

Haitian Int'l: Powering ahead

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Recommendation: Not Rated

China Industrials

Price	HK\$5.66	Yield (12/06A)	na
12 mth range	HK\$3.29- 6.58	ROE (12/06A)	23.6%
Market cap.	US\$1,199.1m	Net gearing (12/06A)	Net Cash
No. shares o/s	1,596.0m	Net debt/sh. (12/06A)	Net Cash
Daily t/o, 3 mth	US\$1.6m	BV/sh. (12/06A)	HK\$1.48
Free float %	20%	Consensus EPS	
Major shareholder	Premium Capital Management – 75%	- 12/07F	HK\$0.374
Ticker	1882.HK/ 1882 HK	- 12/08F	HK\$0.360

Key points:

- World's largest producer of PIMMs by volume and fifth largest by value in 2005.
- Newly launched energy-saving J5 series to drive earnings.
- Full electric PIMMs to become a new growth driver.
- Good prospects amid China's booming automobile and consumer markets.
- Net cash at RMB110.0m - interim dividend payout ratio of 50.0% proposed.
- Trading at 15.1x FY12/07F P/E and 12.5x FY12/08F P/E, on a consensus basis.

Company background. Haitian International (HI) designs, manufactures and sells plastic injection moulding machines (PIMM), which are used across many industries (automotive, construction materials, packaging). At present, the company's sales to the automobile and home appliance sectors represent about 50.0% of total sales. According to the China Plastic Machine Industry Association, HI was the world's largest producer of PIMMs by volume and fifth largest by value in 2005. Its market share in China, in volume terms, increased to 32.0% in 2006 from 28.6% in 2005.

Table 1: Sale breakdown by products

(RMBm)	1H06	%	1H07	%	YoY (%)
< 200 tonnage	622.3	40.8	728.1	38.5	17.0
201-500 tonnage	476.6	31.2	579.7	30.7	21.6
>500 tonnage	402.4	26.4	550.3	29.1	36.8
Related parts	23.9	1.6	31.1	1.6	30.1
Total	1,566.6		1,889.2		20.6

Source: Company data

J5 series to drive growth. In 4Q06, HI launched its J5 series, new energy-saving products equipped with a servo motor dynamical control system which allows better precision and 40.0-80.0% energy savings compared with the traditional hydraulic system. The J5 series will help users save about RMB50, 000 in electricity costs per year, offsetting its higher selling price (c. 30.0% more than the traditional products). The newly launched J5 PIMMs were well received by the market with sales reaching RMB167.0m in 1H FY12/07A, or 8.9% of the total, and becoming a key growth driver.

Full electric PIMMs. After acquiring in Aug 2006 German-based Zhafir Plastics for the consideration of HK\$68.7m to gain access to advanced new technologies and strengthen its R&D in hydroelectric and full electric PIMMs, HI launched its full electric PIMMs in 4Q06. The move allowed it to enter a new and attractive market segment, previously dominated by Japanese and Korean manufacturers. HI is China's first domestic player to

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mass-produce full electric PIMMs with cost advantages. Given its first mover advantage and high penetration rate, we believe this new product will further boost the company's growth.

Table 2: Interim results

Six months to Jun	Turnover (RMBm)	Gross profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Tax rate (%)	Net profit (RMBm)	EPS (RMB)	DPS (RMB)
1H FY12/06	1,566.6	441.7	28.9	310.3	7.7	286.8	0.18	-
1H FY12/07	1,889.1	549.2	29.1	257.9	7.5	227.0	0.19	0.09
YoY (%)	20.6	24.3		20.3		26.3	5.3	-

Source: Company data

Favourable environment. China's surging demand for consumer products is boosting demand for PIMMs. According to the China Plastic Machine Industry Association, the PIMM sector grew 14.4% a year in 2005 and 2006 and the rate is expected to reach 15.0% in 2007. Expecting the booming car and logistic sectors to fuel demand for large tonnage PIMMs, HI plans to focus on such products going forward. It has also started selling J5 products to overseas. The company plans to build two factories in addition to its Wuxi plant, launched in 4Q06, which increased its annual production capacity to 22,000 PIMMs from 18,000. We believe its dominant position in the segments will allow the company to capitalize on the industry's bright prospects.

Corporate governance. HI was listed on the Hong Kong Stock Exchange at end-2006 and appointed Pricewaterhouse Coopers as its auditor. The company's major shareholder, Premium Capital Management holds 75.0% and Atlantis Investment 5.0%. Public shareholders account for 20.0%.

Valuation. HI has c.RMB110.0m in net cash. It proposed an interim DPS of RMB0.090, representing a payout ratio of c. 50.0% and plans to maintain this level going forward. The counter is currently trading at 15.1x FY12/07F P/E and 12.5x FY12/08F P/E, on a consensus basis, against the industry's average P/E of 9.6x for FY12/07F and 8.2x for FY12/08F.

Table 3: Peer comparison

Company name	Ticker	Year End	Market Cap (US\$m)	P/E (x)		ROA (%)	ROE (%)
				Current	1-yr forward		
Haitian International	1882 HK	Dec	1,199.1	15.1	12.5	12.2	23.6
Cheng Hsong	57 HK	Mar	369.8	7.9	7.0	12.2	16.0
L.K Technology	558 HK	July	114.3	6.8	5.5	4.9	9.8
Fong's Ind.	641 HK	Dec	357.7	9.3	8.0	14.1	27.5
Jingwei Textile	350 HK	Dec	613.0	9.9	7.5	3.0	6.8
Lung Kee	255 HK	Dec	283.7	8.8	8.4	7.0	12.6
Average				9.6	8.2		

Source: Bloomberg and SBI E2-Capital

Table 4: P&L

Year end Dec (RMBm)	05A	06A	1H06A	1H07A
Sales	2,577.6	3,175.7	1,566.6	1,889.1
Cost of sales	(1,868.2)	(2,282.1)	(1,125.0)	(1,338.0)
Gross profit	709.4	893.7	441.7	549.2
Selling and marketing expenses	(202.7)	(285.2)	(126.3)	(156.6)
General and administrative expenses	(149.5)	(167.4)	(86.1)	(90.4)
Other income	17.8	25.2	24.3	17.4
Other gain/(loss) - net	(20.8)	3.9	8.0	(23.7)
Operating profit	354.1	470.1	261.6	295.8
Finance income/(costs) - net	(2.5)	13.5	(3.7)	14.6
Share of results of an associate	(0.2)	0.1	0.1	(0.1)
Before tax profit	351.4	483.7	258.0	310.3
Income tax expenses	(22.1)	(21.9)	(19.7)	(23.3)
Profit for the year	329.3	461.8	238.2	287.0
Minority Interest	(22.4)	(10.9)	11.2	(0.2)
Net profit	306.9	450.9	238.2	286.8

Source: Company data