

# China/Hong Kong Company Update

## Ganfeng Lithium Co Ltd

Bloomberg: 1772 HK Equity | 002460 CH Equity | Reuters: 1772.HK | 002460.SZ

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

25 Jan 2022

### H: BUY

Last Traded Price ( 24 Jan 2022):HK\$125.10(HSI : 24,656)  
Price Target 12-mth: HK\$230 (83.9% upside)

### A: BUY

Last Traded Price ( 24 Jan 2022):RMB134.87(CSI300 Index : 4,787)  
Price Target 12-mth: RMB230 (70.5% upside)

#### Analyst

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#### What's New

- Market has underestimate its robust lithium products product sentiment for 1Q22
- Good upstream development progress for Bacanora and Sonora overseas drive growth prospect
- Raise net earnings estimate for FY22F-FY23F on higher GP assumptions
- Attractive valuation; reiterate BUY and TP of HK\$230

### Positive 2021 alert confirmed upbeat outlook

#### Investment Thesis

Overly concerned on chip shortage impact. GFLi was alerting its 2021 recurring earnings to be ahead of consensus and exceeded our expectation. We believe the market has over-worried about the negative impact from shortage of chips and power in 4Q21. We expect the news would provide positive share catalyst in anticipation of Chinese lithium products market price approaching multiple-year high.

#### Smooth expansion progress on good upstream development.

GFLi's good progress in overseas upstream projects could boost raw material self-sufficiency to above 70% in 2024, from 30% in 2020, and provide additional margin support from this year onwards. Also, GFLi's new projects in Qinghai are well on track; we expect it would support market share expansion. We estimate GFLi's sales volume growth at a 33% CAGR during 2021 to 2023 after a 24% CAGR during 2019 to 2021.

**Upgrade earnings estimate.** Amid the continuous lithium price uptrend, we raise our FY22F/FY23F estimate by 11%/37% on our new GP assumptions. GFLi's core net earnings growth is estimated at an 48% CAGR during 2021 to 2023.

#### Valuation:

Our H-share TP of HK\$230 is based on a 13x FY22F PB, supported by ROE improvement to >26% by 2023 from <11% in 2020. Our A-share TP of RMB230 is based on a 15x PB, in line with domestic peers, and at the high end of its historical range, which is consistent with the historical price spread to the H-share.

#### Where we differ:

We believe GFLi's smooth progress of market share expansion support above market earnings CAGR during 2021 and 2023.

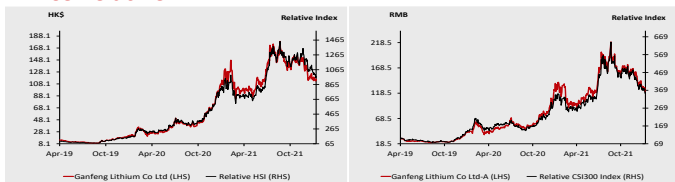
#### Key Risks to Our View:

A market collapse on an unexpected shift in market dynamics and/or geopolitical/ China policies swing.

#### At A Glance

Issued Capital - H shares (m shs)	288
- Non H shrs (m shs)	1,149
H shs as a % of Total	20
Total Mkt Cap (HK\$m/US\$m)	226,689 / 29,114
Major Shareholders (%)	
Li (Liang Bin)	23.5
Wang (Xiao Shen)	8.8
Major H Shareholders (As % of H shares)	
Samsung Asset Management Co., Ltd.	8.6
H Shares-Free Float (%)	91.4
3m Avg. Daily Val. (US\$m)	65.67
GICS Industry: Materials / Metals & Mining	

#### Price Relative



#### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	5,489	10,366	16,823	20,413
EBITDA	1,673	7,526	8,370	10,971
Pre-tax Profit	1,128	6,665	6,972	9,293
Net Profit	1,025	5,158	5,396	7,191
Net Profit Gth (Pre-ex) (%)	184.2	403.1	4.6	33.3
EPS (RMB)	0.77	3.59	3.75	5.00
EPS (HK\$)	0.94	4.41	4.61	6.15
EPS Gth (%)	174.2	368.9	4.6	33.3
Diluted EPS (HK\$)	0.94	4.41	4.61	6.15
DPS (HK\$)	0.37	1.75	1.83	2.44
BV Per Share (HK\$)	9.81	15.77	18.55	22.26
PE (X)	133.1	28.4	27.1	20.4
P/Cash Flow (X)	182.8	31.2	32.8	18.8
P/Free CF (X)	nm	nm	nm	52.9
EV/EBITDA (X)	85.5	20.1	18.8	14.4
Net Div Yield (%)	0.3	1.4	1.5	1.9
P/Book Value (X)	12.7	7.9	6.7	5.6
Net Debt/Equity (X)	0.3	0.1	0.3	0.2
ROAE(%)	10.8	35.4	26.9	30.1
Earnings Rev (%):		103	11	37
Consensus EPS (RMB)		2.53	4.38	5.32
Other Broker Recs:		B:12	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



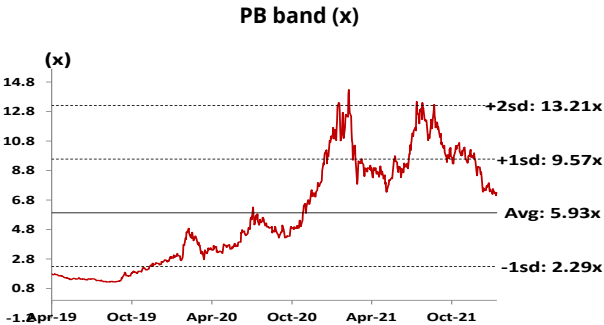
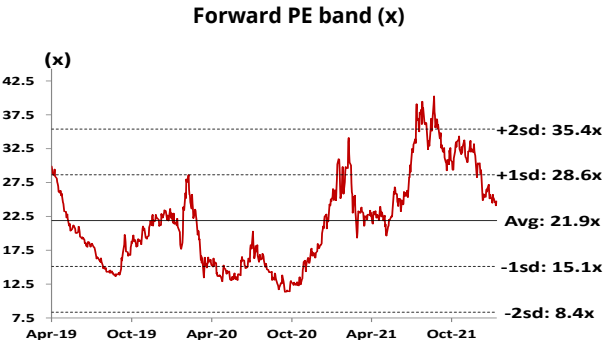
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**Ganfeng Lithium Co Ltd**

**Historical PE and PB band**



Source: Thomson Reuters, DBS HK

## Ganfeng Lithium Co Ltd

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Sales volume for lithium metal and compound (LCE tonne)	45,586.5	63,013.0	79,102.4	100,005.3	122,659.3
ASP for lithium metal and compound (Rmb/tonne)	107,698.4	81,271.5	121,907.3	158,479.5	158,479.5
GPM for lithium metal and compound (%)	23.6	21.2	41.3	43.6	43.8

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Lithium compound	4,152	3,854	9,643	15,849	19,439
Lithium metal	603	1,267	251	502	502
Others	491	367	471	471	471
<b>Total</b>	<b>5,246</b>	<b>5,489</b>	<b>10,366</b>	<b>16,823</b>	<b>20,413</b>
<b>Gross profit (RMB m)</b>					
Lithium compound	1,092	890	4,147	7,132	8,748
Lithium metal	79	205	43	95	95
Others	68	67	90	104	104
<b>Total</b>	<b>1,239</b>	<b>1,163</b>	<b>4,279</b>	<b>7,331</b>	<b>8,947</b>
<b>Gross profit Margins (%)</b>					
Lithium compound	26.3	23.1	43.0	45.0	45.0
Lithium metal	13.1	16.2	17.0	19.0	19.0
Others	13.8	18.3	19.0	22.0	22.0
<b>Total</b>	<b>23.6</b>	<b>21.2</b>	<b>41.3</b>	<b>43.6</b>	<b>43.8</b>

Source: Company, DBS HK

## Ganfeng Lithium Co Ltd

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	5,246	5,489	10,366	16,823	20,413
Cost of Goods Sold	(4,009)	(4,327)	(6,087)	(9,492)	(11,466)
<b>Gross Profit</b>	<b>1,238</b>	<b>1,162</b>	<b>4,279</b>	<b>7,331</b>	<b>8,947</b>
Other Opg (Exp)/Inc	(432)	(377)	(711)	(1,154)	(1,400)
<b>Operating Profit</b>	<b>806</b>	<b>785</b>	<b>3,568</b>	<b>6,177</b>	<b>7,546</b>
Other Non Opg (Exp)/Inc	(277)	601	3,200	1,000	1,000
Associates & JV Inc	153	8	100	100	1,100
Net Interest (Exp)/Inc	(205)	(266)	(203)	(305)	(354)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>477</b>	<b>1,128</b>	<b>6,665</b>	<b>6,972</b>	<b>9,293</b>
Tax	(121)	(64)	(1,000)	(1,046)	(1,394)
Minority Interest	5	(39)	(507)	(531)	(707)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>361</b>	<b>1,025</b>	<b>5,158</b>	<b>5,396</b>	<b>7,191</b>
Net Profit before Except.	361	1,025	5,158	5,396	7,191
EBITDA	916	1,673	7,526	8,370	10,971
<b>Growth</b>					
Revenue Gth (%)	7.3	4.6	88.9	62.3	21.3
EBITDA Gth (%)	(47.1)	82.6	349.9	11.2	31.1
Opg Profit Gth (%)	(38.5)	(2.6)	354.4	73.1	22.2
Net Profit Gth (%)	(73.0)	184.2	403.1	4.6	33.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	23.6	21.2	41.3	43.6	43.8
Opg Profit Margin (%)	15.4	14.3	34.4	36.7	37.0
Net Profit Margin (%)	6.9	18.7	49.8	32.1	35.2
ROAE (%)	4.4	10.8	35.4	26.9	30.1
ROA (%)	2.6	5.7	18.3	14.0	15.8
ROCE (%)	5.0	4.5	11.5	14.4	15.0
Div Payout Ratio (%)	107.5	39.7	39.7	39.7	39.7
Net Interest Cover (x)	3.9	3.0	17.6	20.3	21.3

Source: Company, DBS HK

## Ganfeng Lithium Co Ltd

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	3,008	6,102	10,444	17,351	21,026
Invt in Associates & JVs	3,680	1,636	1,636	1,636	1,636
Other LT Assets	1,809	5,507	5,507	5,507	5,507
Cash & ST Invt	1,700	2,176	8,450	6,767	6,684
Inventory	2,334	2,215	3,199	4,989	6,027
Debtors	1,159	1,878	2,665	4,000	4,742
Other Current Assets	525	2,507	2,507	2,507	2,507
<b>Total Assets</b>	<b>14,213</b>	<b>22,020</b>	<b>34,409</b>	<b>42,757</b>	<b>48,129</b>
ST Debt	1,969	2,288	3,787	5,286	5,286
Creditors	559	870	1,005	1,568	1,894
Other Current Liab	731	919	919	919	919
LT Debt	2,219	3,816	6,317	8,818	8,818
Other LT Liabilities	324	708	708	708	708
Shareholder's Equity	8,355	10,706	18,452	21,707	26,046
Minority Interests	55	2,713	3,220	3,751	4,458
<b>Total Cap. &amp; Liab.</b>	<b>14,213</b>	<b>22,020</b>	<b>34,409</b>	<b>42,757</b>	<b>48,129</b>
Non-Cash Wkg. Capital	2,727	4,809	6,446	9,009	10,463
Net Cash/(Debt)	(2,488)	(3,929)	(1,654)	(7,337)	(7,420)
Debtors Turn (avg days)	32.9	33.9	33.9	33.9	33.9
Creditors Turn (avg days)	43.4	44.4	44.4	44.4	44.4
Inventory Turn (avg days)	33.4	34.4	34.4	34.4	34.4
Asset Turnover (x)	0.4	0.3	0.4	0.4	0.4
Current Ratio (x)	1.8	2.2	2.9	2.3	2.5
Quick Ratio (x)	0.9	1.0	1.9	1.4	1.4
Net Debt/Equity (X)	0.3	0.3	0.1	0.3	0.2
Net Debt/Equity ex MI (X)	0.3	0.4	0.1	0.3	0.3
Capex to Debt (%)	18.1	18.8	49.5	56.7	35.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	477	1,128	6,665	6,972	9,293
Dep. & Amort.	234	279	658	1,093	1,325
Tax Paid	(337)	9	(1,202)	(1,350)	(1,748)
Assoc. & JV Inc/(loss)	(212)	(81)	(100)	(100)	(1,100)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(163)	(197)	(1,637)	(2,562)	(1,454)
Other Operating CF	670	(392)	303	405	1,454
<b>Net Operating CF</b>	<b>669</b>	<b>746</b>	<b>4,686</b>	<b>4,458</b>	<b>7,770</b>
Capital Exp.(net)	(758)	(1,149)	(5,000)	(8,000)	(5,000)
Other Invt.(net)	434	1,001	0	0	0
Invt in Assoc. & JV	(1,044)	(3,137)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,454)	(670)	0	0	0
<b>Net Investing CF</b>	<b>(2,823)</b>	<b>(3,955)</b>	<b>(5,000)</b>	<b>(8,000)</b>	<b>(5,000)</b>
Div Paid	(388)	(388)	(2,046)	(2,141)	(2,853)
Chg in Gross Debt	1,322	2,643	4,000	4,000	0
Capital Issues	0	0	0	0	0
Other Financing CF	(693)	1,389	4,635	0	0
<b>Net Financing CF</b>	<b>241</b>	<b>3,645</b>	<b>6,589</b>	<b>1,859</b>	<b>(2,853)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,913)	436	6,275	(1,683)	(84)
Opg CFPS (RMB)	0.64	0.70	4.40	4.88	6.42
Free CFPS (RMB)	(0.07)	(0.30)	(0.22)	(2.46)	1.93

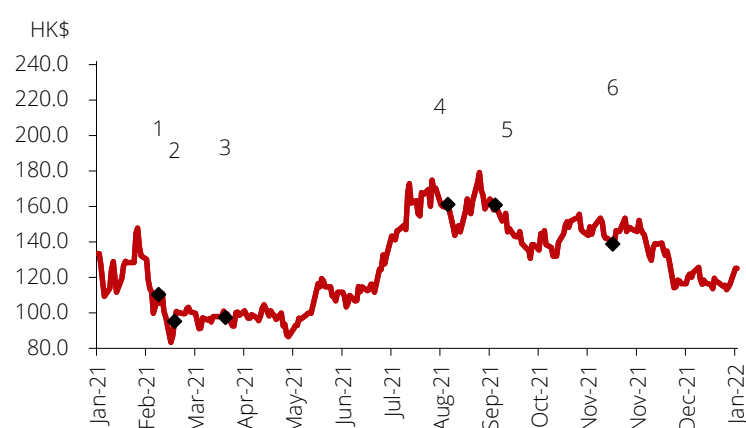
Source: Company, DBS HK

## Ganfeng Lithium Co Ltd

### Company Background

Ganfeng Lithium (GFLI) is the world's third largest and China's largest lithium compound producer. It is also the world's largest lithium metal supplier. In 2020, the company's sales volume of lithium products was 63,013 tons, based on lithium carbonate equivalent (LCE) ton. Its shares are dual-listed on the Hong Kong Stock Exchange (October 2018) and Shenzhen Stock Exchange (August 2010).

### H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	HK\$111.80	HK\$120.00	Hold
2:	10-Mar-21	HK\$87.25	HK\$120	Buy
3:	8-Apr-21	HK\$101.00	HK\$120.00	Buy
4:	13-Aug-21	HK\$161.00	HK\$185.00	Buy
5:	9-Sep-21	HK\$158.10	HK\$220	Buy
6:	15-Nov-21	HK\$142.00	HK\$230.00	Buy

Source: DBS HK

Analyst: Duncan CHAN

### A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-21	RMB107.80	RMB120.00	Hold
2:	10-Mar-21	RMB91.45	RMB120	Buy
3:	8-Apr-21	RMB98.55	RMB120.00	Buy
4:	13-Aug-21	RMB179.86	RMB200.00	Buy
5:	9-Sep-21	RMB185.66	RMB230	Buy
6:	15-Nov-21	RMB159.31	RMB230.00	Buy

Source: DBS HK

Analyst: Duncan CHAN

## Ganfeng Lithium Co Ltd

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 25 Jan 2022 09:15:38 (HKT)

Dissemination Date: 25 Jan 2022 11:17:00 (HKT)

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**Ganfeng Lithium Co Ltd**

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