

Equity Explorer

FAST TRACK ANALYSER

NOT RATED HK\$0.40 HSI: 16,065

Price Target: n.a.

Potential Catalyst: Long term leasing contract for DZIT project and more acquisitions

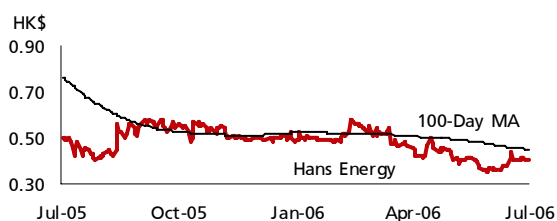
ANALYST

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FORECASTS AND VALUATION

FY Dec (HK\$m)	2004A	2005A	2006F	2007F
Turnover	192	202	209	261
EBITDA	162	156	164	206
Pretax Profit	134	111	116	139
Net Profit	115	93	98	119
EPS (HK\$)	0.21	0.04	0.04	0.05
EPS Gth (%)	27.7	(81.5)	(3.4)	22.3
PE (x)	1.9	10.4	10.7	8.8
P/Cash Flow (x)	1.9	17.3	2.8	24.9
EV/EBITDA (x)	9.2	7.3	7.2	7.8
DPS (HK\$)	0.03	-	-	-
Div Yield (%)	7.3	-	-	-
Net Gearing (%)	n.a.	n.a.	361.9	248.5
ROE (%)	n.a.	n.a.	n.a.	92.2
Book Value (HK\$)	(0.23)	(0.04)	0.01	0.08
P/Book Value (x)	n.a.	n.a.	27.19	4.75

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)	2,620
Mkt Cap (HK\$m/US\$m)	1,048 / 135
Major Shareholders (%)	
Controlling shareholders	62.59
Strategic Shareholder	3.82
Free Float (%)	33.59
Avg Daily Volume (m shrs)	2.2

Earnings Rev: FY06 Nil; FY07 Nil

Consensus EPS: FY06: n.a. ; FY07: n.a.

Variance vs Cons: FY06: n.a. ; FY07: n.a.

Sector: Logistics/port

Bloomberg/Reuters Code: 554 HK / 0554.HK

Principal Business: warehousing, terminalling

Hans Energy

Amplifying current success

➤ **Story:** Hans Energy (Hans) plans to channel the successful elements of its Xiao Hu Island Terminal (XHIT) business model and concepts to other projects such as Dongguan's DZIT. Its core development strategy: to secure long-term leasing contracts with major customers.

➤ **Point:** Apart from the current logistic operations in XHIT and construction of DZIT, Hans will continue to expand its business horizon in China to become a nationwide integrated storage and terminal service provider through acquisitions and 'greenfield' projects. With the DZIT project under way and to be fully operational by 3Q07, Hans is poised to chart respectable earnings growth.

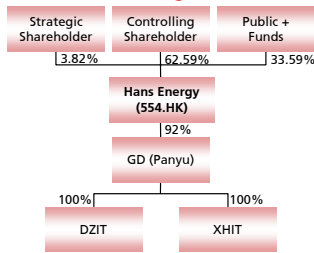
➤ **Relevance:** Hans is trading at a forward FY07E PE of 8.8x (fully diluted 12.6x), in line with its peers. In terms of NAV, the counter is at a discount of 51% to our estimated fully-diluted NAV per share of HK\$0.82.

• **Riding on the waves - Guangdong's petrochemical development and opening of refined product retail market.** In the 11th five-year development plan, the Guangdong Provincial Government will establish five oil/petrochemical bases. And China will open its retail market of refined products to foreign operators in late 2006. These two factors combine to create a golden opportunity for oil/petrochemical warehouse/terminal service providers.

• **Dongguan's DZIT project - a strong growth driver.** Hans' core business focuses mainly on the operations of the oil and petrochemical terminal (XHIT) located in Xiao Hu Island of Nansha Panyu, Guangdong province. With a utilisation rate of 95%, growth is likely capped at XHIT. However, when the Dongguan terminal project (which is under construction) becomes fully operational in 3Q07, Hans' growth momentum is expected to soar. The DZIT project will increase storage capacity by 275% to 1.24m cubic meters. According to management, Hans is confident in obtaining a significant long-term leasing contracts for DZIT in 2H06, which should ease market concerns on the utilisation rate of the new capacity. Vis-à-vis long-term leasing contracts, they will serve as a catalyst for re-rating, to be driven by the promising earnings upsurge in 2008.

• **Valuation undemanding.** Hans is trading at a forward FY07E PE of 8.8x (fully diluted 12.6x), which is not demanding at all. After the full contribution of the DZIT project in 2008 is taken into account, Hans is expected to chart rapid earnings growth. In terms of NAV valuation, the stock is trading at a discount of 51% to our estimated fully-diluted NAV per share of HK\$0.82. Along with more project acquisitions and new long-term leasing contracts, we believe the gap can be narrowed to a lower level of 20-30%, implying any upside in share price.

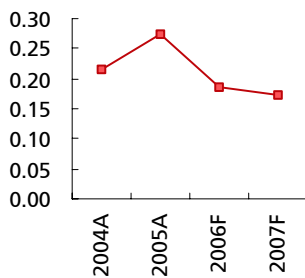
Shareholding Structure



Company Background

- **A niche player** – Since an asset injection in 2004, Hans Energy Group (Hans) has been focusing its operations on the port and warehousing business. The group is now one of the few among listed companies to have its own port for handling oil, gas and petrochemical products. Hans provides integrated terminal and storage services to customers at its Xiao Hu Island Terminal (XHIT) in Guangzhou Nansha. The synergy created through integration of the wharf jetties and storage tank farm makes Hans distinctive amongst other storage service providers. With a focused business strategy in its core business, without diversification into other activities (such as commodity trading and product transportation services), Hans is indeed a niche player in the sector.

Asset turnover (x)



- **XHIT: Class A open port recognised by PRC authorities** - By riding on the official recognition, equipped with top-class production facilities and licensed to handle hazardous chemicals (including Category A Dangerous goods), XHIT handles not only domestic tankers, it also caters for foreign cargoes. All these add to give XHIT a sharp competitive edge over its rivals and help to increase its earnings in port income.

NAV (HK\$m)

	Without CB conversion	Full Conversion of CB
Xiahudao Project	1,013	1,013
Dongguan Project	2,289	2,289
Net debt	(548)	(208)
Net equity value	2,754	3,094
# of shares	2,620	3,752
NAV per share	1.05	0.82
Current share price	0.400	0.400
Discount (%)	(62)	(51)

- **Good reputation** - Along with many other competitive advantages (such as XHIT's storage tank farm being registered as a bonded warehouse, i.e. located within a 'bonded zone' that enjoys tax subsidies), Hans has built a good reputation over the years with efficient and systematic approach in management and a proven track record in the industry.

- **Rapid expansion** – With sound fundamentals, Hans targets to become a leading mid-stream player in the energy sector and is planning to launch more terminals at major ports along the coastal cities of the PRC in the coming years. When the 'new project' – Dongguan's DZIT completes and commences operation in 3Q07, Hans is to become one of the leading independent terminal operators of oil/petrochemical products with the largest storage capacity of 1.24m cubic meters.

Capex Breakdown

New Project Development DZIT-Capex	800
Land & coastal line	150
Jetty wharf construction costs	150
Pipelines in wharf	50
Tanker farm construction costs	450

- **Loyal customers** – Hans strategically attracts high-valued orders by offering high quality services such as tailor-making its tanks, custom-building facilities as well as setting up special storage environment to meet customers' needs. Through these, the group is capable of retaining customers and obtaining extended leasing orders, which convert to a stable income stream and good operating scale for the company.

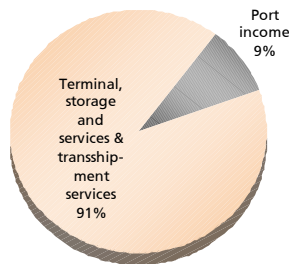
Industry overview, earnings drivers and risks

- **Riding on the wave of Guangdong's petrochemical development** – Amidst the strong economic growth in the past two decades, Guangdong province contributed approximately 11.9% of China's total GDP. And to maintain its leading economic position in China, the Guangdong Provincial Government formulated a detail development strategy in 11th Five-Year Development Period (2006-2010), which lists the oil/petrochemical industry as one of the top development priorities. According to the provincial government, Guangdong will establish five oil/petrochemical bases: Guangzhou (廣州), Maozhang (茂湛), Huizhou (惠州) etc. Obviously, this will be a golden development period for the oil/petrochemical industry in Guangdong and should bring strong demand for ancillary services such as warehousing, port services, and so on.

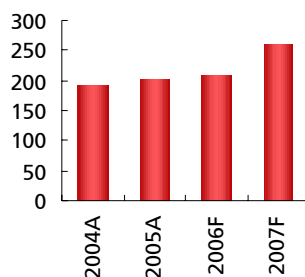
Terminal Facility Comparison

Location	XHIT		DZIT
	Nansha, Guangzhou	Dongguan	
Status	Operational	Constructing, expect to fully operate in 3Q07	
Occupancy rate	95-98%	N/A	
Area (sq.m)	211,519	515,995	
Usable coastal line (M)	540	650	
Berths (dwt)	5 berths	12 berths	
	500-30,000	500-100,000	
Facility (cubic m)	330,450	910,000	
Tank (cubic m)#	650-12,000	850-30,000	

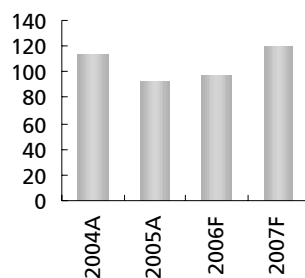
Sales breakdown by products (FY06)



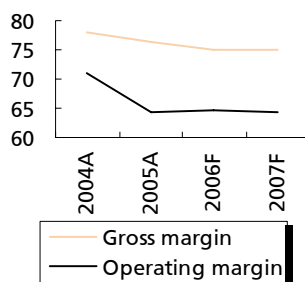
Turnover (HK\$m)



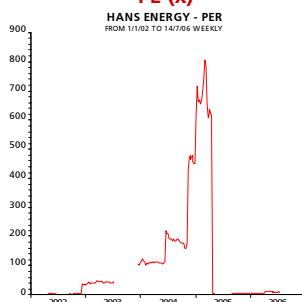
Net Profit (HK\$m)



Gross & operating margin (%)



PE (x)



- Another imminent wave: China opens the door of refined product retail market** – As promised in the WTO agreement, China will open its retail market of refined products to foreign operators in late 2006. As the largest refined product market in China, Guangdong should provide the most lucrative market for foreign operators – resulting in fierce demand for large-sized petrochemical warehouse capacity and port facilities. In all, we believe petrochemical warehouse/terminal service providers can ride on the waves, especially for top operators such as Hans.

- Core business** – Hans strategically focuses on the operations of the oil and petrochemical terminal (XHIT) in Xiao Hu Island of Naha Panyu, Guangdong province. It is a comprehensive terminal and storage complex with a total storage capacity of 330,450 cubic meters (specialised in handling oil and liquid petrochemical products). The terminal has a wharf with five docking spaces and capacity ranging from 500 dwt to 30,000 dwt.

- Building on XHIT's success** - Sinopec Guangdong utilised approximately 241,000 cubic meters of warehousing capacity through a 20-year long-term contract: representing 73% of total capacity. In the past few years, XHIT charted satisfactory figures for its operations. Hans plans to channel suitable elements of the successful XHIT business model and concepts to other projects such as Dongguan's DZIT project. As mentioned, Hans' development strategy is to build up a stable stream of cash flow through procuring long-term leasing contracts with major customers. Such strategy is indeed tactful as it can maximise operating efficiency and minimise capital commitment, achieving economies of scale. Moreover, there will be strong demand for large oil/petrochemical warehousing capacity from domestic/foreign petrochemical companies, along with opened doors of the refined product retail market.

- Solid growth potential from Dongguan's DZIT project** – With an average utilisation rate of 95% at XHIT, it leaves little room for the market to expect significant earnings growth. Upon completion, the Dongguan terminal project will fuel Hans' growth momentum again. In October 2005, Hans received the final approval from National Reformation and Development Committee (NRDC) to develop a new oil, gas and liquid petrochemical storage facility in Guangdong's Dongguan, including a jetty terminal with warehousing capacity of up to 910,000 cubic meters - nearly three times that of XHIT. The project is expected to complete and be fully operational by 3Q07. The estimated RMB800mn capex would be financed through internal resources, customers' tank lease deposits and external bank loans. By leveraging on its prime location, integrated services (such as port terminal) and established long-term cooperative relationship with Sinopec and other MNCs, we believe DZIT can build on XHIT's successful business model and bring in significant earnings growth for Hans.

Outlook

- Long-term leasing contract for DZIT pending: A re-rating catalyst** - In establishing the business for DZIT project, Hans will leverage on the business model of XHIT to secure long-term leasing contract. According to management, Hans has undergone in-depth negotiations with several potential lesers and likely to reach a significant number of long-term leasing contracts in 2H06. The lease rate and terms can be comparable to that of XHIT's contract with Sinopec. Not only would the potential long-term lease ease market concerns on the utilisation rate of DZIT, it would

also pose as a catalyst for re-rating, driven by the promising earnings upsurge in 2008.

- **Long-term goal: Leading integrated terminal and storage service provider in China** - Apart from current logistic operations in XHIT and construction of DZIT, Hans will continue to expand its business horizon in China. The long-term development goal is to establish a national network of integrated storage and terminal facilities for oil, gas and petrochemical products through acquisitions and 'greenfield projects'. According to management, Hans may have one or two project acquisitions in the Yangtze River Delta.

Financials and Valuation

- **Valuation not demanding.** Before the DZIT project is completed and becomes fully operational, Hans will have to rely mainly on contributions from the existing XHIT that has high utilisation rate of 95% - an implication that earnings surprise for 2006 and 2007 should not be expected. Hans is trading at a forward FY07E PE of 8.8x (fully diluted 12.6x), which is undemanding when compared with its closest peers: Sinotrans (FY07 PE of 10x) and Baltrans (FY07 PE of 13x). Hans is expected to report rapid earnings growth in FY08, to be driven by contributions from the DZIT project - Hans' FY08E PE may dip to a low single-digit, possibly making it the cheapest counter among its counterparts.
- **Deep NAV discount.** We believe NAV valuation is suitable for the utility-nature of the business like Hans. The stock is trading at a discount of 51% to our estimated fully-diluted NAV per share of HK\$0.82 based on 11% WACC and zero long-term growth rate. Along with more project acquisitions and new long-term leasing contracts, we believe the gap can be narrowed to a lower level of 20-30%.

Financials at a Glance

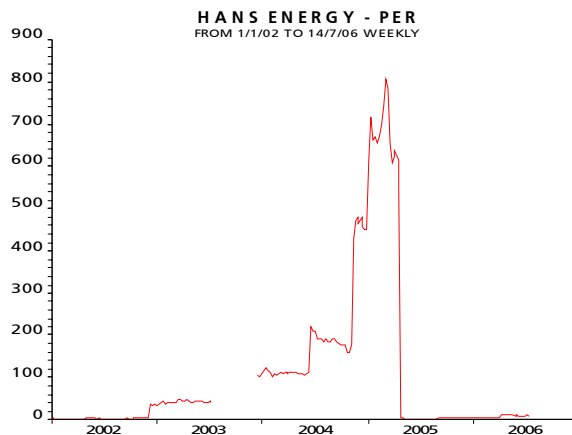
Income Statement (HK\$m)

FY Dec	2004A	2005A	2006F	2007F
Turnover	192	202	209	261
EBITDA	162	156	164	206
Depr/Amort	25	26	29	37
Opg Profit	137	130	135	168
Associates Inc	6	-	-	-
Interest (Exp)/Inc	(9)	(19)	(19)	(29)
Exceptionals	-	-	-	-
Pre-Tax Profit	134	111	116	139
Tax	(10)	(8)	(9)	(10)
Minority Interest	(10)	(11)	(9)	(9)
Net Profit	115	93	98	119
Sales Growth (%)	16.0	5.0	3.7	25.0
Net Profit Gr (%)	32.9	(19.3)	5.5	22.3
EBITDA Mgn (%)	84.3	77.3	78.3	78.7
Opg Mgn (%)	71.1	64.3	64.6	64.4
Tax Rate (%)	7.2	6.9	7.5	7.5

Cash Flow Statement (HK\$m)

FY Dec	2004A	2005A	2006F	2007F
EBIT	134	111	116	139
Tax Paid	(4)	(14)	(13)	(12)
Depr/Amort	25	26	29	37
Chg in Wkg Cap	391	(74)	236	(146)
Othr Non-Cash	3	12	13	24
Operational CF	549	61	381	42
Capex	(24)	(24)	(430)	(450)
Assoc, MI, Invsmt	52	19	-	-
Investment CF	28	(5)	(430)	(450)
Net Chg in Debt	(95)	(264)	-	350
New Capital	-	97	-	-
Dividend	-	(26)	-	-
Other financing CF	(7)	(6)	-	-
Financing CF	(101)	(199)	-	350
Chg in Cash	476	(143)	(49)	(58)
Chg in Net Cash	571	121	(49)	(408)

Valuation Graph: PE (x)



Source: Company, Datastream, DBS Vickers

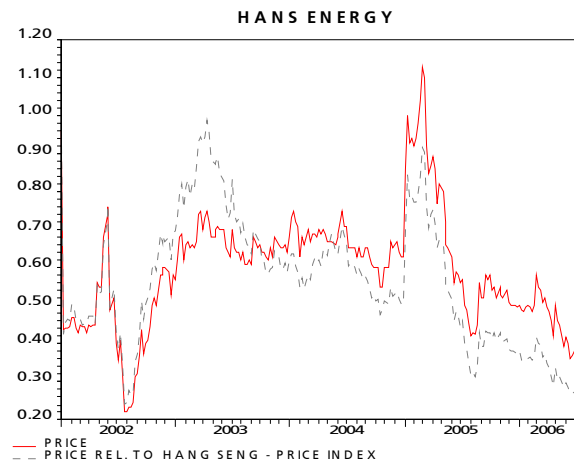
Balance Sheet (HK\$m)

FY Dec	2004A	2005A	2006F	2007F
Fixed Assets	348	355	785	1,236
Other LT Assets	-	6	6	6
Cash/ST Investments	506	355	305	247
Other Current Assets	44	19	22	26
Total Assets	898	735	1,118	1,514
ST Debt	265	105	105	155
Other Current Liab	226	105	181	145
LT Debt	681	340	340	640
Other LT Liab	327	269	432	326
Minority Interests	9	19	22	28
Shareholders' Equity	(610)	(103)	39	221
Total Capital	898	735	1,118	1,514
Share Capital (m)	2,620	2,620	2,620	2,620
Net Cash/(Debt)	(440)	(90)	(140)	(548)
Working Capital	58	164	41	(27)
Net Gearing (%)	n.a.	n.a.	362	249

NAV Breakdown (HK\$m)

	Without CB conversion	Full Conversion of CB
Xiahudao Project	1,013	1,013
Dongguan Project	2,289	2,289
Net debt	(548)	(208)
Net equity value	2,754	3,094
# of shares	2,620	3,752
NAV per share	1.05	0.82
Current share price	0.40	0.40
Discount (%)	-62%	-51%

Price Relative to Index



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