

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

27 Jul 2022

H: BUY

Last Traded Price (26 Jul 2022): HK\$74.35 (HSI : 20,906)
Price Target 12-mth: HK\$110 (47.9% upside)

A: BUY

Last Traded Price (26 Jul 2022): RMB93.79 (CSI300 Index : 4,246)
Price Target 12-mth: RMB125 (33.3% upside)

Analyst

Duncan Chan +852 36684178 duncanchan@dbs.com

What's New

- Preview 1H22 earnings to increase at least 408% y-o-y
- 2H sales volume could possibly beat our target
- Self-sufficiency in mine supply to benefit product GP
- Revised up earnings on better GP assumptions and maintain BUY at TP HK\$110

Robust growth momentum remains

Investment Thesis

GPM outlook. Ganfeng has alerted the market about its robust 1H22 earnings on the back of strong GPM expansion. We believe the company's GPM would sustain at an estimated >50% these two years, as the prices stand at the historically high level and from benefits from its improved self-sufficiency in mine supply. Our earnings estimate represents a CAGR of 78% during 2021-2023.

Possibility of lithium product sales volume beating target. Overall lithium metal and compound product sales have recovered since late June after the China lockdowns. Although sales volumes in the first six months would be below the figures for the same period last year, we reckon that going forward, the improved sales momentum would bring the monthly sales volume to an excess of 12,000 tones, translating to a total of >102,000 tonnes for the full year.

Incremental benefits from mining project developments. The clay project in Mexico and brine mines in Argentina under development are progressing well. In addition, the lepidolite mines in Inner Mongolia and Jiangxi and salt lake resources in Qinghai will bode well for Ganfeng's mid-term growth.

Valuation:

Our H-share TP of HK\$110 represents a target of 5.0x FY22F PB, relative to the average level during 2018 and 2022. Our A-share TP of RMB125 is based on a 7.0x PB, in line with domestic peers.

Where we differ:

Our earnings CAGR (2021-2023) is above the consensus, in anticipation of GFL's GP continuing to outperform that of industry peers.

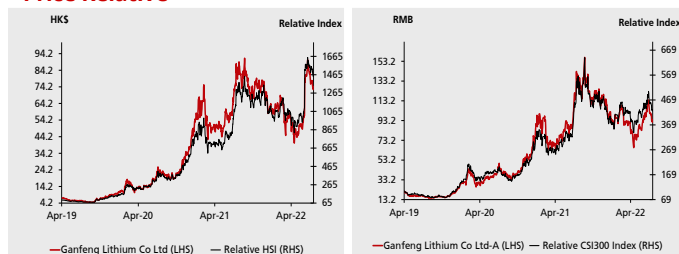
Key Risks to Our View:

Unexpected market supply expansion or collapse in demand and price regulation may affect our assumptions.

At A Glance

| | |
|--|------------------|
| Issued Capital - H shares (m shs) | 404 |
| - Non H shrs (m shs) | 1,612 |
| H shs as a % of Total | 20 |
| Total Mkt Cap (HK\$/US\$m) | 205,496 / 26,180 |
| Major Shareholders (%) | |
| Li (Liang Bin) | 23.5 |
| Wang (Xiao Shen) | 8.8 |
| Major H Shareholders (As % of H shares) | |
| Samsung Asset Mgt Co., Ltd. | 12.4 |
| Yinhua Fund Management Co., Ltd. | 6.6 |
| H Shares-Free Float (%) | 81.0 |
| 3m Avg. Daily Val. (US\$m) | 56.66 |
| GICS Industry: Materials / Metals & Mining | |

Price Relative



Forecasts and Valuation (H Shares)

| FY Dec (RMBm) | 2020A | 2021A | 2022F | 2023F |
|-----------------------------|-------|--------|--------|--------|
| Turnover | 5,489 | 11,043 | 34,769 | 44,057 |
| EBITDA | 1,673 | 6,420 | 18,923 | 21,653 |
| Pre-tax Profit | 1,128 | 5,771 | 17,797 | 20,228 |
| Net Profit | 1,025 | 5,226 | 15,718 | 16,732 |
| Net Profit Gth (Pre-ex) (%) | 184.2 | 409.7 | 200.8 | 6.5 |
| EPS (RMB) | 0.76 | 3.69 | 7.81 | 8.31 |
| EPS (HK\$) | 0.88 | 4.28 | 9.06 | 9.65 |
| EPS Gth (%) | 171.3 | 386.7 | 111.9 | 6.5 |
| Diluted EPS (HK\$) | 0.88 | 4.28 | 9.06 | 9.65 |
| DPS (HK\$) | 0.35 | 0.35 | 0.75 | 0.80 |
| BV Per Share (HK\$) | 9.18 | 17.92 | 20.94 | 29.79 |
| PE (X) | 84.6 | 17.4 | 8.2 | 7.7 |
| P/Cash Flow (X) | 116.2 | 34.7 | 11.0 | 7.9 |
| P/Free CF (X) | nm | nm | 72.9 | 12.4 |
| EV/EBITDA (X) | 55.8 | 14.8 | 7.1 | 5.8 |
| Net Div Yield (%) | 0.5 | 0.5 | 1.0 | 1.1 |
| P/Book Value (X) | 8.1 | 4.1 | 3.6 | 2.5 |
| Net Debt/Equity (X) | 0.3 | 0.0 | CASH | CASH |
| ROAE (%) | 10.8 | 32.1 | 54.0 | 38.0 |
| Earnings Rev (%) | | | 26 | 16 |
| Consensus EPS (RMB) | | | 6.74 | 7.11 |
| 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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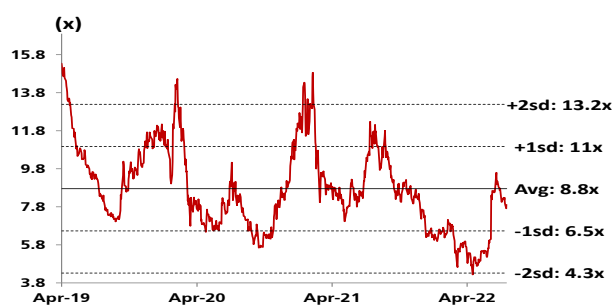
Ganfeng Lithium Co Ltd

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 2021, the company's sales volume of lithium products was 90,718 tonnes, based on lithium carbonate equivalent (LCE) tonnes. Its shares are dual listed on the Hong Kong Stock Exchange (October 2018) and Shenzhen Stock Exchange (August 2010).

Historical PE and PB band

Forward PE band (x)



PB band (x)



Ganfeng Lithium Co Ltd

Key Assumptions

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|---|----------|----------|----------|-----------|-----------|
| Sales volume for lithium metal and compound (LCE tonne) | 45,586.5 | 63,013.0 | 89,742.0 | 102,240.0 | 141,480.0 |
| ASP for lithium metal and compound (Rmb/tonne) | 94,036.2 | 61,160.2 | 91,747.8 | 330,292.0 | 297,262.8 |
| GPM for lithium metal and compound (%) | 23.6 | 21.2 | 39.6 | 51.3 | 49.0 |

Source: Company, DBS HK

Segmental Breakdown (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|---------------------------------|--------------|--------------|---------------|---------------|---------------|
| Revenues (RMB m) | | | | | |
| Lithium metal and compound | 4,152 | 3,854 | 8,323 | 33,769 | 42,057 |
| Lithium battery and others | 1,095 | 1,635 | 2,720 | 1,000 | 2,000 |
| Total | 5,246 | 5,489 | 11,043 | 34,769 | 44,057 |
| Gross profit (RMB m) | | | | | |
| Lithium metal and compound | 1,092 | 890 | 3,954 | 17,560 | 21,028 |
| Lithium battery and others | 147 | 273 | 422 | 270 | 540 |
| Total | 1,239 | 1,163 | 4,376 | 17,830 | 21,568 |
| Gross profit margins (%) | | | | | |
| Lithium metal and compound | 26.3 | 23.1 | 47.5 | 52.0 | 50.0 |
| Lithium battery and others | 13.4 | 16.7 | 15.5 | 27.0 | 27.0 |
| Total | 23.6 | 21.2 | 39.6 | 51.3 | 49.0 |

Source: Company, DBS HK

Ganfeng Lithium Co Ltd

Income Statement (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|----------------------------|--------------|--------------|--------------|---------------|---------------|
| Revenue | 5,246 | 5,489 | 11,043 | 34,769 | 44,057 |
| Cost of Goods Sold | (4,009) | (4,327) | (6,686) | (16,939) | (22,488) |
| Gross Profit | 1,238 | 1,162 | 4,357 | 17,830 | 21,568 |
| Other Opg (Exp)/Inc | (432) | (377) | (902) | (2,840) | (3,598) |
| Operating Profit | 806 | 785 | 3,455 | 14,990 | 17,970 |
| Other Non Opg (Exp)/Inc | (277) | 601 | 2,519 | 1,000 | 500 |
| Associates & JV Inc | 153 | 8 | 62 | 2,000 | 2,000 |
| Net Interest (Exp)/Inc | (205) | (266) | (265) | (193) | (242) |
| Dividend Income | 0 | 0 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 477 | 1,128 | 5,771 | 17,797 | 20,228 |
| Tax | (121) | (64) | (357) | (1,424) | (2,427) |
| Minority Interest | 5 | (39) | (188) | (655) | (1,068) |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 361 | 1,025 | 5,226 | 15,718 | 16,732 |
| Net Profit before Except. | 361 | 1,025 | 5,226 | 15,718 | 16,732 |
| EBITDA | 916 | 1,673 | 6,420 | 18,923 | 21,653 |
| Growth | | | | | |
| Revenue Gth (%) | 7.3 | 4.6 | 101.2 | 214.9 | 26.7 |
| EBITDA Gth (%) | (47.1) | 82.6 | 283.7 | 194.8 | 14.4 |
| Opg Profit Gth (%) | (38.5) | (2.6) | 340.1 | 333.9 | 19.9 |
| Net Profit Gth (%) | (73.0) | 184.2 | 409.7 | 200.8 | 6.5 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 23.6 | 21.2 | 39.5 | 51.3 | 49.0 |
| Opg Profit Margin (%) | 15.4 | 14.3 | 31.3 | 43.1 | 40.8 |
| Net Profit Margin (%) | 6.9 | 18.7 | 47.3 | 45.2 | 38.0 |
| ROAE (%) | 4.4 | 10.8 | 32.1 | 54.0 | 38.0 |
| ROA (%) | 2.6 | 5.7 | 17.1 | 31.8 | 24.4 |
| ROCE (%) | 5.0 | 4.5 | 12.1 | 32.0 | 26.0 |
| Div Payout Ratio (%) | 107.5 | 39.7 | 8.3 | 8.3 | 8.3 |
| Net Interest Cover (x) | 3.9 | 3.0 | 13.0 | 77.6 | 74.2 |

Source: Company, DBS HK

Ganfeng Lithium Co Ltd

Balance Sheet (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Fixed Assets | 3,008 | 6,102 | 8,903 | 17,970 | 22,787 |
| Invt in Associates & JVs | 3,680 | 1,636 | 4,087 | 4,087 | 4,087 |
| Other LT Assets | 1,809 | 5,507 | 11,440 | 11,440 | 11,440 |
| Cash & ST Invt | 1,700 | 2,176 | 6,332 | 10,803 | 19,812 |
| Inventory | 2,334 | 2,215 | 3,283 | 6,965 | 9,247 |
| Debtors | 1,159 | 1,878 | 3,624 | 7,191 | 8,811 |
| Other Current Assets | 525 | 2,507 | 1,387 | 1,387 | 1,387 |
| Total Assets | 14,213 | 22,020 | 39,057 | 59,844 | 77,571 |
| ST Debt | 1,969 | 2,288 | 2,709 | 4,410 | 4,410 |
| Creditors | 559 | 870 | 2,280 | 3,991 | 5,298 |
| Other Current Liab | 731 | 919 | 3,220 | 3,220 | 3,220 |
| LT Debt | 2,219 | 3,816 | 3,659 | 5,957 | 5,957 |
| Other LT Liabilities | 324 | 708 | 1,022 | 1,022 | 1,022 |
| Shareholder's Equity | 8,355 | 10,706 | 21,894 | 36,315 | 51,667 |
| Minority Interests | 55 | 2,713 | 4,273 | 4,928 | 5,996 |
| Total Cap. & Liab. | 14,213 | 22,020 | 39,057 | 59,844 | 77,571 |
| Non-Cash Wkg. Capital | 2,727 | 4,809 | 2,794 | 8,333 | 10,927 |
| Net Cash/(Debt) | (2,488) | (3,929) | (35) | 435 | 9,444 |
| 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 | 0.7 | 0.6 |
| Current Ratio (x) | 1.8 | 2.2 | 1.8 | 2.3 | 3.0 |
| Quick Ratio (x) | 0.9 | 1.0 | 1.2 | 1.5 | 2.2 |
| Net Debt/Equity (X) | 0.3 | 0.3 | 0.0 | CASH | CASH |
| Net Debt/Equity ex MI (X) | 0.3 | 0.4 | 0.0 | CASH | CASH |
| Capex to Debt (%) | 18.1 | 18.8 | 47.7 | 96.5 | 57.9 |
| Z-Score (X) | NA | NA | NA | NA | NA |

Source: Company, DBS HK

Cash Flow Statement (RMB m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|--------------------------------|----------------|----------------|----------------|-----------------|----------------|
| Pre-Tax Profit | 477 | 1,128 | 5,771 | 17,797 | 20,228 |
| Dep. & Amort. | 234 | 279 | 384 | 933 | 1,183 |
| Tax Paid | (337) | 9 | (410) | (1,617) | (2,669) |
| Assoc. & JV Inc/(loss) | (212) | (81) | (124) | (2,000) | (2,000) |
| (Pft)/ Loss on disposal of FAs | 0 | 0 | 0 | 0 | 0 |
| Chg in Wkg.Cap. | (163) | (197) | (1,221) | (5,538) | (2,594) |
| Other Operating CF | 670 | (392) | (1,780) | 2,193 | 2,242 |
| Net Operating CF | 669 | 746 | 2,620 | 11,768 | 16,390 |
| Capital Exp.(net) | (758) | (1,149) | (3,039) | (10,000) | (6,000) |
| Other Invt.(net) | 434 | 1,001 | 1,107 | 0 | 0 |
| Invt in Assoc. & JV | (1,044) | (3,137) | (1,354) | 0 | 0 |
| Div from Assoc & JV | 0 | 0 | 0 | 0 | 0 |
| Other Investing CF | (1,454) | (670) | (2,890) | 0 | 0 |
| Net Investing CF | (2,823) | (3,955) | (6,176) | (10,000) | (6,000) |
| Div Paid | (388) | (388) | (417) | (1,297) | (1,381) |
| Chg in Gross Debt | 1,322 | 2,643 | 2,346 | 4,000 | 0 |
| Capital Issues | 0 | 0 | 0 | 0 | 0 |
| Other Financing CF | (693) | 1,389 | 5,202 | 0 | 0 |
| Net Financing CF | 241 | 3,645 | 7,131 | 2,703 | (1,381) |
| Currency Adjustments | 0 | 0 | 0 | 0 | 0 |
| Chg in Cash | (1,913) | 436 | 3,575 | 4,471 | 9,009 |
| Opg CFPS (RMB) | 0.64 | 0.70 | 2.71 | 8.60 | 9.43 |
| Free CFPS (RMB) | (0.07) | (0.30) | (0.30) | 0.88 | 5.16 |

Source: Company, DBS HK

Ganfeng Lithium Co Ltd

H Share - Target Price & Ratings History

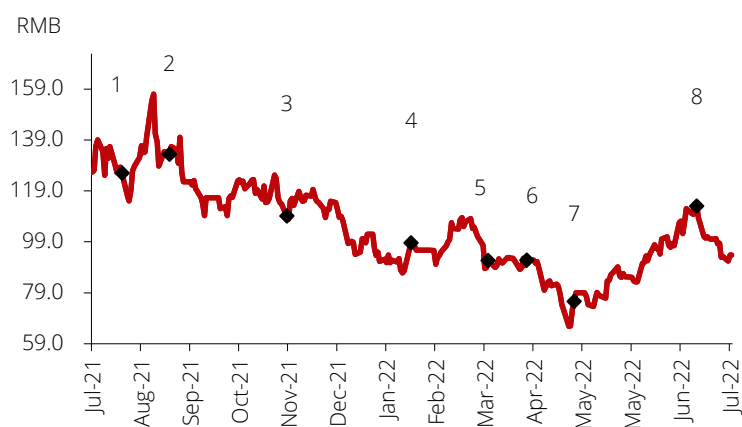


| S.No. | Date | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1: | 13-Aug-21 | HK\$161.00 | HK\$185.00 | Buy |
| 2: | 9-Sep-21 | HK\$158.10 | HK\$220 | Buy |
| 3: | 15-Nov-21 | HK\$142.00 | HK\$230.00 | Buy |
| 4: | 25-Jan-22 | HK\$125.10 | HK\$230.00 | Buy |
| 5: | 10-Mar-22 | HK\$103.70 | HK\$230.00 | Buy |
| 6: | 1-Apr-22 | HK\$112.00 | HK\$230.00 | Buy |
| 7: | 28-Apr-22 | HK\$92.25 | HK\$150.00 | Buy |
| 8: | 23-Jun-22 | HK\$80.55 | HK\$107.00 | Buy |
| 9: | 7-Jul-22 | HK\$82.85 | HK\$110.00 | Buy |

Source: DBS HK

Analyst: Duncan Chan

A Share - Target Price & Ratings History



| S.No. | Date | Closing Price | 12-mth Target Price | Rating |
|-------|-----------|---------------|---------------------|--------|
| 1: | 13-Aug-21 | RMB179.86 | RMB200.00 | Buy |
| 2: | 9-Sep-21 | RMB185.66 | RMB230 | Buy |
| 3: | 15-Nov-21 | RMB159.31 | RMB230.00 | Buy |
| 4: | 25-Jan-22 | RMB134.87 | RMB230.00 | Buy |
| 5: | 10-Mar-22 | RMB124.38 | RMB230.00 | Buy |
| 6: | 1-Apr-22 | RMB125.65 | RMB230.00 | Buy |
| 7: | 28-Apr-22 | RMB101.46 | RMB160.00 | Buy |
| 8: | 7-Jul-22 | RMB114.01 | RMB125.00 | Buy |

Source: DBS HK

Analyst: Duncan Chan

Ganfeng Lithium Co Ltd

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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

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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Ganfeng Lithium Co Ltd

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand