

Analyst: Paul Sham

Main Board Listing – Research

中國陽光紙業控股有限公司

China Sunshine Paper Holdings Company Limited [Stock Code:2002]
Sole Sponsor, Global Coordinator, and Lead Manager

: BNP Paribas Capital (Asia Pacific) Limited

Joint Bookrunners

: BNP Paribas Capital (Asia Pacific) Limited
: BOCI Asia Limited

Sector : Materials

Business : Manufacture and sale of specialty paper products

Total share offer: *<u>100,000,000</u> shares (25% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%) Greenshoe: 15,000,000 shares <i>*All 100,000,000 shares are New Shares</i>	<u>Business of China Sunshine Paper</u> The Group was the largest white top linerboard maker and one of the top 3 largest producer of core board in China by production output in 2006, according to the China Paper Association. Besides, it had the largest production capacity for light-coated linerboard in China, as of 30 June 2007. White top linerboard and light-coated linerboard are each a main material layer of boxes for packaging various consumer products, including food, beverage and electronics, while core board is used to produce durable spindles for various packaging and industrial purposes. The Group has signed strategic co-operation agreements with several packaging or printing companies who are the suppliers to some famous leading consumer product manufacturers, such as Mengniu Dairy, Tsingtao Brewery, Yili Dairy, Haier, Huiyuan Juice and Master Kong Chef. Prior to 2007, substantially all of the Group's products were sold in China. In 2007, the Group increased its exports significantly to the Middle East, North America and Asia, representing approximately 10% of the Group's sales for the six months ended 30 June 2007.
Price: HK\$5.75 - HK\$7.45 per share Market Cap: HK\$2,300 million– HK\$2,980 million Pro forma FY2007E PER: 17.0X – 22.0X Adjusted NTA per share: HK\$1.80 – HK\$2.20 Staffing: 1,137 (as of 30 th June 2007)	
HK Public Offer period: 29 th November 2007 – 4 th December 2007 Receiving banks: Bank of Communications Standard Chartered Bank Principal share registrar & transfer office: Butterfield Fund Services (Cayman) Limited HK branch share registrar & transfer office: Computershare HK Investor Services Limited Listing date: 12 th December 2007	

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

China Sunrise (Cayman Islands) – ultimately owned by a group of 20 individuals. Top 3 shareholders in China Sunrise are as follow: Mr. Wang Dongxing, Chairman & General Manager (23.18%) Mr. Shi Weixin, Vice Chairman (13.02%) Mr. Wang Yilong, Executive Director (8.70%)	42.43%
SOF(I) Paper (BVI) – a wholly-owned subsidiary of SOF(I). Trycom Management Limited, ultimately owned by China Everbright Limited (0165.HK), holds approximately 78.9% of SOF(I).	10.98%
Forebright (FVI) – beneficially owned by the investment team of SOF(I) comprising 11 individuals	0.34%
Good Rise (BVI) – a wholly-owned subsidiary of LC Fund III. Legend Holdings Limited, the controlling shareholder of Lenovo Group Limited (0992.HK), is one of the limited partners of LC Fund III.	11.32%
Deutsche Securities Asia Ltd.	9.93%
Public Investors	25.00%
	<u>100.00%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$592.3 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$6.60 each, being the midpoint of the indicative price range)

	HK\$ million
For the purchase, installation and implementation of various production equipment and supporting facilities to produce white top linerboard and light-coated linerboard products	519.4
For the expansion of the Group's network of recovered paper collection points	47.2
For the research and development purpose	20.6
For the installation of the enterprise resource planning system	5.1

Financial Highlights

	Year ended 31 st December			Six months ended June 30	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	244,686	447,277	613,367	274,438	581,880
Gross profit	38,850	88,221	118,667	52,796	97,364
Attributable profit	4,422	42,451	49,940	15,339	44,086
Gross margin	15.9%	19.7%	19.3%	19.2%	16.7%
Net margin	1.8%	9.5%	8.1%	5.6%	7.6%



Group's revenue by product type

	Year ended 31 st December						For the six months ended June 30					
	2004		2005		2006		2006		2007			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
White top linerboard	178,559	73	334,209	75	424,004	69	186,498	68	448,988	77		
Light-coated linerboard	-	-	-	-	-	-	-	-	5,892	1		
Core board	46,203	19	107,139	24	123,804	20	59,256	22	66,054	12		
Specialized paper products	19,924	8	5,929	1	65,559	11	28,684	10	60,946	10		
Total	244,686	100	447,277	100	613,367	100	274,438	100	581,880	100		

Strengths/Opportunities

- ✓ **Leader in a niche market with strong demand** According to the China Paper Association, China Sunshine Paper (CSP) is a distinct leader of white top linerboard, a main material layer of packaging boxes. Growing urbanization and rising disposable income in China are expected to drive the demand for high-quality products, which in turn will benefit the company by lifting the demand of their packaging boxes.
- ✓ **Overseas opportunities** Unlike its closest comparable rival, Qunxing Paper (3868.HK), who focuses on another niche market of decorative base paper but lacking export business, CSP seems to have a better growth prospect in overseas markets as the company has expanded its business to the Middle East, North America and Asia since early 2007.
- ✓ **Low concentration of customers** CSP has over 1,000 customers while Qunxing Paper has only 125 customers. Moreover, the top-five customers of CSP accounted for around 10% of total revenue while those of Qunxing Paper accounted for around 38%, suggesting the fact that the former can have better pricing power on its customers.

Weaknesses/Threats

- × **Fluctuation of raw material prices** Raw material such as recovered paper, kraft pulp and chemicals accounted for 88.7%, 87.6% and 80.2% of total cost of good sold for the years ended 31 December 2004, 2005 and 2006 respectively. If the company is unable to transfer the cost to its customers during the time when the raw material prices increase, the profitability of CSP will be adversely impacted.
- × **Rich valuation** Based on the high end of the indicative offering price, the expected P/E multiple of CSP in FY2007 reaches 22.0X. Compared with its closest comparable rival in term of market positioning and market capitalization, Qunxing Paper, with PE ratio of only 16.3X, valuation of CSP seems on the high side.

Recommendation: Hit and Run



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