

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

7 Jul 2022

H: BUY

Last Traded Price (6 Jul 2022):HK\$82.85(HSI : 21,587)
Price Target 12-mth: HK\$110 (32.8% upside) (Prev HK\$107)

A: BUY

Last Traded Price (6 Jul 2022):RMB114.01(CSI300 Index : 4,424)
Price Target 12-mth: RMB125 (9.6% upside) (Prev RMB114)

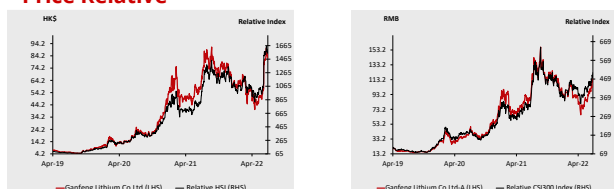
Analyst

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What's New

- 2H sales volume could possibly beat our target
- Self-sufficiency in mine supply to benefit product GP
- Revised up earnings on higher lithium GP assumptions
- Maintain BUY and valuation multiple unchanged at P/B of 5.5x, raised TP to HK\$110 (HK\$107 prior)

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	5,489	11,043	29,141	37,047
EBITDA	1,673	6,420	15,893	18,560
Pre-tax Profit	1,128	5,771	14,767	17,135
Net Profit	1,025	5,226	12,475	14,475
Net Pft (Pre Ex) (core profit)	1,025	5,226	12,475	14,475
Net Profit Gth (Pre-ex) (%)	184.2	409.7	138.7	16.0
EPS (RMB)	0.76	3.69	6.20	7.19
EPS (HK\$)	0.89	4.31	7.25	8.41
EPS Gth (%)	171.3	386.7	68.2	16.0
Diluted EPS (HK\$)	0.89	4.31	7.25	8.41
DPS (HK\$)	0.35	0.36	0.60	0.69
BV Per Share (HK\$)	9.25	18.06	19.38	27.10
PE (X)	93.5	19.2	11.4	9.8
P/Cash Flow (X)	128.5	38.3	14.6	10.2
P/Free CF (X)	nm	nm	nm	17.7
EV/EBITDA (X)	61.3	16.3	9.4	7.7
Net Div Yield (%)	0.4	0.4	0.7	0.8
P/Book Value (X)	9.0	4.6	4.3	3.1
Net Debt/Equity (%)	0.3	0.0	0.0	CASH
ROAE (%)	10.8	32.1	45.2	36.2
Earnings Rev (%)			20	2
Consensus EPS (RMB)			6.59	7.03
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

Sales momentum is picking up

Investment Thesis

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 >12,000 tonnes, translating into a total of >102,000 tonnes for the full year in 2022.

GP outlook. In view of the lithium product price recovery since late May, Ganfeng's GPM would benefit by an estimated >49% this year as the prices stand at the record high level and on benefit from its improved self-sufficiency in the mine supply. Our latest earnings estimate represents a CAGR of 66% during 2021-2023.

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 is based on 5.5x FY22F PB, representing the average level during 2018 and 2022. Our A-share TP of RMB125 is based on a 7.5x PB, in line with domestic peers.

Where we differ:

Our earnings CAGR (2021-2023) is above the consensus, in anticipation of GFL's GP could continue to outperform 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\$m/US\$m)	248,457 / 31,662
Major Shareholders (%)	
Li (Liang Bin)	23.5
Wang (Xiao Shen)	8.8
Major H Shareholders (As % of H shares)	
Samsung Asset Management Co., Ltd.	12.4
Yinhua Fund Management Co., Ltd.	6.6
H Shares-Free Float (%)	81.0
3m Avg. Daily Val. (US\$m)	60.60
GICS Industry: Materials / Metals & Mining	



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Ganfeng Lithium Co Ltd

WHAT'S NEW

Key takeaways from our group investor call

We hosted a group call with the company and have summarised the below top discussed questions.

Question 1: Could you discuss the supply-demand outlook of the lithium market between 2H2022 and 2025? And where would the lithium price head to?

Answer: The lithium market would remain undersupplied in 2022. Based on the industry's new project pipeline, we foresee supply increasing from 2023 onwards. But considering the project delays and that inventory needs to be retained at each stage along the supply chain, overall, the market is expected to largely remain in balance. Having said so, the lithium price would still see a correction due to the spodumene price weakness amid rising market supply.

Question 2: What is the outlook for China solid state battery ("SSB") development in the next three years? How would it impact the company's revenue contribution?

Answer: Ganfeng developed 3GW of SSB capacity by end-2021, and its SSB Gen-2 will be ready to launch in 2023 and 2024. This version has an advantage over Gen-1 in terms of material cost reduction and better product safety. Planned capacity would reach 10GW/20GW in 2022/2023, up from 3GW in 2021. SSB's revenue would be reflected in the lithium battery and storage product segments, and the company's capacity expansion would provide a strong volume growth driver.

Question 3: What is your core competitive edge, as compared to other industry peers, in terms of automation of spodumene mining production?

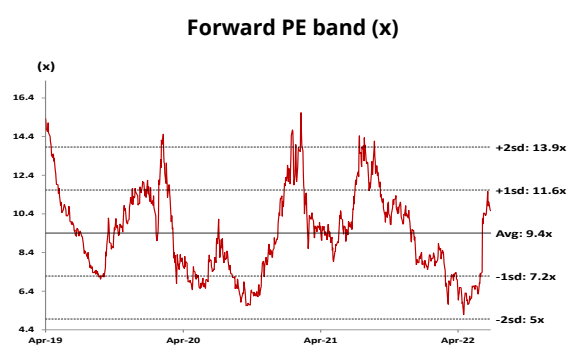
Answer: Ganfeng's current mining production is well optimised. Apart from the production efficiency upgrade, management's focus is on the development of salt lake mines in recent years. For example, direct lithium extraction could shorten the project construction cycle and upgrade the recovery rate to 80% (from 40%), the best ever in the industry. Hence, the improvements in clay and brine output could bring a significant benefit by lowering the overall production cost of its lithium products.

Our view and earnings revision. Ganfeng is aiming to build a full supply chain to enhance its leading industry position, whereas the company's overall development plan is well progressing. We have revised up our FY22F/FY23F earnings estimate by 25%/5% in view of the sales momentum picking up amid a firm lithium market environment going into 2H. In all, we maintain our BUY rating and revised up our target price to HK\$110 (HK\$107 prior).

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



Source: Thomson Reuters, DBS HK

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	275,243.3	247,719.0
GPM for lithium metal and compound (%)	23.6	21.2	39.6	49.2	47.0

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	28,141	35,047
Lithium battery and others	1,095	1,635	2,720	1,000	2,000
Total	5,246	5,489	11,043	29,141	37,047
Gross profit (RMB m)					
Lithium metal and compound	1,092	890	3,954	14,070	16,823
Lithium battery and others	147	273	422	270	580
Total	1,239	1,163	4,376	14,340	17,403
Gross profit margins (%)					
Lithium metal and compound	26.3	23.1	47.5	50.0	48.0
Lithium battery and others	13.4	16.7	15.5	27.0	29.0
Total	23.6	21.2	39.6	49.2	47.0

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	29,141	37,047
Cost of Goods Sold	(4,009)	(4,327)	(6,686)	(14,801)	(19,645)
Gross Profit	1,238	1,162	4,357	14,340	17,403
Other Opng (Exp)/Inc	(432)	(377)	(902)	(2,380)	(3,026)
Operating Profit	806	785	3,455	11,960	14,377
Other Non Opg (Exp)/Inc	(277)	601	2,519	1,000	1,000
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	14,767	17,135
Tax	(121)	(64)	(357)	(1,772)	(2,056)
Minority Interest	5	(39)	(188)	(520)	(603)
Preference Dividend	0	0	0	0	0
Net Profit	361	1,025	5,226	12,475	14,475
Net Profit before Except.	361	1,025	5,226	12,475	14,475
EBITDA	916	1,673	6,420	15,893	18,560
Growth					
Revenue Gth (%)	7.3	4.6	101.2	163.9	27.1
EBITDA Gth (%)	(47.1)	82.6	283.7	147.6	16.8
Opg Profit Gth (%)	(38.5)	(2.6)	340.1	246.2	20.2
Net Profit Gth (%)	(73.0)	184.2	409.7	138.7	16.0
Margins & Ratio					
Gross Margins (%)	23.6	21.2	39.5	49.2	47.0
Opg Profit Margin (%)	15.4	14.3	31.3	41.0	38.8
Net Profit Margin (%)	6.9	18.7	47.3	42.8	39.1
ROAE (%)	4.4	10.8	32.1	45.2	36.2
ROA (%)	2.6	5.7	17.1	26.2	22.7
ROCE (%)	5.0	4.5	12.1	25.3	22.4
Div Payout Ratio (%)	107.5	39.7	8.3	8.3	8.3
Net Interest Cover (x)	3.9	3.0	13.0	61.9	59.4

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	9,049	15,887
Inventory	2,334	2,215	3,283	6,086	8,077
Debtors	1,159	1,878	3,624	6,210	7,589
Other Current Assets	525	2,507	1,387	1,387	1,387
Total Assets	14,213	22,020	39,057	56,229	71,255
ST Debt	1,969	2,288	2,709	4,410	4,410
Creditors	559	870	2,280	3,487	4,628
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	33,339	46,620
Minority Interests	55	2,713	4,273	4,793	5,396
Total Cap. & Liab.	14,213	22,020	39,057	56,229	71,255
Non-Cash Wkg. Capital	2,727	4,809	2,794	6,976	9,205
Net Cash/(Debt)	(2,488)	(3,929)	(35)	(1,318)	5,520
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	0.6	0.6
Current Ratio (x)	1.8	2.2	1.8	2.0	2.7
Quick Ratio (x)	0.9	1.0	1.2	1.4	1.9
Net Debt/Equity (X)	0.3	0.3	0.0	0.0	CASH
Net Debt/Equity ex MI (X)	0.3	0.4	0.0	0.0	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	14,767	17,135
Dep. & Amort.	234	279	384	933	1,183
Tax Paid	(337)	9	(410)	(1,965)	(2,298)
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)	(4,181)	(2,229)
Other Operating CF	670	(392)	(1,780)	2,193	2,242
Net Operating CF	669	746	2,620	9,747	14,032
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)	(1,029)	(1,195)
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	2,971	(1,195)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,913)	436	3,575	2,717	6,838
Opg CFPS (RMB)	0.64	0.70	2.71	6.92	8.08
Free CFPS (RMB)	(0.07)	(0.30)	(0.30)	(0.13)	3.99

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

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

Remark: Bonus share 4 for 10 issued on June 2022, both H and A share previous TP has been adjusted (H share from HK\$150 to HK\$107 and A: share from RMB160 to RMB114)

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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