

Main Board Listing - Research

西王糖業控股有限公司

Xiawang Sugar Holdings Company Limited [Stock Code: 2088]

Global Coordinator, Bookrunner and Lead Manager : CCB International

Sector : Chemicals

Business : Manufacture of corn-based crystallised glucose

<p>Total share offer: <u>280,000,000</u> shares (35% of the enlarged share capital)</p> <p>Public Offer: 28,000,000 shares (10%) Placing: 252,000,000 shares (90%)</p> <p>Greenshoe: 42,000,000 shares</p>	<p><u>Business of Xiawang Sugar ("the Group")</u></p> <p>The Group is a leading crystallised glucose producer in the Mainland. The Group's products can be divided into two major categories, namely corn refined products and corn based biochemical products, which can be used for various applications in food and beverage, pharmaceutical, animal feed and biochemical industries.</p> <p>The Group's corn refined products included corn gluten meal, corn germ and animal feed, while corn based biochemical products included crystallised glucose, glucose syrup, and lysine products. The products are marketed and sold to customers in 25 provinces and autonomous regions in the Mainland and exported to 15 countries worldwide.</p> <p>The Group's production facilities are based at Zouping County, Shandong Province, which included a starch processing plant, two glucose production plants, an animal feed processing plant and a lysine production plant. As of 25th November 2005, the Group's annual production capacity was approximately 400,000 tonnes of starch paste, 50,000 tonnes and 30,000 tonnes of lysine products of 65% and 98.5% purity level, respectively.</p>
<p>Price: HK\$1.70-HK\$2.05 per share Market Cap.: HK\$1,360 million – HK\$1,640 million</p> <p>FY2005E P/E: 7.08x-8.54x (pro-forma)</p> <p>Adjusted NTA per share: HK\$0.88-HK\$0.98</p> <p>Staffing: 1,429 (as of 25th November 2005)</p>	
<p>HK Public Offer period: 30th November 2005 – 5th December 2005 noon</p> <p>Receiving bank: Bank of East Asia China Construction Bank - HK Branch BOC (Hong Kong)</p>	
<p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 9th December 2005</p>	

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

Xiawang Holdings – 58.42% owned by Mr. Wang Yong, the Group's chairman	65.0%
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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$425.5 million.

(Assuming the over-allotment option is not exercised and at an issue price of HK\$1.875, which is the mid point of the indicative price range.)

	HK\$ million
For the construction of a new glucose production plant with a total designed annual production capacity of approximately 200,000 tonnes of crystallised glucose, which is expected to commence operations in Q3 2006	200.0
For the construction of a new starch processing plant with a total designed annual production capacity of approximately 200,000 tonnes of starch paste as ancillary facilities for the new glucose production plant.	120.0
For repayment of bank loans	60.0
For additional funding to research and development activities	10.0
For general working capital	35.5

Financial Highlights

	Year ended 31 st December			5 months ended 31 st May 2005
	2002 RMB '000	2003 RMB '000	2004 RMB '000	RMB '000
Sales	61,758	302,933	602,736	331,755
Gross profit	4,959	61,623	118,491	73,493
Attributable profit	737	37,523	78,829	60,282

Strengths/Opportunities

- ✓ The Group's clients mainly come from the fermentation and the pharmaceutical industries. The products are also sold to clients in the fermentation sector via middlemen. As the Chinese economy continues to expand at a strong pace and standards of living in the Mainland keeps improving, consumption of sweeteners and pharmaceutical products should keep growing enormously in the future, which in turn should help boost the demand for the Group's products.
- ✓ The Group's gearing ratio stood at 40.1% as of 31st May 2005. The ratio is expected to drop to 22%, when the Group uses part of the proceeds raised from the IPO to repay bank loans totalling HK\$60 million. Meanwhile, the Group's management plans to pay out 40%-45% of its profit as dividends in the future, transforming to an expected dividend yield of 4.7%-6.4% in FY2005.
- ✓ Pricing at 7x - 8.5x FY2005E P/E, valuation of the Group is not demanding when compared with that of 12x FY2005E of peer Global Bio-Chem (HKEx: 0809).

Weaknesses/Threats

- × Corn kernels are the Group's principal raw material. The Group has not entered into any long-term purchase contracts with its suppliers; any abrupt surge in corn prices would negatively affect the Group's profit margins.

Recommendation: Trading Buy