

**Analyst: Paul Sham**

## Main Board Listing – Research

海峡石油化工控股有限公司

**Strong Petrochemical Holdings Limited [Stock Code: 00852]**

**Sponsor** : China Everbright Capital Limited  
**Bookrunner and Lead Manager** : China Everbright Securities (HK) Limited  
**Sector** : Energy  
**Business** : Trading crude oil, petroleum products and petrochemical products

<b>Total share offer:</b> * <u>100,000,000</u> shares <b>(25.0% of the enlarged share capital)</b>	<b><u>Business of Strong Petrochemical</u></b>  Strong Petrochemical principally engaged in the trading of oil products. The oil products traded by the Company can be categorized into crude oil, petroleum products and petrochemical products.  Through its operating subsidiaries in Hong Kong and Macau, the Company procures the trading products mainly from Oil Majors such as Chevron USA Inc, and other international oil trading companies. The purchases from those companies amounted to 91.3% and 93.1% of the total purchase during the financial year ended 31 <sup>st</sup> March 2007 and 2008 respectively.  On the other hand, the Company mainly sold crude oil and petroleum products to China through the Five State-owned Licensed Import Agents namely PetroChina, Sinopec, CNOOC, SinoChem and Unipet. The aggregated sales to them accounted for 97.4% and 91.9% during the same periods.  To enhance the competitive advantage, Strong Petrochemical positions itself as a niche player focusing on satisfying immediate and unplanned purchase demands from the Five State-owned Licensed Import Agents by supplying oil products within a short time frame.
<b>Public Offer:</b> 10,000,000 shares (10%) <b>Placing:</b> 90,000,000 shares (90%) <i>*All 100,000,000 shares are New Shares</i>	
<b>Price:</b> HK\$2.5 per share  <b>Market Cap:</b> HK\$1,000 million  <b>Historical FY07/08 PER:</b> 10.8x  <b>Unaudited pro forma NTA per share:</b> HK\$1.44  <b>Staffing:</b> 22 (as of 18 <sup>th</sup> December 2008)	
<b>HK Public Offer period:</b> 23 <sup>rd</sup> December 2008 – 2 <sup>nd</sup> January 2009  <b>Receiving bank:</b> Standard Chartered Bank (Hong Kong) Limited  <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 12 <sup>th</sup> January 2009	

### **Shareholding Structure after Listing**

Forever Winner International Ltd. – <i>ultimately and equally owned by:</i> <i>Mr. Yao Guoliang, an executive Director and the chief executive officer and</i> <i>Mr. Wang Jian Sheng, an executive Director and the chairman</i>	75.0%
Public Investors	25.0%
	100.0%

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$218.3 million at an issue price of HK\$2.5 per share.

	HK\$ million
To finance the Nantong Project, which involves the construction of storage tanks, pipelines and other relevant infrastructure	106.2
To be used as pledged bank deposits for expanding its oil trading business	46.8
To inject capital to the Tianjin Company, which is 15% owned by the Company	43.5
For working capital requirements and other general corporate purposes	21.8

### Financial Highlights

	Year ended 31 <sup>st</sup> March			7 months ended 31 <sup>st</sup> October	
	2006	2007	2008	2007	2008
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	5,328.3	5,138.7	4,211.2	2,660.7	4,808.6
Gross profit	98.0	187.4	108.2	51.8	(45.8)
<b>Attributable profit</b>	<b>81.3</b>	<b>135.8</b>	<b>92.7</b>	<b>37.9</b>	<b>110.6</b>
Gross margin	1.8%	3.6%	2.6%	1.9%	(1.0%)
Net margin	1.5%	2.6%	2.2%	1.4%	2.3%

### Revenue Breakdown by product

	Year ended 31 <sup>st</sup> March						7 months ended 31 <sup>st</sup> October			
(RMB million)	2004	%	2005	%	2006	%	2007	%	2008	%
Crude oil	3,418.4	64.2	3,763.9	73.2	3,327.1	79.0	2,058.1	77.4	4,091.3	85.1
Petroleum products	1,909.9	35.8	1,317.5	25.6	776.4	18.4	529.6	19.9	629.7	13.1
Petrochemical products	0	0.0	57.3	1.1	107.7	2.6	73.0	2.7	87.6	1.8
<b>Total</b>	<b>5,328.3</b>	<b>100</b>	<b>5,138.7</b>	<b>100</b>	<b>4,211.2</b>	<b>100</b>	<b>2,660.7</b>	<b>100</b>	<b>4,808.6</b>	<b>100</b>

### Strengths/Opportunities

- ✓ **Targeting wholesale and storage operations** Strong Petrochemical is planning to construct a number of storage tanks under its Nantong Project and Tianjin Project. Together with the possible obtainment of relevant business licences, the Company believes that it would enjoy the same legal status as the Five State-owned licensed Import Agents in selling petroleum products directly to the PRC customers in the future.

### Weaknesses/Threats

- × **Low profit margins** Strong Petrochemical principally engaged in trading oil products which is a highly competitive market as there are quite a number of oil companies providing similar services. Such competitive business environment dragged the net margin to only low single digit (2% to 3%) that makes the Company extremely vulnerable to the sharp decline in the top line.
- × **Heavy reliance on a few major customers** The aggregated sales to the Five State-owned Licensed Import Agents amounted to 97.4% and 91.9% for the past two financial years. Any unexpected cessation or reduction in the volume of business from them could adversely affect the Group's business and financial performance.

**Recommendation: Unexciting**



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