



Date	Industry
2011/11/23	Mining

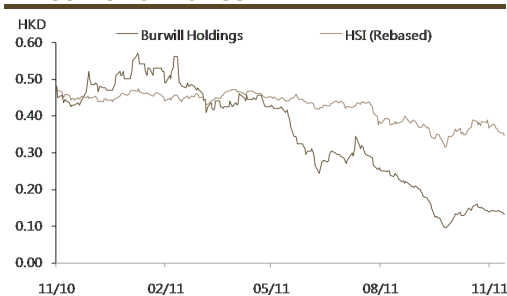
Closing Price	Target Price
HK\$0.143	Nil

Share Information

Stock Code	24
Outstanding Shares (bn)	4.88
Market Cap (HK\$m)	6.34
6-mth Avg Daily Turnover (HK\$m)	185
12-mth High/ Low (HK\$)	0.58/0.095
CFPS (HK\$)	-0.03
BVPS (HK\$)	0.43
P/E (x)	3.88
P/B (x)	0.30
ROE (%)	31
ROA (%)	15
Net Debt/ Equity (%)	41
Div. Yield (%)	0.00

Source : Bloomberg, Emperor Securities Research

Price Performance



	1-mth	3-mth	6-mth	12-mth
Change (%)	-2.3	-46.5	-68.3	-69.4
Rel. to HSI (%)	-1.4	-40.5	-59.7	-60.8

Source : Bloomberg

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Burwill Holdings Limited (24.HK)

Non-rated

Transformation into an Upstream Iron Ore Play

- Burwill Holding Limited (BHL) is transforming from a traditionally low-margin steel and iron ore trader (3%GPM) to a higher-margin upstream iron ore mining and processing play (34%GPM). Currently, the mineral resources segment contributed an operating profit of HK\$4.08mn, accounting for merely 9.61% of total operating profit. With the remaining 4 tenements and processing plants ramping up for production, we expect to see decent profit growth and margin expansion in the coming years. The second processing plant is expected to start production this year, which will boost the annual processing capacity to a total of 6.5mn tons.
- Supply shortfall of iron ore in Shandong has resulted in a supplier's market. With cash cost at RMB500/ton and price at RMB1,000/ton, we believe such a wide profit margin provides a comfortable cushion to protect BHL from any possible future slump in iron ore price as a result of stalling growth in the Chinese economy.
- BHL's FY10 PE of 3.88x represents a discount of 68% over its peers China VTM, which is trading at 12.06x, mainly due to its non-operating gain on distribution of shares in an associate. Stripping out this extraordinary item of HK\$501.9mn, BHL is trading at 9.19x FY10 core EPS, a 24% discount to China VTM (Figure 1).

Key Risks

The slowdown of Chinese economy and tightening measures may hamper demand for iron ore.

Financial Information

Year Ended 30 June	2006	2007	2008	2009	2010
Revenue (HK\$m)	4,793	5,452	8,335	3,257	6,080
Growth (%)		14	53	-61	87
Net Profit (HK\$m)	149	86	-149	-5	549
Growth (%)		-42	N/A	N/A	N/A
EPS (HK\$)	0.11	0.06	-0.09	0.00	0.13
Growth (%)		-45	N/A	N/A	N/A
P/E (x)	3.73	12.34	N/A	N/A	3.88
Div. Yield (%)	0.00	0.00	0.00	0.00	0.00

Source : Bloomberg, Emperor Securities Research

Peers Comparison

Figure 1 : Peers Comparison Table

Company	Ticker	Last Price (HK\$)	Mkt Cap (HK\$mn)	PE(x)		PB(x)		ROE (%)		EV/EBITDA (x)		Div. Yield(%)	
				2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
BHL	24	0.13	634	N/A	3.9	1.5	1.1	-0.3	31.2	105.7	50.8	0.0	0.0
China VTM	893	1.43	2,967	22.40	12.1	3.7	2.3	21.5	20.2	4.5	2.7	0.0	4.2

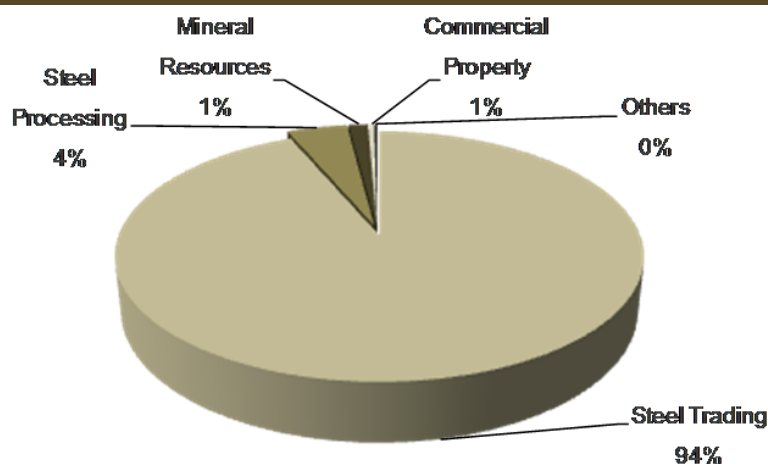
Source: Emperor Securities Research, Bloomberg

Business Review and Outlook

Investment in Mineral Resources

- We believe BHL's engagement in the upstream mining business (34%GPM) provides more upside potential than its traditional low-margin iron ore and steel trading businesses(3% GPM). Holding a mining license tenement and four exploration licenses tenements located in Laiyang City, Shandong, covering ~21sq km (Figure 2), the company has planned to build 5 processing plants that will boost the iron content of the ore from average TFe grade of 16.20%-22.63% to around 62%-66%, bringing it up to the imported ore standard. The mines in aggregate possess 643.26 mn tons of resources with iron grade of 16.20%-22.63% under the JORC standard.

Figure 2 : 1H11 Revenue by Segments



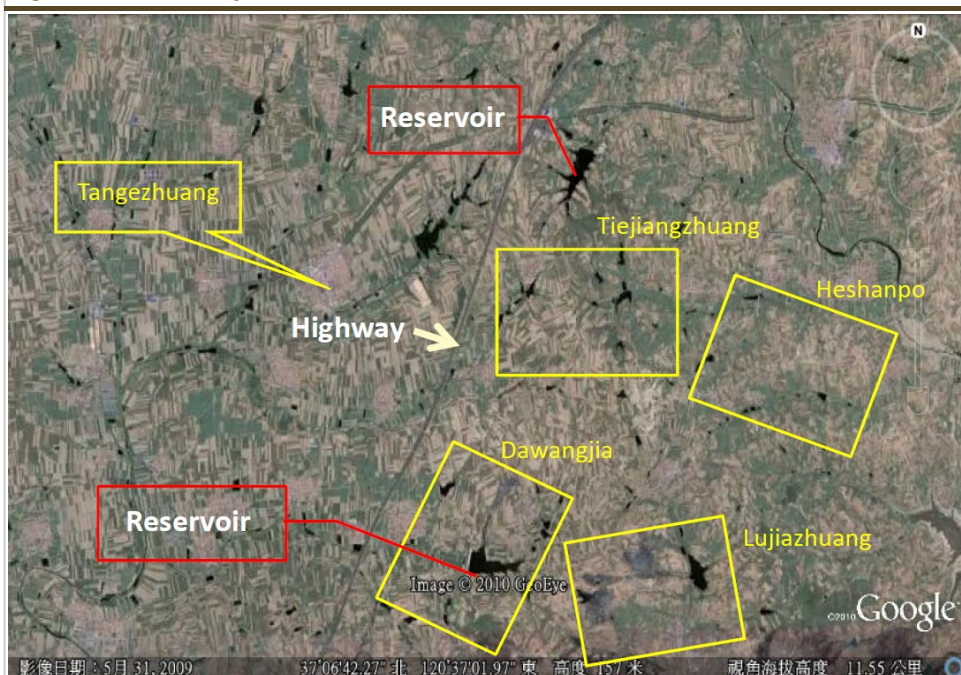
Source: Burwill Holdings Limited

- The first processing plant is currently in production with annual processing capacity of 1.5mn tons. The second processing plant with 5 mn tons annual processing capacity is pending on the issue of safety production permit and environmental assessment and is expected to start production in 2 months. The two plants in aggregate will provide a total of 6.5mn tons annual processing capacity. The current 10 to 1 ore-concentrate ratio allows the first plant to produce 100,000 tons of ore this year and approximately 650,000 tons in 2012-2013, according to the management. The CAPEX of each of the remaining processing plant would require approximately RMB200mn.
- In 4Q09, Burwill Minerals Limited (BML), a wholly-owned subsidiary of Burwill Holdings acquired 51% of the issued share capital of Tai Xin Minerals Limited (TXML), which indirectly owns a magnetite iron mine in

Iron and steel trading (with gross profit margin of 3%) accounts for 94% of BHL's revenue in 1H11, an expansion in the mineral resources operation (with gross profit of 34%) in the next few years would greatly increase the group's revenue and this would contribute to overall margin expansion.

Laiyang City, Shangdong. The consideration for the acquisition consisted of HK\$260,000,000 in cash and 685,700,000 new shares of BHL at the issue price of HK\$0.35 to Tai Xin Holding Limited and Tai Xin Investment Limited. In June 2011, BML exercised the call option granted by TXML at a consideration of HK\$259mn to increase its stake in TXML to approximately 70%. The proceed was mainly to fund the capital and operating expenditure of the first and second processing plants.

Figure 3 : Tai Xin Project



Source: Burwill Holdings Limited Company Presentation, Google

Iron Ore/Steel Trading and Steel Processing

- Having been in the steel trading business for over 60 years, BHL has an extensive network of 19 offices globally and established long term cooperation with steel factories around the globe.
- BHL's 5-year supply contract signed in July 2009 with Fortescue Metals Group (FMG), the third largest iron ore producer in Australia, provides a stable supply of 1mn ton iron ore per year for the group. The iron ore from FMG is sold to steel mills in Northern and Eastern China such as Shandong, Jiangsu and Hebei etc. with a gross profit margin of 5%.
- To streamline its operation, the company has merged two processing factories in Dongguan and revamped the production line. Another processing factory in Yangzhou, Jiangsu is a JV with Maanshan Iron and Steel, where BHL has 29% equity interest. Struggling in the depressed export markets in Europe and the U.S., the company has been implementing cost rationalization measures in the processing business.
- Looking forward, the company plans to secure more long term supply of iron ore, expand into new markets and is seeking opportunities in other resources trading business such as manganese ore and chrome.

Commercial Property Leasing and Retailing of Luxury Goods

- Yangzhou Times Square is an integrated shopping mall in Jiangsu Province developed by the Group with a GFA of 68,800 sqm. It provides one-stop shopping facilities including dining, KTV, supermarkets, bookstores, clothing, jewelries and watches etc. Occupancy rate has been over 95% with daily traffic of over 30,000 shoppers.
- The company has commenced new businesses in commercial real estate leasing by taking on long term lease and management contracts, usually 15 to 20 years, in shopping malls and subleasing the space to tenants. In addition, the group is also involved in the distribution of several international high fashion brands and opening retailing outlets. The company may spin off these two businesses in the long run.

1H11 Interim Result Highlights

- BHL suffered a loss of HK\$127mn as compared to a profit of HK\$517mn in 1H10 mainly due to the decline in the fair value of the consideration shares issued to TXHL for the acquisition of magnetite iron ore mining businesses. Since the guaranteed profit of HK\$120mn given by TXHL and TXIL was not met in 2010, BHL is entitled to deal with or dispose 8 consideration shares at a price taking into account the prevailing market price for every HK\$1 shortfall in profit. The decline in the fair value of approximately HK\$140 million was assessed with reference to the difference between the closing price of HK\$0.51 at the year end of 2010 and that of HK\$0.305 on the interim balance sheet date this year. Stripping out this non-cash item, 1H11Y EBIT would have been HK\$13.9mn.
- Furthermore, Revenue for 1H11 was up 3.4% YoY, revenue growth was sluggish due to dampened demand for steel. 1H11 gross profit margin reported a minimal increase of 0.07 percentage points YoY to 3.24%.
- BHL has cash and short-term bank deposits of HK\$211mn and a cash inflow of HK\$148mn as at June 2011. Net gearing reduced to 38% in 1H11 from 41% for the same period last year, reflecting a healthy balance sheet. Current and quick ratio increased by 0.12 and 0.33 to 1.68 and 1.28 respectively compared to the same period last year, indicating a slight improvement in liquidity.

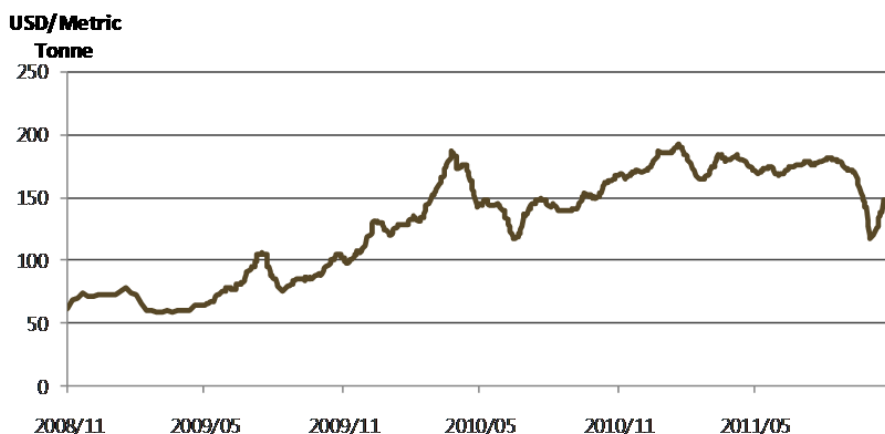
Risks

- Actual resources may fall short of estimation
- The slowdown of Chinese economy and tightening policies may hamper demand for iron ore
- Mining accidents

Sector Review

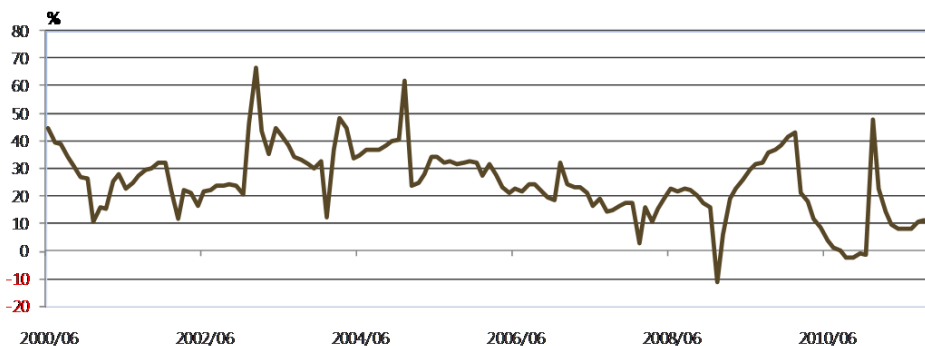
- China is the world's largest steel maker and importer of iron ore. Domestic iron ore extraction is insufficient to meet the demand in China. Shortfall of supply of iron ore in China makes it a supplier's market. Currently, China relies heavily on the imports of iron ore from countries like Australia, Brazil and India.
- The crude steel output from Shandong, the third largest steel-producing province in China, reached 39mn tonnes in the first 8 months of 2011, representing a YoY rise of 15%, according to China Coal Resource (www.sxcoal.com).
- Nevertheless, fear of a Eurozone debt contagion, sluggish global economic growth, international anti-dumping pressure arising from pessimistic employment outlook in developed countries and the cancellation of export tax rebate of selected steel commodities have hindered Chinese steel export and demand for iron ore. Domestic problems such as the pressure of RMB appreciation, monetary and property tightening, slowing infrastructure projects also lead to softer demand for steel and iron ore.
- The price of iron ore has weakened significantly since early October amid the recent volatile market environment. Iron ore import with 62% iron content delivered to the Tianjin port has plunged 18% since the downgrade of the USA's sovereign rating which triggered a heavy sell-off in the equities and commodities markets (Figure 4). On the other hand, the YoY growth in cumulative volume and value of iron ore concentrate import are 11.1% and 50.3% in September and 10.6% and 52% in August (Figure 5). The current trend of weaker growth in demand and softer price for iron ore could hurt the margins of BHL.

Figure 4 : Iron Ore Import with 62% Iron Content delivered to Tianjin Port



Source: National Bureau of Statistics

Figure 5 : Cumulative Volume of Iron Ore Import in China YoY



Source: National Bureau of Statistics

Income Statement

Yr Ended 30 June (HK\$m)	2006	2007	2008	2009	2010
Revenue	4,793	5,452	8,335	3,257	6,080
Cost of goods sold	4,711	5,309	8,111	3,159	5,923
Gross Profit	82	143	223	98	157
Other operating profit	41	8	173	25	8
Operating Expenses	138	123	158	120	152
Operation Profit	-14	28	239	2	14
Interest expenses	61.0	59.5	54.0	28.2	39.7
Net non operating loss (gains)	-231.3	-122.7	228.2	-40.5	-611.9
Foreign ex loss	-3.1	0.4	-8.2	-5.4	-0.8
Profit before tax	159	91	-35	20	587
Income tax expense	7	-4	70	12	22
Income before extraordinary item	152	95	-105	8	564
Net profit	152	95	-105	8	564
Profit attributable to Shareholders	149	86	-149	-5	549
Minority Interest	2.30	8.96	43.91	12.31	14.82
EPS	0.11	0.06	-0.09	0.00	0.13
DPS	0.00	0.00	0.00	0.00	0.00

Source: Emperor Securities Research

Cash Flow Statement

Yr Ended 30 June (HK\$m)	2006	2007	2008	2009	2010
Cash flow operating	123.80	48.44	-211.46	-426.79	-132.33
Cash flow investing	112.17	-167.87	37.13	-87.23	-303.94
Cash flow financing	-161.01	127.73	203.16	468.41	541.14
Cash & CE at BY	203.88	278.84	287.146	315.99	270.371
Net Cash Change	74.96	8.31	28.84	-45.62	104.88
Cash & CE at EY	278.84	287.15	315.99	270.37	375.25

Source: Emperor Securities Research

Balance Sheet

As at 30 June (HK\$m)	2006	2007	2008	2009	2010
Cash & CE	275	394	362	294	374
Account & note rec.	1,082	895	974	1,076	1,132
Inventories	187	199	163	120	295
Other current assets	109	188	171	402	701
Total current assets	1,653	1,676	1,669	1,891	2,503
PPE	426	473	701	768	1,154
Others	374	488	294	439	755
Total assets	2,454	2,636	2,664	3,098	4,412
Short term borrowings	539	620	434	662	999
Account & other pay.	649	529	336	359	355
Others	92	148	180	90	246
Current liabilities	1,280	1,297	950	1,112	1,600
Long term borrowings	123	40	149	292	320
Others	47	47	96	106	231
Total non current liab.	170	87	245	398	551
Total Liability	1,450	1,384	1,195	1,510	2,151
Total Equity	1,004	1,252	1,469	1,588	2,261

Source: Emperor Securities Research

Financial Ratio

Yr Ended 30 June (HK\$m)	2006	2007	2008	2009	2010
Profitability(%)					
Gross margin	1.71	2.63	2.68	3.00	2.58
EBITDA margin	0.00	0.74	3.02	0.46	0.51
Operating margin	-0.30	0.52	2.86	0.07	0.22
Profit bef. tax margin	3.32	1.67	-0.42	0.62	9.65
Net profit margin	3.12	1.58	-1.79	-0.14	9.04
Growth (%)					
Revenue	29.67	13.74	52.87	-60.93	86.69
EBITDA	-96.69	34341	524.71	-94.05	108.11
Operating income	-60.66	N/A	741.17	-98.99	463.03
Net profit	105.35	-42.22	N/A	96.88	N/A
EPS	107.90	-44.57	N/A	98.24	N/A

Operating Performance

Current ratio (x)	1.29	1.29	1.76	1.70	1.56
Quick ratio (x)	1.07	1.03	1.45	1.24	0.95
Admin Exp/ Sales(%)	2.88	2.25	1.89	3.69	2.49
Dividend Payout (%)	0.00	0.00	N/A	N/A	0.00
Inventory Turnover (day)	15.88	13.27	8.16	16.32	12.80
AP turnover (day)	38.65	40.41	19.60	40.70	21.36
AR turnover (day)	74.69	66.17	41.03	114.85	66.27

Other Ratio

Int coverage ratio (x)	-0.24	0.48	4.42	0.09	0.32
Net debt to equity(x)	37.53	17.37	12.32	40.83	41.37
Sales/assets (x)	1.95	2.07	3.13	1.05	1.38
Assets/equity (x)	2.44	2.11	1.81	1.95	1.95
ROA (%)	6.51	3.39	-5.62	-0.16	14.63
ROE (%)	16.73	8.01	-11.62	-0.33	31.18

Source: Emperor Securities Research

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