

SECTOR UPDATE

EV Battery Materials – China

Leading Players' Acceleration To Continue In 2H21 And Beyond

Riding on strong downstream demand, EV battery material prices and shipments continue to be boosted in 2H21. For electrolytes: Aggressive capacity expansion from 2023 onward and long-term contracts will offset cyclicity. For cathodes: An accelerating nickel-rich trend and the metal price stabilising. For separators: Possible price hikes to serve as a catalyst in the future. Raise target prices for Enjie, Tinci and Easpring on higher earnings forecasts.

WHAT'S NEW

- **Surging EV battery installations in 5M21.** China's domestic electric vehicle (EV) battery installation hit 9.8GWh in May 21, up 178.2% yoy and 16.2% mom. Of the 9.8 GWh, NCM/LFP batteries accounted for 53%/46% of total installations respectively. For 5M21, total domestic EV battery installations hit 41.4GWh, up 223.9% yoy, and NCM/LFP battery installations hit 24.2/17.1GWh, up 151.7%/456.6% yoy respectively.
- **Electrolyte: Aggressive capacity expansion from 2023 onwards; long-term contracts to offset cyclicity.** The spot LiPF6 (core raw material of electrolyte) price continued to be strong and cumulatively gained 186% ytd after gaining 11% since end- May 21. We believe there will be no relief from the supply shortage before 2023, despite aggressive LiPF6 capacity expansion plans announced by major players, who are mostly likely to start production within 18-36 months. CATL's move to sign a long-term contract with Tinci Materials (002709 CH) will help to partially offset the cyclicity of the electrolyte industry.
- **Cathode: Accelerating nickel-rich trend; price stabilising.** As of 22 Jun 21, the prices of NCM 622/523/111 precursors had risen 6%/1%/0% mtd respectively, thanks to the raw material price stabilising. Meanwhile, the prices of 8/6-series cathode also rose 2%/1% mtd. According to ICCSINO, nickel-rich batteries accounted for 38% of May 21's total NCM cathode production (vs 24% in 2020). We believe this trend is likely to continue going forward with customers' pursuit of higher energy density and longer range requirements.
- **Separator: Possible price hikes to serve as a catalyst in the future.** Due to technology development and fierce competition within the industry, separator prices (both dry-processed and wet-processed) have been on a continuous downtrend in the past few years. However, we believe that it is possible for leaders in the industry to raise product prices amid the tight market supply in the near term. This could serve as a positive catalyst for the whole industry.

OVERWEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (LC)	Target Price (LC)
Easpring	300073 CH	BUY	55.08	73.00
Tinci	002709 CH	BUY	101.92	130.00
Enjie	002812 CH	BUY	235.96	270.00

Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 01 Jul 21 (Icu)	Target Price (Icu)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2021F	PE 2022F	P/B 2021F	P/B 2022F	EV/EBITDA 2021F	EV/EBITDA 2022F	ROE (%)
Beijing Easpring Material Technology	300073 CH	BUY	55.08	73.00	32.5	3,895	40.6	31.6	5.6	4.9	31.8	24.1	16.6
Yunnan Energy New Material	002812 CH	BUY	235.96	270.00	14.4	32,069	93.9	54.1	15.8	12.5	45.7	30.0	25.8
GEM	002340 CH	BUY	9.07	11.80	30.1	6,872	28.7	22.4	2.7	2.5	15.4	13.0	11.6
Guangzhou Tinci Materials Technology	002709 CH	BUY	101.92	130.00	27.6	14,846	52.0	37.1	13.5	10.2	41.4	30.1	31.3

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

- Beijing Easpring (300014 SZ/BUY/Target price: Rmb73.00): On 22 Apr 21, Easpring announced its private placement plan to raise Rmb4.65b to expand its production capacity in Changzhou (annual capacity of 50,000 tonnes for NCA/NCM811 cathode) and Jiangsu (annual capacity of 20,000 tonnes for 3C battery cathode). The private placement is still subject to the regulator's approval but the company expects its annual cathode production capacity to hit 109,000 tonnes by end-25 from 44,000 tonnes by end-21 and expects these projects to contribute a total net profit of Rmb500m after commencing production.
- Easpring's target price set at Rmb73.00, is based on 42x 2022F PE. Maintain BUY. With the accelerating shipment increase in 2H21 and beyond backed by new capacity to come on-stream, we expect Easpring earnings to continue to see 20-30% yoy growth for the next three years. The stock is currently trading at about 30x 2022F PE, which we believe is attractive compared with its peers.

EASPRING'S EARNINGS FORECAST CHANGE

Rmb m	Old			New			chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Rev	5,742	6,537	7,888	5,742	7,265	8,535	0.0%	11.1%	8.2%
NI	582	683	820	616	790	916	5.7%	15.6%	11.8%
EPS (cent)	128	151	180.77	136	174	202	5.7%	15.6%	11.8%

Source: UOB Kay Hian

- Yunnan Energy New Material (002812 CH/BUY/Target price: Rmb270.00). On 23 Jun 21, the company (known as Enjie) announced plans to acquire the minority interest (4.78%) of Shanghai Enjie for a total of Rmb2.34b (cash of Rmb800m and private placement of Rmb1.5b), after which Shanghai Enjie will become a wholly-owned subsidiary of the listco.
- On 30 Jun 21, Enjie posted its 1H21 preliminary result with net profit estimated to increase 211-239%yoy to Rmb1.0b-1.09b, indicating 2Q21 net profit of Rmb0.57b-0.66b (up 210-260%yoy, 31-52%qoq). The 2Q21 result was slightly above our expectation, mainly driven by: a) the production increase of wet-processed separators with a new capacity ramp-up, and b) employee bonuses and other expenses were reflected in 1Q21. Based on recent channel checks, we estimate that the capacity ramp-up is on track with the utilisation rate at a high level on rising demand from both domestic and overseas clients in 1H21. By end-21 it is estimated that base film output will hit about 5b sqm (+about 50%yoy) and the proportion of coated separators will see a steady increase.
- We raise Enjie's earnings forecasts by 19%/54% for 2021/22, mainly due to: a) higher sales volumes, and b) slightly higher margin forecasts. We raise our target price to Rmb270 (from Rmb190) on a higher earnings forecast, which is derived from 65x 2022F PE. Maintain BUY. As one of the key beneficiaries on the global EV battery market boom, we believe Enjie will maintain its market-leading position by enhancing its connections with domestic and overseas battery/EV markers for the next 3-5 years.

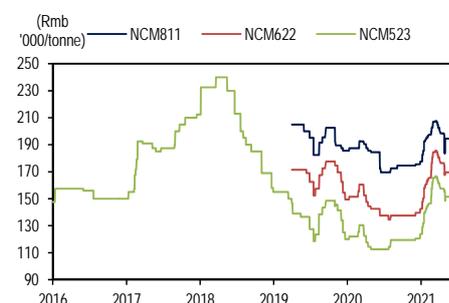
ENJIE'S EARNINGS FORECAST CHANGE

Rmb m	Old			New			Chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	5,996	7,590	8,647	6,947	10,694	12,047	16%	41%	39%
NI	1,868	2,506	2,769	2,228	3,868	4,274	19%	54%	54%
EPS (fen)	211	283	312	251	436	482	19%	54%	54%

Source: UOB Kay Hian

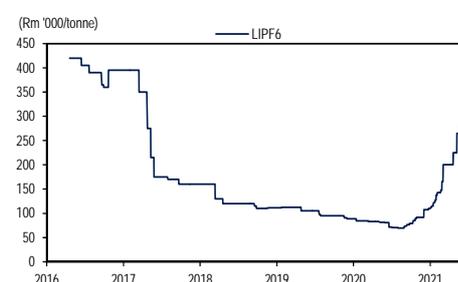
- Guangzhou Tinci Materials Technology (002709 CH/BUY/Target price: Rmb130.00). On 17 Jun 21, Tinci announced its capacity expansion plan of 150,000 tonnes of liquid LIPF6, 300,000 tonnes of Iron Phosphate (FePO4) and 60,000 tonnes of HFSI with a total investment of Rmb1.56b. These projects are expected to complete construction within 15-18 months and the annual net profit contribution is estimated at Rmb802m after commencing production.
- We like Tinci amid a rising raw material cost environment given: a) its high self-sufficiency of LIPF6, b) better cost control from liquid LIPF6 production technology, and c) leading position in advanced electrolyte additives and lithium salt products. We expect the company to

NCM CATHODE PRICE



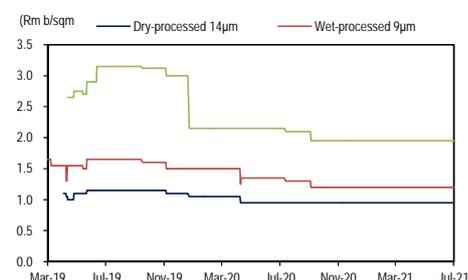
Source: Bloomberg, UOB Kay Hian

LIPF6 PRICE



Source: Bloomberg, UOB Kay Hian

SEPARATOR PRICE



Source: Bloomberg, UOB Kay Hian

deliver consensus-beating results amid the continuous price hikes of LIPF6 due to tight supply in the near term. For the longer term, the company targets to reach 35-40% of global market share in the electrolyte market, from its current market share of 27-28%. Given its leading position in the global electrolyte market with a solid production expansion plan for the next five years, we expect Tinci to be one of the key beneficiaries among LIB materials players globally.

- We raise Tinci's earnings forecasts by 34%/37% for 2021/22, mainly to factor in: a) a higher ASP forecast for electrolytes, and b) higher sales volumes forecast for 2H21 and 2022. Our new target price of Rmb130 (from Rmb88) is derived from 43x 2022F PE. Maintain BUY.

TINCI'S EARNINGS FORECAST CHANGE

Rmbm	Old			New			Chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Rev	6,930	9,853	13,336	9,325	13,446	18,365	35%	36%	38%
NI	1,358	1,868	2,385	1,819	2,554	3,348	34%	37%	40%
EPS (fen)	146.24	201.17	256.93	195.91	275.06	360.67	34%	37%	40%

Source: UOB Kay Hian

- **Maintain OVERWEIGHT on China EV battery materials sector, buy leaders.** We believe 3Q21 is a good time to accumulate good LIB materials companies, despite the significant share price rally in 2Q21, as we expect: a) leading names to deliver strong 1H21 results, and b) earnings growth to continue in 2H21 with shipments to accelerate in the traditional demand peak season in 4Q21. We also expect earnings forecasts to be adjusted up across leading LIB material names for 2021/22, after the 1H21 results, with the new capacity ramp-ups, which can expect to absorb the current rich valuations. We re-iterate our positive view on key battery materials demand in the mid-to-long run. We expect ternary cathodes/anodes/separators/electrolytes to see a five-year volume-based demand CAGR of 36%/29%/28%/29% respectively, based on our estimates.
- **Still prefer global leading players with deep-rooted ties to top battery makers/OEMs and with overseas market share gains potential.** We believe the key factors that would help EV LIB material producers maintain their competitive edge and expand market share would be: a) strengthening ties with top battery makers/OEMs, and b) securing overseas market share gains. We expect better earnings growth as well as earnings visibility for leaders in the EV battery materials industry, which are those that serve top-tier suppliers to downstream battery makers, and particularly those with overseas exposure.

SUPPLY CHAIN OF KEY BATTERY MAKERS

	Cathode	Anode	Separator	Electrolyte	Copper foil	Structural component
Tesla	Beijing Easpring Ningbo Ronbay CNGR		Enjie	Tinci Materials	Nuode Investment	Kedali
SK	Beijing Easpring	Zhongke Electric Mitsubishi Chemical	Self-supplied		Self-supplied	
LG	Shanshan Beijing Easpring GEM Bamo Tech CNGR	Shanshan BTR Putailai	Senior Enjie	Capchem Tinci Materials Jiangsu Guotai		Kedali
Panasonic	Xiamen Tungstun Umicore	BTR	Enjie	Capchem Jiangsu Guotai		

Source: UOB Kay Hian

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