

## China Kingstone

### Third quarter company update

to summarize...

- Financial review for the 3Q 12/11A
- Higher value added - marble slab sales
- Secured major sales contract
- Third quarter operation performance review

**Financial review for the 3Q 12/11A.** China Kingstone (Kingstone) released its 3Q FY12/11A financial results on 20 Oct. Turnover increased 59% QoQ to RMB152.1m while net profit was down 46% QoQ to RMB23.6m. Gross profit margin reduced 49.3pcp QoQ to 37.9% with net profit margin decreased 30.1pcp QoQ to 15.5%. For the nine months ended 30 September 2011, the total turnover was RMB256.6m whereas net profit was RMB36.1m. Overall gross profit margin and net profit margin were 57.7% and 14.1% respectively.

**Table 1. 3Q FY12/11A results**

6 months to June	Turnover (RMB'm)	Gross Profit (RMB'm)	Gross Margin (%)
3Q FY12/11A	152.1	57.7	38
2Q FY12/11A	95.6	83.4	87
QoQ	59%	(31%)	(49.3)pcp

Source: Company data

**Higher value added - marble slab sales.** Turnover increased 59% QoQ to RMB152.1m for 3Q FY12/11A was largely due to increased sales volume of high quality marble slabs. Production volume however was adversely affected by heavy rainfall and other weather-related issues, decreasing 14% QoQ to 7,294m<sup>3</sup>. Marble slab contributes roughly 2.0x higher turnover value than direct sales of marble block per the same m<sup>3</sup>. However, changes in business products mix have negatively affected on the profit margin given the added processing involved with the marble slabs.

**Secured major sales contract.** Kingstone entered into a selling agreement with two major real estate development companies namely 'Shanhua Real Estate' & 'Zhengding Real Property' to provide beige marble, granite and limestone for their various construction projects for the total consideration of RMB750m over 2 years. These two customers are well-known and well-established real estate developers in Inner Mongolia. The contracted sales amount represented 2.9x of the total revenue for the reporting period from Jan to Sep and commenced since third quarter.

**Third quarter operation performance review.** As mentioned in our previous reports, Kingstone mining productivity was adversely affected by weather-related issue during Jul and Aug 2011. Marble block mining reduced 14% QoQ to 7,294m<sup>3</sup> for the 3Q FY12/11A, while marble processing for direct sales, slab processing and stock were 0m<sup>3</sup>, 4,336m<sup>3</sup> and 3,015m<sup>3</sup> respectively. Total marble slab processing increased 82% QoQ to 156,026m<sup>2</sup>, while the processing volume for pure beige, mixed beige and other were 84,438m<sup>2</sup>, 71,588m<sup>2</sup> and 0m<sup>2</sup> respectively. The reduction in mining volume led to higher cost of production per unit, unit cost of production increased 50% QoQ to RMB228/m<sup>3</sup>. We expect these operation metrics to improve in 4Q FY12/11A due to the absence of unfavourable weather factors and ramped up of production capacity.

<b>Ticker</b>	<b>1380 HK</b>
<b>Rating</b>	<b>Not Rated</b>
Price (HK\$)	1.35
Target Price (HK\$)	n.a
12m Price Range (HK\$)	0.85-2.4
Market cap. (US\$m)	312.8
Daily t/o (US\$m)	0.6
Free float (%)	32

#### Financial summary

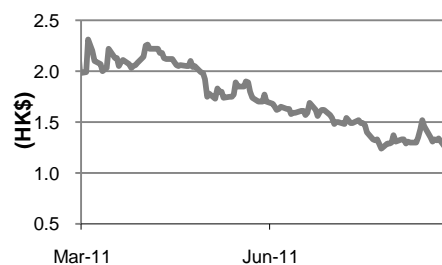
Year to Dec	08A	09A	10A
Turnover(RMBm)	0.00	0.00	6.6
Net Profit(RMBm)	(1.7)	(5.4)	(21.12)
EPS (RMB)	n.a	n.a	n.a
P/E (x)	n.a	n.a	n.a
P/B (x)	n.a	52.5	42.4
EV/EBITDA (x)	n.a	n.a	n.a
Yield (%)	n.a	n.a	n.a
ROE (%)	n.a	n.a	n.a
ROCE (%)	n.a	n.a	n.a
N. Gear. (%)	0.00	0.81	cash

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (RMB)	0.123	0.305	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(0.4)	(7.9)	n.a
Actual price changes (%)	10.9	(18.1)	n.a



Source: Bloomberg

#### Research Team

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Table. Production Details	1Q 11A	2Q11A	3Q11A
Marble block:			
Quarterly overall ASP (RMB/m <sup>3</sup> )	4,696	10,773	n.a
Total extraction during the period (m <sup>3</sup> )	850	8,521	7,294
Total Sales volume(m <sup>3</sup> )	1,458	6,156	n.a
Marble slabs:			
Marble blocks processed (m <sup>3</sup> )	157	2,320	4,336
Total Marble slabs output (m <sup>2</sup> )	5,744	85,716	79,924
Quarterly marble pure beige slab ASP(RMB/m <sup>2</sup> )	865	865	865
Quarterly marble mix beige slab ASP(RMB/m <sup>2</sup> )	568	568	568
Quarterly marble other slab ASP(RMB/m <sup>2</sup> )	538	540	n.a

Source: Company data

**Our View and valuation.** We had expected Kingstone's 3Q results to be unexciting given the operation impacts suffered from unfavorable weather condition in Sichuan during the summer season. However, despite the lower mining volumes, overall mine production capacities ramped up in line with our expectations. Security of major sales contract with two real estate developers further improves revenue visibility. In our view, we would expect a noticeable improvement in sales, unit production cash cost and production volume in 4Q FY12/11F than previous quarters. The counter is currently trading at 8.1x FY12/11F and 3.3x FY12/12F on consensus.

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