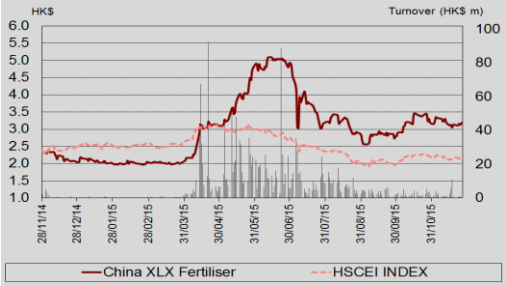
BUY **53% ⬆side**

Target Price: HK$4.91

1866 HK
Price: HK$3.20
TP Basis: 8x 2016E P/E
Sector Rating: NA

Trading Summary



(%)	YTD	1M	3M	12M
Absolute	46.8	(7.0)	9.6	34.5
Relative to HSCEI	64.6	1.0	9.7	45.0

Shares outstanding (m)	1,000
Free float (%)	36
Market cap. (HK$ m)	3,200
3M avg. daily turnover (HK$ m)	3
Net debt/equity (%) (2015E)	136
Major shareholder (%)	
Pioneer Top Holdings	36

Source: Company data, Bloomberg, BOCI Research
Closing prices are as of 27 November 2015

BOCI Research Limited
Chemicals: Fertilisers

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China XLX Fertiliser

Fast-growing cost leader

China XLX is a private coal-based urea producer. Underpinned by its technological advantage, its production cost is at the low end of the industry. Moreover, the company's product differentiation strategy enables it to achieve a higher gross margin than the industry average. We expect its EPS to increase at a 45% CAGR during 2014-17 on the low coal prices, volume growth and product mix improvements. We initiate coverage on China XLX with a *BUY* rating.

Key Factors for Rating

- China XLX applies advanced coal gasification technology at two of its five urea plants. By this technology, the much cheaper bituminous coal replaces the more expensive anthracite lump coal as feedstock. Hence, the production costs of these two plants are among the lowest in the industry.
- The sharp fall in coal prices over the last few years has boosted the company's margins. It has also further extended its cost advantage over natural gas-based peers.
- China XLX has developed several high-efficiency products, such as control-released urea and humic acid urea, which are proven to be effective in improving crop yield and are well received by the market. Its product differentiation strategy has distinguished it in the very competitive domestic urea market.
- The company expanded its distribution network significantly, with the total distribution centres tripling from 10,000 to 30,000 over the last two years. In addition, it started to sell its products on Taobao in July 2015. By far, the sales from the e-commence channel account for 2% of its sales volume of urea in November 2015.
- Its urea plant in Xinjiang commenced commercial operation in October 2015 and will make a full-year contribution in 2016. A compound fertiliser plant will also start production in 2016. With the expected contributions from these new plants, we expect its EPS to increase at a 45% CAGR during 2014-17.

Key Risks to Rating

- Sharp fall in urea price.
- Rebound in coal prices.

Valuation

- We value the company based on 8x 2016E P/E, which is the mid-point of the usual trading range over the last four years. Hence, we set our target price at HK$4.91.

Investment Summary

Year ended 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMB m)	3,969	5,082	5,640	5,799	6,449
Change (%)	*1*	*28*	*11*	*3*	*11*
Net profit (RMB m)	264	241	457	595	733
Fully diluted EPS (RMB)	0.225	0.205	0.389	0.506	0.623
Change (%)	*(15.1)*	*(8.8)*	*89.8*	*30.2*	*23.1*
Consensus EPS (RMB)			0.36	0.51	0.64
Fully diluted P/E (x)	11.7	12.9	6.8	5.2	4.2
CFPS (RMB)	0.67	0.81	0.78	1.06	1.22
P/CF (x)	3.9	3.2	3.4	2.5	2.2
EV/EBITDA (x)	9.2	7.7	5.6	4.2	3.3
DPS (RMB)	0.060	0.060	0.117	0.152	0.187
Yield (%)	2.3	2.3	4.4	5.8	7.1

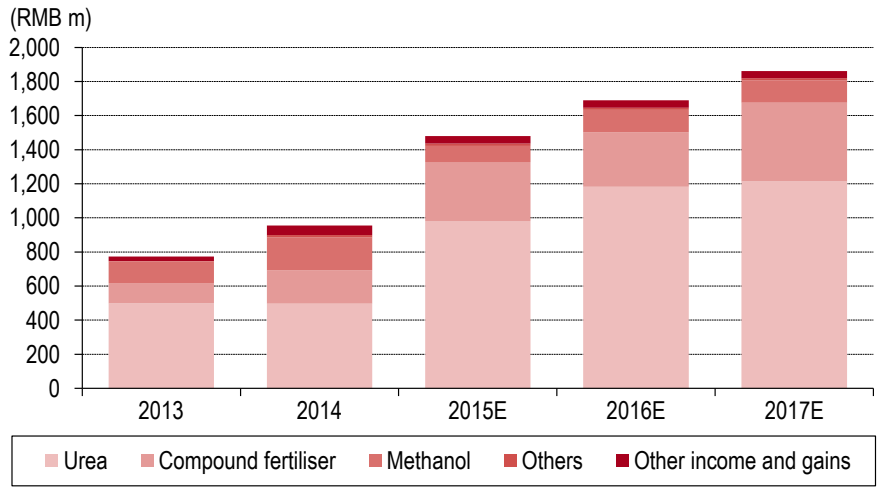
Source: Company data, BOCI Research estimates

Table of Contents

VALUATION

China XLX is mainly engaged in the production and sales of fertilisers, with urea and compound fertilisers accounting for 77% of its total gross profit in 2014.

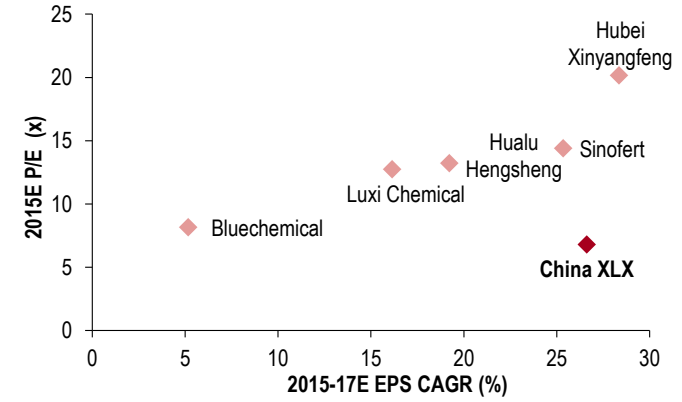
Figure 1. Breakdown of Gross Profit by Product



Source: BOCI Research estimates

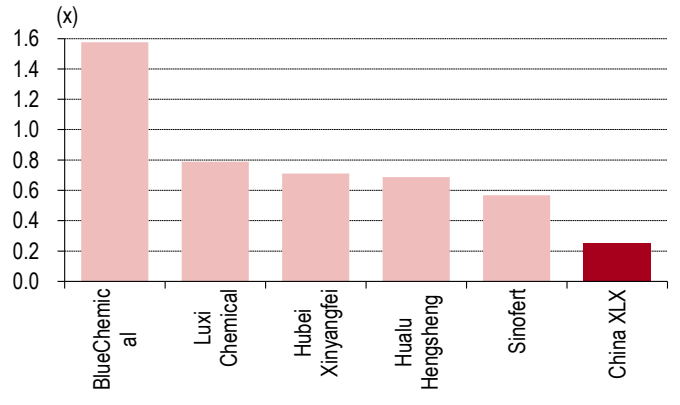
We compare the PEG ratios of major fertiliser companies listed in the Hong Kong and mainland China stock markets. The PEG ratio of China XLX is less than 0.3x, the lowest among its peers, owing to its fast growth rate and low valuation. We expect its EPS to increase at a CAGR of 27% during 2015-17, mainly driven by the launch of new urea and compound fertiliser capacity. However, its shares are trading at only less than 7x 2015E P/E, the lowest among the larger fertiliser companies in both the Hong Kong and mainland China stock markets.

Figure 2. Peer Comparison by 2015E P/E and 2015-17E EPS CAGR



Source: Bloomberg, WIND Database, BOCI Research estimates

Figure 3. PEG of Comparable Companies



Source: Bloomberg, WIND Database, BOCI Research estimates

Among the other two major fertiliser companies listed in Hong Kong, **Sinofert Holdings** (297 HK) has an extensive distribution network and is one of the few licensed potash importers in China. **China BlueChemical** (3983 HK) is a gas-based urea producer and hence its valuation is relevant to China XLX. While there are more fertiliser producers in the A-share market, they are trading at 17x 2016E P/E on average. We consider the A-share counterparts far too expensive to serve as good comparables to China XLX.

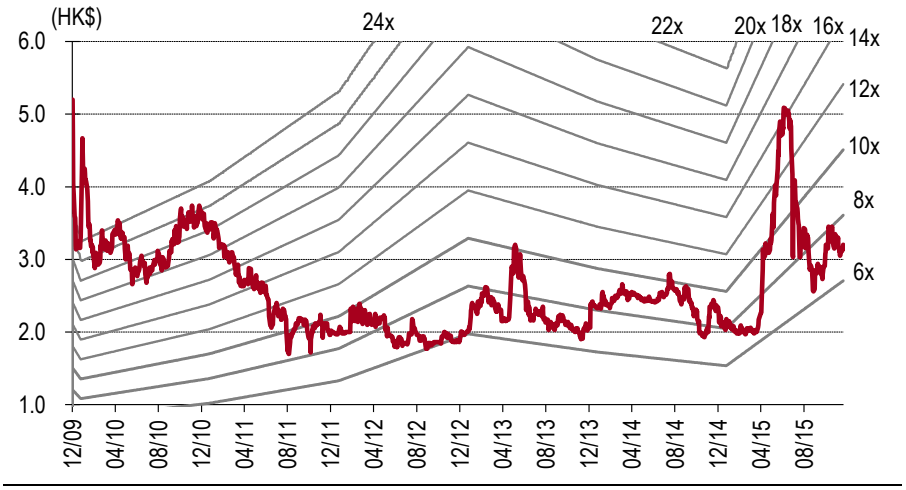
Figure 4. Fertiliser Peer Valuations

Company	Stock code	Market cap (US$ m)	Share price (local ccy)	P/E (x) 2015E	P/E (x) 2016E	P/E (x) 2017E	Dividend yield (%) 2015E	Dividend yield (%) 2016E	Dividend yield (%) 2017E	ROE (%) 2014
H-share-listed										
China BlueChemical	3983 HK	1,273	2.14	8.1	7.7	7.4	5.1	5.5	5.6	0.8
Sinofert Holdings	297 HK	1,106	1.22	14.4	10.7	9.2	1.4	1.9	2.4	1.7
China XLX Fertiliser	1866 HK	413	3.20	6.8	5.2	4.2	4.4	5.8	7.1	9.3
Average				**9.8**	**7.9**	**6.9**	**3.7**	**4.4**	**5.1**	**3.9**
A-share-listed										
Hubei Xinyangfeng	000902 CH	2,536	24.60	20.2	15.4	12.2	1.0	1.3	1.6	23.5
Yunnan Yuntianhua	600096 CH	2,491	14.11	128.3	27.1	18.1	NA	NA	NA	(37.6)
Hualu Hengsheng	600426 CH	2,010	13.48	13.2	11.0	9.3	1.6	1.6	NA	12.9
Luxi Chemical	000830 CH	1,517	6.62	12.7	11.4	NA	NA	NA	-	6.2
Hubei Yihua	000422 CH	998	7.11	24.1	22.2	NA	NA	NA	NA	0.5
Sichuan Meifeng	000731 CH	885	9.57	20.4	14.3	NA	NA	NA	-	(8.7)
Cangzhou Dahua	600230 CH	563	12.23	24.5	16.3	NA	NA	NA	NA	(11.5)
Average				**34.8**	**16.8**	**13.2**	**1.3**	**1.4**	**0.5**	**(2.1)**

Source: Bloomberg, WIND Database, BOCI Research estimates

Hence, we tend to make use of XLX's own trading history. Since 2011, the company's share price has generally been trading within the range of 6-10x rolling P/E, except in this June, when its share price overshot on the impressive results in 1Q15 (net profit up 121% YoY). Afterwards, its share price fell sharply together with the market. Based on the mid-point of its primary trading range, we value the company at 8x 2016E P/E. This is also the same as the valuation of BlueChemical. As such, we set its target price at HK$4.91.

Figure 5. P/E Band Chart

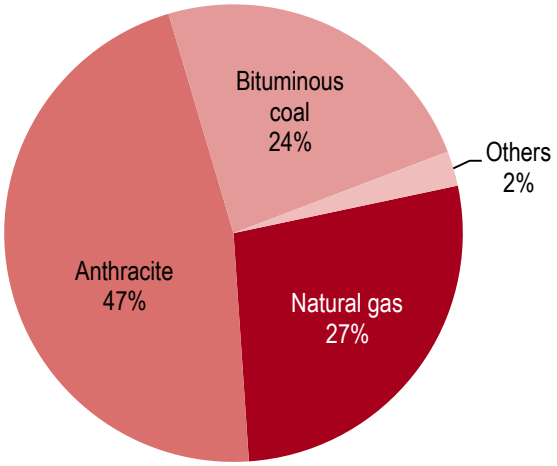


Source: BOCI Research

COST LEADERSHIP

In the domestic urea industry, urea is mainly produced from natural gas, anthracite lump coal and bituminous coal. In 2014, the capacity of urea based on natural gas, anthracite lump coal and bituminous coal in China reached 22m tpa, 38m tpa and 19m tpa, respectively.

Figure 6. Urea Production Capacity by Raw Material (2014)



Source: China Nitrogen Fertiliser Industry Assoiation, BOCI Research

China XLX owns five urea plants in Henan Province and Xinjiang Autonomous Region with a total capacity of 2.6m tpa. Currently, 1.3m tpa of its capacity applies advanced coal gasification technology and uses bituminous coal as the raw material, while the other 1.3m tpa capacity applies the traditional coal-chemical technology and uses anthracite lump coal as the raw material.

Figure 7. Plant Information of the Company

Plant	Location	Capacity *(m tpa)*	Technology	Raw material
I, II, III	Henan	1.3	Traditional coal-chemical technology	Anthracite lump coal
IV	Henan	0.8	Advanced coal gasification technology	Bituminous coal
V	Xinjiang	0.52	Advanced coal gasification technology	Bituminous coal
Total		**2.62**		

Source: Company data

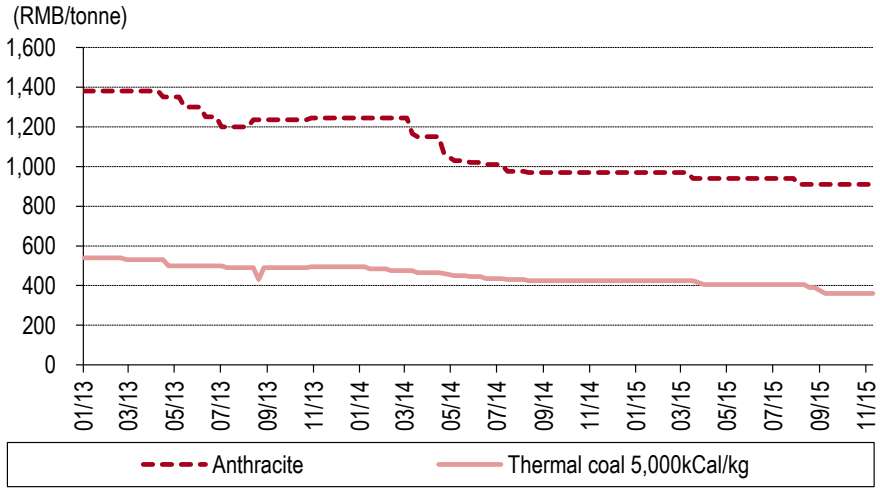
Its plants that apply advanced technology save production cost mainly in the following ways. First, in terms of raw materials, they replace anthracite lump coal with bituminous coal, which is much cheaper given its abundance in China. For example, the spot price of thermal coal with heat content of 5,000kCal/kg in Henan Province stood at RMB360/tonne on 20 November, compared to the price of anthracite lump coal at RMB910/tonne in the same province on the same day. In addition, the advanced technology increases the carbon conversion rate from 90% to 99%. Hence, the total cost of coal can be reduced by more than 10%. Moreover, unit electricity consumption is cut from 740kWh/tonne to 350kWh/tonne, because the advanced technology could recycle heat generated in the production process to generate power. Overall, the total unit production cost is cut by 12%.

Figure 8. Key Unit Consumption under Traditional and Advanced Coal-chemical Technologies

	Traditional technology	Advanced technology
Feedstock coal	Anthracite lump coal	Bituminous coal
Feedstock price (RMB/tonne)	910	380
Unit feedstock coal consumption (kg/tonne)	620	800
Fuel coal	Bituminous coal	Bituminous coal
Unit fuel coal consumption(kg/tonne)	140	250
Electricity consumption (kWh/tonne)	740	350
Total production cost in 1H15 (RMB/tonne)	1,230	1,087

Source: Company data, BOCI Research

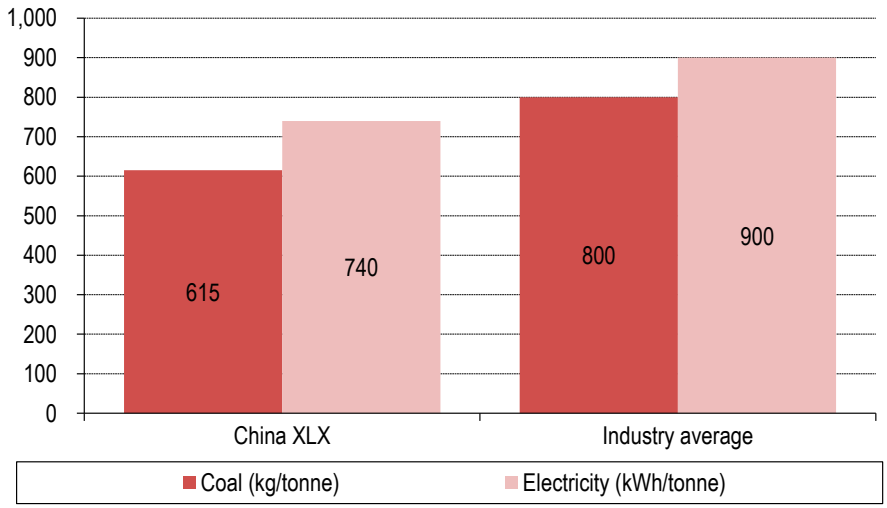
Figure 9. Prices of Bituminous Coal and Anthracite in Henan Province



Source: WIND Database

Even for its three plants in Henan Province that apply traditional coal-chemical technology, the company also manages to control its unit cost at the low end of the industry. The company keeps upgrading its production facilities and simplifying its production process. Hence, its levels of unit coal and electricity consumption are 23% and 18% lower than the industry averages, respectively.

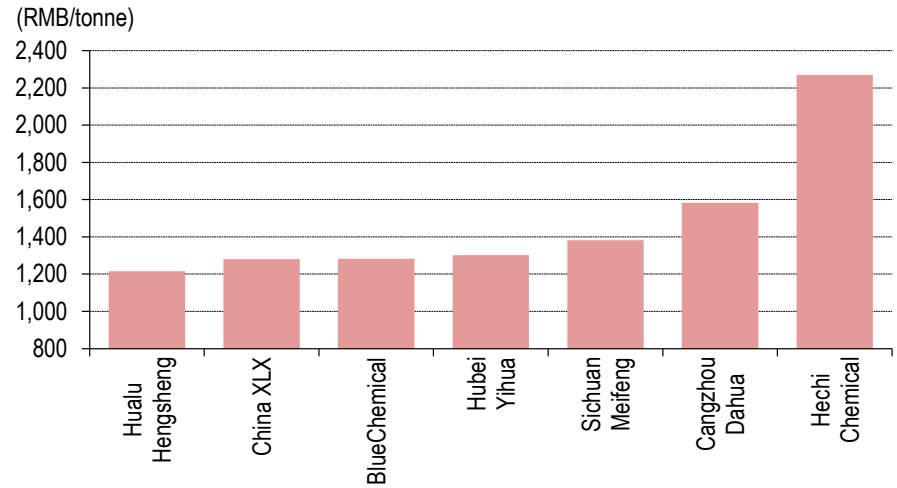
Figure 10. Unit Coal and Power Consumption for China XLX vs. Industry Average



Source: Company data

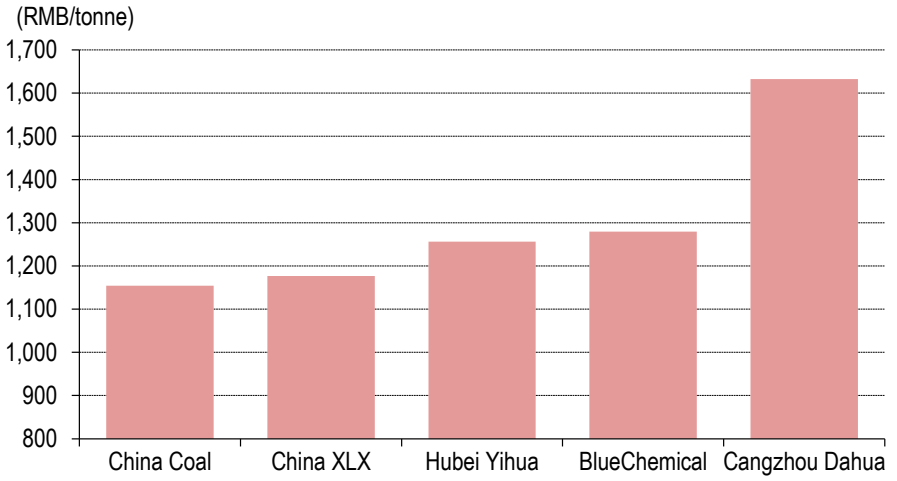
Therefore, the company can maintain its unit production cost at the low end of the industry. In the following graphs, we compare the unit urea production costs of several Hong Kong and China listed companies in 2014 and 1H15, respectively.

Figure 11. Unit Production Costs of Key Listed Urea Producers in 2014



Source: Data of various companies

Figure 12. Unit Production Costs of Key Listed Urea Producers in 1H15



Source: Data of various companies

The production costs of **China Coal** (1898 HK/601898 CH) and **Hualu Hengsheng** (600426 CH) are the lowest among the selected companies. China Coal invests in a urea plant in Inner Mongolia with advanced coal gasification technology, which commenced operation in December 2014. Its unit production cost in 1H15 was the lowest among the five companies compared above owing to its advanced technology and proximity to cheap coal resources. Hualu Hengsheng is within the first batch of companies to adopt advanced coal gasification technology. Its urea production plants with a capacity of 1.8m tpa mainly use bituminous coal as the raw material. Hence, its production cost is at the low end of the industry.

In terms of production cost, China XLX ranks after China Coal and Hualu Hengsheng. Its unit production cost under advanced technology is at the same level as those of the two peers, whereas its average cost is higher as it reflects the mixed cost under two technologies.

Hubei Yihua (000422 CH) is the largest urea producer in China, with a total capacity of 3.2m tpa. The company mainly applies traditional coal chemical technology, despite the fact that 32% of its capacity in Inner Mongolia uses natural gas. Its unit production cost lies in the middle of the range, which we believe is quite representative of the costs for large urea producers that apply traditional coal-chemical technology.

Among the coal-based producers we selected, the production cost of Hechi Chemical (000953 CH) is the highest. Hechi Chemical is ultimately controlled by Chem China Group, with a urea capacity of 0.3m tpa in Guangxi Province. According to the company, its urea capacity accounts for 60% of the total urea capacity in Guangxi. Its unit production cost in 2014 stood at RMB2,270/tonne, which we believe was mainly attributable to the high unit consumption of coal and electricity and high coal prices in Guangxi.

BlueChemical, **Sichuan Meifeng** (000731 CH) and **Cangzhou Dahua** (600230 CH) are all natural gas-based producers. The cost of BlueChemical is relatively lower, as the company could source cheaper natural gas from its sister company **CNOOC Limited** (883 HK). In comparison, the costs of Sichuan Meifeng and Cangzhou Dahua are at the high end of the industry given the higher cost of production based on natural gas than that based on coal.

The costs of these eight companies are also quite representative of the industry as a whole. The costs of companies using advanced coal gasification technology rank the lowest and those of natural gas-based companies rank near the high end of the range.

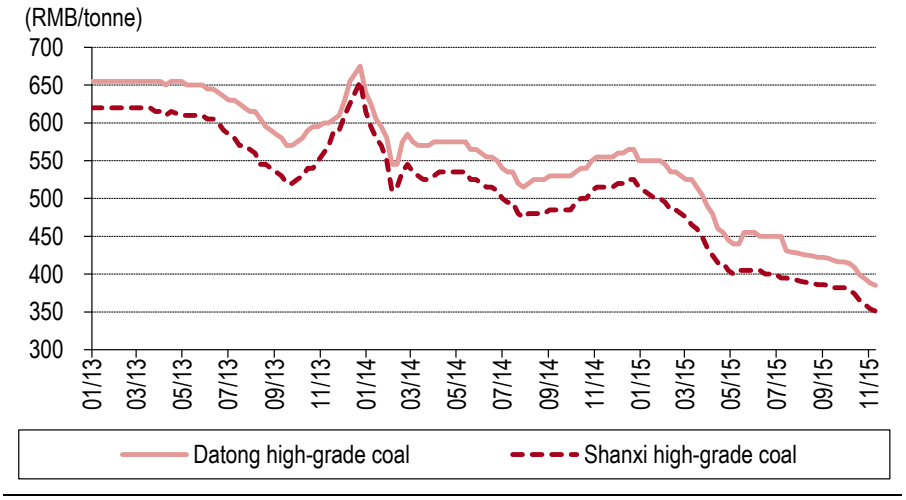
China XLX's Cost Advantage to Extend Further

Cost advantage over natural gas-based producers to enlarge

Under the recent natural gas price cut, the price of natural gas used to produce fertilisers is kept at the same level, as urea producers have already enjoyed discounted gas prices. However, the coal price has dropped sharply this year. For example, the spot price of thermal coal with heat content of 5,500kCal/kg in Qinhuangdao plummeted 30% year to October. We expect the price of thermal coal to keep sliding in 2016 given the severe oversupply in the domestic coal market and the surging growth of various forms of alternative energy, such as nuclear power and hydropower.

Moreover, according to the guidance from the National Development and Reform Commission (NDRC), natural gas-based chemicals are not encouraged, and any expansions or additions of natural gas-based urea plants are restricted. As the favourable natural gas prices to the urea industry gradually get removed, the cost advantage of coal-based producers should widen further.

Figure 13. Spot Price of Thermal Coal in Qinhuangdao



Source: China Coal Resource Net

China XLX less impacted by removal of electricity price subsidies

Under the electricity price adjustment in April 2015, the NDRC required to remove the preferential electricity prices for medium and small-scale fertiliser producers (with capacity of below 0.52m tpa for a single production line). For the provinces providing small price discounts to fertiliser companies, the discounts should be removed immediately. For those provinces with large price discounts, all the discounts are required to be cancelled by April 2016. Based on our examination of the specific guidance of 10 major urea-producing provinces, all of them increased the electricity prices for fertiliser companies by RMB0.1/kWh in April 2015. We summarise their current electricity prices for fertiliser producers and other large industrial companies in the table below.

Figure 14. 110kV, Normal-hour Electricity Prices for Fertiliser and Other Industrial Companies in Top-10 Urea-producing Provinces

(RMB/kWh)	Fertiliser producers	Other large industries
Shandong	0.5369	0.602-0.692
Henan	0.5432	0.5992
Shanxi	0.4762	0.4992
Inner Mongolia (west)	0.407	0.4543
Xinjiang	0.272	0.363
Hebei	0.4395	0.5711
Sichuan	0.3937	0.4986
Hubei	0.513	0.5948
Anhui	0.4987	0.6174
Shaanxi	0.4339	0.5401

Source: Various local branches of NDRC

On average, fertiliser producers still enjoy an electricity price discount of RMB0.1/kWh, which will be cut in April 2016. For a urea plant with electricity consumption of 900kWh/tonne, every RMB0.1/kWh increase in the electricity price would lead to a RMB90/tonne increase in production cost. However, China XLX will be relatively less impacted, as the company owns 107MW and 15MW of installed thermal power generation capacities in Henan Province and Xinjiang Autonomous Region, respectively, which can meet around 40% of its power demand at both plants. Hence, every RMB0.1/kWh increase in the electricity price would lift its production cost by only around RMB44/tonne.

VAT – not much impact in first three years

Since September 2015, a VAT of 13% has been imposed on urea. However, in the current oversupplied market, it is hard to pass on the tax burden to downstream customers by increasing sales price. Therefore, this tax burden has to be borne by producers. Our analysis of the impact of VAT is shown in the figure below. The VAT impact for an average producer should be around RMB39/tonne.

Figure 15. Analysis of VAT Impact

	(RMB/tonne)
Selling price (incl. VAT)	1,600
VAT payable	184
Total production cost (incl. VAT)	1,300
VAT deductible part (incl. VAT)	1,000
VAT deductible	145
Net VAT impact	39

Source: BOCI Research estimates

China XLX invested in two new urea plants located in Henan Province and in Xinjiang Autonomous Region. The construction capex of these two plants are tax deductible. Hence, in the next three years, the company does not need to pay VAT for these two new plants.

Backwards vertical integration in Xinjiang

While China XLX started constructing its urea plant in Xinjiang, it also acquired two coal mines near the plant, which have a combined production capacity of 0.9m-1.2m tpa. The construction work is scheduled for completion in 2016. The production cost of coal is expected to be RMB150/tonne, much lower than the external purchase price of RMB240/tonne. Based on this assumption, we estimate the production cost of urea in the Xinjiang plant will decrease by RMB50/tonne.

The urea market is already oversupplied. When cheaper urea capacity from the US comes on stream from 2016 onwards, the export volume from China may shrink. This will lead to more severe oversupply in the domestic urea market. Hence, lower production cost will be the essential advantage for urea producers.

PRODUCT DIFFERENTIATION

Urea

In the domestic market, the overcapacity in the urea industry is severe, with the average plant utilisation at only 70%. At the same time, the application of urea is not effective, leading to many issues, such as compaction or acidification of cultivated soils. Faced with these challenges, China XLX implemented product differentiation strategy by developing high-efficiency fertilisers, which face less competition and bring higher margins. China XLX has developed three series of high-efficiency urea products.

Figure 16. China XLX's Key High-efficiency Urea and their Key Functions

Junengwang (聚能网尿素)	Controlled release (控失尿素)	Multi-layer controlled release (水触膜控失肥)	Humic acid (腐殖酸尿素)
			
■ Increases yield by 10% ■ Improves absorption of nitrogen	■ Improves nitrogen utilisation by 10-20% ■ Only applied once every season ■ Increases yield by 10%	■ Multi-layer protection against nitrogen release ■ Upgraded version of controlled release urea	■ Developed in September 2014 ■ Improves the quality of soil ■ Increases yield

Source: Company data

Junengwang urea (聚能网尿素) is the first high-efficiency product the company developed. This product is effective in improving nitrogen absorption and hence increases the yield of crops. Currently, it is well accepted in both Henan and Xinjiang. Junengwang already accounts for more than 15% of total sales volume of urea.

In July 2014, the company developed controlled-release urea (控失尿素) together with the China Academy of Science. This product is formed by adding polymer composites into liquid urea. After applying the product in the soil, when the soil is hydrated by moisture from irrigation water or rain the polymer composites will absorb the water and swell, forming an absorption layer which instantly turns into a honeycombed or spongy structure. This structure slows the release of nitrogen. Hence, farms can fertilise only once each harvest season. Currently, this controlled-release urea is mainly promoted in Henan province.

In September 2014, the company developed humic acid urea (腐殖酸尿素). Humic acid is a kind of organic material, which is made up of macro-molecule organic matter before coal is formed and can improve the quality of soil.

Figure 17. Picture of Crops after Using High-efficiency Urea and Normal Urea

Source: Company data

The company tested its high-efficiency urea in Henan and Xinjiang on various crops, such as wheat, corn, rice and cotton. We summarise the test results in the table below.

Figure 18. Test Results of High-efficiency Urea in 2015

Province	Crops	Applied products	Increased yield (%)	Increased output (catty/mu)	Price of crop (RMB/catty)	Additional revenue (RMB/mu)	Additional cost (RMB/mu)	Net profit to farmers (RMB/mu)
Henan	Wheat	Controlled-release urea	8	85	1.18	100	26.5	73.5
	Corn	Controlled-release urea	8.2	93	0.93	86.5	40	46.5
Xinjiang	Wheat	Humic acid urea	9.8	91	1.1	100	27	73
	Wheat	Junengwang urea	9.1	83	1.1	91	23	68
	Corn	Junengwang urea	12	169	0.8	134	30	104
	Cotton	Junengwang urea	11.4	60	3.6	216	30	186
	Rice	Junengwang urea	8.9	80	2.3	184	30	154

Source: Company data

The company's high-efficiency urea has been proven effective in improving output yield by 8-12% for various crops in Henan and Xinjiang, which would bring RMB47-186/mu additional profit to farmers.

Overall, we expect the company's total high-efficiency urea to account for more than 20% of total sales volume of urea in 2015. As the company makes more effort to promote its products and tests prove its efficacy across multiple areas, we expect this ratio to increase quickly to more than 50% in 2017.

Compound Fertilisers

As for compound fertilisers, the company also adopts its product differentiation strategy. So far, China XLX owns more than 300 formulas tailored to various crops and soils.

Figure 19. Key Compound Fertiliser Products of the Company

Source: Company data

We estimate the average margin of high-efficiency compound fertilisers to be 3ppts higher than that of ordinary ones. In 2014, the sales volume of high-efficiency compound fertilisers accounted for 74% of total sales volume of compound fertilisers. Looking ahead, we expect this ratio to stay at the current level. As the new compound fertiliser plant commences operation in 2017, we forecast the total sales volume of its compound fertilisers to reach 1.2m tonnes in 2017, including 0.9m tonnes of high-efficiency products.

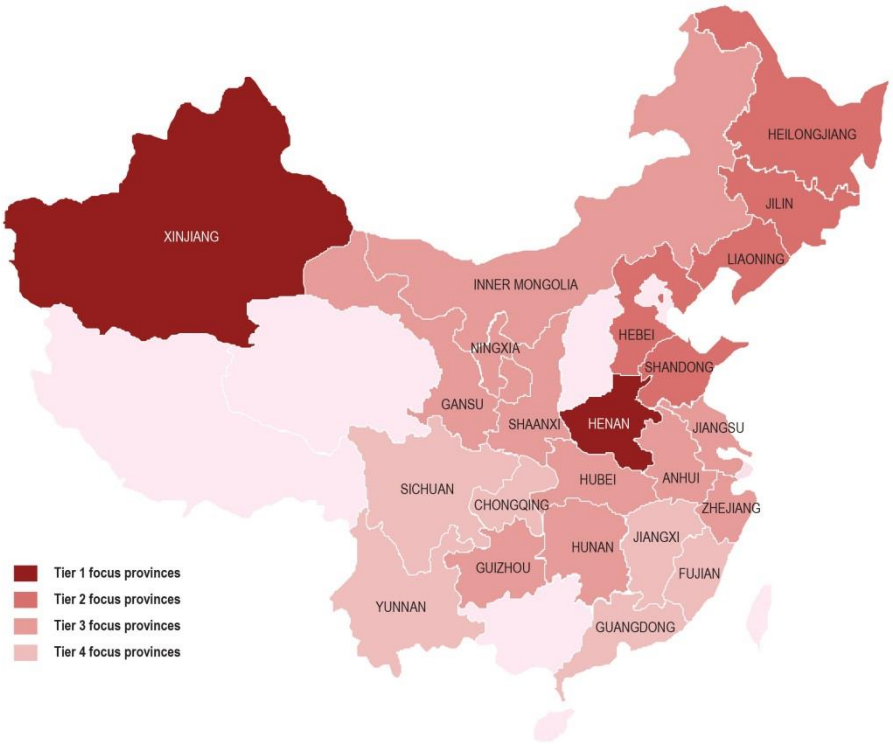
DISTRIBUTION NETWORK EXPANSION

China XLX traditionally sells its products through local and national distributors. To serve its production differentiation strategy, it has expanded its network extensively by using more distribution centres, establishing self-owned shops and cooperating with Taobao.

Traditional local distributors

Local distributors are the major distribution channel of China XLX. In the last two years, the company increased its sales force from 200 to more than 1,000 staff and penetrated to more distribution centres nationally. Its products are currently available in over 30,000 distribution centres across 22 provinces.

Figure 20. National Distribution Network

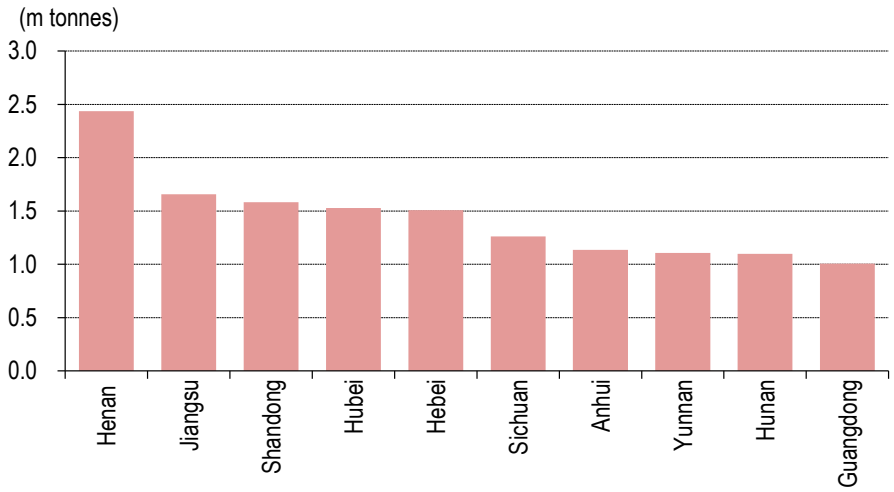


Source: Company data, BOCI Research

Henan Province is the company's major market, where the company cooperates with more than 300 local tier-1 distributors.

Henan is one of the most populous provinces, with urea consumption ranking number one. The company has operated in Henan for a long period and its brand is well recognised. According to the company, its market share in Henan Province is 30%.

Figure 21. Urea Consumption in 10 Major Urea Consumption Provinces in 2013



Source: NBS

Beyond distributors, the company hires many fertiliser experts to provide education to the farmers and provide tailor-made solutions to improve fertiliser efficiency. These experts also collect useful feedback regarding the effectiveness of the products.

Cooperation with national distributors

For the remote provinces, the company mainly cooperates with large national distributors, such as Sinofert Holdings and Sinoagri Holding. Currently, 5% of its urea sales volume is distributed through this channel.

Self-owned shops in Xinjiang

The company expanded into Xinjiang in 2012 with the construction of its compound fertiliser plant. Afterwards, it also established more than 30 shops located adjacent to the large planters to promote its products, as the average planting area per capita in Xinjiang is larger than the national average. Once the product and volume are confirmed by the customers, the distributors nearby will arrange the delivery of the products.

Figure 22. Self-owned Shops Photo

Source: Company data

E-commerce

The company started to cooperate with **Alibaba Group** (BABA US) in July 2015 to sell its product through "countryside Taobao". Currently, the e-commerce model mainly operates in Henan Province. The company distributes its products directly for the places close to its plants in Xinxiang, Henan Province. In other remote areas, the nearby distributors will arrange the delivery.

In November 2015, e-commerce sales accounted for 2% of total sales volume of urea.

Figure 23. China XLX Products in Taobao

Source: Taobao

Its fast network expansion in the last two years drove the sales volume of urea and compound fertilisers to increase at respective CAGRs of 28% and 30% during 2013-15.

Looking ahead, we expect the company to keep expanding its network, though at a slower pace. Hence, we project its selling and distribution cost to remain at 6% of total revenue in 2015-17. Driven by the new urea and compound fertiliser capacity and its extensive distribution network, we forecast the sales volume of urea and compound fertiliser to increase 16% and 44% during 2015-17, respectively.

FINANCIAL HIGHLIGHTS

High net debt/equity ratio

China XLX mainly financed the capex of its urea plant in Xinjiang through borrowings. We forecast its net debt to equity ratio will reach 136% at end-2015. However, we expect this ratio to drop gradually for the following reasons. First of all, we forecast the company will generate high operating cash inflows in 2015-17 owing to high depreciation and low working capital requirements. The company receives cash from its distributors on delivering the products. Hence, its accounts receivable (AR) days are minimal (with AR days at 2.6 in 2014). Moreover, in 2016-17, the company's total capex should be less than its operating cash inflow, as no large projects are planned or will be under construction for the next two years. Therefore, we forecast a gradual drop in its net debt to equity ratio to 114% in 2016 and 79% in 2017.

Figure 24. Summaries of Key Cash Flow Items

Year end 31 Dec *(RMB m)*	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Net profit	232.0	239.2	456.6	595.3	732.9
Amortisation & depreciation	187.8	326.8	467.2	650.6	733.2
Operating cash flow	793.0	956.4	918.6	1,247.9	1,433.5
Capex	(1,632.8)	(1,658.0)	(1,700.0)	(1,000.0)	(500.0)
Net debt	(2,576.0)	(3,349.4)	(4,190.8)	(4,059.6)	(3,277.9)
Net debt/equity (%)	102.5	125.3	136.1	114.1	79.2

Source: Company data, BOCI Research estimates

Favourable tax rate

The company enjoys a favourable income tax rate at 15% for its Henan urea plant. Its subsidiary in Henan was recognised as a "new or high technology enterprise" in 2011 and thus enjoyed a 15% preferential tax rate for three years. In 2014, the company was granted the renewal of this award for another three years.

As for its plant in Xinjiang, the company is applying for recognition as a "new or high technology enterprise". Once approved, the company will enjoy a favourable 15% income tax rate for three years. Meanwhile, it is also applying for qualification as a company with major businesses falling within the "catalogue of encouraged industries in the western region". If approved, it will enjoy a 15% favourable income tax until 2020.

Expect lower earnings in 4Q15 due to seasonality

In 9M15, the net profit of the company surged 175% YoY to RMB393m owing to the sharp fall in coal price and rise in urea prices. In addition, the sales volume of compound fertilisers increased 42% YoY, mainly due to the contribution from new compound fertiliser capacity.

However, we expect its earnings growth to slow in 4Q15, with total net profit in 4Q15 reaching RMB63m. First of all, 4Q is normally the low season for fertilisers. Hence, urea prices are expected to remain weak until end-December. In addition, its urea plant in Xinjiang just commenced commercial operation in October. The levels of unit consumption of coal and electricity are likely to stay high during the first few months of operation. Thus, we expect its urea plant in Xinjiang to post minor losses in 4Q15.

Figure 25. Key Assumptions

Year ended 31 Dec	2013	2014	2015E	2016E	2017E
Urea					
Capacity ('000 tonnes)	1,250	2,100	2,230	2,620	2,620
Production volume ('000 tonnes)	1,347	2,165	2,250	2,672	2,672
Utilisation rate (%)	108	106	101	102	102
Sales volume ('000 tonnes)	1,223	1,958	2,003	2,425	2,315
Average selling price (RMB/tonne)	1,846	1,535	1,613	1,475	1,523
Unit production cost (RMB/tonne)	1,438	1,281	1,112	965	964
Compound fertiliser					
Capacity ('000 tonnes)	750	950	1,100	1,100	1,700
Production volume ('000 tonnes)	525	649	825	825	1,190
Utilisation rate (%)	70	68	75	75	70
Sales volume ('000 tonnes)	488	605	825	825	1,190
Average selling price (RMB/tonne)	2,246	2,059	2,154	1,923	1,923
Unit production cost (RMB/tonne)	2,001	1,734	1,734	1,535	1,535
Methanol					
Capacity ('000 tonnes)	200	300	300	300	300
Production volume ('000 tonnes)	273	395	356	356	356
Utilisation rate (%)	137	132	119	119	119
Sales volume ('000 tonnes)	275	396	356	356	356
Average selling price (RMB/tonne)	2,187	1,944	1,613	1,613	1,613
Unit production cost (RMB/tonne)	1,725	1,466	1,389	1,289	1,289

Source: Company data, BOCI Research estimates

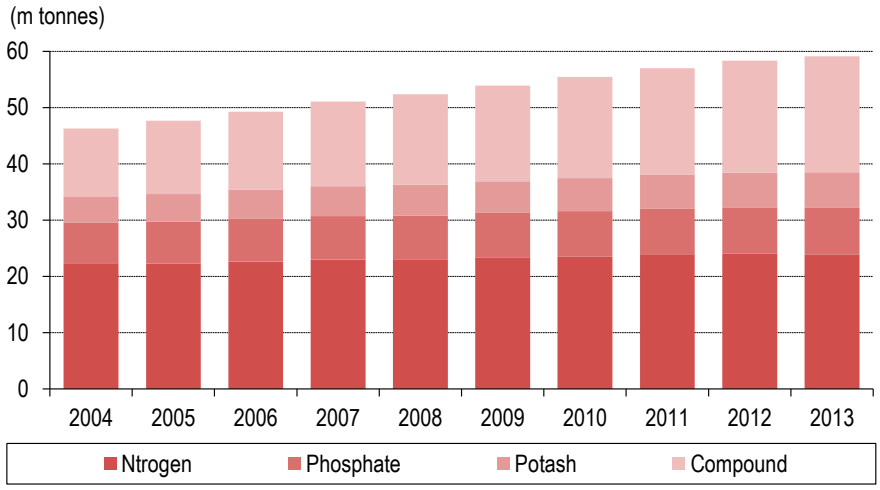
APPENDIX I. UREA INDUSTRY ANALYSIS

Demand in Domestic Market to Grow Moderately

Fertilisers contain essential nutrients for plants' growth and development. The three major elements with broad applications are nitrogen (N), phosphorus (P) and potassium (K). Nitrogen is the most widely-applied fertiliser in China, and urea is the major form of nitrogen used by farmers.

In China, the consumption of fertiliser is growing moderately, with that of nitrogen, phosphate, potash and compound fertiliser respectively posting CAGRs of 0.7%, 1.2%, 3% and 5.5% during 2004-13.

Figure 26. Consumption of Various Fertilisers in China



Source: NBS

Looking ahead, the growth of urea consumption should decelerate and reach its peak by 2020. This February, the Ministry of Agriculture (MOA) issued "Action Plan for Zero Growth of Fertilizer Consumption," as fertilisers are over-applied in China, with the average application at 21.9kg/mu, much higher than the global average of 8kg/mu. This has already led to numerous issues in the country, including waste of resources, low efficiency, and compaction or acidification of cultivated soil. To resolve these issues, the MOA has encouraged an increase in the use of tailor-made high-efficiency fertilisers, and aims to control the total consumption at a CAGR of 1% in 2015-19 before reaching a zero increase by 2020. The growth rate of urea should be even lower, given it is already widely applied and the total urea consumption in 2013 already shrank slightly.

Considering the limited growth rate in the domestic market, more urea producers have increased exports, which are also encouraged by the government as shown by the recent rounds of export tariff cuts.

Export tariffs are being gradually reduced by the government to ease the oversupply situation in the domestic fertiliser market. Starting this year, the separation between peak and low seasons has been cancelled and a unified RMB80/tonne export tariff has been imposed on urea.

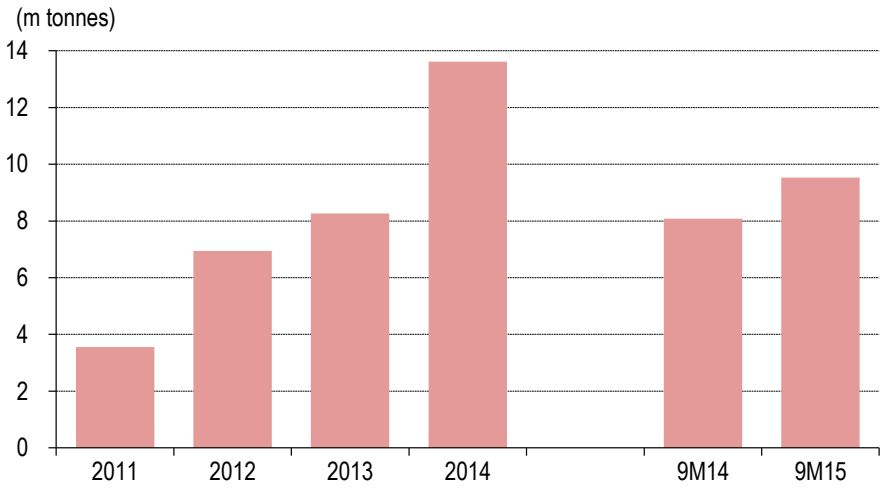
Figure 27. Export Tariffs on Urea in 2012-15

	2012	2013	2014	2015
Peak season (Jan-Jun, Nov, Dec)	110%	75%	15%+RMB40/tonne	RMB80/tonne
Low season (Jul-Oct)	price<=benchmark, 7% price>benchmark, (1.07-benchmark/price)*100%	price<=benchmark, 2% price>benchmark, (1.02-benchmark/price)*100%	RMB40/tonne	RMB80/tonne

Source: Ministry of Finance

As a result, the export volume of urea increased sharply at a CAGR of 56% in 2011-14. This momentum has persisted in 2015, with the export volume of urea up 18% YoY to 9.5m tonnes in 9M15, representing 17% of total output.

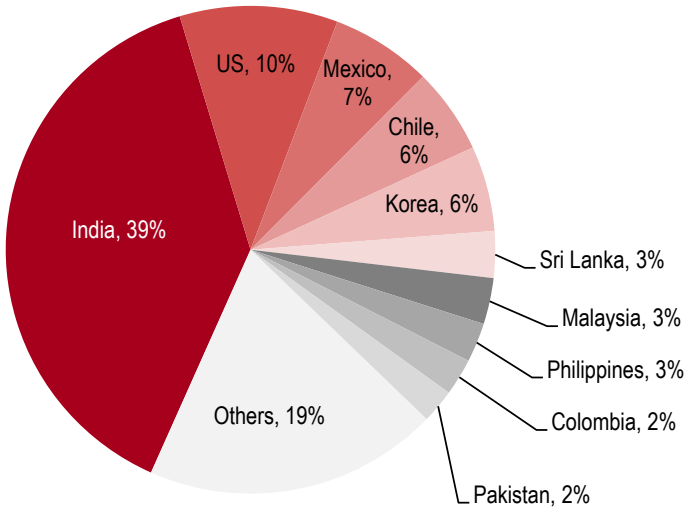
Figure 28. Export Volume of Urea



Source: General Administration of Customs

In 9M15, the demand for urea exports from China mainly came from India and the US, with exports to these two countries reaching 39% and 10% of China's total urea exports, respectively.

Figure 29. Urea Exports by Country (9M15)

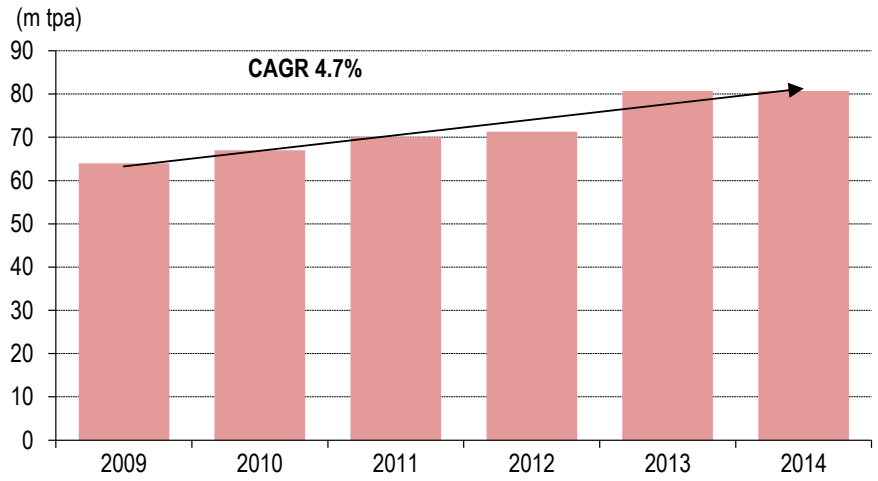


Source: Baiinfo.com

Supply to Rise on Cheap Natural Gas in Overseas Market

Given the severe overcapacity in the domestic urea market, new capacity for urea is restricted unless it is used to replace obsolete capacity. In addition, new capacity with natural gas and anthracite as raw materials is not allowed. The government targets to control the total nitrogen fertiliser capacity at 60.6m tpa (100% of nitrogen) by 2020, a mere 1% increase from the 60m tpa in 2014.

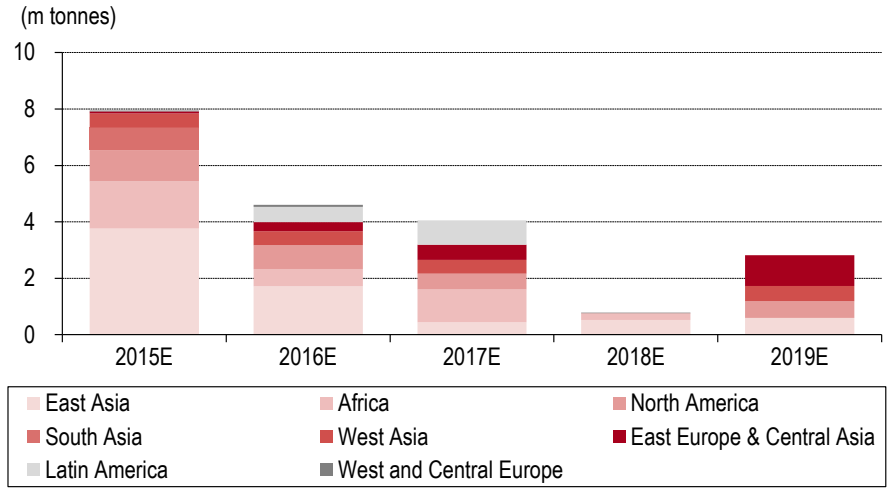
Figure 30. Urea Capacity in China



Source: China Nitrogen Fertilizer Association

The situation is quite different in overseas markets. Given the cheap natural gas price in the Middle East and Africa and abundant shale gas resources in the US, some new natural gas-based urea plants are being constructed and will gradually come on stream.

Figure 31. New Capacity in Global Urea Market (100% nitrogen content)



Source: International Fertilizer Industry Association (IFA)

According to the IFA, 20m tpa of new urea capacity (100% of nitrogen) will go into operation in 2015-19 (representing 21% of the 96m tpa capacity in 2014), while nitrogen demand is forecast to grow at a mere 1.3% in the same period, suggesting that the oversupply situation will become even worse.

We are not very concerned that this new supply of urea will flood the China market. However, the new capacity will indirectly cause the oversupply situation in China to worsen. For example, the US is currently a net importer of urea, with total urea imports coming in at 8.3m tonnes in 2014. As the new capacity comes on line, its demand for imports will gradually shrink. In that case, more exporters will have to compete for a smaller market.

However, the production cost of urea in China is not quite as competitive as that in regions with cheap natural gas, such as the Middle East. On top of this, a series of subsidies provided to urea producers are gradually being removed.

Figure 32. Recent Policies for Fertiliser Industry

Date	Items
Feb 2015	Removal of favourable railway freight
Apr 2015	Gradually removal of favourable natural gas price
Apr 2015	Removal favorable electricity price
Sep 2015	Impose 13% VAT on fertiliser

Source: NDRC

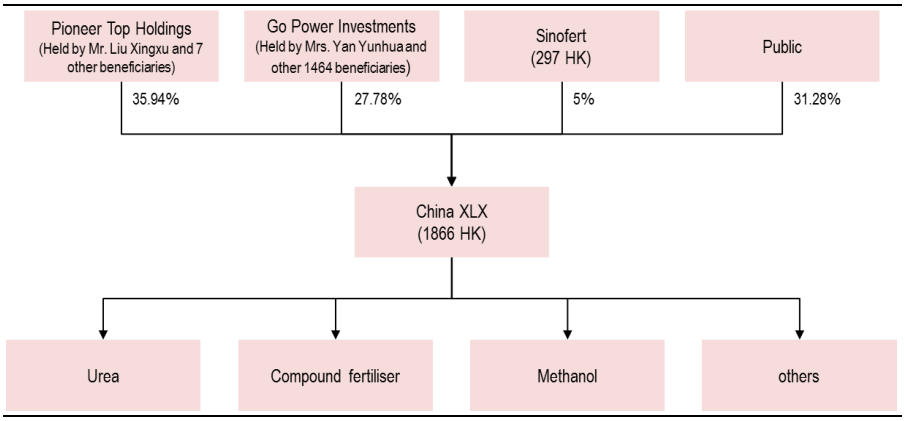
As a result, urea from China is becoming less cost-competitive compared with other key urea export countries. Hence, the supply of urea in the domestic market is likely to increase, which we believe will accelerate the elimination of obsolete capacity.

APPENDIX II. COMPANY BACKGROUND

The history of China XLX can be traced back to 1969 when Xinxiang Fertiliser Factory, a state-owned company, was established. In 2003, XLX Chem was founded as a private enterprise to acquire the fertiliser business and relevant assets of Xinxiang Fertiliser Factory in a management buyout led by Liu Xingxu. In 2006, China XLX Fertiliser was established in Singapore, and the major assets and liabilities of XLX Chem were transferred to Henan XLX, the subsidiary of China XLX Fertiliser.

China XLX Fertiliser was listed on the Singapore stock exchange in 2007, and then listed in Hong Kong in 2009 by way of introduction. Afterwards, the company gradually expanded its capacity and developed new products. In August 2014, it delisted from the Singapore exchange and kept its listing only in Hong Kong in order to enhance its liquidity.

Figure 33. Organisational Chart



Source: Company data, BOCI Research

Key Products

China XLX's three major products are urea, methanol and compound fertilisers.

Urea

Urea is the company's main product, and after the commencement of its plant V in Xinjiang, the total capacity of urea reached 2.6m tpa.

Methanol

Its methanol is co-produced with urea at its plants I, II and III in Henan. As under the traditional coal chemical technology, CO is produced as a byproduct. To remove it, a methanol synthesisation process is added. The total capacity of methanol is 0.2m tpa.

Compound fertilisers

To provide a full range of products to customers, China XLX also runs several compound fertiliser production plants with total capacity of 1.1m tpa, and another 0.6m tpa is under construction. In the compound fertiliser production process, urea is processed internally, and potash and phosphate fertilisers are sourced externally.

Other products

In addition, the company also produces furfuryl alcohol and vehicular urea, with annual capacity of 50,000 tpa and 800,000 tpa, respectively. Furfuryl alcohol is mainly used in adhesives, preservatives, paint or in resin in the machinery casting industry.

The company's vehicular urea products passed the tests conducted by Pony (Beijing) Testing. Vehicular urea is mainly used in heavy diesel vehicles. It reacts with NOx to form H20 and N2, thus reducing the emission of nitrogen oxide and curbing air pollution. To produce vehicular urea, the company does not need to make any changes to its production process. In the company's plant IV, vehicular urea can be produced by blending urea with pure water.

Existing Projects under Construction

Coal mines in Xinjiang

The company acquired two coal mines in Xinjiang, one in 2011 and the other in February 2015. The annual production capacity is expected to be 0.9-1.2m tonnes and construction is expected to be completed in 2016.

Melamine with capacity of 0.1m tpa

The company is constructing a melamine production line in Xinjiang, with the total target capacity of 100,000 tpa, of which 60,000 tpa will be built in phase I. The company targets to complete the construction of phase I by mid-2016.

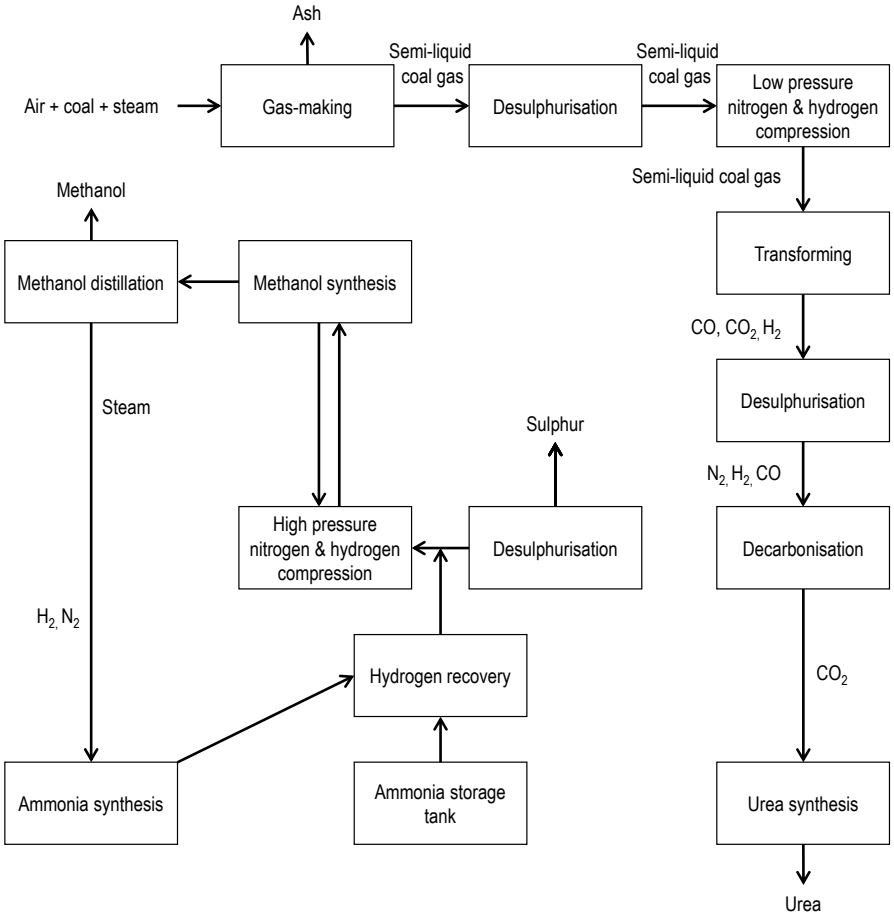
Expansion into the melamine business is another vertical-integration strategy for the company. On average, three tonnes of urea can produce one tonne of melamine. Hence, after the commencement of the melamine plant, the company can alter the mix of its final products based on the gross margins of urea and melamine.

Compound fertilisers with capacity of 0.6m tpa in Henan

Considering the fast growth of compound fertiliser consumption, the company has decided to build another compound fertiliser plant with annual capacity of 0.6m tpa in Henan. Construction is expected to be completed in 2016.

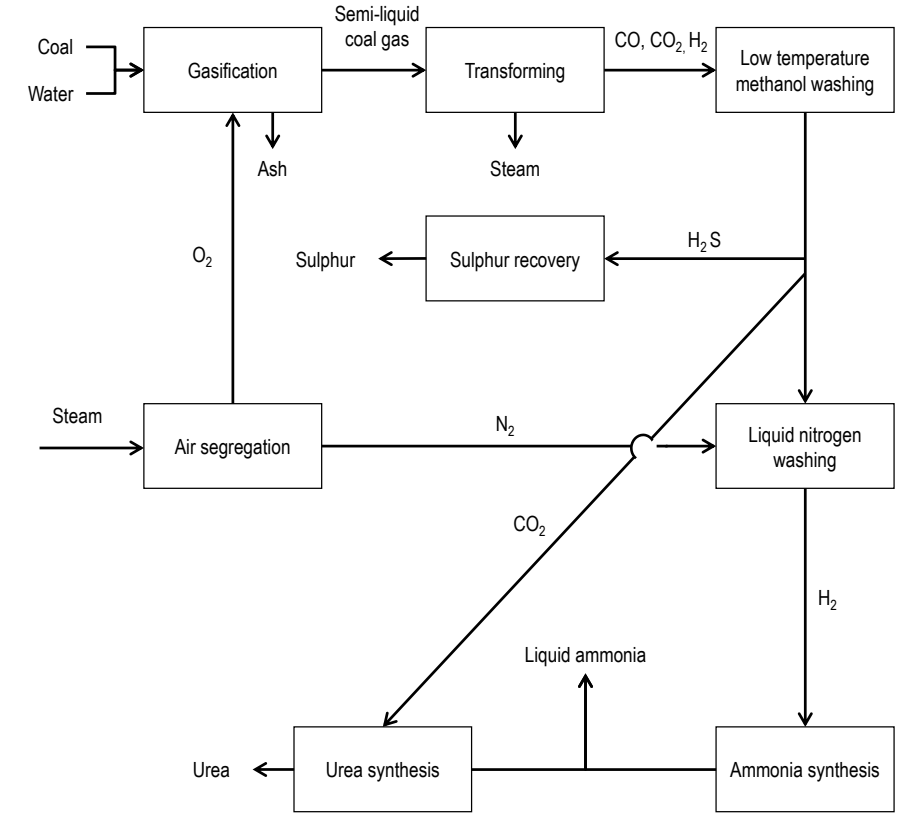
Production Process Charts

Figure 34. Urea Production Process under Traditional Technology



Source: Company data, BOCI Research

Figure 35. Urea Production Process under Advanced Technology



Source: Company data, BOCI Research

Figure 36. Management Team

Name	Post	Age	Profile
Liu Xingxu	Chairman, CEO, executive director	60	Controlling shareholder and director of Pioneer Top Holdings Executive director since July 2006 General manager of Henan XLX since 2006 Expert consultant of China Nitrogen Fertilizer Industry Association General manager of XLX Chem 2003-06 Factory head of Xinjiang Fertilizer Factory in 1994 EMBA degree from Tsinghua University in 2010 Graduated from Xinxiang Broadcasting and Television University in 1986
Yan Yunhua	Executive director CFO	44	Controlling shareholder and director of Go Power Investments Executive director since November 2006 Deputy general manager of Henan XLX since 2006 Joined Xinjiang Fertiliser Factory in 1997 EMBA degree from Guanghua School of Management, Peking University, in July 2009 Graduated from Xi'an Jiaotong University in 2003
Zhang Qingjin	Executive director	48	Executive director since March 2015 Executive deputy general manager of Henan XLX since 2011 Deputy general manager of Henan XLX since 2006 Joined Xinxiang Fertiliser Factory in July 1987 EMBA from Tsinghua University in 2009 Graduated from Zhengzhou Engineering College in July 1987
Ru Zhengtao	Deputy general manager	58	Deputy general manager and in charge of production department of Henan XLX since 2006 Joined in Xinxiang Fertilizer Factory in 1974 Graduated from Zhengzhou Engineering College in 1993
Li Yushun	Deputy general manager	54	Deputy general manager and in charge of R&D department of Henan XLX since 2006 Joined in Xinjiang Fertiliser Factory in 1982 Graduated from Zhengzhou Engineering College in 1982
Wang Nairen	Deputy general manager	51	Deputy general manager in charge of sales and purchasing of Henan XLX since 2006 Joined in Xinxiang Fertilizer Factory in 1993 Master of business administration from Tianjin University of Finance and Economics in 2002
Zhao Lianzi	Deputy general manager	52	Deputy general manager in charge of marketing and strategy department of Henan XLX since 2012 Joined in Xinxiang Fertiliser Factory in 1999 Completed executive development program from Guanghua School of Management, Peking University, in 2007 Master of business administration from Tianjin University of Finance and Economics in 2002

Source: Company data

Figure 37. Key Milestones

Date	Event
2003	Xinxiang Fertiliser Factory restructured into private company, Henan XLX Chemical Company through management buyout by Liu Xingxu
2006	China XLX was incorporated in Singapore
2006	Plant II with capacity of 0.3m tpa of urea commenced operation
Jun 2007	Listed on Singapore stock exchange
2009	Plant III with capacity of 0.4m tpa of urea commenced operation
Dec 2009	Listed on Hong Kong stock exchange
Nov 2011	Acquired 100% equity interest in Manas Tianli Coal Co for RMB84.5m. Tianli is mainly engaged in coal mining in Xinjiang and the sales of coal.
Nov 2011	Issued 176m convertible bonds at RMB1.84 per share to Nitro Capital Partners
Apr 2012	Received New/High Tech Enterprise Award, and corporate income tax rate reduced to 15% from 2011 to 2013. This award is subject to re-examination upon expiry
Apr 2012	New compound fertiliser plant with capacity of 0.15m tpa commenced operation
Jan 2013	Water soluble compound fertiliser production line commenced operation in Xinjiang
Sep 2013	Plant IV with capacity of 0.8m tpa of urea commenced trail operation
Jun 2014	Obtained approval to establish China Nitrogen Fertiliser Industry (Xinlianxin) Technology Research Center. The construction of phases I and II are expected to be completed in December 2015 and June 2017, respectively
Jul 2014	Developed control release fertiliser with Hefei Institution of China Academy of Science. The product can enhance the absorption of nitrogen and increase yields
Aug 2014	Delisted from the mainboard of the Singapore exchange on 12 August 2014
Aug 2014	Developed humic acid large granule urea, which can improve the quality of soil
Sep 2014	Tower granulation compound fertiliser plant with capacity of 0.2m tpa commenced operation, and total compound fertiliser capacity reached 1.1m tpa
Nov 2014	Vehicular urea products passed the tests conducted by Pony (Beijing) Testing
Dec 2014	New/High Tech Enterprise Award renewed, and corporate income tax rate reduced to 15% from 2014 to 2016
Feb 2015	Acquired 100% equity interest in Manas Tianxin Coal Co for RMB94.4m. Tianxin is mainly engaged in the mining and sale of coal in Xinjiang
Apr 2015	Furfuryl alcohol plants with capacity of 50,000 tpa commenced production
Sep 2015	Plant V with urea capacity of 0.52m tpa commenced operation, with total urea capacity reaching 2.6m tpa

Source: Company data

APPENDIX III. QUARTERLY FINANCIAL PERFORMANCE

Figure 38. Quarterly Financial Data

(RMB m)	**1Q15**	**2Q15**	**3Q15**
Revenue	1,413	1,472	1,688
YoY (%)	*11.0*	*26.5*	*21.0*
Net profit	107	139	149
YoY (%)	*121.0*	*775.1*	*83.0*

Source: Company data

APPENDIX IV. RISKS FACTORS

Rebound in Coal Prices

China XLX primarily uses coal as its raw materials. A rise in coal prices would narrow its cost advantage over natural gas-based urea producers, and ultimately lead to a fall in its gross margin, as the increased costs are difficult to transfer to customers in an oversupplied market.

Figure 39. Sensitivity of Earnings to Changes in Coal Prices

Year ended 31 Dec (%)	2016E	2017E
+10%	(16.2)	(12.9)
+5%	(8.1)	(6.4)
Base case	-	-
-5%	8.1	6.4
-10%	16.2	12.9

Source: BOCI Research estimates

However, we expect the risk to be minimal. First of all, the oversupply situation in the domestic coal market is very difficult to resolve, at least until significant capacity elimination occurs. Moreover, the company acquired two coal mines in Xinjiang, which should partially hedge against any negative impact from a rebound in coal prices.

Sharp Drop in Urea Price

Another major risk for the company is a sharp drop in urea prices given the oversupply situation in the local market.

Figure 40. Earnings Sensitivity against Changes in Urea Prices

Year ended 31 Dec (%)	2016E	2017E
+5%	21.7	15.7
+3%	13.0	9.4
Base case	-	-
-3%	(13.0)	(9.4)
-5%	(21.7)	(15.7)

Source: BOCI Research estimates

The company is very sensitive to urea prices, as 58% of its gross profit is expected to be generated from this business in 2016. However, we reckon a large drop in urea prices is unlikely. Given that subsidies, such as favourable electricity prices for urea producers, are declining and a 13% VAT was imposed in September 2015, the unit production costs of marginal producers should rise next year. Any significant drop in urea prices would cause many small or natural gas-based producers to exit the market in short order. In this case, the oversupply situation would ease somewhat, thus providing support to urea prices.

Weaker-than-expected Urea Demand in Xinjiang

China XLX's urea plant in Xinjiang commenced operation in October 2015 and should make a full-year contribution in 2016. As the Xinjiang market is relatively remote and isolated, most of its products should be consumed in the local market. Hence, the demand in Xinjiang is another risk the company faces.

However, we assume this risk as controllable. First of all, the company exports part of its products to Central Asian nations such as Kazakhstan through distributors, given the short distance. In addition, its melamine plant with capacity of 60,000 tpa will go into operation in 2016. Should urea demand weaken in Xinjiang, the company's melamine plants can consume 0.18m tonnes of urea, 35% of its total urea capacity.

Income Statement *(RMB m)*

Year ended 31 Dec	2013	2014	2015E	2016E	2017E
Revenue	**3,969**	**5,082**	**5,640**	**5,799**	**6,449**
Cost of sales	(3,221)	(4,183)	(4,204)	(4,152)	(4,629)
Operating expenses (exclude depreciation & amortisation)	(180)	(125)	(210)	(60)	(13)
EBITDA	**568**	**774**	**1,226**	**1,587**	**1,807**
Depreciation & amortisation	(188)	(327)	(467)	(651)	(733)
Operating profit (EBIT)	**380**	**447**	**759**	**936**	**1,074**
Net interest income/(expenses)	(91)	(203)	(234)	(244)	(217)
Other gains/(losses)	22	42	26	26	26
Pre-tax profit	**312**	**285**	**550**	**717**	**883**
Tax on profit	(52)	(49)	(94)	(122)	(150)
Minority interests	5	4	1	0	0
Net profit	**264**	**241**	**457**	**595**	**733**
Core net profit	**264**	**241**	**457**	**595**	**733**
EPS (RMB)	0.225	0.205	0.389	0.506	0.623
Core EPS (RMB)	0.225	0.205	0.389	0.506	0.623
DPS (RMB)	0.060	0.060	0.117	0.152	0.187
Revenue growth (%)	1	28	11	3	11
EBIT growth (%)	(11)	18	70	23	15
EBITDA growth (%)	(7)	36	58	29	14
EPS growth (%)	(15)	(9)	90	30	23
Core EPS growth (%)	(15)	(9)	90	30	23

Source: Company data, BOCI Research estimates

Balance Sheet *(RMB m)*

As at 31 Dec	2013	2014	2015E	2016E	2017E
Cash & cash equivalents	947	1,125	1,404	928	1,159
Receivables	10	36	40	41	46
Inventories	261	341	342	338	377
Other current assets	426	635	692	638	584
Total current assets	**1,644**	**2,137**	**2,479**	**1,945**	**2,166**
Fixed assets	4,735	6,907	8,671	9,021	8,787
Intangible assets	48	47	112	112	112
Other long term assets	875	498	503	503	503
Total long-term assets	**5,659**	**7,452**	**9,286**	**9,636**	**9,403**
Total assets	**7,303**	**9,588**	**11,765**	**11,581**	**11,568**
Creditors	88	96	96	95	106
Short-term debt	435	429	1,608	551	351
Other current liabilities	1,094	2,258	2,901	2,847	2,794
Total current liabilities	**1,618**	**2,783**	**4,605**	**3,493**	**3,250**
Long-term borrowings	3,088	4,045	3,987	4,437	4,086
Other long-term liabilities	84	87	94	94	94
Share capital	837	881	881	881	881
Reserves	1,675	1,794	2,197	2,676	3,257
Shareholders' equity	**2,511**	**2,675**	**3,079**	**3,557**	**4,138**
Minority interests	3	(1)	0	0	0
Total liabilities & equity	**7,303**	**9,588**	**11,765**	**11,581**	**11,568**
Book value per share (RMB)	2.51	2.67	3.08	3.56	4.14
Tangible assets per share (RMB)	2.46	2.63	2.97	3.45	4.03
Net debt/(cash)per share (RMB)	2.58	3.35	4.19	4.06	3.28

Source: Company data, BOCI Research estimates

Cash-flow Statement *(RMB m)*

Year ended 31 Dec	2013	2014	2015E	2016E	2017E
Pre-tax profit	312	285	550	717	883
Depreciation & amortisation	188	327	467	651	733
Net interest expenses	91	203	234	244	217
Change in working capital	426	404	(5)	2	(33)
Tax paid	(80)	(46)	(94)	(122)	(150)
Other operating cash flows	(144)	(217)	(234)	(244)	(217)
Cash flow from operations	**793**	**956**	**919**	**1,248**	**1,433**
Net purchase of fixed assets	(1,633)	(1,658)	(1,700)	(1,000)	(500)
Decrease/(increase) in invest.	2	3	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(1,631)**	**(1,655)**	**(1,700)**	**(1,000)**	**(500)**
Net increase in equity	0	0	0	0	0
Net increase in debt	1,371	952	1,121	(608)	(551)
Dividends paid	(63)	(60)	(60)	(117)	(152)
Other financing cash flows	(15)	(15)	0	0	0
Cash flow from financing	**1,294**	**877**	**1,061**	**(725)**	**(702)**
Change in cash	456	178	279	(477)	231
Cash at beginning of year	491	947	1,125	1,404	928
Free cash flow to firm	(834)	(684)	(764)	264	948
Free cash flow to equity	523	253	357	(344)	398

Source: Company data, BOCI Research estimates

Key Ratios

Year ended 31 Dec	2013	2014	2015E	2016E	2017E
Profitability (%)					
EBITDA margin	14.3	15.2	21.7	27.4	28.0
EBIT margin	9.6	8.8	13.4	16.1	16.7
Pre-tax margin	7.9	5.6	9.8	12.4	13.7
Net profit margin	6.7	4.7	8.1	10.3	11.4
Liquidity (x)					
Current ratio	1.0	0.8	0.5	0.6	0.7
Interest coverage	4.0	2.1	3.0	3.6	4.6
Net debt to equity (%)	102.5	125.3	136.1	114.1	79.2
Quick ratio	0.9	0.6	0.5	0.5	0.6
Valuation (x)					
P/E	11.7	12.9	6.8	5.2	4.2
Core P/E	11.7	12.9	6.8	5.2	4.2
Core P/E @ target price	18.0	19.8	10.4	8.0	6.5
P/B	1.1	1.0	0.9	0.7	0.6
P/CF	3.9	3.2	3.4	2.5	2.2
EV/EBITDA	9.2	7.7	5.6	4.2	3.3
Activity ratios					
Inventory days	39.3	26.3	29.6	29.9	28.2
Accounts receivables days	1.2	1.6	2.5	2.6	2.5
Accounts payables days	9.1	6.6	6.2	6.0	5.7
Returns (%)					
Dividend payout ratio	22.7	24.9	25.5	25.5	25.5
Return on equity	10.9	9.3	15.9	17.9	19.0
Return on assets	5.1	4.4	5.9	6.7	7.7
Return on capital employed	7.3	7.0	9.8	11.1	12.7

Source: Company data, BOCI Research estimates

LISTED COMPANIES IN THIS REPORT

Alibaba Group (BABA US/US$81.71, BUY)
Cangzhou Dahua (600230 CH/RMB12.23, NR)
China BlueChemical Ltd (3983 HK/HK$2.14, NR)
China Coal Energy (1898 HK/HK$3.25; 601898 CH/RMB6.03, HOLD)
China XLX Fertiliser (1866 HK/HK$3.20, BUY)
CNOOC Limited (883 HK/HK$8.51, HOLD)
Hechi Chemical (000953 CH/RMB15.85, NR)
Hualu Hengsheng (600426 CH/RMB13.48, NR)
Hubei Xinyangfeng (000902 CH/RMB24.6, NR)
Hubei Yihua (000422 CH/RMB7.11, NR)
Luxi Chemical (000830 CH/RMB6.62, NR)
Sichuan Meifeng (000731 CH/RMB9.57, NR)
Sinofert Holdings (297 HK/HK$1.22, NR)
Yunnan Yuntianhua (600096 CH/RMB14.11, NR)

Closing prices as of 27 November 2015
All figures subject to rounding

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