

Analyst: Kelvin Li

Main Board Listing – Research

中信 1616 集團有限公司

CITIC 1616 Holdings Limited [Stock Code: 1883]

Global Coordinator, Bookrunner, Lead Manager and Sponsor : BNP Paribas

Sector : Telecommunication services
Business : Provider of connectivity and VAS to telecoms operators

<p>Total share offer: <u>815,920,000</u> shares (43.4% of the enlarged share capital)</p> <p>Public Offer: 137,592,000 new shares (16.9%)</p> <p>Placing: 678,328,000 shares (83.1%) (including 50,408,000 new and 627,920,000 sale shares)</p> <p>Greenshoe: 122,388,000 shares</p> <p>Price: HK\$2.13 – HK\$2.58 per share</p> <p>Market Cap: HK\$4.00 billion – HK\$4.85 billion</p> <p>FY06 PER (from continuing operations): 22.0x – 26.7x</p> <p>Adjusted NTA per share: HK\$0.42 – HK\$0.46</p> <p>Staffing: 168 (as of 14th March 2007)</p>	<p><u>Business of CITIC 1616</u></p> <p>“CITIC 1616” mainly engages in the provision of connectivity and value-added services to telecoms operators with a focus on the China and Hong Kong telecoms markets.</p> <p>CITIC 1616 owns and operates an independent telecoms hub that provides interoperability, interconnections and value-added services to approximately 240 customers worldwide. CITIC 1616 handled a substantial volume of China’s inbound and outbound international voice traffic and a large majority of the inbound and outbound international messages for China Mobile. Services of the Group also include transmission of traditional international voice calls, roaming voice and SMS and provision of advanced mobile VAS.</p> <p>Network infrastructure of CITIC 1616 basically includes a hub in Hong Kong, five points of presence (or POPs) (two located in Los Angeles, two in London and one in New York) and transmission capacity on certain undersea and underground telecoms cables which the Group leases.</p>
<p>HK Public Offer period: 22nd March 2007 – 27th March 2007 noon</p> <p>Receiving bank: BOC (HK), Hang Seng Bank, The Bank of East Asia Ltd.</p> <p>Share registrar: Tricor Investor Services Ltd.</p> <p>Listing date: 3rd April 2007</p>	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised and the Cornerstone Investors were placed with shares at HK\$2.355, being the mid-point of the indicative price range)

CITIC Pacific (HKEx: 0267)	56.6%
Cornerstone Investors*	15.7%
Public investors	27.7%
	100.0%

Remarks: (*) The Cornerstone Investors include Government of Singapore Investment Corporation (US\$35 million), Ms Nina Kung, Chairwoman of Chinachem Group (US\$15 million), Mr Michael Ying of Esprit Holdings (US\$15 million) and Asset Holder PCC No. 2 Limited Re Ashmore Asian Recovery Fund (US\$25 million).

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$423.8 million (Assuming an offer price of HK\$2.355, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
Funding for investments which may be in the form of acquisitions or joint ventures or strategic alliances with third parties to achieve expansion of technological applications and geographical network coverage	230
Capital expenditure to upgrade the Group's computer software and hardware	100
To enhance the Group's application development activities including hiring extra application development staff	90
General working capital	Remaining balance

Financial Highlights

(HK\$ 000')	2004	2005	2006
Turnover from continuing operations	1,046,903	979,410	1,366,144
Profit before tax	108,699	112,167	219,903
Profit after tax from continuing operations	91,135	94,037	181,808
Profit after tax from discontinuing operations	10,343	3,744	19,710
Attributable profit to the Company's shareholders	101,478	97,806	201,518
EPS (continuing operations)	HK\$0.054	HK\$0.056	HK\$0.107
Net margin (continuing operations)	8.71%	9.60%	13.31%

Turnover Breakdown by Types of Service

(As a % of total turnover)	2004	2005	2006
Fixed-Line/Hybrid Carrier Voice Hubbing Services	42.0	39.3	42.2
Mobile Carrier Voice Hubbing Services	48.1	48.8	41.5
SMS Hubbing Services	4.6	7.7	8.6
Mobile VAS and Enterprise Solutions	5.3	4.2	7.7
Total	100.0	100.0	100.0

Strengths/Opportunities

- ✓ The Group's main business is to bridge, translate and transmit voice and data messages from one telecoms operator to another telecoms operator. Simply speaking, rising use of mobile and VAS services will should boost the Group's business volume.
- ✓ CITIC 1616 is debt free at end of 2006 and had a cash holding of HK\$41 million. Management of the Group said it would pay no less than 30% of its attributable profits as dividend in coming years.
- ✓ Pricing at near 27x historical P/E, the counter's valuation is not too demanding, given the pleasant growth picture and low market penetration of voice and non-voice mobile services in the Mainland. The launch of 3G services would add further room for expansion for the counter.

Weaknesses/Threats

- × Bridging networks of different fixed-line and mobile operators is the key business of CITIC 1616. Merger of existing Mainland telecoms operators may lead to lower inter-network transmissions and dampen the demand for the Group's services.

Recommendation: Subscribe



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