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Main Board H-share Listing - Research

魏橋紡織股份有限公司

Weiqiao Textile Company Limited [Stock Code: 2698]
Global Co-ordinator, Sponsor, Bookrunner and Lead Manager : BNP Paribas Peregrine

Sector : Textile

Business : Production, sale and distribution of cotton yarn, grey fabric and denim.

Total share offer: <u>249,770,000</u> shares (32% of the enlarged share capital)	<u>Business of Weiqiao Textile</u> The Company is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Its over 2,000 types of products are sold both domestically and internationally under its “WeiQiao” trademarks. In 2002, 49.3% of products were sold in the PRC, 27.2% in Hong Kong and 23.5% to other countries (mainly Japan and South Korea). The Company has 5 production facilities, with aggregate GFA of about 1,342,200 m ² , located in Zouping county, Binzhou City and Weihai City of Shandong province, which are close to the Beijing-Shanghai Expressway and Qingdao port. In 2002, annualized production capacities were 265,000 tonnes for cotton yarn, 462 million m ² for grey fabric and 157 million metres for denim. It is estimated that when the production facilities in the Binzhou Weiqiao Technology Industrial Park become fully operational around 3 rd quarter of 2003, the annualized production capacities would increase to 441,000 tonnes for cotton yarn and 844 million m ² for grey fabric. While the average capacity utilization rate in 2002 was about 60%, the Company expects the rate to reach 70% in 2003 and 90% in 2004.
IPO: 24,977,000 shares (10%) Placement: 224,793,000 shares (90%)	
Greenshoe: 37,465,500 shares	
Price: HK\$6.15 – HK\$8.55 per share	
H-share Market Cap. : HK\$1,536.1 million – HK\$2,135.5 million	
Prospective P/E: 9.8x – 13.6x (pro forma fully diluted)	
Adjusted NTA per share: HK\$4.049-HK\$4.798 (before over-allotment option is exercised)	
Staffing: 62,180	
Book opens: 1 st September, 2003 Book closes: 18 th September, 2003	
IPO commences: 15 th September, 2003 IPO closes: 18 th September, 2003	
Receiving bank: Standard Chartered Bank Share registrar: Computershare Hong Kong Investor Services Limited	
Listing date: 24 th September, 2003	



Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Shandong Weiqiao Textile Group Company Limited (Note 1)	52.57%
12 management shareholders of the Company	13.50%
3 individual shareholders (independent 3 rd parties)	1.93%
	<u>68.00%</u>

Note 1: It is 90% owned by Zouping County Supply and Marketing Cooperation Union (a non-government body) and 10% by its own management.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,754.7 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$7.35, being the midpoint of the proposed range of issue prices of HK\$6.15 and HK\$8.55 per offer share)

	HK\$ million
To expand product portfolio to high value-added cotton textile products	406
To upgrade the existing production technology	94
To establish a technology development centre	47
To upgrade IT systems	34
To repay bank loans	566
To pursue acquisition opportunities related to cotton-textile manufacturing business	100
To serve as general working capital	Balance

Financial Highlights

	3 months ended 31 st March 2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover (Note)				
Cotton yarn	599,242	2,076,927	1,118,096	1,031,496
Grey fabric	482,464	1,417,589	863,914	505,786
Denim	<u>173,362</u>	<u>886,407</u>	<u>371,627</u>	<u>22,002</u>
	<u>1,255,068</u>	<u>4,380,923</u>	<u>2,353,637</u>	<u>1,559,284</u>
Operating profit	<u>200,819</u>	<u>562,564</u>	<u>292,423</u>	<u>223,280</u>
Net profit	<u>108,172</u>	<u>288,240</u>	<u>154,040</u>	<u>133,723</u>
Dividend	-	-	131,326	-
EPS – basic	<u>RMB0.20</u>	<u>RMB1.01</u>	<u>RMB0.76</u>	<u>RMB0.66</u>

Note: Geographical breakdown of the Company's turnover

	3 months ended 31 st March 2003		2002		2001		2000	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Hong Kong	291	23.2	1,190	27.2	585	24.9	409	26.2
Japan & South Korea	275	21.9	776	17.7	504	21.4	332	21.3
*Others	<u>119</u>	<u>9.5</u>	<u>255</u>	<u>5.8</u>	<u>180</u>	<u>7.7</u>	<u>117</u>	<u>7.5</u>
Export sales	685	54.6	2,221	50.7	1,269	54.0	858	55.0
Domestic Sales	<u>570</u>	<u>45.4</u>	<u>2,160</u>	<u>49.3</u>	<u>1,085</u>	<u>46.0</u>	<u>701</u>	<u>45.0</u>
Total	<u>1,255</u>	<u>100.0</u>	<u>4,381</u>	<u>100.0</u>	<u>2,354</u>	<u>100.0</u>	<u>1,559</u>	<u>100.0</u>

*Principally comprising Taiwan, Thailand, the US and certain European countries.



Strengths

- ✓ Weiqiao Textile is the largest cotton textile producer in the PRC, ranking No 1 in terms of both turnover and the aggregate export value of cotton yarn and grey fabric in 2002. For 2002, the Company had market shares of 11.9% and 14.7% in terms of export values of cotton yarn and grey fabric respectively.
- ✓ The Company has achieved economies of scale with its enormous production capacity, enabling it to enjoy lower production costs and a more flexible pricing policy.
- ✓ The Company has established an extensive and diversified customer base, including over 2,000 domestic clients in more than 20 provinces and municipalities in the PRC and over 300 overseas customers spanning across more than 20 countries and regions. Texwinca (*Stock code: 0321*), Fountain Set (*Stock code: 0420*) and Japan's Itochu are all its clients. In fact, its single largest customer only accounted for 5% of the Company total turnover in the 1st quarter of 2003.
- ✓ The Company has an extensive product range, including about 800 types of cotton yarn, about 1,000 of grey fabric and about 400 of denim, and its products are marketed under its well-known brandname "WeiQiao".
- ✓ Following the PRC accession into the WTO, cotton import quotas imposed by the Chinese government will be gradually removed by the end of 2004. With 46% of lint cotton (accounting for about 75% of the Company's cost of sales of cotton yarn) being sourced from overseas suppliers, the removal of import quotas should help the Company reduce its costs and further improve its margins.
- ✓ Being the largest PRC exporter of cotton yarn and grey fabric, the Company will also benefit from the gradual removal of textile and clothing quotas by the end of 2004, when exports of cotton-textile products from the PRC to WTO member countries will no longer be subject to quota restrictions.
- ✓ Following the acquisition of 4 fabric-weaving factories and those related liabilities in May 2001, the financial position of the Company has been improving, with the debt-to-equity ratio declining from 173% as at the end of 2001 to 135% as at the end of March 2003. The ratio is expected to be reduced to below 50% after using HK\$566 million of the net proceeds from the IPO to repay bank loans.

Weaknesses

- × Entry barrier to the cotton textile industry is low and the Company has been facing keen domestic and foreign competition in terms of both production and sales.
- × The young age of the Company's chairman Zhang Bo (age: 34) and general manager Zhang Hongxia (age: 32) should also be a concern to the investing public.
- × Despite its leadership status in the PRC cotton textile market and the current upbeat sentiment towards H shares, Weiqiao Textile valuation of 9.8x-13.6x on a pro-forma fully-diluted basis looks pricey when compared with another mainboard candidate Art Textile Technology (*Stock code: 0595*), which is engaged in the manufacture and sale of finished woven fabrics in the PRC. Art Textile's offer price of HK\$0.50 per share represents a prospective P/E of 6.4x on a pro-forma fully-diluted basis.

Recommendation: Subscribe – Trading Buy