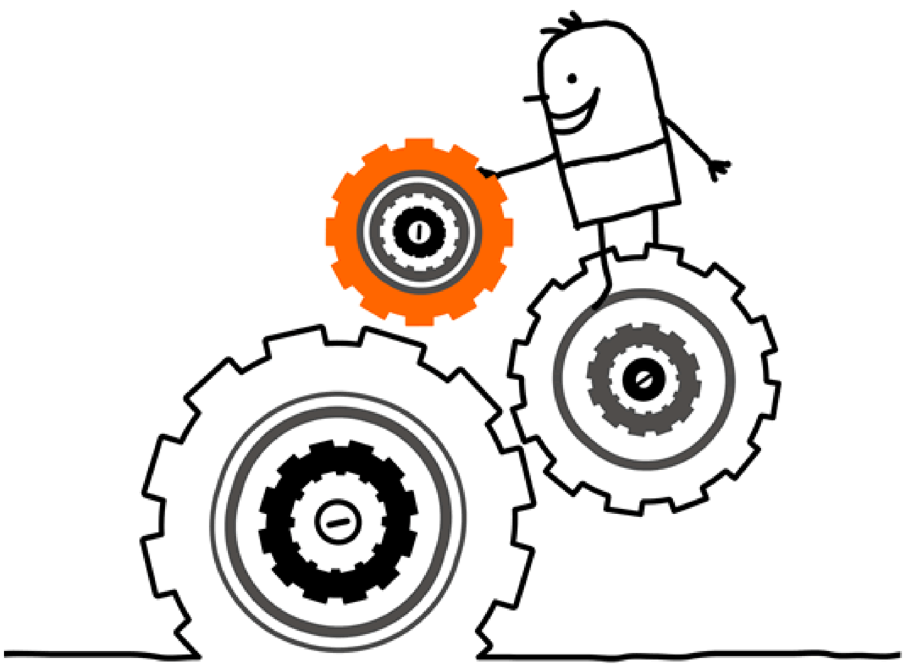

cartoon from babypips.com

SMALL CAP CHARM

Thesis and Ideas for 2Q 13

SBI E2-Capital

Disclaimer

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-Capital stock ratings:

STRONG BUY **:** absolute upside of >50% over the next three months

BUY **:** absolute upside of >10% over the next six months

HOLD **:** absolute return of -10% to +10% over the next six months

SELL **:** absolute downside of >10% over the next six months

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Financial Services Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

New section in 2Q 2013

- From Q2 this year, in addition to longer-term coverage and watch list, we provide trading ideas for the quarter
- In Q1, we see a number of stocks and industry retracing after making highs. We recommend stocks that:
  - a) Riding on an industry uptrend / rebound
  - b) Event-driven rebound
- While we do not recommend a target price for the trading ideas, we leave the current price for tracking purpose

Research Team

Our research portfolio in 1Q

Company	Ticker						
Core coverage		Target (HK$)	Latest update	Initiation	Abs. price return (%)	MSCI return (%)	Abs. up-to-date price return (%)
Comtec Solar	0712 HK	1.40	26-Mar-13	8-Jun-10	4.9%	9.5%	-11.1%
China Fiber Optic	3777 HK	1.80	2-Apr-13	24-Sep-12	-21.0%	9.5%	-12.8%
Tongda Group	0698 HK	0.633	18-Mar-13	29-Feb-12	30.8%	9.5%	78.9%
Chu Kong Pipe	1938 HK	5.49	2-Apr-13	3-Sep-12	-7.3%	9.5%	40.7%
Watch list							
Leoch International	0842 HK	-	-	-	-14.9%	-	-
CW Group	1322 HK	-	-	-	51.1%	-	-
GA Pack	0468 HK	-	-	-	24.1%	-	-
IRC	1029 HK	-	-	-	-23.9%	-	-
Labixiaoxin Snacks	1262 HK	-	-	-	-26.3%	-	-
Sino Oil and Gas	0702 HK	-	-	-	1.2%	-	-
Shengli	1080 HK	-	-	-	23.9%	-	-

*Note: * return calculated based on closing price on 31 Dec and 28 Mar, non-annualized   ** MSCI Hong Kong Small Cap Index*

Updated portfolio in 2Q

Company	Ticker	Target (HK$)	Latest update	Initiation	Analyst
Core coverage					
China Fiber Optic	3777 HK	1.80	2 Apr 2013	24 Sep 2012	Kevin Mak
Tongda Group	0698 HK	0.633	18 Mar 2013	29 Feb 2012	Kevin Mak
Chu Kong Pipe	1938 HK	5.49	2 Apr 2013	03 Sep 2012	Isaac Lau
Watch list					
Comtec Solar	0712 HK	1.40	26 Mar 2013	08 Jun 2010	Kevin Mak
Leoch Int’l	0842 HK	1.03	5 Feb 2013	06 Jan 2012	Kevin Mak
Flying Financial	8030 HK	-	-	-	Kevin Mak
IRC	1029 HK	-	-	-	Isaac Lau

Trading ideas for 2Q

Company	Ticker	Price (HK$)	Quick rationale
Industry rebound / uptrend			
Chu Kong Pipe	1938 HK	HK$3.79	- At the beginning of cyclical uptrend - National pipeline tender expects to be reward in Q2 and Q3
Anhui Cement	0914 HK	HK$25.75	- Urbanization in China remains as main theme in 2013F - Seasonal price and margin low in Q1; set to rebound in Q2
Event-driven rebound			
China Fiber Optic	3777 HK	HK$1.09	- Retraced on media report questioning company product prices and volume - We view it is an auditable B2B cost-plus model of capital intensive business
Tongda Group	0698 HK	HK$0.51	- Retraced on David Webb comment on put options granted to Templeton - While accusation may hold, we expect no fundamental change on valuation

Note: Price is at of 28 Mar 2013

Core Coverage

China Fiber Optic (3777 HK) (click here...)

Stock statistics	Market cap: US$170.1m (closing price: HK$1.09); daily turnover: US$3.1m
Summary / review	• China Fiber Optic Network System (CFONS) was listed in HK in Jun 2011 at HK$1.20 per share. Through processing soft optical cables and ceramic ferrules, the company offers 100+ models of fiber optic patch cords to communication industry since “Network Access License for Telecommunications Equipment” (电信设备进网许可证) was granted in 2001. Fiber optic patch cords are devices consist of soft optical cables with each of their ends connected to one or more connectors for light signal transmission purpose. • In terms of sales volume, CFONS market share in 2011 was 21.4% in China. By end of 2012, production capacity of fiber optic patch cords was 18m sets a year. For 2012A, revenue was RMB1,494m with 70.5% direct sales to Telecom operators in China. Net profit was RMB272m.
Drivers / catalysts	• According to 12th Five-year-plan, infrastructure investment on IT is targeted at RMB2,000b for 2011A to 2015F. Average investment for the 2013F to 2015F is as much as RMB480b+ each year, up from ~RMB300m in 2012F. In particular, the draft emphasized speeding up construction of backbone network, regional network as well as FTTX applications. On the other hand, MIIT this month indicated that 4G licenses will be granted this year, which would promote 4G base stations construction with extensive fiber optic usage. • Sales increased at limited pace in 2012A due to 5m sets out-sourced volume in 2011A. For 2013F onwards, we expect volume growth to resume at a faster pace. Sales potential for the next 3 years would be 26.2m, 32.1m and 39.3m respectively. On the other hand, we expect sales portion of bundle patch cords to stable. With gradually increase in internal produced soft optical cables, we expect profit margin to stabilize and slightly rebounded from the low made in 2012A.
Our opinions	• Earlier this month, certain media had an investigative coverage on CFONS that questioned its financials and industry leadership position. CFONS later issued a clarification announcement yet the counter fell substantially that day. We understand that CFONS has been under questions partly due to untransparent sales contracts, high pricing, high margin and low labour input. We continue to attributable this to auditable B2B cost-plus model of a capital intensive business. • Base on our forecast for 2013F and 2014F with net profit of RMB380m and RMB484m, CFONS is currently trading at distressed valuation of 2.8x and 2.2x P/E for the 2 years. Our TP at HK$1.80 remains unchanged.

Tongda Group (0698 HK) (click here...)

SBI E2-Capital

Stock statistics	Market cap: US$311.4m (closing price: HK$0.51); daily turnover: US$1.6m
Summary / review	• Tongda is the world largest manufacturer for in-mould lamination (IML) plastic casings with patented technology. Its products are applied in consumer electronics such as handset, notebook and electrical appliances. Major customers include fast-growing domestic brands such as ZTE (0763 HK), Huawei, Lenovo (0992 HK), Haier (1169 HK) and Midea (000527 CH). As of 2012A, Tongda earned HK$3,408m revenue with 21% and 8.8% gross and net margin. • Templeton Strategic Emerging markets Funds acquired a block of 300m shares at HK$0.310 per share last Dec, which represented 6.3% shares of the company. At the same time, Chairman Wang Yanan has an additional derivative interest of 300m shares with effective period from Dec 2015 to Jan 2016, which is a put option granted to Templeton.
Drivers / catalysts	• For 2012A, global handset sales (sell-in) growth slowed to 2.1% YoY increment to 1,590m units, compared to a growth rate of 14.5% in 2011A. As for Chinese vendors, a double-digit growth rate was maintained at 16.5%. For Tongda, as it provided IML plastic casings to major Chinese vendors, an overall volume growth for Chinese vendors was still encouraging. • On overall basis, management also expects to see noticeable margin improvement with 1) strong 3Cs demand that enables Tongda to exercise certain selections of higher margin orders; 2) weaker yen that lower costs of Japanese components input that made up considerable COGS; 3) a shift towards smartphone with slightly higher profit margin. We adjust our sales forecast slightly upwards with and considerably raise gross margin projections. Under our assumption, handset and notebook segments are to realize 25% gross margin, while electrical appliances segment is to pick up in 2013F and gross margin to stay between 20%-22.5% in next 1-3 years.
Our opinions	• In 2013F, Tongda is to focus on laser direct structuring (LDS), which could be essential in 4G Era. According to the management, LDS is a fast developing technology originated in German and largely applied by Korean brand names. We believe Tongda to continue leveraging from its strong technical background in the fast growing electronic market in China. • We value Tongda with discounted cash flow model at 17.5% discount rate and the new target price is HK$0.633 per share, which represents 7.5x and 5.2x FY12/13F and FY12/14F P/E based on HK$394.6m and HK$587.5m net profit for the respective years.

Chu Kong Pipe (1938 HK) (click here…)

Stock statistics	Market cap: US$492.6m (closing price: HK$3.80); daily turnover: US$2.1m
Summary / review	• Chu Kong Pipe is one of the four approved LSAW suppliers for national pipeline projects with maximum production capacity of 1.3mtpa and is the sole domestic LSAW supplier has the capacity to produce deep sea LSAW steel pipes up to 1,500m depth. • Differentiated from the Chinese competitors, CK pipe's customers are globally diversified with over 600 customers in over 50 regions. Hence, CK pipe is less sensitive to the domestic national pipe CAPEX cycle. • Regardless of the oversea market, 2010 & 2011, i.e. 5th year of the 11 five year plan and 1st year of the 12 five year plan, are the typical national pipe industry 'down-cycle', hence company's domestic sales was adversely impacted; on the contrary, 2013 & 2014 i.e. 3rd & 4th year of 12 five year plan, we expect, the 'peak' season would be the key driver of Chu Kong pipe's earning.
Drivers / catalysts	• Key growth drivers in the next three years would be the acceleration of national pipeline investment under the 12 th five year plan, while arsing demand from domestic offshore project, power tower and other appliances would sustain the long term domestic demand for Chu Kong's products. We expect national pipe contract reward is to be won in 2Q and 3Q, which can be good CK pipe's short run price catalyst. • New capacity has been gradually released. Two new SSAW steel pipe production lines with capacity of 660ktpa were added in 3Q 12A and 1Q 13FA, while LSAW capacity will further increase by 300ktpa to 2.2mtpa by the end of 13F.
Our opinions	• We are bullish on the Chu Kong pipe next 2 years performance. In our view, the strong market sentiment might lead to market re-rating in steel pipe industry. Pipe Chu Pipe is well positioned in the uptrend industry. Chu Kong Pipe will outperform form 2013F to 2015F. • For the 1H, we expect overseas sales to be resumed to above 50% of group sales. Domestic market outlook is positive, but we don't expect to see major national pipe orders to be delivered. • In terms of trading, announcement of major the national pipe projects reward will be a strong catalyst to share price. • We have revised up our target price by 45% to HK$5.49. Our target price implies 12A P/E ratio of 11.5x and 13F P/E ratio of 9.4x.

Watch-list

Comtec Solar (0712 HK)

Stock statistics	Market cap: US$214.0m (closing price: HK$1.28); daily turnover: US$9.2m
Summary / review	• Comtec Solar is a pure-play monocrystalline solar ingot and wafer manufacturer based in China. In 2012, 77.7% turnover was from n-type wafers sales to SunPower (SPWR US) fabrication facilities in Philippines. According to feedback from customer, highest efficiency achieved reached 24%. The company expects to raise n-type sales to Sanyo (6764 JP) possibly in 2H 2013F. • For 2H 2012A, revenue came in at RMB569.4m with reported gross profit of RMB26.6m for the 6 months taken RMB5.1m inventory write-down into account, compared to RMB31.85m for Q3 alone. The management attributed unexpected Q4 break-even in gross profit to sales of p-type wafers with good credit terms and sales of certain amount of polysilicon and ingots that both off-set double digit margin of n-type wafers. • Earlier this month, Suntech defaulted on US$541m bonds and prompted Chinese banks to ask the local court to push its main subsidiary Suntech Wuxi into insolvency. We believe letting Suntech go bankrupt in mid of March during “National People’s Congress” and “Chinese People’s Political Consultative Conference” was itself symbolic. The credit event at such sensitive time may reflect new leadership support tends to be even more selective, in our view. While in medium term it is good for the industry to remove less competitive players, in short-term full-blown solar products ASP rebound is less likely. As such, we review our gross margin projections such that even with n-type wafers, Comtec would not earn margin ~20% until 2015F. • Comtec was trading up to as high as HK$2.19 in early Jan from HK$0.63 in late Jul last year. By end of the year, Comtec was in net cash position of RMB32.0m with RMB56m raised in Dec and further added RMB203.8m equity in Jan this year to survive the consolidation and position for next up-cycle. Though on the right track, our view on Comtec short-term performance becomes less positive. Our target price is slightly adjusted to HK$1.40 from HK$1.48, representing 14.6x and 10.0x P/E on net profit of RMB99.1m and RMB144.4m for FY12/13F and FY12/14F respectively. We downgrade the counter to HOLD for now.

Leoch Int'l (0842 HK)

Stock statistics	Market cap: US$176.4m (closing price: HK$1.03); daily turnover: US$0.74m
Summary / review	• Leoch is principally engaged in the manufacture and development of lead-acid batteries. It has a wide range of products including UPS (Uninterruptible power supply), telecom, consumable products, SLI batteries, renewable energy and motive batteries. Leoch developed moulds for wide range of 1,600+ customized products. • Customers of Leoch include Emerson Electric (EMR US), Eaton Corp (ETN US), BMW, Juguar, US batteries, Black & Decker (SWK US), to name a few. Leoch is one of the largest exporter in sales volume in China. • Upon suspension of Zhaoqing facility last year, the management was reallocating resources to Anhui facility. While previous plan involved employing as much as 7,000 staff in Anhui to catch up production, the management indicated that the company was training existing 5,800 staff is in Anhui at end of 2012. It focused on SLI segment as well as OEM contracts for telecom segment for client such as Fengfan (600482 CH) in 2H. With relatively new facility and staff, we expect Anhui to realize lower volume per staff with lower yield rate and thus higher cost including wastage cost than experienced staff in Jiansu. • For 2012A, revenue increased 3% YoY to RMB3,248m, which was basically in line with our estimations. Gross profit decreased 9% YoY to RMB592m, which was partly the result of reduced per ton profit on depreciation of unutilized capacity. With higher than expected SG&A as well as R&D costs, net profit of Leoch fell 75% YoY to RMB72m, 12% lower than our estimation. As Zhaoqing facility was still under suspension, management should largely improve turnover rate and yield rate of Anhui facility in order to see improvement in overall performance in 2013F. • The counter rebounded to HK$1.60 in Jan this year before retreating to HK$1.03. Base on FY12/12A net profit of RMB72m, Leoch is currently trading at 15.3x P/E. We would meet with the management before making an update shortly. Our previous target price was HK$1.03 with HOLD rating.

Flying Financial (8030 HK)

Stock statistics	Market cap: US$73.3m (closing price: HK$0.56); daily turnover: US$0.01m
Summary / review	• Flying Financial Service (FFS) provides integrated short-term financing services, including pawn loan services and entrusted loan services. In addition, FFS also provides financial consultation services to customers related to Trust. With headquarter in Shenzhen, FFS has operation offices located in Shenzhen and Heyuan in Guangdong Province. According to the Euromonitor Report, FFS operating subsidiary Guangdong Huijin was the second largest pawn loan provider in Guangdong Province in terms of registered capital in 2010. While FFS is already the 2nd largest in Guangdong, the market is fragmented that FFS only accounted for 4.3% registered capital and an estimated 3.3% pawn loan size based on 40% loan-to-value (LTV) assumption in 2010. FFS was listed in HK in May 2012 with HK$0.65 listing price. • FFS provides various financing solutions to customers and charges interest, administration fees and consultation fees. While The Pawning Measures sets caps on interest rate and administration fees, there is no definite ceiling on consultation fee under the relevant PRC laws and regulations. While ranges disclosed for equity rights pawn loan and entrusted loans could be wide, minimum annualized all-in rate for equity rights pawn loan, real estate pawn loan, personal pawn loan and entrusted loan were 26.2%, 33.4%, 35.8% and 25.7%. As far as we understand, in general all-in rate should be 30%+. • By the end of 2012, FFS had net cash of RMB141.4m and a loan book of merely RMB228.9m due to gradual utilization of IPO proceeds in HK dollars. FFS could possibly make good use of surplus cash from 2013F onwards. FFS also has potential to raise debt at controlled cost, in our view. In addition, while 3 founders held 55.02% interest in FFS, we believe equity financing is also possible for longer-term expansion purpose without losing 30% control or even 50% control. • FFS is currently trading at HK$0.54 with market capitalization of HK$551m. With RMB354.2m total equity by the end of FY12/12A, P/B for FFS is 1.25x for FY12/12A taken into CNY/HKD rate. If we take away RMB141.4m net cash, ex-cash P/B was only 0.86x.

IRC (1029 HK)

Stock statistics	Market cap: US$398.7m (closing price: HK$0.89); daily turnover: US$1.2m
Summary / review	• IRC (1029 HK) is an Russian iron ore mining company. Its key assets are located in Far East of Russia at regions namely Amur and EAO. The mine assets are situated relatively close to the North-eastern of the Chinese border. Three key iron ore mine assets are namely, Kuranakh, K&S and Garinskoye, they are all open-pit mines with access to national railway networks. There are three prospective mining projects namely Garinskoye Flanks, Kostenginskoye and Bolshoi Seym to sustain longer term development with total mine life over 50 years. • Secured offtake for future K&S output. IRC has granted an off-take to General Nice for a term of 15 years. The offt-take applies to all of the existing and future iron ore other than the Kuranakh project. Under the agreement, it is optional that IRC can choose either 1) marketing service at service fee 5% marketing commission on the first 65% sales or 2) Seaborne agreement that sales output is guaranteed off-take by investors at price 7% discount to Platts CFR China price. • IRC has met its 2012 output target. Sluggish performance was largely due to weak commodity price during 2012. Spot price has shown a strong rebound since the historical low in Sep 12. Current spot price is trading at around US$145/t, while 13A year to date average spot price was US$151.8/t, substantially higher than 4Q 12A average spot of US$120.6/t. • In our view, the 4Q weak spot price will continue to impact on 1Q 13F IRC operating result, but the reverse in 1Q 13F spot price will reflect in 2Q 13F. We expect IRC will not earn a meaningful profit before K&S project to be commenced production in 1H 14F. We have revised up on our target price by 13% to HK$1.26 on 1) one step toward K&S project commencement and 2) expanded mining capacity. • We have revised up on our target price to HK$1.26 on 1) one step toward K&S project commencement and 2) increased production output.

Thank You!

SBI Research Team
(852) 2533 3700
sbie2research@sbie2capital.com