



# Jiutian Chemical Group

## (JIUC SP/JUTN.SI)

### Expecting another record year in FY22

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- Jiutian reported a record-high profit in 1Q22, mainly driven by the surge in the average selling prices (ASP). The ASP of DMF and methylamine jumped by 73.0% YoY and 116.3% YoY respectively during the period.
- Global energy prices surged in 1Q22, driven by the Russia-Ukraine conflicts and then ensuing sanctions on Russia. Higher energy prices provided solid support for chemical prices. However, China's zero-covid policy resulted in supply chain disruptions, dragging down sales volumes.
- 2H22 chemicals sector is expected to remain stable. China's expansionary monetary and fiscal policy will uphold the rebound of economic growth.
- FY22F PATMI were adjusted upward by 183.2% to RMB541mn due mainly to the jump in average selling prices of the product mix and the prolonged duration of the upcycle. Based on a reasonable PE of 4.5x and the FY22F ESP of RMB0.27, we maintained our OUTPERFORM rating and raised our TP to 0.245 SG cents, implying an upside of 150% from the last closing price of S\$0.098.

#### Financials & Key Operating Statistics

YE Dec Rmb	2019	2020	2021	2022F	2023F
Revenue	1054	1146	2173	2475	1950
PATMI	-248	174	325	541	320
Core PATMI	45	174	451	541	320
Core EPS (RMBcents)	2.5	9.6	22.7	27.2	16.1
Core EPS growth (%)	104.5	286.2	136.6	20.0	-40.9
Core P/E (x)	18.3	4.7	2.0	1.7	2.8
DPS (SGcents)	0.0	0.0	0.5	1.0	0.5
Div Yield (%)	0.0	0.0	5.2	11.0	5.5
Net Margin (%)	-23.6	15.2	14.9	21.9	16.4
Gearing (%)	14.4	Net Cash	Net Cash	Net Cash	Net Cash
Price / Book (x)	2.7	1.6	1.1	0.7	0.6
ROE (%)	-82.5	33.2	39.9	42.4	20.7

Source: Company Data, KGI Research

**A record-high profit in 1Q22 driven by skyrocketed average selling prices.** Jiutian Chemical group (Jiutian) continued to deliver strong earnings in 1Q22 due mainly to the jump in average selling prices of both DMF and methylamine. However, the respective sales volume of DMF and methylamine dropped by 26% YoY and 20 % YoY due mainly to the government-imposed lockdown measures in Anyang City. The China domestic average DMF price surged by 78% YoY to RMB16,000/tonne.

Figure 1: 1Q22 Financials highlights

(YE Dec, RMB mn)	1Q22	1Q21	YoY Change	FY21	
Revenue	772.3	439.3	75.8%	2,173.3	
Gross profit	270.5	138.1	95.8%	675.6	
	GPM	35.0%	31.5%	3.5 ppts	31.1%
PATMI	201.1	90.3	122.7%	310.3	
	NPM	26.0%	20.6%	5.4 ppts	14.3%

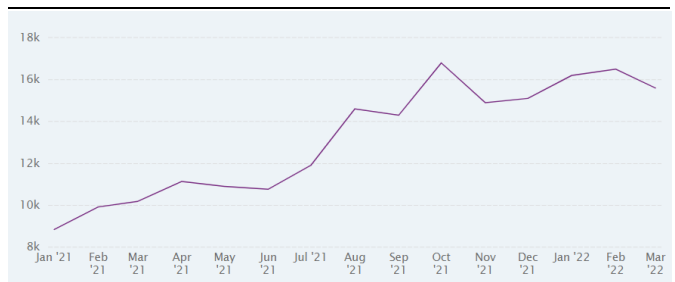
ASP (RMB/tonne)	1Q22	1Q21	YoY Change	FY21
DMF	16,166	9,344	73.0%	12,127
Methylamine	20,055	9,272	116.3%	11,837

Source: Company

#### Maintain: Outperform

Price as of 13 May 22 (SGD)	0.098	<b>Performance (Absolute)</b>	
12M TP (\$)	0.245	1 Month (%)	3.2
Previous TP (\$)	0.145	3 Month (%)	12.6
Upside, incl div (%)	149.9	12 Month (%)	11.7
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	195		
Issued Shares (mn)	1,988		
Vol - 3M Daily avg (mn)	39.6		
Val - 3M Daily avg (\$mn)	3.7		
Free Float (%)	73.0%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Anyang Longyu	25.3%	19-Nov-20	Not Rated
		21-Aug-20	Not Rated
		17-May-21	OP

Figure 2: Monthly Avg: Organic Chemical Material: Dimethylformamide: Industrial Grade



Source: CEIC

#### Valuation & Action:

We revised upward our FY22F/23F revenue by 77.4%/44.4% to RMB2,475mn/RMB1,950mn. Accordingly, FY22F/23F PATMI were adjusted upward by 183.2%/72.7% to RMB541mn/RMB320mn. The adjustments are due mainly to the jump in average selling prices of the product mix and the prolonged duration of the upcycle.

The average forward PE of Jiutian's peers listed in China is 7.4x, and the forward PE of its peer listed in Singapore is 4.1x. Hence, based on a reasonable PE of 4.5x and the FY22F ESP of RMB0.27, we maintained our OUTPERFORM rating and raised our TP to 0.245 SG cents, implying an upside of 150% from the last closing price of S\$0.098.

**Risks:** Decline in ASP of its two main products, DMF and methylamine, is a key risk to earnings.

**Tailwinds of the unexpected geopolitical event.** During the period, geopolitical risks surged to an unprecedented level after World War II owing to the military conflicts between Russia and Ukraine. The ensuing sanctions on Russia sent global energy prices to a decade high. Both Brent and WTI stayed elevated at above US\$100/bbl. Meanwhile, coal prices remained buoyant. The thermal coal price averaged at RMB817/tonne, up 16% YoY in 1Q22. The skyrocketing energy prices provided solid support for chemical prices as chemical products are derivatives of crude oil and coal.

**Headwinds of the China zero-covid policy.** The Omicron outbreak in China's major cities has triggered the most draconian subsequent lockdowns for nearly two months. The supply chain disruptions such as production halts and logistics interruptions drag the trade flows/volumes. However, these benefit chemical prices as the mark-ups of transportation and raw materials costs result in the uptick in quotes. Based on last two years track record, the gain in the ASP is much more than the loss in sales volumes.

**2H22 outlook to remain stable**

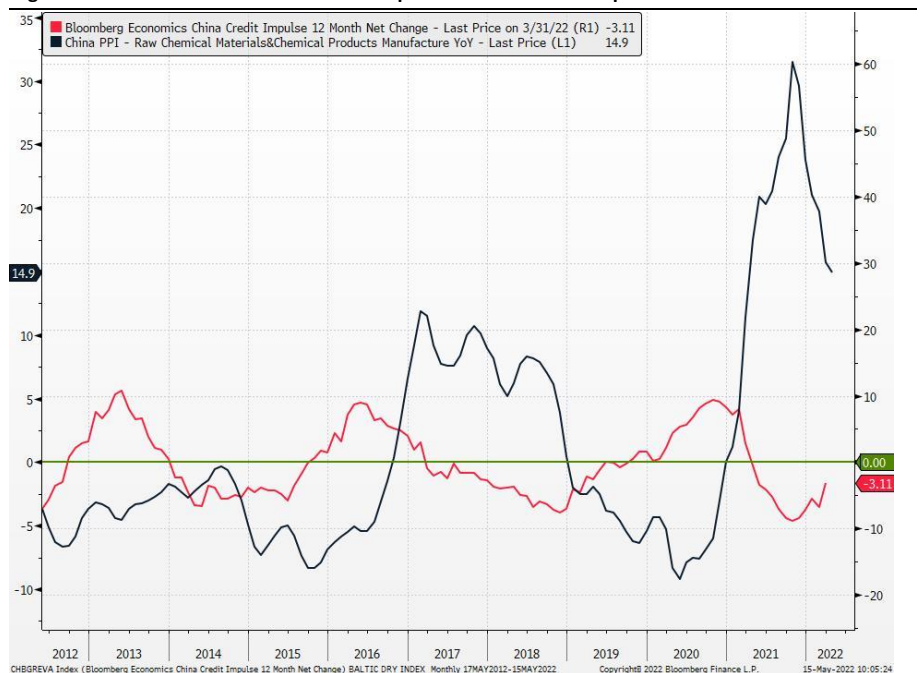
In the near term, China will continue to persist in its zero-covid policy which stifles economic growth. However, China started to carry out the counter-cycle monetary policies by lowering the loan prime rate and required rate of reserve in 1Q22. Meanwhile, the National Development and Reform Commission is drafting a US\$2.3tn infrastructure plan. Moving forward, the expansionary fiscal and monetary policies will uphold the rebound of the domestic economy in 2H22.

Chemical prices performance is cyclical. Here we take the trend of raw chemical materials and products PPI as a proxy. The upcycle of the chemicals industry lags 12 months behind the expansionary cycle of the monetary stimulus:

- Monetary expansion: 4Q12 – 4Q13 (12 months), 4Q15 – 1Q17 (15 months), 4Q19 – 1Q21 (15 months)
- Chemicals sector upcycle: 4Q16 – 4Q18 (24 months), 4Q20 – current (15 months)

Meanwhile, the duration of the cycle tends to be longer as the pass-through of the liquidity injection extends momentum.

**Figure 3: China raw chemical materials and products PPI & credit impulse**



**Compelling valuation**

Jiutian's financial performance is comparable to the peers listed in Singapore and China. However, its current valuation is half of its peers'. As of 1Q22, the company's net cash was RMB718.1mn, equivalent to S\$147.5mn, accounting for 75.7% of the current market cap. Recently, the compare declared an interim dividend of 0.75 SG cents, implying a dividend yield of 7.6% as of the last closing price of 9.8 SG cents.

**Figure 4: Peers comparison**

Bloomberg Code	Stock Name	Market Cap (local currency mn)	1M Return	3M Return	1Y Return	P/S (Forward)	P/E (Forward)	GPM (%)	OPM (%)	NPM (%)	Debt/Equity (%)	ROE (Forward)	ROA (Forward)
JIUC SP	JIUTIAN CHEMICAL GROUP LTD	194.9	3.2%	14.0%	7.7%	0.4	2.1	31.1	22.8	14.9	28.0	52.2	20.1
Singapore													
CSSC SP	CHINA SUNSINE CHEMICAL HLDGS	417.3	-6.5%	-12.1%	-10.3%	0.5	4.1	28.1	18.9	13.6	0.0	14.6	12.0
China													
600426 CH	SHANDONG HUALU HENGSHENG-A	63,143.8	-11.0%	-14.0%	3.3%	2.1	8.0	35.5	32.2	27.2	10.7	27.3	21.5
000830 CH	LUXI CHEMICAL GROUP CO LT-A	34,296.8	-1.0%	13.6%	14.3%	1.1	6.5	30.4	23.2	14.5	53.7	24.2	14.1
002109 CH	SHAANXI XINGHUA CHEMICAL -A	6,022.8	-1.5%	5.9%	14.9%	1.7	7.8	27.1	22.1	19.0	1.5	15.4	13.4

Source: Bloomberg, KGI Research

**Financials**

YE 31 Dec

<b>INCOME STATEMENT Rmb</b>	2019	2020	2021	2022F	2023F
<b>Revenue</b>	<b>1,054.5</b>	<b>1,146.3</b>	<b>2,173.3</b>	<b>2,475.0</b>	<b>1,950.0</b>
Cost of sales	(979.6)	(871.5)	(1,497.7)	(1,683.0)	(1,462.5)
<b>Gross Profit</b>	<b>74.9</b>	<b>274.8</b>	<b>675.6</b>	<b>792.0</b>	<b>487.5</b>
Other operating income/(expenses)	150.3	20.9	14.2	0.0	0.0
Selling and distribution	(22.7)	(14.0)	(17.8)	(19.8)	(19.5)
Admin	(23.6)	(21.6)	(41.1)	(47.0)	(39.0)
<b>Profit from Operations</b>	<b>178.9</b>	<b>260.1</b>	<b>630.9</b>	<b>725.2</b>	<b>429.0</b>
Finance income/(expenses)	(7.9)	(7.4)	(5.1)	(3.9)	(3.1)
Share of JV results	(146.8)	(9.5)	(14.6)	0.0	0.0
Exceptionals/Investment income	(293.6)	(0.7)	(126.2)	0.0	0.0
<b>Profit before Tax</b>	<b>(269.4)</b>	<b>242.4</b>	<b>485.1</b>	<b>721.3</b>	<b>425.9</b>
Income tax	(9.5)	(69.3)	(160.7)	(180.3)	(106.5)
Non-controlling interests	30.5	0.6	0.4	0.1	0.1
<b>PATMI</b>	<b>(248.4)</b>	<b>173.7</b>	<b>324.9</b>	<b>541.1</b>	<b>319.5</b>
PATMI Normalized	45.1	174.4	451.1	541.1	319.5
<b>BALANCE SHEET Rmb</b>	2019	2020	2021	2022F	2023F
Cash and cash equivalents	400.8	454.1	922.1	1,423.4	1,611.4
Trade and other receivables	475.5	665.1	614.5	742.5	624.0
Inventory	24.0	38.9	61.1	75.7	65.8
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>900.3</b>	<b>1,158.1</b>	<b>1,597.7</b>	<b>2,241.7</b>	<b>2,301.2</b>
Property, plant and equipment	208.4	209.5	197.6	179.6	161.6
Other non-current assets	84.7	67.2	96.6	96.6	96.6
<b>Non-current Assets</b>	<b>293.1</b>	<b>276.7</b>	<b>294.3</b>	<b>276.3</b>	<b>258.3</b>
<b>Total assets</b>	<b>1,193.4</b>	<b>1,434.8</b>	<b>1,892.0</b>	<b>2,518.0</b>	<b>2,559.5</b>
Trade and other payables	423.8	502.6	668.3	757.4	658.1
Borrowings (current)	444.1	344.3	178.2	203.0	159.9
Other current liabilities	22.5	59.9	172.8	215.4	141.6
<b>Current Liabilities</b>	<b>890.4</b>	<b>906.8</b>	<b>1,019.4</b>	<b>1,175.7</b>	<b>959.6</b>
Borrowings (non-current)	0.0	0.0	49.9	56.9	44.8
Other non-current liabilities	2.1	5.1	8.8	8.7	8.7
<b>Non-current liabilities</b>	<b>2.1</b>	<b>5.1</b>	<b>58.7</b>	<b>65.6</b>	<b>53.6</b>
Shareholders equity	302.2	524.7	816.2	1,279.0	1,548.8
Non-controlling interests	-1.3	-1.9	-2.3	-2.4	-2.4
<b>Total Equity</b>	<b>300.9</b>	<b>522.9</b>	<b>813.9</b>	<b>1,276.6</b>	<b>1,546.3</b>
<b>Total Liabilities and Equity</b>	<b>1,193.4</b>	<b>1,434.8</b>	<b>1,892.0</b>	<b>2,518.0</b>	<b>2,559.5</b>
<b>CASH FLOW STATEMENT Rmb</b>	2019	2020	2021	2022F	2023F
Net income before tax	(269.4)	242.4	485.1	721.3	425.9
Depreciation & non cash adjustments	336.7	23.1	14.0	48.8	31.1
Change in Working Capital	8.9	(125.8)	194.1	(53.6)	29.2
Income Tax Paid	(7.2)	(3.2)	(32.4)	(137.8)	(180.3)
Interest Paid	(7.9)	(7.4)	(5.1)	(3.9)	(3.1)
<b>CF from operating activities</b>	<b>61.2</b>	<b>129.0</b>	<b>655.8</b>	<b>574.8</b>	<b>302.8</b>
Purchase/Disposal of PPE	(20.6)	(6.3)	(22.3)	(10.0)	(10.0)
Other CFI	0.0	0.0	0.1	0.0	0.0
<b>CF from investing activities</b>	<b>(20.5)</b>	<b>(10.9)</b>	<b>(27.7)</b>	<b>(10.0)</b>	<b>(10.0)</b>
Dividends Paid	0.0	0.0	(33.4)	(99.4)	(49.7)
Other Cash from Financing	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>32.8</b>	<b>5.7</b>	<b>(110.9)</b>	<b>(67.7)</b>	<b>(104.8)</b>
Net increase in cash & cash equiv.	73.5	123.8	517.2	497.1	188.0
FX effects	0.0	0.0	0.0	0.0	0.0
Beginning Cash	63.3	136.7	260.5	777.8	1,274.9
<b>Ending Cash</b>	<b>400.9</b>	<b>454.8</b>	<b>926.3</b>	<b>1,423.4</b>	<b>1,611.4</b>
<b>KEY RATIOS</b>	2019	2020	2021	2022F	2023F
<b>Profitability</b>					
Core EPS	2.5	9.6	22.7	27.2	16.1
Core EPS Growth (%)	104.5	286.2	136.6	20.0	(40.9)
DPS (SGD Cents)	-	-	0.5	1.0	0.5
Dividend Yield (%)	-	-	5.2	11.0	5.5
<b>Profitability</b>					
Gross margin	7.1%	24.0%	31.1%	32.0%	25.0%
EBITDA margin	17.0%	22.7%	29.0%	30.4%	23.4%
Net margin	-23.6%	15.2%	14.9%	21.9%	16.4%
ROE	-82.5%	33.2%	39.9%	42.4%	20.7%
ROA	-20.8%	12.1%	17.2%	21.5%	12.5%
<b>Financial Structure (x)</b>					
Interest coverage	22.6	34.9	124.2	186.0	139.7
Total Debt/Equity	1.5	0.7	0.3	0.2	0.1
Net Gearing	0.1	-0.2	-0.9	-0.9	-0.9

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