

Key Data

H-share price (HK\$)	4.52
52Wk H/L(HK\$)	6.60 / 4.18
Issued shares (mn)	4,610
H-share	1,771
Domestic share	2,814
Non-listed foreign share	25
H-share market cap (HK\$m)	8,005
30-day avg vol (HK\$m)	39.5
Major shareholder (%):	
CNOOC*	61.04

*Domestic shares

Source: Company, Bloomberg, ABCI Securities

Sales breakdown in 1HFY12 (%)

Urea	37.0
Methanol	33.0
Phosphate	13.0
Others	17.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.8	(0.5)
3-mth	(8.9)	(14.5)
6-mth	(25.8)	(19.6)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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China Bluechem (3983 HK) – Unrated Fertilizers & Agricultural Chemical Industry

Margin squeezing under oversupply of fertilizers

Top line and bottom line of the Group for 1HFY12 were 6.9% and 11.1% below market expectations respectively. The major concern was the margin squeezing induced by the oversupply of fertilizers, such that the growth of selling price was not able to catch up the raw materials inflation. The Group benefits from government's agricultural policies but lacks of catalyst triggering the rerating.

GPM squeezed. Revenue of the Group was up 5.2% YoY to Rmb5,001mn in 1HFY12. Net profit was down 11.8% YoY to Rmb908mn (or Rmb0.197/share) in 1HFY12. Gross profit margin ("GPM") dropped by 5.3ppts YoY (1ppt HoH) from 35.7% in 1HFY11 (31.4% in 2HFY11) to 30.4% in 1HFY12. The squeezing in GPM was mainly because of 1) the cost inflation of ammonia and phosphoric ore eroding the Group's profitability, and 2) the overhaul of the production facilities reducing the operation days in 1H12, such that the increased fixed cost per production volume dragged down the GPM.

Capex remains strong in FY12. The Group spent Rmb851mn on capex during 1HFY12, while the full year capex is expected to be Rmb1,600mn vs. Rmb1,778mn in FY11. The capex is mainly used for capacity expansion of phosphate fertilizers, which contributed 13% of the total revenue in 1HFY12. The total production volume of phosphate fertilizers was 435k tons in FY11 with utilization rate of 87%. A new facilities of additional 500k tons of phosphate fertilizers is expected to in operation by FY14. The current GPM of phosphate fertilizers was 10% in 1HFY12, down from 20% in 1HFY11.

Valuation needs catalyst to rerating. The counter is trading at 8.2x FY12E PE vs. its historical mean at 14.3x. Although the demand for fertilizers remains strong in China, margin squeezing is the major concern of the market. We can't see solid catalyst triggering rerating for the Group.

Risk factors: Oversupply of fertilizers; Shortage supply of natural gas; Increase in gas price

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09E	FY10A	FY11A
Revenue (Rmb mn)	4,340	6,812	5,795	6,867	9,756
<i>Chg (%YoY)</i>	25.2	56.9	(14.9)	18.5	42.1
Net Income (Rmb mn)	1,448	1,608	985	1,175	1,986
<i>Chg (%YoY)</i>	(12.0)	11.1	(38.8)	19.4	69.0
EPS (Rmb)	0.31	0.35	0.210	0.250	0.430
<i>Chg (%YoY)</i>	(36.0)	12.9	(40.0)	19.0	72.0
PE (x)	-	-	-	-	8.7
PB (x)	-	-	-	-	1.4
Yield (%)	-	-	-	-	4.3
ROAA (%)	15.4	14.1	7.6	8.7	12.8
ROAE (%)	19.6	17.5	9.9	11.6	17.5
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Bloomberg, ABCI Securities estimates



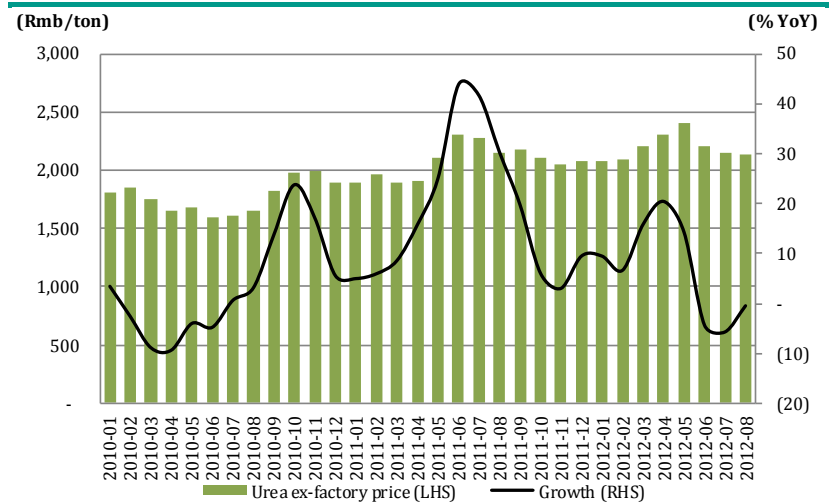
Financial highlights of the Group

	1H11	2H11	1H12	Change (% YoY)	Change (% HoH)
Revenue (Rmb mn)	4,757	5,000	5,001	5.15	0.03
Urea	1,920	2,127	1,856	-3.36	-12.75
Phosphorus fertilizer	667	683	660	-1.01	-3.25
Methanol	1,682	1,664	1,666	-0.97	0.14
Others	487	527	819	68.2	55.55
Gross Profit (Rmb mn)	1,697	1,571	1,520	-10.40	-3.19
<i>GPM (%)</i>	<i>35.68</i>	<i>31.41</i>	<i>30.40</i>		
Major cost (Rmb mn)					
Selling and distribution	78	91	88	12.68	-3.97
Administrative	191	227	186	-2.65	-17.95
Finance cost	3	15	8	194.24	-49.85
Pre-tax profit (Rmb mn)	1,483	1,293	1,307	-11.85	1.05
Urea	706	716	704	-0.23	-1.57
Phosphorus fertilizer	99	61	32	-67.82	-47.95
Methanol	660	611	633	-4.01	3.73
Others	52	(45)	(37)	-	-17.54
Other items, net*	(34)	(49)	(26)	-24.30	-47.78
Net income (Rmb mn)	1,030	955	908	-11.83	-4.92
<i>Net margin (%)</i>	<i>21.66</i>	<i>19.11</i>	<i>18.16</i>		

*Other items include unallocated gains & expenses, finance costs, net Forex gains(losses) 1H for the six months ended on Jun 30; 2H for the six months ended on Dec 31

Source: Company, ABCI Securities

Monthly urea ex-factory price in China



Source: AMPCN.com ("中国农资网")



Disclosures

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