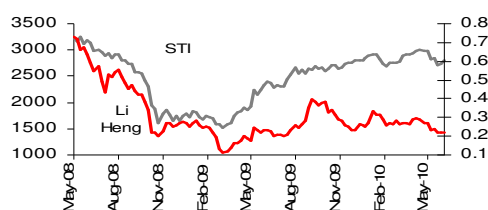


28 June 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.225
Fair Value: S\$0.32


Reuters Code	LHCF.SI
ISIN Code	E9A
Bloomberg Code	LHCFSP
Issued Capital (m)	1,700
Mkt Cap (S\$/US\$m)	383 / 276
Major Shareholders	
Chen Jian Long	42.2%
Free Float (%)	23.5%
Daily Vol 3-mth ('000)	5,124
52 Wk Range	0.190 - 0.425

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	3,700.9	1,997.0	2,747.3	3,124.9
EBITDA	1,070.0	289.8	558.1	716.7
EPS (cts)	47.9	7.7	15.2	19.3
Price/NTA (x)	0.5	0.5	0.4	0.4
EV/EBITDA (x)	0.4	4.1	2.6	2.1

Carey Wong
 (65) 6531 9808
 e-mail: carey@ocbc-research.com

Li Heng Chem Fibre Tech

Operations are holding up

New production capacity up and running. We recently visited Li Heng Chemical Fibre (LHCF) to have a look at their new production expansion as well as the existing operations. The new production capacity came on stream in early Jun and management expects it to make a full half-year of contribution this year. However, given that most of its order book is for the finer yarns (30D and below), management expects the actual tonnage contribution to be closer to 25k ton versus the theoretical 45k ton (or half of its designed 90k ton capacity - calculated based on 70D yarn). While this would also result in a drop in its calculated utilization rate, management reassures us that the true utilization is above 90%.

Overall operations holding up well. As for its existing operations, management reveals that it has been able to run these at above 90% utilization, buoyed by the gradual and continued recovery in demand. Order book visibility continues to remain good (still mainly for finer yarns) and LHCF expects to remain busy until the end of the year. ASPs have also been holding up quite well although management does not expect to see a sharp recovery this year. Still, management remains confident that it can sustain its gross margin above 15% (achieved 15.9% in 1Q10) for the rest of the year - this as its PA (polyamide) chip plant (70k ton design capacity supplies about 55% of its requirements) should help to reduce the anti-dumping tax that the Chinese government has imposed on PA chip imports.

Building a second PA chip plant. And to further reduce the anti-dumping tax impact, LHCF will construct a new PA chip plant (100k ton design capacity) in 3Q10. Upon completion in 4Q11, LHCF expects to be fully self-sufficient in PA chips. Management estimates that the new plant will cost around RMB715m in total but believes that the actual cost could be lower as it can share some of the first PA chip plant's existing infrastructure. As the capex is likely to increase to around RMB500m this year and the next, we note that it will reduce our DCF-based fair value from S\$0.34 to S\$0.32 (the rest of our estimates remain largely unchanged). As we believe that the worst is likely over for LHCF and given the attractive upside of ~42.2% from here, we maintain our **BUY** rating.

Exhibit 1: New Production Capacity



Source: OIR

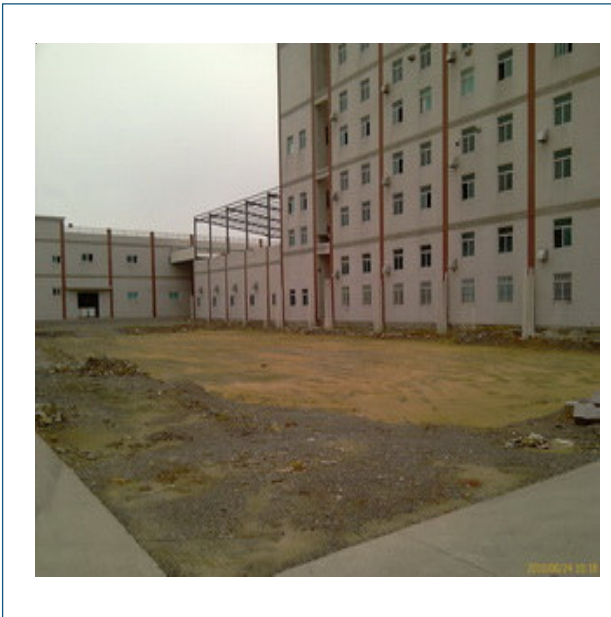
Exhibit 2: Polyamide Production



Source: OIR



Exhibit 3: Site for 2nd PA Chip Plant



Source: OIR

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	2,747.3	3,124.9	Cash	1,332.8	729.8	426.8	351.3
EBITDA	1,070.0	289.8	558.1	716.7	Other Current Assets	442.2	876.9	1,194.4	1,310.4
Depreciation+Amortization	-85.8	-128.8	-241.5	-262.2	Fixed Assets	1,851.8	2,706.0	2,964.8	3,203.0
Operating Profit	984.2	161.0	316.6	454.6	Other Long Term Assets	234.2	27.6	14.2	13.9
Net Interest	-8.1	-9.9	-19.0	-16.9	Total Assets	3,861.0	4,340.3	4,600.3	4,878.6
Associates	0.0	0.0	0.0	0.0	Current Liabilities less Debt	246.0	553.9	662.5	738.0
Exceptionals	0.0	0.0	0.0	0.0	Debt	181.0	299.1	269.2	242.3
Pre-tax profit	945.2	150.4	297.7	437.6	Other Long Term Liabilities	0.0	0.0	0.0	0.0
Tax	-130.7	-20.2	-38.7	-109.4	Shareholders Equity	3,434.0	3,487.3	3,668.6	3,898.3
Net Profit	814.5	130.3	259.0	328.2	Total Equity and Liabilities	3,861.0	4,340.3	4,600.3	4,878.6
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	558.1	716.7	EPS (RMB cents)	47.9	7.7	15.2	19.3
Working Capital Changes	-98.7	-130.0	-200.0	-40.5	Diluted EPS (RMB cents)	47.9	7.7	15.2	19.3
Net Cash from Operations	856.3	129.1	300.4	549.9	PER (x)	2.0	12.3	6.2	4.9
Capex	-1,020.3	-776.0	-500.0	-500.0	Price/NTA (x)	0.5	0.5	0.4	0.4
Investing Cash flow	-1,206.6	-821.2	-495.8	-500.0	EV/EBITDA (x)	0.4	4.1	2.6	2.1
Change in Equity	1,395.7	0.0	0.0	0.0	Dividend Yield (%)	19.8	5.1	4.8	6.1
Net Debt Change	-81.5	118.1	-29.9	-26.9	ROIC (%)	22.5	3.4	6.6	7.9
Financing Cash Flow	1,014.8	41.1	-107.6	-125.4	ROE (%)	23.7	3.7	7.1	8.4
Net Cash flow	613.5	-648.0	-303.0	-75.5	Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
Ending Cash Balance	1,332.8	729.8	426.8	351.3	PE to Growth (x)	-0.1	-0.1	0.1	0.2

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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Carmen Lee
Head of Research

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