

Analyst: Paul Sham

Main Board Listing – Research

北京金隅股份有限公司

BBMG Corporation [Stock Code: 02009]
Sole Global Coordinator and Sponsor : UBS AG

Joint Bookrunners : UBS AG
Macquarie Capital Securities Limited
JP Morgan Securities Ltd.

Sector : Materials

Business : Manufacture & sale of cement and modern building materials, property development and management

Total share offer: *933,333,000 shares (25.0% of the enlarged share capital) Public Offer: 93,334,000 shares (10%) Placing: 839,999,000 shares (90%) Greenshoe: 139,999,500 shares <i>*All 933,333,000 shares are New Shares</i>	<u>Business of BBMG Corporation (“BBMG”)</u> BBMG is the largest building materials manufacturer in the PRC. It is also a large-scale property investment & management company and leading property developer in Beijing. Its business consists of 4 segments: Cement (39% of group turnover): In 2008, BBMG, together with its associate company and subsidiaries, was the largest supplier of cement in the area comprising Beijing, Tianjin and Hebei Province. The Group alone supplied approximately 40% of the cement market share in Beijing by sales volume. Modern building materials (31% of group turnover): In 2008, BBMG was the largest modern building materials manufacturer in Beijing. It produces a wide range of modern building materials, including furniture, mineral wool acoustic boards, wall body materials and refractory materials. Property investment & management (7% of group turnover): BBMG is a large-scale investor and manager of mid-market to high-end properties in Beijing, including offices, commercial spaces and parking spaces. Property development (23% of group turnover): In 2007, BBMG was one of the 10 largest property development companies in Beijing in terms of GFA sold. It develops a wide variety of properties, including office buildings, commodity housing and affordable housing.
Price: HK\$5.18 – HK\$6.38 per share Market Cap: HK\$19,339 million – HK\$23,819 million Historical FY08 PER: 12.91x – 15.90x Adjusted NTA per share: HK\$3.44 – HK\$3.73 Staffing: 17,447 (as of 31 st March 2009)	
HK Public Offer period: 17 th July 2009 – 22 nd July 2009 Receiving bank: Bank of China (Hong Kong) Limited Bank of Communications Co., Ltd. HK Branch Share registrar: Computershare Hong Kong Investor Services Ltd Listing date: 29 th July 2009	

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Shareholding Structure after Listing

BBMG Group – a wholly State-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality	47.28%
Sinoma (01893.HK)	6.42%
Hopeson Holdings Limited – whose ultimate beneficial owner is the chairman of the board of directors of Hopson Development Holdings Limited (00745.HK)	5.50%
New Horizon Jasmine – whose ultimate beneficial owner is New Horizon Capital, an international investment fund	3.57%
Tianjin Building Materials – a wholly State-owned enterprise established in the PRC, principally engaged in the production and sale of building and decoration materials	3.16%
China Cinda – a wholly State-owned enterprise established in the PRC, principally engaged in the acquisition and operation of non-performing assets for Chinese banks	1.95%
Hua Xi Xin Yu Investment, Runfeng Investment & Beijing Taihong Investment – 3 limited liability companies established in the PRC, principally engaged in different investment activities	4.89%
The National Council for Social Security Fund of the PRC (NSSF)	2.24%
Public	25.00%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$5,033 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$5.78 each, being the midpoint of the indicative price range).

	HK\$ million
To finance the expansion of the cement, modern building materials and property development segments, through expansions of current facilities, construction of new facilities or acquisitions	3,775
To repay bank loans	755
For working capital and other general corporate purpose	503

Financial Highlights

(RMB'000)	Year ended 31 st December			Three months ended March 31	
	2006	2007	2008	2008	2009
Revenue	6,612,345	8,080,460	8,550,656	2,149,765	2,164,186
Gross profit	1,238,931	1,598,559	2,112,011	506,440	551,505
Attributable profit	494,192	643,588	1,320,816	157,076	141,775
Gross margin	18.7%	19.8%	24.7%	23.6%	25.5%
Net margin	7.5%	8.0%	15.4%	7.3%	6.6%

Revenue Breakdown by segment (% of Total Revenues)

(RMB million)	Year ended 31 st December						Three months ended March 31			
	2006	%	2007	%	2008	%	2008	%	2009	%
Cement	2,002	30.4%	2,745	34.0%	3,315	38.8%	640	29.8%	834	38.5%
Modern building materials	1,922	29.2%	2,564	31.7%	2,702	31.6%	626	29.1%	558	25.8%
Property investment and management	553	8.1%	671	8.3%	630	7.4%	159	7.4%	163	7.5%
Property development	2,155	32.7%	2,415	29.9%	1,968	23.0%	729	33.9%	614	28.4%
Inter-segment elimination	(20)	-0.3%	(315)	-3.9%	(64)	-0.7%	(4)	-0.2%	(5)	-0.2%
Total	6,612	100.0%	8,080	100.0%	8,551	100.0%	2,150	100.0%	2,164	100.0%

**Strengths/Opportunities**

- ✓ **High entry barrier in cement industry** BBMG is currently the largest supplier of cement in Beijing, Tianjin and Hebei Province in terms of volume sold. It is expected that the market share of BBMG would be sustainable as the PRC government increased the entry barrier for the cement industry because of environmental concerns, which discourage potential rivals from entering the cement market.
- ✓ **Synergies of integration among segments** Despite BBMG's business consists of 4 different segments, integration among them is still possible. Internal synergies include property development projects using internally sourced cement, managing certain properties through BBMG's property management segment following completion of its property development projects, linking modern building materials and property development segments by integrating energy saving, environmentally friendly modern building materials into the design...etc. The inter-segment integration of BBMG could enhance the efficiency in the resource allocation and thus raise its profit margin as a result.
- ✓ **Diversified income mix** BBMG's business was characterized by diversified income mix, with 39% of its income stemming from the cement segment, 32% from the modern building materials segment and 23% from the property development. The diversified income sources enable BBMG to receive comparative stable cash inflow in the long run.
- ✓ **Favourable stimulus package** In order to stimulate the PRC domestic economy, the PRC Government announced a RMB4.0 trillion stimulus package, which is expected to be spent over the next two years to finance programs in different areas such as low-rent housing and other infrastructure. BBMG, a leading building materials producer and property developer in Beijing-Bohai Gulf Region, should be able to benefit from this policy.
- ✓ **Subscribed by famous cornerstone investors** BBMG has secured a blue-chip list of corporate investors including China Life Group, Bank of China Group Investment, sovereign wealth fund China Investment Corp, alternative asset manager Och-Ziff Capital Management Group and NSSF, illustrating the attractiveness of BBMG.
- ✓ **Fair valuation** Based on the high-end of the indicative offering price, the FY08 PE ratio of BBMG is only 15.9x. Compared with the comparative listed rivals – Sinoma (01893.HK) and CNBM (03323.HK) whose FY08 PE reaches 33.8x and 21.4x respectively, BBMG's mid-teen PE makes its offer a good bargain among building materials manufacturers.

Weaknesses/Threats

- × **Asset restructuring of BBMG's cement business in progress** In 2007, the China Securities Regulatory Commission informed BBMG's parent, BBMG Group, to undertake an asset restructuring. Under the plan, BBMG Group is to transfer all BBMG's cement businesses to Taihang Cement, a Shanghai-listed subsidiary of the parent. In return, BBMG will receive new Taihang shares, which will increase its stake in the firm from the current 30% to a certain percentage. Should there be circumstances beyond BBMG's or its parent's control and make it impossible for BBMG to exercise substantial control over Taihang Cement (its only cement business following the completion of asset restructuring) after the asset restructuring, BBMG's cement business, financial position, results of operations and prospects may be materially and adversely affected.
- × **Intense competition in modern building materials and property segments** Owing to the comparatively low entry barriers and the ascension of China to the WTO in recent years, an increasing number of modern building materials manufacturers and property developers have begun undertaking investment projects in the PRC. Unlike cement segment that has already obtained overwhelming market share, the other 3 business segments of BBMG are still facing intense competition.

Recommendation: Subscribe



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