

**BEA securities**

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HONG KONG RESEARCH**10th February 2009**

Analyst: Kelvin Li

Main Board Listing – Research

瑞金礦業有限公司

Real Gold Mining Limited [Stock Code: 00246]

Sole Global Coordinator & Sole Sponsor : Citi
Joint Bookrunners & Joint Lead Managers : Citi Macquarie Capital

Sector : Materials**Business** : Mining of gold and processing of ore into concentrates for sale

<p>Total share offer: <u>165,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 16,500,000 shares (10%)</p> <p>Placing: 148,500,000 shares (90%) (comprising 87,700,000 new shares and 60,800,000 sale shares)</p> <p>Greenshoe: 24,750,000 shares</p>	<p><u>Business of Real Gold Mining</u></p> <p>Real Gold Mining (“the Group”) is mainly engaged in the mining of gold and the processing of ore into concentrates containing gold and other minerals for subsequent sale. The Group owns a 97.14% stake in three operating gold mines in the Chifeng Municipality (赤峰市), Inner Mongolia, namely the Shirengou Gold Mine (石人溝金礦), the Nantaizi Gold Mine (南台子金礦) and the Luotuochang Gold Mine (駱駝場金礦). The gold mines are covered by four mining permits covering an aggregate area of about 20.4 sq km and an exploration permit covering an aggregate area of about 3.19 sq km. The Group mainly outsources its exploration and mining works to third-party contractors under supervision of the Group’s management and technical teams.</p> <p>Real Gold Mining currently has two ore processing facilities located at the Nantaizi Gold Mine and the Luotuochang Gold Mine, with processing capacities of 990 tonnes per day (tpd) and 800 tpd, respectively. The Group plans to expand the two processing facilities further, reaching an aggressive capacity of 2,580 tpd by the end of 2009.</p>
<p>Price: HK\$4.35 – HK\$6.25 per share</p> <p>Market Cap: HK\$2.871 billion – HK\$4.125 billion</p> <p>Pro forma fully diluted FY08E P/E: 25.3x – 36.3x</p> <p>Adjusted NTA per share: HK\$1.01 – HK\$1.30</p> <p>Staffing: 89 (as of 26th January 2009)</p>	
<p>HK Public Offer period: 10th February 2009 - 13th February 2009 noon</p> <p>Receiving bank: ICBC (Asia) Bank of China (Hong Kong)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 23rd February 2009</p>	

Shareholders after Listing (Assuming the over-allotment option is not exercised)

Lead Honest, owned by the family trust of Mr Wu Ruilin. Mr Wu did not participate in the daily operations of the Group and does not hold any post in the Group’s management team.	75.00%
Public shareholders	<div>25.00%</div> <div>100.00%</div>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$469.2 million *(based on an offer price of HK\$5.30, being the mid-point of the indicative offer price range, and assuming the over-allotment option is not exercised)*

	HK\$ million
To fund future acquisitions of gold resources in Inner Mongolia, Xinjiang and other regions.	179.7
To expand the Group's exploration activities and to commercialize any mineral resources discovered as a result of exploration.	107.9
To fund capital expenditures at the existing gold mines including mine development and the completion of the new processing plants at the Nantaizi Gold Mine and the Luotuochang Gold Mine.	170.3
For general working capital.	11.3

Financial Highlights

	Year ended 31 st Dec			10 months ended	
	2005	2006	2007	31 st Oct 2007	31 st Oct 2008
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	-	-	8,007	-	173,586
Gross profit	-	-	3,939	-	140,259
Profit/ (Loss) attributable to shareholders	(15)	(118)	(2,245)	(3,668)	62,332
	31/12/2005	31/12/2006	31/12/2007	31/10/2007	31/10/2008
Net debt to Equity	Net cash	Net cash	Net cash	N/A	Net cash

Strengths/Opportunities

- ✓ International gold prices are hovering around US\$900 per ounce amid fear of the second tide of global financial tsunami. Robust gold prices should help maintain the Group's profit margin. For the full year of 2008, international gold prices averaged at US\$871 per ounce.
- ✓ The Group's gold reserves are high-graded, which implies a higher content of gold in its ore reserve. It helps dilute the average production cost and maintain a good profit margin.

Weaknesses/Threats

- × The Group has only commenced mining operation from the Luotuochang Mine in October 2006, the Shirengou Mine in May 2007 and the Nantaizi Mine in July 2007 and commenced sales from Shirengou Mine in May 2007 and the Nantaizi Mine in June 2008. With a short history of operation, it is hard to estimate the Group's future business performance and profitability.
- × The Group does not have its own mining team and has to rely on third-party contractors to carry out mining and exploration works, making it more difficult to oversee the quality and safety of the mining operations. Liabilities may also arise if the third-party contractors failed to meet with government environment requirements.
- × The Group's customer base was highly concentrated with the top five clients accounting for more than 95% of total revenue in the first ten months of 2008. Revenue from the single largest customer alone accounted for nearly half of the Group' total revenue during the Jan-Oct 2008 period.
- × The Group has adopted an aggressive growth plan, aiming at boosting its ore processing capacity to 2,580 tonnes per day by the end of 2009 from 1,790 tonnes per day at present. Nonetheless, as a pure upstream mining play, a valuation of 36.3x FY08E P/E (at the top end of the pricing range) is excessive when compared with integrated gold producers like Zijin Mining (HKEx: 02899), which is trading at only 18x FY08E P/E.

Recommendation: Unattractive



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