

**IPO FACT SHEET**
**Heng Hup Holdings Limited (1891)**
**ISSUE STATISTICS**

<b>Offer Size:</b>	HK\$125m - HK\$155m
<b>Placement Tranche:</b>	250m
<b>Price:</b>	HK\$0.50-HK\$0.62
<b>Board lot:</b>	4,000
<b>Entry fee:</b>	HK\$2,504.99
<b>Historical PE</b>	10.82x – 13.41x
<b>Net tangible asset per share:</b>	HK\$0.32-HK\$0.34
<b>Market Cap (post-IPO):</b>	HK\$500m - HK\$620m
<b>Open:</b>	27 Feb 2019
<b>Close:</b>	12.00 noon on 4 Mar 2019
<b>Trading:</b>	15 Mar 2019
<b>Sponsor:</b>	Shenwan Hongyuan Capital (H.K.) Limited

Year ended 31 Dec	(RM'000)	yoy % chg
Revenue		
2016	378,529	-11.9%
2017	739,428	95.3%
Profit and total comprehensive income for the year/period		
2016	12,051	-11.9%
2017	23,111	91.8%

**BACKGROUND**

- They are a leading scrap ferrous metal trader in Malaysia.
- According to Frost & Sullivan, they ranked first in terms of trading volume with domestic steel mills in 2017, having a market share of approximately 20.8%.
- Over the years, they have established a nationwide supplier base of feeder yards from which they source recyclable scrap ferrous metals for sales to steel mills in Malaysia.
- They also operate three scrapyards equipped with the processing machinery mainly for ferrous metals strategically located in areas where the availability of scrap ferrous metals can be assured and nearby their steel mill customers in the states of Melaka, Selangor and Johor, with an aggregate land area of approximately 35,000 sq.m.. In addition, supported by a fleet of 33 self-owned trucks among which, 18 are trucks with laden weight of 20 tonnes or above as at the Latest Practicable Date, they can always respond to the logistics needs of their small and medium-sized suppliers, who have only limited logistics support, on a timely basis.

**BUSINESS STRATEGY AND FUTURE PLANS**

- Partially replacing their fleet of trucks.
- Enhancing their processing abilities.
- Setting up their enterprise resources planning system.
- Setting up a new scrapyard in the east coast of Peninsular Malaysia.
- Expansion of their scrapyard in Selangor.
- Working capital for their scrap ferrous metal trading business.
- General working capital or for other general corporate purpose.

**COMPETITIVE STRENGTHS**

- They have the capital base to maintain their leading position in the industry.
- Their executive Directors and their sourcing team possess extensive scrap ferrous metal trading industry experience.

- Their scrapyards are strategically located in the areas where the availability of scrap ferrous metals can be assured and nearby their steel mill customers.
- They possess their own fleet of trucks to serve their suppliers and their scrapyards.
- They have been an approved scrap metal provider since 2010 to the Lion Companies, which was the largest steel producer in Malaysia in 2017 with stable and significant demand for scrap ferrous metals.

#### KEY RISKS

- They depend heavily on the performance of the steel and steel consuming industries in Malaysia. If the scrap ferrous metal trading market in Malaysia does not continue to grow, grows more slowly than expected or declines, their business, financial condition and results of operations could be adversely affected.
- A significant portion of their revenue was generated from the sales attributable to their five largest customers during the Track Record Period, among which the Lion Companies were the largest. Any downturn in the business, closure of any steel mills, slight decline in the demand for scrap ferrous metals from or financial difficulties of their five largest customers during the Track Record Period could have an adverse impact on their business, financial condition and results of operations.
- Their trade receivables turnover days is in general longer than their trade payable turnover days. Such mismatch between their trade receivables turnover days and their trade payables turnover days causes a cash flow gap. They may be exposed to risk on working capital and liquidity. As a significant portion of their revenue is generated from sales attributable to the Lion Companies, if the Lion Companies fail to settle their trade receivables in a timely manner, their working capital and liquidity position could be adversely affected.
- Any fluctuation in steel selling prices resulting in decrease in the procurement price of scrap ferrous metals offered by their customers could adversely affect their business, financial condition and results of operations.
- One of their competitive strengths lies in their nationwide supplier base of scrap materials. If they fail to purchase stable and high-volume supply of scrap materials to satisfy the demand of their customers, their reputation, business, financial condition and results of operations could be adversely affected.
- They intend to apply 45.1% of the net proceeds of the Share Offer as additional working capital for their scrap ferrous metal trading business. However, there is no assurance that their business strategy and future plans will bring in the anticipated benefits to their Group.
- Their business and operations could be adversely affected by a decline in steel prices.

#### DIVIDEND POLICY

- Their Directors currently intend to declare dividends of no less than 30% of their distributable profit for any particular financial year.

#### USE OF PROCEEDS

	HK mn	As a percentage of gross proceeds from the Invitation (%)
Will be used for partially replacing their fleet of trucks.	8.30	8.8%
Will be used for enhancing their processing abilities.	6.70	7.1%
Will be used for setting up their enterprise resource planning system.	2.20	2.3%
Will be used for setting up a new scrapyard in the east coast of Peninsular Malaysia.	10.50	11.1%
Will be used for expansion of their scrapyard in Selangor.	14.70	15.6%
Will be used as their working capital for their scrap ferrous metal trading business.	42.50	45.1%
Will be used as their general working capital or for other general corporate purpose (excluding the purchase of scrap materials).	9.40	10.0%
<b>Total:</b>	<b>94.30</b>	<b>100.00%</b>

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