

KINGWELL GROUP (1195.HK)

Transformation Supporting Valuation

Bloomberg | Reuters | POEMS

1195.HK | 1195.HK | 1195.HK

Industry: Mining

Plant Visit Report

Rating: Buy (Speculating) CP:\$1.00 TP \$1.30

The Company

Kingwell Group transformed into a gold mining company in last year, mainly engaged in the project of investment gold resources and gold supply chain.

14 -16 April 2013, the Research Department visited the gold mine, gold concentrator and Gold Smelter of Kingwell Group, which is located in Shandong Province:

Investment Highlights

- 1) The group acquired 51% stake in Commerce Prosper, which owns a gold mine in Amur area, Russia, with expected gold reserves of 35 tons. Total consideration amounted to US\$13 million (approximately HK\$100 million), including cash of \$88.2 million and convertible notes of \$12.6 million. The group can increase the holding to 65% for consolidation HK\$ 20.64 million, including cash HK\$10.32 million and share based payment of HK\$12.893 million, equivalent to \$0.8/share.
- 2) The gold mine is located in the Amur region, the mining area of 309 km, approximately one-third Hong Kong, the initial estimate of the total sand gold reserve has more than 35 tons (C1 category), sand gold resources with low production cost and simple production process, is expected to start production in the first half of this year, the estimated monthly production of more than 1,100 ounces of pure gold;
- 3) The group acquired 70% equity interest in each of Jinxin Company and Jinhui Company for a consideration of RMB370 million (around HK\$460 million).
- 4) Jinxin holds the license for mine exploration and exploitation of Shanchakou Mine and Jinjiling Mine in Shandong Province, a gold washing plant and gold refinery plant. Jinhui holds the license for mine exploration and exploitation of Yaojia Mine in Shandong Province. We estimated the gold reserves will not less than 5 tons
- 5) The estimated processing capacity of the gold concentrator and gold smelter are 400,000 tons of ore and produce 128,000 ounces of gold, gold smelting self-sufficiency ratio of approximately 33%.
- 6) The average gold ore grade of Shandong Province (about 5-12 g / ton) is higher than the China's average (about 3 g / ton) grade, based on our fieldwork, we estimate the gold ore grade of about 5 -10 g / ton.

After the transformation, we expected the earnings will be significant growth, with the international gold price will remain near \$ 1,400/ ounce, coupled with the advantages of domestic production costs, in Shandong Province, for example, every mining costs was only 190 yuan/ tael, in the countries the with the strong demand in gold and advantages in production cost, we are optimistic to expect 2013 earnings will be between 100 million to 150 million yuan. However, the group is still in transformation stage, the group will continue to face a certain degree of operational risk, it is recommended that clients can buy for speculative purposes, clients are also suggested to set a stop-loss price to control downside risks, according their own affordable risk.



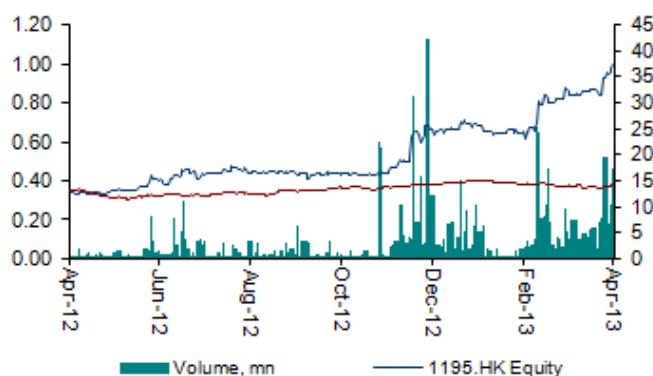
Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

29 April 2013

KINGWELL GROUP LTD

Rating	1.00	Buy
- Previous Rating	N/A	Not Rated
Target Price (HKD)	1.3	
- Previous Target Price (HKD)	N/A	
Closing Price (HKD)	1.00	
Expected Capital Gains (%)	30.0%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	30.0%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD mn)	1,764	
Enterprise Value (HKD mn)	1,605	
3M Average Daily T/O (mn)	5.4	
52 week range (HKD)	0.325 - 1.02	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. UNION DAY GROUP LTD	19.6
2. HUI LUNG HING	14.1
3. YIN JIA TONG	11.3

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Gold ore
Source: Company, PSR



Gold smelting
Source: Company, PSR



Finished Products
Source: Company, PSR

Major Risk

International gold prices slump

Operating cost continue to rise

Capacity less than our expectation

The impact of environmental pollution emergencies

Peers

	P/E	P/B	Net Profit Margin (%)
1195 (E)	14.7	1.2	25
1194	12.13	1.15	27.4
2899	7.8	1.8	10.76
2099	15.9	1.03	21.3

Source: PSR, Bloomberg

All based on the closing price and data of 26th April 2012

Financial Status

Income Statement	FY2008	FY2009	FY2010	FY2011	FY2012
Total Revenue	564.32	316.94	264.21	354.58	279.99
Cost of Revenue	-392.35	-270.69	-268.37	-323.73	-267.59
Gross Profit	171.97	46.25	-4.16	30.85	12.4
Operating Expenses	-54.37	-429.9	-297.81	-197.38	-180.46
Operating Income	117.6	-383.66	-301.97	-166.54	-168.07
Others, Net	-81.83	-19.87	-	-	-
Income before Taxes	35.77	-403.52	-301.97	-166.54	-168.07
Tax	-24.59	43.32	32.9	-63.82	-36.52
Extraordinary Items and Adjustments	-	-	0.36	0.71	-
Net Income	11.18	-360.2	-268.7	-229.65	-204.59

Balance Sheet	FY2008	FY2009	FY2010	FY2011	FY2012
Cash and Short Term Investments	880.37	650.02	478.05	400.87	147.83
Total Receivables, Net	197.59	151.94	122.64	72.8	34.49
Other Current Assets	53.95	38.76	338.2	270.42	260.01
Total Current Assets	1,131.91	840.72	938.89	744.1	442.32
Property/Plant/Equipment, Net	390.3	290.47	124.68	161.8	64.61
Other Long Term Assets	46.11	85.47	108.21	46.87	5.01
Total Assets	1,568.32	1,216.67	1,171.78	952.77	511.94
Payables and Accrued Expenses	121.19	96.53	221.27	200.33	147.96
Other Current Liabilities	467.83	462.81	325.54	339.22	123.54
Total Current Liabilities	589.02	559.34	546.81	539.55	271.49
Total Long Term Debt	30.51	16	64.82	33	62.8
Other Liabilities	22.66	6.86	40.64	23.18	23.52
Total Liabilities	642.19	582.2	652.27	595.73	357.81
Common Equity	58.66	58.66	123.65	142.15	142.24
Deficit	578.25	222.27	-28.64	-328.52	-532.3
Other Equities	289.22	353.53	424.5	543.41	544.19
Total Equity	926.13	634.47	519.51	357.04	154.13

Cash Flow Statement					
Activities	172.3	60.15	-27.63	10.23	-111
Cash Flow From Investing Activities	21.34	-245.68	-87.36	-88.8	-108.42
Cash Flow From Financing Activities	-38.92	-46.38	-56.35	2.04	-33.91
Currency Translation Adjustments	-2.79	-0.01	-0.14	-0.14	0.37
Net Change in Cash	151.93	-231.92	-171.48	-76.67	-252.97

Ratios & Other data					
ROA (%)	0.73	-25.87	-22.53	-21.69	-27.94
ROE (%)	1.23	-46.16	-46.57	-52.4	-80.05
DPS (CNY)	0.0027	-	-	-	-
EPS (CNY)	0.0153	-0.4941	-0.3421	-0.1535	-0.1352

Source: Company, Reuters

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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