

# Yip`s Chemical (408.HK)

## Leading Chemical Manufacturer in China

Hong Kong | Chemical | Company report

15 June 2017

### Business Overview

Yip`s Chemical focuses on the production and the sales of the petrochemical products. The core products include solvents, coating, ink and lubricant. Yip`s Chemical is the largest producer of acetate solvents in the world, the largest manufacturer of inks in China and one of the leading coating producers in China. Yip`s Chemical is headquartered in Hong Kong and has a Research and Development Centre in Shanghai. More than 10 manufacturing plants are set up across different provinces of China, such as Dongguan, Huizhou, Jiangmen, Zhongshan, Chengdu and Cangzhou, to produce different petrochemical products. Yip`s Chemical also manages a distribution and sales network, allowing the company to access many of the provinces and cities across China.

The company owns several well-known brands such as Bauhinia paint, Bauhinia Variegata inks, Hang Cheung Coating industrial paint, Hercules automotive lubricant and Pacoil specialty lubricant. As at 31/12/2016, Yip`s Chemical achieved a recorded sales of 1.2Mn tonnes, with the sales of solvents being the best. The total sales of solvent increased 20% to 950 thousand tonnes. For coating, the sales increased 12% and for inks, the sales amounted to 70 thousand tonnes. For lubricant, the segment had a turnaround and achieved an HKD1.68Mn operating profit in 2016. Although the segment had a turnaround, the sales, in terms of volume, had a slight drop of 1%. The reason for the profit in lubricant segment is mainly caused by the improvement in gross profit margin, stemming from the increased efficiency and cost reduction along the value chain from sales process and raw material to production and distribution.

### Solvents

Solvent segment is currently the largest business segment of Yip`s Chemical and Yip`s Chemical is the largest producer of acetate solvent in the world. In 2016, solvent business generates HK\$5.2Bn of revenue, a contribution of 61% to the total revenue. The segment mainly produces eco-friendly industrial organic solvents, i.e.: raw solvents and mixed solvents. Examples of these solvents include ethyl acetate, normal butyl acetate, mixed butyl acetate and ethanol. They are extensively used in industries such as coating, tannery, medicine and adhesives. They can also be used as an ingredients in paints, inks, and industrial coatings, after which can be used in toys, electronic, printing and furniture industries. The sales of mixed solvent is growing rapidly every year. Together with raw solvent, mixed solvent forms the core business of Yip`s Chemical.

The solvent segment has a strong sales force and the sales network covers not only China, but also the rest of the world. The company adopts direct sales process, which allows the company to ensure the quality of both the product and service and at the same time allow the sales force to understand the client needs, leading to the ultimate enhancement of the quality of both the product and the services.

### No Rating

CMP: HKD 3.29

(Closing price as at 13 Jun 2017)

TARGET: HKD N/A

#### COMPANY DATA

O/S SHARES (MN) :	564
MARKET CAP (HKDMN) :	1,855
52 - WK HI/LO (HKD):	3.60 / 2.38

#### SHARE HOLDING PATTERN • %

Yip Tsz Hin	9.50
Ip Chi Shing	33.47

#### PRICE PERFORMANCE • %

	1M	3M	1Y
Yip`s Chemical	(4.91)	2.17	34.29
HSI	2.77	8.49	26.81

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

HKD mn	FY13	FY14	FY15	FY16
Net Sales	9,876	10,256	8,584	8,556
Net Profit	311	271	87	243
EPS, HKD	0.4460	0.3970	0.0850	0.3000
PER, x	10.20	6.73	39.65	11.17
BVPS, HKD	5.2875	5.2439	4.6025	4.4860
P/BV, x	0.86	0.51	0.73	0.75
ROE, %	8.43	7.56	1.84	6.70

Source: Company reports, Phillip Securities Est.

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## Coating

The coating segment was established in 1982 and mainly produces different coating products such as household paints, architectural paints and resins. They are extensively used in construction, furniture, toys, electronic, home furnishing, and food and gift packaging. With the extensive experience of the company, the company has established well-known brands such as Bauhinia, Bauhinia Variegata and Da Chang.

Bauhinia can be divided into three business divisions, which are household paints, professional architectural paints, and industrial paints. In particular, household paints and industrial paints have sales network covering all parts of China and the company has been one of the leaders in the segment for many years. The company has set up a production plant in Jinshan, Shanghai, which has a production capacity of 200 thousand tonnes, to satisfy the future demand growth.

Da Chang produces coating for digital products, specialty varnishes, and resins for paint manufacturing and paints used for toys, furniture and electronics. The products have passed the tests of well-known brands in the world. In combination with the inspection system of the company, the company continues to be the leading supplier of many of the customers in the coating industry.

## Inks

The inks segment of the company was established in 1998 and is currently the largest ink supplier in China. Bauhinia Variegata produces plastic printing inks and paper printing inks, which are used in food, drinks and gift packaging, and paper printing. The company has production plants in Southern, Eastern and Northern China and the products are sold across China. In order to expand the business, Bauhinia Variegata has released a new line of product in 2010. The new product is silk screen printing inks, which is used in the printing of plastic, circuit boards and glass, and will enable the company to grow the inks segment further in the future.

## Lubricant

The lubricant business was established in 1992 and mainly provides automotive and industrial lubrication products. Products include engine oils, antifreezes, system coolants, brake fluids, greases, gear oils, automatic transmission fluids, hydraulic oil and turbine oil etc. The company also manufactures Pacoil specialty lubricants, which are used in metal processing, automobiles, home appliances, electronics, steel, cement and textile industries. The large sales network enables the company to be one of the most competitive lubricant manufacturer in China.

## Research and Development

Yip's Chemical has been actively enhancing the quality of its products and at the same time develop new products to ensure future growth of the company. In 2011, Yip's Chemical sets up a Research and Development Centre in Shanghai. The R&D Centre has professional researchers with advanced trial production equipment and precise testing instruments. As at 31/12/2016, the company has been granted 120 patents by China's State Intellectual Property Office. Moreover, the R&D Centre has been recognised as a "Little Giant Science and Technology Incubation Enterprise", "National High-tech Enterprise", "Pudong New Area Enterprise R&D Institution" and "Shanghai Patent Pilot Enterprise", indicating the strength and competitive advantage of the company.

## Financials

FYE	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Valuation Ratios</b>					
Price Earnings (P/E)	11.48	10.20	6.73	39.65	11.17
Price to Book (P/B)	1.17	0.86	0.51	0.73	0.75
<b>Per Share Data (HKD)</b>					
EPS	0.4940	0.4460	0.3970	0.0850	0.3000
Book Value Per Share	4.8645	5.2875	5.2439	4.6025	4.4860
Dividend Per Share	0.2500	0.2500	0.2500	0.1450	0.1500
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	7.5	11.0	3.8	(16.3)	(0.3)
Operating Income	124.5	(16.9)	(8.0)	(16.6)	78.6
Net Profit	40.4	(8.3)	(13.1)	(67.7)	178.3
<b>Margins</b>					
Gross Profit Margin	16.9	15.3	14.7	16.1	18.6
Operating Profit Margin	4.3	3.3	2.9	2.9	5.1
Net Profit Margin	3.8	3.2	2.6	1.0	2.8
<b>Key Ratios</b>					
ROE (%)	10.11	8.43	7.56	1.84	6.70
ROA (%)	3.87	3.08	2.69	0.64	2.37
<b>Income Statement (HKD Mn)</b>					
<b>Revenue</b>	8,894	9,876	10,256	8,584	8,556
- Cost of Goods Sold	(7,394)	(8,369)	(8,748)	(7,205)	(6,968)
<b>Gross Income</b>	1,500	1,507	1,508	1,379	1,588
- Operating Expenses	(1,113)	(1,186)	(1,213)	(1,133)	(1,148)
<b>Operating Income</b>	387	321	295	246	440
- Net Non-Operating Gain	35	70	76	(84)	(48)
<b>Pretax Income</b>	422	391	371	162	392
- Income Tax Expenses	(81)	(80)	(100)	(75)	(149)
<b>Net Profit</b>	341	311	271	87	243

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 13 Jun 2017)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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