

03 September 2010

China Sanjiang Fine Chemicals Company Limited (2198.HK)

 VC research (852) 2913 6701
research@vcgroup.com.hk

Listing particulars:

	2198
Issuer	China Sanjiang Fine Chemicals Company Limited
Industry/Sector	Fine Chemicals/Industrial
Listing exchange	Mainboard
Major shareholders	Sure Capital (60.69%) pre-IPO
Total shares outstanding (m)	1010
Issue price (HK\$)	2.38-3.38
Total share offer size (HK\$ m)	600.7-853.1
Total share offer size (m shares)	252.4
Shares offered for placement (m shares)	227
Shares offered for IPO (m shares)	25
Market cap. (HK\$ m)	2403.8-3413.8
Prospective PE FY11 (x)	8
Earnings forecast: FY1H10 (Rmb m)	109
Board lot (share)	1000
IPO open	3-Sep-10
IPO close	8-Sep-10
Expected price determination date	8-Sep-10
Results announcement	15-Sep-10
Cheques refunded	15-Sep-10
Dealing commence	16-Sep-10
Global Coordinator, sponsor	BOCOM Int'l, Daiwa
Bookrunner & Lead manager	BOCOM Int'l, Daiwa
Cornerstone investors	-

Source: Prospectus, Media reports

Company background. China Sanjiang Fine Chemicals Company Limited (Sanjiang) is a Zhejiang base, privately-owned company. Sanjiang was incorporated in the Cayman Island in Jan09. Prior to the establishment of Sanjiang, Mr. Guan established Hangzhou Haoming in Mar08. Hangzhou Haoming commenced its surfactants manufacturing in May08. In order to concentrate resources and efforts on its core business, Hangzhou Sanjiang was set up to acquire from Hangzhou Haoming its ethylene oxide trading and surfactant manufacture and sale businesses in Apr10.

Sanjiang is a manufacturer and supplier of consumer chemicals and their ingredients, namely ethelene oxide and AEO surfactants whicha re the core components for household cleansing and cosmetic products. According to the prospectus, the company is the largest privately-owned manufacturer and supplier of both ethylene oxide and AEO surfactants in China in terms of production volume in 2009. The company is also engaged in the provision of ethylene oxide and surfactants processing services to our customers as well as the production and supply of other chemical products such as liquefied nitrogen, ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

Main products. Ethylene oxide is an ethylene derivatives product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Sanjiang's AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

Market share: According to the prospectus, in terms of market share by production volume, Sanjiang's share in China's ethylene oxide market was approximately 11% in both 2007 and 2008 and increased to approximately 19% in 2009; while its share in China's AEO surfactants market increased from approximately 7% in both 2007 and 2008 to approximately 13% in 2009. Sanjiang's aggregate designed annual production capacities of ethylene oxide and surfactants were approximately 120,000 metric tonnes and 118,000 metric tonnes, respectively, in 2009. The company plans to increase its production capacities in the coming two years – that of ethylene oxide will increase to 180,000 in 2011 and that of surfactants will increase to 218,000 in 2010. The company plans to expand production capacity of ethylene oxide by 100,000 metric tonnes per year, targeting an annual production capacity of 480,000 metric tonnes.

Supply of raw materials. The company manufactures all the ethylene oxide by itself and do not have to source ethylene oxide from external suppliers. For the manufacture of ethylene oxide, Sanjiang sources ethylene from reputable companies in Japan. The company cited that it has established good business relationship with the Japanese suppliers since 2007. Sanjiang commands the largest ethylene storage tank in China, which has a storage capacity of approximately 22,000 cubic metres.

Entry barriers. According to the prospectus, the entry barrier for the ethylene oxide manufacturing industry is high and that potential competitions from new entrants are limited. Ethylene Oxide construction projects with an annual capacity of less than 200,000 metric tonnes are expressly banned by the PRC government. The relatively large initial capital investment provides a high entry barrier for the industry in particular for non-state owned entrants.

Financials

(HKD m)	Dec-07	Dec-08	Dec-09	J-A-10
Turnover	877	953	1286	567
COGs	-667	-728	-929	-455
GP	209.4	224.5	356.3	112.1
Other incomes	20	29	21	5
S&D	-1	-3	-3	-1
Admin expenses	-23	-31	-37	-11
Other expenses	-1	-2	0	0
Finance costs	-34	-37	-33	-6
PBT	170.5	181.3	303.8	99.1
Taxation	-1	-20	-44	-20
Profit for the year	169.7	161.8	260.2	78.7
Attributable to equity holders	147.4	139.1	242.1	78.7
MI	22.3	22.8	18.1	0.0
GPM	24%	24%	28%	20%
NPM	19%	17%	20%	14%

Source:Prospectus

- Raw material costs accounted for 71-81%, and water and electricity 15% of Sanjiang's total cost.
- Due to increases in raw material costs, the company's GPM continued to drop in first four months of 2010 and touched 20.2% in Apr10.
- Ethylene cost has decreased from USD1300/ton at the beginning of the year to USD1000/ton in recent weeks.

Revenue Mix

	Year ended 31 December			Four months ended 30 April	
	2007 RMB million	2008 RMB million	2009 RMB million	2009 RMB million (unaudited)	2010 RMB million
Revenue					
Sale of ethylene oxide	795.2	829.3	925.1	231.7	472.0
Sale of surfactants	30.9	46.8	216.6	67.1	63.1
Processing services	3.4	9.7	66.4	54.2	5.2
Others ^(Note)	47.3	67.0	77.4	15.4	27.2
Total	876.8	952.8	1,285.5	368.4	567.5

Note: Others mainly comprised sale of liquefied nitrogen, ethylene glycol, ethylene, nitrogen, oxygen and argon.

Use of proceeds

~67% for the third and fourth phase construction of production capacities of ethylene oxide with designed annual production capacities of 60,000 metric tonnes and 100,000 metric tonnes, respectively.

~15% for potential acquisitions of existing surfactant manufacturing or related business in the PRC to further strengthen its leading market position in China.

~12% for capital contribution and investment in Sanjiang Haoming.

~6% for construction of ethylene storage tanks with a total storage capacity of approximately 22000 cubic metres.

The remaining balance for funding general working capital.

VC Brokerage's investment recommendations are based on Absolute Total Return, which is the sum of the expected price appreciation and dividend yield. Rating definitions are set forth as follows:

STRONG BUY (>20% total return over the next three months)

BUY (>15% total return over the next 12 months)

HOLD (0-15% total return over the next 12 months)

SELL (negative total return over the next 12 months)

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Disclaimer

This document has been prepared by VC Brokerage Limited ("VC") to provide information about the securities mentioned herein.

It is for distribution only under such circumstances as may be permitted by applicable law.

It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient.

It is published for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments.

No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in this document.

It should not be regarded by the recipients as a substitute for the exercise of their own judgment.

Any prices or levels contained in these pages are indicative and may vary in accordance with changes in market conditions.

Investors are warned that the price of securities may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment.

No liability is accepted whatsoever for any direct, indirect or consequential loss arising from the use of this document.

Any opinions expressed in this document are subject to change without notice. VC is under no obligation to update or keep current the information contained herein.

VC and its affiliates, their directors, officers and employees or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent.

VC and its affiliates may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies.

Employees of VC and its affiliates may serve or have served as officers or directors of the relevant companies.