

## Guangnan: Beneficiary of China consumption boom

**Recommendation: BUY (initiating coverage)**

**China Industrials**

Price	HK\$1.36	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.	
Target price	HK\$2.04 (+50.0%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	
12 mth range	HK\$1.15-2.86	05A	175.8	0.195	0.163	6.9	1.3	15.4	1.1	18.5	17.5	Cash
Market cap.	US\$157.9m	06A	121.3	0.135	(31.0)	10.0	1.1	11.4	2.6	12.0	10.2	Cash
Daily t/o, 3 mth	US\$0.4m	07F	130.9	0.145	7.9	9.3	0.9	6.9	2.5	10.9	9.0	(4.3)
Free float %	40.7%	08F	166.8	0.184	26.9	7.3	0.7	4.2	3.5	11.7	10.4	(3.6)
Ticker	1203.HK/1203 HK	09F	196.8	0.217	18.0	6.2	0.6	3.4	4.2	11.7	10.1	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): +1.1%, -8.6%, -27.0%  
Actual price changes (1 mth, 3 mth, 12 mth): -11.1%, -27.7%, -13.4%

### Key points:

- China's second largest producer of tinplate, a packaging material for consumer products.
- Vertical integration to help contain costs.
- Capacity expanded 125.0% in FY12/08F
- JV with POSCO, a global steel giant.
- Undervalued - trading at 33.3% discount to our appraised FY12/08F NAV per share.

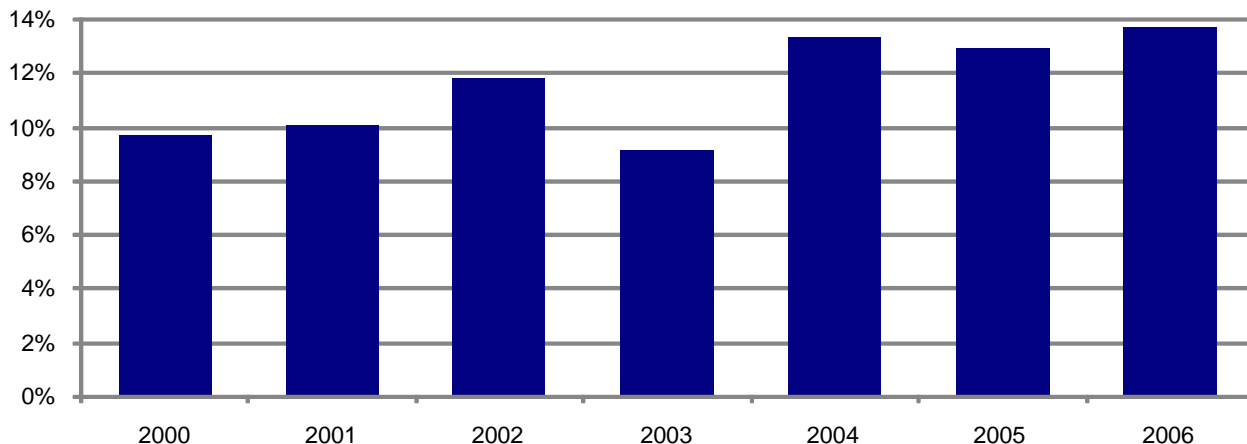
**Overlooked by the market.** China's fast expanding economy, rising affluence and huge population have fuelled a consumption boom over the last few years. China consumption counters, the main focus of investor attention, are trading at substantial premiums to the Hang Seng Index (HSI) and HSCEI index. The HSI and HSCEI are trading at three-year average P/E of 15.4x and 19.0x, respectively, while Hong Kong-listed China consumption plays are trading at an average one-year forward P/E of 40.1x and two-year forward P/E of 32.1x. However, investors have overlooked peripheral products/services providers of the consumption sector who are benefitting from the boom. Among them is Guangnan Holdings, the country's second largest producer of tinplate in terms of capacity (450,000.0 tons), which is a common packaging material for food, beverage and consumer products. The company's is gearing for a period of high earnings growth after its recent capacity expansion, vertical integration and a JV with POSCO, a global steel giant. Its tinplating business is trading at FY12/08F P/E of 6.3x, a 49.6% discount to its peers. Since our NAV-based target price of HK\$2.04 represents an upside potential of 50.0%, we initiate coverage on the group with a BUY call.

**China's increasing affluence.** Between 2002 and 2006, China's GDP increased at a four-year CAGR of 10.3%, making it one of the world's fastest growing economies. In 2007, its economy expanded 11.4%. Personal income per capita increased at a CAGR of 7.4% in 2002-2006, spurring consumption growth and boosting retail sales, 12.2% YoY in the period and 16.8% in 2007.

**Urbanization spurs demand.** China's rapid urbanization is another driver of consumption growth. Between 2002 and 2006, the country's total population increased at a four-year CAGR of 0.6%, while its urban population rose at 3.5%. Euromonitor estimates that China will have 645.3m urban residents by 2011, representing a five-year CAGR of 3.1%. An increase in the number of retail chains, such supermarkets, has made consumer goods more accessible and fuelled demand.

**Consumption - major growth engine.** China's economic growth is fuelled by exports, fixed assets investment and domestic consumption. To curb the country's over expanding domestic fixed assets investment and mounting inflation, the government has introduced a series of measures such as hiking banks' reserve ratios and interest rates. As the economic growth of China's major trade partners such as the US is decelerating due the sub-prime mortgage market meltdown, the country's export growth will slow and domestic consumption will become the major economic growth engine in 2008. The Beijing Olympic Games will also stimulate the domestic market given heavy promotion campaigns launched by consumer product producers.

**Chart 1: China retail sales value growth (%)**

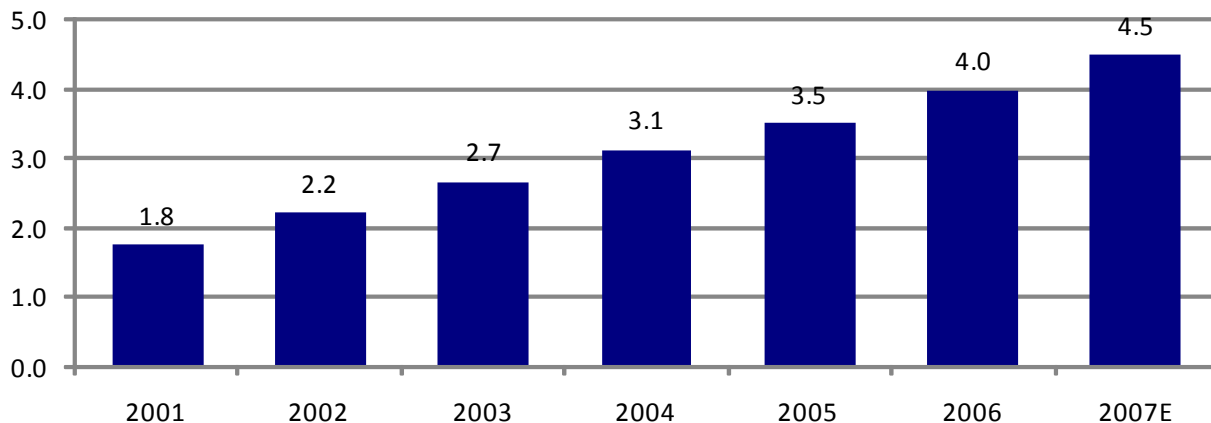


Sources: National Bureau of Statistics of China

**Packaging material sector.** The investment community has overlooked the fact that the packaging/packaging material sector is a direct beneficiary of China’s consumption boom. When a consumer buys a product, he buys the content, the brand (the image created by marketing campaigns) and the package. Thus, an increase in demand for consumer products will boost demand for packaging materials. Packaging materials are like commodities and their makers lack the pricing power of their downstream clients. They are also vulnerable to cost hikes and market changes.

**Broad application.** Tinsplate is used by food and beverage industries in the packaging of meat, fish, fruit and vegetable products, canned beverages, dry-miscellaneous and confectionary products (biscuits, candy, tea leaves, alcoholic drinks) and canned consumer/chemical products (paint, lubricants, sprays and pesticide). According to the China Canned Food Association, China’s canned food production volume increased at a five-year CAGR of 17.7% in 2001-2006 and 12.5% YoY in 2007, to 45.0m tons. According to ACNielsen, in 2004-2006, the sales of carbonated drink and juice products increased at a two-year CAGR of 10.4% and 17.1%, respectively, to 4,451.0m litres and 2,292.0m litres.

**Chart 2: China canned food production (m tonnes)**



Sources: China Canned Food Association

**Capacity expansion.** The company’s tinsplate capacity increased to 200,000t.p.a. from 120,000t.p.a. in FY12/02A-12/06A, representing a CAGR of 13.6% Its tinsplate production volume increased at a four-year CAGR of 11.4%. The expansion led to a drop in the company’s utilization rate to 85.6% in FY12/06A, from 92.6% in FY12/02A. Tinsplate sales revenue increased at a four-year CAGR of 18.3% during the period. After its JV, Zhongyue POSCO (Qinhuangdao) Tinsplate Industrial, commenced operations at the beginning of FY12/08F, the company’s tinsplate production capacity surged 125.0% to 450,000.0 t.p.a. It will further be boosted by 50,000t.p.a. after the upgrade of Guangnan’s flagship tinsplate-manufacturing arm, Zhongshan Zhongyue Tinsplate Industrial. We estimate that by end-FY12/09F, the company’s capacity will reach 500,000.0t.p.a.

**Table 1 : Guangnan's tinplating production capacity**

	05A	06F	07F	08F	09F
Tinplate (tons)	120,000	200,000	200,000	450,000	500,000
Blackplate (tons)	-	-	150,000	150,000	150,000

Source: Company, SBI E2-Capital

**Self-sufficient in blackplate.** Although its tinplate revenue increased at a four-year CAGR of 18.3% in FY12/02A-12/06A, the division's pre-tax profit dropped at four-year CAGR of 2.5% due to higher raw material costs. Blackplate is the major raw material in the production of tinplate and accounts for about 91.0% of the per-ton cost. To secure its supply of blackplate, Guangnan added a 150,000.0t.p.a. capacity at Zhongshan Zhongyue in March 2007. This will generate savings of up to RMB700.0/ton. The company has no plans to sell any blackplate externally.

**Strong partner.** In 2007, the company formed with South Korea-based POSCO a 66:34 JV called Zhongyue POSCO (Qinhuangdao) Tinplate Industrial. About 50.0% of the HK\$468.0m investment came from bank loans and the balance from the two companies, according to their stakes. The 50-year JV is still undergoing trials and will be fully launched by end-1Q 2008. Founded in 1968, POSCO was in 2006 the world's seventh largest steel manufacturer by revenue, according to Fortune Global 500, and the fifth largest steel producer. It is listed and traded in Seoul, New York, London and Tokyo. In FY12/06A, POSCO produced 30.2m tons of crude steel and sold 28.8m tons of steel products. Its revenue and earnings reached US\$27,787.4m and US\$3,563.6m, respectively, in FY12/06A. At end-FY12/06A, POSCO's total and net assets stood at US\$33,493.6m and US\$23,561.9m, respectively. The JV will allow the company to leverage on POSCO's expertise in tinplate production, rich blackplate resources and extensive global sales network.

**Leveraging on partner's expertise.** POSCO sold its production facilities to the JV for HK\$137.3m. The 250,000.0t.p.a. electrolytic tinplate plant includes an electrolytic tinning line, three shearing lines and testing equipment. The plant uses the modified Ferrostan type technology, the most advanced in China so far. The aggregate original cost and net book value of the plant at end-FY12/06A was HK\$400.1m and HK\$136.1m, respectively. POSCO also provided 46 man-month on-site consultation services and 12 man-month training services to the JV at its plant in Korea.

**Developing exports via partner's network.** POSCO has been the company's blackplate supplier and the JV is expected to strengthen their working relationship. Their one-year term framework agreement, starting from Jan 2008 and involving two POSCO subsidiaries, makes POSCO the JV's sole overseas sales agent and allows it to sell at least 35.0% of the JV's tinplate to POSCO. POSCO's network covers 25 cities in the world. The deal will give Guangnan access to POSCO's clients in China.

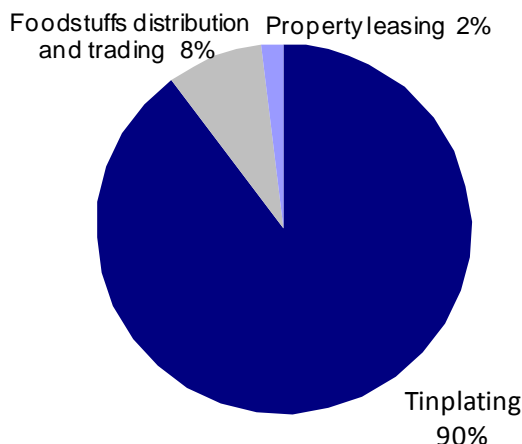
**Market leader.** Currently, China has 10 tinplate manufacturers with a total capacity of 2.9m t.p.a. Guangnan, with its total production capacity of 450,000.0 t.p.a., was the country's second largest tinplate manufacturer in April 2007, after Baosteel. It had more than 1,600 steel printing and steel manufacturing customers and sold its products directly to more than 400 of them. Zhongshan Zhongyue was recognized as the maker of the "Top Brand-name Packaging Product in China" in April 2006.

**Table 2: Top ten tinplate producers in China**

	Capacity (m t.p.a.)
Baosteel	1.00
Guangnan	0.45
Fujian and Jiangsu Tonyi	0.42
Pacific	0.20
Xinda Zhong Steel Sheet	0.20
Sino-Japan Metal	0.15
Hainan Haiwoo	0.15
Xinda Zhong Steel	0.14
Wuhan Steel	0.10
ShanDong FongYang	0.06

Source: Estimated by the company

Chart 3: 1H FY12/07F revenue breakdown



Sources: Company

**Blackplate manufacturing division and POSCO JV.** Due to the steep learning curve of blackplate manufacturing and the plant's low utilization rate (50.0%), we expect the group's blackplate manufacturing arm to report a loss of HK\$6.7m in FY12/07F. The division is the company's cost center rather than a revenue center. Its poor performance will affect the group's COGS. We reckon that the group incurred some pre-opening expenses for the JV, such as consultation and training fees to POSCO and interest expenses on bank loans in FY12/07F. After a year of trials, we expect the plant's efficiency to improve and utilization rate to reach 70.0%, making it profitable from FY12/08F. The JV, officially launched at the beginning of FY12/08F, will start its full-scale production by end-1Q 2008. We prudently assume its utilization rate at 50.0% for FY12/08F and expect a small profit of HK\$6.4m in the year.

**Zhongshan Zhongyue.** The plant should remain the major revenue and earnings contributor, (69.4% of revenue and 61.3% of pre-tax earnings in FY12/07F). We put its gross profit margin at 9.1% in FY12/07F, compared with the group's blended margin of 13.5% in FY12/06F, mainly due to higher raw material costs, which Zhongshan Zhongyue finds hard to contain, as its blackplate production facility has yet to reach its optimal stage. We expect the segment's gross profit margin to improve to 12.5% when the blackplate plant's utilization rate tops 70.0%.

**Foodstuff distribution and trading – upgrade catalyst.** The company was appointed one of Hong Kong's three licensed live pig distributors in July 2007 (with Ng Fung Hong and the Hong Kong Agriculture Special Zone - 香港農業專區有限公司). Ng Fung Hong, a subsidiary of China Resources, is Hong Kong's largest live pig distributor, accounting for 75.0% of total imports. Guangnan Hong, a wholly owned subsidiary of Guangnan accounts for about 15.0% and the Hong Kong Agricultural District for 12.5%. The operating margin of the company's foodstuff distribution and trading division was estimated at 18.8% and 20.0% respectively, for 1H FY12/06A and 1H FY12/07F. Hong Kong imports about 4,000.0-5,000.0 heads of live pigs a day. Assuming the wholesale price of live pigs is HK\$50.0/kg and daily import quantity 280,000.0kg, the potential value of Hong Kong's live-pig import market is about HK\$5.0b per annum, with Guangnan's revenue estimated at HK\$756.0m a year. However, the operating margin of its live pig wholesale business is yet to be determined and the operation's short operating history gives no firm indication of its long-term profitability. Thus, we have not factored it in our model.

**Associate - high corn price to erode Yellow Dragon's margin.** The group's 40.0% owned corn food and feed manufacturer, Yellow Dragon Food Industry, may suffer due to the rising price of corn. In FY12/06A, its turnover increased 15.3% YoY to HK\$1.1b, due to a 4.6% increase in corn starch sales to 403,484.0 tons. However, its net profit declined 0.8% YoY to HK\$50.3m, eroding its contribution to Guangnan by 5.2% YoY to HK\$19.3m. Despite a 6.5% YoY drop in corn starch sales to 188,987.0 tons in 1H FY12/07F, Yellow Dragon still managed to increase its turnover by 12.6% YoY to HK\$604.1m thanks, in our view, to higher ASP, and net profit 13.7% to HK\$34.0m, due to margin enhancement, possibly because it used corn purchased before the price hike. Yellow Dragon's contribution rose 14.5% to HK\$13.4m in 1H FY12/07F. As the corn price keeps rising, we expect its gross margin to shrink.

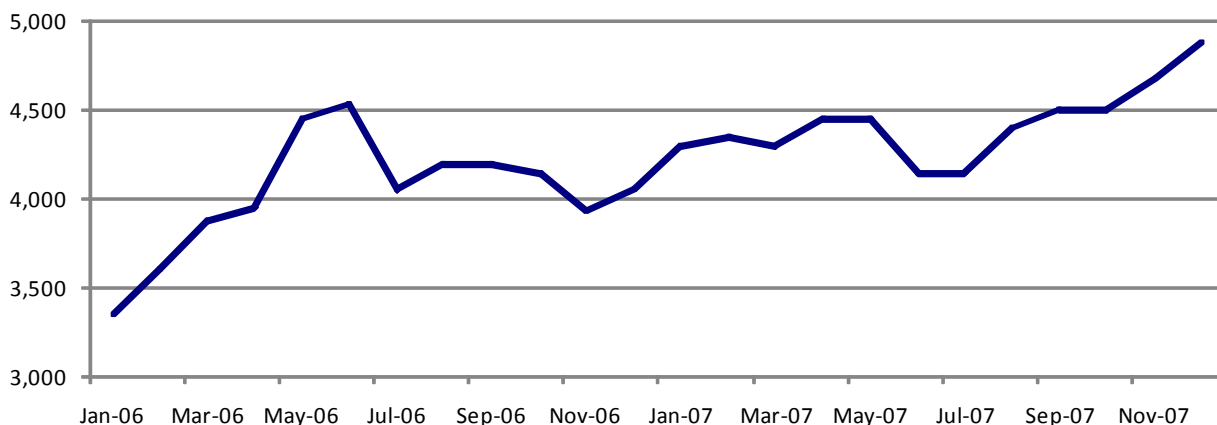
**Leasing division.** The group owns an industrial complex in Zhongshan and an office unit at Shui On Centre, Wan Chai, Hong Kong. In FY12/06F and 1H FY12/07F, the two properties generated HK\$25.5m and HK\$13.3m, in rental revenue, respectively. The operating profit of the leasing division was HK\$16.6m and HK\$9.1m, respectively, for FY12/06A and 1H FY12/07F. We expect the leasing division to continue generating stable income to the group.

**Gross margin forecast.** We expect the company's blended margin, at 13.4% in FY12/06A, to narrow to 7.8% in FY12/07F and 8.5% in FY12/08F due to higher depreciation charges and high raw material costs.

**Higher depreciation charges.** Zhongshan Zhongyue has been operating for years and its annual depreciation charge is low at HK\$16.7m. We estimate that the launch of the company's blackplate plant and JV boosted its depreciation charges 197.5% YoY in FY12/07F and 85.2% YoY in FY12/08F. Given the 10-year useful life of the HK\$364.5m plant, its depreciation charge is estimated at HK\$36.5m per annum, or 7.7% of the total cost per ton of blackplate. The JV's depreciation charge is estimated at HK\$46.8m per annum. Better economies of scale and higher utilization rates at both plants should lower the proportion of depreciation in the total fixed cost.

**Surge in raw material costs.** The cost of 3.0mm hot roll sheet, the major raw material of blackplate and in turn of tinplate, represents 72.0-75.0% of the total cost per ton of blackplate. One ton of blackplate requires about 1.1 tons of hot roll sheet. The hot roll sheet price in Guangzhou rose 20.5% YoY between Dec 2006 and Dec 2007, which eroded the gross profit margin of tinplate. The company is expected to keep the price of blackplate at RMB700.0 per ton by sourcing the material internally. One ton of tinplate requires 0.002 ton of tin. We estimate that the price of tin surged more than 139.4% between 2006 and 2007. Tin accounts for about 5.2% of the total cost per ton of tinplate, and any increase in tin costs will put pressure on the group's gross profit margin.

**Chart 4: Monthly average 3.0mm hot rolled sheet price in Guangzhou (RMB/tonne)**



Sources: Bloomberg

**Upbeat FY12/08F outlook.** We expect the group's total turnover to rise 73.2% YoY to HK\$2,115.0m in FY12/07F and revenue from the tinplating division to increase 78.2% YoY, mainly due to an 18.9% YoY rise in the ASP of tinplate. Nevertheless, due to the margin squeeze and higher financing costs (debt financing for the POSCO JV), we expect the group's net profit to increase only 7.9% YoY to HK\$130.9m. In FY12/08F, we expect the group's turnover to rise 72.1% YoY to HK\$3,639.4m, due to: 1) 9.0% increase in tinplate's ASP; 2) POSCO JV's contribution. Thus, we project the group's tinplate sales will increase 75.0% YoY to 315,000.0 tons, assuming the JV's utilization rate at 50.0%. We expect the group's blended margin to expand 0.7ppt on the blackplate plant's 70.0% utilization rate. We expect the blackplate plant to satisfy 47.6% of the group's needs. We estimate that the group's effective tax rate will increase by 3.5ppt to 18.5%, as the POSCO JV will be subject to a corporate tax rate of 25.0%. The group's FY12/08F net profit should reach HK\$166.8m, up 27.4% YoY.

**Re-rating deserved.** We expect the group's net profit to increase at a three-year CAGR between of 27.7% between FY12/07F and FY12/10F. We adopt the sum-of-parts method to arrive at our NAV-based target price of HK\$2.04, implying an upside potential of 50.0%. Appraised at 6.3x of FY12/08F earnings, the group's tinplating division is trading at a steep discount to the global packaging material sector's average two-year forward P/E of 12.5x. By adopting a 20.0% discount (due to Guangnan's relatively small market capitalization) to the sector average, we arrive at the target FY12/08F P/E of 10.0x, or HK\$1.63 per share. For the valuation of Guangnan's 40.0% stake in Yellow Dragon, we adopt a 20.0% holding company discount to Hong Kong-listed corn refiners' average two-year forward P/E of 10.4x, translating into a target P/E of 8.3x, or HK\$0.19 per share. For the valuation of its investment property, we adopt the book value into our valuation. Major Hong Kong-listed China consumption plays are trading at one-year forward P/E of 40.1x and two-year forward P/E of 32.1x. Their high valuations imply that investors are bullish on the outlook of China's consumption sector. Guangnan, as one of the beneficiaries, deserves a re-rating, in our view. We initiate coverage on the group with a BUY call.

**Table 3: NAV valuation**

Division	Target valuation	Description
Tinplating (HK\$m)	1,474.2	Traget FY12/08F P/E : 20.0% of the peer group average P/E of 12.5x
Yellow Dragon (HK\$m)	174.8	Traget FY12/08F P/E : 20.0% of the peer group average P/E of 10.4x
Investment properties (HK\$m)	253.1	Book value
Net debt (HK\$m)	(53.6)	
NAV (HK\$m)	1,848.5	
NAV per share (HK\$)	2.04	

Source: SBI E2-Capital

**Table 4: Valuation of packaging materials producers**

Company name	Ticker	Year end	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
AMVIG Holdings	2300 HK	Dec	HKD	1,181.8	23.3	15.0
Ton Yi Industrial	9907 TT	Dec	TWD	588.2	10.9	9.7
Taiwan Hon Chuan	9939 TT	Dec	TWD	149.2	11.1	9.9
Youlchon Chemical	008730 KS	Dec	KRW	175.4	7.4	5.9
Fuji Seal International	7864 JP	Mar	JPY	566.4	14.7	13.2
Fujimori Kogyo	7917 JP	Mar	JPY	131.5	13.4	7.3
FP Corp	7947 JP	Dec	JPY	667.9	15.0	13.0
Ball Corp	BLL US	Dec	USD	4,176.7	11.4	10.2
Crown Holdings	CCK US	Dec	USD	3,592.0	16.6	13.3
Greif	GEF US	Oct	USD	2,757.8	15.7	12.9
Owens-Illinois	OI US	Dec	USD	6,585.8	18.0	13.3
Silgan Holdings	SLGN US	Dec	USD	1,762.2	14.2	12.7
<i>Average</i>					<b>15.7</b>	<b>12.5</b>

Source: SBI E2-Capital

**Table 5: Valuation of HK-listed corn refiners**

Company name	Ticker	Year end	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
Global Bio-Chem Tech	809 HK	Dec	HKD	721.7	8.9	7.3
Fufeng Group	546 HK	Dec	HKD	129.7	3.0	2.8
Xiwang Sugar	2088 HK	Dec	HKD	338.9	8.3	6.9
China Agri-Industries	606 HK	Dec	HKD	2,227.7	15.1	12.4
<i>Average</i>					<b>12.6</b>	<b>10.4</b>

Source: SBI E2-Capital

**Table 6: Valuation of HK-listed China consumption plays**

Company name	Ticker	Year end	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
Tingyi Cayman	322 HK	Dec	HKD	8,259.8	41.1	33.6
Kingway Brewery	124 HK	Dec	HKD	448.1	55.4	68.3
Tsingtao Brewery	168 HK	Dec	HKD	5,514.7	52.8	39.1
China Green	904 HK	Apr	HKD	1,011.6	17.3	14.4
China Foods	506 HK	Dec	HKD	1,830.4	30.3	25.1
China Mengniu Dairy	2319 HK	Dec	HKD	3,853.8	29.0	22.6
<i>Average</i>					<b>40.1</b>	<b>32.1</b>

Source: SBI E2-Capital

**Risk factors.** 1) Threat from steelmakers – i) Baosteel, China’s largest tinplate producer is also the major supplier of hot roll sheet. Other steel conglomerates in China also produce tinplate. Technically, steel producers can drive independent tinplate producers out of the market by increasing their price of hot roll sheet and blackplate; ii) if the profit margin of hot roll is high enough, steel producers will reduce the supply of blackplate and sell more hot roll, squeezing the margin of tinplate producers; 2) higher raw material costs; 3) increase in other production input costs; 4) low utilization rates at Guangnan’s blackplate plant and POSCO JV; 5) leverage increase. We expect the company to move from net cash (HK\$54.5m in FY12/06A) to a net debt position of HK\$53.8m by end-FY12/07F.

**Corporate profile.** Guangnan group was established in 1982 and listed on the HKEx in Dec 1994. It is about 59.3% owned by GDH Ltd, which is a 100.0% subsidiary of Guangdong Yue Gang Investment Holdings Co. Ltd,

a window company of the Guangdong Provincial Government. In 2000, the group restructured disposing of its non-core assets and reducing debt. The tinplating business was injected into the group in 2001. To remove the accumulated loss in its reserve arising from the restructuring, the group reorganized its share capital in FY12/05F and resumed dividend payouts in FY12/06F.

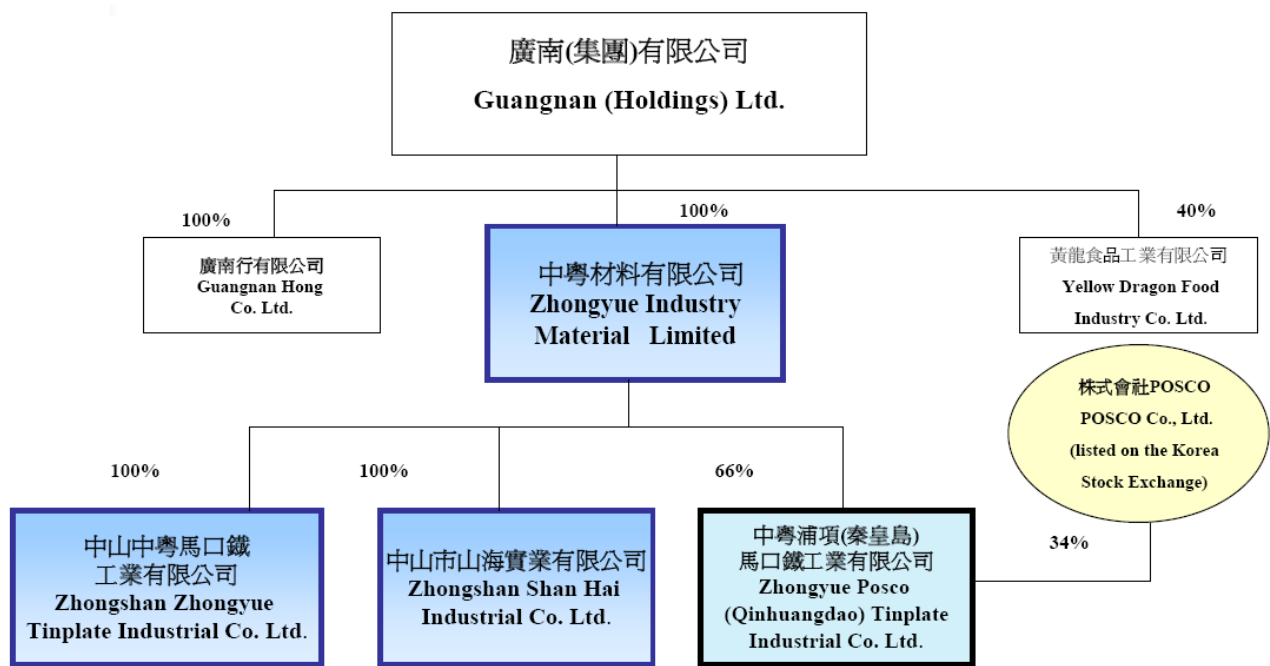
**What is tinfoil?** Guangnan produces two types of tinfoil (steel sheet covered in a thin layer of tin), electrolytic tin-coated steel plate and electrolytic chromium-coated steel plate. Electrolytic tinfoil is mainly used in the packaging of canned food and beverages, confectionary products and chemicals. Electrolytic chromium-coated plate is more anti-vulcanized and paint coating adhesive than electrolytic tinfoil and is used to package canned food that contains sulfide (fish and fruit) and in steel plate for beverage cans. It is a better suited for the production of turn caps and crown closure for beverage cans.

**Chart 5: Corporate structure 1**



Sources: Company data

**Chart 6: Corporate structure 2**



Sources: Company data

P & L (HK\$m)	05A	06A	07F	08F	09F
<b>Year to Dec</b>					
<b>Turnover</b>	<b>921.2</b>	<b>1,221.3</b>	<b>2,115.0</b>	<b>3,639.4</b>	<b>4,650.8</b>
% chg	35.1	32.6	73.2	72.1	27.8
Gross profit	122.9	163.5	165.8	307.5	386.0
EBITDA	82.6	111.6	184.9	306.3	378.0
Depre./amort.	(9.9)	(18.5)	(54.9)	(101.7)	(101.7)
EBIT	72.8	93.1	130.0	204.5	276.3
Net int. income/(exp.)	3.5	0.5	(21.7)	(16.9)	(13.3)
Exceptionals	83.9	37.5	16.2	-	-
Associates	20.3	19.3	23.5	21.0	21.2
Jointly-controlled entit.	-	-	-	-	-
<b>Pre-tax profit</b>	<b>180.5</b>	<b>150.3</b>	<b>147.9</b>	<b>208.6</b>	<b>284.3</b>
Tax	(0.7)	(23.5)	(22.1)	(38.5)	(73.5)
Minority interests	(4.0)	(5.5)	5.1	(3.3)	(13.9)
<b>Net profit</b>	<b>175.8</b>	<b>121.3</b>	<b>130.9</b>	<b>166.8</b>	<b>196.8</b>
% chg	19.9	(31.0)	7.9	27.4	18.0
Dividends	(13.5)	(31.6)	(31.1)	(43.4)	(51.2)
Retained earnings	162.2	89.8	99.8	123.4	145.7
EPS (HK\$) - Basic	0.195	0.135	0.145	0.184	0.217
EPS (HK\$) - F.D.	0.195	0.135	0.145	0.184	0.217
DPS (HK\$)	0.015	0.035	0.034	0.048	0.057
No. sh.s o/s (m) - W.A.	901.6	901.6	901.6	905.3	905.3
No. sh.s o/s (m) - Y.E.	901.6	901.6	905.3	905.3	905.3
No. sh.s o/s (m) - F.D.	901.6	901.6	905.3	905.3	905.3
<b>Margins (%)</b>					
Gross	13.3	13.4	7.8	8.5	8.3
EBITDA	9.0	9.1	8.7	8.4	8.1
EBIT	7.9	7.6	6.1	5.6	5.9
Pre-tax	19.6	12.3	7.0	5.7	6.1
Net	19.1	9.9	6.2	4.6	4.2
<b>Balance Sheet (HK\$m)</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
<b>Year to Dec</b>					
Fixed assets	434.4	805.8	1,218.9	1,132.2	1,045.4
Intangible assets	-	-	-	-	-
Other LT assets	176.0	182.4	205.9	226.9	248.2
Cash	96.9	157.7	32.4	159.4	458.9
Accounts receivable	292.0	274.7	338.4	382.1	372.1
Other receivables	-	-	-	-	-
Inventories	236.3	115.5	311.9	333.2	341.2
Due from related co.s	-	-	-	-	-
Other current assets	3.1	3.2	3.2	3.2	3.2
<b>Total assets</b>	<b>1,238.6</b>	<b>1,539.3</b>	<b>2,110.6</b>	<b>2,237.0</b>	<b>2,468.9</b>
Accounts payable	(200.6)	(306.4)	(389.9)	(383.2)	(426.5)
Other payable	-	-	-	-	-
Tax payable	(19.6)	(18.8)	(25.4)	(37.0)	(59.0)
Due to related co.s	-	-	(200.0)	-	-
ST debts	(27.0)	(81.6)	(48.6)	(175.4)	-
Other current liab.	-	-	-	-	-
LT debts	-	-	-	-	-
Other LT liabilities	(12.2)	(21.7)	(37.6)	(37.6)	(37.6)
<b>Total liabilities</b>	<b>(259.4)</b>	<b>(428.4)</b>	<b>(701.5)</b>	<b>(633.1)</b>	<b>(523.1)</b>
Share capital	450.8	450.8	452.0	452.0	452.0
Reserves	499.1	622.5	882.0	1,072.6	1,401.2
<b>Shareholders' funds</b>	<b>949.9</b>	<b>1,073.3</b>	<b>1,334.0</b>	<b>1,524.5</b>	<b>1,853.2</b>
Minority interest	29.3	37.6	75.2	79.3	92.6
<b>Total</b>	<b>979.2</b>	<b>1,110.9</b>	<b>1,409.1</b>	<b>1,603.8</b>	<b>1,945.8</b>
Capital employed	1,006.2	1,192.5	1,457.7	1,779.2	1,945.8
Net (debt)/cash	57.7	54.5	(53.8)	(53.6)	421.3
<b>Cash Flow (HK\$m)</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
<b>Year to Dec</b>					
EBIT	72.8	93.1	130.0	204.5	276.3
Depre./amort.	9.9	18.5	54.9	101.7	101.7
Net int. paid	(3.5)	(0.5)	21.7	16.9	13.3
Tax paid	6.4	(15.5)	(15.5)	(27.0)	(51.4)
Dividends received	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
<b>Gross cashflow</b>	<b>85.3</b>	<b>95.4</b>	<b>191.0</b>	<b>296.0</b>	<b>339.7</b>
Chgs. in working cap.	(248.3)	122.7	(176.6)	(71.7)	45.4
<b>Operating cashflow</b>	<b>(162.9)</b>	<b>218.1</b>	<b>14.3</b>	<b>224.3</b>	<b>385.1</b>
Capex	(89.2)	(225.8)	(308.9)	(30.0)	(30.0)
<b>Free cashflow</b>	<b>(252.1)</b>	<b>(7.7)</b>	<b>(294.5)</b>	<b>194.3</b>	<b>355.1</b>
Dividends paid	(0.5)	(27.0)	(36.1)	(31.6)	(46.7)
Net distribution to MI	-	-	-	(0.8)	(3.5)
Investments	-	-	-	-	-
Disposals	0.4	6.4	-	-	-
New shares	-	-	-	-	-
Others	16.4	25.1	222.3	(161.5)	170.0
<b>Net cashflow</b>	<b>(235.7)</b>	<b>(3.2)</b>	<b>(108.3)</b>	<b>0.2</b>	<b>474.9</b>
Net (debt)/cash - Beg.	293.4	57.7	54.5	(53.8)	(53.6)
Net (debt)/cash - End.	57.7	54.5	(53.8)	(53.6)	421.3
<b>Interim Results (HK\$m)</b>	<b>06A</b>	<b>07A</b>			
<b>Six months to Jun</b>					
<b>Turnover</b>	<b>622.8</b>	<b>688.7</b>			
% chg	55.8	10.6			
Profit from operations	55.3	59.1			
Interest expenses	(1.4)	(4.1)			
Associates	11.8	13.5			
Jointly-controlled entit.	-	-			
<b>Pre-tax profit</b>	<b>71.4</b>	<b>121.3</b>			
Tax	(10.4)	(3.4)			
Minority interests	(2.4)	0.3			
<b>Net profit</b>	<b>58.6</b>	<b>118.2</b>			
% chg	(50.0)	101.6			
EPS (HK\$) - Basic	0.065	0.131			
DPS (HK\$)	0.015	0.020			
<b>Shareholding Structure</b>					
			<b>Shares o/s (m)</b>	<b>%</b>	
Guangdong Yue Gang			536.4	59.3	
Public			368.9	40.7	
<b>Total</b>			<b>905.3</b>	<b>100.0</b>	
<b>Background</b>					
Established in 1982, Guangnan Group was listed on the mainboard of HKEX in December 1994. It is 59.5%-owned by Guangdong Yue Gang Investment Holdings Co Ltd., which is wholly-owned window company of the Guangdong Provincial Government. Guangnan Group is engaged in the manufacturing and sales of tinplate, as well as distribution and trading of live and fresh foodstuffs. The group's 40.0%-owned associate, Yellow Dragon Food Industry Co., Ltd. is engaged in the manufacturing and sales of cornstarch.					
<b>Key Ratios</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
Net gearing (%)	Cash	Cash	(4.3)	(3.6)	Cash
Net ROE (%)	18.5	12.0	10.9	11.7	11.7
EBIT ROCE (%)	7.2	8.5	9.8	12.6	14.8
Dividend payout (%)	7.7	26.0	23.7	26.0	26.0
Effective tax rate (%)	0.4	15.6	15.0	18.5	25.9
Net interest coverage (x)	na	na	6.0	12.1	20.8
A/R turnover (days)	115.7	84.7	52.9	36.1	29.6
A/P turnover (days)	79.5	75.8	60.1	38.8	31.8
Stock turnover (days)	108.0	60.7	40.0	35.3	28.9



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