

Main Board Listing - Research

敏實集團有限公司

Minth Group Limited [Stock Code: 0425]

Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager : Cazenove Asia Limited

Sector : Consumer Discretionary

Business : Design, manufacture and sale of automobile parts

<p>Total share offer: <u>200,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 20,000,000 shares (10%) Placing: 180,000,000 shares (90%)</p> <p>Greenshoe: 30,000,000 shares</p>	<p><u>Business of Minth Group ("the Group")</u></p> <p>The Group is a leading supplier of exterior automobile body parts in China, mainly engages in the design, manufacture and sale of body structural parts, decorative parts and trim for passenger cars. The Group supplies products and services to the factories of joint ventures established by multinational automakers like General Motors, Ford, Honda, Toyota, Nissan, Volkswagen, etc and those of the members of First Automobile, Dongfeng Automobile, Shanghai Automobile, ChangAn Automobile, Guangzhou Automobile, etc. According to the <i>Roland Berger 2005 Report</i>, the Group is the largest manufacturer of core products for passenger cars in terms of sales in China with a market share of about 10% in 2004.</p> <p>The Group operates 10 manufacturing bases in different regions in China, covering major automakers or close to ports to facilitate exports overseas. For the year ended 31st December 2004, sales in China accounted for 95% of the Group's total sales, while exports accounted for the remaining 5%.</p>
<p>Price: HK\$1.98 – HK\$2.56 per share Market Cap.: HK\$1,586 million – HK\$2,052 million</p> <p>FY2005E P/E: 8.6 – 11.1x (pro-forma)</p> <p>Adjusted NTA per share: HK\$0.903 – HK\$1.039</p> <p>Staffing: 1,470 (as of 30th June 2005)</p>	
<p>HK Public Offer period: 22nd November 2005 - 25th November 2005 noon</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services</p> <p>Listing date: 1st December 2005</p>	

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

Chin Jong Hwa – Founder and Chairman of the Group	60.00%
Baring Private Equity Asia	11.25%
Sojitz	3.75%
	<u>75.00%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$363 million – HK\$476 million.

(Assuming the over-allotment option is not exercised.)

	Lower end of indicative price range of HK\$1.98	Higher end of indicative price range of HK\$2.56
	HK\$ million	
To increase production of existing plants	163	210
To establish new manufacturing facilities	60	70
For R&D by expanding the Ningbo Technical Centre and acquisition of more research equipment	55	76
To establish overseas sales network	30	45
To strengthen and develop strategic alliances	10	20
Implementation of ERP system to enhance management capability and efficiency	15	20
General working capital	30	35

Financial Highlights

	Year ended 31 st December			6 months ended 30 th June
	2002	2003	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000
Turnover	311,761	298,776	464,178	305,709
Gross profit	107,183	113,241	186,538	124,485
Attributable profit	79,655	98,741	123,091	101,341
EPS – basic	RMB0.133	RMB0.165	RMB0.205	RMB0.169

Strengths/Opportunities

- ✓ Car sales in China picked up again in the second half of 2005 on aggressive marketing efforts among automakers. Car sales in China rose 29% y-o-y in October and was up 17.9% y-o-y in the first ten months of this year. Strong car sales growth should lead to better demand for car parts and related services of the Group.
- ✓ Cost of metals was one of the integral parts of the Group's cost of goods sold. Owing to rising base metal prices, purchasing cost of metals as a percentage of the Group's total costs surged to 36.1% in 2004 from 28.0% in 2003 and 20.8% in 2002. Nonetheless, with efforts in containing other cost pressure, the Group managed to boost its net profit margin from 26.5% in 2004 to 33.1% in 1H2005 and hold steady its gross margin at nearly 40% during the same period.

Weaknesses/Threats

- × Aggressive pricing among automakers helped boost car sales in the Mainland in the second half. However, one should note that such aggressive marketing plans may turn into pricing pressure among automobile parts suppliers when they bid for projects from carmakers and hurt the Group's profit margins in the future.
- × Pricing at 8.6x -11.1x FY2005E P/E, valuation of the counter is expensive when compared with Norstar Founders Group (HKEx: 2339)'s 6.8x forward P/E.

Recommendation: Speculative Buy (but limit the price to single digit P/E)