

Chiho-Tiande

Copper recycler resuming profitability

to summarize...

- Resumed profitability in 1H this year despite slight retreat in metal prices
- Results largely in line with industry dynamics in terms of world copper price
- CHTD may benefit from copper price support upon rebound of China economy
- Recognized operator with increasing ties with Sims Metal Management
- Expansion plan into Yantai City on track to start processing operation in 2013

Resumed profitability in 1H this year despite slight retreat in metal prices.

Chiho-Tiande (CHTD) engages in metal recycling, foundry and metal scrap wholesale businesses. Copper scrap recycling is the single largest sub-segment, which generally made up 55%+ revenue of the company. As of 1H 2012, CHTD recognized HK\$3,583m, of which copper scrap recycling contributed HK\$2,103m. As metal prices were down from recent tops, profitability in 2H 2011 and 1H 2012 of mid-stream recyclers CHTD was negatively affected. While there was inventory write-down in 2H 2011A and CHTD recognized zero gross profit and net loss in the period, performance in 1H 2012A improved on half-yearly basis. In the latest interim, CHTD achieved HK\$3,583m sales with 3.7% and 1.3% gross and net margin.

Table 1. CHTD 1H FY12/12A key statistics

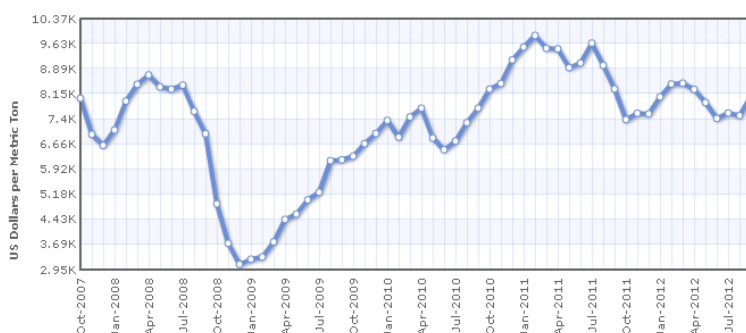
HK\$m	1H 2011A	2H 2011A	1H 2012A	YoY
Revenue	4,525	5,291	3,583	(20.8%)
Copper scrap recycling	2,602	3,110	2,103	(19.2%)
Copper rod and wire	442	275	105	(76.2%)
Steel scrap recycling	826	1,057	625	(24.3%)
Other recycling, foundry and wholesales	655	849	750	+14.5%
Core COGS	(4,072)	(5,193)	(3,451)	-
Inventory write-down	-	(98)	-	-
Reported gross profit	453	0	132	(70.8%)

Source: SBI E2-Capital

CHTD may benefit from copper price support upon rebound of China economy.

China represented the world largest importer of copper scrap under HS Code 7404. Based on China Customs data, CHTD was the largest importer of copper based scrap under HS Code 7404 in China in 2009. CHTD performance was largely related to 1) level of copper price; 2) rate of change of copper price in the period. With copper price slightly stabilized at relative high level in 1H this year, CHTD profitability was in line with world copper price trend, in our view. With potential rebound of China economy, CHTD may benefit from support in copper prices.

Illustration 1. Copper, grade A cathode price



Source: World Bank, SBI E2-Capital

Ticker	0976 HK
Rating	Not Rated
Price (HK\$)	3.81
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	3.52 - 4.70
Market cap. (US\$m)	508.2
Daily t/o (US\$m)	0.32
Free float (%)	25.2

Financial summary

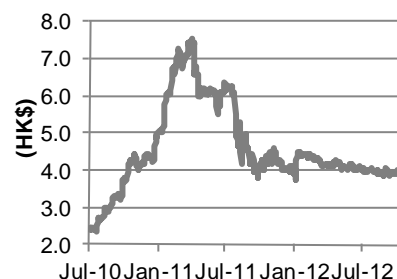
Year to Dec	09A	10A	11A
Turnover (HK\$m)	2,339.2	5,931.6	9,815.5
Net Profit (HK\$m)	419.7	352.8	152.1
EPS (HK\$)	0.56	0.41	0.15
P/E (x)	9.4	11.2	25.9
P/B (x)	-	2.4	1.9
EV/EBITDA (x)	7.1	8.9	18.0
Yield (%)	-	2.4	1.0
ROE (%)	100.4	21.4	7.4
ROCE (%)	29.3	13.5	4.6
N. Gear. (%)	114.6	53.3	94.0

Source: SBI E2

	12F	13F	14F
Consensus EPS (HK\$)	0.18	0.28	0.24
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(4.7)	(11.6)	(19.6)
Actual price changes (%)	(2.1)	(6.2)	(13.6)



Source: Bloomberg

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Recognized operator with increasing ties with Sims Metal Management. Processing facilities of CHTD are recognized as a Designated Processing Units by the Ministry of Environmental Protection of the PRC (MEP). Only Designated Processing Units approved by the MEP are allowed to be engaged in the recycling of imported hardware and electrical appliance scrap, electric wire and cable scrap and motor scrap. In Jan 2012, Sims Metal Management (SGM AU), being the largest metal recycler in the world by market capitalization, deepens relation with CHTD from major suppliers to become CHTD first strategic investor. Since Sims became a strategic investor CHTD, the management indicated that synergistic benefit of the tie-up was emerging. CHTD increases in purchase volume with Sims. At the same time, CHTD have also started selling scrap materials through Sims to its customers in the Asia region. Sims Metal Management is the world's largest listed metal recycler with approximately 260 facilities and 5,700 employees globally. Sims' core businesses are metal recycling and recycling solutions. Sims Metal Management generated approximately 90% of its revenue from operations in North America, the United Kingdom, Continental Europe, New Zealand and Asia.

Sims investment in CHTD in Jan. In January of this year, Delco and HWH, the two major shareholders of CHTD, sold about 104.2m shares and 62.5m shares, respectively, to Sims Metal Management at HK\$4.50 each. Following the transaction, Sims owns 166.7m shares of CHTD, representing 16% of its issued share capital. Meanwhile, Delco and HWH's stakes in the company dropped to 22.1% and 30%, respectively. Following the completion of the S&P transaction, Delco granted Sims an option to acquire additional 20.8m shares at HK\$6.0 from Delco. In conjunction with the share sale, CHTD raised HK\$815.8m via the issue of a 3-year, 4% CB with exercise price of HK\$6.00 to Sims (HK\$315.6m or 52.6m shares after conversation), Delco (HK\$312.6m, or 52.1m shares after conversation) and HWH (HK\$187.6m, or 31.3m shares after conversation). As part of the CB issue, CHTD also issued warrants with exercise price of HK\$6.0 each to Sims (4.9m shares), Delco (4.8m shares) and HWH (2.9m shares). Delco and HWH have transferred their warrants to Sims without any consideration. Should all the aforementioned CBs, options and warrants converted, Sims will own 21.2% of CHTD, while HWH, Delco, Green Elite (50:50 investment holding company which holds 60m group shares owned by Delco and HWH) and Chairman Fang (also the ultimate beneficiary of HWH) stakes in the company will be diluted to about 22%, 29%, 5% and 0.7%, respectively.

Expansion plan into Yantai City on track to start processing operation in 2013. As of the end of 2011, CHTD's processing capacity of mixed metal scrap and ferrous scrap was 615,000 tones and 275,000 tones respectively. In 2011, CHTD entered into the investment agreement with Yantai Committee for the purpose of developing and operating an integrated processing facility for recycling, processing and sales of imported mixed metal scrap in the Development Zone in Yantai City. CHTD established a project company for the development of the metal scrap recycling project with annual capacity of 500,000 tones per annum with a registered capital of US\$40m as part of US\$100m total investment. Yantai Committee is a governmental authority established by the government of Municipal People's Government of Shandong Province of the PRC which is responsible for managing and promoting businesses and investment activities in the Yantai Economy Technology Development Zone of the Yantai City of the Shandong Province. With regard to the investment to establish the new processing facilities, CHTD is at the planning stage of the development and expects the construction of facilities to begin before the end of this year. The management anticipates that processing operations will begin in stages starting in 2013.

Table 2. Peers Valuation Table

Company	Ticker	Fiscal year	Mkt Cap (HK\$m)	P/E (x) 1-year fwd	P/E (x) 2-year fwd	Hist P/B	ROE
CHIHU-TIANDE	976 HK Equity	12/2011	516.5	21.4	13.8	2.0	(5.2)
HENAN YUGUANG-A	600531 CH Equity	12/2011	818.0	39.3	26.0	2.8	(1.8)
ANHUI JING-A	002171 CH Equity	12/2011	490.8	n.a.	n.a.	4.8	(5.1)

Source: Bloomberg

Table 3. Profit and loss summary

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Revenue	2,339.2	5,931.6	9,815.5	3,583.2
Cost of sales	(1,784.8)	(5,361.6)	(9,362.9)	(3,451.2)
Gross profit	554.4	569.9	452.6	132.1
Other income and expenses	0.1	(13.3)	22.3	5.5
Other gains and losses	98.2	55.0	2.1	63.2
Distribution and selling expenses	(1.8)	(12.8)	(31.3)	(4.4)
General administrative expenses	(34.9)	(69.7)	(143.5)	(64.6)
EBIT	616.0	529.1	302.2	131.8
Finance Costs	(28.8)	(47.1)	(97.8)	(83.9)
EBT	587.2	482.0	204.5	47.9
Income tax expenses	(167.5)	(129.5)	(88.2)	(19.9)
Profit for the year	419.7	352.6	116.3	28.0
Net profit	419.7	352.8	152.1	45.0
Reported EPS (HK\$)	0.56	0.41	0.15	0.04

Source: SBI E2-Capital

Table 4. Selected balance sheet items

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Non-current assets	175.4	247.8	570.7	715.3
Property, plant and equipment	135.3	203.7	320.0	314.2
Pre-paid lease payments	36.0	36.4	186.0	349.9
Other non-current assets	4.2	7.6	64.7	51.2
Current assets	1,676.3	3,333.6	4,743.9	5,431.2
Inventories	1,167.4	2,303.4	3,219.3	3,987.0
Trade and other receivables	188.8	411.6	813.4	843.8
Pledged bank deposits	241.4	351.7	127.0	244.5
Restricted bank deposits	5.5	-	71.2	108.4
Cash and cash equivalents	69.4	251.3	392.8	184.3
Other current assets	3.7	15.5	120.3	63.2
Non-current liability	244.9	25.7	30.4	841.1
CB	-	-	-	685.2
Embedded derivative components of CB	-	-	-	113.7
Warrants	-	-	-	10.7
Other non-current liability	244.9	25.7	30.4	31.4
Current liabilities	1,188.7	1,909.0	3,220.1	3,266.3
Trade and other payables	136.6	188.2	519.6	545.7
Bills payables	114.1	149.2	-	-
Interest-bearing bank loans	799.0	1,496.7	2,651.7	2,688.0
Other current liabilities	139.0	74.9	48.9	32.7
Total Equity	418.1	1,646.7	2,064.0	2,039.1
Shareholders' equity	418.1	1,611.8	2,046.6	2,048.0
Non-controlling interests	-	34.9	17.4	(8.9)

Source: SBI E2-Capital

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