

Analyst: Paul Sham

Main Board Listing – Research

琥珀能源有限公司

Amber Energy Limited [Stock Code: 00090]
Sole Sponsor, Bookrunner and Lead Manager : Piper Jaffray

Co-Lead Manager : CCB International

Sector : Power

Business : Sales of electricity

Total share offer: *100,000,000 shares (25.0% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%) Greenshoe: 15,000,000 shares <i>*All 100,000,000 shares are New Shares</i>	<u>Business of Amber Energy</u> Amber Energy is the only foreign-owned gas-fired power plant operator under the Zhejiang provincial grid and is principally engaged in the development, operation and management of power plants fuelled by natural gas. The Company owned 100% equity interest in 3 power plants, namely De-Neng Power Plant, Blue Sky Power Plant and Jing-Xing Power Plant. All of the power plants are located in Zhejiang Province and commenced commercial operation between December 2005 and December 2006. The turnover of those 3 power plants are determined by power output and on-grid tariff. Each year, the provincial government issues guidelines on the power output of each power plant based on the expected power supply and demand in the market. On the other hand, the on-grid tariffs are also determined by provincial price bureaus based on various consideration factors, such as economic life of the facilities, fuel type, cost structure and applicable tax rates.
Price: HK\$1.26 – HK\$1.66 per share Market Cap: HK\$504 million– HK\$664 million Pro forma fully diluted FY09E PER: 7.2x – 9.5x Adjusted NTA per share: HK\$1.25 – HK\$1.34 Staffing: 238 (as of 24 th June 2009)	
HK Public Offer period: 29 th June 2009 – 3 rd July 2009 Receiving bank: ICBC (Asia) Limited The Bank of East Asia, Limited Share registrar: Computershare Hong Kong Investor Services Ltd Listing date: 10 th July 2009	

Shareholding Structure after Listing

Amber International	
<ul style="list-style-type: none"> – 90% owned by Mr. Lu Wei Dong, co-founder of Amber Energy and; – 10% owned by Mr. Chai Wei, co-founder, President and executive Director of Amber Energy 	75.0%
Public Investors	25.0%
	<u>100.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$108 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.46 each, being the midpoint of the indicative price range).

	HK\$ million
For the first phase development of a new gas-fired cogeneration power plant to be located in Anji county in Zhejiang province	64
For the balance consideration of the acquisition of 47% minority interests in De-Neng Power Plant in May 2009	34
For working capital purpose	10

Financial Highlights

	Year ended 31 st December		
	2006 RMB\$'000	2007 RMB\$'000	2008 RMB\$'000
Revenue	415,790	645,191	424,072
Gross profit	49,702	131,030	68,329
Attributable profit	6,310	58,445	33,445
Gross margin	12.0%	20.3%	16.1%
Net margin	1.5%	9.1%	7.9%

Revenue Breakdown by Power Plants (% of Total Revenues)

	Year ended 31 st December					
	2006 RMB\$'000	%	2007 RMB\$'000	%	2008 RMB\$'000	%
De-Neng Power Plant	205,122	49.3%	238,200	36.9%	132,191	31.2%
Blue Sky Power Plant	195,381	47.0%	258,867	40.1%	185,846	43.8%
Jing-Xing Power Plant	15,287	3.7%	148,124	23.0%	106,035	25.0%
Total	415,790	100.0%	645,191	100.0%	424,072	100.0%

Strengths/Opportunities

- ✓ **Government support on clean energy sources** Given the PRC government's initiatives in promoting the use of clean energy, the Company, with its power plants being all environment friendly, should benefit from higher on-grid tariffs, compared with the conventional coal-fired power plants. In addition, the National Development and Reform Commission of the PRC has set the target to increase the proportion of consumption of natural gas to total fuel consumption by 2.5% to 5.3% in year 2010, compared to year 2005. Under this circumstance, Amber Energy should be able to capture larger market shares in power industry.
- ✓ **Attractive valuation** Based on the midpoint of the indicative offering price, the FY09E PE ratio of Amber Energy is only 8.35x. Compared with the closest listed rival – GCL-Poly Energy (03800.HK, a Jiangsu and Zhejiang based power producer using clean energy sources) whose FY09E PE reaches 15.9x, Amber Energy's single-digit PE makes its offer a good bargain, given the Company's growth prospect under the environmental friendly theme.
- ✓ **Management background** Mr. Lu Wei Dong, the co-founder of the Amber Energy, is the Managing Director of Wanxiang Group. Zhejiang-based Wanxiang Group is the No.1 auto parts manufacturer in China and is ranked 127th among the top 500 Chinese enterprises. The Lu family was also ranked the 5th richest among all Chinese manufacturing entrepreneurs in 2008. It is quite possible Amber Energy could leverage Mr. Lu's distinctive network in Zhejiang to thrive its power business.

Weaknesses/Threats

- × **Limited track record** Amber Energy reported a 42.7% drop in net earnings to RMB33.4m in 2008, down from RMB58.5m a year earlier. Management attributed the decline to the 2008 Beijing Olympic Games and earthquake in Sichuan area, where energy sources including the natural gas in the PRC was reserved in priority for the affected areas. Nevertheless, as Amber Energy commenced operation for less than 4 years, it is difficult to tell whether the aforesaid decline was just an individual incident.

Recommendation: Trading buy



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