

IPO FACT SHEET

China PengFei Group Limited (3348)

ISSUE STATISTICS

Offer Size:	HK\$131.25m – HK\$197.50m
Placement Tranche:	125m
Price:	HK\$1.05 – HK\$1.58
Board lot:	2,000
Entry fee:	HK\$3,191.85
Historical PE	6.45x – 9.71x
Net tangible asset per share:	HK\$0.94 – HK\$1.06
Market Cap (post-IPO):	HK\$525m – HK\$790m
Open:	31 Oct 2019
Close:	12.00 noon on 7 Nov 2019
Trading:	15 Nov 2019
Sponsor:	Essence Corporate Finance (Hong Kong) Limited

Year ended 31 Dec	RMB'000	yoy % chg
Revenue		
2017	946,143	21.8%
2018	1,016,201	7.4%
Profit and total comprehensive income for the year/period		
2017	57,656	71.7%
2018	73,316	27.2%

BACKGROUND

- They are a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market and have been in the industry for over 20 years.
- Their rotary kiln is used to raise materials to a high temperature (calcination) in a continuous process. It is used to produce materials such as cement, lime, iron ore, non-ferrous metal ore, etc, for building materials, metallurgy, chemical and environmental protection industries.
- Their grinding equipment is used to break down solid materials such as cement, lime, etc into smaller pieces by grinding, crushing or cutting. Products in the grinding equipment system are mainly used in building materials industry.
- According to the F&S Report, in 2018, they were the largest supplier of rotary kilns and their related equipment in the PRC and the global market in terms of revenue with a market share of 22.0% and 13.3%, respectively and they were the second largest supplier of grinding equipment and their related equipment in the PRC and the global market in terms of revenue with a market share of 13.1% and 7.9%, respectively.
- They engage in equipment manufacturing and installation, and construction of production line business which are divided into three business lines, namely
 - (i) manufacturing of equipment, in which they engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries.
 - (ii) installation services, in which they mainly provide installation services to their customers under their manufacturing of equipment business.
 - (iii) construction of production line, in which they act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

BUSINESS STRATEGIES

- They intend to invest in a project for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology and increase productivity.
- They intend to further invest in their research and development capabilities.
- They intend to expand their customer base.
- They intend to continue to expand their construction of production line business in the international market.

COMPETITIVE STRENGTHS

- They have strong market position as a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market.
- They sell their products and provide their services to customers around the world and have well-established business relationships with customers located in “Belt and Road” countries.
- They have an established research and development team that possesses strong research and development capabilities.
- They are able to offer customised products and act as EPC service provider providing bespoke one-stop solution services to customers.
- They have established a well-recognised brand and have a good market reputation.
- Their management team has extensive industry knowledge and experience.

KEY RISKS

- Their business and future growth are subject to macroeconomic conditions in the PRC and overseas countries, and they mainly relied on customers from the building materials industry for generating revenue during the Track Record Period.
- They had net operating cash outflow from their operating activities for the year ended 31 December 2018. If they experience an increase in inventories and an increase in trade, bills and other receivables, their business, financial condition and results of operations may be materially and adversely affected.
- They produce their products in the rotary kiln and grinding equipment systems that have a relatively long useful life which may result in a long average replacement cycle.
- Their research and development efforts may not yield the anticipated benefits for their Group. If they fail to develop or adopt new technologies and offer products and/or services that meet the changing market demands in a timely manner, they may lose business opportunities to their competitors.
- They rely on third party contractors to provide design, civil construction and installation services, all of which are essential for their business operations under both their manufacturing of equipment and construction of production line businesses.
- Their failure to estimate the overall risks or costs on fixed-price contracts may lead to cost overruns.
- Their failure to retain their senior management team and experienced technical personnel may materially and adversely affect their business operation, financial condition and growth prospects.
- Their results of operations may be affected by backlog which is subject to unexpected adjustment and cancellation, and credit risks.
- They could be adversely affected as a result of any sales they make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.
- They are exposed to risks of obsolete inventory which may adversely impact their cash flow and liquidity.

DIVIDEND POLICY

- They expect to pay a dividend of no less than 30% of the profit after tax upon Listing each year.

USE OF PROCEEDS

	HK mn	As a percentage of gross proceeds from the Invitation
Will be used for investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology.	95.6	78.7%
Will be used for increasing the productivity and efficiency in manufacturing their products for rotary kiln and grinding equipment systems.	8.4	7.0%
Will be used for research and development of their rotary kilns that possess the latest roasting and pyrolysis technology.	8.2	6.8%
Will be used for marketing activities.	4.3	3.5%
Will be used for working capital purposes.	4.9	4.0%
Total:	121.4	100.0%

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