsche Bank, Argus media

Figure 8: 12-month forward EV/EBITDA



Source: Bloomberg Finance L.P., Deutsche Bank

Figure 9: 12-month forward P/B



Source: Bloomberg Finance L.P., Deutsche Bank

Figure 10: Global fertilizer comps

Name	Reuters Ticker	DB Rating	Trading Ccy	26-Jun Price	Mkt Cap (USD mn)	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	ROE (%) FY18E	ROE (%) FY19E	Dvd yield (%) FY18E	Dvd yield (%) FY19E	EV/EBITDA (x) FY18E	EV/EBITDA (x) FY19E	ROIC (%) FY18E	ROIC (%) FY19E
China - H Listed																	
China BlueChem	3983.HK	Buy	HKD	2.77	1,627	13.7	11.1	0.8	0.7	5.8	6.9	3.6	4.5	2.1	1.9	11.3	13.2
Sinofert	0297.HK	Hold	HKD	0.93	833	51.7	10.7	0.8	0.7	1.5	7.2	0.5	2.4	8.8	3.6	1.6	7.7
Weighted average						**23.3**	**10.0**	**0.8**	**0.7**	**5.9**	**8.4**	**2.8**	**4.0**	**6.0**	**4.0**	**6.8**	**9.6**
China - A Listed																	
QSLI	000792.SZ	Hold	CNY	10.78	3,937	NA	111.9	1.1	1.1	-0.8	1.0	NA	0.1	10.2	8.7	-29%	27%
Shandong Kingenta	002470.SZ	NR	CNY	7.47	3,659	19.5	15.2	2.2	1.9	11.5	12.9	1.6	2.0	12.0	9.7	NA	NA
Yunnan Yuntianhua	600096.SS	NR	CNY	5.84	1,197	38.9	25.4	2.0	1.9	3.5	7.2	NA	NA	10.1	9.7	NA	NA
Hualu-Hengsheng	600426.SS	NR	CNY	18.87	4,742	13.6	10.8	2.6	2.2	21.0	20.5	1.3	1.5	8.0	7.0	NA	NA
Shenzhen Batian	002170.SZ	NR	CNY	4.07	562	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Hubei Xingfa	600141.SS	NR	CNY	11.75	1,325	15.5	12.3	1.3	1.2	8.9	10.1	2.1	2.3	8.3	7.6	NA	NA
Weighted average						**11.6**	**30.0**	**1.8**	**1.6**	**12.7**	**13.1**	**1.7**	**2.0**	**7.0**	**6.0**	**-0.3**	**0.3**
Global (ex-HK/China)																	
Industries Qatar	IQCD.QA	NR	QAR	91.00	18,314	15.9	15.7	1.9	1.8	12.1	11.8	4.5	4.5	59.1	56.2	1.6	1.6
Ma'aden	1211.SE	NR	SAR	50.50	17,854	49.9	37.6	2.4	2.3	5.0	6.3	0.0	0.0	19.4	17.5	3.2	3.6
Yara	YAR.OL	Hold	NOK	332.00	11,177	21.0	13.1	1.2	1.1	5.7	8.8	2.6	3.7	9.7	7.5	1.2	7.1
PTT GC	PTTGC.BK	Buy	THB	79.50	10,669	8.7	8.8	1.2	1.1	14.2	13.1	2.8	2.8	5.4	5.2	11.6	10.6
K + S	SDFGn.DE	Hold	EUR	20.99	4,674	18.1	12.4	0.9	0.9	5.2	7.4	2.4	3.6	10.3	8.6	4.2	5.4
Coromandel Int'l	CORF.BO	Buy	INR	399.55	1,707	17.4	14.5	3.7	3.2	22.1	23.6	1.6	2.1	11.2	8.9	15.2	17.4
Weighted average						**22.0**	**17.9**	**1.7**	**1.6**	**12.9**	**12.7**	**2.7**	**3.0**	**21.9**	**20.3**	**8.9**	**6.6**

Source:Bloomberg Finance L.P., Deutsche Bank estimates; Note: Bloomberg consensus estimates for non-rated (NR) companies

Model updated: 27 June 2018

Running the numbers

Asia

China

Chemicals

QSLI

Reuters: 000792.SZ Bloomberg: 000792 CH

Hold

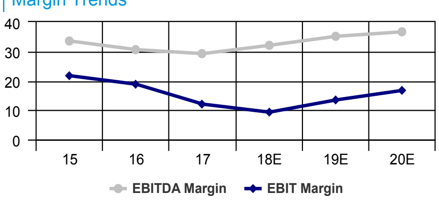
Price (26 Jun 18)	CNY 10.78
Target Price	CNY 11.40
52 Week range	CNY 9.55 - 20.02
Market cap (m)	CNYm 25,719 USDm 3,924.8

Company Profile

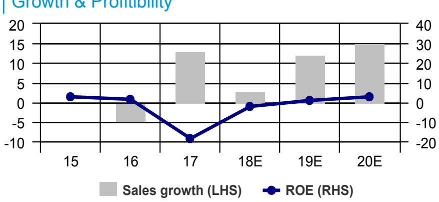
QSLI is the largest potash fertilizer (MOP) manufacturer in China with 3.5mntpa of capacity and its new 1.5mntpa capacity is expected to come on-stream for a production trial in 2H16, which would boost capacity by 43%.

Price Performance

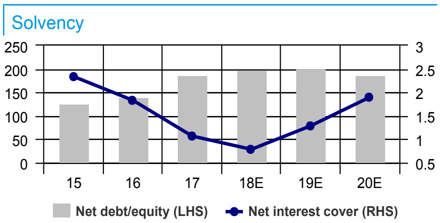
Margin Trends



Growth & Profitibility



Solvency



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Fiscal year end 31-Dec	2015	2016	2017	2018E	2019E	2020E
Financial Summary						
DB EPS (CNY)	0.23	0.12	-1.49	-0.16	0.06	0.20
Reported EPS (CNY)	0.23	0.12	-1.49	-0.16	0.06	0.20
DPS (CNY)	0.02	0.01	0.00	0.00	0.00	0.00
BVPS (CNY)	8.2	8.8	7.3	7.1	7.2	7.4
Weighted average shares (m)	2,410	2,786	2,786	2,786	2,786	2,786
Average market cap (CNYm)	58,814	53,884	41,981	25,719	25,719	25,719
Enterprise value (CNYm)	90,958	92,178	84,757	70,742	72,218	70,918
Valuation Metrics						
P/E (DB) (x)	105.2	158.7	nm	nm	171.0	54.1
P/E (Reported) (x)	105.2	158.7	nm	nm	171.0	54.1
P/BV (x)	3.12	2.17	1.92	1.52	1.50	1.46
FCF Yield (%)	nm	nm	nm	nm	0.2	10.0
Dividend Yield (%)	0.1	0.1	0.0	0.0	0.0	0.0
EV/Sales (x)	8.4	8.9	7.2	5.9	5.4	4.6
EV/EBITDA (x)	24.9	29.1	24.8	18.3	15.2	12.5
EV/EBIT (x)	38.5	47.2	60.1	63.1	39.7	27.3
Income Statement (CNYm)						
Sales revenue	10,882	10,364	11,699	12,025	13,481	15,529
Gross profit	5,690	4,424	3,921	4,223	5,227	6,443
EBITDA	3,652	3,172	3,422	3,857	4,738	5,696
Depreciation	1,249	1,182	1,964	2,679	2,861	3,034
Amortisation	38	39	48	57	60	62
EBIT	2,365	1,951	1,410	1,121	1,817	2,600
Net interest income(expense)	-1,012	-1,065	-1,319	-1,426	-1,414	-1,370
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	-1,151	-956	-4,320	0	0	0
Other pre-tax income/(expense)	560	558	105	-21	-22	-26
Profit before tax	762	488	-4,124	-326	381	1,204
Income tax expense	218	280	165	13	95	301
Minorities	-15	-132	-129	100	110	348
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	559	340	-4,159	-439	176	555
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	559	340	-4,159	-439	176	555
Cash Flow (CNYm)						
Cash flow from operations	753	2,026	1,518	3,675	4,243	5,013
Net Capex	-5,119	-3,321	-2,444	-4,396	-4,196	-1,996
Free cash flow	-4,366	-1,294	-926	-721	47	3,018
Equity raised/(bought back)	4,862	1,482	265	0	0	0
Dividends paid	-2,579	-2,311	-2,296	-1,426	-1,414	-1,370
Net inc/(dec) in borrowings	6,588	-1,966	3,873	870	-316	-1,092
Other investing/financing cash flows	1,227	944	-343	0	0	0
Net cash flow	5,732	-3,145	572	-1,277	-1,682	556
Change in working capital	-3,236	-1,597	-1,820	-149	-377	-356
Balance Sheet (CNYm)						
Cash and other liquid assets	9,031	5,813	6,256	4,978	3,296	3,852
Tangible fixed assets	61,594	65,680	63,311	64,955	66,220	65,152
Goodwill/intangible assets	767	816	1,204	1,221	1,231	1,197
Associates/investments	563	617	574	574	574	574
Other assets	8,759	10,020	11,072	11,250	12,046	13,166
Total assets	80,713	82,946	82,419	82,979	83,367	83,942
Interest bearing debt	40,166	42,876	47,606	48,476	48,160	47,068
Other liabilities	16,065	13,698	12,576	12,605	13,024	13,787
Total liabilities	56,231	56,574	60,182	61,081	61,184	60,856
Shareholders' equity	22,911	24,524	20,236	19,798	19,973	20,529
Minorities	1,572	1,847	2,000	2,100	2,210	2,558
Total shareholders' equity	24,482	26,372	22,236	21,898	22,183	23,086
Net debt	31,135	37,063	41,350	43,498	44,864	43,217
Key Company Metrics						
Sales growth (%)	nm	-4.8	12.9	2.8	12.1	15.2
DB EPS growth (%)	na	-47.5	na	89.5	na	216.1
EBITDA Margin (%)	33.6	30.6	29.2	32.1	35.1	36.7
EBIT Margin (%)	21.7	18.8	12.1	9.3	13.5	16.7
Payout ratio (%)	8.9	10.9	nm	nm	0.0	0.0
ROE (%)	2.8	1.4	-18.6	-2.2	0.9	2.7
Capex/sales (%)	47.1	32.0	20.9	36.6	31.2	12.9
Capex/depreciation (x)	4.0	2.7	1.2	1.6	1.4	0.6
Net debt/equity (%)	127.2	140.5	186.0	198.6	202.2	187.2
Net interest cover (x)	2.3	1.8	1.1	0.8	1.3	1.9

Source: Company data, Deutsche Bank estimates

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
QSLI	000792.SZ	10.78 (CNY) 26 Jun 2018	NA

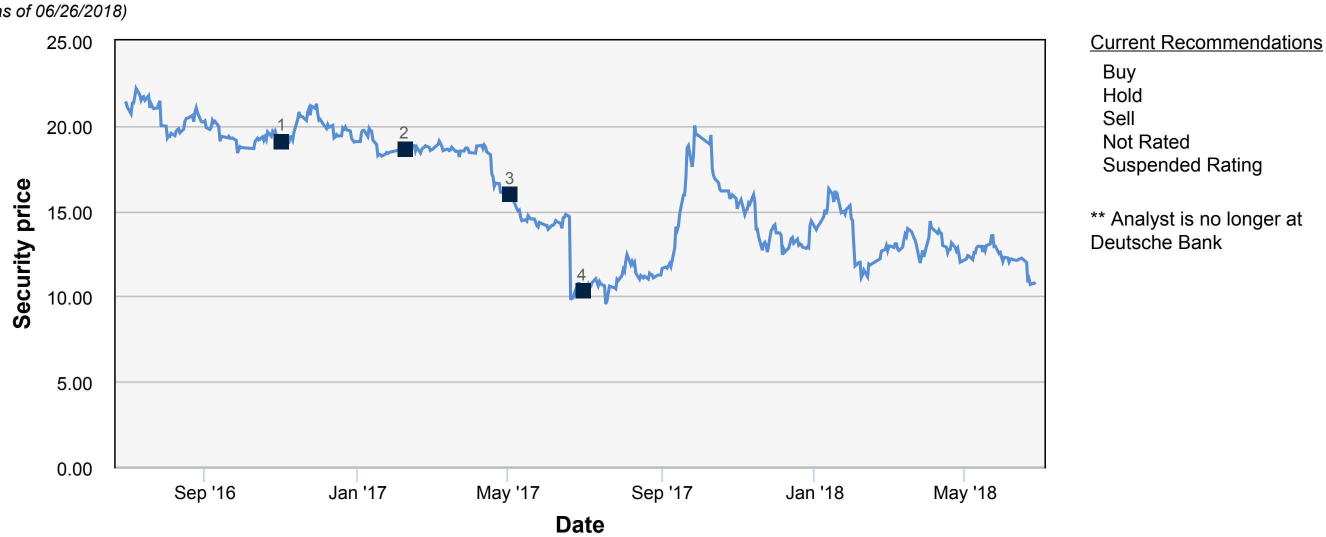
*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at https://research.db.com/Research/Disclosures/CompanySearch. Aside from within this report, important risk and conflict disclosures can also be found at https://research.db.com/Research/Topics/Equities?topicId=RB0002. Investors are strongly encouraged to review this information before investing.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Vitus Leung

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

(as of 06/26/2018)



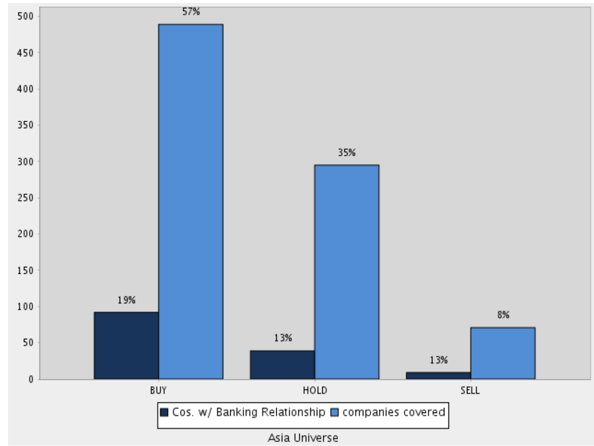
1.	11/02/2016	Hold, Target Price Change CNY 18.50 Vitus Leung
2.	02/08/2017	Hold, Target Price Change CNY 19.10 Vitus Leung
3.	05/03/2017	Hold, Target Price Change CNY 17.50 Vitus Leung
4.	06/30/2017	Hold, Target Price Change CNY 11.66 Vitus Leung

Equity Rating Key

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.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



Additional Information

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