

China Rare Earth (0769.HK)

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BUY

CURRENT PRICE: HK\$2.075

TARGET PRICE: HK\$2.80

Analyst

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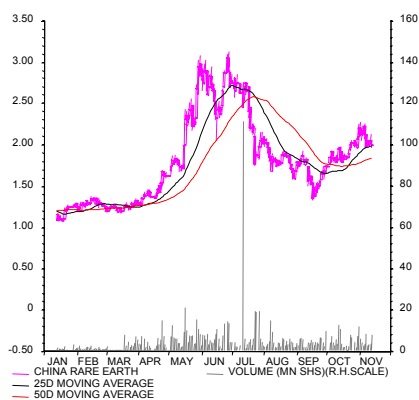
Key Data

| | |
|--------------------------|---------|
| Mkt cap (HK\$m) | 1,690 |
| Mkt cap (US\$m) | 217 |
| Total issued shares (mn) | 814 |
| Av. 3m t/o (HK\$m) | 8.1 |
| EV (HK\$m) | 1,702.0 |
| Est. NAV/share (HK\$) | 1.20 |
| Market Index | HSMLCI |
| (as of 14/11/2001) | 1,170 |

Price Performance relative to HSMLCI (%)

| | | |
|------|-------|--------|
| 1M | 3M | 12M |
| 8.01 | 34.90 | 124.89 |

Chart: Daily Share Price



Source: Datastream

Valuation Statistics

| Y/E Dec | Turnover (HK\$m) | Net Profit (HK\$m) | Ful. Dil. EPS HK\$ | EPS Growth YoY% | EV/EBITDA (x) | PER (x) | DPS (cents) | Yield % |
|---------|---------------------|-----------------------|-----------------------|--------------------|------------------|------------|----------------|------------|
| 1999A | 447.8 | 81.2 | 0.168 | 62.8 | 13.3 | 12.34 | 0.04 | 1.8 |
| 2000A | 558.2 | 140.9 | 0.227 | 34.9 | 10.2 | 9.15 | 0.04 | 2.1 |
| 2001E | 696.2 | 167.9 | 0.219 | -3.6 | 8.9 | 9.49 | 0.05 | 2.3 |
| 2002E | 857.8 | 200.2 | 0.239 | 9.2 | 6.4 | 8.69 | 0.05 | 2.4 |
| 2003E | 977.6 | 228.6 | 0.272 | 13.9 | 5.6 | 7.63 | 0.06 | 2.7 |

Source: ICEA estimates

Investment Highlights

- Overall operational statistics are in line with our expectations.
- No change in our profit projections.
- Reiterate our **BUY** recommendation for its dominant position in the rare earth industry, in which it commands 15% market share of the high-purity rare earth products in the world.
- Based on 12.8x FY02 PER of Hang Seng Mainland China Composite Index, the Company's share deserves to trade at 12x on FY02 earnings, representing a 35% upside from current price level.

Key Points

- **Operating in full capacity** The Company's FY01 full-year production target: rare earth 6,000 tonnes, refractory material 50,000 tonnes.
- **Management perceives refractory material prices to stabilise** Average refractory material price remains stable at HK\$ 5,000 per tonne.
- **Rare earth product prices** for 2 major products fell out of 18 products, which in line with our expectations. We have assumed an average 5% price cut to HK\$ 81,000 per tonne.
- **Expect 2H performance to outshine 1H's** Overall, management expects 2HFY01 to outperform 1HFY01's results (1H's profit: HK\$78.6mn, up 38% YoY).
- **Net cash position** We estimate China Rare Earth currently has net cash of HK\$300mn, or \$0.37/share, which should be sufficient to satisfy its capex requirements of around HK\$200mn.

Future Plans

- Capacity expansion for refractory materials to increase from 50,000 to 80,000 tonnes in FY02.
- Development of downstream value-added products - rare earth metals.

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