

## IPO write-up

# China Conch Venture

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### Stock Information

Stock code:	586 HK
Issue size:	265m shares (all new shares)
Green shoe option:	15%
Public/Placement tranche:	10%/90%
Share issue price:	HKD11.36-13.56
Market cap after listing:	HKD20,050.4-23,933.4m
Use of proceeds (net):	HKD3,159m, 37% production facilities in Wuhu, 22.4% production facilities in Bozhou, 5.1% maintenance of the port facilities, 22.5% carrying out cement kiln waste incineration projects, 3.2% repaying shareholder loan, 9.8% general working capital
Application list open	9th- 12th Dec 2013
Expected listing date:	19th Dec 2013
Book runners:	Deutsche Bank, Goldman Sachs, HSBC
Profit forecast:	N/A
Dividend policy:	20% payout ratio (indicative only)
PER:	Around 10x FY14E PER (media reports)
Post IPO shareholders	Mr. Liu Yi (48.44%), Mr. Rao Peijun (7.72%)
Cornerstone investors	5 investors, including CNBM, Taiwan Cement, Asian Cement etc. Total investment around HKD1,682.4m. 7.7% of post IPO share capital, 51% of offer shares

### Company background

China Conch Venture (“Conch Venture”) is an investment holding company and a large integrated provider of energy preservation and environmental protection solutions, with a plan on diversifying solutions by offering green building materials, an alternative building materials with energy preservation and environment-friendly features. During the Track Record Period, the company recorded significant profit from its investment in Conch Holdings, the largest shareholder of two leading building materials companies, namely Conch Cement and Conch Profiles. During the Track Record Period, Conch Venture recorded turnover of over CNY1,000 million for each financial year, which was attributable to operations. More than 70% of turnover was generated from the provision of residual heat power generation solutions, and the primary focus of energy preservation and environmental protection solutions was the cement industry.

### Selling points and strength

- 1) Large integrated provider of energy preservation and environmental protection solutions enjoying sustainable growth.
- 2) Robust demands for energy preservation and environmental protection solutions.
- 3) Technological leadership and strong research and development capabilities.

### Some points of concern

- 1) Results of operations are largely affected by the performance of certain associates of Conch Holdings, over which the business Conch Venture does not have control as it only has a minority interest in those entities.
- 2) The company derived a substantial portion of turnover from Conch Cement, the largest customer.
- 3) Conch Venture is dependent on cement and steel industries, which are competitive and cyclical in nature.

### Financial Summary (Year ended Dec31)

CNY'000	FY10	FY11	FY12	1H13
Revenue	1,812,167	1,581,995	1,250,435	656,708
Gross profit	651,324	521,421	402,440	234,668
Profit from operations	557,457	400,243	320,393	179,932
Share or profit of associate	1,112,615	2,062,894	1,176,249	547,411
Profit for the year	1,557,340	2,385,606	1,416,440	681,280
Gross profit margin (%)	35.9	33.0	32.2	35.7
Gearing ratio (%)	14.45	12.43	12.27	18.31

Source: Company data, Maybank Kim Eng

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