

GEM (002340 CH)

Recycling Business Benefiting from the “Trade-in for New” Subsidy Policy

China | Mechanical Equipment | Initiation Report

18 March 2025

Company profile

GEM was founded in 2001, initially focusing on the processing and recycling of waste metals, electronic waste, and other materials. This business now also covers power batteries and end-of-life vehicles, and has expanded into the new energy battery materials sector. The main products in this sector include ternary precursors, cobalt tetroxide, cathode materials, and nickel smelting. In 2023, the Company's ternary precursor shipments reached 180 thousand tons, ranking third in the domestic market.

Investment Summary

Steady Growth in Performance and Continuous Improvement in Profitability

From January to September 2024, the Company reported revenue of RMB24,872 million, a year-on-year increase of 22.96%. Net profit reached RMB904 million, an increase of 65.06% yoy, and operating cash flow amounted to RMB2,052 million, up 282.19% yoy. From 2020 to 2023, the compound annual growth rate (CAGR) of revenue was 34.8%, and net profit CAGR was 31.3%, reflecting good business quality.

Ternary Precursor Business Grows Against the Trend, with the Industry Expected to Improve in the Future

According to ICCSINO Data on Lithium Battery, China's ternary precursor production in 2024 is expected to reach 851 thousand tons, a 0.7% increase yoy. Globally, ternary precursor production will be 963 thousand tons, a 1.7% decrease yoy. In the first three quarters of 2024, GEM's ternary precursor shipments reached 143 thousand tons, a year-on-year increase of 18.94%. Regarding product types, high-nickel products accounted for 55% of global production and 52% of Chinese production in 2024, with year-on-year increases of 3 and 5 percentage points, respectively. GEM focuses on high-end products such as ultra-high-nickel precursors, with a capacity utilization rate of over 95%. Currently, ternary lithium batteries account for more than 90% of the market share in the electric vehicle sector in Europe and the United States. It is expected that demand for electric vehicles in these markets will rebound after 2025. In the domestic market, as the cost gap between ternary and lithium iron phosphate batteries continues to narrow, and with the demand driven by popular domestic models, shipments of high-performance, high-safety ternary batteries are also expected to recover.

Overseas Business Expansion Lays the Foundation for Growth Potential

According to the Company's announcement, as of the end of June 2024, GEM has already put into production 40 thousand tons of nickel smelting capacity in Indonesia. With the gradual commissioning of new capacity, the Company expects to reach a total of 150 thousand tons of nickel smelting capacity by the end of 2024, adding 110 thousand tons of capacity within the year. We expect GEM's MHP (Mixed Hydroxide Precipitate) production to grow by 122% year-on-year, with a target shipment of 60 thousand tons. Compared to the RMB2 billion sales revenue from MHP in 2023, with a gross margin of 32.85%, GEM's profitability will significantly improve as MHP production ramps up further. Additionally, GEM has completed the construction of 50 thousand tons of ternary precursor capacity in Indonesia, providing precursor support for Chinese enterprises' overseas industrial chains and the European and American markets. This capacity has already been fully booked by customers.

BUY (Initiation)

CMP CNY 6.88

(Closing price as at 13 March)

TARGET CNY 8.42 (+22.4%)

COMPANY DATA

O/S SHARES (MN) :	5126
MARKET CAP (CNY MN) :	35269
52 - WK HI/LO (CNY):	7.84/5.39

SHARE HOLDING PATTERN, %

Mr. and Mrs. Xu Kaihua	8.51
HKSCC	2.91

PRICE VS. SHCOMP



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY23	FY24E	FY25E	FY26E
Net Sales	30529	36312	44377	53641
Net Profit	934	1232	1985	2912
EPS, CNY	0.18	0.24	0.39	0.57
P/E, x	38.2	28.6	17.8	12.1
BVPS, CNY	3.65	3.79	4.06	4.44
P/BV, x	1.9	1.8	1.7	1.5
DPS (CNY)	0.08	0.09	0.12	0.18
Div. Yield (%)	1.2%	1.3%	1.7%	2.6%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 21-62116752)

zhangjing@phillip.com.cn

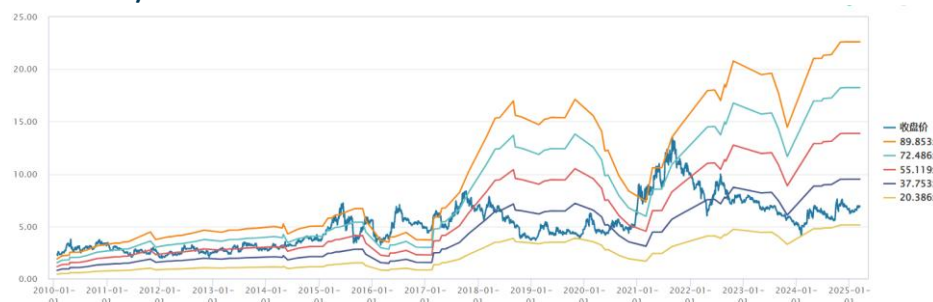
Recycling Business Benefiting from the “Trade-in for New” Subsidy Policy

In the first half of 2024, GEM recycled 16,300 tons of power batteries (1.84 GWh), representing a year-on-year increase of 36.72%. The tungsten resources business recycled 3,458 tons, achieving sales of RMB768,927,600, a 60.18% yoy increase in revenue. The end-of-life vehicle recycling business handled over 150 thousand tons, generating sales of RMB414,157,300, a 99.42% yoy increase in revenue. The cobalt recycling business shipped 8,987 tons, with sales reaching RMB1,579,363,200, a 124.57% year-on-year revenue increase..

Investment Thesis

As for valuation, we expected diluted EPS of GEM to RMB 0.24/0.39/0.57 of 2024/2025/2026, considering the orderly release of production capacity and steady growth of recycling business. And we accordingly gave the target price to RMB 8.42, respectively 35/21.7/14.8x P/E for 2024/2025/2026. "BUY" rating. (Closing price as at 13 March)

Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Risk

- Progress of new production line is below expectations
- Macroeconomic downturn affects product demand
- Sharply rising raw material prices or sharply falling product prices

Financials

FYE DEC	FY22	FY23	FY24F	FY25F	FY26F
Valuation Ratios					
P/E (X), adj.	26.5	38.2	28.6	17.8	12.1
P/B (X)	1.9	1.9	1.8	1.7	1.5
Dividend payout ratio(%)	19.2%	44.4%	37.4%	31.0%	31.7%
Dividend Yield (%)	0.7%	1.2%	1.3%	1.7%	2.6%
Per share data (RMB)					
EPS, (Basic)	0.26	0.18	0.24	0.39	0.57
EPS, (Diluted)	0.26	0.18	0.24	0.39	0.57
DPS	0.05	0.08	0.09	0.12	0.18
BVPS	3.60	3.65	3.79	4.06	4.44
Growth & Margins (%)					
Growth					
Revenue	52.3%	3.9%	18.9%	22.2%	20.9%
EBIT	8.4%	-3.3%	23.4%	40.6%	12.2%
Net Income, adj.	40.3%	-28.0%	31.9%	61.1%	46.7%
Margins					
Gross margin	14.2%	11.9%	12.5%	13.4%	14.3%
EBIT margin	6.7%	6.2%	6.5%	7.5%	6.9%
Net Profit Margin	4.4%	3.1%	3.4%	4.5%	5.4%
Key Ratios					
ROE	7.91%	4.96%	6.46%	9.86%	13.37%
Income Statement (RMB mn)					
Revenue	29392	30529	36312	44377	53641
Gross profit	4179	3635	4546	5938	7692
EBIT	1973	1907	2354	3309	3712
Profit before tax	1549	1361	1661	2585	3722
Tax	215	199	259	401	581
Profit for the period	1334	1162	1402	2185	3141
Minority interests	37	228	170	200	229
Total capital share	5136	5136	5126	5126	5126
Net profit	1298	934	1232	1985	2912

Source: PSR

(Closing price as at 13 March)

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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Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 6211 6752 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street

Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm