

Analyst: Kelvin Li

Main Board Listing – Research

南亞礦業有限公司

CVM Minerals Limited [Stock Code: 00705]

Sponsor & Arranger : Anglo Chinese
Sole Bookrunner : Guotai Junan Securities (HK)
Joint Lead Managers : Anglo Chinese Guotai Junan Securities (HK) OSK Securities HK

Sector : Materials

Business : Mining of dolomitic limestone for the manufacture of magnesium ingots

Total share offer: <u>112,750,000</u> shares (25% of the enlarged share capital) Public Offer: 11,276,000 shares (10%) Placing: 101,474,000 shares (90%) Greenshoe: 16,912,000 shares	<u>Business of CVM Minerals</u> CVM Minerals operates in the State of Perak in Malaysia and is aiming to become the first primary magnesium producer in the Southeast Asia. The Group has acquired the mining right of extract dolomitic limestone from the Dolomite Hills (located at the State of Perak) for a term of 20 years with an option to renew for a further period of 10 years (the start date should be shortly after the commencement of operation of the Perak Magnesium Smelter by 2009). The Group is also in the process of constructing the Perak Magnesium Smelter, in which it can smelt and process the dolomitic limestone into magnesium metal in ingot form. With an expected initial annual smelting capacity of 15,000 tonnes of magnesium at the Perak Magnesium Smelter, the Dolomite Hills is estimated with a mining life of about 116 years. Meanwhile, the Group has entered into agreements with five independent third parties for the sale of magnesium ingots of at least 17,000 tonnes per annum by no later than Jun 2009.
Price: HK\$1.18 per share Market Cap: HK\$532 million Pro forma fully diluted FY08E P/E: N/A Adjusted NTA per share: HK\$0.35 Staffing: 400 (to be employed when the Perak Magnesium Smelter commences operation by 2009)	
HK Public Offer period: 21 st November 2008 - 8 th December 2008 noon Receiving bank: ICBC (Asia) Standard Chartered Bank Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 16 th December 2008	

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

Ho Wah Genting Berhad, a Bursa Malaysia-listed company	41.25%
Perbadanan Kemajuan Negeri Perak, the development arm of the state government of Perak	7.50%
Tsornng Shin Machinery (M) Sdn. Bhd., a Malaysia-incorporated private limited company	15.00%
Other individual shareholders, each of who holds a 3.75% stake in CVM Minerals	11.25%
Public shareholders	25.00%
	<u>100.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$92 million *(based on an offer price of HK\$1.18 and assuming the over-allotment option is not exercised)*

	HK\$ million
Repayment of short-term bank loans	43
Payment of all relevant pre-operating expenses in relation to the implementation and development of the CVM project (mining at the Dolomite Hills and the construction of the first production line of the Perak Magnesium Smelter)	16
Purchase of raw materials	15
Capital expenditure for the expansion and upgrade of the Perak Magnesium Smelter	10
Other working capital purposes	8

Financial Highlights

	Year ended 31 st Dec			5 months ended	
	2005	2006	2007	31 st May 2007	31 st May 2008
	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	-	-	-	-	-
Loss from operations	(618,472)	(1,551,036)	(2,657,729)	(666,662)	(2,832,609)
Finance costs	-	(12,953)	(24,351)	(8,133)	(15,890)
Loss for the year	(618,472)	(1,563,989)	(2,682,080)	(674,795)	(2,848,499)
Loss per share	(3.95)	(0.21)	(0.09)	(0.02)	(0.09)
	31/12/2005	31/12/2006	31/12/2007	31/05/2007	31/05/2008
Net debt/(cash) to Equity	N/A	8.02%	77.39%	N/A	97.12%

Weaknesses/Threats

- × The Group has not yet commenced any commercial operations and so has not reported any revenue or profit over the past years. Therefore, it is difficult to estimate the Group's future operational performance and profitability.
- × The Group has entered into sale agreements with five prospective customers. Any failure of these customers in fulfilling the contracted purchase would lead to a big hit of the Group's sale income and profit.
- × The Group expects its gearing ratio (51% as of 30th Sep 2008) to rise over time, as it will make use of new bank loans to finance the CVM project.
- × Global magnesium prices have been dropping sharply since summer of this year, amid growing concerns about a worldwide economic recession. The price is expected to decline further, tracking weakness in the prices of other commodities like crude oil and other base metals.
- × The Perak Magnesium Smelter is located 60km away from the Penang Port. There is no railway nearby and the Group has to rely on local trucks for transportation of raw materials and products. Any traffic jam in major highways would lead to delays in product delivery.
- × The global stock market has come down sharply amid recession fear. We would see bargains and undemanding valuations in other base metal plays with solid operating track record and clearer business outlook following the latest market meltdown.

Recommendation: Caveat Emptor

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