

Analyst: Paul Sham

## Main Board H-share Listing – Research

中國中材股份有限公司

China National Materials Company Limited (Sinoma) [Stock Code: 1893]

**Joint Global Coordinators, Joint Sponsors,  
Joint Bookrunners and Joint Lead Managers**

: BOCI Asia Limited  
UBS AG

**Sector** : Materials

**Business** : Provide cement equipment & engineering services, manufacture & sale of building materials

**Total share offer:** \*931,708,000 H shares  
(27.15% of the enlarged share capital)

**Public Offer:** 93,172,000 H shares (10%)

**Placing:** 838,536,000 H shares (90%)

**Greenshoe:** 139,756,000 H shares

*\*All 931,708,000 shares are New H Shares*
**Price:** HK\$3.20 - HK\$4.50 per H share

**Market Cap:** HK\$10,981 million– HK\$15,443million

**Pro forma FY2007E PER:** 24.6x – 34.6x

**Adjusted NTA per share:** HK\$1.41 – HK\$1.75

**Staffing:** 23,744 (as of 30<sup>th</sup> June 2007)

**HK Public Offer period:**

7<sup>th</sup> December 2007 – 12<sup>th</sup> December 2007

**Receiving banks:** Bank of Communications  
Bank of China (Hong Kong)  
Standard Chartered Bank

**HK H share registrar & transfer office:**

Computershare HK Investor Services Limited

**Listing date:** 20<sup>th</sup> December 2007

### **Business of Sinoma**

Sinoma is the largest cement equipment and engineering services provider by output in the world and a leading producer of non-metal materials in the PRC. Its business consists of 4 segments.

#### **Cement equipment and engineering services (76% of group turnover):**

Sinoma is the largest cement engineering service provider in the world and had an approximately 90% domestic market shares and 22% overseas market share in 2006.

**Glass fiber (12.2% of group turnover):** It produced 17% of China's total glass fibre output in 2006, the 2<sup>nd</sup> largest in China.

**Cement (4.8% of group turnover):** Ranked 11<sup>th</sup> by clinker production output in 2006, Sinoma established leading positions in selected regional markets such as the Xinjiang Autonomous Region and Guangdong Province.

#### **Hi-Tech Materials (6.7% of group turnover):**

Sinoma is a market leader in the PRC high-tech materials market, including specialty fiber, fiber reinforcement composite materials and advanced ceramics. It also provides high-tech materials for China's "Shenzhou" series spaceships.


**Cornerstone Investors**

	No. of shares
CCB International Asset Management Limited	33,333,000
China Life Insurance Company Limited	33,333,000
CII Limited – <i>beneficially owned by China Communications Construction Company Limited (1800.HK) and Silver Grant International Industries Limited (0171.HK)</i>	33,333,000
Citigroup Global Market Limited	33,333,000
Grahamstowe Investments Limited – <i>ultimately owned by Mr. Leslie Lee Alexander who is the owner of the Houston Rockets, one of the basketball teams in National Basketball Association in US</i>	33,333,000
The Government of Singapore Investment Corporation Pte Ltd.	33,333,000
	<u>199,998,000</u>

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

China National Materials Group Corp – <i>wholly owned by the State-owned Assets Supervision and Administrative Commission of the State Council</i>	43.82%
Taian State-owned Assets – <i>a state-owned limited liability company in PRC focusing on the management of state-owned assets</i>	9.08%
China Cinda – <i>a state-owned limited liability company in PRC whose business activities include acquiring and managing non-performance assets from financial institutions</i>	9.32%
Well Kent – <i>a wholly owned subsidiary of China Cinda</i>	3.81%
The National Council for Social Security Fund of the PRC	2.35%
Tianshan Group – <i>47.31% equity interest held by China National Materials Group Corp</i>	1.89%
BBMG – <i>a wholly state-owned limited liability company in PRC whose business activities include the manufacture and sales of building materials, non-metal minerals, furniture and hardware, timber processing, property development and cement production</i>	1.83%
Zibo Hi-tech - <i>a wholly state-owned limited liability company in PRC whose business activities include the provision of consultation services in investment and business management</i>	0.75%
Public investors	27.15%
	<u>100%</u>

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$3,278 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.85 each, being the midpoint of the indicative price range)

	HK\$ million
For glass fiber segment, including construction of a new alkali-free direct-melt glass fiber production line and a new multiaxial glass fiber fabric production line	879
For cement segment, including construction of two new production lines	738
For environmental protection equipment and engineering projects	466
For high-tech material segment, including capacity expansion and construction of new production lines	377
For repayment of short-term loans	491
For working capital and general corporate purposes	327

**Financial Highlights**

	Year ended 31 <sup>st</sup> December			6 months ended	
	2004	2005	2006	30 <sup>th</sup> June 2006	30 <sup>th</sup> June 2007
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	7,092	8,631	12,937	5,457	8,538
Gross profit	1,243	1,274	1,949	802	1,169
Operating profit	491	362	909	322	613
<b>Profit attributable to shareholders</b>	<b>186</b>	<b>99</b>	<b>282</b>	<b>68</b>	<b>168</b>
Gross profit margin	17.5%	14.8%	15.1%	14.7%	13.7%
Operating profit margin	6.9%	4.2%	7.0%	5.9%	7.2%
Net profit margin	2.6%	1.1%	2.2%	1.2%	2.0%

**Revenue breakdown in terms of business segments**

(RMB million)	2004	%	2005	%	2006	%	1H06	%	1H07	%
Cement equipment and engineering services	5,691	80.2%	6,631	76.8%	9,932	76.7%	4,181	76.6%	5,840	68.4%
Glass fiber	710	10.0%	1,124	13.0%	1,581	12.2%	808	14.8%	736	8.6%
Cement	194	2.7%	222	2.6%	619	4.8%	141	2.6%	1,470	17.2%
High-tech materials	515	7.3%	748	8.7%	862	6.7%	355	6.5%	506	5.9%
Inter-segment elimination	(17)	(0.2%)	(94)	(1.1%)	(57)	(0.4%)	(28)	(0.5%)	(14)	(0.1%)
<b>Total</b>	<b>7,092</b>	<b>100%</b>	<b>8,631</b>	<b>100%</b>	<b>12,937</b>	<b>100%</b>	<b>5,457</b>	<b>100%</b>	<b>8,538</b>	<b>100%</b>

**Operating profit breakdown in terms of business segments (before unallocated costs)**

(RMB million)	2004	%	2005	%	2006	%	1H06	%	1H07	%
Cement equipment and engineering services	285.4	56.9%	93.2	24.9%	573.7	59.1%	227.1	58.4%	278.9	45.9%
Glass fiber	138.1	27.5%	168.8	45.0%	267.3	27.5%	119.4	30.7%	115.1	18.9%
Cement	16.9	3.4%	43.2	11.5%	55.4	5.7%	6.3	1.6%	154.8	25.4%
High-tech materials	60.5	12.0%	76.7	20.4%	75.5	7.8%	36.2	9.3%	56.1	9.2%
Inter-segment elimination	0.8	0.2%	(6.7)	(1.8%)	(0.7)	(0.1%)	0.2	0.0%	3.4	0.6%
<b>Total</b>	<b>501.7</b>	<b>100%</b>	<b>375.2</b>	<b>100%</b>	<b>971.2</b>	<b>100%</b>	<b>389.2</b>	<b>100%</b>	<b>608.3</b>	<b>100%</b>

**Strengths/Opportunities**

- ✓ **Leading position of its cement engineering services in the PRC** Sinoma currently dominates the PRC market and captures about 90% of the local market share in cement engineering services. As cement is a widely used basic material in construction, threat of substitutes should be low. Couple with the fact that relatively high R&D capability, new entrants are unlikely to enter this market.
- ✓ **Rapid penetration into overseas markets** Despite Sinoma started its export business just in 2002, it has now captured 22% of the global market share in cement equipment and engineering services. The rapid growth of revenue from the overseas markets suggests that Sinoma is not only dominant in local market, but also competitive in the global stage.



- ✓ **Decent demand growth both in China and abroad** Backed by the increasing urbanization rate and the unprecedented economic growth of China, it is expected that the pace of infrastructure spending in China will not be drastically slowed down in the coming years. On the overseas market, as Sinoma primarily exports the services to the emerging markets with high growth potentials, such as the Middle East & Southeast Asia, and it has already secured few large orders in Eastern Europe, it is likely that Sinoma should continue expanding its global market in the next few years.

**Weaknesses/Threats**

- × **Businesses heavily influenced by government regulation** A large portion of Sinoma's turnover in 2006 came from cement-related businesses in the PRC, whose demand is mainly driven by the level of activity in the domestic construction industry. Any further stringent macro-economic austerity measures to be imposed by the PRC Government on the construction industry will adversely affect the bottom line of Sinoma's.
- × **Relatively low operating margin** Compared with its closest HK-listed rival in almost all segments, China National Building Materials (3323.HK), with operating margin of 11% & 13% in 2005 & 2006 respectively, Sinoma exhibits a less efficient business model as it only managed to deliver 4% & 7% operating margin for the same periods.

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