



**Equity Research  
Chemical / China**

**Bruce Yeung, CFA**

+852 2135 0214

bruce.yeung@oriental-patron.com.hk

**OP Express**

**Not Rated**

Close price: HK\$3.76

**Key Data**

HKEx code	1986
12 Months High (HK\$)	4.90
12 Month Low (HK\$)	2.71
3M Avg Dail Vol. (mn)	0.17
Issue Share (mn)	501.13
Market Cap (HK\$m)	1,884.23
Fiscal Year	12/2015
Major shareholder (s)	Ge Yi (68.63%)

Source: Company data, Bloomberg, OP Research  
Closing price are as of 02/05/2016

**Price Chart**



	1mth	3mth	6mth
Absolute %	-0.3	-9.8	-5.1
Rel. MSCI CHINA %	-1.3	-19.7	6.2

**Company Profile**

Tsaker Chemical Group Ltd develops chemicals used for pigment products. The Company sells its products to the pharmaceutical and agricultural chemical manufacturing industry.

# Tsaker Chemical (1986 HK)

## Leader of niche markets

*Tsaker Chemical is one of the world's largest producers of fine chemical dyes and pigment intermediates. With the fund raised from IPO in July 2015, the company is expected to have robust earnings growth of 31% in FY16E from capacity expansion.*

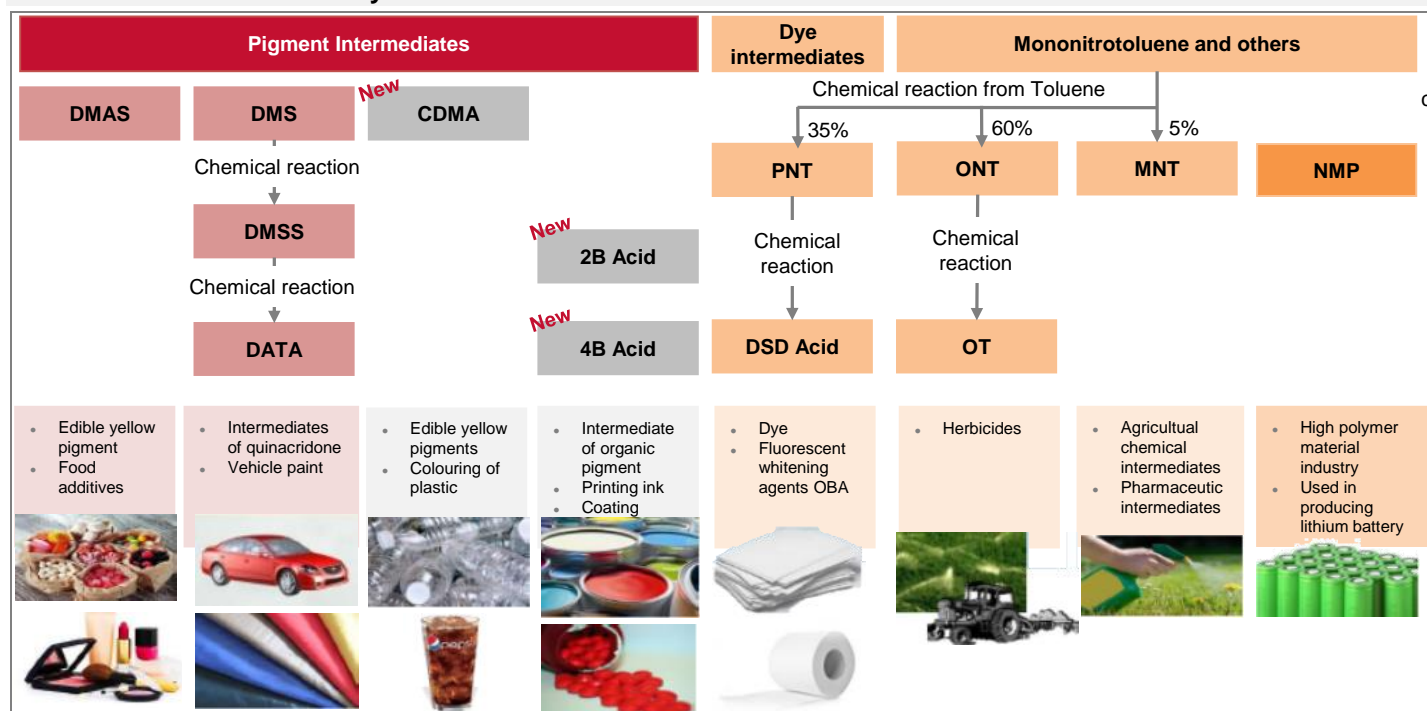
**Market leader in few core products** Tsaker currently has three major project lines: DSD Acid, DMSS and ONT/OT, which contributed 63%, 21% and 16% respectively of their revenue in FY15. Tsaker products are used in consumer goods, with DSD Acid as the intermediate dye for fluorescent whitening agent of paper and DMSS as the intermediate pigment for vehicle paints and food additives. Although the market size of DSD Acid and DMSS are relatively small, which only account for 5% and 1% of the global intermediates market, Tsaker has built up their leading market position in these niche markets by capturing 57% and 27% of global market share in DSD Acid and DMSS respectively. With cost advantage from economy of scale, Tsaker enjoyed high gross margin of around 35% from high entry barrier as new incomers will not have sufficient utilization to make profit given limited production volume.

**Solid pipeline developing vertically and horizontally** Tsaker has expanded upstream with Mononitrotoluene production in Phase I Dongao factory in Feb 2015, making raw material for DSD Acid and ONT/OT, which is a common agricultural chemical intermediate for making herbicides. As Tsaker can consume the raw material of DSD Acid with their existing facilities, it can generate another income source by selling ONT/OT to the market, which contributed 16% of total revenue in FY15. By developing Phase II Dongao factory, Tsaker is expected to double their Mononitrotoluene production capacity to 80,000 tonnes in 1Q16E. With more raw material supplied, Tsaker will also increase their DSD Acid production capacity by 57% to 55,000 tonnes by kicking off Phase I Dongying factory in 2Q16E, which is located close to Dongao factory in Shandong. Apart from the DSD Acid, Phase I Dongying factory will also be equipped for other new pigment intermediates production, such as CDMA, 2B Acid and 4B Acid, to fill up the development from FY17E onwards.

**Consolidating the market raises opportunities** With self-production of the raw material for DSD Acid, Tsaker has been reducing the procurements from the market. As ONT/OT production process must generate the raw material of DSD Acid as a by-product, it becomes redundant in other ONT/OT factories when Tsaker, a major global consumer, does not buy it in the market. Thus, many ONT/OT competitors become loss-making after Tsaker start their Mononitrotoluene production. We believe it offers more opportunities for Tsaker to consolidate the ONT/OT market by acquiring other competitors and improving their gross margin after competitors are forced to close down.

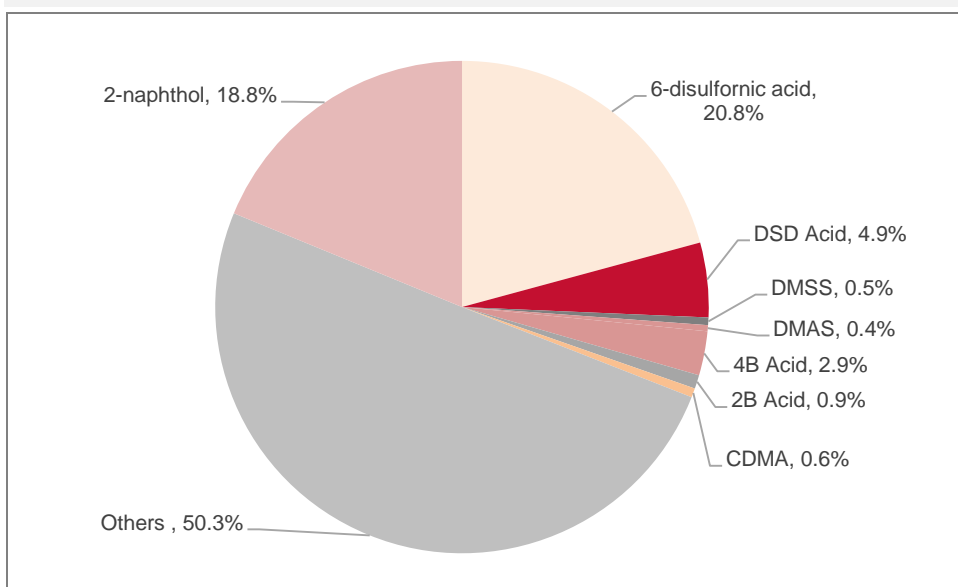
**Higher valuation is deserved for robust growth** Since FY15 net profit was affected by the RMB20mn listing expenses, we believe it would be normalized in FY16E. With the new capacity added, we expect Tsaker would have 17%/19% and 31%/23% growth in revenue and net profit in FY16E/17E respectively. We estimate Tsaker is trading at 11x/9x forward PE for FY16E/17E, while the industry peers average PE are 9.4x/7.1x. Despite Tasker is trading at fair valuation, we think premium on valuation is justified as the robust growth coming from solid developments.

**Exhibit 1: Products summary**



Source: Company, OP Research

**Exhibit 2: Global market of intermediates in 2015**



Source: Frost & Sullivan analysis, Company, OP Research

**Exhibit 3: Production facilities**

Production base	Status	Main products
South Dongguang production plant in Hebei	Self-built	DSD Acid and other dye intermediates
North Dongguang production plant in Hebei	Self-built	DMSS and other pigment intermediates
Dongao production plant in Shandong	Leased since Jan 2015	PNT, ONT, OT, MNT and NMP
Dongying production plants in Shandong	Self-built, with three stages of construction	DSD Acid, DATA, CDMA, 2B Acid and 4B Acid

Source: Company, OP Research

**Exhibit 4: Production capacity**

Main products	Designed production capacity (tonnes)	Utilisation rate in 2015	Production expansion target (tonnes)	Date of target production
DSD Acid	35,000	98.3%	+20,000 to 55,000	Second quarter of 2016
Mononitrotoluene (generate ONT and OT through Chemical reaction)	40,000	66.2%	+40,000 to 80,000	First quarter of 2016
ONT	24,000	66.2%	-	-
OT		Production depends on demand		
DMSS	4,500	65.6%	-	-
DATA	1,000	100.0%	+1,500 to 2,500	Will commence after upgrade
<b>New product line</b>				
CDMA	3,000	-	-	TBC
2B Acid	3,000	-	-	TBC
4B Acid	7,000	-	-	TBC

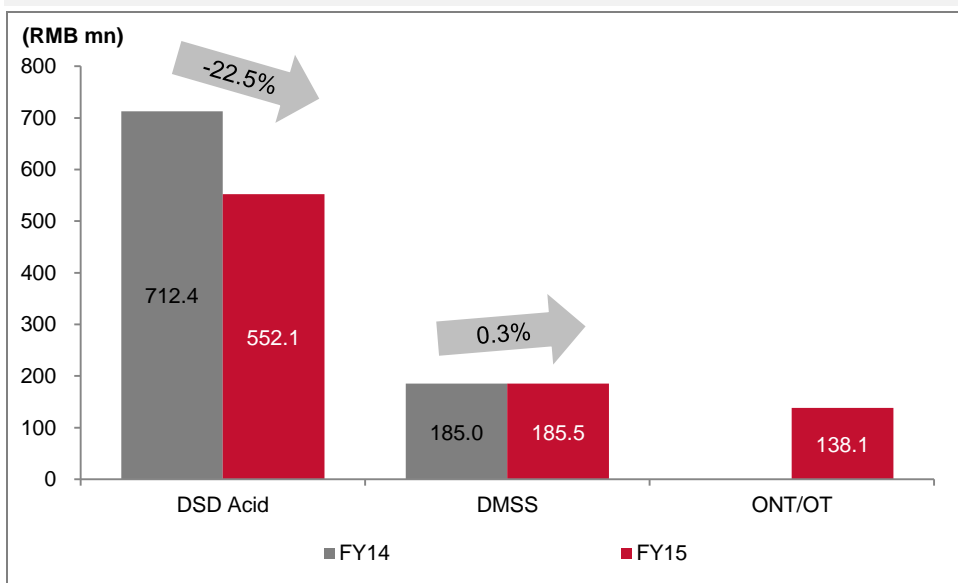
Source: Company, OP Research

**Exhibit 5: Future development**

<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Exploring upstream products of DSD Acid</b>	<b>Upgrade production process, develop new products</b>	<b>Add new products to diversify sources of income</b>
<ul style="list-style-type: none"> <li>Dominate the supply and price of downstream products by controlling the raw materials</li> <li>Expand the end product application to production of <b>agricultural chemical intermediates</b></li> </ul>	<ul style="list-style-type: none"> <li>Upgrade to <b>the hydrogenation process</b> for the existing DSD Acid production</li> <li>✓ <b>More environmentally friendly by using less raw material per tonne</b></li> <li>Explore new products in pigment intermediates</li> </ul>	<ul style="list-style-type: none"> <li>Develop organic dye intermediate red pigments</li> <li>Red pigments which are widely used for colouring of printing ink, coating, plastic and rubber</li> </ul>
<b>Agricultural chemical intermediates</b>	<b>Dye intermediates</b>	<b>Pigment intermediates</b>
ONT            +24,000 tonnes	DSD Acid:        +24,000 tonnes to 55,000 tonnes	2B Acid:            3,000 tonnes
OT              Production depends on demand	DATA:            +1,500 tonnes to 2,500 tonnes	4B Acid:            7,000 tonnes
	CDMA:            +3,000 tonnes	
<ul style="list-style-type: none"> <li>Acquisition and merger -&gt; enrich product variety and enhance production efficiency</li> <li>-&gt; Develop the raw materials MEA of herbicide and other downstream products such as OBA which is applied to production of paper, cleaning detergent and textile</li> </ul>		

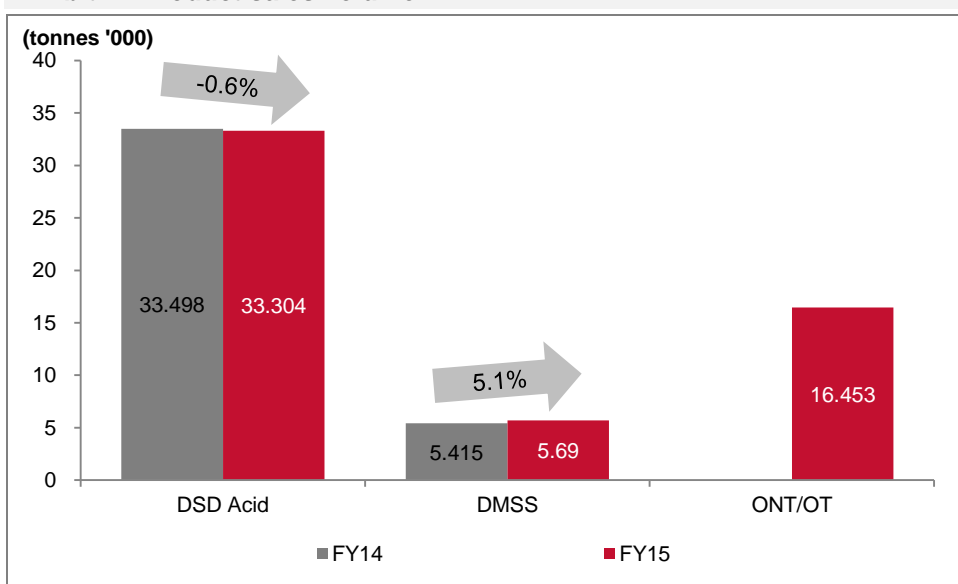
Source: Company, OP Research

**Exhibit 6: Product revenue**



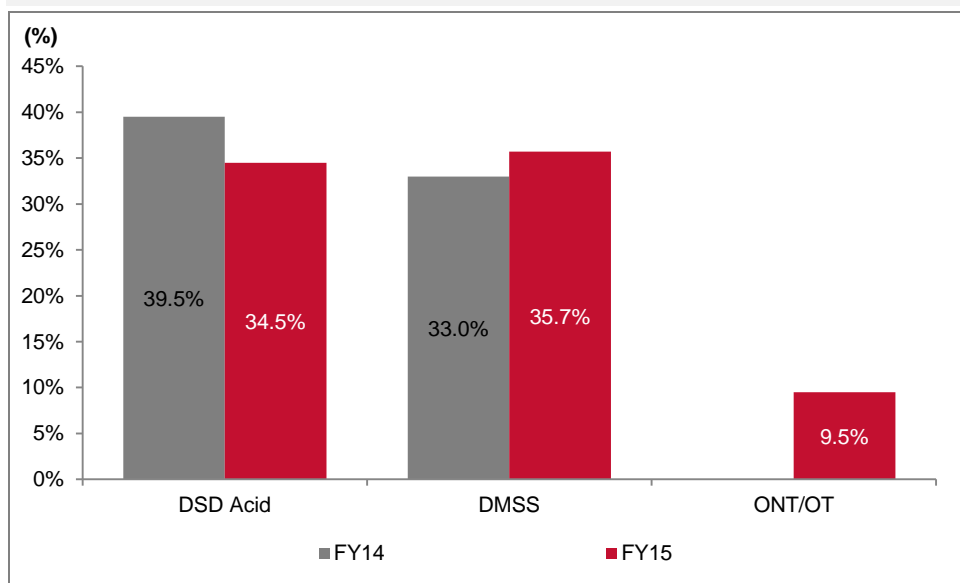
Source: Company, OP Research

**Exhibit 7: Product sales volume**



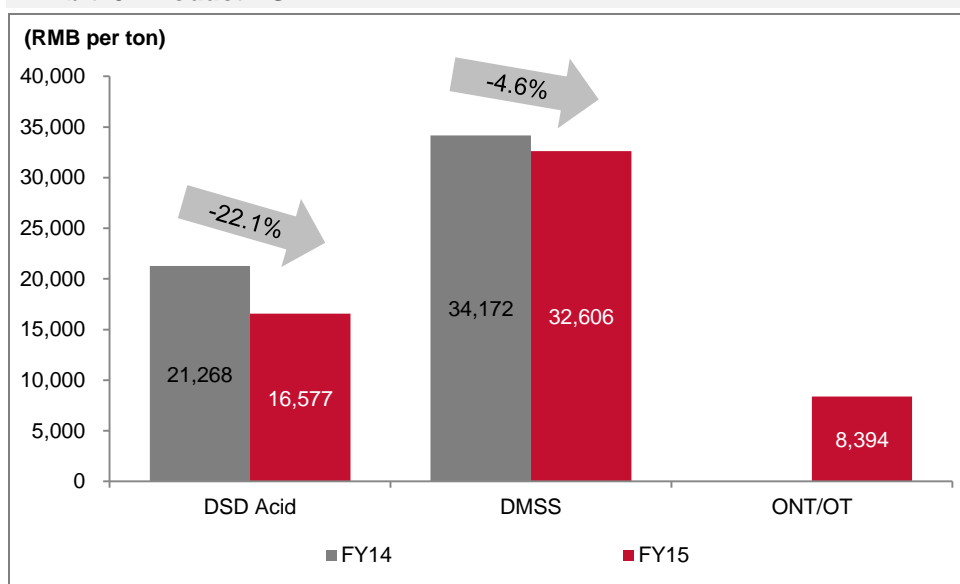
Source: Company, OP Research

**Exhibit 8: Product GPM**



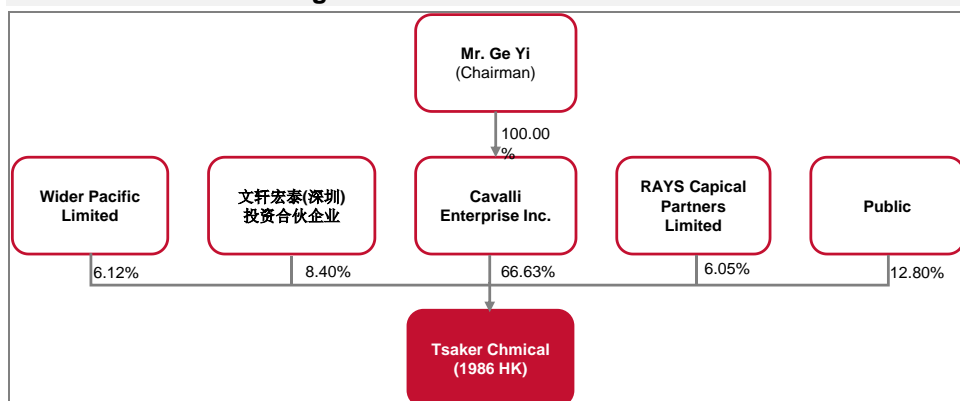
Source: Company, OP Research

**Exhibit 9: Product ASP**



Source: Company, OP Research

**Exhibit 10: Shareholding structure**



Source: Company, OP Research

**Exhibit 11: Historical financial summary**

Year to Dec(RMB mn)	FY 2012	FY 2013	FY 2014	FY 2015
<b>Income Statement</b>				
Revenue	830	864	897	876
YoY%	N/A	4.1%	3.9%	-2.4%
Gross profit	236	257	342	270
Gross margin	28.4%	29.8%	38.1%	30.8%
EBITDA	210	238	278	184
EBITDA margin	25.2%	27.5%	31.0%	21.0%
Net Income	103	109	145	102
YoY%	N/A	5.8%	32.4%	-29.2%
Net margin	12.5%	12.7%	16.1%	11.7%
EPS	N/A	N/A	0.39	0.23
YoY%	N/A	N/A	N/A	41.0%
DPS	0.000	0.000	0.000	0.062
<b>Balance Sheet</b>				
Inventories	79	89	60	78
Accounts receivables	174	167	148	234
Cash & cash equivalent	53	22	96	193
Other curr assets	280	205	17	358
Non-curr assets	255	267	383	594
<b>Total assets</b>	<b>841</b>	<b>751</b>	<b>704</b>	<b>1,457</b>
Accounts payables	64	130	149	193
Total debts	253	133	81	317
Other liabilities	209	212	167	105
<b>Total liabilities</b>	<b>526</b>	<b>475</b>	<b>398</b>	<b>615</b>
<b>Shareholders' equity</b>	<b>315</b>	<b>276</b>	<b>307</b>	<b>842</b>
ROE	N/A	37.1%	49.7%	12.1%
Net debt-to-equity	63.6%	40.5%	Net cash	14.7%
<b>Cash Flow Statement</b>				
Operating cash flow	186	156	287	39
Investing cash flow	-25	-50	-121	-214
<b>Free cash flow</b>	<b>161</b>	<b>106</b>	<b>167</b>	<b>-175</b>
Financing cash flow	-159	-131	-92	267
<b>Net change in cash flow</b>	<b>2</b>	<b>-26</b>	<b>74</b>	<b>92</b>

Source: Bloomberg, OP Research

**Exhibit 12: Peer Group Comparison**

Company	Ticker	Price	3-mth avg			EPS					Div yld Div yld				EV/		Net	Gross margin			Net		Sh px	Sh px		
			Mkt cap (US\$m)	t/o (US\$m)	PER Hist (x)	PER FY1 (x)	EPS FY2 (x)	YoY%	YoY%	3-Yr EPS Cagr (%)	PEG (x)	Hist (%)	FY1 (%)	P/B	P/B	Ebitda		Ebitda/gearing	margin	Hist (%)	ROE	ROE			Sh px	Sh px
<b>Tsaker Chemical</b>	<b>1986 HK</b>	<b>3.76</b>	<b>243</b>	<b>0.1</b>	<b>13.6</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>1.6</b>	<b>N/A</b>	<b>2.2</b>	<b>N/A</b>	<b>6.0</b>	<b>N/A</b>	<b>0.0</b>	<b>38.1</b>	<b>11.7</b>	<b>49.7</b>	<b>N/A</b>	<b>(0.3)</b>	<b>(9.8)</b>		
HSI		21,067.05			10.4	11.3	10.2	(7.9)	10.3	3.9	2.91	4.0	3.7	1.10	1.06						10.6	9.4	2.8	8.3		
HSCEI		8,939.47			7.0	7.3	6.7	(4.3)	9.1	3.7	1.97	4.4	4.0	0.87	0.82						12.4	11.2	1.1	10.9		
CSI300		3,156.75			13.6	12.6	11.2	7.8	12.2	10.7	1.2	2.0	2.2	1.7	1.6						12.5	12.4	(2.0)	6.6		
<b>Adjusted sector avg*</b>					<b>8.5</b>	<b>9.4</b>	<b>7.1</b>	<b>(24.4)</b>	<b>53.9</b>	<b>3.1</b>	<b>0.5</b>	<b>6.5</b>	<b>3.5</b>	<b>0.6</b>	<b>0.7</b>	<b>3.4</b>	<b>5.9</b>	<b>21.1</b>	<b>20.6</b>	<b>4.5</b>	<b>14.8</b>	<b>7.7</b>	<b>(2.3)</b>	<b>7.4</b>		
Tianhe Chemicals	1619 HK	1.17	3,740	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.6	N/A	0.0	60.5	52.2	42.8	N/A	0.0	0.0		
China Bluechem-H	3983 HK	1.80	1,069	0.9	8.3	10.0	8.3	(16.7)	20.7	0.0	N/A	8.3	4.6	0.50	0.48	2.5	2.7	0.0	16.4	7.8	6.0	5.1	(5.8)	14.6		
Huabao Intl	336 HK	3.06	1,225	2.9	4.8	7.4	7.0	(35.5)	6.5	(11.1)	N/A	N/A	1.5	1.01	0.94	2.6	3.8	0.0	69.9	45.9	16.9	13.5	5.5	3.7		
Yip'S Chemical	408 HK	2.70	196	0.1	33.8	13.5	8.2	150.0	65.0	N/A	N/A	9.3	4.4	0.52	0.51	8.2	10.1	50.5	14.7	0.6	8.8	3.9	11.6	15.4		
Ecogreen Interna	2341 HK	1.69	118	0.0	6.8	5.0	5.4	(80.1)	534.1	10.7	0.47	4.0	N/A	0.51	N/A	1.3	N/A	0.0	23.1	7.8	8.9	N/A	3.7	14.2		
Fufeng Group Ltd	546 HK	2.43	666	1.0	8.3	5.9	5.7	(26.1)	97.2	12.8	0.46	3.7	N/A	0.74	N/A	4.1	6.6	50.8	16.1	4.6	9.2	N/A	1.2	(7.3)		
Dongyue Group	189 HK	1.37	373	0.5	5.0	N/A	N/A	N/A	N/A	N/A	N/A	6.6	N/A	0.42	N/A	3.8	N/A	32.7	16.0	6.4	9.6	N/A	0.0	(7.4)		
China Flavor Fra	3318 HK	2.60	224	0.6	19.7	14.5	8.0	36.4	80.0	N/A	N/A	1.2	N/A	1.06	1.03	10.1	6.1	0.0	48.9	10.2	5.7	8.3	(9.1)	22.1		
Manfield Chemica	1561 HK	1.02	79	0.0	10.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16.4	N/A	0.0	28.8	13.4	8.0	N/A	2.0	18.6		
Tiande Chemical	609 HK	1.39	152	0.1	5.7	N/A	N/A	N/A	N/A	N/A	N/A	5.0	N/A	0.83	N/A	2.8	N/A	0.0	28.2	15.3	15.4	N/A	(0.7)	23.0		
Global Bio-Chem	809 HK	0.18	148	0.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(3.9)	N/A	671.5	(13.9)	(59.5)	N/A	N/A	(13.5)	2.3		
China Zenith Che	362 HK	0.29	94	5.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.35	N/A	(9.3)	N/A	19.6	3.6	(395.0)	(10.7)	N/A	(14.7)	(58.0)		
Asia Cassava	841 HK	0.65	49	0.1	1.9	N/A	N/A	N/A	N/A	N/A	N/A	8.5	N/A	0.44	N/A	1.7	N/A	49.9	14.2	4.7	21.5	N/A	(8.5)	6.6		
Global Sweetener	3889 HK	0.30	58	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.58	N/A	(2.7)	N/A	92.1	(6.5)	(45.7)	(78.9)	N/A	(4.8)	7.3		

\* Outliers and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
29/04/2016	China Sportswear Industry	-	Takeaways from channel check and the China sport show in Fuzhou	BUY	Walter Woo
27/04/2016	UMP	722	HK corporate healthcare solutions provider legend steps into BJ and SH, waiting triple earnings	NR	Chloe Liu/Yuji Fung
27/04/2016	China Water Affairs	855	Acquiring water supply project in Jiangxi	BUY	Bruce Yeung
25/04/2016	Xtep	1368	Xtep kicks off its football campaign	BUY	Walter Woo
21/04/2016	EGL	6882	Kumamoto earthquakes	BUY	Bruce Yeung
21/04/2016	TCL COMM	2618	1Q16 results lacklustre - as expected	HOLD	Chloe Liu/Yuji Fung
21/04/2016	TCL Multimedia	1070	First quarter profits up to expectations	BUY	Chloe Liu/Yuji Fung
20/04/2016	Beijing Properties	925	FY15 results trimmed by higher expenses	BUY	Bruce Yeung
14/04/2016	TCL Multimedia	1070	Focus on progress of LeTV cooperation	BUY	Chloe Liu/Yuji Fung
14/04/2016	TCL COMM	2618	Downgrade on challenging 2016	HOLD	Chloe Liu/Yuji Fung
13/04/2016	361 Degrees	1361	Sportswear is still the bright spot	BUY	Walter Woo
13/04/2016	Lifetech SCI	1302	Pacemaker progress on track	BUY	Chloe Liu/Yuji Fung
13/04/2016	On Time Logistics	6123	Recovering but still challenging	BUY	Bruce Yeung
11/04/2016	Chunli Medical	1858	Key takeaway from investors conference call	BUY	Chloe Liu/Yuji Fung
06/04/2016	Lifetech SCI	1302	Benefit on suspension sales of FLX Watchman	BUY	Chloe Liu/Yuji Fung
05/04/2016	China Water Affairs	855	Disposal of CCIG	BUY	Bruce Yeung
05/04/2016	Shenzhen International	152	Needs time to ramp up	HOLD	Bruce Yeung
01/04/2016	Chunli Medical	1858	FY15 results dragged by higher than expected opex	BUY	Chloe Liu/Yuji Fung
30/03/2016	Lifetech SCI	1302	FY15 results miss on opex	BUY	Chloe Liu/Yuji Fung
29/03/2016	Pou Sheng	3813	FY15 earnings beat on other items	BUY	Walter Woo
29/03/2016	Sinotrans	598	Surprise can only come in no expectation	BUY	Bruce Yeung
24/03/2016	Harmonicare	1509	FY15 results inline	BUY	Chloe Liu/Yuji Fung
24/03/2016	Best Pacific	2111	Beat by a wide margin	BUY	Walter Woo
24/03/2016	Canvest	1381	A good year ahead but priced in	HOLD	Bruce Yeung
23/03/2016	Win Hanverky	3322	Manufacturing continues to drive growth	NR	Walter Woo
23/03/2016	EGL	6882	Developing the future in FY16E	BUY	Bruce Yeung
23/03/2016	Chinasoft Intl	354	FY15 results miss	HOLD	Yuji Fung



## TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

### Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

### General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

### Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which are carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking are not a market maker in the securities of the subject companies mentioned in this report. Unless otherwise specified, Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron do not have any interests in the subject company(ies) aggregating to an amount equal to or more than 1% of the subject company(ies) market capitalization.

### Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Rating and Related Definitions

<b>Buy (B)</b>	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
<b>Hold (H)</b>	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
<b>Sell (S)</b>	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
<b>Relevant Benchmark</b>	Represents the stock closing price as at the date quoted in this report.

### Copyright © 2016 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

## CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

[www.oriental-patron.com.hk](http://www.oriental-patron.com.hk)

[bruce.yeung@oriental-patron.com.hk](mailto:bruce.yeung@oriental-patron.com.hk)

Tel: (852) 2135 0214

Fax: (852) 2135 0295