

COMPANY RESULTS

Ganfeng Lithium Co (1772 HK)

1H21: Strong Results In Line; Keep Earnings Growth Momentum Amid Lithium Industry Boom

Ganfeng Lithium posted a strong set of 1H21 results, with net profit up 804%yoy to Rmb1.45b and gross margin expanding 15.6ppt to 34.9%, mainly driven by ASP hikes of lithium compound products. Lithium compounds are seeing another round of price hikes in 3Q21, and management expects the supply tightness to continue in 2H21 and early-22. Ganfeng is maintaining its aggressive capacity plan with overseas expansion. Maintain BUY. Raise target price to HK\$203.00.

1H21 RESULTS

Year to 31 Dec (Rmbm)	1H20	1H21	yoy % chg	2Q20	1Q21	2Q21	qoq % chg	yoy % chg
Revenue	2,387	4,025	68.6	1,308	1,607	2,418	50.5	84.9
Gross profit	462	1,405	204.2	252	500	905	81.1	259.4
SG&A	(131)	(274)	108.8	(63)	(94)	(180)	91.1	186.3
Operating profit	331	1,131	242.1	189	406	725	78.8	283.7
Net finance cost	(121)	(143)	18.2	(60)	(49)	(94)	89.6	56.0
PBT	190	1,638	762.2	167	533	1,106	107.6	563.1
Tax	(34)	(177)	424.8	(16)	(39)	(138)	254.3	761.4
Net Profit	156	1,415	804.4	149	476	939	97.2	531.4
Gross margin (%)	19.4	34.9	15.6	19.3	31.1	37.4	6.3	18.2
EBIT margin (%)	13.9	28.1	14.3	14.5	25.3	30.0	4.7	15.5
Net profit margin (%)	6.6	35.2	28.6	11.4	29.6	38.8	9.2	27.5

Source: Ganfeng Lithium - H, UOB Kay Hian

RESULTS

- **1H21 results in line with management guidance.** Ganfeng Lithium announced a 1H21 net profit of Rmb1,415m, up 804.4% yoy, in line with the company's previous earnings guidance of Rmb1,300m-1,400m. 2Q20 net profit rebounded by 531% yoy to Rmb939m.
- **Recurring profit up 380.6% yoy to Rmb835m.** Stripping out the one-off items (Rmb543.9m fair value gains from of Pilbara Mineral (PLS AU/NR)), core net profit grew 380.6% yoy to Rmb835m in 1H21. Gross margin expanded to 34.9% in 1H21, among which gross margin of lithium compound related products expanded by 21ppt to 41.4%, driven by ASP hikes of lithium carbonate and lithium hydroxide products.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	5,246	5,489	10,926	13,836	14,943
EBITDA	1,032	1,127	3,687	4,656	4,903
Operating profit	806	785	3,210	4,116	4,266
Net profit (rep./act.)	237	992	2,659	3,373	3,465
Net profit (adj.)	237	992	2,659	3,373	3,465
EPS (Fen)	18.2	76.7	204.8	258.6	265.7
PE (x)	794.8	188.6	70.6	56.0	54.5
P/B (x)	22.4	17.5	15.4	12.8	10.9
EV/EBITDA (x)	287.0	262.9	80.3	63.6	60.4
Dividend yield (%)	0.2	0.6	0.4	0.5	0.6
Net margin (%)	4.5	18.1	24.3	24.4	23.2
Net debt/(cash) to equity (%)	34.2	41.0	28.7	9.7	(5.2)
Interest cover (x)	5.0	4.2	8.5	10.4	14.2
ROE (%)	2.9	10.4	23.2	25.0	21.6
Consensus net profit	-	-	2,340	3,525	4,209
UOBKH/Consensus (x)	-	-	1.14	0.96	0.82

Source: Ganfeng Lithium - H, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$174.20
Target Price	HK\$203.00
Upside	+16.5%
(Previous TP)	HK\$142.00

COMPANY DESCRIPTION

Ganfeng Lithium Co Ltd researches and produces lithium products. The Company produces and sells lithium metal, lithium aluminum hydride, lithium fluoride, lithium chloride, and other chemical products of lithium.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	1772 HK
Shares issued (m):	288.3
Market cap (HK\$m):	349,049.7
Market cap (US\$m):	44,822.4
3-mth avg daily t'over (US\$m):	134.9

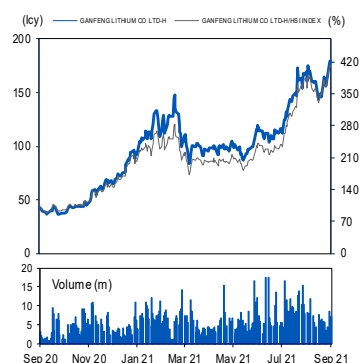
Price Performance (%)

52-week high/low	HK\$174.90/HK\$36.10			
1mth	3mth	6mth	1yr	YTD
4.5	67.3	74.8	336.0	88.1

Major Shareholders

Mr. Li Liangbin	20.87%
FY21 NAV/Share (Rmb)	9.37
FY21 Net Debt/Share (Rmb)	2.69

PRICE CHART



Source: Bloomberg

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- **Steady growth of lithium battery business.** Revenue from the lithium battery business surged by 84% yoy with mild margin expansion of 1ppt to 17%. Ganfeng Lithium has set up a lithium battery JV to operate battery related business, including solid-state battery, consumer battery (3C), lithium phosphate battery (LFP), etc.

STOCK IMPACT

- **Lithium compounds are seeing another round of price hikes in 3Q21.** Prices of both lithium carbonate and lithium hydroxide have continued to trend up in 3Q21. Data suggests that the domestic lithium carbonate (battery-grade) spot prices surged by 32% qtd in 3Q21 (vs 1% yoy decline in 2Q21). Meanwhile, lithium hydroxide (battery-grade) spot prices have also jumped by 30% qtd, (vs the 30% yoy growth in 2Q21). Management expects the tight supply in lithium ore/lithium compound products to sustain, as capacity ramp-up will be limited in 2H21 and early-22.
- **Aggressive capacity plan with overseas expansion.** Ganfeng Lithium targets to build no less than 200,000 tonnes of LCE capacity before 2025 and 600,000 tonnes of LCE capacity in the long term, representing 25% of global market share. It has four key overseas projects under construction, which are: a) Cauchari-Olaroz Brine in Argentina with annual production capacity of 40,000 tonnes of LCE and first production in 2022; b) Mariana Brine in Argentina with 20,000 tonnes capacity of lithium chloride; c) Sonora Clay in Mexico with 20,000 tonnes of LCE production capacity and first production in 2024, and d) Spodumene mine in Mali which is in the earlier stage of exploration.
- **Ganfeng Lithium is a sure beneficiary of the EV boom - our long-term top buy in lithium names.** We re-iterate our view that Ganfeng Lithium is set to benefit from rising demand for high-grade lithium products. With the rise in self-sufficient rate of lithium resources in the next 3-5 years, we believe Ganfeng Lithium will further strengthen its advantages in production costs, industry-leading technology and know-how going forwards.

EARNINGS REVISION/RISK

- We revise up our net profit forecasts by 23%/9%/6% for 2021/22/23 respectively, mainly to factor in higher-than-expected lithium compound prices assumptions in 2021-23.

EARNINGS FORECAST CHANGES

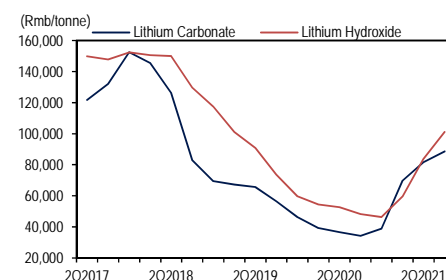
Rmb m	Old			New			Chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Rev	10,049	13,054	14,162	10,926	13,836	14,943	9%	6%	6%
NI	2,164	3,089	3,275	2,659	3,373	3,465	23%	9%	6%
EPS (fen)	165.9	236.8	251.1	203.9	258.6	265.7	23%	9%	6%

Source: Ganfeng Lithium - H, UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain BUY, raise target price to HK\$203.00 (from HK\$142.00).** Factoring in continued improvement in sentiment for the EV battery value chain in the mid-to-long run, our new target price is at HK\$203.00, derived from a DCF valuation, implying 65x 2022F PE. Maintain BUY on Ganfeng-H.
- **Raise Ganfeng-A's target price to Rmb210 (from Rmb154.00).** As the new target price implies 5% downside against current share price, we downgrade to HOLD.
- **Downside risks:** Slower-than-expected penetration of EVs; significant reduction of lithium content in EV batteries on technological breakthroughs; lower-than-expected lithium compound prices.

CHINESE LITHIUM COMPOUND PRICE



Source: Wind, UoB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	5,488.6	10,925.6	13,836.0	14,943.4
EBITDA	1,126.7	3,687.4	4,655.7	4,903.0
Deprec. & amort.	341.6	477.2	539.6	637.5
EBIT	785.1	3,210.2	4,116.0	4,265.5
Total other non-operating income	600.6	200.0	200.0	200.0
Associate contributions	(25.3)	88.7	110.4	110.4
Net interest income/(expense)	(265.9)	(431.8)	(447.6)	(344.2)
Pre-tax profit	1,094.5	3,067.1	3,978.7	4,231.7
Tax	(63.7)	(306.7)	(477.4)	(634.7)
Minorities	(38.9)	(101.0)	(128.1)	(131.6)
Net profit	991.9	2,659.4	3,373.2	3,465.4
Net profit (adj.)	991.9	2,659.4	3,373.2	3,465.4

CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	746.4	3,246.9	4,190.8	4,300.0
Pre-tax profit	1,127.9	3,067.1	3,978.7	4,231.7
Tax	(63.7)	(306.7)	(477.4)	(634.7)
Deprec. & amort.	341.6	477.2	539.6	637.5
Working capital changes	(1,892.1)	(311.1)	(318.5)	(299.2)
Other operating cashflows	1,232.6	320.4	468.3	364.9
Investing	(3,955.2)	(1,224.1)	(1,317.5)	(949.6)
Capex (growth)	(3,441.0)	(1,100.0)	(900.0)	(700.0)
Capex (maintenance)	51.3	(41.5)	(151.3)	(19.3)
Investments	1,475.4	(41.3)	(133.1)	(115.1)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(2,040.9)	(41.3)	(133.1)	(115.1)
Financing	3,644.8	(740.9)	(731.2)	(1,178.5)
Dividend payments	(387.8)	(1,102.3)	(797.8)	(1,012.0)
Issue of shares	1,990.6	(35.6)	0.0	0.0
Proceeds from borrowings	1,916.1	397.0	66.6	(166.6)
Others/interest paid	125.9	0.0	0.0	0.0
Net cash inflow (outflow)	435.9	1,282.0	2,142.1	2,171.9
Beginning cash & cash equivalent	1,328.1	1,709.6	2,991.6	5,133.7
Changes due to forex impact	(54.5)	0.0	0.0	0.0
Ending cash & cash equivalent	1,709.6	2,991.6	5,133.7	7,305.6

BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	6,102.2	6,816.3	7,269.8	7,425.5
Other LT assets	7,143.4	4,090.8	4,308.8	4,367.3
Cash/ST investment	1,709.6	2,991.6	5,133.7	7,305.6
Other current assets	7,065.2	10,695.6	11,078.4	11,283.0
Total assets	22,020.4	24,594.3	27,790.7	30,381.3
ST debt	2,287.9	2,516.7	2,768.4	2,768.4
Other current liabilities	1,789.9	2,344.2	2,770.6	2,942.8
LT debt	3,816.2	3,984.5	3,799.4	3,632.9
Other LT liabilities	708.0	708.0	708.0	708.0
Shareholders' equity	10,705.6	12,227.2	14,802.6	17,256.0
Minority interest	2,712.8	2,813.7	2,941.8	3,073.4
Total liabilities & equity	22,020.4	24,594.3	27,790.7	30,381.3

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	20.5	33.7	33.6	32.8
Pre-tax margin	19.9	28.1	28.8	28.3
Net margin	18.1	24.3	24.4	23.2
ROA	5.5	11.4	12.9	11.9
ROE	10.4	23.2	25.0	21.6
Growth				
Turnover	4.6	99.1	26.6	8.0
EBITDA	9.1	227.3	26.3	5.3
Pre-tax profit	209.4	180.2	29.7	6.4
Net profit	317.9	168.1	26.8	2.7
Net profit (adj.)	317.9	168.1	26.8	2.7
EPS	321.5	166.9	26.3	2.7
Leverage				
Debt to total capital	31.3	30.2	27.0	23.9
Debt to equity	57.0	53.2	44.4	37.1
Net debt/(cash) to equity	41.0	28.7	9.7	(5.2)
Interest cover (x)	4.2	8.5	10.4	14.2

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