

**Analyst: Kelvin Li**

## Main Board Listing – Research

Tiande Chemical Holdings Ltd. [Stock Code: 0609] 天德化工控股有限公司

<b>Sponsor</b>	: First Shanghai Capital Limited
<b>Bookrunner and Lead Managers</b>	: First Shanghai Securities Limited
<b>Co-lead Managers</b>	: China Everbright Securities (HK) Limited Guotai Junan Securities (HK) Limited

**Sector** : Chemicals

**Business** : Production, trading and sale of fine chemical products

<b>Total share offer:</b> <u>100,000,000</u> shares (25% of the enlarged share capital)  <b>Public Offer:</b> 10,000,000 shares (10%) <b>Placing:</b> 90,000,000 shares (90%) <b>Greenshoe:</b> Nil	<b><u>Business of Tiande Chemical</u></b>  Tiande Chemical principally engages in the production, trading and sale of fine chemical products, namely cyanoacetate products and alcoholic products. These products are mainly used as functional ingredients or intermediates in the production of adhesive products, pharmaceutical products, dyes and other chemical products. The Group is one of the market leaders in producing ethyl cyanoacetate (ECYA) in the world. ECYA is widely used as an ingredient of adhesives, dyes and medicines.  The Group also manufactures dehydrated ethyl alcohol, which is widely used as fuel and additive of gasoline. The Group also trades t-butyl-alcohol, which is widely used in the manufacture of perfumes, medicines and paints. The Group has started producing methyl cyanoacetate (MCYA) in 2005; the production scale will be increased in 2006 after expansion.
<b>Price:</b> HK\$0.75 – HK\$1.05 per share <b>Market Cap:</b> HK\$300 – HK\$420 million <b>FY06E PER (Pro forma fully diluted):</b> 5.8X – 8.1X <b>Adjusted NTA per share:</b> HK\$0.58 – HK\$0.65 <b>Staffing:</b> 688	
<b>HK Public Offer period:</b> 17 <sup>th</sup> October 06 – 20 <sup>th</sup> October 06 noon  <b>Receiving bank:</b> Standard Chartered Bank (HK)  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited.  <b>Listing date:</b> 27 <sup>th</sup> October 2006	

### Major Shareholders after Listing

Cheerhill Group Limited*	75.0%
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\*Shareholdings of Cheerhill are as follows:-

Mr. Liu Hongliang (founder & Chairman)	38.0%
Mr. Wang Zijiang (founder & executive director)	26.0%
Mr. Guo Xitian (executive director)	11.5%
Mr. Guo Yucheng (executive director)	6.5%
Ms. Zheng Hong (founder)	11.5%
Mr. Fu Anxu (founder & Chief engineer)	6.5%
	<b><u>100.0%</u></b>

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### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$76 million. *(Being the mid-point of the offer price range HK\$0.90 per share)*

	HK\$ million
For the construction of new production facilities, including investments in new plant and machinery for producing new products (high purity isobutylene and polyisobutylene)	65.0
For enhancing the Group's R&D capability	8.5
For the advertising and marketing of the Group's fine chemical products	1.5
For general working capital	1.0

### **Financial Highlights**

	Year ended 31 <sup>st</sup> December			Six months ended 30 <sup>th</sup> June
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	201,763	323,124	430,817	233,999
Gross profit	44,738	59,261	72,223	44,734
Operating profit	37,679	50,762	51,269	32,866
<b>Net profit</b>	<b>31,964</b>	<b>42,453</b>	<b>41,711</b>	<b>27,064</b>
Gross margin	22.2%	18.3%	16.8%	19.1%
Operating margin	18.7%	15.7%	11.9%	14.0%
Net margin	15.8%	13.1%	9.7%	11.6%

### **Strengths/Opportunities**

- ✓ According to industry research, the Group was ranked 1<sup>st</sup> in the world in the production output of ECYA in 2005. For the three years ended 31<sup>st</sup> December 2005, the Group's output accounted for approximately 41.6%, 54.7% and 50.7% of the world's total production of ECYA. The Group possess the world's largest production capacity - 22,000 tons of ECYA per year. The mass production allows the Group to enjoy economies of scale and hence cost competitiveness.
- ✓ The pro forma fully diluted FY06E PER range of 5.8X to 8.1X as indicated by the IPO price range is attractively valued compared to other Hong Kong-listed comparables, which are trading at an average prospective PER of about 12X.

### **Weaknesses/Threats**

- × For the three years ended 31<sup>st</sup> December 2005, the Group's overall gross profit margin has been declining. This is because the overall cost of major raw materials (sodium cyanide, mono chloroacetic acid, and alcohol) had increased considerably. Although the Group has started self-producing some of the raw materials and hence expects to have better control over material costs, the advantages are yet to be translated into meaningful impact to its bottom-line.

**Recommendation: Speculative Buy**



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