

Equity Research
Chemicals/ China

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OP Express

Not rated

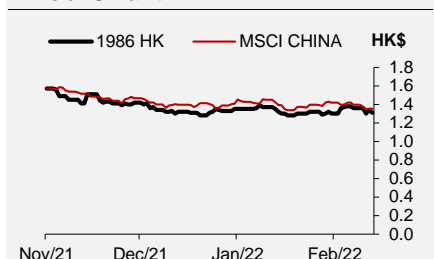
Close price: HK\$1.31

Key Data

HKEx code	1986 HK
12 Months High (HK\$)	1.86
12 Month Low (HK\$)	1.12
3M Avg Dail Vol. (mn)	1.25
Issue Share (mn)	1,026.26
Market Cap (HK\$mn)	1,344.39
Fiscal Year	12/2020
Major shareholder (s)	Mr. Ge Yi(51.97%)

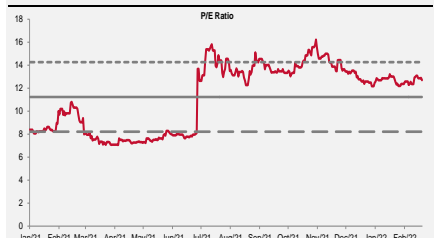
Source: Company data, Bloomberg, OP Research
Closing price are as of 24/02/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-3.0	-13.2	-5.1
Rel. MSCI China %	1.8	-2.2	7.0

PE Chart



Company profile

Tsaker Chemical Group Ltd develops chemicals used for pigment products. The Company sells its products to the pharmaceutical and agricultural chemical manufacturing industry.

Tsaker Chem (1986 HK)

Battery business started to bear fruit

- Tsaker expects FY21 net profit to grow at least 52% yoy to over RMB220mn, thanks to (1) the increase in sales volume of dye and pigment intermediates, and (2) significant increase in price and sales volume of iron phosphate
- Price of iron phosphate has surged 70% since Sep 21, expecting battery business to break even in FY21
- Battery business may act as a trigger for re-rating

Battery business is getting on the right track. We believe a 70%+ increase in price of iron phosphate since Sep 21 will bring Tsaker's battery business to turnaround. We expect the price of iron phosphate will stay high in the near term given (1) strong battery demand from EVs, and (2) lithium iron phosphate ("LFP") battery becomes the mainstream battery for EVs. Tsaker has been gradually mass producing iron phosphate from 2H21 after it upgraded the production facilities. Looking forward, Tsaker is working to raise the annual production capacity of iron phosphate from 20,000 tonnes to 70,000 tonnes by 2024 to meet surging demand for LFP battery.

Overwhelming market share for major products. Tsaker is the global market leader in DSD Acid, DMSS and DMAS, the dye and pigment intermediates that are widely used in industrial products and consumer goods. Tsaker has the pricing power to shift the rising costs to customers. We understand it has increased prices of major products from 4Q21. Besides, we expect a mild GPM improvement for chemical intermediates in FY21E amid higher sales.

BPDA will benefit from the growing polyimide film industry chain in China. BPDA is a chemical intermediate for the production of polyimide film which is widely used in semi-conductor, microelectronics, aerospace and etc. The Company has started to construct production lines for BPDA with 500 tonnes annual capacity, expecting to complete in Jun 2022.

Battery business may act as a trigger for re-rating. Tsaker is trading at an undemanding FY21E PER of 5.1x when comparing to the 5 year average PER of 22.4x. We argue that investors have overlooked the Company's battery business which deserve a higher P/E multiple. We project battery business will contribute net profit of RMB40mn in 22E. The value of the battery business could reach RMB900mn (or HK\$1.1bn) based on Chinese battery material manufacturers' average PER (23x) in FY22E.

Risk: (1) Price competition, (2) shrinking demand for LFP battery, (3) Weakening market leadership for chemical intermediates.

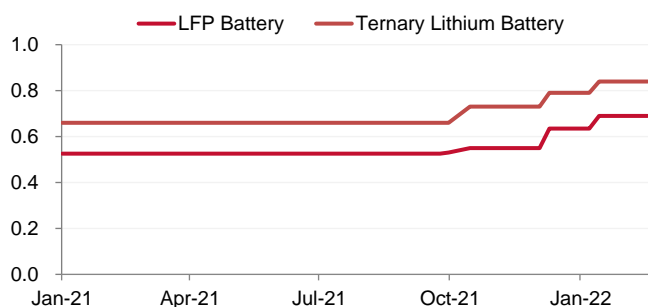
Exhibit 1: Financial Summary

Year to Dec (RMB\$ mn)	FY17	FY18	FY19	FY20
Revenue	1,247.4	1,515.9	1,818.3	1,275.3
Growth (%)	+19.8	+21.5	+20.0	-29.9
Net profit	136.1	222.9	517.9	144.9
Growth (%)	+12.6	+63.7	+132.4	-72.0
Gross margin (%)	29.1	34.6	57.2	34.9
Profit margin (%)	10.9	14.7	28.5	11.4
EPS(RMB)	0.130	0.210	0.500	0.140
ROE (%)	13.0	18.1	33.6	8.4
P/E (x)	10.1	6.2	2.6	9.4
P/B (x)	1.2	1.0	0.8	0.8
Yield (%)	3.0	4.9	7.0	3.7

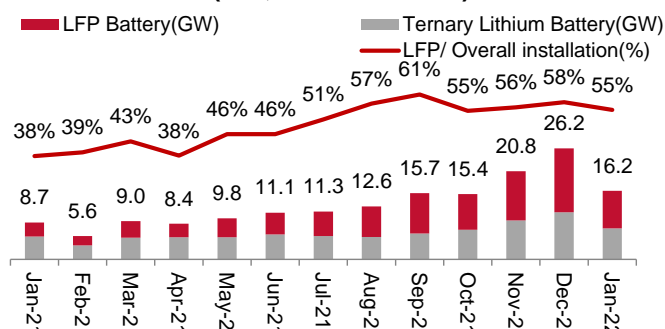
Source: Bloomberg, OP Research

Exhibit 2: LFP battery has become the mainstream battery for EVs in China thanks to the cost advantage

In term of unit cost(RMB) per energy density(Ah/W), LFP battery is 20% lower than ternary lithium battery



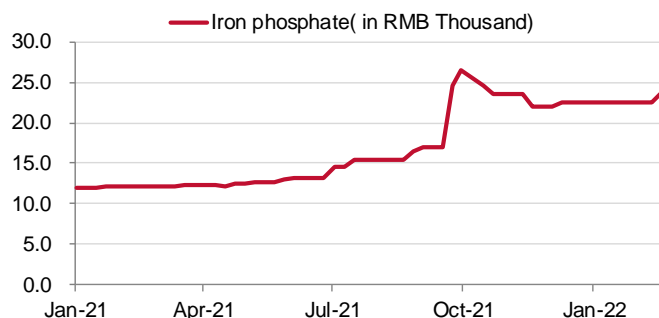
Battery installation of EVs in China (GW, Jan 21- Jan 22)



Sources: EnergyTrend, China Automotive Battery Innovation Alliance, OP Research

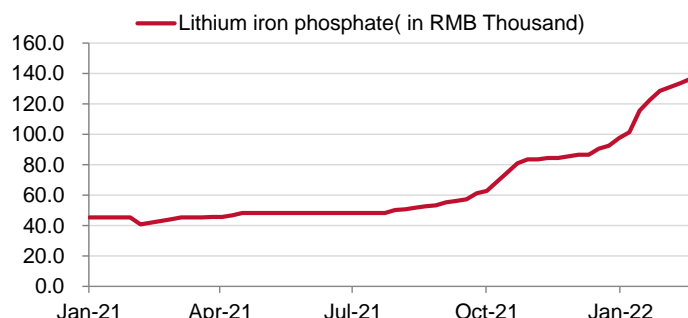
Exhibit 3: Price of LFP battery raw materials have jumped ~70% since Sep 21

Price of iron phosphate from 2021



*Iron phosphate is the main ingredient of lithium iron phosphate

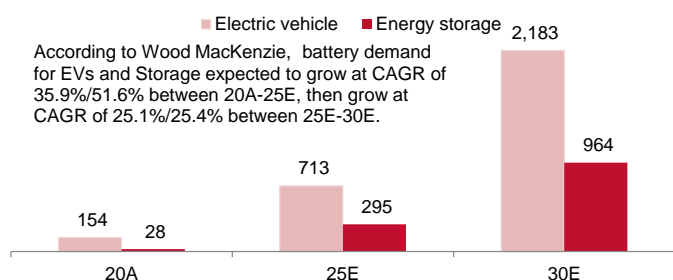
Price of lithium iron phosphate from 2021



Sources: ICCSINO, Bloomberg, OP Research

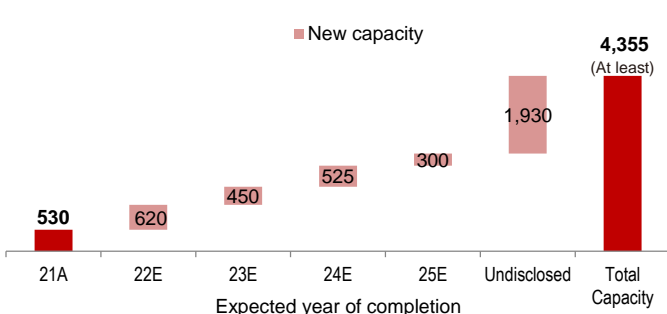
Exhibit 4: The strong growth of new capacity of iron phosphate matches to the expected growth in battery demand for EVs and energy storage

Market expects a surging battery demand for electric vehicle and energy storage in the next ten years(GWh, cumulative)



According to Wood MacKenzie, battery demand for EVs and Storage expected to grow at CAGR of 35.9%/51.6% between 20A-25E, then grow at CAGR of 25.1%/25.4% between 25E-30E.

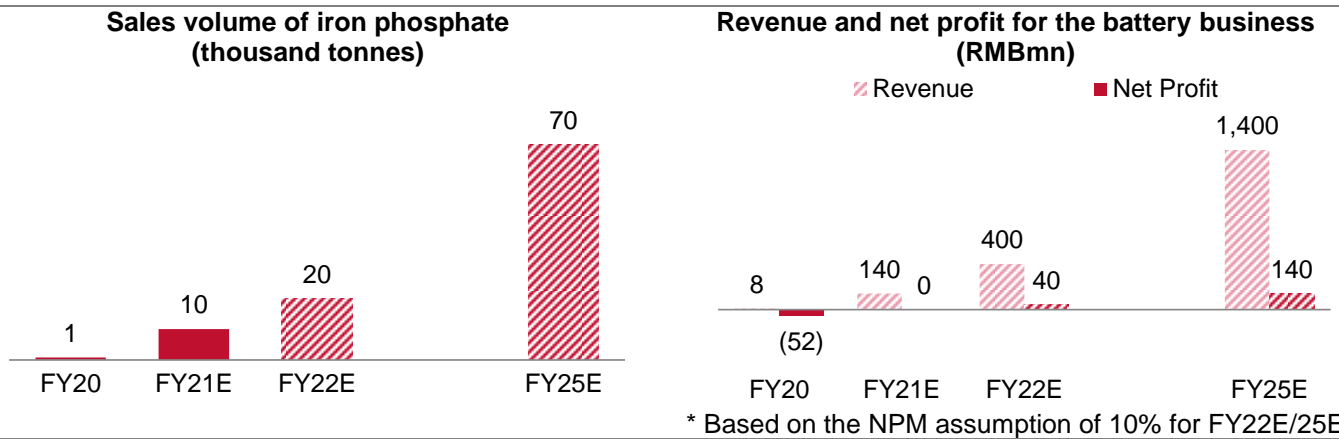
Projection on new production capacity of iron phosphate (thousand tonnes) based on the expansion plans disclosed by Chinese companies, who have engage in the production of iron phosphate



Sources: Wood MacKenzie, open sources, Company

The production capacity of iron phosphate is expected to grow significantly in next few years based on the announced expansion plans of A-share and HK-listed companies. However, it is not easy for manufacturers to consistently produce high quality iron phosphate. We understand that some companies have encountered problems with mass production of iron phosphate. This has slowed down the growth of new capacity in the short term.

Exhibit 5: We expect Tsaker's battery business to contribute net profit of RMB40mn in FY22E and RMB140mn after it has executed the expansion plan and reached full production capacity



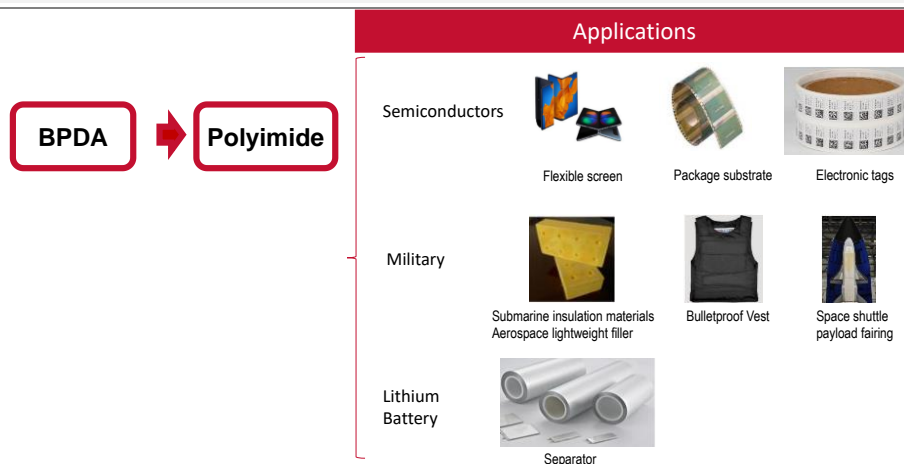
Sources: Company, OP Research

Exhibit 6: The value of Tsaker's battery business could reach RMB900mn(or HK\$1.1bn) based on the average FY22E PER of A shares companies who engage in manufacturing of iron phosphate and battery raw materials

Name	Ticker	Price	Mkt cap (US\$m)	PER Hist (x)	PER 21E (x)	PER 22E (x)
Shanghai Putai-A	603659 CH	139.36	15,307	128.4	56.7	38.3
Guangzhou Tinc-A	002709 CH	100.58	15,270	174.5	41.7	24.6
Ningbo Shansha-A	600884 CH	29.10	9,864	300.0	19.2	21.2
Shenzhen Capch-A	300037 CH	93.05	6,071	72.1	31.1	23.1
Chengdu Wintru-A	002539 CH	14.00	2,237	28.6	12.3	10.5
Guizhou Chanhe-A	002895 CH	25.49	1,969	75.7	36.6	20.7
Average				129.9	33.0	23.1

Sources: Bloomberg, OP Research

Exhibit 7: Polyimide is mainly used in semi-conductor, microelectronics, aerospace and etc

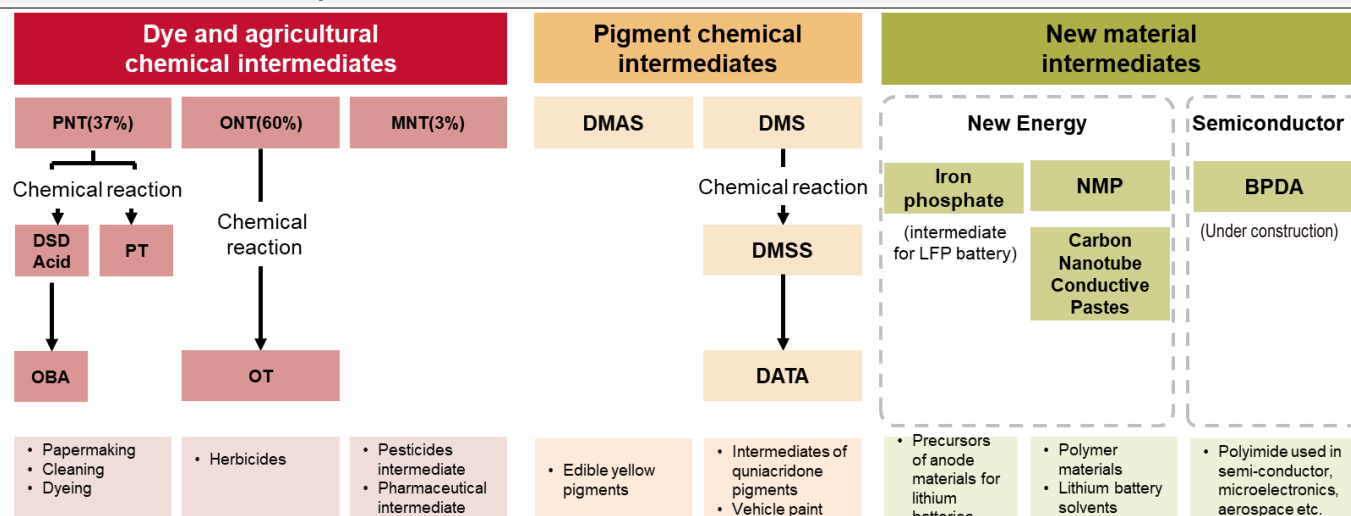


Sources: Company, OP Research

The production of high performance polyimide film was used to dominate by overseas manufacturers. Recently, Rayitek (688323 CH) become the first few domestic players in the high performance polyimide film market.

Tsaker will be one of the main beneficiaries from the growing domestic polyimide film industry if it could mass produce BPDA in the short term. This will be a new long-term growth driver for the Company.

Exhibit 8: Tsaker Chem's product line



Sources: Company, OP Research

Exhibit 9: Tsaker Chem's customers and its market share in certain chemical intermediates

Tsaker has over 10 years of working relationship with renowned international chemical manufacturers

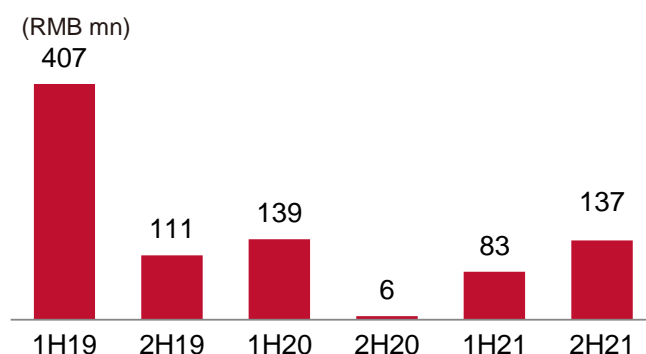


Tsaker has overwhelming market share in certain chemical intermediates

No.1 •DSD Acid(53%)	No.1 •DMSS(55%)
No.1 •DMAS(70%)	No.1 •MNT(25%)

Sources: Company, OP Research

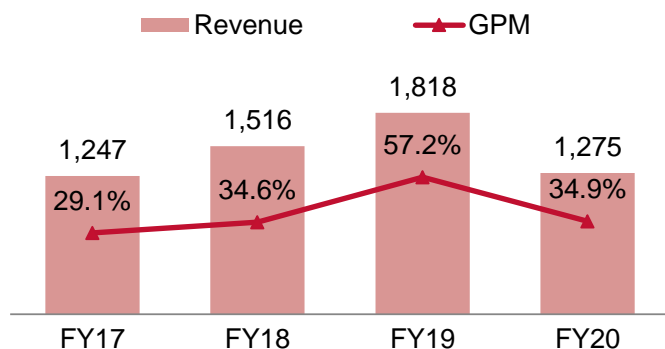
Exhibit 10: Tsaker's net profit continued to recover in 2H21



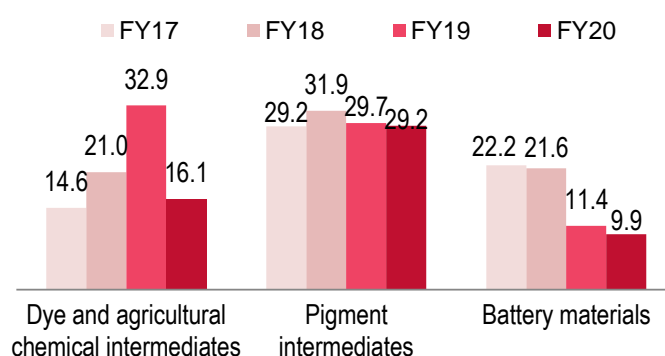
Sources: Company, OP Research

Exhibit 11: Revenue and GPM, ASP of major products

Revenue (RMB mn) and GPM (%)



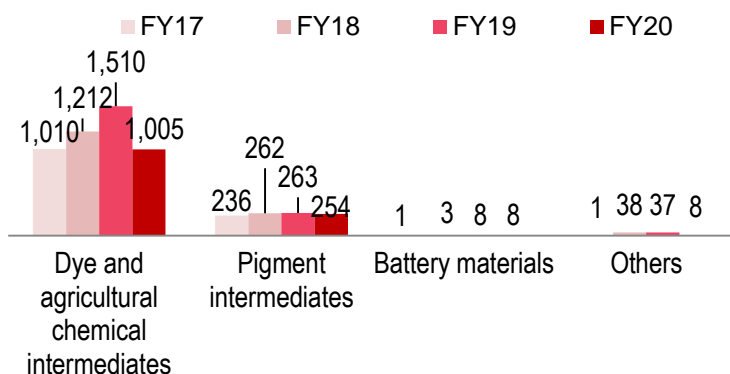
ASP of major products (in RMB thousands)



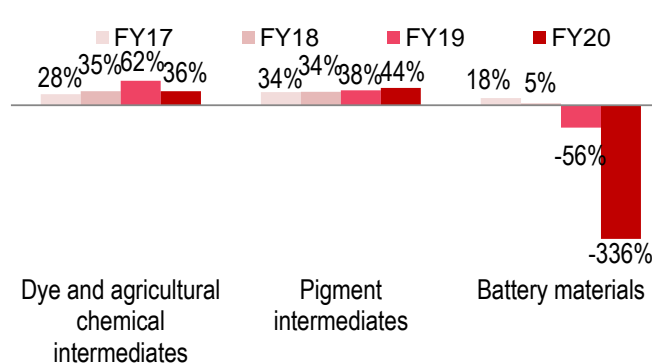
Sources: Company, OP Research

Exhibit 12: Segmental revenue and GPM

Segmental revenue(in RMB mn)



Segmental GPM (%)



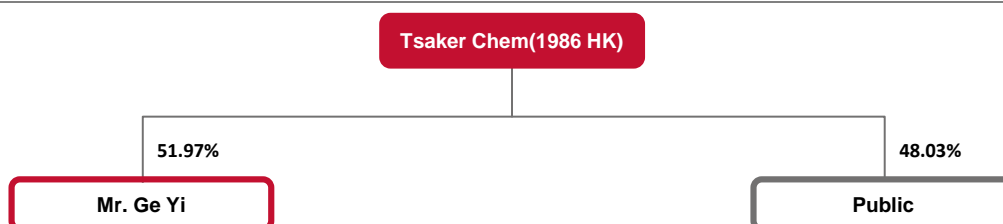
Sources: Company, OP Research

Exhibit 13: Tsaker's current annual production capacity and its expansion plans

(Unit: Tonnes)	Current capacity	New capacity in construction	Total investment amount
DSD Acid	35,000		
Mononitrotoluene	80,000		
GBL	6,000		
Pigment intermediates	16,000		
NMP	6,000		
Iron phosphate	20,000	50,000 (Phase 1: 25,000 tonnes, will commence before Dec 2022; Phase 2: 25,000 tonnes, will commence before Dec 2024)	RMB250mn (Phase 1: RMB150mn; Phase 2: RMB100mn)
New Material	-	BPDA: 500	RMB40mn

Sources: Company

Exhibit 14: Shareholding structure



Sources: Company

Exhibit 15: Peer Group Comparison

Company	Ticker	Price	3-mth			3-Yr								ROE		ROE		Sh px	
			Mkt cap (US\$m)	avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	Cagr (%)	PEG(x)	Div yld Hist	Div yld FY1	P/B Hist (x)	P/B FY1 (x)	Hist (%)	FY1 (%)	1-mth %	Sh px 3-mth %		
Tsaker Cham	1986 HK	1.31	172	0.2	7.6	5.1	3.9	27.5	0.2	3.6	19.80	0.6	0.6	5.1	11.0	-3.0	-13.2		
HSI		22,901.56			9.1	10.8	9.5	(0.7)	(16.3)	2.6	3.23	1.0	1.1	10.5	10.5	-7.1	-7.2		
HSCEI		8,030.90			8.5	8.6	7.7	1.9	4.7	2.9	3.52	0.9	1.1	10.4	12.2	-7.2	-8.7		
CSI300		4,529.32			16.4	13.5	11.6	N/A	N/A	1.8	2.3	2.0	1.9	12.4	13.8	-5.4	-7.9		
Peers																			
HK listed chemical companies					10.9	6.7	5.4	41.3	0.2	5.4	4.8	1.1	1.0	19.1	18.7	-4.3	-4.3		
Dongyue Group	189 HK	189 HK	11.40	3,293	37.4	25.0	9.8	7.0	59.4	0.2	1.2	4.1	2.2	1.6	11.4	18.5	17.3		
Yip'S Chemical	408 HK	408 HK	4.00	291	0.1	7.4	N/A	N/A	N/A	N/A	9.5	N/A	0.6	N/A	16.7	N/A	-9.1		
Fufeng Group Ltd	546 HK	546 HK	2.95	957	1.9	9.6	5.3	4.6	33.4	0.2	4.7	6.3	0.5	0.5	7.1	9.5	-1.3		
L & M Chemical	746 HK	746 HK	7.40	782	0.8	12.2	6.3	5.8	32.3	0.2	5.7	N/A	1.2	1.1	21.1	17.9	-2.5		
China Risun Grou	1907 HK	1907 HK	4.83	2,746	2.3	9.3	5.5	4.3	40.1	0.1	5.7	4.1	1.6	1.5	33.9	28.7	1.7		
China Sanjiang F	2198 HK	2198 HK	2.11	322	0.6	1.8	N/A	N/A	N/A	N/A	20.1	N/A	0.4	0.4	24.2	N/A	-10.2		

* Outliners and "N/A" entries are excl. from the calculation of averages

Sources: Bloomberg

Financial Summary

(RMB mn)	FY17	FY18	FY19	FY20
Income Statement				
Revenue	1,247.4	1,515.9	1,818.3	1,275.3
Gross Profit	363.0	524.1	1,041.0	445.3
Other Operating Income(expenses)	(1.9)	(6.8)	(66.4)	(15.8)
Operating Expenses	(164.5)	(180.1)	(233.3)	(219.8)
Selling and marketing	(42.7)	(48.5)	(44.9)	(41.6)
General & admin	(121.8)	(131.6)	(188.4)	(178.2)
Operating Income (Loss)	196.6	331.7	741.3	209.7
Pretax Income	181.1	308.9	709.6	177.3
Income Tax Expense	(45.0)	(86.1)	(191.4)	(32.7)
Profit to shareholders	136.1	222.9	517.9	144.9
Balance sheet				
Total Assets				
Cash, Cash Equivalents & STI	359.8	124.3	104.8	101.2
Accounts & other Receivable	328.2	254.4	286.0	217.3
Inventories	115.0	210.0	274.2	177.8
Other ST Assets	174.9	286.2	191.3	151.2
Total Current Assets	977.9	875.1	856.4	647.5
Property, Plant & Equip, Net	1119.7	1,496.1	1,521.3	1,447.1
Other LT Assets	158.6	138.0	203.7	218.4
Total Noncurrent Assets	1,278.4	1,634.1	1,725.0	1,695.6
Total Assets	2,256.3	2,509.2	2,581.4	2,343.1
Liabilities & Shareholders' Equity				
Payables & Accruals	495.8	446.4	403.1	265.2
ST Debt	194.6	364.8	283.9	310.2
Other ST Liabilities	15.0	60.2	58.9	22.2
Total Current Liabilities	705.3	871.5	745.9	597.6
LT Debt	387.4	286.4	29.9	39.4
Other LT Liabilities	21.6	31.4	39.1	26.8
Total Noncurrent Liabilities	409.0	317.8	69.0	66.2
Total Liabilities	1,114.2	1,189.3	815.0	663.8
Share Capital & APIC	67.5	67.5	67.1	66.7
Retained Earnings	1,073.8	1251.5	1,699.1	1,612.6
Equity Before Minority Interest	1,141.3	1319.1	1,766.2	1,679.3
Minority Interest	0.6	0.8	0.3	0
Total Equity	1,141.9	1,319.9	1,766.4	1,679.3
Cash Flow Statement				
Cashflow from operating	191.6	216.7	564.9	219.2
Cashflow from investing	(257.3)	(463.1)	(213.7)	(39.4)
Cashflow from financing	27.6	10.0	(369.6)	(185.5)
Net cash changes	(38.1)	(236.4)	(18.4)	(5.6)

Sources: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
27/01/2022	Greentown Mgmt	9979	Resilient against headwinds	BUY	John Siah
21/01/2022	361 Degrees	1361	4Q21 retail sales beat expectation	BUY	John Siah
14/12/2021	Tian Lun Gas	1600	Embracing green energy, ambitious target for gas sales	BUY	John Siah
06/12/2021	New Higher Edu	2001	Aim for quality growth	BUY	John Siah
29/11/2021	China Edu Group	839	FY21 results in-line, expecting more M&A	BUY	John Siah
18/11/2021	Edvantage Group	382	FY21 results slightly beat our expectation	BUY	John Siah
26/10/2021	Truly Int'l	732	More added value of automotive display as a new earnings catalyst	BUY	John Siah
19/10/2021	China Edu Sector	-	Encourage private participation in vocational education	-	John Siah
11/10/2021	AAC Tech	2018	Sluggish 3Q21 earnings on weak smartphone market	BUY	John Siah
03/09/2021	HK Tech Venture	1137	Striving to become a global technology enabler	BUY	John Siah
31/08/2021	Tian Lun Gas	1600	Mixed 21H1 results, expecting margins to improve in 21H2E	BUY	John Siah
27/08/2021	AAC Tech	2018	Optics segment stood strong against headwinds in 21Q2	BUY	John Siah
25/08/2021	361 Degrees	1361	Strong earnings expected to continue in 21H2E	BUY	John Siah
09/08/2021	Edvantage Group	382	Promising growth to continue in FY22E	BUY	John Siah
09/08/2021	China Edu Group	839	Another landmark M&A	BUY	John Siah
09/08/2021	New Higher Edu	2001	SY21/22 growth on track	BUY	John Siah
06/08/2021	Innovent Bio	1801	Sintilimab on track to become RMB10 bn drug	BUY	Kevin Tam
05/08/2021	Greentown Mgmt	9979	Safe sail inside the Storm	BUY	John Siah
05/08/2021	Xinyi Energy	3868	More M&A coming in 21H2E	BUY	John Siah
30/07/2021	SF REIT	2191	First logistics REITs in HK, riding the e-commerce wave	NR	John Siah
27/07/2021	China Edu Sector	-	Private Higher Edu will not be the next K12 tutoring	-	John Siah
13/07/2021	HKTv	1137	Edging up GMV with enabler business kicking off	BUY	Kevin Tam
07/07/2021	Xinyi Energy	3868	Fast growing solar farms with promising dividend outlook	BUY	John Siah
02/07/2021	Yidu Tech	2158	Getting closer to breakeven	BUY	Kevin Tam
24/06/2021	Greentown Mgmt	9979	21H1 net profit expected to up more than 70% YoY	BUY	John Siah
11/06/2021	TCL Electronics	1070	Turnaround possible in 2H21E	BUY	Kevin Tam
09/06/2021	Tian Lun Gas	1600	Zhuhai Port (000507.SZ) becomes new major shareholder	BUY	John Siah

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Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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