

Coal starts contributing

Not Rated

3Q net profit up. DeTeam's 3Q FY12/08A turnover was up 67.9% YoY and 5.8% QoQ at HK\$83.7m. Net profit rose 46.2% YoY and 22.6% QoQ to HK\$12.0m, lower than the 63.9% YoY growth in 2Q and 103.2% YoY in 1Q due to extremely low FY12/07 bases for these quarters. The gross margin improved to 22.6%, from 19.6% in 3Q FY12/07A and 2Q FY12/08A.

Woven bags - key driver. The woven bag segment remains the company's key driver, generating HK\$76.3m in revenue in 3Q, up 53.0% YoY thanks to: 1) production capacity increase; 2) higher percentage of large volume woven bags in the product mix; 3) higher plant utilization rate. The company has the ability to produce woven bags of up to 1,000kg carried weight. The ASP for top-end bags is RMB85/unit, compared with RMB3.0/unit for a low-end 25kg bags. The company's large woven bag plant has a capacity of 250,000 units of 1,000kg bags, 150,000 units of 800kg bags and 200,000 units of 500kg bags.

Woven bag margins to improve. The main raw material for woven bags is PP and PE, which are petrochemical based and subject to oil price fluctuations. With oil prices down from around US\$140/barrel to below US\$60/barrel, we expect some gross margin expansion in 4Q FY12/08F.

Contribution from coal projects. DeTeam continues to gradually build out its coal business. Coal sales in 3Q almost tripled to HK\$7.5m from HK\$2.6m in 2Q. The segment became profitable in 3Q, recording an EBIT of HK\$0.7m. In Jan-Sep, the segment recorded an EBIT of HK\$3.1m for its open pit coal distribution business. However, this was offset by a HK\$3.0m EBIT loss in pre-operating and exaction expenses for its underground coal mine. The company has a 51.0%-owned open pit mine and 56.2%-owned underground mine, both with Yuanyuan. The underground mine, the company said, is currently studying the feasibility of increasing its annual production capacity from 1.2m tons to 2.0m tons.

Valuation. DeTeam is currently trading at 3.2x FY12/07A P/E and 1.6x 1H FY12/08A book value.

China Industrials

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Kennedy Tsang

(852) 2533 3713

kennedytsang@sbie2capital.com

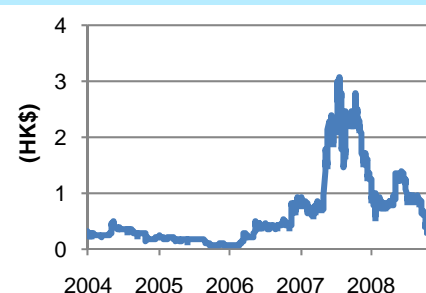
Stock data

Price	HK\$0.30
Target price	n/a
12 mth range	HK\$0.78-1.83
Market cap.	US\$587.3m
Daily t/o, 3 mth	US\$2.8m
Free float %	38.7%
Ticker	8112.HK/8112 HK

Financial summary

Year to Dec	05A	06A	07A
Turnover (HK\$m)	7.5	66.8	198.2
Net profit (HK\$m)	(8.9)	10.1	34.4
EPS (HK\$)	(0.044)	0.038	0.100
EPS Δ %	na	na	162.1
P/E (x)	na	8.4	3.2
P/B (x)	na	4.5	0.4
EV/EBITDA (x)	(2.8)	25.5	10.0
Yield (%)	na	na	na
ROE (%)	294.7	147.6	18.9
ROCE (%)	0.4	3.5	na
N. Gear. (%)	Cash	19.1	Cash

Price Chart



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Table 1: 3Q FY12/08A results summary

3 months to Sep.	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
3Q FY08	83.7	18.9	22.6	14.3	25.0	11.2	0.0	-
3Q FY07	49.9	9.8	19.6	8.7	25.0	8.2	0.0	-
YoY (%)	67.9	93.7	-	63.9	-	37.2	37.6	

Source: Company data

Table 2: P&L

Year to Dec	05A	06A	07A
Turnover	7.5	66.8	198.2
Cost of sales	(7.0)	(53.7)	(157.2)
Gross profit	0.5	13.1	41.0
Other net (loss)/income	0.1	0.1	4.1
Income from excess of fair value over cost of acquisition of a subsidiary	-	4.0	-
Distribution costs	(3.3)	-	-
Administrative expenses	(5.3)	(5.1)	(12.1)
Impairment of invest in an associate	(0.6)	-	-
Other operation expenses	-	-	(1.7)
Operating profit	(8.6)	12.1	31.3
Financial costs	(0.2)	(0.5)	(0.6)
Share of loss an associate	(0.1)	-	-
Loss on disposals of subsidiaries	-	(0.1)	-
Pre-tax profit	(8.9)	11.5	30.7
Tax	-	-	1.4
Profit/(loss) for the year from discontinued operation	-	(1.4)	3.1
Minority interests	-	-	(0.8)
Net profit	(8.9)	10.1	34.4

Source: Company data