

Outperform

(Maintained)

Non-ferrous Metal

Key Data

Mar. 20, 2019

Closing Price	9.43
Total Shares (Mn)	646.42
Shares Outstanding (Mn)	450.94
Market Cap(CNY/Mn)	5759.62
Market Float(CNY/Mn)	4017.90
Net Assets (CNY/Mn)	1744.88
Total Assets (CNY/Mn)	4173.08
BVPS	2.70

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Nanjing Yunhai Special Metals Co.,Ltd (002182.SZ)

2018 earnings surged, automobile and magnesium business may accelerate to grow--- Comments on 2018 annual reports

21-Mar-19

Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	5101	6007	6855	7551
YoY (%)	3.5%	17.8%	14.1%	10.1%
Net Profit (Mn/CNY)	330	471	591	586
YoY (%)	112.8%	42.9%	25.6%	-0.9%
Gross Margin (%)	15.3%	14.8%	15.5%	16.1%
Net Profit Margin (%)	6.5%	7.8%	8.6%	7.8%
ROE (%)	18.0%	20.5%	20.8%	17.3%
EPS (CNY)	0.51	0.73	0.91	0.91
OCFPS (CNY)	0.14	0.06	1.02	0.95

Company Profile

Nanjing Yunhai Special Metals Co., Ltd. produces magnesium and magnesium alloy, and aluminum alloy products in China and internationally. The company manufactures and sells magnesium grains and rods, magnesium alloy ingots and extrusion sheets, and aluminum alloy ingots and billets. It also provides strontium metal and master alloy products; and magnesium and aluminum die casting and extrusion products, as well as micro channel flat tubes. The company was founded in 1993 and is based in Nanjing, China. (Source: Bloomberg)

Comments

Nanjing Yunhai Special Metals (the company) released its 2018 annual reports.

For 2018, the company's operating revenue was CNY 5.1 bn (+3.5% YoY); its net profit attributable to shareholders (NPAS) was CNY 330 mn (+112.8% YoY); its NPAS after non-recurring items was CNY 209 mn (+91.1% YoY).

For Q418 alone, operating revenue was CNY 129 mn (-2.9% YoY/-5.7% QoQ); NPAS was 81.86 mn (+309.8% YoY/-20.0% QoQ); NPAS after non-recurring items was CNY 82.13 mn (+356.9% YoY/+25.8% QoQ).

The main reasons for a surge in the company's 2018 earnings

- 1) Yunhai Special Metals saw an increase in its total gross margin. In 2018, the company's revenue from main business edged up by 4.6% YoY, while its gross margin jumped by 2.93 pcts YoY and its gross profit increased by nearly CNY 160 mn from the previous year. The increasing earnings of magnesium alloy products resulted in a rising consolidated gross margin. In 2018, the company's magnesium alloy business realized a growth of 3.15 pcts in gross margin and a growth of 8.7% in revenue over same period last year. Magnesium ingot prices turned much higher than those of ferrosilicon. The average price of Magnesium ingots was CNY 17,500/ton (+9.7% YoY), while that of ferrosilicon was CNY 6,791/ton (+7.1% YoY), implying a 11.6% YoY growth in the price gap (at CNY 9,987/ton).
- 2) Relocation compensation led to a substantial gain in the company's extraordinary items. Revenue from asset disposal was CNY 116 mn, mainly due to the government's relocation compensation for the company's plants in Suzhou.

We are optimistic about the company's future growth.

- 1) Yunhai Special Metals brought in Baosteel Metal as its strategic shareholder. The two sides can

develop extensive cooperation in the field of auto lightweight.

- 2) The company continues strengthen its deep processing of magnesium alloys and aluminum. As a leader in the magnesium segment, the company continues to build magnesium production lines in Chaohu Lake, and also gradually extends to the downstream fields of deep processing to increase its production capacity.

In the future, the deep processing projects include: die-castings and supporting magnesium alloys project in India (with a production of 1 mn units), wheel hub project (with a production of 1 mn units), aluminum flat pipe project (with a production of 10,000 tons), high-end aluminum bar project (with a production of 50,000 tons) in Yuncheng and the same project in Chaohu Lake, aluminum intermediate alloy project in Yuncheng.

Earnings forecast and investment recommendation: given an increasing output of magnesium, magnesium alloy and air-conditioning flat pipe in the medium term and a larger market for deep processing of magnesium alloy, we revised the estimated NPAS to CNY 471/591/586 mn for year 19/20/21 and the EPS to CNY 0.73/0.91/0.91, implying a P/E ratio of 13x/10.3x/10.4x (based on the closing price of March 20th, 2019). We maintain 'Outperform' rating for the company.

Potential risks: a sharp decline in magnesium prices; deep processing projects may fail expectation; other factors

Appendix

Balance Sheet					Income Statement					
FY	2018A	2019E	2020E	2021E	Mn/CNY	2018A	2019E	2020E	2021E	Mn/CNY
Current Assets	2341	2510	3522	4192		Operating Income	5101	6007	6855	7551
Cash and Cash Equivalent	307	284	977	1438		Operating Expense	4321	5116	5796	6336
Trading Financial Assets	0	0	0	0		Business Tax and Surcharges	38	36	39	41
Account Receivables	907	1018	1181	1294		Selling Expense	104	150	161	159
Other Receivables	21	16	20	22		Administration Expense	99	150	171	189
Inventory	786	883	1018	1106		Financial Expense	99	116	108	100
Non-current Asset	2186	1962	1791	1603		Asset Impairment	14	14	14	14
Available-for-sale Financial Assets	0	0	0	0		Change in Fair Value	0	-0	-0	-0
Long-term Equity Investment	220	185	196	192		Investment Income	6	160	160	10
Investment Real Estate	48	24	28	30		Operating Profit	410	583	726	721
Fixed Assets	1346	1303	1186	1033		Non-business Income	13	3	10	8
Construction in Progress	247	124	62	31		Non-business Expense	21	10	13	13
Oil and Gas Assets	0	0	0	0		Total Profit	402	576	724	717
Intangible Assets	213	212	209	207		Income Tax	74	105	133	131
Total Assets	4527	4472	5313	5795		Net Profit	329	471	591	585
Current Liabilities	2568	2109	2361	2313		Minority Interest Income	-1	-0	-1	-0
Short-term Loans	2098	1928	1984	1965		Net Profit Attributable to Parent Company	330	471	591	586
Notes Payable	0	0	0	0		EPS(CNY)	0.51	0.73	0.91	0.91
Account Payable	0	0	0	0						
Others	470	181	377	348		Key Financial Ratios				
Non-current Liabilities	130	63	114	102		FY	2018A	2019E	2020E	2021E
Long-term Loans	0	0	0	0		Growth				
Others	130	63	114	102		Increase Rate of Business Revenue	3.5%	17.8%	14.1%	10.1%
Total Liabilities	2698	2172	2475	2416		Increase Rate of Business Profit	148.3%	42.1%	24.5%	-0.6%
Share Capital	646	646	646	646		Net Profit Growth Rate	112.8%	42.9%	25.6%	-0.9%
Capital Reserve	466	466	466	466		Profitability				
Undistributed Profit	662	1107	1620	2134		Gross Margin Rate	15.3%	14.8%	15.5%	16.1%
Minority Interest	2	2	2	1		Net Profit Margin	6.5%	7.8%	8.6%	7.8%
Total Shareholders' Equity	1829	2300	2838	3379		ROE	18.0%	20.5%	20.8%	17.3%
Total Liabilities and Equity	4527	4472	5313	5795						
Cash Flow Statement					Mn/CNY	Solvency				
FY	2018A	2019E	2020E	2021E	Mn/CNY	Asset-liability Ratio	59.6%	48.6%	46.6%	41.7%
Net Profit	330	471	591	586		Current Ratio	0.91	1.19	1.49	1.81
Depreciation and Amortization	154	174	185	191		Quick Ratio	0.60	0.77	1.06	1.33
Property Depreciation Preparation	14	10	12	10		Operation Capacity				
Amortization of Intangible Assets	7	7	7	7		Asset Turnover Ratio	123.7%	133.5%	140.1%	136.0%
Loss from Fair Value Change	0	-0	-0	-0		AR Turnover Ratio	579.2%	588.3%	587.8%	575.3%
Financial Expense	93	116	108	100		Stock Info(CNY)				
Investment Loss	-6	-160	-160	-10		EPS	0.51	0.73	0.91	0.91
Minority Interest Income	-1	-0	-1	-0		OCFPS	0.14	0.06	1.02	0.95
Change in Working Capitals	-391	-500	-135	-247		NAVPS	2.83	3.55	4.39	5.23
Cash Flows from Operating Activities	90	41	657	617		Valuation Ratio				
Cash Flows from Investment Activities	-236	214	140	7		PE	18.5	12.9	10.3	10.4
Cash Flows from Financing Activities	169	-277	-103	-163		PB	3.3	2.7	2.1	1.8
Net Change in Cash	28	-23	693	461						
Beginning Balance of Cash	135	307	284	977						
Ending Balance of Cash	163	284	977	1438						

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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