



Company Report: Lee & Man Chemical (00746 HK)

公司报告: 理文化工 (00746 HK)

Gary Wong 黄家玮

(852) 2509 2616

gary.wong@gtjas.com.hk

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Strategic Expansion Amidst Market Consolidation

- We maintain the TP at HK\$4.30 and reiterate “Buy” rating.** We maintain the forecasted EPS in 2023-2025 at HK\$0.581/ HK\$1.136/ HK\$1.489, respectively, which represents YoY growth of (58.5%)/ 95.3%/ 31.1%. We maintain the TP at HK\$4.30, representing 2023/ 2024/ 2025 PER of 7.4x/ 3.8x/ 2.9x, respectively.
- Lee & Man Chemical (LMC, or the “Company”) is a beneficiary of the acceleration in market consolidation.** Since the start of 2024, except for some of the polymers products like PTFE, LMC’s other main products have seen price declines, with caustic soda, dichloromethane, and hydrogen peroxide decreasing by 2.3%, 7.6%, and 6.7% YTD, respectively. While short-term profits of the Company may be impacted, price declines are poised to eliminate smaller, highly indebted companies and accelerate market consolidation. With a very low gearing ratio of 9.8% as at 1H23 and significant presence in the Jiangsu and Jiangxi markets, we expect LMC to gradually increase its market share as weaker players exit the market and also through acquisition of smaller players.
- Active expansion into new materials businesses.** The expansion project in Jiangxi, once completed in 2025, can produce 10,000 tons/year lithium hexafluorophosphate (LiPF6), 20,000 tons/year polyvinylidene fluoride (PVDF), and 50,000 tons/year of ancillary hydrogen fluoride products. In addition, the 3,000 tons/year of fluoroethylene carbonate (FEC) facility in Zhuhai, which is planned to be completed in two phases by 2024 and 2025, will significantly increase the Company’s production capacity for lithium-ion battery electrolyte additives. We estimate that these products can contribute an additional revenue of RMB3.3 billion at current market prices, once in full production.
- Catalysts:** 1) The acceleration in market consolidation may raise the Company’s market share, and; 2) the Company’s new materials projects are set to commence production in 2024 and 2025.
- Risks:** 1) The coming years may see intense market competition due to significant capacity increases, and; 2) technological advancements in batteries could profoundly impact the demand for the Company’s products.

Rating:
Buy

Maintained

评级:
买入 (维持)
6-18m TP 目标价:
HK\$4.30

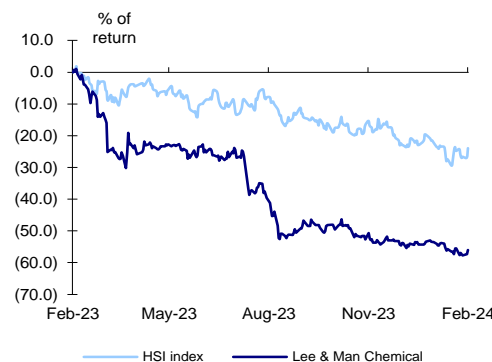
Revised from 原目标价:

HK\$4.30

Share price 股价:
HK\$2.800

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(5.4)	(10.8)	(58.1)
Rel. % to HS Index 相对恒指变动 %	(3.0)	(0.6)	(34.1)
Avg. share price (HK\$) 平均股价 (港元)	2.8	2.9	4.0

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2021A	5,186	1,288	1.561	156.3	1.8	6.757	0.4	0.580	20.7	25.7
2022A	5,867	1,157	1.402	(10.2)	2.0	6.828	0.4	0.550	19.6	20.6
2023F	4,427	480	0.581	(58.6)	4.8	6.859	0.4	0.170	6.1	8.5
2024F	5,167	937	1.136	95.5	2.5	7.825	0.4	0.300	10.7	15.5
2025F	6,215	1,229	1.489	31.1	1.9	9.014	0.3	0.400	14.3	17.7
Shares in issue (m) 总股数 (m)				825.0	Major shareholder 大股东				Mr. Lee Man Yan	65.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				2,310.0	Free float (%) 自由流通比率 (%)					25.0
3 month average vol. 3 个月平均成交股数 ('000)				60.9	FY24 Net gearing (%) FY24 净负债/股东资金 (%)					10.4
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				6.900 / 2.670	FY24 Est. NAV (HK\$) FY24 每股估值 (港元)					10.9

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (HK\$ m)	2021A	2022A	2023F	2024F	2025F	Year end 31 Dec (HK\$ m)	2021A	2022A	2023F	2024F	2025F
Total Revenue	5,186	5,867	4,427	5,167	6,215	Property, Plant and Equipment	5,041	4,748	5,418	6,079	6,732
Cost of Sales	(2,847)	(3,743)	(3,303)	(3,409)	(4,022)	Investment Properties	0	188	188	188	188
Gross Profit	2,339	2,124	1,124	1,758	2,192	Goodwill	3	3	3	3	3
Other Income	66	67	75	67	70	Right-of-use and Intangible Assets	153	134	129	124	119
Other Gains and Losses	(5)	2	1	(0)	(0)	Interests in JV / Associates	132	123	122	123	125
Selling and Distribution Expenses	(233)	(254)	(164)	(196)	(236)	Other Non-current Assets	143	173	191	191	191
General and Administrative Expenses	(299)	(277)	(263)	(267)	(275)	Total Non-current Assets	5,472	5,368	6,050	6,707	7,357
R&D Expenses	(231)	(204)	(133)	(155)	(186)	Inventories	762	844	637	743	894
Operating Profit	1,637	1,457	641	1,206	1,565	Properties Held for Sale	127	65	0	0	0
Finance Costs	(48)	(39)	(40)	(49)	(53)	Properties under Development	374	0	0	0	0
Exchange Gains / Losses	23	(21)	2	2	3	Trade, Bills and Other Receivables	529	338	255	298	358
Share of Profits of JV / Associates	(1)	0	(3)	(1)	(1)	Restricted Cash	0	0	0	0	0
Profit Before Tax	1,611	1,398	600	1,158	1,513	Cash & Cash Equivalents	325	422	322	584	833
Income Tax	(323)	(241)	(120)	(221)	(284)	Other Current Assets	29	39	39	39	39
Profit After Tax	1,288	1,157	480	937	1,229	Total Current Assets	2,146	1,709	1,254	1,664	2,125
Non-controlling Interest	0	0	0	0	0	Total Assets	7,618	7,076	7,303	8,372	9,481
Shareholders' Profit / Loss	1,288	1,157	480	937	1,229	Trade, Bills and Other Payables	613	493	435	449	529
Basic EPS	1.561	1.402	0.581	1.136	1.489	Contract Liabilities	121	66	58	60	71
DPS	0.580	0.550	0.170	0.300	0.400	Bank Borrowings	433	523	395	461	554
						Other Current Liabilities	172	52	32	48	59
						Total Current Liabilities	1,339	1,134	919	1,017	1,213
						Other Payables and Accruals	36	30	27	28	33
						Bank Borrowings	600	221	632	797	717
						Other Non-current Liabilities	68	58	66	75	83
						Total Non-current Liabilities	704	310	725	899	832
						Total Liabilities	2,043	1,443	1,644	1,916	2,045
						Share Capital	83	83	83	83	83
						Reserves	5,492	5,551	5,576	6,373	7,354
						Total Shareholders' Equity	5,575	5,633	5,659	6,456	7,437
						Minority Interest	0	0	0	0	0
						Total Equity	5,575	5,633	5,659	6,456	7,437
						Total Equity and Liabilities	7,618	7,076	7,303	8,372	9,481
						BPS	6.757	6.828	6.859	7.825	9.014

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	1,611	1,398	600	1,158	1,513
Depreciation and Amortisation	57	77	78	87	95
Change in Working Capital	(70)	297	315	(86)	(69)
Other Operating Activities	(119)	(172)	(72)	(129)	(196)
Cash from Operating Activities	1,480	1,600	922	1,029	1,344
Capital Expenditure	(673)	(611)	(823)	(823)	(823)
Other Investing Activities	37	6	12	10	10
Cash from Investing Activities	(636)	(605)	(811)	(813)	(812)
Issuance / (Repurchase) of Shares	0	0	0	0	0
Issuance / (Repayment) of Debts	(517)	(260)	283	230	14
Dividends	(351)	(578)	(454)	(140)	(248)
Other Financing Activities	(52)	(41)	(40)	(49)	(53)
Cash from Financing Activities	(920)	(879)	(211)	41	(286)
Cash at Beg of Year	387	325	422	322	584
Net Changes in Cash	(76)	116	(100)	258	245
Forex	15	(20)	1	4	4
Cash at End of Year	325	422	322	584	833

Financial Ratios					
	2021A	2022A	2023F	2024F	2025F
Gross Margin	45.1	36.2	25.4	34.0	35.3
Operating Margin	31.6	24.8	14.5	23.3	25.2
Net Margin	24.8	19.7	10.8	18.1	19.8
ROA (%)	17.9	15.7	6.7	12.0	13.8
ROE (%)	25.7	20.6	8.5	15.5	17.7
Net Gearing Ratio (%)	12.7	5.7	12.5	10.4	5.9
Interest Coverage (x)	34.4	37.7	16.1	24.6	29.5

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk