

Analyst: Kelvin Li

Main Board Listing – Research

中國秦發集團有限公司

China Qinfu Group Limited [Stock Code: 00866]

Sponsor : China Everbright Capital
Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager : China Everbright Securities (HK)
Co-Lead Manager : Mizuho Securities Asia
Sector : Energy
Business : Marketing, shipping and transportation of coal

Total share offer: <u>250,000,000</u> shares (25.0% of the enlarged share capital) Public Offer: 25,000,000 shares (10%) Placing: 225,000,000 shares (90%) Greenshoe: 37,500,000 shares	<u>Business of Qinfu</u> <p>Qinfu is mainly engaged in the coal operation business involving purchase, filtering, storage, blending, sales, shipping and transportation of coal. The Group is one of the major non-state-owned operators in the Mainland in shipping/transporting coal from key production areas in the western and northern regions to end users in coastal areas of China.</p> <p>The Group's coal handling and transportation facilities are situated at two coal loading stations along the Daqin Railway (大秦鐵路) and at Qinhuangdao (秦皇島) port. Daqin Railway is one of the major coal haul railways in China running from Datong city (大同市), one of the key coal mining areas in the PRC, to Qinhuangdao port, the world's largest coal loading port. There are 41 major coal loading stations (with annual loading capacity of 10,000 tonnes or more) along the Daqin Railway, while the Group could source coal from different suppliers along the railway and ship it to end-users via Qinhuangdao port.</p>
Price: HK\$2.00 – HK\$2.52 per share Market Cap: HK\$2.00 billion – HK\$2.52 billion Pro forma fully diluted FY08 P/E: 5.4x – 6.8x Adjusted NTA per share: HK\$1.29 – HK\$1.41 Staffing: 348 (as of 31 st Dec 2008)	
HK Public Offer period: 19 th June 2009 – 24 th June 2009 noon Receiving bank: Bank of China (HK) ICBC (Asia) Bank of Communications – Hong Kong Branch Share registrar: Union Registrars Limited Listing date: 3 rd July 2009	

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

Mr. XU Jihua, chairman of the Group	59.3%
Equity Trust (HK) Limited, acting in the capacity of the trustee of the Trust Scheme for Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha. Ms. WANG Jianfei and Mr. WENG Li are executive Directors. Mr. XU Da is a business development manager of the Group and son of chairman Mr. XU Jihua.	15.7%
Public shareholders	25.0%
	<u>100.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$517.0 million *(based on an offer price of HK\$2.26, assuming the over-allotment option is not exercised)*

	HK\$ million
To finance the development of Zhuhai Terminal.	329.0
To finance the establishment of the third coal loading station.	137.0
For general working capital.	51.0

Financial Highlights

	Year ended 31 st Dec		
	2006	2007	2008
	RMB '000	RMB '000	RMB '000
Total turnover	2,850,489	3,664,632	4,192,484
Gross profit	235,618	571,394	559,916
Operating profit	84,380	278,508	443,876
Profit/ (Loss) attributable to shareholders	51,802	207,251	330,690
Gross profit margin	8.3%	15.6%	13.4%
Operating profit margin	3.0%	7.6%	10.6%
Net profit margin	1.8%	5.7%	7.9%
	31/12/2006	31/12/2007	31/12/2008
Net debt to Shareholders' Equity	84.8%	136.7%	131.6%

Strengths/Opportunities

- ✓ The Group plans to build the third coal loading station with annual capacity of 7 million tonnes in Shanxi, which would double the Group's total handling capacity to about 14 million tonnes. However, the plan is only at preliminary stage, which is expected to take some years to complete before making any economic contributions.
- ✓ The Group also plans to establish the Zhuhai Terminal with annual throughput capacity of 20 million tonnes. The port could not only act as a coal loading site but also support blending and storage operations, strengthening the Group's position in the Pearl River Delta. The Group will have a 60% interest in the project.

Weaknesses/Threats

- × Negotiation for contract sales of 2009 between major coal and power producers was stalled in the first quarter and has seen limited progress so far in Q2 this year, as the counterparties could not reach a consensus over coal prices. As a result, Qinfa's coal trading volume tumbled to about 264,000 tonnes in Q1 2009, compared with 6.27 million tonnes for the full year of 2008. Business momentum revived gradually in April and May, but the overall trading volume should remain substantially lower when compared with a year earlier.
- × In addition to lower trading volume, the Group was also dragged by a sharp fall in the average selling prices (ASP) of coal. For Q1 2009, the Group's ASP stood at RMB432 per tonne, even lower than the average purchase price of RMB440/tonne, which led to a negative trading margin of RMB8/tonne. The trading margin improved in April and May, which helped lift the trading margin to about RMB64/tonne in Jan-May 2009, but it was still below the margins of RMB133/tonne and RMB132/tonne in 2008 and 2007, respectively.
- × China does not grant coal operation certificates to any foreign equity controlled companies. However, due to expanding overseas business, the Group (China Qinfa Group Ltd. – a non-PRC incorporated company) established Qinfa Logistics (a PRC-incorporated company) in Feb 2008, which operates coal businesses in the Mainland under the Structure Contracts with China Qinfa Group (a group of PRC-incorporated companies and owned by the Group's chairman Mr. XU). However, management pointed out that such arrangement may breach existing or future PRC laws, which would lead to penalties or restriction on the Group's business.

Recommendation: **Neutral**



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