

Analyst: Kelvin Li

## Main Board Listing – Research

興達國際控股有限公司

Xingda International Holdings Limited [Stock Code: 1899]

**Global Coordinator, Sponsor, Bookrunner, Lead Manager** : Goldman Sachs  
**Co-Lead Managers** : BCom Securities; China Everbright  
Capital & Guotai Junan Securities  
(Hong Kong)

**Sector** : Automobiles & Components

**Business** : Manufacture of radial tire cords and bead wires

<b>Total share offer:</b> <u>386,000,000</u> shares <b>(30.01% of the enlarged share capital)</b> <b>Public Offer:</b> 38,600,000 shares (10%) <b>Placing:</b> 347,400,000 shares (90%) <b>Greenshoe:</b> 57,900,000 shares	<b><u>Business of Xingda International</u></b> Xingda International ("the Company") is a holding company. It has an indirect 69.54% interest in Jiangsu Xingda, its operating company in the Mainland. Xingda is mainly engaged in the <b>manufacture and distribution of radial tire cords and bead wires</b> , which are the principal skeleton materials of radial tires. In terms of production volume, Xingda was the largest PRC-based producer of radial tire cords in 2005. Radial tire cords are made of flexible strands of copper-related steel filaments that are positioned at a precise angle to the centre of the tread for strengthening the supporting force of the walls of the radial tire. Bead wires are steel filaments that are plated with brass, bronze or copper and support the wire where it attaches to the rim of the wheel. Xingda's production facilities are based in Xinghua Municipality, Jiangsu Province, with a gross floor area of 548,000 sq m. In 2005, Xingda became an approved supplier of Goodyear.
<b>Price:</b> HK\$2.45 – HK\$3.08 per share <b>Market Capitalisation:</b> HK\$3,150.7 million – HK\$3,960.9 million <b>Pro-forma FY2006E P/E:</b> 12.2x – 15.3x <b>Adjusted NTA per share:</b> RMB1.26-RMB1.45 <b>Staffing:</b> 5,337 (as of 31 <sup>st</sup> August 2006)	
<b>HK Public Offer period:</b> 8 <sup>th</sup> December 2006 – 13 <sup>th</sup> December 2006 noon <b>Receiving bank:</b> Standard Chartered Bank, Bank of China (Hong Kong) <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 21 <sup>st</sup> December 2006	

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

Mr. Liu Jinlan – Chairman	21.00%
Mr. Liu Xiang – Chairman Liu's son	11.90%
Mr. Tao – an executive director	9.80%
Mr. Zhang – an executive director	3.50%
Mr. Hang – the son-in-law of Chairman	3.50%
Goldman Sachs Strategic Investments (Asia) L.L.C. ("GSSIA")	2.37%
Win Wide*	0.64%
Surfmax Estar Fund A	17.28%
	<u>69.99%</u>

Remark: (\*) 45.48% owned by Mr. Lu – an non-executive director, 13.86% by Mr. Wu – an executive director, 18.07% by Mr. Yang – the spouse of Mr. Lu, and the remaining 22.59% by eight independent 3<sup>rd</sup>-party investors.

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$979 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.77 each, being the mid-point of the indicative price range)

	HK\$ million
For the expansion of production capacity of our production facilities	570
For the expansion into overseas markets	380
For general working capital	29

### Financial Highlights

	Year ended 31 <sup>st</sup> December			6 months ended	
	2003	2004	2005	30 <sup>th</sup> June 2005	30 <sup>th</sup> June 2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	962,789	1,683,179	2,357,420	1,094,109	1,155,339
Gross profit	481,524	663,036	709,302	325,848	335,419
Operating profit	390,302	586,729	585,825	272,204	264,852
<b>Attributable profit</b>	<b>135,780</b>	<b>185,911</b>	<b>116,171</b>	<b>25,546</b>	<b>124,912</b>
EPS	RMB0.2125	RMB0.2825	RMB0.1291	RMB0.0284	RMB0.1388
Gross margin	38.04%	44.59%	50.64%	45.70%	59.93%
Operating margin	11.84%	38.68%	18.77%	15.68%	27.84%
	<b>31/12/2003</b>	<b>31/12/2004</b>	<b>31/12/2005</b>	<b>30/06/2005</b>	<b>30/06/2006</b>
Net debt to Equity	102.5%	96.0%	70.6%	N/A	71.5%

### Strengths/Opportunities

- ✓ Competitive labour costs has been encouraging foreign tire manufacturers to set up their production plants in the Mainland, which also helped lift China's tire export. According to China Rubber Industry Association (CRIA), the Mainland's tire export grew to 68.8 million units in 2004 from 26.3 million units in 2001, representing a CAGR of 38% during the period.
- ✓ Radial tires are used extensively in commercial vehicles like trucks and buses. Thanks to the robust economic growth in the Mainland, Xingda's production volume of radial tire cords grew rapidly to 140,133 tonnes in 2005 from 50,613 tonnes in 2003, or a CAGR of 66%.
- ✓ Pricing at the top end of the indicative price range would translate into a valuation of 15.3x pro-forma FY06E P/E, which would be largely in line with other HK-listed automobile component manufacturers.

### Weaknesses/Threats

- × Demand for radial tire cord grew strongly over the past years, thanks to the rapid growth in the Mainland's automotive tire industry. Nonetheless, due to an even stronger growth in production capacity, the radial tire cord industry turned into an oversupply in 2004 and 2005. According to CRIA, there was an 88,000 tonnes production surplus in 2004 and a 139,000 tonnes output surplus in 2005.
- × There are two outstanding convertible bonds issued to Tetrad and Henda by Xingda, a subsidiary of Government of Singapore Investment Corporation (Ventures) Pte Ltd and a subsidiary owned by a family trust of Mr. Lee Shau Kee, respectively, with a conversion price of HK\$1.853. Upon the full exercise of the conversion rights of the bonds, the stake of general public investors will be diluted to 25.52% from 30.01%.

**Recommendation: Trading Buy**

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