

**BEA securities**

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HONG KONG RESEARCH**10th December 2004**

Analyst: Ernest Tan

Main Board Listing – Research

勤美達國際控股有限公司

China Metal International Holdings Inc. [Stock Code: 0319]

Joint Sponsors : Polaris Securities (Hong Kong) Limited
SinoPac Securities (Asia) Limited

Joint Bookrunners : GC Capital (Asia) Limited
Polaris Securities (Hong Kong) Limited

Joint Lead Managers : GC Capital (Asia) Limited
Polaris Securities (Hong Kong) Limited
SinoPac Securities (Asia) Limited

Sector : Industrials**Business** : Manufacture customised metal castings for use in various industries

Total Share Offer: 250,000,000 shares
(25% of the enlarged share capital)

Public Offer: 25,000,000 shares (10%)

Placing: 225,000,000 shares (90%)

Greenshoe: 37,500,000 shares (15%)

Price: HK\$1.42 per share

Market Cap.: HK\$1.42 billion

Prospective FY2004 P/E: 11.03x (fully diluted)

Unaudited Pro Forma Adjusted NTA:

HK\$0.9134 per share

Staffing: 1,686

Placement:

Book opens: 6th December 2004

Book closes: 13th December 2004

HK Public Offer period:

20th Dec 2004 – 23rd Dec 2004

Share registrar: Computershare Hong Kong
Investor Services Limited

Receiving bank: Standard Chartered Bank

Listing date: 31st December, 2004

Business of China Metal International (CMI)

The Group is principally engaged in the design, development and sale of customised metal castings for use in various industries. Established in August 1992, the Group has been engaging in the metal casting business in the PRC for more than 12 years. The ultimate controlling Shareholder, CMP is listed on Taiwan Stock Exchange (stock code: 1532.TT).

CMI's products are generally manufactured according to its customer's specifications. They can be broadly classified into three categories: compressor parts (including air conditioner compressor parts and refrigerator compressor parts); automotive parts and components; and mechanical parts.

The Group focuses on developing an international customer base that mainly includes air conditioner manufacturers (such as Guangdong Meizhi, Mitsubishi electric, Samsung, Sanyo and Daikin) and refrigerator manufacturer (Matsushita), automobile manufacturers and automotive part and component manufacturers (such as Ford, TRW Automotive and Lucas); and other industrial manufactueres (such as Sauer-Danfoss, Yanmar, Grundfos, SEW-Eurodrive and John Deere).

CMI has two foundries in the PRC: one in Tianjin and the other in Suzhou with seven production lines in total. The aggregate annual production capacity of the Group's production facilities is approximately 118,000 tonnes of cast iron.

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

UEA – wholly owned by the parent of CMI, CMP (1532.TT) of Taiwan	43.2395%
Vald Birns – Strategic partner	8.4786%
*Mei Ta	5.1628%
Yanmar Singapore – Strategic partner	4.3494%
**Other corporate Investors	4.1442%
Directors and their associates	3.5021%
***Individual investors	2.8838%
Employees of CMI and their associates	2.1605%
Employees of CMP and their associates	1.0791%
	<u>75.00%</u>

*Mei Ta is a limited company incorporated in Taiwan and is owned as to approximately 5.9% by CMP and the remaining by a number of individual and corporate investors that are independent third parties.

**Other corporate investors include: (1) Taiwan Asahi Bearing Co. Ltd. (2.5734%); (2) Tras Shokai Company Limited (0.5132%); (3) Toa Kinokawa Company Limited (0.3592%); (4) Toa Pipe Fitting Company Limited (0.3592%); (5) Daiitsu Industry Company Limited (0.3079%) and JDH Pacific, Inc. (0.0313%)

***Individual investors include: Danny Lee (0.2079%); Lai Tseng-Sung (0.0235%); Lee Ming-Wen (0.0470%); Liang Shih-Kuh (0.6396%); Liang Shih-Min (0.6396%); Laing Yu-Lun (0.6396%); Yen Jui-Sun (0.0470%) and Liang Yu-Min (0.6396%)

Use of Proceeds

Net proceeds from the offer are estimated to be approximately HK\$334.13 million

	HK\$ million
Acquisition of new production facilities for casting, machining and coating	212.19
Acquisition of computerised design system and production equipment for mould development	35.41
Acquisition of quality control equipment	26.56
Upgrade of existing production facilities for casting and machining	26.56
General working capital	33.41

Financial Highlights

	Year ended 31 st December			6 months ended
	2001	2002	2003	30 th June 2004
	USD'000	USD'000	USD'000	USD'000
Revenue	23,691	30,219	45,722	36,008
Operating profit / (loss)	5,899	7,852	11,433	7,524
Net profit / (loss)	5,960	7,362	11,333	6,757
EPS – Basic*	USD0.79	USD0.98	USD1.51	USD0.90

Breakdown of Revenue by Product Category

	Year ended 31 st December						6 months ended	
	2001		2002		2003		30 th June 2004	
	USD'000	%	USD'000	%	USD'000	%	USD'000	%
Compressor parts	13,208	55.75	16,169	53.51	24,593	53.79	21,384	59.39
Automobile parts and components	1,946	8.21	2,934	9.71	5,553	12.14	3,128	8.69
Mechanical parts	8,537	36.04	11,116	36.78	15,576	34.07	11,496	31.92
Total	23,691	100.0	30,219	100.0	45,722	100.0	36,008	100.0

Strengths/Opportunities

- ✓ The company is one of the largest metal casters in the PRC (its capacity is 10 times more than average local producers') that focus on high value added products (as contrast to domestic foundries that either focus on low specification local markets, or in-house supply). With 12 years of track record in doing business in the mainland (it is the most profitable among its peers), the company is well positioned to benefit from the global outsourcing trend.
- ✓ CMI's auto parts and component business will be its earnings driver going forward as penetration rate of automobile related cast metals in the PRC is still low as compared with the United States and Europe. The company expects the percentage of its auto related revenue to total revenue will increase from 12.1% in 2003 to about one third after 2005.
- ✓ Its customers are international household names, for example, Toshiba, Samsung, Mitsubishi, John Deere, Ford and Honda, etc. Many of them have over 10 years of business relationships with the company. These customers not only have high credit quality, their contracts are also "highly visible", i.e. orders are placed two years ahead and contracts are usually renewed every 3-5 years. It enables CMI to plan its capital expenditure accordingly so as to get the optimal capacity utilisation.
- ✓ Through joint ventures partners and strategic investors (such as Vald Birns and Yanmar), CMI can gain access to the latest technology from abroad that keeps it ahead of competition.
- ✓ Management forecast revenue to be around US\$68 million for FY 2004 and total profit to reach USD16.5 million, that would represent 48% and 45.6% increase respectively compared with FY 2003.
- ✓ Valuation wise, pricing of this IPO (FY2004E PE of 11.03X) is not demanding as compares with the average of its comparables (FY2004E PE of 13.3X).

Weaknesses/Threats

- × Due to rising ferrous metal prices, the company's gross margin had declined from 42.2% in 2001 to 28.1% in the first half of 2004. Management expected the margin to bounce back to 30% level in 2005 as its new contracts enable it to transfer 60-70% of the price increases to its customers.
- × Automobile demand in the PRC has recently been cooled down as a result of the austerity measures. It inevitably affects the demand for cast metals. Management's growth expectation might not be realised.

Recommendation: Subscribe