

**IPO FACT SHEET**
**Taizhou Water Group Co., Ltd. (1542)**
**ISSUE STATISTICS**

|                                      |   |
|--------------------------------------|---|
| <b>Offer Size:</b>                   | HK\$210.5m – HK\$250.5m                         |
| <b>Placement Tranche:</b>            | 50m H Shares                                    |
| <b>Price:</b>                        | HK\$4.21 – HK\$5.01                             |
| <b>Board lot:</b>                    | 1,000   |
| <b>Entry fee:</b>                    | HK\$5,060.49                                    |
| <b>Historical PE</b>                 | 6.11x – 7.27x                                   |
| <b>Net tangible asset per share:</b> | HK\$4.04 – HK\$4.23                             |
| <b>Market Cap (post-IPO):</b>        | HK\$842m – HK\$1,002m                           |
| <b>Open:</b>                         | 17 Dec 2019                                     |
| <b>Close:</b>                        | 12.00 noon on 20 Dec 2019                       |
| <b>Trading:</b>                      | 31 Dec 2019                                     |
| <b>Sponsor:</b>                      | Sinolink Securities (Hong Kong) Company Limited |

| <b>Year ended 31 Dec</b>  | <b>(RMB'000)</b> | <b>yoy % chg</b> |
|---|------------------|------------------|
| Revenue   |                  |                  |
| 2017  | 462,901.0        | 12.9%            |
| 2018  | 504,263.0        | 8.9%             |
| Profit for the year and other comprehensive income for the year |                  |                  |
| 2017  | 225,416.0        | 115.7%           |
| 2018  | 123,498.0        | -45.2%           |

**BACKGROUND**

- They are a leading water supply service provider in Taizhou supplying raw water and municipal water. According to the Frost & Sullivan Report, they ranked (i) fifth and first in raw water supply in Zhejiang Province and Taizhou, with a market share of 3.8% and 43.8%, respectively; and (ii) first in municipal water supply in Taizhou, with a market share of 35.1%, both in terms of water supply capacity in 2018. To a lesser extent, they also supply tap water to end-users.
- They currently own and operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), and these two water supply systems supply raw water and municipal water to the South Area of Taizhou. According to the Frost & Sullivan Report, the total population of the South Area of Taizhou is 3.97 million, representing 64.7% of the total population of Taizhou in 2018.
- The Taizhou Water Supply System (Phase I) supplies raw water with a designed raw water supply capacity of 280,000 tonnes per day, and the Taizhou Water Supply System (Phase II) supplies raw water and municipal water with a designed raw water supply capacity of 490,000 tonnes per day and designed municipal water supply capacity of 366,000 tonnes per day.
- They have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity. In respect of the exclusive right granted, no specific period and maximum volume of water can be drawn are stated nor are there any conditions. However, they have to draw water within the maximum water volume as set out in the Water Intake Permit, which currently is 280 million tonnes per year and is fixed with reference to factors including their current water supply capacity and the water demand in the South Area of Taizhou.
- They have obtained approvals from the relevant local government authorities to construct the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). Each of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) was accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目).

**BUSINESS STRATEGIES**

- Continue to expand and develop their business through the extension of the water supply networks and geographic coverage in Taizhou.
- To further enhance and expand their business to downstream.
- To continue consolidating their leading position in Taizhou through business expansion and providing quality services.

#### COMPETITIVE STRENGTHS

- They have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity.
- They are a leading water supply service provider supplying raw water and municipal water and possess strong track record in the water supply industry in Taizhou.
- They are in an industry of high entry barrier and face relatively low competition, and with their established track record in the industry, they are well-positioned to compete with their competitors.
- They are able to benefit from the accelerated pace of urbanisation in the PRC and favourable government policies; and (v) experienced and stable management team with rich management experience and in-depth industry knowledge.
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#### KEY RISKS

- The raw water procurement fee and the water resources fee they pay to the local government authorities for water drawn from Changtan Reservoir and the unit price of water they sell to their customers is fixed by the local pricing authorities and subject to change beyond their control.
- Their financial conditions may be affected by the unit selling price of their water fixed by the local pricing authorities in relation to their new water supply systems.
- Their new projects involve substantial investment amounts and postponement in the commencement of their operations due to delay in the construction works will adversely affect their financial conditions and high depreciation costs may adversely affect their profit and their growth strategies may not succeed as expected.
- The terms and conditions of the water they draw from Niu Tou Shan Reservoir and Zhuxi Reservoir are subject to further negotiation and determination of the parties.
- The actual supply volume of raw water and municipal water is subject to factors beyond their control, and the sales volume of their water is subject to water storage in reservoirs, restrictions of the downstream water supply capacity and climate factors.
- They generated all their revenue from their business operations in Taizhou during the Track Record Period.
- They expose to risks associated with changes in regulations and policies for water supply services in the PRC, renewal of the relevant licences/permits required for their operations and the water volume they can draw fixed by the local government.

#### DIVIDEND POLICY

- They have adopted in their general dividend policy a dividend payout ratio of no less than 30% of their annual distributable net profit as determined under PRC GAAP or HKFRSs (whichever is lower) for each of the three financial years after Listing.

#### USE OF PROCEEDS

|  | HK mn        | As a percentage of gross proceeds from the Invitation |
|--|--------------|---|
| Will be used to finance the Taizhou Water Supply System (Phase III).   | 175.8        | 90.0%   |
| Will be used for their working capital and general corporate purposes. | 19.5         | 10.0%   |
| <b>Total:</b>  | <b>195.3</b> | <b>100.0%</b>   |

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