

# WAIT TO BUY

## KEY DATA

<b>CURRENT PRICE</b>	<b>HK\$1.77</b>
<b>TARGET PRICE</b>	<b>HK\$2.00</b>
Mkt. Cap. (HK\$mn)	1,443
Mkt. Cap. (US\$mn)	185
Total Issued Share (mn)	815
Avg. 3mths t/o (HK\$mn)	43.2
EV (HK\$mn)	1,443
Est. NAV/Share (HK\$)	1.16
Market Index	HSMLCI
as of (5/6/2002)	1,201.7

## SHAREHOLDINGS STRUCTURE

YY Holdings Ltd	51%
Free Float	49%

Source: HSBC Net TraderCards

## China Rare Earth (0769.HK)

Share price of the Company fell by as much as 20% amid worries about the potential impacts due to a regulatory reform in the China rare earth industry.

While it is yet to confirm details of the new policy, hence the sequential impacts on the Company, we would like to illustrate our thoughts as follows:

### The reform

- **The PRC Government aims at controlling the volatility of the rare earth prices through the reform.** In terms of supply, China is the largest supplier of rare earth materials, accounting for 80% of global supply. However, in terms of pricing, the Government has not been able to maintain market order, as many of the small players fail to compete in quality and hence dump their products to overseas markets, driving down the prices of rare earth materials.
- **The Government also has an intention to centralise the exploration of rare earth resources in China.** The reform leads to the establishment of two groups, by region, the Southern and the Northern, which will head the rare earth industry in China.
- **Longer term**, the official stands are (1) to improve the quality of the rare earth products and (2) to promote the development of the rare earth industry.

### Impacts on China Rare Earth – Potentially more positive than negative

- China Rare Earth, located in the Jiangxi province, will belong to the Southern group.
- We talked to the Company's management and they agreed that focus of the reform is on the resource, i.e. the rare earth materials. The impact on industry players would thus be mainly on the exploration. Since China Rare Earth is engaged in the manufacturing and sales of rare earth products, instead of mining or exploration, we believe the direct impact to the Company would be minimal.
- Being one of the major manufacturers in China with 6,500ton per annum of rare earth production capacity, China Rare Earth has established the production scale to be a major supplier worldwide.
- We anticipate the reform will also involve the restructuring of the producers and sellers of the rare earth products. In our view, the small and inefficient operators will finally be replaced. China Rare Earth does not fall into this category.

### Other updates on company operations

- Selling price of rare earth product stays flat, as revealed by management. We maintain our view that a rebound in pricing is unlikely this year.

**RECOMMENDATION** With no fundamental changes, we retain our earnings forecast and target price. We have recommended investors to reduce the stocks at \$2.15 on our note dated April 19, 2002. The stock has been pressed down since the announcement of the industry reform. At the current price of \$1.77, the stock is now trading at 11% below our fair value. As the reform should no be interpreted as negative to the company, we believe further price weakness should make the valuation becomes attractive again and provide investors opportunities to accumulate the counter.

## Valuation Statistics

Y/E Dec 31	Turnover (HK\$mn)	Net Profit (HK\$mn)	Ful. Dil. EPS (HK\$)	EPS Growth (YoY %)	EV/EBITDA (x)	PER (x)	DPS (¢)	Yield (%)
1999A	447.8	81.2	0.168	62.8	13.7	1.3	0.04	2.0
2000A	558.2	140.9	0.227	34.9	10.6	8.4	0.04	2.3
2001A	617.8	142.2	0.189	-16.7	10.2	10.1	0.04	2.3
2002E	709.9	127.8	0.153	-19.1	9.4	12.5	0.04	1.9
2003E	812.6	140.6	0.168	9.6	8.5	11.3	0.04	2.1

Sources: Company, ICEA estimates

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