

Analyst: Louis Chan

Main-board Listing - Research

美亞控股有限公司

Mayer Holdings Limited [Stock Code: 1116]

| | | |
|----------------------------|---|----------------------------------|
| Joint Sponsors | : CSC Asia Limited | Barits Securities (H.K.) Limited |
| Joint Lead Managers | : CSC Securities (H.K.) Limited | Barits Securities (H.K.) Limited |
| Co-Lead Managers | : Taiwan Securities (H.K.) Co., Limited | |

Sector: Industrials – steel processing and manufacture

Business: Processing and manufacture of steel sheets and steel pipes

| | |
|--|---|
| Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital) Public offer: 10,000,000 shares (10%) Placement: 90,000,000 shares (90%) Greenshoe: 15,000,000 shares | <u>Business of Mayer</u> The Company is principally engaged in the processing and manufacture of different kinds of steel sheets and steel pipes which are used by its customers in the manufacture of 3C products (computing, consumer electronics and communications), sports equipment, spare parts of household appliances and motor vehicles. The Company's office and production facilities are located in Yonghe Economic District, Guangzhou with a total production area of 15,000 m ² and an aggregate production capacity of 240,000 tonnes of steel products per annum. Steel sheets and steel pipes are the Company's principal products, which can be classified into steel sheets and steel pipes. Steel-sheet products include hot-rolled steel sheets (熱軋鋼板), cold-rolled steel sheets (冷軋鋼板), electrolytic zinc-coated steel sheets (電解鍍鋅鋼板) and stainless sheets (不銹鋼板). Steel-pipe products include hot-rolled steel tubes (熱軋鋼管), cold-rolled steel tubes (冷軋鋼管) and stainless tubes (不銹鋼管). |
| Price: HK\$0.55 per share Market cap.: HK\$220 million Historical P/E: 7.92x Adjusted net tangible asset per share: HK\$0.45 Staffing: 302 | |
| Public offer opens: 10 th June 2004 Public offer closes: 15 th June 2004 Receiving bank: Hang Seng Bank Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 21 st June 2004 | |

Major Shareholder after Listing

(Assuming the over-allotment option is not exercised)

Mayer Steel Pipe Corporation (a Taiwan-listed company)

75%

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.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$47 million

(Assuming that the over-allotment option is not exercised and an issue price of HK\$0.55 per share)

| | HK\$ million |
|---|--------------|
| To expand the 3 rd phase of the Company's production plant | 35 |
| To upgrade the Company's information systems | 5 |
| To serve as the Company's working capital | 7 |

Financial Highlights

| | Year ended 31 st December | | |
|------------------|--------------------------------------|------------------|------------------|
| | 2003 RMB'000 | 2002 RMB'000 | 2001 RMB'000 |
| Turnover | | | |
| Steel sheets | 569,628 | 418,566 | 277,544 |
| Steel pipes | <u>84,645</u> | <u>56,962</u> | <u>38,539</u> |
| | <u>654,273</u> | <u>475,528</u> | <u>316,083</u> |
| Operating profit | 44,102 | 53,996 | 13,418 |
| Net profit | <u>29,444</u> | <u>44,806</u> | <u>12,452</u> |
| Dividends | 31,500 | - | - |
| EPS | <u>RMB0.0010</u> | <u>RMB0.0015</u> | <u>RMB0.0004</u> |

Strengths / Opportunities

- ✓ The Company imports steel coils mainly from Taiwan and South Korea but it is exempted from paying tariff and value-added tax under the current PRC rules, as most of its imported steel coils are for processing and manufacturing products ultimately for exports.
- ✓ The Company plans to further increase its ability to produce more value-added steel products such as stainless-steel products (which accounted for less than 10% of total turnover for the year ended 31st December 2003). This will enable the Company to produce the varieties of the products at one time and thus can alleviate the problem of changing moulds for different products, allowing it to increase its utilization rate (currently at around 70%).
- ✓ Recently, China has tightened approvals for steel projects to control over-investment in the steel industry but the moves basically target low-end steel products. Mayer's products are considered as high-value-added ones and thus should be less affected.

Weaknesses / Threats

- × The Company saw its net profit plunge 34.3% in 2003 on higher steel prices. Its gross-profit margin fell from 15.3% in 2002 to 9.9% in 2003 while its net-profit margin fell from 9.4% to 4.5%. In fact, the average unit cost of the Company's main raw materials surged 36.0% in 2003 and has risen further so far this year. Mayer's inability to pass on the higher costs to its customers will likely continue to hurt its bottom line.
- × The Company and its subsidiaries have a high level of credit exposure. Their total trade receivables expressed as a percentage of current assets were all above 60% for each of the 3 years ended 31st December 2003, with an increasing percentage in credit period of more than 3 months.
- × Mainland steelmaker Angang New Steel (*stock code*: 0347) is currently trading at 5.9x its 2003 earnings, with Maanshan Iron & Steel (*stock code*: 0323) at 6.1x and Chongqing Iron & Steel (*stock code*: 1053) at 3.3x. Mayer's valuation (historical 2003 P/E of 7.9x) does not compare favourably with its peers.

Recommendation: Caveat Emptor