



Company Report: China XLX Fertiliser (01866 HK)

公司报告: 中国心连心化肥 (01866 HK)

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Supply-Demand Balance Will Marginally Improve in Fertilizers Industry, Maintain "Buy"

- **We reiterate "Buy" rating and maintain the TP at HK\$5.70.** We slightly raise the EPS forecasts for China XLX fertiliser (CXLX, the "Company") for 2024/ 2025/ 2026 by 7.4%/ 3.9%/ 2.7% to RMB1.093/ RMB1.115/ RMB1.255. We maintain the TP at HK\$5.70, equivalent to 4.8x/ 4.7x/ 4.2x 2024/ 2025/ 2026 PER.
- **1H2024 shareholders' net profit increased 25.8% YoY to RMB687 million.** Total revenue was flat at RMB12.1 billion in 1H2024, in which revenue for top three products, urea was RMB3,834 million (+9.0%), compound fertilizer was RMB3,410 million (+6.3%), methanol was RMB1,291 million (+32.3%). Change in ASP and sales volume of urea was -13% and +25%, compound fertilizer was -6% and +13% and methanol was +1% and +13%, respectively. Overall gross margin increased 2 pts YoY to 19.5%, mainly due to improvement in gross margin for urea (+2 pts to 31%), compound fertilizer (+6 pts to 18%) and methanol (+10 pts to 8%), the improvement in gross margin for these products was mainly due to decline in raw materials prices such as coal and potash.
- **Supply-demand balance in fertilizers industry will marginally improve due to recovering economy and lower-than-expected increase in new supply.** 1) We expect compound fertilizers performance to further improve in 2H2024 with stabilizing coal prices and recovering economy, which improves the supply-demand balance in fertilizer industry. 2) Although plans for industry's companies are in place to expand production capacities for fertilizers, actual operating rates and adherence to production standards might not meet expectations. In addition, stringent environmental controls and winter inspections focused on phasing out obsolete production facilities will further enhance the supply-demand balance by limiting excess supply. 3) The Company worked to enhance brand presence through "differentiated products + precise services" efforts, mainly through utilizing big data to concentrate on large-scale farmers and transforming its sales structure by converting distributors to service providers.
- **Catalysts:** 1) National requirements for the power industry to complete urea de-sulfurization modifications will significantly increase industrial demand for urea; 2) adjustments in export control policies may support the domestic fertilizer market.
- **Risk Factors:** 1) Price volatility of raw materials may hurt gross margin; 2) competition is likely to remain intense within the fertilizer industry.

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$5.70

HK\$5.70

Share price 股价:

HK\$3.610

Stock performance

股价表现



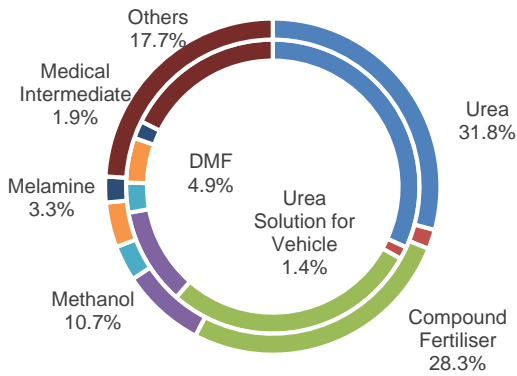
Change in Share Price	1 M	3 M	1 Y
股价变动	1个月	3个月	1年
Abs. % 绝对变动 %	2.0	(5.7)	(7.2)
Rel. % to HS Index 相对恒指变动 %	(2.6)	(0.3)	(6.3)
Avg. Share price(HK\$) 平均股价 (港元)	3.9	3.6	3.4

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2022A	23,072	1,326	1.097	(0.8)	2.9	5.694	0.6	0.250	7.8	15.1
2023A	23,475	1,187	0.969	(11.7)	3.4	6.280	0.5	0.240	7.3	11.8
2024F	24,296	1,330	1.093	12.8	3.1	7.154	0.5	0.271	8.1	11.9
2025F	24,541	1,355	1.115	2.0	3.0	7.993	0.4	0.276	8.3	10.8
2026F	25,798	1,524	1.255	12.6	2.7	8.937	0.4	0.311	9.3	10.9
Shares in issue (m) 总股数 (m)			1,214.4		Major shareholder 大股东				Mr. Liu Xing Xu	34.8%
Market cap. (HK\$ m) 市值 (HK\$ m)			4,384.1		Free float (%) 自由流通比率 (%)					44.2
3 month average vol. 3个月平均成交股数 ('000)			1,009.6		FY24 Net gearing (%) FY24 净负债/股东资金 (%)					88.9
52 Weeks high/low (HK\$) 52周高/低 (HK\$)			4.300 / 2.860		FY24 Est. NAV (HK\$) FY24 每股估值 (港元)					11.2

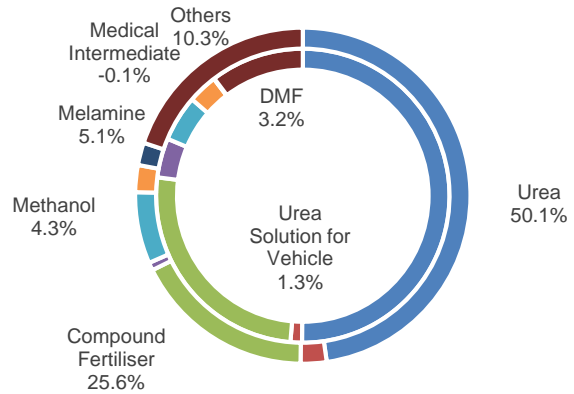
Source: the Company, Guotai Junan International.

Figure 1: Urea contributed 31.8% of CXLX's revenue in 1H2024



Source: the Company.

Figure 2: Urea contributed 50.1% of CXLX's segmental profit in 1H2024



Source: the Company.

Table 1: Chemical sector peers comparison - valuation

Company	Stock Code	Currency	Last price	Market cap (mn)	PE				PB				ROE (%)		D/Y (%)		EV/EBITDA	
					23A	24F	25F	26F	23A	24F	25F	26F	24F	24F	24F	24F		
Sinofert Holdings Ltd	00297 HK	HKD	0.940	6,673	9.5	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Century Sunshine Group Holdi	00509 HK	HKD	0.118	14	n.a.	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ko Yo Chemical Group Ltd	00827 HK	HKD	0.062	374	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Xlx Fertiliser Ltd	01866 HK	HKD	3.610	4,640	3.4	2.9	2.7	2.3	0.5	0.4	0.3	0.3	14.1	6.8	n.a.	n.a.	n.a.	n.a.
China Bluechemical Ltd - H	03983 HK	HKD	1.920	8,943	3.3	6.6	5.8	5.7	0.4	0.4	0.4	0.3	6.4	7.3	n.a.	n.a.	n.a.	n.a.
Migao Group Holdings Ltd	09879 HK	HKD	7.000	6,363	n.a.	17.3	n.a.	n.a.	n.a.	2.4	n.a.	n.a.	13.1	0.0	9.4	n.a.	n.a.	n.a.
Simple Average					5.4	9.0	4.2	4.0	0.4	1.1	0.3	0.3	11.2	4.7	9.4			
Weighted Average					5.4	9.2	4.7	4.5	0.5	1.0	0.4	0.3	10.3	4.9	9.4			

Source: Bloomberg, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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