

MITA No. 010/06/2008

15 May 2009

Li Heng Chem Fibre Tech

Downgrade to

HOLD

Previous Rating: BUY

Downgrade to HOLD

S\$0.235**Fair Value: S\$0.25**

Stock Code:

Reuters: LHCF.SI

ISIN Code: E9A

Bloomberg: LHCF SP

Event:

Results

ASP tumble mars 1Q09 results. Li Heng Chemical Fibre (LHCF) posted a weak set of 1Q09 results. Revenue tumbled 41.2% YoY and 32.9% QoQ to RMB472.5m, hit by the persistent slide in ASPs as a result of still falling raw material prices, despite an increase in sales volume. Overall ASP declined by as much as 52.2% YoY and 25.7% QoQ to just RMB16.4k/ton. And compounded by a further RMB20.8m unrealized forex loss (arising from its SGD cash balance), net profit plunged 95.5% YoY to RMB10.2m, although still better than the RMB8.7m loss in 4Q08 (where it recorded a forex loss of RMB48.1m). Excluding the impact of forex, net profit would have fallen 84.4% YoY and 10.0% QoQ to RMB38.9m, but met just 9.9% of our FY09 estimate.

General Data	
Issued Capital (m)	1,700
Mkt Cap (S\$m/US\$m)	400/273
Major Shareholder	Chen Jian Long (42.2%)
Free Float (%)	23.5%
NTA per share (RMB)	0.89
Daily Vol 3-mth ('000)	6,454
52Wk High (\$)	0.789
52Wk Low (\$)	0.095

Any end to the ASP slide? As the plummeting raw material prices and ASPs continued to chase each other lower in a merciless spiral over the past year, LHCF had little room to pass on higher inventory prices to customers. As a result, gross margin fell sharply from 34.4% in 1Q08 to 12.9% in the last quarter. But it was a slight rebound from the 9.3% seen in 4Q08, thanks to the recent firming up of crude oil prices. In fact, LHCF had been able to increase its ASPs by some 10% in the first two months of 2Q09. But it remains wary against calling a bottom to the ASP slide as the outlook for China's textile exports is still very weak. Nevertheless, management is hopeful that the PRC government's determined effort to help textile industry (like raising export rebates for the 4th time from 11% to 16%) would help everyone through the current rough patch.

Pushing back its expansion. Meanwhile, management also updated on its Phase III expansion plan and after much deliberation, it will push back the addition of extra capacity from 2H09 to 2010. The construction of its PA chip plant (200mt daily production capacity) is on track to be completed in 3Q09 as guided; this will allow LHCF to be quite self-sufficient and afford it more flexibility in managing its inventory.

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Slashing FY09 estimates. In wake of the recent developments, we need to further cut our FY09 estimates for revenue by 8.3% and earnings by 48.5%; FY10 revenue also slashed by 16.9% and earnings by 30.9%. This in turn lowers our DCF-based fair value from S\$0.31 to S\$0.25. Given the limited upside, we revise our rating to **HOLD**.

Year to 31 Dec	Turnover (RMB m)	EBITDA (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	2,758.1	959.1	905.1	66.5	89.4	1.7	-
FY 08	3,700.9	1,070.0	814.5	47.9	-28.0	2.4	16.6
FY 09F	2,044.2	449.6	203.1	11.9	-75.1	9.4	3.7
FY 10F	2,528.0	684.3	411.7	24.2	102.7	4.7	7.5

Please refer to the important disclosures at the back of this document.

Li Heng's Key Financial Data

Li Heng Results Year Ended 31 Dec (RMB m)	1Q08 (RMB m)	1Q09 (RMB m)	% Chg (YoY)	4Q08 (RMB m)	% Chg (QoQ)
Revenue	803.7	472.5	-41.2%	704.0	-32.9%
Gross profit	276.3	60.9	-78.0%	65.2	-6.6%
Gross margin	34.4%	12.9%		9.3%	
EBITDA	270.1	67.1	-75.1%	70.2	-4.4%
Depreciation & amortisation	-16.4	-25.4	55.1%	-24.1	5.3%
Operating profit	253.7	41.7	-83.5%	46.1	-9.5%
Net interest	-4.1	-2.8	-31.6%	-2.9	-2.7%
Forex	8.2	-20.8	NM	-48.1	-56.7%
Associates	0.0	0.0	nm	0.0	nm
Exceptionals	0.0	0.0	nm	0.0	nm
Pre-tax profit	257.8	18.2	-93.0%	-4.8	nm
Tax	-33.7	-8.0	-76.4%	-3.9	103.3%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	224.1	10.2	-95.5%	-8.7	nm
Net Margin	27.9%	2.2%		-1.2%	
Core Earnings (excludes FX)	249.6	38.9	-84.4%	43.3	-10.0%
Core Net Margin	31.1%	8.2%		6.1%	

Segments (RMB m)	1Q08	1Q09	% YoY
HOY/POY	558.8	243.5	-56.4%
FDY	168.4	196.1	16.5%
DTY	76.5	32.9	-57.0%
Total	803.7	472.5	-41.2%

Gross Margin	1Q08	1Q09	PPT
HOY/POY	33.6%	11.9%	-21.7
FDY	37.0%	14.1%	-22.9
DTY	34.3%	12.9%	-21.4
Total	34.0%	12.9%	-21.2

EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Revenue	2,758.1	3,700.9	2,044.2	2,528.0
EBITDA	959.1	1,070.0	449.6	684.3
Depreciation & amortisation	-46.9	-85.8	-187.9	-203.6
Operating Profit	912.2	984.2	261.7	480.7
Net interest	-18.4	-8.1	-6.1	-3.1
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	905.1	945.2	235.6	477.6
Tax	0.0	-130.7	-32.5	-65.9
Minority interests	0.0	0.0	0.0	0.0
Net profit	905.1	814.5	203.1	411.7
Earnings per share (cents)	66.5	47.9	11.9	24.2
Fully diluted earnings per share (cents)	66.5	47.9	11.9	24.2

BALANCE SHEET

As at 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Cash	752.4	1,332.8	1,162.3	1,444.1
Other current assets	371.3	442.2	329.0	381.2
Fixed assets	760.8	1,851.8	2,114.2	2,061.0
Other long term assets	171.3	234.2	214.5	214.2
Total assets	2,055.8	3,861.0	3,820.1	4,100.5
Current liabilities less debt	270.0	246.0	168.2	197.2
Debt	262.5	181.0	162.9	146.6
Other long term liabilities	0.0	0.0	0.0	0.0
Total liabilities	532.6	427.0	331.1	343.8
Shareholders equity	1,523.2	3,434.0	3,489.0	3,756.6
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	2,055.8	3,861.0	3,820.1	4,100.5
NTA per share (cents)	88.7	201.1	204.4	220.1

CASH FLOW**Year Ended 31 Dec (RMB m)**

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	970.4	1,089.9	429.6	684.3
Working capital changes	-97.3	-98.7	41.4	-23.1
Interest and tax	-18.4	-134.9	-38.6	-69.0
Net cash from operations	854.7	856.3	432.4	592.2
Capex	-252.8	-1,020.3	-450.0	-150.0
Other investing flows	-141.0	-186.3	13.4	0.0
Investing cash flow	-393.8	-1,206.6	-436.6	-150.0
Change in equity	175.3	1,395.7	0.0	0.0
Net change in debt	-27.6	-81.5	-18.1	-16.3
Dividends paid	0.0	-245.7	-71.1	-144.1
Others	0.0	-53.7	-77.0	0.0
Financing cash flow	147.7	1,014.8	-166.2	-160.4
Forex adjustments	0.0	-51.0	0.0	0.0
Net cash flow	608.6	613.5	-170.4	281.8
Cash at beginning of year	80.5	689.1	1,302.5	1,132.1
Restructuring Exercise	0.0	0.0	0.0	0.0
Cash at end of year	689.1	1,302.5	1,132.1	1,413.9
Fixed deposits pledged	63.3	30.2	30.2	30.2
Cash balance	752.4	1,332.8	1,162.3	1,444.1
Key Ratios				
PER (x)	1.7	2.4	9.4	4.7
Price/NTA (x)	1.3	0.6	0.6	0.5
EV/EBITDA (x)	1.5	0.7	2.0	0.9
Dividend yield (%)	-	16.6	3.7	7.5
ROIC (%)	50.7	22.5	5.6	10.5
ROE (%)	59.4	23.7	5.8	11.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.0	(0.1)	(0.1)	0.0

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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