

Analyst: Kelvin Li

Main Board Listing – Research

明興控股有限公司

Ming Hing Holdings Limited [Stock Code: 0402]

Sponsor and Bookrunner	: UOB Asia (Hong Kong) Limited
Joint Lead Managers	: UOB Asia (Hong Kong) Limited Gransing Securities Co., Limited
Co-Managers	: BCOM Securities Company Limited CSC Securities (HK) Limited Malahon Securities Limited Tai Fook Securities Company Limited

Sector : Capital Goods

Business : Provider of waterworks engineering and related services for Hong Kong's public sector

Total share offer: <u>80,000,000</u> shares (25% of the enlarged share capital) Public Offer: 8,000,000 shares (10%) Placing: 72,000,000 shares (90%) Greenshoe: Nil	<u>Business of Ming Hing</u> <p>The Group is principally engaged in the provision of waterworks engineering services, road works and drainage services, and slope upgrading services for the public sector in Hong Kong.</p> <p>Acting as a main contractor or a sub-contractor, the services provided by the Group include construction and maintenance of water mains, services reservoirs, pumping stations, treatment works, watercourses for distribution systems, impounding reservoirs and other related construction works.</p> <p>The Group's operation involves preparation of tender, procurement of materials, project implementation, sub-contracting arrangements, quality assurance and quality control, and finally contract certification and payments.</p> <p>The Group has been accredited the ISO 9002 Certificate since 1997 for achieving the international standard for quality assurance.</p>
Price: HK\$0.63 – HK\$0.75 per share Market Cap.: HK\$201.6 million – HK\$240.0 million Pro Forma FY2005/06 P/E: 5.3x – 6.3x Adjusted NTA per share: HK\$0.31 – HK\$0.34 Staffing: 232	
HK Public Offer period: 3 rd March 2006 – 8 th March 2006 Receiving bank: Hang Seng Bank Share registrar: Tricor Investor Services Limited Listing date: 14 th March 2006	

Major Shareholders after Listing

Mr. YUEN Chow Ming, <i>Chairman</i> [interest via Able Promise (BVI)]	25%
Mr. SO Yiu Cheung, <i>Deputy Chairman</i> [interest via Group Honour (BVI)]	25%
Mr. YUEN Wai Keung, <i>Chief Executive Director</i> [interest via Foremost Time (BVI)]	25%
	<u>75%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$37.0 million.

(Assuming an issue price of HK\$0.63 each, being the low-end of the indicative price range)

	HK\$ million
For the acquisition of machinery and equipment for water mains replacement and rehabilitation projects	16.0
For the acquisition of machinery and equipment for roads and drainage and slope upgrading projects	6.5
For hiring staffs for current and new projects	4.0
For exploring and developing waterworks business opportunities in the PRC	2.5
For the repayment of bank loan	5.0
For general working capital	3.0

Financial Highlights

	Year ended 31 st March			6 months ended 30 th September
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2005 HK\$'000
Turnover	287,944	267,369	207,196	83,221
Gross profit	36,455	50,264	59,299	22,676
Attributable profit	17,728	29,837	35,651	11,530
Basic EPS	HK¢7.39	HK¢12.43	HK¢14.85	HK¢4.80

Strengths/Opportunities

- ✓ The Group has a long history of more than 30 years in handling waterworks engineering, road works and drainage projects in the public sector. With its established relationship with the Water Supplies Department (WSD), the Group is well positioned for tendering future contracts from the HKSAR government.
- ✓ The Group's gross and operating profit margins improved over the last couple of years, thanks to good cost control since it has established close business relationships with a team of sub-contractors and material suppliers.

Weaknesses/Threats

- × Despite improving profit margins, we saw a significant 22.5% drop in revenue from HK\$267.4 million in FY2003/04 to HK\$207.2 million in FY2004/05. Besides, the Group's revenue is highly concentrated in terms of client base, as it relied heavily on contracts granted by WSD, creating significant business risk. For the past three financial years, undertakings of WSD contracts accounted for more than 95% of the Group's total revenue. Any reduction in the level of spending on infrastructure projects by the HK government would harm the Group's future earnings.
- × The Group expects to report a profit of not less than HK\$38 million for the year ended 31st March 2006, compared with HK\$35.7 million in FY2004/05. However, we are also concerned about its top-line growth, as revenue saw a big drop in FY2004/05. Pricing at 5.3x-6.3x FY2005/06E P/E, valuations of Ming Hing are in line with sector peers but not attractive, due to lack of growth drivers.

Recommendation: Unattractive

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