

Analyst: Stanley Lau

Main Board H-share Listing – Research

大連港股份有限公司

Dalian Port (PDA) Company Limited [Stock Code: 2880]

Sole Global Coordinator and Sole Sponsor : BNP Paribas Peregrine
Joint Bookrunners and Joint Lead Managers : BNP Paribas Peregrine, UBS

Sector : Transportation

Business : Oil and container port operator in Dalian

<p>Total share offer: <u>840,000,000</u> H shares (30% of the enlarged share capital)</p> <p>Public Offer: 84,000,000 H shares (10%)</p> <p>Placing: 756,000,000 H shares (90%)</p> <p>Greenshoe: 126,000,000 H shares (15%)</p>	<p><u>Business of Dalian Port (PDA)</u></p> <p>The Group is an oil and container port operator with a dominant market share in Dalian. Its three main businesses are: (i) the provision of terminal and logistics services for oil products and liquefied chemicals; (ii) the provision of terminal and logistics services for containers; and (iii) the provision of port value-added services including tugging, pilotage, tallying and IT services.</p> <p>Headquartered in the deep-water port of Dalian, the Group is the largest oil terminal operator in Northeastern China in terms of throughput. For the year ended 31st December 2005, the total annual throughput for oil of the Group was approximately 32 million tonnes, of which approximately 18.3 million tonnes were attributable to crude oil and approximately 13.7 million tonnes were attributable to refined oil and liquefied chemicals.</p> <p>In terms of the container business, the Group commanded a market share of more than 70% of the container market and over 90% of the total container throughput for foreign trade at ports in Northeastern China. For the year ended 31st December 2005, the total throughput of the container terminals operated by the Group was approximately 2.6 million TEUs.</p>
<p>Price: HK\$2.175 – HK\$2.575 per H share</p> <p>Market Cap.: HK\$2.01 billion – HK\$2.38 billion</p> <p>Pro Forma FY2005 P/E: 15.1x – 17.9x</p> <p>Adjusted NTA per share: HK\$1.42 – HK\$1.54</p> <p>Staffing: 1,873</p>	
<p>Book opens: 10th April 2006</p> <p>Book closes: 21st April 2006</p> <p>HK Public Offer period: 18th April 2006 – 21st April 2006</p> <p>Receiving bank: Standard Chartered Bank, ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 28th April 2006</p>	

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

Dalian Port Corporation Limited	65.325%
Dalian Haitai Holdings Company Limited	0.335%
Dalian Rongda Investment Company Limited	0.670%
Dalian Detai Holdings Company Limited	0.335%
Dalian Bonded Zhengtong Company Limited	0.335%
The National Social Security Fund Council	3.000%
	<u>70.000%</u>

Note: Japan's NYK, China Shipping Group, Singapore's PSA and Hutchison Whampoa (stock code: 0013) have agreed to buy 4.1%, 4%, 1% and 1% respectively of the Group's enlarged share capital through the share offering.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,895.8 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.375 each, being the mid-point of the indicative price range)

	HK\$ million
Construction of 12 crude oil storage tanks	653.8
Construction of 4 new container berths	384.6
Acquisition of 8 tugboats	259.6
Repayment of long-term bank loan	413.5
General working capital	184.3

Financial Highlights

	Year ended 31 st December		
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
Turnover	941,821	1,102,749	1,269,376
Gross profit	481,893	556,322	645,612
Profit before tax	393,591	420,506	475,688
Net profit	354,784	367,878	419,655
EPS – Basic	RMB0.18	RMB0.19	RMB0.21
	RMB'000	RMB'000	RMB'000
Owner's equity	1,649,134	1,977,736	2,443,882

Strengths/Opportunities

- ✓ Dalian is one of the four designated locations for strategic oil reserves bases in China due to its proximity to Northeastern China's refinery base. The Group's oil terminal located in Xingang is the only terminal approved by the Ministry of Communications to conduct the transshipment business of imported crude oil for petrochemical enterprises in Dalian port and Bohai Bay. As a result, the Group is well positioned to take advantage of the growing demand for oil resources in China.
- ✓ Dalian port is located at the entrance of Bohai Bay and is closer to major international shipping routes than other ports in Bohai Bay, allowing vessels to enjoy shorter sailing times to major ports worldwide. Dalian port's shipping routes also provide an important access to small and medium-sized ports in the coasts of Northeastern China for transshipment to and from international destinations.
- ✓ In terms of the container business, the Group provides a comprehensive package that not only includes container loading and discharging services, but a number of logistics services as well. The services, which include the operation of a bonded logistic park, have enabled the Group to establish strong business links with over 40 shipping companies.
- ✓ Priced at 15.1x to 17.9x FY2005 P/E, valuation of the counter is not demanding compared to 18x for Xiamen International Port (stock code: 3378).

Weaknesses/Threats

- × As of 31st December 2005, the Group had outstanding debt of approximately RMB4.22 billion and a net debt to equity ratio of 158%. The Group expects the ratio to be lowered to about 90%, a level more in line with the industry's average, after listing as it has earmarked HK\$413.5 million of the IPO's proceeds to repay long-term debt.
- × The Group enjoyed tax exemptions of RMB88.3 million, RMB83.9 million and RMB94.8 million for the three years ended 31st December 2005 respectively. The tax exemption ceased on completion of the Group's reorganisation and this would have an impact on the Group's after-tax profitability.

Recommendation: Trading Buy

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