

COMPANY UPDATE

Jiutian Chemical Group (JIUC SP)

Expected To Mark Second Consecutive Year Of Record Earnings For 2021

The ongoing supply constraint for DMF across China and the country's strong industrial recovery in 2021 have resulted in sustained elevated selling prices. Further aiding gross margin expansion are the relatively stable prices for methanol, Jiutian's main raw material. We are expecting a solid set of results, scheduled for release in mid-February, and believe the strong financials could boost investors' confidence in China's industrial recovery. Maintain BUY with target price of S\$0.138.

WHAT'S NEW

- Product ASPs higher than expected in 11M21.** According to CEIC Data, the average price for dimethylformamide (DMF) recorded a 110% yoy spike in 11M21 to Rmb12,200/tonne (2020: Rmb6,018/tonne). This compares to our initial estimate of Rmb7,500/tonne for 2021, and was due to the sustained industrial recovery in China. Further, the industry is facing a DMF supply shortfall on the absence of new manufacturing plants, due to a cessation of approvals by the Chinese government on environmental concerns. We do not see any resolve on the environmental concerns in the near term and are of the view that there will not be any significant increase in DMF supply, which will support prices into 2022 and 2023. Any indication of new supply would require a minimum 9-12 month period for trial and regulatory approvals.
- Ample supply of feedstock translates to a widening spread of gross profitability.** Conversely, the ample supply of methanol, the major raw material for DMF production, has kept feedstock prices steady. Average methanol price in 11M21 saw an increase of 15.3%, according to CEIC Data. This implies a widening spread in gross profitability (see chart on page 2) for Jiutian Chemical Group (Jiutian), and we expect 4Q21 financials to reflect a significant scale-up in gross margin and operating leverage.
- Second consecutive record on earnings expected for 2021.** Posting its first year of record net profit of Rmb174m since its IPO (2006) in 2020, we anticipate Jiutian to mark its second consecutive year of record earnings for 2021 due to the elevated product ASPs. We are of the view that DMF price will sustain due to rising demand from new users stemming from the lithium battery and semiconductor sectors in China.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	1,054	1,146	1,546	1,624	1,496
EBITDA	(87)	286	408	511	534
Operating profit	(115)	259	381	483	506
Net profit (rep./act.)	(248)	174	277	355	367
Net profit (adj.)	(248)	174	277	355	367
EPS (fen)	(13.7)	8.7	13.9	17.8	18.5
PE (x)	n.m.	4.5	2.8	2.2	2.1
P/B (x)	2.4	1.5	1.0	0.7	0.5
EV/EBITDA (x)	0.1	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(23.6)	15.2	17.9	21.8	24.5
Net debt/(cash) to equity (%)	14.3	(20.9)	(54.9)	(68.9)	(77.3)
Interest cover (x)	(11.0)	38.4	36.2	48.0	32.4
ROE (%)	n.a.	42.0	42.2	36.7	27.7
Consensus net profit	-	-	347	260	248
UOBKH/Consensus (x)	-	-	0.80	1.36	1.48

Source: Jiutian, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.085
Target Price	S\$0.138
Upside	+62.4%

COMPANY DESCRIPTION

Jiutian is a producer of chemicals such as DMF and sodium hydrosulfite. It is also involved in the processing and sale of consumable carbon dioxide and oxygen. The group sells its products wholly in China to manufacturers of downstream products that use methanol, methylamine and DMF.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	JIUC SP
Shares issued (m):	1,988.4
Market cap (S\$m):	169.0
Market cap (US\$m):	124.5
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

52-week high/low S\$0.112/S\$0.067

1mth	3mth	6mth	1yr	YTD
10.4	(3.4)	0.0	(13.3)	11.8

Major Shareholders

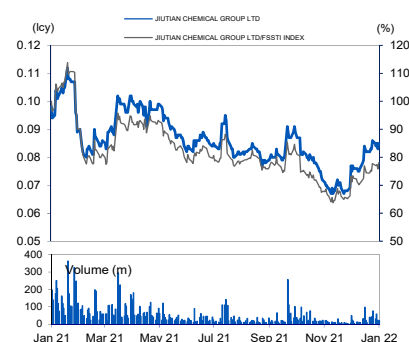
Anyang Longyu 25.3%

(Subsidiary of Henan Energy and Chemical Industry Group)

FY22 NAV/Share (Rmb) 0.57

FY22 Net Cash/Share (Rmb) 0.40

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Gross margin expansion anticipated.** Averaging 12% in 2016-19, adjusted gross margin is expected to more than double to 30.1% in 2021 and 35.6% in 2022, mainly due to higher selling prices for products. This is despite higher growth in raw material cost assumptions of 22% and 25% in 2021 and 2022 respectively, based on a conservative multiplier on the forward curve on crude oil futures.
- **4Q21 to mark positive reversal in balance sheet health.** We are expecting 4Q21 to mark the turnaround for Jiutian's balance sheet to reverse into accumulated profits from losses, which it has been in since 2009. We believe this will better position the group to pay dividends going forward. As at 9M21, accumulated losses stood at Rmb39.0m (1H21: Rmb 89.4m loss, 4Q20: Rmb199.0m loss), after Jiutian recorded a net profit of Rmb56.9m in 3Q21. Our current 2021 net profit estimate of Rmb277m implies a conservative 4Q21 net profit of Rmb59.8m, which will result in an end-21 accumulated profit of Rmb20.8m.
- **Solid FCF generation.** Along with the strong operating leverage that will catapult earnings trajectory, free cash flow (FCF) generation is expected to remain strong. Our estimates suggest a rising FCF of Rmb336.2m and Rmb354.1m for 2021 and 2022 respectively. This will improve Jiutian's balance sheet significantly, with net cash increasing from Rmb110m (1.1 S cents per share) in 2020 to an estimated Rmb433m (4.3 S cents per share) in 2021 and Rmb788m (8 S cents per share) in 2022.

EARNINGS REVISION/RISK

- We have raised our 2022 and 2023 price assumptions for DMF by 40% and 33.3% to Rmb10,500/tonne and Rmb10,000/tonne respectively, based on our view that China's industrial growth can be sustained and further backed by the continued industry supply shortage.
- Accordingly, our net profit growth estimates have risen to Rmb354.5m (+27.9% yoy) and Rmb366.9m (+3.5% yoy), from the previous estimates of Rmb199.6m and Rmb207.1m respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with PE-based target price of S\$0.138**, pegged to 5x 2021F PE, or -1SD of its historical 13-year average. We believe this is conservative given the longer-than-expected time period that Jiutian's product prices have been sustained at. The stock currently trades at 3.5x and 2.4x 2021F and 2022F PE respectively.

SHARE PRICE CATALYST

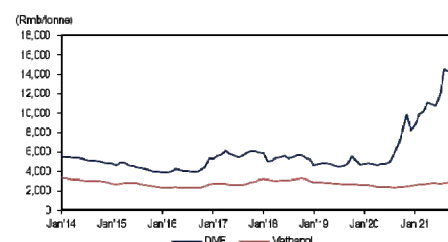
- Better-than-expected product mix.
- Higher-than-expected factory utilisation rates.
- Dividend payment upon reversal of retained losses.

PEER COMPARISON

Company	Ticker	Price 28 Jan 22 (lcy)	Market Cap. (US\$m)	PE			PB			EV/EBITDA			ROE 2021F (%)
				2020 (x)	2021F (x)	2022F (x)	Curr (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)	
Jiutian Chemical	JIUC SP	0.085	125	4.9	3.1	2.4	1.6	1.1	0.7	2.6	0.9	0.1	33.1
China Sun sine	CSSC SP	0.465	333	5.3	4.6	5.0	0.7	0.7	0.6	1.1	2.8	2.9	15.8
Shandong Hualu	300121 CH	30.32	47,233	10.1	8.8	8.5	3.1	2.8	2.2	n.a.	6.6	6.3	n.a.
Balksan Co	LXS GR	8,640	154,229	23.9	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lotte Fine Chemical	AKE FP	67,700	1,288,382	4.0	3.4	5.5	0.9	0.8	0.7	3.6	4.1	3.0	n.a.
Saudi Kayan Petrochemical	AKE FP	18.80	20,801	11.8	16.7	16.4	1.8	1.5	1.5	n.a.	8.3	7.7	n.a.
Global average				12.5	9.6	10.1	1.8	1.7	1.5	3.6	6.3	5.7	n.a.

Source: Bloomberg, UOB Kay Hian

DMF VS METHANOL PRICE



Source: CEIC Data, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	1,146.3	1,545.8	1,624.1	1,496.2
EBITDA	285.8	407.8	510.8	533.5
Deprec. & amort.	26.5	27.0	27.5	27.9
EBIT	259.4	380.8	483.4	505.7
Associate contributions	(9.5)	0.0	0.0	0.0
Net interest income/(expense)	(7.4)	(11.3)	(10.6)	(16.5)
Pre-tax profit	242.4	369.6	472.7	489.2
Tax	(69.3)	(92.4)	(118.2)	(122.3)
Minorities	0.6	0.0	0.0	0.0
Net profit	173.7	277.2	354.5	366.9
Net profit (adj.)	173.7	277.2	354.5	366.9

BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	209.5	198.2	181.4	164.1
Other LT assets	67.2	75.8	74.7	73.6
Cash/ST investment	454.1	834.3	1,539.1	2,060.5
Other current assets	704.1	806.1	871.3	834.0
Total assets	1,434.8	1,914.3	2,666.4	3,132.2
ST debt	344.3	401.4	751.5	892.9
Other current liabilities	562.5	722.4	769.2	726.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	5.1	4.1	4.9	5.1
Shareholders' equity	524.7	788.2	1,142.7	1,509.6
Minority interest	(1.9)	(1.9)	(1.9)	(1.9)
Total liabilities & equity	1,434.8	1,914.3	2,666.4	3,132.2

CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	124.1	351.2	364.1	389.3
Pre-tax profit	242.4	369.6	472.7	489.2
Tax	(23.5)	(90.9)	(103.3)	(119.2)
Deprec. & amort.	25.8	26.3	26.8	27.2
Working capital changes	(123.9)	46.2	(32.1)	(7.9)
Non-cash items	3.2	0.0	0.0	0.0
Investing	(13.3)	(14.4)	(9.4)	(9.4)
Capex (growth)	(8.7)	(15.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(4.6)	0.6	0.6	0.6
Financing	11.4	45.9	339.4	125.0
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	48.8	0.0	0.0	0.0
Loan repayment	(99.8)	57.1	350.0	141.4
Others/interest paid	62.3	(11.3)	(10.6)	(16.5)
Net cash inflow (outflow)	122.2	382.7	694.1	505.0
Beginning cash & cash equivalent	400.8	454.1	834.3	1,539.1
Changes due to forex impact	(69.0)	(2.5)	10.6	16.5
Ending cash & cash equivalent	454.1	834.3	1,539.1	2,060.5

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	24.9	26.4	31.5	35.7
Pre-tax margin	21.1	23.9	29.1	32.7
Net margin	15.2	17.9	21.8	24.5
ROA	13.2	16.6	15.5	12.7
ROE	42.0	42.2	36.7	27.7
Growth				
Turnover	8.7	34.9	5.1	(7.9)
EBITDA	n.a.	42.7	25.3	4.4
Pre-tax profit	n.a.	52.5	27.9	3.5
Net profit	n.a.	59.6	27.9	3.5
Net profit (adj.)	n.a.	59.6	27.9	3.5
EPS	n.a.	59.6	27.9	3.5
Leverage				
Debt to total capital	39.7	33.8	39.7	37.2
Debt to equity	65.6	50.9	65.8	59.1
Net debt/(cash) to equity	(20.9)	(54.9)	(68.9)	(77.3)

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