

Analyst: Kelvin Li

Main Board Listing – Research

海天國際控股有限公司
Haitian International Holdings Limited [Stock Code: 1882]
Joint Global Coordinators, Joint Bookrunners : BNP Paribas UBS

and Joint Lead Managers
Sole Sponsor : BNP Paribas

Sector : Capital Goods

Business : Manufacture and sale of plastic injection moulding machines and related parts

| | |
|--|--|
| Total share offer: <u>399,000,000</u> shares (25% of the enlarged share capital) Public Offer: 39,900,000 shares (10%) Placing: 359,100,000 shares (90%) Greenshoe: 59,850,000 shares | <u>Business of Haitian International</u> Haitian International ("the Company") is mainly engaged in the design, development, manufacture, sale and support of plastic injection moulding machines and related parts, which are used by its end-user customers across various industries like automotive, construction materials, healthcare, logistics, packaging, IT, household appliances, electronics, and other consumer products. The Group (the Company and its subsidiaries) was the world's largest producer of plastic injection moulding machines, accounting for 17% of the world's total production volume in 2005. The Group was also the largest producer of plastic injection moulding machines in China in terms of revenue and production volume during 2003-2005. Headquartered in Ningbo, the Group has established a strong network of third-party sales agents and distributors worldwide. The Group's production facilities are located at Ningbo, Guangzhou and Wuxi. |
| Price: HK\$2.77 – HK\$3.95 per share Market Capitalisation: HK\$4,420.9 million – HK\$6,304.2 million Pro-forma FY2006E P/E: 10.5x – 15.0x Adjusted NTA per share: HK\$1.06-HK\$1.35 Staffing: 2,979 (as of 31 st October 2006) | |
| HK Public Offer period: 11 th December 2006 – 14 th December 2006 noon Receiving bank: BOC (Hong Kong), ICBC (Asia), The Bank of East Asia, OCBC Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 22 nd December 2006 | |

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

| | |
|---|---------------|
| Zhang Jingzhang* – the Group's Chairman | 12.84% |
| Zhang Jiaming* – the Group's CEO | 8.71% |
| Hu Guiqing* – a vice executive officer in the Group before his retirement in 2005 | 6.31% |
| Zhang Jianguo* – senior vice president of the Group's R&D department | 5.22% |
| Zhang Jinglai* - senior management of the Haitian Group | 5.01% |
| Zhang Jianfeng* – senior vice president of the Group's Sales & Marketing department | 4.90% |
| Qian Yaoen* - senior management of the Haitian Group | 3.81% |
| Chen Ningning* – vice president of the Group's Finance department | 2.72% |
| Haitian Employee Fixed Equity Trust* | 12.74% |
| Haitian Employee Discretionary Trust* | 37.74% |
| | <u>75.00%</u> |

Remark: () All hold their interests in Haitian via their respective stakes in Sky Treasure Capital Limited.*

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1,269.4 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.36 each, being the mid-point of the indicative price range)

| | HK\$ million |
|--|--------------|
| For the expansion and upgrade of the Group's production facilities in Wuxi, Ningbo, Guangzhou, and existing production plants | 625.4 |
| For the enhancement of the Group's research and development facilities | 132.0 |
| For the establishment of 15 new service centres in China by 2008, including the purchase of properties, decoration and furniture | 47.7 |
| For repayment of bank loans | 377.4 |
| For general working capital | 86.9 |

Financial Highlights

| | Year ended 31 st December | | | 6 months ended | |
|----------------------------|--------------------------------------|-------------------|-------------------|----------------------------|----------------------------|
| | 2003 | 2004 | 2005 | 30 th June 2005 | 30 th June 2006 |
| | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 |
| Sales | 2,006,663 | 2,594,074 | 2,577,589 | 1,246,950 | 1,566,648 |
| Gross profit | 565,959 | 690,278 | 709,376 | 318,125 | 441,696 |
| Operating profit | 342,601 | 313,016 | 357,944 | 144,488 | 263,438 |
| Attributable profit | 303,558 | 262,275 | 306,898 | 124,235 | 227,027 |
| Gross margin | 28.20% | 26.61% | 27.52% | 25.51% | 28.19% |
| Operating margin | 17.07% | 12.07% | 13.89% | 11.59% | 16.82% |
| Net profit margin | 15.13% | 10.11% | 11.91% | 9.96% | 14.49% |
| | 31/12/2003 | 31/12/2004 | 31/12/2005 | 30/06/2005 | 30/06/2006 |
| Net debt to Equity | Net cash | Net cash | Net cash | N/A | 21.9% |

Turnover Breakdown

| | Year ended 31 st December | | | | | | 6 months ended | | | |
|---------------------|--------------------------------------|------------|--------------|------------|--------------|------------|----------------------------|------------|----------------------------|------------|
| | 2003 | | 2004 | | 2005 | | 30 th June 2005 | | 30 th June 2006 | |
| | RMB' mn | % | RMB' mn | % | RMB' mn | % | RMB' mn | % | RMB' mn | % |
| Domestic Sales | 1,629 | 81 | 1,893 | 73 | 1,685 | 65 | 782 | 63 | 1,004 | 64 |
| International sales | 344 | 17 | 624 | 24 | 783 | 30 | 410 | 33 | 498 | 32 |
| Other products | 34 | 2 | 77 | 3 | 109 | 4 | 55 | 4 | 65 | 4 |
| Total | 2,007 | 100 | 2,594 | 100 | 2,578 | 100 | 1,247 | 100 | 1,567 | 100 |

Strengths/Opportunities

- ✓ The Group is the largest producer of medium-large tonnage plastic injection moulding machines in China, with a market share of 60% and clients from various industries like automotive, electronics, household appliances, etc. As such, Haitian should be able to provide investors with an opportunity to ride on the strong economic growth in the Mainland.
- ✓ The Group's domestic sales fell 11% y-o-y in 2005, dragging by surging raw material costs and a slowdown in demand following austerity measures in China. However, a strong recovery was noted in the first half of 2006, as the impact of austerity measure on the economy seemed to contain well, while orders picked up as end-user customers remained bullish about the mainland economic outlook.
- ✓ Haitian was the world's largest plastic injection moulding machine producer, grasping a market share of 17% in terms of production volume in 2005. For international markets, the Group experienced robust growth with sales more than doubled from RMB344 million in 2003 to RMB783 million in 2005. For the first half this year, international sales jumped 21% y-o-y, which should remain the Group's future growth driver.



- ✓ The Group plans to use about 30% of net proceeds raised from the IPO to repay bank loans. The Group would return to a near net-cash position after the repayment, which enables it to pursue its overseas M&A strategy.
- ✓ At the top of the indicative price range, Haitian would be valued at 15x prospective price/earnings multiple, which would be higher than peer like Chen Hsong Holdings (HKEx: 0057). However, it is not demanding given the Group's strong presence in the Mainland as well as its strong growth potential in overseas markets.

Weaknesses/Threats

- × Iron, steel and other alloy metals, steel cylinders, steel platens and other semi-processed metal components were the major raw materials the Group used in its production. Raw materials and components formed the integral part of the Group's cost of sales over the past years. For instance, it accounted for more than 90% of COGS during 2003-2005. Owing to a jump in metal prices, the Group saw narrowed gross profit margins and sluggish product demand in 2004 and 1H2005. Broadening the supplier base should help enhance the Group's bargain power given its substantial presence in the industry, but the movement in international metal prices would remain the key component driving the Group's raw material cost structure.
- × Implementation of austerity measures to avoid overheating in the Mainland economy led to a slowdown in domestic sales in 2005. In order to minimize reliance on the domestic sales, the Group has been expanding overseas markets via development of marketing network, brand promotion and improving after-sales service quality. Besides, high-margin advanced products consisted of a larger portion in international sales, which also helped support the Group's overall profit margin.

Recommendation: Subscribe



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