

**Analyst: Paul Sham**

## Main Board Listing – Research

亞洲水泥(中國)控股公司

Asia Cement (China) Holdings Corporation [Stock Code: 0743]
**Sole Sponsor, Sole Global Coordinator**

: BNP Paribas Capital (Asia Pacific) Limited

**Joint Bookrunner and Joint Lead Manager**

: BNP Paribas Capital (Asia Pacific) Limited  
: ABN AMRO Bank N.V. Hong Kong Branch

**Sector** : Materials

**Business** : Manufacturing & sales of cement products

<b>Total share offer:</b> * <u>375,000,000</u> shares <b>(25.0% of the enlarged share capital)</b>  <b>Public Offer:</b> 37,500,000 shares (10%) <b>Placing:</b> 337,500,000 shares (90%) <b>Greenshoe:</b> 56,250,000 shares <i>*All 375,000,000 shares are New Shares</i>	<b><u>Business of Asia Cement</u></b>  Asia Cement is one of the leading integrated cement producers in the Central Yangtze River Region (which includes the provinces of Jiangxi and Hubei) and a major integrated cement producer in the Sichuan Region, both in terms of production volume.  Asia Cement's main products, cement and ready-mixed concrete ("RMC") products are principally sold to government construction & infrastructure project companies in Shanghai and the provinces of Jiangxi, Hubei, Sichuan, Zhejiang, Anhui and Fujian.  The Group's existing cement & RMC production facilities are located in the provinces of Jiangxi, Sichuan and Hubei which enables the Group to produce and supply its products in close proximity to its customers.  For the year ended September 2007, cement products, clinker, RMC and slag powder accounted for 89.4%, 0.4%, 7.8% and 2.4% of the Group's total revenue respectively.
<b>Price:</b> HK\$4.85 – HK\$6.45 per share  <b>Market Cap:</b> HK\$7,275 million – HK\$9,675 million  <b>Unaudited pro forma fully diluted FY08E PER:</b> 20.2x – 26.9x  <b>Adjusted NTA per share:</b> RMB\$3.57– RMB\$3.92 or HK\$3.97– HK\$4.36  <b>Staffing:</b> 2,499 (as of 24 <sup>th</sup> April 2008)	
<b>HK Public Offer period:</b> 5 <sup>th</sup> May 2008 – 8 <sup>th</sup> May 2008  <b>Receiving banks:</b> Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited  <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 20 <sup>th</sup> May 2008	

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Asia Cement – a listed company in Taiwan Stock Exchange (TSE), whose largest shareholder is Far Eastern Textile (also a listed company in TSE) which controls more than 30% of the voting right.	70.75%
Asia Cement Singapore – incorporated in Singapore, 99.96% owned by Asia Cement	4.25%
Public Investors	25.00%
	100.00%

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$2,019.8 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$5.65 each, being the midpoint of the indicative price range)

	HK\$ million
For the expansion of Jiangxi Yadong Plant with the construction of the No.4 clinker production facility	343.4
For the expansion of Hubei Yadong Plant with the construction of the No.2 clinker production facility	343.4
For the expansion of Sichuan Yadong Plant with the construction of the No.3 clinker production facility	343.4
For the repayment of the Group's loan	343.4
For strategic acquisitions and investments	444.2
For general working capital requirements	202.0

**Financial Highlights**

	Year ended 31 <sup>st</sup> December		
	2005 RMB Million	2006 RMB Million	2007 RMB Million
Revenue	1,032.9	1,352.5	2,254.6
Gross profit	232.7	306.9	632.5
<b>Attributable profit</b>	<b>7.7</b>	<b>65.2</b>	<b>246.2</b>
Gross margin	22.5%	22.7%	28.1%
Net margin	0.7%	4.8%	10.9%

**Revenue Breakdown by product (% of Total Revenues)**

	Year ended 31 <sup>st</sup> December					
	2005 RMB'000	%	2006 RMB'000	%	2007 RMB'000	%
Cement Products	884,302	85.6	1,212,116	89.6	2,015,031	89.4
Clinker	30,766	3.0	16,214	1.2	8,346	0.4
Ready-mixed concrete	102,003	9.9	91,735	6.8	176,585	7.8
Blast-furnace slag powder	15,786	1.5	32,414	2.4	54,628	2.4
Total	1,032,857	100.0	1,352,479	100.0	2,254,590	100.0



## **Strengths/Opportunities**

- ✓ **Favourable industry outlook** The cement-demand growth rate is closely linked to the growth rates of GDP and fixed asset investment in China, as is the case for other countries. Being the world's largest consumer of cement, China's domestic cement consumption is expected to grow at CAGR of 8.8% till 2010. Despite the macro-economic measures may dampen the cement demand by real-estate industry, the demand outlook for cement products in China is expected to remain strong and stable in longer term, driven by the continuing urbanization and industrialization.
- ✓ **Improving profit margin** Asia Cement's profit grew from RMB7.7 million in 2005 to RMB246.2 million in 2007 with net margin improving from 0.7% to 10.9% in the corresponding period. The figure in 2007 is also comparable with Anhui Conch's (0914.HK) of 13.2% and CNBM's (3323.HK) 8.7%, suggesting Asia Cement is competitive in the cement industry.

## **Weaknesses/Threats**

- × **A small participant on a national basis** Asia Cement's market positioning such as market share was not given in detail in the prospectus. However, even Asia Cement claims itself as "a major cement producer" in the Sichuan Region, its total production capacity of 1.68 million tonnes of cement in Sichuan accounted for only 3.4% of total cement demand in 2006, suggesting Asia Cement owns limited market share in the industry.
- × **Rising material and electricity cost** Energy, primarily coal and electricity, is the main components of the Group's cost of sales, representing 48.6%, 40.4% and 42.9% of total cost of sales in 2005, 2006 and 2007, respectively. On rising coal prices in the PRC and the possible adoption of coal-electricity price linkage, the total cost of sales is likely to rise at a fast rate in the future. Management also estimates that if the Group's energy costs increase by an additional 5%, the Group's gross profit would be reduced by 5.4% accordingly.
- × **Not very attractive valuation** Compared with Anhui Conch and CNBM which stand firm as China's no.1 and no.2 cement producers with market capitalization of HK\$88,742m and HK\$39,277 respectively, Asia Cement appears as a relatively small player in the cement industry in the PRC. Based on the mid point of the indicative offering price, the expected P/E multiple of Asia Cement in FY2008E reaches 23.6x. Compared with the market leaders, Anhui Conch and CNBM, with PE ratio of only 23.4x and 22.7x respectively, valuation of Asia Cement does not look particularly attractive given its smaller size and low market share.

**Recommendation:     Neutral**



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