

Main Board Listing - Research

海灣控股有限公司

GST Holdings Limited [Stock Code: 0416]

Global Co-ordinator, Bookrunner and Sponsor : Morgan Stanley Dean Witter Asia Limited
Joint Lead Managers : Morgan Stanley Dean Witter Asia Limited
DBS Asia Capital Limited

Sector : Capital Goods
Business : Fire alarm systems provider in China

Total share offer: <u>200,000,000</u> shares (25% of the enlarged share capital) Public Offer: 20,000,000 shares (10%) Placing: 180,000,000 shares (90%) Greenshoe: 30,000,000 shares (15%)	<u>Business of GST Holdings ("The Group")</u>
Price: HK\$1.69 – HK\$2.06 per share Market Cap.: HK\$1,352 million – HK\$1,648 million Forecast FY2005 P/E: 9.0x – 11.0x (pro forma) Adjusted NTA per share: HK\$0.72 – HK\$0.81 Staffing: 1,280	<p>The Group is the leading fire alarm systems provider in China and is primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters.</p> <p>The Group has the largest market share by revenue in the manufacturing and installation of fire alarm systems in China, accounting for approximately 20% market share, which is twice that of its closest competitors. It has the largest nationwide sales and distribution network, with 61 offices throughout China and 600 sales and marketing personnel and after-sales technical support staff.</p> <p>The Group has also engaged in the provision of building installation services for low-voltage fire alarm network products. Its diversified product range and comprehensive building installation services enable the Group to offer a one-stop bundled solution to its customers.</p>
HK Public Offer period: 20 th June 2005 – 23 rd June 2005 Receiving bank: Bank of China (Hong Kong) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 30 th June 2005	

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

GST International Management ⁽¹⁾	62.65%
3i ⁽²⁾	3.86%
3i Asia Pacific	5.40%
3i APTech	3.09%
	75.00%

(1) Song Jiacheng, Executive Director & CEO (26.92%), Zeng Jun, Non-Executive Director (23.14%), Peng Kaichen, Executive Director & Senior Vice President (15.78%), Cao Yu, Executive Director & President (15.78%), Xu Shaowen, Executive Director & Vice President (5.26%) and other employees of the Group (13.12%).

(2) 3i is a UK-based venture capital group.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$353.9 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.875 each, which is the mid-point of the indicative price range)

	HK\$ million
Development and construction of new manufacturing facilities in Beijing	198.1
Expanding and upgrading the existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities	70.8
Expanding and improving sales networks	75.5
General corporate purposes and general working capital	9.5

Financial Highlights

	Year ended 31 st December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Turnover	298.0	315.6	424.1
Gross profit	175.7	172.4	214.5
Operating profit	106.8	99.0	129.6
Net profit	70.8	78.8	122.9

Strengths/Opportunities

- ✓ The Group is the largest maker of fire alarm systems in the PRC, accounting for approximately 20% market share, which is twice as large as its closest competitors. It has the largest nationwide sales and distribution network, with 61 offices, 600 sales and after sales technical staff and 22 distributors throughout China that outmatch other industry players.
- ✓ Product life of an average fire alarm system usually last for about 10 years. Hence, fire alarm systems installed in the late 1990s as a result of the promulgation of fire prevention laws and regulations are due for upgrading and replacement in the coming few years. It represents potential increase in demand for the Group's products.
- ✓ According to an industry estimate, of more than RMB200 billion that Beijing will spend on facilities for 2008 Olympic Games, fire services installations will account for 6-11%, or as much as 22 billion yuan which represents tremendous opportunities for the fire alarm manufacturers.
- ✓ Priced at a pro forma 2005E PER of 9-11x, valuation of this IPO is not demanding given an estimated earnings growth of 25.8% in FY2005 and the valuation of direct comparable, i.e. 13.8x 2005E PER of China Fire Safety (8201)

Weaknesses/Threats

- × Gross margin of the Group had been declining from 59.0% in 2002 to 50.6% in 2004 due to the decline in the average selling price of its products. If the Group is unable to introduce newer or improved products to the market, it might experience further decline in margin if its existing products matures in the next few years.
- × As the growth of the fire alarm systems industry is highly dependent on the growth in the real estate market, recent measures against real estates speculation should undoubtedly affect the demand of the Group's product.

Recommendation: Trading Buy