

Analyst: Kelvin Li

Main Board Listing – Research

中國忠旺控股有限公司

China Zhongwang Holdings Limited [Stock Code: 01333]

Joint Sponsors	:	CITIC Securities	UBS	
Joint Global Coordinators and	:	CITIC Securities	UBS	JPMorgan
Joint Bookrunners				
Joint Lead Managers	:	CITIC Securities	UBS	JPMorgan Macquarie

Sector : Materials

Business : Manufacture of aluminium extrusion products

Total share offer: <u>1,400,000,000</u> shares (25.9% of the enlarged share capital) Public Offer: 140,000,000 shares (10%) Placing: 1,260,000,000 shares (90%) Greenshoe: 210,000,000	<u>Business of Zhongwang</u> <p>Zhongwang is one of the largest aluminum extrusion product manufacturers in Asia and China. In terms of production volume, the Group was the largest aluminum extrusion product manufacturer in the Mainland China and the third largest in the world in 2007.</p> <p>The Group's products can be classified into two main categories, namely industrial aluminum extrusion products and construction aluminum extrusion products. Industrial aluminum extrusion products are primarily used as parts and components in railway cargo and passenger carriages, subway and light rails, light trucks, automobiles, aircraft, shipping vessels and power transmitters. The Group's construction aluminum extrusion products are primarily used in the fabrication of door frames and window frames, curtain wall systems, and interior decoration materials.</p> <p>The Group's manufacturing facilities are located in Liaoning, close to major production areas of aluminum ingot, coal and electricity.</p>
Price: HK\$6.80 – HK\$8.80 per share Market Cap: HK\$36.7 billion – HK\$47.5 billion Pro forma fully diluted FY08 P/E: 16.9x – 21.9x Adjusted NTA per share: HK\$2.38 – HK\$2.89 Staffing: 2,516 (as of 31 st December 2008)	
HK Public Offer period: 24 th April 2009 – 29 th April 2009 noon Receiving bank: Bank of China (HK) Bank of Communications Standard Chartered (HK) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 8 th May 2009	

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

Mr Liu Zhongtian – chairman of the Group	74.10%
Public shareholders	25.90%
	<u>100.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$10.6 billion (based on an offer price of HK\$7.80, assuming the over-allotment option is not exercised)

	HK\$ million
For the expansion of production capacity and penetration of the industrial market, particularly the transportation sectors, by installing additional production lines.	3,705
To purchase manufacturing equipment and facilities for the production of downstream value-added industrial aluminum extrusion products.	3,705
To repay short-term debts	1,588
For the enhancement of research and development	529
For general working capital.	1,059

Financial Highlights

	Year ended 31 st Dec		
	2006	2007	2008
	HKD '000	HKD '000	HKD '000
Revenue	6,075,225	7,521,266	11,264,429
Gross profit	1,109,546	1,614,711	3,102,295
Operating profit	977,149	1,462,935	2,930,534
Profit/ (Loss) attributable to shareholders	551,426	852,158	1,910,438
Gross profit margin	18.3%	21.5%	27.5%
Operating profit margin	16.1%	19.5%	26.0%
Net profit margin	9.1%	11.3%	17.0%
	31/12/2006	31/12/2007	31/12/2008
Net debt to Equity	27.24%	1.90%	15.88%*

Remark: (*) adjusted for the RMB2 billion dividend payable to the controlling shareholder in April 2009

Strengths/Opportunities

- ✓ The Group priced its products based on a “cost-plus” basis by imposing a processing fee on top of prevailing market prices of aluminium ingot (the major raw material), which helped contain the adverse impact of raw material price fluctuation on the Group.
- ✓ To ride on booming investment in transportation infrastructure in the Mainland, the Group plans to boost its overall capacity to 800,000 tonnes per annum by 2011, up from the current capacity of 535,000 tonne, aiming at downstream value-added products for railway, aviation and shipbuilding industries. Meanwhile, overseas sales only accounted for 3.3% of the Group's total revenue in 2008. With a small portion of overseas sales, the Group would be less affected from the global recession.
- ✓ The Group reported steadily rising profit margins over the last couple of years, as it has been raising the sales of high-end industrial aluminium extrusion products. The Group plans to expand the output capacity of industrial extrusion products further, and fully exit the low-end construction product segment by 2011.

Weaknesses/Threats

- × Due to a slowdown in the Mainland's economic growth and a gloomy outlook of the global economy, the overall demand for industrial metal products may ease in 2009, which would lead to some degree of pressure on the Group's product pricing and profit margin.
- × The Group expects to report a net profit of not less than RMB1.35 billion for the first half of 2009, representing a solid earnings growth when compared with the 2008 full-year profit of RMB1.91 billion. Nonetheless, pricing at near 22x FY08 P/E (top end of the indicative price range), the counter's valuation is not attractive when compared with other industrial plays.

Recommendation: Trading Buy



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