

CNGR Advanced Material Co Ltd

Bloomberg: 300919 CH Equity | Reuters: 300919.SZ

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DBS Group Research . Equity

24 Jan 2024

BUY

Last Traded Price (23 Jan 2024): RMB47.80 (CSI300 Index : 3,232)

Price Target 12-mth: RMB68.00 (42% upside) (Prev RMB73.00)

Analyst

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What's New

- Slower 4Q23 market dragging full-year results; ternary precursor sales still major revenue contributor
- Overseas precursor projects support sales CAGR (2023-2025) of >20%; expect rising self-supply of nickel to boost overall margin
- Revised down FY23F/FY24F earnings estimates by 8%/18% on slower capacity expansion and sales assumptions
- Maintain BUY at our target multiple of 10x FY24F EV/EBITDA and TP RMB68; its overseas projects to be catalysts

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	30,344	33,615	43,746	50,726
EBITDA	2,725	3,807	5,322	6,374
Pre-tax Profit	1,687	1,817	2,750	3,301
Net Profit	1,544	1,650	2,469	2,964
Net Profit Gth (Pre-ex) (%)	64.4	6.9	49.7	20.0
EPS (RMB)	2.30	2.46	3.68	4.42
EPS Gth (%)	48.5	6.9	49.7	20.0
Diluted EPS (RMB)	2.30	2.46	3.68	4.42
DPS (RMB)	0.26	0.28	0.41	0.50
BV Per Share (RMB)	24.64	26.82	30.09	34.02
PE (X)	20.8	19.4	13.0	10.8
P/Cash Flow (X)	nm	5.0	5.0	7.0
P/Free CF (X)	nm	nm	72.3	nm
EV/EBITDA (X)	14.5	11.4	8.1	7.0
Net Div Yield (%)	0.5	0.6	0.9	1.0
P/Book Value (X)	1.9	1.8	1.6	1.4
Net Debt/Equity (X)	0.2	0.3	0.3	0.3
ROAE (%)	11.7	9.6	12.9	13.8
Earnings Rev (%)		(18)	(25)	New
Consensus EPS (RMB)		2.97	4.09	5.29
Other Broker Recs:		B:16	S:0	H:0

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

Constructive outlook amid overseas projects' progress

Investment Thesis

The largest precursor supplier in China, poised for further market share gains. CNGR will boost its production capacity by a 35% CAGR through to 2026, both in China and overseas. We estimate this will drive the company's global market share to 30% in 2026 from 27% in 2022, with a focus on the higher end market.

Solid top and bottom-line growth profile, backed by capacity expansion and upstream investment.

We expect CNGR to deliver an above-market precursor sales volume CAGR of >20% and revenue CAGR of c.22% during 2023-2025 following its capacity expansion and onboarding of new clients. It has increased its self-supply of nickel to over 60%, driving a margin expansion and earnings CAGR of 34% by 2025, which is more bullish than its peers.

Rapidly capturing new market opportunities.

CNGR is the first to cover all four sub-market segments (i.e., Ni, Co, Li, and Na), underpinned by its strong R&D capabilities. We believe CNGR's quick response in providing a broad range of products catering to consumers' changing requirements, would drive its long-term outperformance.

BUY; TP RMB68 (previously: RMB73). CNGR is trading at only 8.0x FY24F EV/EBITDA on concerns of a slowdown versus >17x when it was listed. We see room for a re-rating as its capacity expansion and overseas project development accelerate. Our TP of RMB68 is pegged on par with its peers and justified by its growth prospects, at 10x FY24F EV/EBITDA.

Key Risks

Unexpected new market supply and competition, slowing demand, new restrictions, and trade barriers would affect our assumptions.

At A Glance

Issued Capital (m shrs)	667
Mkt Cap (RMBm/US\$m)	31,883 / 4,445
Major Shareholders (%)	
Hunan CNGR Holding Group Co., Ltd.	51.4
Free Float (%)	48.6
3m Avg. Daily Val. (US\$m)	22.8
GICS Industry: Materials / Metals & Mining	

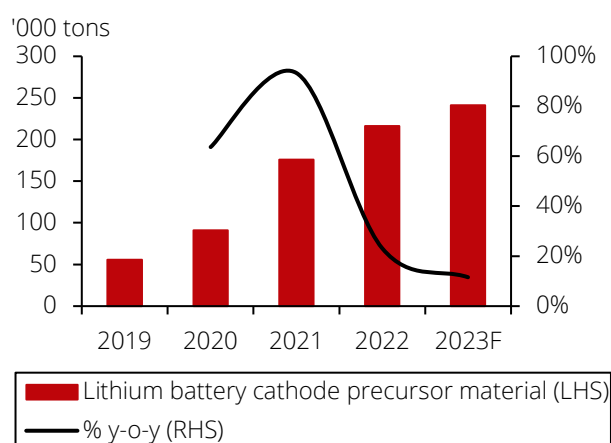
CNGR Advanced Material Co Ltd

WHAT'S NEW

4Q23 slowdown won't change above-market growth prospects

Constructively optimistic. We have formed a constructively optimistic view after our call with the company, where it updated us on its 4Q23 operating performance. We gauged that the company's sales of lithium battery cathode precursor material growth rate would reach a low double digit in 2023, despite the market experiencing a slight slowdown in 4Q23. Its overall growth could remain above its peers' average, in our view. CNGR would disclose more details on its operating data upon approaching the annual results briefing.

CNGR's lithium battery cathode precursor material sales



Source: DBS HK

Increasing high-end product sales. From our observations, ternary precursor remains the company's main revenue contributor, with its high-spec Ni90 product sales growing 30% y-o-y and accounting for over 35% of total revenue for the full year 2023. More importantly, given that the selling price of its overseas customers have locked in under term contract arrangement, which represents over two-thirds of its total sales, we expect the company's revenue mixture could support a steady improvement in its margin outlook.

Solid new projects pipeline. Going forward, we think CNGR's capacity utilisation could further increase in 2024 in anticipation of the gradual recovery of downstream production. At the same time, CNGR would have new precursor capacity of 60,000 tonnes coming onstream in each of the next two years, bringing the total

capacity to 440,000 tonnes by 2025. We estimate these new projects will lead to sales volume growth of >20% CAGR during 2023-2025.

Raising self-supply of nickel. In the meantime, we believe CNGR's quick responses to new market trends should enable a smooth execution of its projects. In addition to the local market being the main focus of its development plans, Indonesia is also on the cards. It announced that it is co-investing in a nickel refining joint venture with POSCO Future M, which could diversify its input material sources – it aims to reach 50%/60% of self-supply of nickel by 2025/2026 respectively – and give rise to new development opportunities.

Improving free cashflow. Based on our preliminary calculation of a capex budget of RMB6bn p.a. in the next two years, the company's net gearing ratio is likely to remain steady at the 30%-34% level towards 2025. As the commencement of production in new projects would enhance its cash flow, we believe CNGR could strike a good balance between expansion and leverage, and thus reverse into a positive free cash-flow position in 2024.

Earnings revision. We have revised our capacity utilisation and sales assumptions to 85% for this and next year, to reflect a more prudent ramp-up of its new projects. As such, we have revised down our earnings by 8% for FY23F and 18% for FY24F. Post revision, our earnings CAGR (2023-2025) is c.34%.

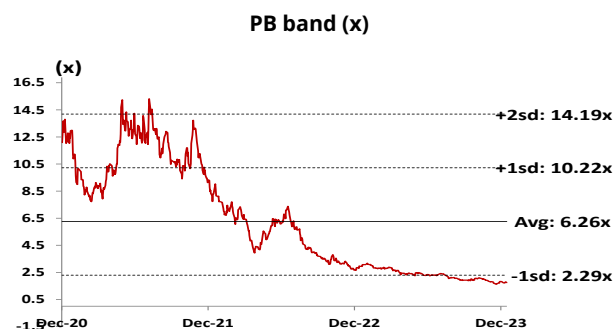
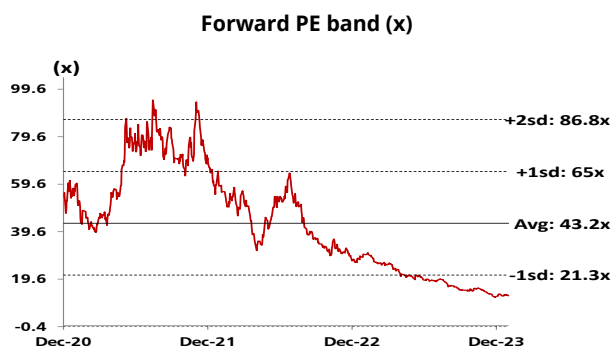
BUY and TP RMB68. We maintain BUY on the counter in view of solid growth prospects. We lowered our TP to RMB68, based on an unchanged target multiple of 10.0x FY24F EV EBITDA.

Company Background

CNGR Advanced Material Co Ltd is a China-based company primarily engaged in the research and development, production, processing, and sales of lithium battery cathode material precursors. The company's main products include ternary precursors and cobalt tetroxide. Its products are used in fields such as new energy vehicles, energy storage, and consumer electronics. The company conducts business within the domestic market and overseas markets such as South Korea.

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Sales Volume for Ternary precursor (tonne)	150,147.8	194,530.4	206,181.0	264,566.4	309,206.4
Sales Volume for Tricobalt tetroxide (tonne)	25,530.4	21,698.5	17,019.0	18,153.6	18,153.6
ASP for Ternary precursor (RMB/tonne)	102,324.6	126,600.6	139,260.6	146,223.7	147,685.9
ASP for Tricobalt tetroxide (RMB/tonne)	158,269.1	147,233.0	139,871.4	139,871.4	139,871.4
GPM for Ternary precursor (%)	12.3	12.6	13.1	14.0	14.3

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Lithium battery cathode precursor material	15,364	24,628	28,713	38,686	45,665
Tricobalt tetroxide	4,041	3,195	2,380	2,539	2,539
Other	668	2,521	2,521	2,521	2,521
Total	20,072	30,344	33,615	43,746	50,726
Gross Profit (RMB m)					
Lithium battery cathode precursor material	1,884	3,104	3,761	5,416	6,530
Tricobalt tetroxide	371	266	198	229	229
Other	2	28	30	38	38
Total	2,257	3,398	3,989	5,682	6,797
Gross Profit Margins (%)					
Lithium battery cathode precursor material	12.3	12.6	13.1	14.0	14.3
Tricobalt tetroxide	9.2	8.3	8.3	9.0	9.0
Other	0.3	1.1	1.2	1.5	1.5
Total	11.2	11.2	11.9	13.0	13.4

Source: Company, DBS HK

CNGR Advanced Material Co Ltd
Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	20,072	30,344	33,615	43,746	50,726
Cost of Goods Sold	(17,756)	(26,846)	(29,515)	(37,920)	(43,763)
Gross Profit	2,317	3,498	4,100	5,826	6,963
Other Opng (Exp)/Inc	(403)	(712)	(788)	(1,026)	(1,189)
Operating Profit	1,914	2,786	3,312	4,800	5,774
Other Non Opg (Exp)/Inc	(740)	(596)	(661)	(860)	(997)
Associates & JV Inc	0	(1)	0	0	0
Net Interest (Exp)/Inc	(106)	(502)	(834)	(1,191)	(1,476)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,068	1,687	1,817	2,750	3,301
Tax	(130)	(153)	(182)	(302)	(363)
Minority Interest	1	9	15	22	26
Preference Dividend	0	0	0	0	0
Net Profit	939	1,544	1,650	2,469	2,964
Net Profit before Except.	939	1,544	1,650	2,469	2,964
EBITDA	1,453	2,725	3,807	5,322	6,374
Growth					
Revenue Gth (%)	169.8	51.2	10.8	30.1	16.0
EBITDA Gth (%)	109.4	87.6	39.7	39.8	19.8
Opg Profit Gth (%)	148.8	45.6	18.9	45.0	20.3
Net Profit Gth (%)	123.5	64.4	6.9	49.7	20.0
Margins & Ratio					
Gross Margins (%)	11.5	11.5	12.2	13.3	13.7
Opg Profit Margin (%)	9.5	9.2	9.9	11.0	11.4
Net Profit Margin (%)	4.7	5.1	4.9	5.6	5.8
ROAE (%)	13.7	11.7	9.6	12.9	13.8
ROA (%)	4.9	3.8	2.8	3.4	3.4
ROCE (%)	14.5	8.5	6.3	7.5	7.6
Div Payout Ratio (%)	10.8	11.2	11.2	11.2	11.2
Net Interest Cover (x)	18.0	5.6	4.0	4.0	3.9

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	6,703	14,773	23,617	28,235	32,638
Invt in Associates & JVs	81	768	768	768	768
Other LT Assets	1,786	5,744	5,744	5,744	5,744
Cash & ST Invt	8,699	15,249	19,499	27,666	33,945
Inventory	4,824	9,620	7,278	8,311	9,592
Debtors	5,823	6,898	7,611	8,808	9,853
Other Current Assets	283	824	824	824	824
Total Assets	28,200	53,875	65,340	80,356	93,363
ST Debt	3,405	6,331	9,006	11,681	14,355
Creditors	10,018	8,723	10,738	15,584	17,985
Other Current Liab	895	2,536	2,536	2,536	2,536
LT Debt	2,552	12,606	17,931	23,257	28,582
Other LT Liabilities	707	3,335	3,335	3,335	3,335
Shareholder's Equity	9,832	16,522	17,987	20,180	22,812
Minority Interests	790	3,821	3,807	3,785	3,758
Total Cap. & Liab.	28,200	53,875	65,340	80,356	93,363
Non-Cash Wkg. Capital	17	6,082	2,438	(177)	(253)
Net Cash/(Debt)	2,742	(3,688)	(7,438)	(7,271)	(8,992)
Debtors Turn (avg days)	45.6	85.6	62.5	70.2	70.2
Creditors Turn (avg days)	103.0	200.4	152.0	170.8	170.8
Inventory Turn (avg days)	64.6	110.0	110.0	110.0	110.0
Asset Turnover (x)	1.1	0.7	0.6	0.6	0.6
Current Ratio (x)	1.4	1.9	1.6	1.5	1.6
Quick Ratio (x)	1.0	1.3	1.2	1.2	1.3
Net Debt/Equity (X)	CASH	0.2	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	CASH	0.2	0.4	0.4	0.4
Capex to Debt (%)	83.9	50.4	37.1	17.2	14.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

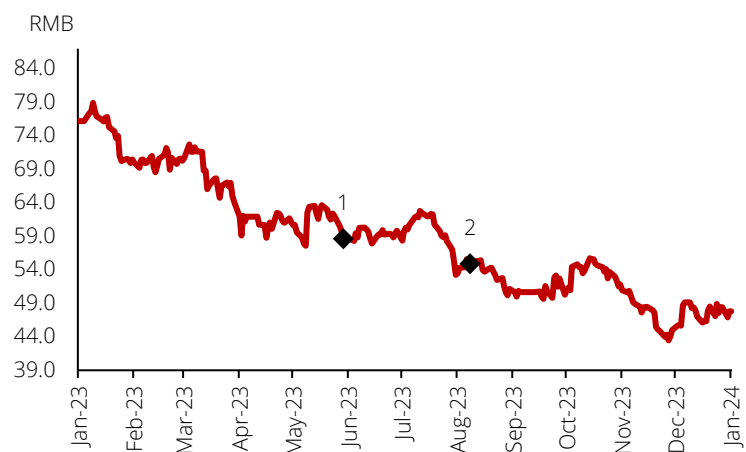
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	938	1,534	1,817	2,750	3,301
Dep. & Amort.	279	536	1,156	1,382	1,597
Tax Paid	28	70	(1,016)	(1,493)	(1,839)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(3,156)	(7,744)	3,644	2,614	76
Other Operating CF	252	650	834	1,191	1,476
Net Operating CF	(1,659)	(4,954)	6,435	6,444	4,612
Capital Exp.(net)	(4,996)	(9,541)	(10,000)	(6,000)	(6,000)
Other Invt.(net)	1	13	0	0	0
Invt in Assoc. & JV	(270)	(1,948)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	92	(300)	0	0	0
Net Investing CF	(5,171)	(11,775)	(10,000)	(6,000)	(6,000)
Div Paid	(158)	(590)	(185)	(277)	(332)
Chg in Gross Debt	10,733	25,023	8,000	8,000	8,000
Capital Issues	0	0	0	0	0
Other Financing CF	690	(1,040)	0	0	0
Net Financing CF	11,265	23,393	7,815	7,723	7,668
Currency Adjustments	0	0	0	0	0
Chg in Cash	4,434	6,664	4,250	8,167	6,279
Opg CFPS (RMB)	2.47	4.16	4.16	5.71	6.76
Free CFPS (RMB)	(10.99)	(21.61)	(5.32)	0.66	(2.07)

Source: Company, DBS HK

CNGR Advanced Material Co Ltd

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Jun-23	RMB59.88	RMB73.00	BUY
2	31-Aug-23	RMB55.30	RMB73.00	BUY

Source: DBS HK

Analyst: Duncan Chan

CNGR Advanced Material Co Ltd

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

Completed Date: 24 Jan 2024 09:15:38 (HKT)

Dissemination Date: 24 Jan 2024 10:14:27 (HKT)

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