STANDARD &POOR'S

Hengyang Petrochemical Logistics

Bloomberg: HYNG SP | Reuters: HNYG.SI | Price: SGD0.20 | Date: August 17, 2012

GICS: Energy/Oil & Gas Storage & Transportation

Business Summary: Hengyang is a petrochemical logistics services provider located in China, principally engaged in the storage and transportation of liquid petrochemical products. Established since 2002, the company was listed on CATALIST of the Singapore Stock Exchange in October 2009.

Country of Incorporation: Singapore

Head Office Location: Lingang New Town, Shizhuang Zone, Jiangyin, Jiangsu Province , PRC

Place of Operations: China

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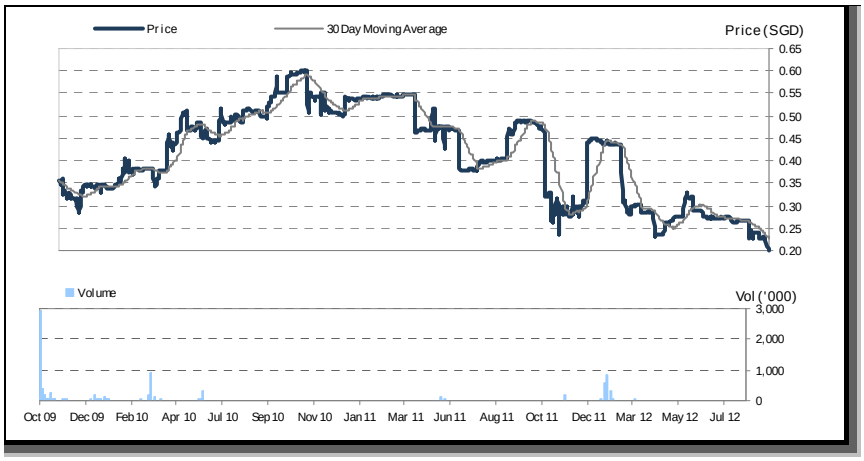

Results Review

- Hengyang's 2Q12 net profit of CNY5.3 mln (16.3% YoY) was slightly better than our expectations as 1H12 net profit accounted for 56% of our full year estimate. This is due to better-than-expected gross margin driven by change in depreciation policy.
- 2Q12 revenue gained 54.4% YoY to CNY29.0 mln, mainly due to contribution from the Deqiao Phase I facility. Compared to 2Q11, the gross margin declined to 48.4% vs. 49.4% previously due to lower profit margins at Deqiao. Nevertheless, compared to 1Q12, the gross margin did improve by 3.8%-pts due to lower cost incurred.
- 2Q12 administrative cost was relatively stable vs. prior year. Consequently, 2Q12 operating margin expanded to 37.3% (vs. 33.0% in 2Q11).
- There was also a sharp increase in 2Q12 finance costs to CNY3.3 mln (vs. CNY0.3 mln in 2Q11) due to the CNY90 mln loan for the Deqiao project and accounting accrual for a CNY112.3 mln loan from Jinqiao Chemical.
- Net gearing remains stable at 41.5% in 2Q12 vs. end-1Q12. However, with the upcoming capex spending for Wuhan and Chongqing projects, we expect net gearing to rise again toward year-end. Nevertheless, with the disposal of the 40% stake in Wuhan and Chongqing projects, we do not see near-term risk of further equity issuance.

Earnings Outlook / Estimates Revision

- We maintain our 2012 net profit forecasts with lower revenue contribution offset by better gross margin expectation. Hence, we expect net profit to decline by 8% in 2012 and EPS to decline by 33% after factoring in the share dilution.
- The company is in the process of obtaining approval from the government in order to commence production for the Foreversun Phase III facility. We do not factor in the potential contribution for 2012 due to regulatory approval uncertainty. If production is to commence in 4Q12, we reckon there should be 9% upside to our 2012 net profit estimate.

Investment Risks

- Delay in new facility ramp-up due to regulatory approval and mis-execution.
- Margin pressure due to product mix change and inflationary pressure.
- Slower cash conversion cycle due to the payment delay from its customers amid slowing demand environment.
- The concentration risks are high as the group's business operations are solely focused in China and the petrochemical storage industry.

Key Stock Statistics

52-week Share Price Range (SGD)		0.20 - 0.47
Avg Vol - 12 months ('000 shares)		45.1
Price Performance (%)	- 1 month	-25.9
	- 3 month	-28.6
	- 12 month	-57.4
No. of Outstanding Shares (mln)		203.5
Free Float (%)		40.6
Market Cap (SGD mln)		40.7
Enterprise Value (SGD mln)		84.7
Major Shareholders (%)		
Foreversun Holdings Co., Ltd.		40.1
Integrated Logistics (HK) Limited		18.4

Per Share Data

FY Dec.	2010	2011	2012E	2013E
Book Value (fen)	202.05	213.05	202.97	210.30
Cash Flow (fen)	15.3	17.7	19.8	23.0
Reported Earnings (fen)	12.3	11.0	7.3	7.3
Dividend (fen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	8.3	9.3	13.9	13.9
P/Cash Flow (x)	6.7	5.8	5.1	4.4
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	6.3	5.3	3.7	3.1
Net Gearing (%)	49.9	71.2	38.2	47.9

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Earnings Performance

FY Dec. / CNY mln	2Q12	2Q11	% Change
Reported Revenue	29.0	18.8	54.4
Reported Operating Profit	10.8	6.2	74.7
Depreciation & Amortization	-3.8	-1.2	>100
Net Interest Income / (Expense)	-3.3	-0.3	>100
Reported Pre-tax Profit	7.5	5.9	27.0
Reported Net Profit	5.3	4.5	16.3
Reported Operating Margin (%)	37.3	33.0	-
Reported Pre-tax Margin (%)	25.8	31.4	-
Reported Net Margin (%)	18.2	24.2	-

Source: Company data

Profit & Loss

FY Dec. / CNY mln	2010	2011	2012E	2013E
Reported Revenue	70.0	89.0	119.5	141.2
Reported Operating Profit	26.0	27.7	35.1	39.2
Depreciation & Amortization	-5.7	-9.8	-25.3	-31.9
Net Interest Income / (Expense)	-0.9	-2.8	-12.9	-16.3
Reported Pre-tax Profit	24.1	23.9	22.0	22.7
Effective Tax Rate (%)	30.4	32.1	32.0	33.0
Reported Net Profit	16.8	16.2	14.9	14.9
Reported Operating Margin (%)	37.2	31.1	29.3	27.8
Reported Pre-tax Margin (%)	34.4	26.9	18.4	16.1
Reported Net Margin (%)	23.9	18.2	12.5	10.6

Source: Company data, S&P Equity Research

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