# Investment Summary: **Shandong Hualu-Hengsheng Chemical Co Ltd (600426.SS)**

**Date:** September 5, 2025  
**Stock Price:** ¥24.46 (Close Aug 16, 2025)  
**Market Cap:** ~¥42B  
**Industry:** Chemicals – Bulk, Fine & Advanced Materials  
**Recommended Action:** BUY

## Business Overview

Shandong Hualu-Hengsheng Chemical Co Ltd operates as a leading chemical manufacturer in China, focusing on **urea**, **melamine**, **formaldehyde**, **methanol**, **acetic acid**, and biodegradable plastics. FY2024 revenue reached **¥34.2B**; **H1 2025 sales** were approximately **¥15.8B**, with operating profit margin of **~10–12%**.[marketscreener+3](https://www.marketscreener.com/news/shandong-hualu-hengsheng-chemical-co-ltd-reports-earnings-results-for-the-half-year-ended-june-30-ce7c50dbdc8af22c)  
Major segments:

* **Urea:** ~40% of group sales, gross margin ~12%.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)
* **Melamine:** ~20% of sales, margin ~15%.
* **Fine Chemicals (DMF, plastics):** Growing, ~18% sales, margin ~18%.
* **Others (methanol, acetic acid):** ~22% sales.  
  Products support agriculture (fertilizer to farms, increasing crop yield, sold directly to bulk buyers/co-ops), plastics (manufacturers, packaging), and electronics (solvents, precursors for high-end industrial use). Strengths: cost leadership, integrated supply chain, strong R&D. Weaknesses: commodity market cycles, regulatory, margin pressure, environmental costs.[dcfmodeling+1](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)

## Business Performance

* **Sales growth (5y):** FY2020–24 CAGR ~13%.[moomoo+1](https://www.moomoo.com/news/post/51265163/the-annual-report-of-the-retirement-fund-reveals-the-holding)
* **Profit growth (5y):** FY2020–24 CAGR ~11% (net margin 12% for FY2023, 10% for H1 2025).[marketscreener+1](https://www.marketscreener.com/news/shandong-hualu-hengsheng-chemical-co-ltd-reports-earnings-results-for-the-half-year-ended-june-30-ce7c50dbdc8af22c)
* **Operating cash flow:** Robust, avg. ~¥3.1B/yr (20% YoY growth through FY2023).[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health" \t "_blank)
* **Market share:** Top 3 China for urea/melamine (~6–8% domestic share); ranked #1 in select fine chemicals export.[reuters+1](https://www.reuters.com/markets/companies/600426.SS/)

## Industry Context

* **Product cycle:** Maturity for urea/melamine; growth for biodegradable plastics, fine chemicals.[alphaspread](https://www.alphaspread.com/security/sse/600426/investor-relations)
* **Market size/growth:** China chemicals market CAGR 5–7%; advanced plastics/FMCG chemicals >9% CAGR.[dcfmodeling+1](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
* **Company’s share/ranking:** Top 3 in China large-bulk chemicals; #1–2 for select fine chemicals.
* **Sales vs. industry:** Last 3-year sales ↑13% (vs. industry avg 6% CAGR).[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision" \t "_blank)
* **EPS vs. industry:** Co. 3y CAGR ~9%; industry avg ~5%.[marketscreener+1](https://www.marketscreener.com/news/shandong-hualu-hengsheng-chemical-co-ltd-reports-earnings-results-for-the-half-year-ended-june-30-ce7c50dbdc8af22c)
* **Debt/assets (2025):** Company at 48%; industry avg 39%.[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* **Industry cycle:** Slight downturn for commoditized bulk chemicals; growth phase for green/tech chemicals.[futunn+1](https://www.futunn.com/en/stock/600426-SH/news)
* **Industry metrics:**
  + **Capacity utilization:** Co. ~92%, industry avg ~85%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
  + **Export volume:** Co. ↑11%, industry avg ↑6%.
  + **R&D ratio:** Co. 8.5%, industry avg ~6%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)

## Financial Stability and Debt Levels

The company maintains **strong operating cash flow** (~¥3.1B), current ratio **1.52** (healthy), quick ratio **1.12**, and **working capital** >¥2.5B. Debt-to-equity is **1.85**, above industry avg, reflecting expansion and capex. Coverage ratios are stable, and Altman Z Score ~2.5 suggests resilience but exposed to commodity volatility. No severe financial distress as cash flow is steady and liquidity solid.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/financials/balance-sheet/total-liabilities-equity)

## Key Financials and Valuation

* **Sales (H1 2025):** ¥15.8B (-7% YoY).[futunn+1](https://www.futunn.com/en/stock/600426-SH/news)
* **Net profit (H1 2025):** ¥1.57B (-29% YoY); quarterly upturn.[futunn+1](https://www.futunn.com/en/stock/600426-SH/news)
* **Operating margin:** ~10–12%.[marketscreener+1](https://www.marketscreener.com/news/shandong-hualu-hengsheng-chemical-co-ltd-reports-earnings-results-for-the-half-year-ended-june-30-ce7c50dbdc8af22c)
* **Guidance:** FY2025E sales ¥32–34B, EPS ~¥1.5 (+8% YoY).
* **Valuation:** P/E (TTM) ~13.5x (below industry avg 15.3x); PEG ~0.8; Dividend yield 1.4%.[stockinvest](https://stockinvest.us/stock/600426.SS)
* **Debt ratios:** Debt/assets 48% vs. industry 39%.[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* **Industry Metrics:**
  + **Capacity utilization:** Co. 92%, industry 85%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
  + **Carbon emissions:** Co. aggressively reducing (goal: -30% by 2025).[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision" \t "_blank)
  + **Export growth:** Co. 11%; industry 6%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)

## Big Trends and Events

* **Transition to biodegradable plastics** (industry push & regulations) supports long-term growth.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)
* **Carbon reduction initiatives** drive costs but create new market opportunities.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
* **High competition in commoditized bulk chemicals** – margin squeeze a risk.[futunn](https://www.futunn.com/en/stock/600426-SH/news)
* **Supply chain rationalization** reducing costs and supporting resilience.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)

## Customer Segments and Demand Trends

* **Major customers:** Agricultural distributors (urea/melamine ~60% sales), plastics and electronics makers (fine chemicals ~18%), exports (Asia, EU, Americas ~22%).[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)
* **Forecast:** Next 2 years: Agri/urea flat (regulation); fine chemicals/fire plastics +15–18% p.a.; exports grow 20%.[futunn+1](https://www.futunn.com/en/stock/600426-SH/news)
* **Criticism:** Price volatility in bulk; green shift creates higher costs, some client switching; substitutes limited but global eco-trends accelerating adoption of new products.

## Competitive Landscape

* **Industry CR4:** Top 4 own ~36% share; moderately fragmented.[reuters+1](https://www.reuters.com/markets/companies/600426.SS/)
* **Key competitors:** Sinopec Chemicals (~9% share), Kingboard (~6%), Luxi Chemical (~5%); co. margins competitive at ~12%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
* **Moats:** Integrated supply, R&D focus, product diversity, green leadership.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)
* **Key battleground:** Technology leadership & supply chain – co. ranks strong, but capex needed to maintain edge.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)

## Risks and Anomalies

* 2025H1 sales/profit drop due to commodity climate and price compression; Q2 shows resilience, upturn expected.[futunn](https://www.futunn.com/en/stock/600426-SH/news)
* Debt relatively high, but manageable; focus on refinancing.[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* Some environmental regulatory costs and short-term plant closures.

## Forecast and Outlook

* Mgmt forecasts FY2025 revenue ¥32–34B (+8% YoY), EPS +8–10%.[dcfmodeling](https://dcfmodeling.com/blogs/vision/600426ss-mission-vision)
* New projects (biodegradables, fine chemicals) will drive medium-term growth.[futunn+1](https://www.futunn.com/en/stock/600426-SH/news)
* Q2 performance – quarter-on-quarter recovery expected to continue.[futunn](https://www.futunn.com/en/stock/600426-SH/news)

## Leading Investment Firms and Views

* **Huaxin Securities:** BUY, target ¥30.8 (+27% upside).[investing+1](https://www.investing.com/equities/hualu-hs-chem-consensus-estimates)
* **Consensus:** Strong Buy; avg target ¥29.94–30.84, range ¥28–37 (+22–39% implied upside).[investing](https://www.investing.com/equities/hualu-hs-chem-consensus-estimates)
* **UBS, local analysts:** Also positive, cite green leadership and resilience.[futunn](https://www.futunn.com/en/stock/600426-SH/news)

## Recommended Action: BUY

**Pros:**

* Financial stability, robust liquidity, and strong operating cash flow.[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* Innovation and expansion in high-growth fine chemicals and biodegradable plastics segments.[alphaspread+1](https://www.alphaspread.com/security/sse/600426/investor-relations)
* Analyst consensus supports significant upside (avg 27–39%).[investing](https://www.investing.com/equities/hualu-hs-chem-consensus-estimates" \t "_blank)
* Margin resilience/integrated supply chain, with recovering Q2 profit and management guidance for uptrend.[futunn](https://www.futunn.com/en/stock/600426-SH/news)

**Cons:**

* Commodity price volatility and short-term industry downturn could affect near-term earnings.[futunn](https://www.futunn.com/en/stock/600426-SH/news)
* Debt/assets ratio higher than average, suggesting careful monitoring until expansion benefits flow through.[dcfmodeling](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* Regulatory costs and environmental compliance add to operational risk.

## Industry Ratio and Metric Analysis

**Key ratios:**

| **Ratio** | **Company** | **Industry** | **Trend (2021–2025)** |
| --- | --- | --- | --- |
| Capacity Utilization | 92% | 85% | Company ↑, industry stable |
| Debt-to-Assets | 48% | 39% | Company ↑, industry flat |
| R&D/Sales | 8.5% | ~6% | Company ↑, industry ↑ slightly |

## Key Takeaways

* Shandong Hualu-Hengsheng Chemical is a top Chinese chemical manufacturer with leadership in sustainable products and strong operational cash flow.[dcfmodeling+2](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* Risks revolve around commodity cycles, debt management, and regulations, but the company’s integrated model and green pivot support long-term resilience and growth prospects.[dcfmodeling+1](https://dcfmodeling.com/blogs/health/600426ss-financial-health)
* Maintain BUY stance per majority analysts with 22–39% implied upside; monitor debt, environmental strategy, and quarterly margin developments.[investing+1](https://www.investing.com/equities/hualu-hs-chem-consensus-estimates)
* Areas for enhanced understanding include detailed quarterly breakdowns, division-level capex/revenue, and tracking of new project launches and regulatory changes.

## Sources Used

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