

Analyst: Louis Chan

## **Main-Board Listing - Research**

嘉新水泥(中國)控股股份有限公司

**Chia Hsin Cement Greater China Holding Corporation [Stock Code: 0699]**
**Sponsor : Polaris Securities (Hong Kong) Limited**
**Joint Bookrunners /**
**Joint Lead Underwriters : Polaris Securities (Hong Kong) Limited GC Capital (Asia) Limited**
**Sector:** Industrials – building and construction materials

**Business:** Production and sale of cement

<b>Total share offer:</b> <u>286,000,000</u> shares (26% of the enlarged share capital)  <b>Placement:</b> 257,400,000 shares (90%) - 171,600,000 new shares - 85,800,000 sale shares <b>Public offer:</b> 28,600,000 shares (10%)  <b>Greenshoe:</b> 42,900,000 shares	<b><u>Business of Chia Hsin Cement</u></b>  The Company is principally engaged in the production and sale of cement under the registered brandname "Chia Hsin". It is one of the leading suppliers of cement in Jiangsu, Zhejiang, Fujian, Guangdong provinces and Shanghai municipality, with an established extensive sales network.  The Company's products have been used in projects like Nanjing City Guangzhou Crossroads Bridge, Nanjing MTR, Zhejiang Yongtaiwen Expressway, Fujian Fuling Expressway, Nanjing International Exhibition Centre, Jiangsu Runyang Bridge, Shanghai Lupu Bridge, Shanghai Maglev Station, Shanghai Donghai Yangshan Deepwater Port, Shanghai City Outer Ring (Pudong section) and Longtan Container Jetty of Nanjing Harbour.  Construction of its cement plant was partly financed by a loan of US\$140 million from the IFC. The cement plant is automated and centrally monitored with 1 dry process rotary short kiln, which has an annual production capacity of approximately 2.2 million tonnes of clinker. With further technological modification, the Company is currently processing around 6,800 tonnes of clinker per day or 2.9 million tonnes of cement per annum.  The manufacturing plant is located along the Yangtze River in Jurong, Jiangsu province. It owns a private terminal annexed to the production plant, enabling the Company to handle an annual throughput of 3 million tonnes of cement and raw materials. This allows lower cost of transportation and direct access to major cities along the Yangtze River, the canals and the eastern coastal area.
<b>Price:</b> HK\$1.48 per share <b>Market cap. :</b> HK\$1,628 million  <b>Prospective P/E:</b> 13.8x (pro forma fully-diluted) <b>Adjusted net tangible asset per share:</b> HK\$1.07  <b>Staffing:</b> 582	
<b>Public offer opens:</b> 2 <sup>nd</sup> December 2003 <b>Public offer closes:</b> 5 <sup>th</sup> December 2003  <b>Receiving bank:</b> Hang Seng Bank Limited <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 12 <sup>th</sup> December 2003	

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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

Chia Hsin Cement Corporation – a company incorporated in Taiwan, the securities of which are listed on the Taiwan stock exchange

70.4%**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$283.2 million.

*(Assuming that the over-allotment option is not exercised)*

	HK\$ million
To construct the Company's 2 <sup>nd</sup> production line	233.4
To construct a new jetty for the Company	31.1
To expand the Company's sales network and implement its sales strategy	7.8
To serve as the Company's general working capital	10.9

**Financial Highlights**

	6 months ended 30 <sup>th</sup> June 2003 US\$'000	2002 US\$'000	Year ended 31 <sup>st</sup> December 2001 US\$'000	2000 US\$'000
Turnover				
Sales of cement	34,770	65,479	60,684	38,788
Sales of clinker	<u>430</u>	<u>2,362</u>	<u>3,377</u>	<u>7,524</u>
	<u>35,200</u>	<u>67,841</u>	<u>64,061</u>	<u>46,312</u>
Operating profit	8,291	15,290	17,930	8,752
Net profit / loss	<u>6,804</u>	<u>10,258</u>	<u>8,043</u>	<u>(3,649)</u>
Earnings / Loss per share	<u>HK¢5.91</u>	<u>HK¢8.87</u>	<u>HK¢6.92</u>	<u>(HK¢3.19)</u>

**Strengths**

- ✓ The strong PRC economy is partly the result of the continued investment in infrastructures and properties. In 2002, the PRC's total investment in fixed assets was RMB4,320.2 billion, representing a 16.1% increase from 2001. In 2002, total investment in infrastructures was RMB1,725.1 billion, up 16.4% from 2001, while investment in property developments was RMB773.6 billion, up 21.9% from 2001. In fact, there are concerns that particular sectors in the PRC economy are overheating, especially those related to properties and raw materials. While national policies may be a swing over the short-term prospects of the Company, we do expect the strong uptrend in these sectors should persist in the longer term.
- ✓ The Company has predicted net profit growth of 48% to HK\$118.3 million this year on higher turnover.
- ✓ The issue price values Chia Hsin at 13.8x forecast earnings for this year. This is lower than the 20.7x P/E commanded by the PRC's largest cement maker, Anhui Conch Cement (*stock code*: 0914), and 16.4x for China Resources Cement (*stock code*: 0712). Meanwhile, TCC International (*stock code*: 1136) is currently loss-making.

**Weaknesses**

- × The Group has an increasing level of credit exposure. Its trade receivables expressed as a percentage of current assets jumped to 34.9% for the 6 months ended 30<sup>th</sup> June 2003 from 32.3% and 29.2% for each of the 2 years ended 31<sup>st</sup> December 2002.
- × Other threats to the Company include rising coal prices and unstable electricity supply. Coal and electricity costs in aggregate accounted for 48.2% of the Company's cost of sales in the 1<sup>st</sup> half of this year.

**Recommendation: Trading Buy**