

Analyst: Kelvin Li

Main Board Listing – Research

興業銅業國際集團有限公司

Xingye Copper International Group Limited [Stock Code: 0505]
Sole Global Coordinator, Bookrunner, Sponsor and Lead Manager : BOC International

Sector : Materials

Business : Manufacture of high precision copper plates and strips

Total share offer: <u>150,000,000</u> shares (25% of the enlarged share capital) Public Offer: 15,000,000 shares (10%) Placing: 135,000,000 shares (90%) Greenshoe: 22,500,000 shares	<u>Business of Xingye Copper</u> The Group is one of the leading producers of high precision copper plates and strips in the Mainland, with four different high precision products lines, namely tin phosphorous bronze plates and strips, brass plates and strips, lead frame strips, and nickel silver plates and strips. The four product lines with 15 models in commercial scale production are used in a wide range of industries for the manufacture of electronic appliances, telecommunication equipment, automobile components, household appliances, construction and decoration materials and accessories, and electricity transmission devices and transformers. The Group currently operates two manufacturing facilities, with an annual gross production capacity of 60,000 tonnes of high precision copper plates and strips and occupying a gross floor area of 100,886 sq m.
Price: HK\$1.70 – HK\$2.55 per share Market Cap: HK\$1.02 billion–HK\$1.53 billion Pro forma FY2007E PER: 6.5x to 9.7x Adjusted NTA per share: HK\$1.00 - HK\$1.20 Staffing: 943 (as of 7 th December 2007)	
HK Public Offer period: 12 th December 2007 - 17 th December 2007 noon Receiving bank: The Bank of East Asia Share registrar: Tricor Investor Services Limited Listing date: 27 th December 2007	

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

Shine International, owned by chairman Mr. Hu Changyuan	55.025%
Corich, owned by chairman Mr. Hu's family members	7.500%
Luckson, owned by 21 senior management members	7.500%
Sun Fook, owned by executive director Mr. Wang Jianli	4.975%
Public Investors	25.000%
	<u>100.000%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$263.4 million (Assuming an offer price of HK\$2.13, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To expand production capacity in the Hangzhou Bay facility and the Yingtan facility	207.7
To develop large-scale production of new products, namely high precision beryllium copper plates and strips and high precision red copper plates and strips	35.2
For research and development	15
For general working capital	5.6

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2004	2005	2006	30 th Jun 2006	30 th Jun 2007
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	468,607	641,164	1,512,430	550,128	868,196
Gross profit	73,153	82,690	183,399	91,757	111,092
Operating profit	55,852	74,082	135,677	79,344	95,550
Profit attributable to shareholders	32,588	48,437	106,696	65,428	76,325
Gross profit margin	15.61%	12.90%	12.13%	16.68%	12.80%
Operating profit margin	11.92%	11.55%	8.97%	14.42%	11.01%
Net profit margin	6.95%	7.55%	7.05%	11.89%	8.79%
	31/12/2004	31/12/2005	31/12/2006	30/6/2006	30/6/2007
Net debt/(cash) to equity	72.1%	88.2%	109.9%	N/A	92.3%

Strengths/Opportunities

- ✓ Driven by robust economic growth in the Mainland, the Group's sales volume kept growing steadily over the last couple of years. Meanwhile, thanks to the introduction of new products, the Group's product portfolio has become more balanced, with revenue contribution from its key product – high precision tin phosphorous bronze plates and strips – lowering to 39.7% of the total in 1H07 from 57.3% in FY05 and 64.0% in FY04.
- ✓ The Group anticipates its net profit to grow by more than 40% y-o-y to RMB150 million in FY07. To be priced at some 10x forward P/E (at the top end of the indicative price range), valuation of the counter is not demanding.

Weaknesses/Threats

- × The Group sourced nearly half of the cathode copper used in production from overseas, while it purchased the rest as well as other raw materials like alloy trimmings, zinc, tin, nickel and other metals in the domestic market. The rising RMB helped strengthen its purchasing power in overseas raw material procurement, but a higher RMB exchange rate also made its products less attractive to overseas buyers.
- × Export tax rebate for non-ferrous metal products was reduced sharply in 2006. As a result, the Group had to scale down its overseas sales. Besides, a cut in exports tax refund and rising copper cathode costs also led to a higher cost of goods sold, depressing the Group's profit margins in 1H07.
- × There are 240 companies engaged in the production of copper plates and strings in the PRC, leading to severe industry rivalry. The industry players not only compete for market shares in sales, they also compete for raw materials, resulting in depressing profit margin and disappointing results in 1H07.

Recommendation: Trading Buy

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