

Analyst: Kelvin Li

Main Board H-share Listing – Research

洛陽樂川鉬業集團股份有限公司

China Molybdenum Co., Ltd. [Stock Code: 3993]
Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors

: Morgan Stanley

UBS Investment Bank

Sector : Materials

Business : Production of Molybdenum

Total share offer: 1,083,600,000 H shares
(22.7% of the enlarged share capital)

Public Offer: 108,360,000 H shares (10%)

Placing: 975,240,000 H shares (90%)

Greenshoe: 108,360,000 H shares

Price: HK\$5.00 – HK\$6.80 per H share

Market Cap: HK\$23.8 billion – HK\$32.4 billion

1H2007 forecast EPS: RMB0.20 per H share

Adjusted NTA per share: RMB1.39 – RMB1.79

Staffing: 5,156 (as of 31st December 2006)

HK Public Offer period:

13th April 2007 – 18th April 2007 noon

Receiving bank: BOC (Hong Kong),
Standard Chartered Bank,
The Bank of East Asia Ltd.

Share registrar: Computershare Hong Kong
Investor Services Limited

Listing date: 26th April 2007

Business of China Molybdenum (“CMOC”)

CMOC is a producer of molybdenum in the Mainland with integrated mining and processing facilities. Its primary business operations involve molybdenum mining, flotation, roasting and smelting, and downstream processing. In addition, the Group is also developing its tungsten products.

Molybdenum (symbol: Mo) is used in a wide range of applications, including applications of steel, oil, industrial machinery, automobile and defense industries. Tungsten (symbol: W) also has a wide range of use. Tungsten carbide is a common form of cemented carbide. Cemented carbides, also called hard-metals, are wear-resistant metals used by the mining and the construction industries.

CMOC is based in Hunan, where molybdenum resources account for 40% of PRC's total.

Major Shareholders after Listing (Assuming the over-allotment option is not exercised and the Corporate Investors were placed with H shares at HK\$5.90, being the mid-point of the indicative price range)

LMG, a wholly owned subsidiary of Luoyang SASAC (People's Government of Luoyang City)	37.9%
CFC, a direct investment firm, is 10% owned by Mr Xu Jun, a non executive director of CMOC, and 90% owned by Mr. Yu Yong, who holds no management position in CMOC	37.1%
Corporate Investors*	4.4%
The National Council for Social Security Fund (NSSF)	2.3%
Public investors	18.3%
	<u>100.0%</u>

Remarks: (*)

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The Corporate Investors include:

Cheung Kong (HKEx: 0001)	US\$10 million
China Life (HKEx: 2628)	US\$20 million
CITIC Pacific (HKEx: 0267)	US\$20 million
Citigroup Global Markets	US\$20 million
Dr. Cheng Yu tung	US\$20 million
Dr. David Li Kwok Po	US\$20 million
Li Ka Shing (Canada) Foundation	US\$10 million
Shau Kee Financial Enterprises	US\$20 million
The Government of Singapore Investment Corporation	US\$20 million
TOTAL	US\$160 million

(Some 4.4% of the enlarged issued capital)

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$6.1 billion (Assuming an offer price of HK\$5.90, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ billion
To expand molybdenum production capabilities	1.2
For the development of tungsten production and downstream processing capabilities	1.2
For the acquisitions of mines and mining rights in relation to mines with identified mining resources	2.4
Repayment of short-term bank loans	0.6
For general working capital	0.6

Financial Highlights

(RMB '000)	FY2004	FY2005	FY2006
Turnover	1,170,384	2,300,527	3,826,221
Gross profit	746,570	1,769,664	2,607,432
Profit after tax	447,198	1,639,836	2,454,286
Attributable profit to the Company's shareholders	276,289	1,157,327	1,714,465
EPS - Basic	RMB0.08	RMB0.33	RMB0.43
Gross profit margin	63.8%	76.9%	68.1%
Net profit margin	23.6%	50.3%	44.8%

Turnover Breakdown by Geographical Area

(RMB '000)	FY2004	%	FY2005	%	FY2006	%
PRC	505,280	43.2%	1,126,852	49.0%	2,491,594	65.1%
Asia (excluding PRC)	560,364	47.9%	807,460	35.1%	815,261	21.3%
The U.S.	71,319	6.1%	302,862	13.2%	484,020	12.7%
Europe	33,421	2.9%	63,353	2.8%	35,346	0.9%
Total	1,170,384	100.0%	2,300,527	100.0%	3,826,221	100.0%

Strengths/Opportunities

- ✓ Demand for molybdenum is mainly driven by the global steel industry. As more large-scale infrastructure projects have been carried out on the Mainland amid robust economic growth, the demand for steel products is expected to grow rapidly in the coming years, which should also help boost the consumption of molybdenum.
- ✓ CMOC's Sandaozhuang Mine (三道庄鉬礦) is the largest molybdenum mine in the Mainland and the third largest in Asia Pacific in terms of mining capacity. According to the Joint Ore Reserves Committee (JORC) of Australia, the Sandaozhuang Mine has an ore reserve of 467 million tonnes (303 Mt proved and 164 Mt probable), which is adequate for a mine life of more than 46 years at current production level.
- ✓ CMOC is expanding its production of tungsten, a by-product from the processing of molybdenum concentrate. The output of tungsten production is expected to grow to 3,478 tonnes by 2008, a three-fold growth from the current output level.

Weaknesses/Threats

- × Sandaozhuang Mine was operating near its full capacity in 2006. Any delay of the commencement of new mining capacity would cause a stall in expansion and distort CMOC's growth momentum.
- × Sales revenue CMOC is sensitive to the global molybdenum prices, and any unfavourable swing in market price would lead to volatility in profitability. In FY06, CMOC experienced a weaker gross margin, due to a drop in average selling prices of the Group's products last year.

Recommendation: Subscribe

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South Valley Holdings Limited ("SVH") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by **Dr. The Hon. Sir David Li Kwok-po**. Dr. The Hon. Sir David Li Kwok-po is a shareholder and chairman of the board of directors of The Bank of East Asia, Limited, which is one of the receiving banks in the Hong Kong Public Offering.

SVH is one of the corporate investors of the issue and has agreed to purchase some US\$20 million worth of shares of China Molybdenum Co., Ltd. Assuming the mid-point Offer Price of HK\$5.9, SVH would purchase 26,494,000 Offer Shares representing approximately 2.4% of the of the Offer Shares, assuming the Over-allotment Option is not exercised.