

Prosperity International

Cashed up and ready to roll

to summarize...

- Completed disposal of cement business to TCC Int'l yielding HK\$3.8b cash
- Released HK\$0.37 attributable cash per share from the disposal
- Focusing on iron ore trading immediately after the disposal
- Has begun to re-invest proceeds on Guangzhou residential project
- Further acquisitions are reasonably expected given cash position and track record

Major business focus after disposal. Prosperity International was an established company known for building materials related businesses. Its main focus now includes: 1) Trading of clinker and cement; 2) Trading of Iron ore; 3) Granite (花崗石) material production. A major business disposed in Apr 2010 was the clinker and cement manufacturing business. While for FY03/10A, turnover from continuing operations (i.e. excluding clinker and cement manufacturing business) was HK\$2,560m. Without clinker and cement manufacturing, Prosperity's largest revenue segment is the trading of iron ore, which is conducted through 54%-owned AIM-listed entity Prosperity Minerals (PMHL LN). The segment accounted for 80.3% of the company's continuing operations' revenue in FY3/10A, while the segment profit was HK\$44.4m for the period, equivalent to 65.6% of HK\$67.6m segment profit for the continuing business. Table 1 shows actual figures and percentage contributions of various continuing segments to revenue and operating profit for FY03/10A.

Table 1. Revenue and segment profit from continuing operations for FY03/10A

HK\$m	Trading of iron ore	Trading of clinker and cement	Mining and processing of granite
Revenue	2,056.2	495.2	8.3
As % of all continuing operations	80.3%	19.3%	0.3%
Segment profit	44.4	25.9	(2.7)
As % of all continuing operations	65.6%	38.3%	-3.9%

Source: SBI E2-Capital

Major asset disposal in Q2 2010. On 30 Apr, PMHL, the aforesaid subsidiary, closed the sale of its clinker manufacturing business to TCC Int'l (1136 HK, HK\$2.65). At the time of transaction, the entity in question: a) by then had 10.5m tonnes attributable annual production capacity of cement and clinker; b) had attributable annual production capacity of is expected to increase to over 17.3 million tonnes of cement and clinker by the end of the fiscal year 2012. Total consideration of the disposal was HK\$3.8b.

At end-Mar 2010, Prosperity had HK\$404m bank and cash balances. Bank borrowings totalled HK\$362m for the same period. Net cash position was below HK\$50m. Therefore, the HK\$3.8b disposal of the cement business had significantly boosted Prosperity's cash hoard.

Ticker	0803 HK
Rating	Not Rated
Price (HK\$)	0.46
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.37-0.72
Market cap. (US\$m)	328.2
Daily t/o (US\$m)	0.8
Free float (%)	13.5

Financial summary (of continuing business)

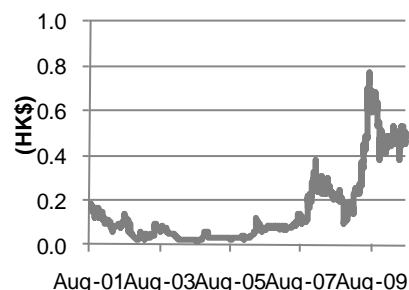
Year to Mar	09A	10A
Turnover (RMBm)	786.5	2,559.7
Net Profit (RMBm)	23.1	(44.6)
EPS (RMB)	0.012	(0.006)
P/E (x)	n.a.	n.a.
P/B (x)	n.a.	n.a.
EV/EBITDA (x)	n.a.	n.a.
Yield (%)	n.a.	n.a.
ROE (%)	n.a.	n.a.
ROCE (%)	n.a.	n.a.
N. Gear. (%)	net cash	net cash

Source: company data / SBI E2 Capital

	09F	10F	11F
Consensus EPS (RMB)	-	-	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(13.6)	(11.5)	(25.9)
Actual price changes (%)	(6.1)	(6.1)	(22.0)



Source: Bloomberg

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A cash rich company positioned for actions. Prosperity International's current share price is around HK\$0.46 and market capitalization is around HK\$2.6b. Considering that PMHL is a 54%-owned subsidiary, the company has HK\$2.1b attributable cash from the transaction. On a per share basis, attributable cash per share added immediately after the disposal was HK\$0.37 per share, which is equivalent to around 80% of current share price of HK\$0.46. Though the cash is held at a subsidiary level, the majority controlling stake of PMHL, and some overlap in the management team gives the HK-listco significant control on the use of the cash hoard. Therefore, in effect the disposal gave the company the control of HK\$0.68 per share, which is much higher than current share price. We can reasonably expect the company to invest the cash and generate return to shareholders.

Table 2. Cash per share added immediately after the transaction

Proceeds from the transaction	HK\$3,800m
% Attributable to Prosperity shareholders	54.3%
Attributable cash from transaction	HK\$2,063m
Number of shares in circulation	5,578m
Attributable cash per share added	HK\$0.37 per share
Cash per share added at discretion	HK\$0.68 per share

Source: SBI E2-Capital

Actions undertaking following the disposal. The company is already re-investing its proceeds. In May 2010, the company announced that it will acquire, from its largest shareholder Mr Wong Ben Koon, a Guangzhou-based development project at an estimated consideration of HK\$873m. The project has 2 major assets: 1) 100% owns and operates approximately 11,472sqm office and commercial space in known as SilverBay Plaza in Guangzhou City; 2) 55% owns 2 land parcels situated at Datang Street Section with an aggregate site area of 13,814sqm. A development project, known as Dongfang Wende Plaza, is currently under construction on the site. The Dongfang Wende Plaza development comprises a 4-floor shopping arcade with 4 basement floors and on top of which will be constructed 3 buildings. It is expected to have an aggregate floor area of approximately 164,307sqm. Based on a preliminary consideration of HK\$873m, the company still has near HK\$3,000m for further corporate actions. On a per cash basis, attributable cash is around HK\$0.28 per share while cash-at-discretion is around HK\$0.52 per share. In addition to potential acquisitions, share buyback would also possibly increase shareholders' value, in our view.

Table 3. Cash per share added from the transaction, after acquisition of Guangzhou project (approximation)

Proceeds from the transaction	HK\$3,800m
Assume all-cash acquisition	(HK\$873m)
After acquisition cash proceeds	HK\$2,927m
% Attributable to Prosperity shareholders	54.3%
Attributable cash from transaction	HK\$1,589m
Number of shares in circulation	5,578m
Attributable cash per share added	HK\$0.28 per share
Cash per share added at discretion	HK\$0.52 per share

Source: SBI E2-Capital

View and valuation. The counter is currently trading at 1.38x historical P/E by end of Mar 2010 prior to the completion of disposal. However, taking into account of the disposal, an estimated historical P/B of 1.11x suggests inherent value. This is particular the case when we expect management to put the money on hand to work to drive value.

Risks. Although we identify the potential opportunities of further corporate actions, downside risk include 1) the company cannot find good projects or target of acquisitions; 2) acquisition prices may not be favourable to the company; 3) it may takes time for acquisitions or investments to reveal its value; 4) cash proceeds from the subsidiary cannot be used freely by the listco in case of adverse events.

Table 4. Profit and loss summary

HK\$m	FY03/09A	FY03/10A
Continuing operations		
Turnover	2,559.7	786.5
COGS	(2,404.7)	(703.1)
Gross profit	155.0	83.4
Other income	31.4	7.1
Selling and distribution costs	(59.5)	(36.3)
Administrative expenses	(106.3)	(28.4)
Profit from operations	20.7	25.9
Finance costs	(5.9)	(1.9)
Share of Profit less loss of associates	19.8	0.0
Fair value loss on derivatives	(77.1)	0.0
(Loss) / profit before tax	(42.5)	23.9
Income tax expense	(2.1)	(0.9)
(Loss) / profit from continuing operations	(44.6)	23.1
Discounted operations		
Profit for the year	142.1	0.0
Net profit attributable to shareholders	57.4	24.6

Source: Company data

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