

Main Board H-Share Listing - Research

靈寶黃金股份有限公司

Lingbao Gold Company Ltd. [Stock Code: 3330]

Global Coordinator and Bookrunner	: BOC International
Joint Sponsor and Lead Manager	: BOCI Asia Limited
Joint Sponsor and Co-lead Manager	: Celestial Capital Limited

Sector : Materials

Business : Gold mining and smelting

Total share offer: <u>258,500,000</u> H shares (35.17% of the enlarged share capital) Public Offer: 25,852,000 H shares (10%) Placing: 232,648,000 H shares (90%) Greenshoe: 38,774,000 H shares	<u>Business of Lingbao Gold ("the Group")</u> The Group is an integrated gold miner based in Lingbao city, Henan province, mainly engaged in gold mining and smelting. The Group has four operating mines, two gold mines under construction and 18 exploration projects, locating at three mining areas, namely Henan mining area, Xinjiang mining area and Jiangxi mining area. As at 30 th June 2005, the Group has gold reserves and resources totalling 44.9 tonnes and 63.3 tonnes, respectively. The Group's principal products are gold bullion, while by-products include silver, copper products and sulphuric acid. During the years ended 31 st December 2002, 2003 & 2004, gold bullion output from the Group's smelting plant amounted to 6,159kg, 6,423kg and 8,197kg. In terms of output volume in Jan-Oct 2005, the Group is the second largest gold smelting company in the Mainland. The Group has one smelting plant and six processing plants. The smelting plant is located in Lingbao city, Henan province, and carries a gold-concentrates processing capacity of 700 tonnes per day. Four of the Group's processing plants are located in Henan mining area and two in Xinjiang mining area, with an aggregate capacity of 2,400 tonnes per day.
Price: HK\$2.55 - HK\$3.33 per H share Market Cap.: HK\$1,874 million – HK\$2,448 million FY2005E P/E: 13.0x-17.0x (pro-forma fully diluted) Adjusted NTA per H share: HK\$1.17-HK\$1.41 Staffing: 2,595 (as of 30 th June 2005)	
HK Public Offer period: 30 th December 2005 – 5 th January 2006 noon Receiving bank: Bank of China (Hong Kong) Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 12 th January 2006	

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

Lingbao State-owned Assets	51.28%
Sanmenxia Jinqu	5.17%
Lingbao Electric	2.39%
Henan Xuanrui	2.45%
Lingbao Jinxiang Motors	1.87%
Lingbao Guoshi Mining	1.67%
	<hr/> 64.83%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$544 million – HK\$721 million.

(Assuming the over-allotment option is not exercised.)

	HK\$ million
For focused exploration and development of the Group's mining activities	373-495
For the acquisitions of additional mines and mining rights and integration of mines in the Xiaoginling region	85-112
For the expansion of the Group's smelting operation	50-66
For general working capital	36-48

Financial Highlights

	Year ended 31 st December			6 months ended 31 st June 2005
	2002 RMB '000	2003 RMB '000	2004 RMB '000	RMB '000
Turnover	682,872	856,278	1,223,429	723,685
Gross profit	153,746	167,977	247,738	152,100
Attributable profit	47,920	75,799	120,060	75,410
Basic EPS	RMB0.10	RMB0.15	RMB0.24	RMB0.15

Strengths/Opportunities

- ✓ The Group plans to use about 70% of the proceeds raised from the share offering to further develop its mining activities. With the expansion of its existing mines and commencement of operation of the two mines under construction, the Group's mining output is expected to grow substantially in the next couple of years.
- ✓ The People's Bank of China said it plans to liberalise rules to allow firms in the Mainland to import and export gold products directly, which is expected to boost the overall demand for gold products in China.

Weaknesses/Threats

- × The Group's gross profit margins stood near 20% in 2002-2004 and 1H2005, despite the rising trend of international bullion prices. It was mainly due to the Group's heavy reliance on outsourcing gold concentrates from external suppliers. During the Track Record Period, the purchase of gold concentrates from external suppliers accounted for 86.7%, 88.0%, 91.2% and 89.4%, respectively, of the Group's total gold concentrates used in gold smelting production. However, the situation is expected to alleviate, as the Group plans to scale up its mining operation and so lessen its reliance on external supplies of gold concentrates.
- × Pricing at 13.0x-17.0x FY2005E, Lingbao's valuations look less demanding when compared with peer Zijin Mining (HKEx: 2899)'s 29x forward earnings multiple. However, we see Lingbao's pricing not so attractive, given the fact that the Group possesses much weaker profit margins (1H2005 GPM: 21.0%) than Zijin Mining (1H2005 GPM: 60.2%).

Recommendation: Speculative Buy