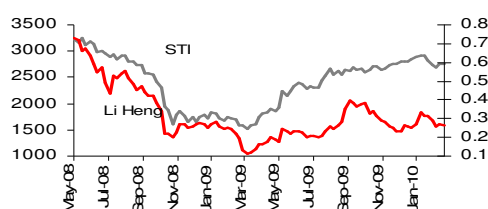


26 February 2010

Upgrade to

BUY

Previous Rating: HOLD

Current Price: S\$0.275
Fair Value: S\$0.34


Li Heng Chem Fibre Tech

More signs of stabilization in 4Q09

4Q09 results show signs of stabilization. Li Heng Chemical Fibre (LHCF) continued to show signs of sequential improvement in 4Q09. Though revenue was down 21.6% YoY at RMB552.0m, it was up another 6.3% QoQ. LHCF managed to post a net profit of RMB42.3m, compared to a net loss of RMB8.7m a year ago (mainly due to a huge forex loss), and was also up 6.3% QoQ. Stripping out the effects of forex, core net profit of RMB39.4m was still up 0.9% YoY and 10.9% QoQ. Nevertheless, the improvement was still slightly below our forecast: full year revenue of RMB1997.0m (down 46.0%) was 5% shy of our estimate, while net profit of RMB130.3m (down 84.0%) fell 13% short. Meanwhile, LHCF has declared a final dividend of S\$0.01 per share for FY09, unchanged from FY08.

ASPs see modest QoQ recovery. ASPs have risen by another 9.2% QoQ in 4Q09 after surging nearly 27% QoQ in 3Q09. While the rebound has been driven in part by higher raw material prices (heavily influenced by crude oil prices), management reiterates that the ASP recovery is increasingly due to better demand for its nylon products. LHCF reveals that it currently has order book visibility up to 1H10, as compared to just one month of order indication in 1H09. But with the company still producing finer yarns for summer wear in 1Q10, LHCF expects sales volume to remain flat QoQ at around 24-25k ton, although it may continue to see a modest QoQ rise in ASPs.

Modestly upbeat FY10 outlook. Overall, LHCF is modestly more upbeat about its FY10 prospects, and this is also why the company intends to complete its capacity expansion of around 90k metric tons (MT) by end-Mar 2010. The expansion should bring its annual capacity to around 250k MT metric tons, although actual production may be closer to 170k MT. And on its recently built PA chip plant, management expects utilization to further increase from 80% in Dec 09 to close to 100% by 1Q10. LHCF also believes that continued operating efficiency would help to bump up overall gross margin further.

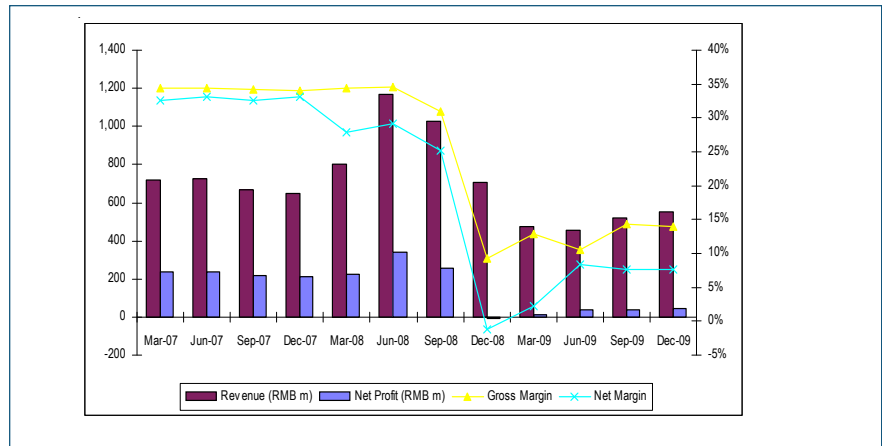
Upgrade to BUY, S\$0.34 fair value. Although we have pared our FY10 earnings estimate lower by 20% to reflect higher depreciation charges, we note that the continued sequential improvement in 4Q09 suggests that the worst is likely over for LHCF. Our DCF-based fair value also improves from S\$0.30 to S\$0.34, implying an upside of 24% from here. Upgrade to **BUY**.

Reuters Code	LHCF.SI
ISIN Code	E9A
Bloomberg Code	LHCFSP
Issued Capital (m)	1,700
Mkt Cap (S\$/US\$m)	468 / 332
Major Shareholders	
Chen Jian Long	42.2%
Free Float (%)	23.5%
Daily Vol 3-mth ('000)	5,429
52 Wk Range	0.095 - 0.425

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	3,700.9	1,997.0	2,930.8	3,453.4
EBITDA	1,070.0	289.8	636.8	778.0
EPS (cts)	47.9	7.7	20.1	24.0
Price/NTA (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	0.9	5.8	2.4	1.6

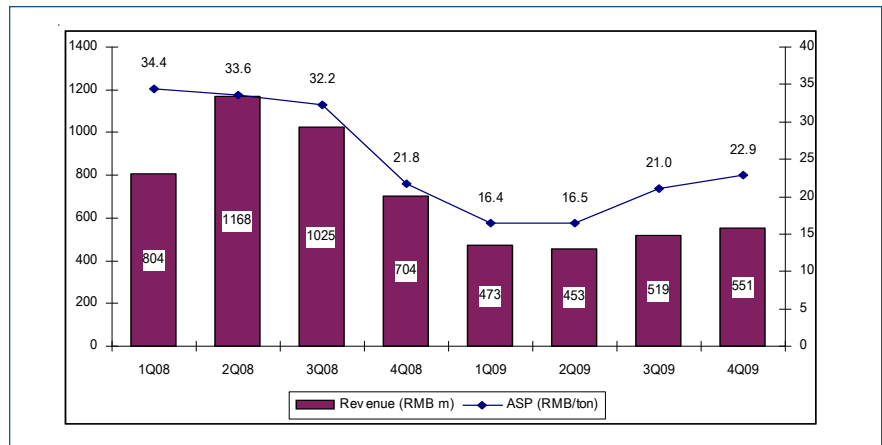
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Exhibit 1: Revenue and Profitability Trends



Source: Company, OIR

Exhibit 2: ASP and Revenue Trends



Source: Company, OIR

Li Heng's Key Financial Data

Li Heng Results Year Ended 31 Dec (RMB m)	4Q08 (RMB m)	4Q09 (RMB m)	% Chg (YoY)	3Q09 (RMB m)	% Chg (QoQ)
Revenue	704.0	552.0	-21.6%	519.3	6.3%
Gross profit	65.2	77.0	18.2%	74.9	2.8%
Gross margin	9.3%	14.0%		14.4%	
EBITDA	70.0	94.8	35.5%	74.1	28.0%
Depreciation & amortisation	-24.1	-45.4	88.5%	-32.1	41.4%
Operating profit	45.9	49.4	7.6%	42.0	17.7%
Net interest	-2.9	-3.0	2.3%	-2.4	24.0%
Forex	-47.8	2.9	nm	4.2	-32.0%
Associates	0.0	0.0	nm	0.0	nm
Exceptionals	0.0	0.0	nm	0.0	nm
Pre-tax profit	-4.8	49.3	nm	43.8	12.6%
Tax	-3.9	-7.0	78.6%	-4.0	74.5%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	-8.7	42.3	nm	39.8	6.3%
Net Margin	-1.2%	7.7%		7.7%	
Core Earnings (excludes FX)	39.1	39.4	0.9%	35.6	10.9%
Core Net Margin	5.6%	7.1%		6.9%	

Li Heng's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F
Revenue	3,700.9	1,997.0	2,930.8	3,453.4	Cash	1,332.8	729.8	823.4	1,105.0
EBITDA	1,070.0	289.8	636.8	778.0	Other Current Assets	442.2	876.9	1,178.0	1,331.7
Operating Profit	-85.8	-128.8	-226.5	-221.9	Fixed Assets	1,851.8	2,706.0	2,679.8	2,608.3
Fair Value Adj (Net)	984.2	161.0	410.3	556.1	Intangible Assets	234.2	27.6	14.2	13.9
Impairment of Intangibles	-8.1	-9.9	-16.6	-11.6	Total Assets	3,861.0	4,340.3	4,695.4	5,058.9
Finance Expenses	0.0	0.0	0.0	0.0	Current Liabilities less Debt	246.0	553.9	699.2	803.7
Associates	0.0	0.0	0.0	0.0	Debt	181.0	299.1	269.2	242.3
Exceptionals	945.2	150.4	393.7	544.5	Other Long Term Liabilities	0.0	0.0	0.0	0.0
Pre-tax Profit	-130.7	-20.2	-51.2	-136.1	Shareholders Equity	3,434.0	3,487.3	3,727.1	4,012.9
Net Profit	814.5	130.3	342.5	408.3	Total Equity and Liabilities	3,861.0	4,340.3	4,695.4	5,058.9
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Operating Profit	1,089.9	286.1	636.8	778.0	EPS (S cents)	47.9	7.7	20.1	24.0
Working Capital Changes	-98.7	-130.0	-147.0	-49.1	Core EPS (S cents)	47.9	7.7	20.1	24.0
Net Cash from Operations	856.3	129.1	422.0	581.1	Core PER (x)	2.6	16.1	6.1	5.2
Capex	-1,020.3	-776.0	-200.0	-150.0	Price/NTA (x)	0.6	0.6	0.6	0.5
Investing Cash flow	-1,206.6	-821.2	-195.8	-150.0	EV/EBITDA (x)	0.9	5.8	2.4	1.6
Change in Equity	1,395.7	0.0	0.0	0.0	Dividend Yield (%)	15.1	3.9	4.9	5.8
Net Debt Change	-81.5	118.1	-29.9	-26.9	ROIC (%)	22.5	3.4	8.6	9.6
Financing Cash Flow	1,014.8	41.1	-132.7	-149.4	ROE (%)	23.7	3.7	9.2	10.2
Net Cash flow	613.5	-648.0	93.5	281.7	Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
Ending Cash Balance	1,332.8	729.8	823.4	1,105.0	PE to Growth (x)	-0.1	-0.2	0.0	0.3

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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