

Analyst: Kelvin Li

## Main Board Listing – Research

恒鼎實業國際發展有限公司

Hidili Industry International Development Limited [Stock Code: 1393]

**Sole Global Coordinator, Bookrunner and Lead Manager** : UBS

**Joint Sponsors** : UBS

VC Capital

**Sector** : Energy

**Business** : Coal mining, manufacture and sale of clean coal and coke

<p><b>Total share offer:</b> <u>600,000,000</u> shares (30.0% of the enlarged share capital)</p> <p><b>Public Offer:</b> 60,000,000 shares (10%)</p> <p><b>Placing:</b> 540,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 90,000,000 shares</p> <p><b>Price:</b> HK\$5.05 – HK\$6.83 per share</p> <p><b>Market Cap:</b> HK\$10.1 billion–HK\$13.7 billion</p> <p><b>Pro forma FY2007E PER:</b> 21.0x to 28.5x</p> <p><b>Adjusted NTA per share:</b> HK\$1.32 – HK\$1.76</p> <p><b>Staffing:</b> 4,766 (as of 31<sup>st</sup> March 2007)</p>	<p><b><u>Business of Hidili Industry</u></b></p> <p>Hidili Industry is an integrated coal enterprise in South West China, mainly engaged in coal mining and production and sale of clean coal and coke. Hidili was established in 2000 and now owns and operates 14 coal mines in Panzhihua (攀枝花), Sichuan province (四川省), which had a total proved and probable coal reserves of 61.9 million tonnes as of 31<sup>st</sup> March 2007. Hidili is also developing 5 coal mines in Liupanshui (六盤水), Guizhou province (貴州省), which had a total proved and probable reserve of 117.0 million tonnes by the end of March this year.</p> <p>Hidili's production facilities comprised 14 coal mines, 3 owned coal washing plants and 1 coking plant, and 1 coal leased coal washing plants.</p> <p>Customers of Hidili are mainly steel manufacturers. Hidili's coal mines and production plants are strategically located near the steel producers, and it has also signed sale agreement with these customers to provide long-term coal and coke supply.</p>
<p><b>HK Public Offer period:</b> 10<sup>th</sup> September 2007 – 13<sup>th</sup> September 2007</p> <p><b>Receiving bank:</b> Bank of China (HK), Bank of Communications HK, Bank of East Asia, ICBC (Asia)</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 21<sup>st</sup> September 2007</p>	

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

Mr Xian Yang, the chairman and founder of Hidili	59%
Baring 5A - 100% owned by Baring Fund	11%
Public investors	30%
	<u>100.0%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,784.9 million (Assuming an offer price of HK\$5.94, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To acquire coking coal resources in Liupanshui, Guizhou province.	2,062.5
To build a coking plant in Liupanshui with an annual production capacity of one million tonnes of coke.	516.4
To build a coal washing plant in Liupanshui with an annual production capacity of three million tonnes of clean coal.	103.3
To repay the Baring loan. The US\$8.0 million loan carries an annual interest rate of 10% and will mature 14 business days after the Listing date.	62.4
To purchase not more than 70 heavy long-haul cargo trucks.	40.3

### Financial Highlights

	Year ended 31 <sup>st</sup> Dec			3 months ended	
	2004	2005	2006	31 <sup>st</sup> Mar 2006	31 <sup>st</sup> Mar 2007
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	353,419	568,694	814,832	114,673	183,369
Gross profit	183,667	330,632	489,503	69,813	108,637
Operating profit	135,783	247,276	430,933	57,223	85,686
<b>Profit attributable to shareholders</b>	<b>120,289</b>	<b>221,720</b>	<b>89,677*</b>	<b>50,949</b>	<b>32,884*</b>
Gross profit margin	51.97%	58.14%	60.07%	60.88%	59.25%
Operating profit margin	38.42%	43.48%	52.89%	49.90%	46.73%
Net profit margin	34.04%	38.99%	11.01%*	44.43%	17.93%*
	<b>31/12/2004</b>	<b>31/12/2005</b>	<b>31/12/2006</b>	<b>31/3/2006</b>	<b>31/3/2007</b>
Net debt/(cash) to Equity	20.82%	17.97%	8.52%	N/A	(3.29%)

Remark: (\*) Net profit fell y-o-y mainly due to a fair value loss related to the convertible bond issued to Baring 5A. Excluding the non-cash item, Hidili's pre-tax profit would have risen by 69.3% and 39.4% y-o-y in FY2006 and 1Q2007, respectively.

### Strengths/Opportunities

- ✓ Hidili is an integrated coking coal producer, with operations from upstream coal mining and washing facilities to downstream coke refining and blending, which provide Hidili with flexibility in formulating both output (clean coal and coking coal) and sales strategies. In order to further strengthen cost control efforts, Hidili plans to expand its truck fleet to enhance transportation efficiency.
- ✓ Coking coal prices in Sichuan and Guizhou provinces stayed steadily at high levels over the past year, thanks to strong demand from the fast-growing PRC steel industry – major buyers of coking coal. Besides, Hidili achieved better-than-industry product pricing when compared with other producers in Sichuan province, thanks to the high quality of its products.
- ✓ Pricing at some 28.5x 2007E P/E (at the higher end of the indicative price range), Hidili's valuation is largely in line with other HK-listed peers. In fact, the price-earnings multiple is seen dropping substantially in FY2008, as Hidili's expansion in Guizhou province would start contribute.

### Weaknesses/Threats

- × Hidili's sales structure was highly concentrated in terms of customers' share in its total turnover. Panzhihua Steel Company (PSC) and Chengdu Steel Company (CSC), subsidiaries of Panzhihua Steel Group, accounted for a combined 67% of Hidili's total turnover in 2006. Such sales concentration is expected to persist, as Hidili has entered into new long-term supply agreements with PSC and CSC.

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