Yunnan Yuntianhua (600096 CH)

Buy: What the company said on fertiliser exports and sulphur pressure

Equities
Chemicals

China

- 1Q26 beat on sulphur procurement advantage, with extension into 2Q26 via potential incremental fixed-cost SOE supply
- Lower p-fertilisers UTR poses challenges to exports, while 2026 volume growth target is intact; urea exports may ease
- Maintain Buy with an unchanged target price of RMB43.10

1Q26 beat on sulphur cost advantage: Despite rising sulphur prices, Yuntianhua delivered better-than-expected 1Q26 earnings growth y-o-y, driven by margin expansion in iron phosphate and feed-grade phosphate, alongside a further decline of the expenses ratio. Management noted that phosphate fertiliser operations remain stable in 1Q26, while lower-than-expected sulphur costs came in below market level due to partial fixed-cost sulphur supply from SOE refiners and low-cost sulphur inventory purchased earlier this year (*Exhibit 6*).

Potential incremental secured fixed-cost sulphur supply ahead: Management said that Yuntianhua still maintains sulphur cost advantages through fixed-cost supply (currently c20% of sulphur consumption), low-cost sulphur inventory and increased procurement of lower cost smelter sulfuric acid in Yunnan in 2Q26. And the company does not rule out securing additional fixed-cost sulphur supply later from refiners, with incremental volumes still under discussion.

Sulphur supply security may pose a new risk: Management said that c50% of sulphur procurement historically came from the Middle East and a prolonged disruption in the Strait of Hormuz could keep imports tight (*Exhibit 10*). Meanwhile, reducing China's refinery run rates also tightens sulphur supply (*Exhibits 8-9*). If sulphur prices remain elevated or supply tightness worsens further, Yuntianhua considers bringing forward maintenance shutdowns.

Urea exports may take over limited phosphate exports: As p-fertiliser margin pressures the utilisation rate in China's phosphate fertiliser industry (*Exhibits 1-5*), Yuntianhua expects p-fertiliser exports to become more challenging in 2026. However, management maintained its 2026 p-fertiliser sales volume growth target of +3% y-o-y, supported by its ability to fill domestic supply gaps due to potential falling production output in 2026. In addition, management believes that China may relax urea exports this year. We believe Yuntianhua could extend its ability to obtain urea export volume that occurred at 150ktpa in 2025 with better profitability (*Exhibits 7*) to partially offset the impact from no phosphate fertiliser exports.

Maintain Buy rating; unchanged target price of RMB43.10: We use a PB-ROE methodology to value the stock. Based on our 2027e ROE estimate of 19% (unchanged) and COE estimate of 8.6% (unchanged), we derive our target PB multiple of 2.6x (unchanged). Based on our 2027e BVPS estimate of RMB16.29 (unchanged), we arrive at our target price of RMB43.10 (unchanged), implying c35% upside from the current share price; maintain Buy. See **valuation** and **key downside risks** on *page 6-7*.

MAINTAIN BUY

TARGET PRICE (CNY)	PREVIOUS TARGET (CNY)
43.10	43.10
SHARE PRICE (CNY)	**UPSIDE/DOWNSIDE**
32.03	+34.6%

(as of 26 May 2026)

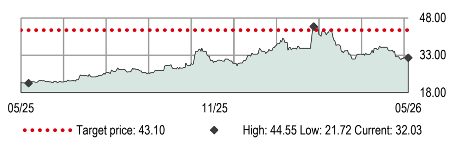
MARKET DATA

Market cap (CNYm)	58,390	Free float	100%
Market cap (USDm)	8,604	BBG	600096 CH
3m ADTV (USDm)	361	RIC	600096.SS

FINANCIALS AND RATIOS (CNY)

Year to	12/2025a	12/2026e	12/2027e	12/2028e
HSBC QH EPS	2.83	2.67	3.02	3.33
HSBC QH EPS prev	2.83	2.67	3.02	3.33
Change (%)	0.0	0.0	0.0	0.0
Consensus EPS	3.10	2.85	3.08	3.28
PE (x)	11.3	12.0	10.6	9.6
Dividend yield (%)	4.4	4.2	4.7	5.2
EV/EBITDA (x)	6.4	6.7	5.8	5.1
ROE (%)	22.0	18.9	19.5	19.4

52-WEEK PRICE (CNY)



Source: LSEG IBES, HSBC Qianhai Securities estimates

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Disclosures & Disclaimer
This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: HSBC Qianhai Securities Limited

View HSBC Qianhai Securities at:
https://www.research.hsbc.com

Financials & valuation: Yunnan Yuntianhua

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (CNYm)				
Revenue	48,415	50,118	49,616	45,642
EBITDA	9,513	9,054	9,850	10,499
Depreciation & amortisation	-2,293	-2,388	-2,524	-2,615
Operating profit/EBIT	6,882	6,468	7,128	7,686
Net interest	-287	-219	-120	-31
PBT	6,495	6,149	6,908	7,556
HSBC Qianhai PBT	6,495	6,149	6,908	7,556
Taxation	-997	-922	-1,036	-1,133
Net profit	5,156	4,885	5,530	6,081
HSBC Qianhai net profit	5,156	4,885	5,530	6,081
Cash flow summary (CNYm)				
Cash flow from operations	9,087	5,721	9,498	10,081
Capex	-2,284	-3,058	-3,053	-3,008
Cash flow from investment	-1,768	-3,208	-3,203	-3,158
Dividends	-2,552	-2,435	-2,756	-3,031
Change in net debt	-2,390	143	-3,411	-3,852
FCF equity	6,803	2,662	6,446	7,073
Balance sheet summary (CNYm)				
Intangible fixed assets	4,825	4,842	4,856	4,853
Tangible fixed assets	20,579	21,490	22,714	23,530
Current assets	14,815	15,028	14,857	15,012
Cash & others	4,981	4,799	4,841	5,866
Total assets	50,342	50,972	51,066	51,340
Operating liabilities	11,939	9,817	10,173	9,892
Gross debt	11,355	11,316	7,948	5,121
Net debt	6,374	6,517	3,107	-745
Shareholders' funds	24,581	27,030	29,795	32,835
Invested capital	23,299	26,743	27,411	27,637

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
y-o-y % change				
Revenue	-21.3	3.5	-1.0	-8.0
EBITDA	-7.3	-4.8	8.8	6.6
Operating profit	-9.8	-6.0	10.2	7.8
PBT	-7.9	-5.3	12.3	9.4
HSBC Qianhai EPS	-2.7	-5.5	13.2	10.0
Ratios (%)				
Revenue/IC (x)	2.0	2.0	1.8	1.7
ROIC	25.5	22.6	23.0	24.3
ROE	22.0	18.9	19.5	19.4
ROA	11.3	10.7	11.7	12.6
EBITDA margin	19.6	18.1	19.9	23.0
Operating profit margin	14.2	12.9	14.4	16.8
EBITDA/net interest (x)	33.2	41.3	81.9	337.1
Net debt/equity	24.0	22.2	9.6	-2.1
Net debt/EBITDA (x)	0.7	0.7	0.3	-0.1
CF from operations/net debt	142.6	87.8	305.7	
Per share data (CNY)				
EPS Rep (diluted)	2.83	2.67	3.02	3.33
HSBC Qianhai EPS (diluted)	2.83	2.67	3.02	3.33
DPS	1.40	1.34	1.51	1.66
Book value	13.48	14.78	16.29	17.96

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	1.3	1.2	1.2	1.2
EV/EBITDA	6.4	6.7	5.8	5.1
EV/IC	2.6	2.3	2.1	1.9
PE*	11.3	12.0	10.6	9.6
PB	2.4	2.2	2.0	1.8
FCF yield (%)	11.7	4.6	11.0	12.1
Dividend yield (%)	4.4	4.2	4.7	5.2

* Based on HSBC Qianhai EPS (diluted)

ESG metrics

Environmental Indicators	12/2024a
GHG emission intensity*	NA
Energy intensity*	NA
CO_2 reduction policy	Yes
Social Indicators	**12/2024a**
Employee costs as % of revenues	NA
Employee turnover (%)	NA
Diversity policy	No

Governance Indicators	12/2025a
No. of board members	9
Average board tenure (years)	3.6
Female board members (%)	11.1
Board members independence (%)	44.4

Source: Company data, HSBC Qianhai Securities

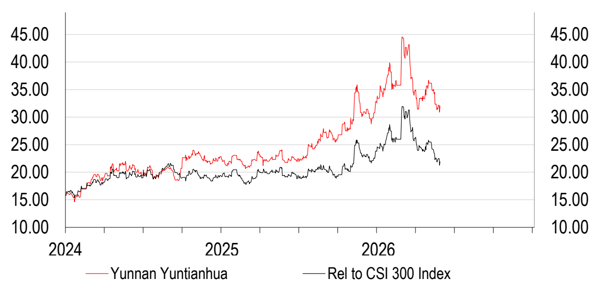
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (CNY)	32.03
Target price (CNY)	43.10
RIC (Equity)	600096.SS
Bloomberg (Equity)	600096 CH
Market cap (USDm)	8,604

Free float	100%
Sector	Chemicals
Country/Region	China
Analyst	Yi Ru
Contact	+86 21 5066 2008

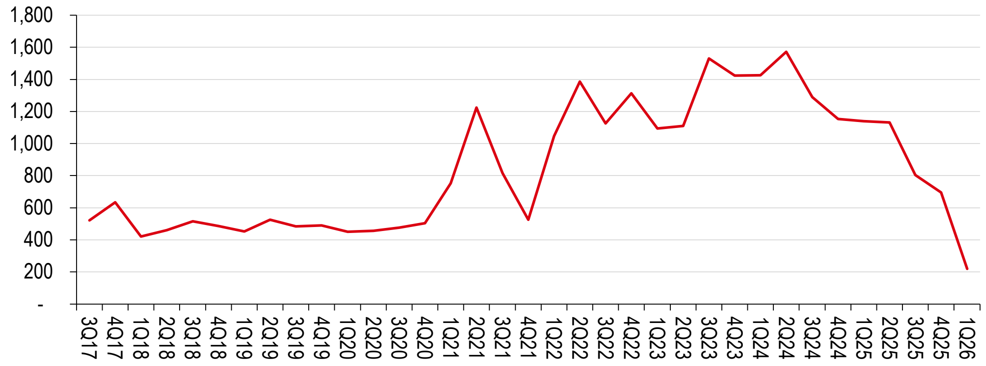
Price relative



Source: HSBC Qianhai Securities

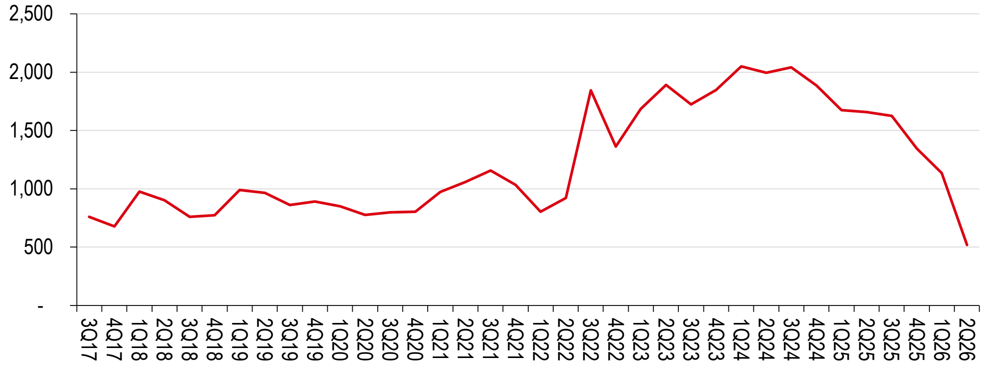
Note: Priced at close of 26 May 2026

Exhibit 1. China MAP spread if fully self-sufficient on phosphate rock (RMB/t)



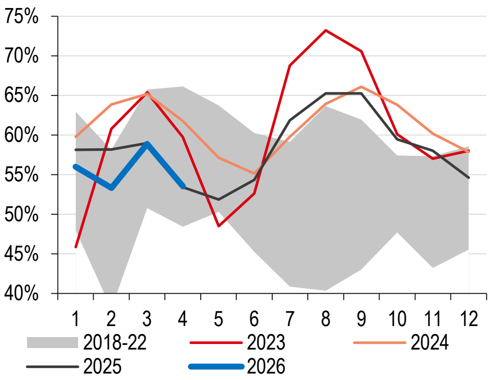
Source: Wind, BaiInfo, HSBC Qianhai Securities. Note: MAP – Monoammonium phosphate.

Exhibit 2. China DAP spread if fully self-sufficient on phosphate rock (RMB/t)



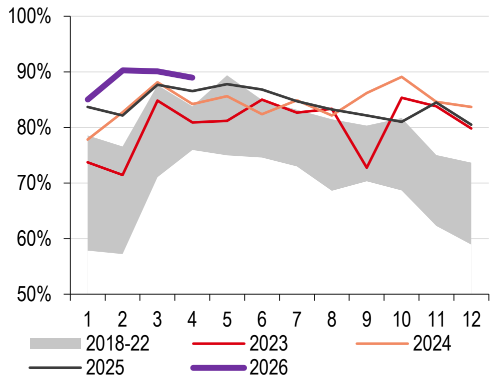
Source: Wind, BaiInfo, HSBC Qianhai Securities. Note: DAP –Diammonium phosphate.

Exhibit 3. China DAP utilisation rate (%)



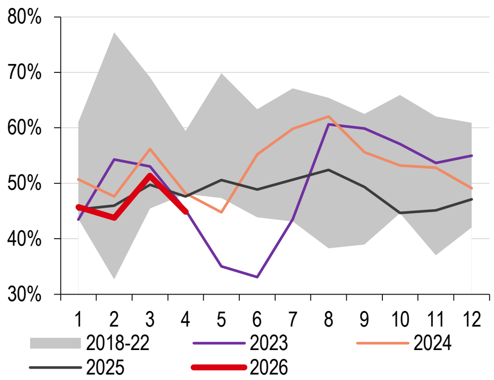
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 4. China urea utilisation rate (%)



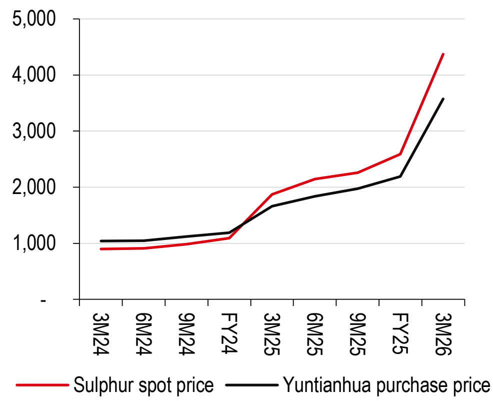
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 5. China MAP utilisation rate (%)



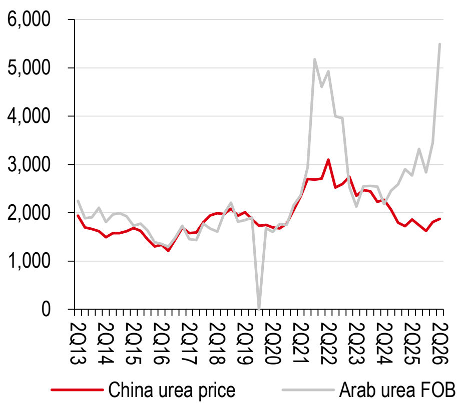
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 6. China sulphur spot price versus Yuntianhua's purchase price (RMB/t)



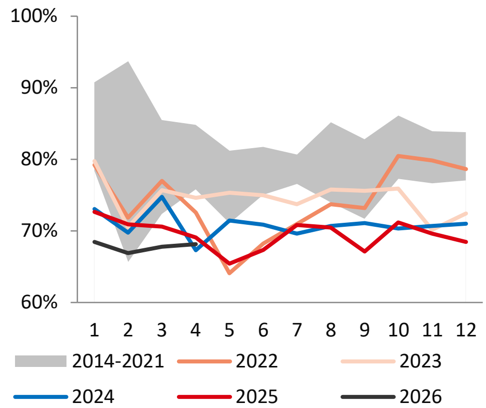
Source: Wind, HSBC Qianhai Securities

Exhibit 7. China urea prices versus overseas urea prices (RMB/t)



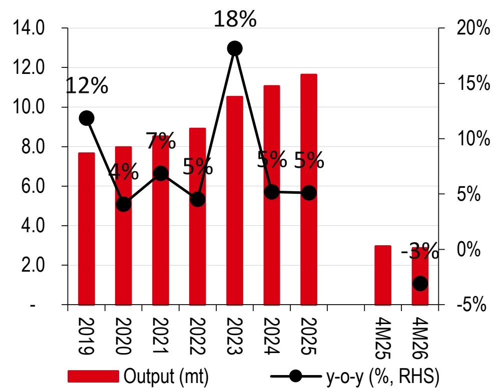
Source: Wind, HSBC Qianhai Securities

Exhibit 8. China sulphur UTILIZATION (%)



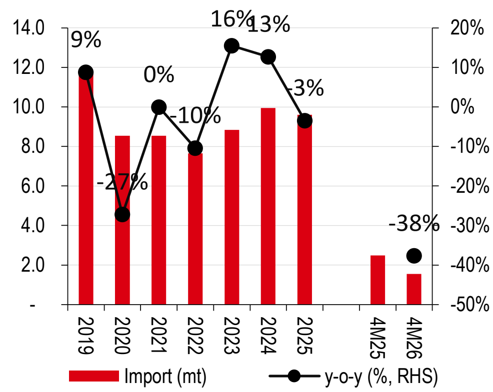
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 9. China sulphur output (kt)



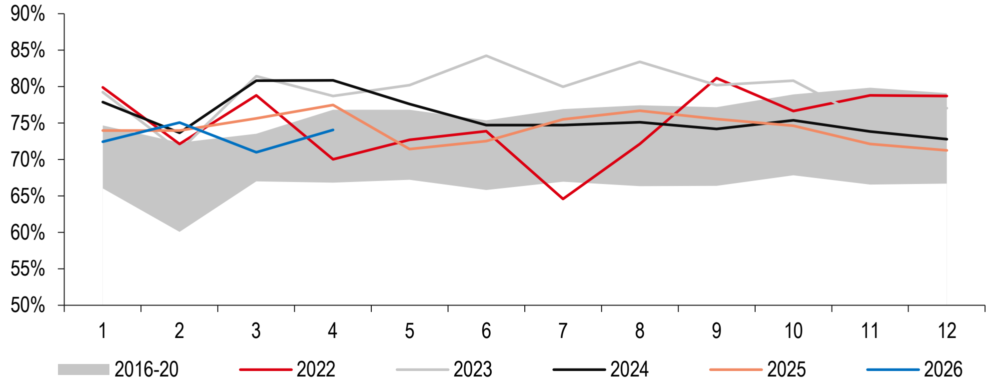
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 10. China sulphur import volume



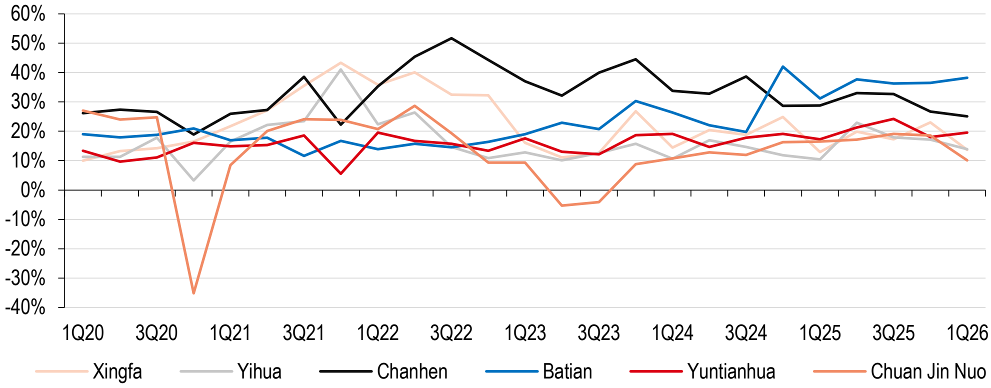
Source: BaiInfo, HSBC Qianhai Securities

Exhibit 11. China refinery operating rate (%, monthly)



Source: Wind, HSBC Qianhai Securities

Exhibit 12. GPM comparison of China phosphate chemical suppliers



Source: Wind, HSBC Qianhai Securities

Exhibit 13. Yuntianhua's quarterly operations data

	1Q23a	2Q23a	3Q23a	4Q23a	1Q24a	2Q24a	3Q24a	4Q24a	1Q25a	2Q25a	3Q25a	4Q25a	1Q26a	1Q26a y-o-y	1Q26a q-o-q
Sales (10kt)															
Phosphate fertiliser	123	111	135	111	118	120	121	105	128	94	146	83	124	-3%	50%
Compound (mixed) fertiliser	31	38	46	41	43	56	38	45	53	46	33	73	61	17%	-16%
Urea	47	80	64	58	62	81	62	70	75	71	66	72	69	-8%	-4%
Polyacetal	3	3	3	2	3	3	3	3	2	3	3	3	3	24%	-2%
Yellow phosphorus	0	1	1	0	1	0	1	0	1	0	0	0	0	-27%	55%
Feed grade calcium hydrogen phosphate	12	13	16	18	12	15	16	16	13	13	16	18	12	-3%	-31%
Revenue (RMBm)															
Phosphate fertiliser	4,300	3,922	3,713	3,834	3,957	4,214	3,935	3,623	3,923	3,071	5,482	3,003	4,583	17%	53%
Compound (mixed) fertiliser	1,131	1,257	1,109	1,288	1,311	1,638	1,081	1,552	1,501	1,625	943	2,480	2,041	36%	-18%
Urea	1,229	1,833	1,336	1,383	1,351	1,749	1,238	1,286	1,299	1,271	1,134	1,286	1,186	-9%	-8%
Polyacetal	326	325	313	300	309	323	321	330	288	306	257	275	287	0%	5%
Yellow phosphorus	120	119	128	100	124	56	125	100	129	94	83	58	94	-27%	62%
Feed grade calcium hydrogen phosphate	401	412	424	558	374	531	553	574	493	543	690	826	581	18%	-30%
ASP (RMB/t)															
Phosphate fertiliser	3,508	3,529	2,753	3,461	3,353	3,519	3,240	3,449	3,071	3,261	3,764	3,625	3,697	20%	2%
Compound (mixed) fertiliser	3,606	3,345	2,417	3,167	3,073	2,917	2,811	3,482	2,857	3,547	2,839	3,410	3,331	17%	-2%
Urea	2,614	2,288	2,079	2,403	2,184	2,170	1,987	1,824	1,724	1,786	1,720	1,783	1,711	-1%	-4%
Polyacetal	12,246	11,340	10,861	12,287	11,832	11,334	11,626	11,513	11,576	9,917	9,023	8,660	9,255	-20%	7%
Yellow phosphorus	26,613	19,893	21,005	22,274	20,382	20,644	20,123	20,826	20,750	20,448	19,804	20,055	20,877	1%	4%
Feed grade calcium hydrogen phosphate	3,466	3,236	2,713	3,164	3,227	3,499	3,527	3,507	3,890	4,303	4,368	4,599	4,702	21%	2%

Source: Wind, HSBC Qianhai Securities

Our 2026-27e net profit estimates are below consensus by 2-7%, as we are more conservative on the revenue outlook of the company's phosphate fertiliser business. Our 2028e net profit estimate is in line with the Street. The stock is trading at a 12x 2026e PE multiple, materially below its historical average PE multiple of 32x since 2007. We believe a 6% EPS CAGR over 2025-28e should continue to support a re-rating, even if the consensus lowers its earnings estimates.

Exhibit 14. HSBC Qianhai estimates versus consensus

	HSBC Qianhai estimates			Wind consensus			Difference		
(RMBm)	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Revenue	50,118	49,616	45,642	49,953	50,802	51,177	0%	-2%	-11%
Net profit	4,885	5,530	6,081	5,235	5,622	5,924	-7%	-2%	3%

Source: Wind, HSBC Qianhai Securities estimates

Exhibit 15. Sensitivity analysis of 2026e EPS to changes in sulphur cost (RMB/t)

	-200	-100	0	100	-200
EPS chg. (%)	+8%	+4%	0%	-4%	-8%

Source: HSBC Qianhai Securities estimates

Valuation and risks

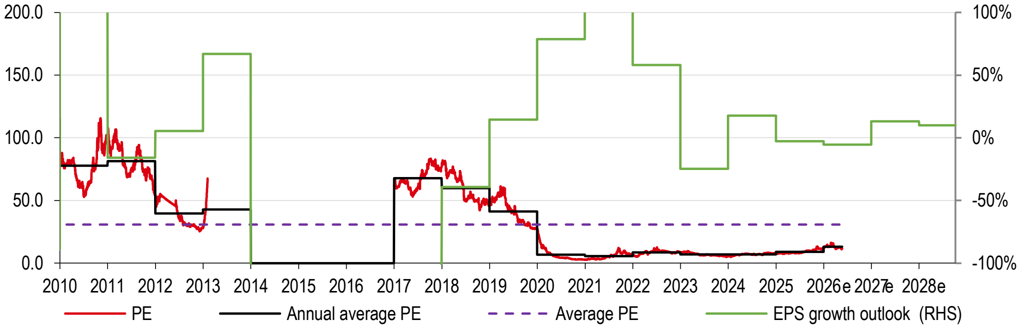
We use a PB-ROE methodology to value the stock. Based on our 2027e ROE estimate of 19% (unchanged) and COE estimate of 8.6% (unchanged), we derive our target PB multiple of 2.6x (unchanged). Based on our 2027e BVPS estimate of RMB16.29 (unchanged), we arrive at our target price of RMB43.10 (unchanged), implying c35% upside from the current share price. Accordingly, we maintain our Buy rating. We view a relaxation in export policies or a de-escalation in the Middle East conflict as key catalysts.

Exhibit 16. Valuation assumptions

	Unchanged
Risk-free rate	4.25%
China stock market risk premium	4.75%
Beta coefficient	0.9
COE	8.6%
ROE	19%
Perpetual growth rate	2%
Target PB ratio (x)	**2.6**
BVPS (RMB)	16.29
Target price (RMB)	**43.10**

Source: HSBC Qianhai Securities estimates

Exhibit 17. Historical PE (x) versus earnings growth (%) outlook



Source: Bloomberg, HSBC Qianhai Securities estimates

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Yi Ru and Jill Huang

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 31 March 2026, the distribution of all independent ratings published by HSBC is as follows:

Buy	59%	(12% of these provided with Investment Banking Services in the past 12 months)
Hold	36%	(12% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(6% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at *http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures*.

Share price and rating changes for long-term investment opportunities

Yunnan Yuntianhua (600096.SS) share price performance CNY Vs HSBC rating history

Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Buy	02 Jul 2025	Yi Ru
Target price	**Value**	**Date**	**Analyst**
Price 1	34.50	02 Jul 2025	Yi Ru
Price 2	37.20	11 Aug 2025	Yi Ru
Price 3	38.90	11 Nov 2025	Yi Ru
Price 4	40.30	21 Jan 2026	Yi Ru
Price 5	47.50	04 Mar 2026	Yi Ru
Price 6	43.10	26 Mar 2026	Yi Ru

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
YUNNAN YUNTIANHUA	600096.SS	30.96	28 May 2026	–

Source: HSBC

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