EVALUATE RESEARCH

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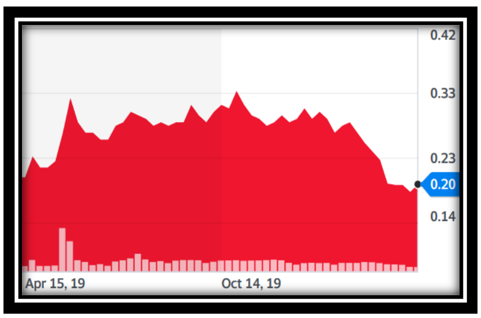
Target Price	HK$ 0.35
Current Price	HK$ 0.20
Upside Potential	75%
Rating	BUY

Market Cap.	HK$1.28 bn US$0.17 bn
Shares Outstanding	6574.4 mn
Free Float (FF / %)	1669.5 mn / 25%
52 Week Range (HK$)	0.18 / 0.38
Avg. Daily Value	HK$ 3mn
Hang Seng Index	23,236
Insider Holding %	75%



Risk: Above Average

Forecasting and Valuations

(HK$ mn except ratio)	2019	2020E
Revenue	1,515	1,640
Net Income	130	155
EPS (HK cents)	2.80	3.08
EPS Growth	-3.7%	12%
PE	7.72	6.58
EV/EBITDA	4.65	4.20
P/B	0.98	0.91

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Rare Earth Magnesium Technology Ltd. [0601_HK]

Initiation Report

Industry: Rare Earth Metal Alloys

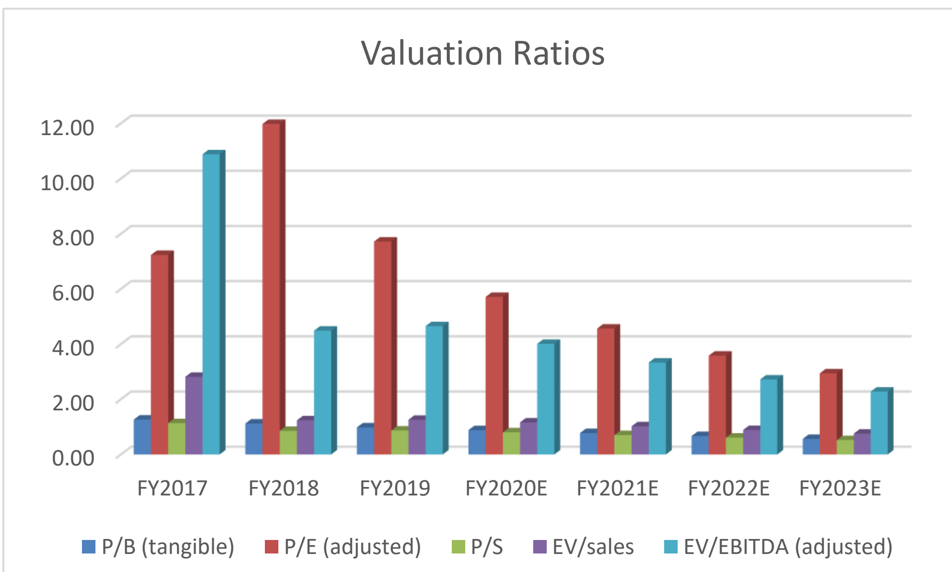
Rapid Revenue Growth

We expect **revenue for the REMT Group to grow at a CAGR of 14% from HK$1.51 bn in FY2019 to HK$2.52 bn in FY2023E.** The REMT Group, with increasing production enhancement and efficiencies driven by 22 patented production processes, has tremendous opportunities to grow its business. Furthermore, while the global production of raw aluminium was about 64.3 million tons in 2018 (according to International Aluminium Institute), global magnesium production was only 1.03 million tons (according to China Magnesium Association). Even if we assume that magnesium is able to replace 20% of the total market share of aluminium, which approximately amounts to 13 million tons and fully 13 times the current production amount, it gives a lot of scope for the demand of magnesium products to show sustained growth for a long time to come. In addition to all these revenue tailwinds, there is a favorable product mix shift which is enhancing margins, thus leading to positive EPS leverage. The company just reported solid, above-expectations FY2019 results with strong margins, please see detailed analysis on page 7.

Price Target HK$0.35: 75% Upside. L-T Target:HK$0.50

Our price target for REMT from a one year perspective is **HK$0.35, suggesting 75% upside, which would value the stock on a P/E of 8x on our FY2021E EPS.** The target price from a two year perspective is HK$0.50 as REMT deserves a much higher P/E and P/S multiple based on the company's and China's dominance in these strategic products, with a huge moat and patent protection, with increasing applications and demand. Also, as the company is expected to grow its revenues along with margin expansion, it indicates huge scope for creating shareholder value in the long-run. But given the current market scenario, even if it maintains a P/E of 8x on our FY2021E EPS, the target price of HK$0.35 in a one year time frame is conservative. REMT's stock trades at a **P/E multiple of 8x its trailing FY2019 EPS and 4.8x P/E on its forward FY2021E EPS.** Even the 12 month trailing P/S ratio of 0.87 suggests that the stock is undervalued. **The EV/EBITDA of 4.6x also indicates that the stock trades at a significant discount to the EV/EBITDA of 7.3x for Hang Seng index** while other emerging markets generally trade above 8x EV/EBITDA. Also, globally, **Lynas Corporation, an Australian rare-earths mining company**, listed on the Australian Securities Exchange in the S&P/ASX 200 index trades at **a 12 month trailing P/E of 14x its FY2019 EPS.** It indicates REMT trades at a significant discount to Lynas Corporation and we believe current valuations undervalue the large scale potential and opportunity that lies ahead for the company.

Income Statement ($HK million)	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	CAGR(19-23)
Total Revenue	**1,158.3**	**1,537.8**	**1,515.3**	**1,640.2**	**1,866.7**	**2,144.8**	**2,525.1**	13.6%
y/y	-	*32.8%*	*-1.5%*	*8.2%*	*13.8%*	*14.9%*	*17.7%*	
Cost of Revenue	-855.1	-1,128.3	-1,099.1	-1,180.9	-1,306.7	-1,458.4	-1,717.1	
Gross Profit	**303.2**	**409.5**	**416.2**	**459.2**	**560.0**	**686.3**	**808.0**	
Gross margin (%)	*26.2%*	*26.6%*	*27.5%*	*28.0%*	*30.0%*	*32.0%*	*32.0%*	
Operating income (Reported)	***249.9***	***340.6***	***335.2***	***373.2***	***479.7***	***595.0***	***712.1***	
y/y		*36.3%*	*-1.6%*	*11.3%*	*28.5%*	*24.0%*	*19.7%*	
Operating income reported margin (%)	*21.6%*	*22.1%*	*22.1%*	*22.8%*	*25.7%*	*27.7%*	*28.2%*	
Operating Income (adjusted)	**249.91**	**340.59**	**323.04**	**360.06**	**464.73**	**577.86**	**691.94**	21.0%
y/y	-	*36.3%*	*-5.2%*	*11.5%*	*29.1%*	*24.3%*	*19.7%*	
Operating income adjusted margin (%)	*21.6%*	*22.1%*	*21.3%*	*22.0%*	*24.9%*	*26.9%*	*27.4%*	
Pretax Income (adjusted)	***233.2***	***267.5***	***251.0***	***290.4***	***396.2***	***512.1***	***630.9***	25.9%
y/y	-	*14.7%*	*-6.2%*	*15.7%*	*36.4%*	*29.3%*	*23.2%*	
- Income Tax Expense	-55.30	-49.84	-53.40	-58.70	-80.23	-103.86	-128.21	
effective tax rate (%)	*23.7%*	*18.6%*	*20.3%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	
Income Before XO Items	**184.21**	**242.56**	**209.74**	**234.82**	**320.92**	**415.44**	**512.86**	
y/y	-	*31.7%*	*-13.5%*	*12.0%*	*36.7%*	*29.5%*	*23.4%*	
Net Income (Reported)	**301.31**	**136.45**	**130.14**	**155.21**	**241.31**	**335.84**	**433.25**	
y/y	-	*-54.7%*	*-4.6%*	*19.3%*	*55.5%*	*39.2%*	*29.0%*	
Net Income (adjusted)	**184.21**	**198.96**	**197.58**	**231.69**	**315.97**	**408.28**	**502.65**	26.3%
y/y	-	*8.0%*	*-0.7%*	*17.3%*	*36.4%*	*29.2%*	*23.1%*	
Basic EPS (reported)	0.048	0.021	0.0198	0.024	0.037	0.051	0.066	
Basic EPS (adjusted)	0.029	0.030	0.0301	0.035	0.048	0.062	0.076	
Basic Weighted Avg Shares	6,337	6,574	6,574	6,574	6,574	6,574	6,574	
Diluted EPS (GAAP) - continuing ops.	**0.028**	**0.022**	**0.028**	**0.031**	**0.042**	**0.054**	**0.067**	
y/y	-	*-19.0%*	*22.7%*	*12.0%*	*36.7%*	*29.5%*	*23.4%*	
Diluted EPS (adjusted) - continuing ops.	**0.028**	**0.017**	**0.026**	**0.030**	**0.041**	**0.054**	**0.066**	26.3%
y/y	-	*-39.6%*	*55.2%*	*17.3%*	*36.4%*	*29.2%*	*23.1%*	
Diluted Weighted Avg Shares	6,661	7,624	7,624	7,624	7,624	7,624	7,624	



Valuation ratio's	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
P/B (tangible)	1.26	1.12	0.98	0.88	0.78	0.67	0.56
P/E (adjusted)	7.23	11.98	7.72	5.71	4.83	3.58	2.94
P/S	1.14	0.86	0.87	0.80	0.70	0.61	0.52
EV/sales	2.81	1.24	1.26	1.16	1.02	0.89	0.75
EV/EBITDA (adjusted)	10.88	4.49	4.65	4.01	3.33	2.72	2.28

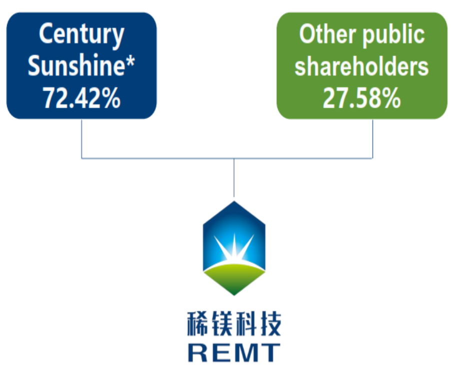
Growth (%)	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
Sales growth	-	32.8%	-1.5%	8.2%	13.8%	14.9%	17.7%
EBIT growth	-	36.3%	-5.2%	11.5%	29.1%	24.3%	19.7%
Net Income (adjusted) growth	-	8.0%	-0.7%	17.3%	36.4%	29.2%	23.1%
EPS (adjusted) growth	-	-39.6%	55.2%	17.3%	36.4%	29.2%	23.1%

Company Description

Rare Earth Magnesium Technology Group Holdings Limited (REMT) is one of the leading magnesium product manufacturers in China. The company mainly engages in the research and development, production, sales and marketing of magnesium and rare earth magnesium alloys. All of the company's magnesium products are certified with ISO9001 and it also owns 22 magnesium production patents. These reflect the company's manufacturing technique and product quality being recognised by the market.

Company's Historical Background

Century Sunshine (509_HK) entered into the magnesium manufacturing business in the year 2008 by acquiring a subsidiary in the Jilin province of China. Century Sunshine entered into the magnesium business mainly due to continuous increase in the market demand of magnesium products at that time. Also China being one of the countries with enormous amounts of magnesium mineral resources, had a competitive edge over resources availability thereby enabling the magnesium industry to enjoy preferential treatment in terms of policies.



Source: Company Presentation

In 2015 Century Sunshine, a company listed on the main board of the Stock Exchange of Hong Kong, became the major shareholder of the REMT Group. Century Sunshine currently has a majority shareholding of 72.42% in REMT and public shareholding accounts for 27.58%. At the end of 2015, the REMT Group acquired Xinjiang Tengxiang Magnesium Products Company Limited (Xinjiang Tengxiang), a magnesium product manufacturer in Xinjiang. The magnesium production line officially commenced operations in the first quarter of 2016.

In 2017 the REMT Group acquired the magnesium business from Century Sunshine where the latter injected capital, transferred technology and management experience to the REMT Group. Both the companies completed restructuring in 2017 and decided to focus on their respective businesses with the REMT Group's aim to develop the industrial platform of the technological application of rare earth magnesium business, aspiring to become the largest supplier of rare earth magnesium alloys in Asia. In 2018 the REMT Group disposed its electronic business to an independent third party to concentrate on the development of its magnesium alloy product business following which

Xinjiang base was recognised as a “High and Advanced Technology Enterprise” by the State, enjoying the advantages of preferential policy, technology and resource.

The production bases of the company are situated in Xinjiang Autonomous Region and Jilin Province. The Xinjiang production base is situated at Hami city, the main connection point of the implementation of the “One Belt, One Road” strategy of the Chinese government. The Xinjiang production base continues to focus on research and development, with the vertical retorts smelting production line installed which can reduce labour intensity and achieve mechanization, automation and humanized production of the magnesium smelting process. These aspects strengthen the leading position of the company’s magnesium production technology in the industry.

Differentiated Products – High Margin High Growth Strategy

The REMT Group produces and sells magnesium and magnesium alloy products. The company focuses on the application of rare earth technology and product innovation by adopting product differentiation competitive strategy. Mining of magnesium followed by production of rare earth magnesium alloys yields high margins for the company instead of selling products that only contain magnesium. Research, development and production of different kind of magnesium based rare earth mineral alloys would continue to remain a high margin business as long as there is continuous innovation protected by patents. The company therefore has strategized to optimise its product structure, increase the proportion of production and sales of high-margin and high-performance rare earth magnesium alloys and implement the competitive strategy of product differentiation. This strategy of the company is expected to cater to the premium category of the market in comparison to competitors who are only selling basic magnesium based products and have relatively lower margins.

High Tech and Unique Business – REMT Industry Leader

The REMT Group is an industry leader and the only Hong Kong listed company specializing in rare earth magnesium alloy production. The company has its superior patented production process technologies in magnesium and rare earth based alloys. The company engages in research and development, production and sales of rare earth magnesium new alloy materials. The R&D team with its robust technical know-how continues to concentrate on the development of rare earth new material technology and product innovation. The R&D team includes consultants from the Changchun Institute of Applied Chemistry of the Chinese Academy of Sciences. As a result the company has a leading edge in the research and development of high-end rare earth magnesium alloy products. The company has state of the art infrastructure and advanced technological equipment to help support energy conservation, help protect the environment, improve quality of products and increase efficiency of the production process.

The company’s products are classified into two major categories: basic magnesium products and rare earth magnesium alloy. The company will continue to optimize the product mix and gradually increase the contribution of high-margin rare earth magnesium alloy products. According to our analysis the high margin magnesium alloy products business is expected to account for approximately 69% of the total revenue in the year 2024. The company will continue to implement its competitive strategy of product differentiation and establish itself as a high tech manufacturer in the magnesium industry.

The company is recognized as a "High and Advanced Technology Enterprise" by the Chinese Government and is therefore able to enjoy preferential policies as well as obtain government support.

<u>Technological Tie-ups</u>

The company has established a long-term strategic relationship with Changchun Institute of Applied Chemistry of the Chinese Academy of Sciences, which is the top research and development institute for magnesium alloys in China. This makes it possible for the company to continuously innovate and come out with differentiated products in the magnesium alloy segment of the business to ultimately reap higher gross and net profit margins. Differentiated products generates higher growth in revenues for the company as newer and robust products are introduced in the market which can continue to have an inherently high demand for a long time to come.

Source: Company Presentation

Margin Expansion – Another Trigger for EPS Growth

Along with the company's focus on the sale of high margin products in the domestic and the international markets the gross profit margin, operating margin and the net income margin will also increase as the company is on track to achieve economies of scale with vertical integration. Also, the cost advantages arising from the low cost raw material supplies from the expanding production base of Xinjiang region will help in accentuating gross and operating profit margins for the company. The gross profit margin is expected to increase from 27.5% in FY2019 to 32% in FY2022E, according to our forecast model detailed in this report. The operating profit margin is expected to increase from 22.1% in FY2019 to 27.7% in FY2022E. The net income margin is expected to increase from 13% in FY2019 to 19% in FY2022E. The EPS is expected to grow from HK$0.026 in FY2019 to HK$0.054 in FY2022E as a result of margin expansion and revenue growth.

No Direct Competition for the REMT Group

Even though there are a few number of magnesium producers in China, the focus of the REMT Group has always been on innovation and research thereby manufacturing exclusive magnesium alloy products that are patented in terms of the process of production. The company has two categories of magnesium products, namely rare earth magnesium alloy products and basic magnesium products. The rare earth magnesium alloy products are the high-margin products with patented advantages of the company. There are no companies manufacturing the same kind of rare earth magnesium alloy products that REMT produces. **The products of the company are unique and high margin and REMT owns 22 patents which makes entry into the same market challenging. REMT is increasing the product mix of high margin rare earth magnesium alloys to further improve profitability of the Group. The 22 patents therefore work in favour of the company which makes it challenging and time consuming for new entrants to compete with REMT making it a big barrier to entry.** Also there is no direct competition in the industry for the REMT Group.

Lynas Corporation, Ltd. is an Australian rare-earths mining company, listed on the Australian Securities Exchange as a S&P/ASX 200 company with two major operations: a mining and concentration plant at Mount Weld, Western Australia, and a refining facility at Kuantan, Malaysia.

Even though Lynas Corp is in a different business as compared to the REMT Group both the companies deal in unique rare earth minerals with the former being into mining and the latter into rare earth and magnesium alloy development and production. The aspect to highlight about Lynas Corp is that unique rare earth minerals continue to be in limelight with utmost significance in its use and applications thereby garnering worldwide attention from the point of view of investment. The REMT stock therefore deserves premium valuations along the likes of Lynas Corp justifying a 75% upside.

<u>2019 Results: Strong Margin Jump, Better-than-expected Sales, EPS</u>

REMT reported a very strong set of results which were above our internal estimates. The company did well to have revenues down only fractionally at -1.5%, which was ahead of our internal forecast of -5.5%. In constant currency terms, without the impact of the RMB's 4.2% depreciation versus the HK$ (REMT's reporting currency), **revenue growth would have actually been positive for 2019. Both gross margins and EBITDA margins were also robust, reflecting the ongoing mix shift towards higher margin more value-added products**, which is a big part of our overall investment thesis, and a trend which is likely to continue going forward as well. Specifically, gross margin increased 0.9% YoY to 27.5% in 2019 versus 26.6% in the prior year. Recurring EBITDA margins showed even more improvement, up a full 1.6% at 29.5% versus 27.9% in the previous year. As indicated in our attached forecast model, we expect further such margin increases going forward as well.

Overall net income was down slightly -3.7%, better than our internal estimate of a -5.3% profit decline. Importantly, reported net income would have been a positive +3.5% if not were a large one-time HK$19.4 mn employee stock option expense which reduced reported profits by approximately 7% after-tax. This expense will not be repeated next year, and it sets up REMT for an easier YoY comparison in 2020 (versus 2019). Our recent calls with management post this results announcement, as well as earlier meetings with senior management in Hong Kong, suggests to us that the company is confident about its prospects for this year 2020, and especially in subsequent years, and with continued focus on margin expansion by delivering highly engineered rare earth magnesium alloy products. Additionally, magnesium market pricing is expected to be stable for the full year 2020, and at similar levels to prior year pricing.

REMT so far has not been majorly impacted by the Covid-19 pandemic outbreak. According to REMT's results statement, "the company has been able to gradually resume work and maintain normal operation and production in mid-February 2020. All employees of the company worked together to carry out a variety of stabilization tasks and adjust contingency plans for customers in a timely manner to minimize the impact of the outbreak of coronavirus disease on the operation." Importantly, REMT has not seen any noticeable Covid-19 impact on orders from its more cyclical customers in China, such as the automotive and aerospace industries. Our conversations with numerous other companies, and widespread new media reports, suggest that much of Chinese manufacturing and industrial companies are now back to operating at 90% of prior to Covid-19 production and staffing levels. It is also worth noting that exports represent only about 2% of REMT's revenues, so the company is not impacted by economic slowdown in Europe and the USA.

High-end rare earth magnesium alloys now comprise a majority 51% of REMT's revenues. While these high-end products do not comprise as much as standard products in volume terms, but given that they have much higher margins, they now make up over half of total revenue in HK dollar terms. As mentioned above, this positive mix shift is likely to continue. For example, it is known that the automotive market in some developed countries have already adopted a large amount of magnesium-alloy auto parts to manufacture advanced new cars; in some instances, as much as 40kg per car. At present, the average amount of magnesium used per car is only 5kg in China, which reflects the huge space for future exponential growth of the magnesium in the application of automobiles weight reduction and material optimization.

In early 2020, the Group was awarded as "The Best Small and Medium Sized Company" jointly issued by Zhitong Caijing, a financial news platform for Hong Kong and US stock market, and Straight Flush (同花順財經). REMT's financial balance sheet and income statement metrics continue to be solid. ROE was a healthy 15.1% (and an estimated 16.2% without the 1-time employee stock option expense), compared with 17.1% in 2018 and 14.4% in 2017. Debt gearing remains at moderate levels of 34%, with a strong 6.2x EBITDA/interest coverage ratio.

Strengths

Research and Development with 22 Patents

As an important alloying or micro-alloying element, rare earth plays an important role in metallurgy and material fields, such as purifying alloy melt, refining alloy structure, improving alloy mechanical properties and corrosion resistance and so on. Rare earth elements are widely used in steel and nonferrous alloys. By using patented technology and by adding appropriate amount of rare earth elements to the original magnesium alloy, properties such as tensile strength, ductile strength and elongation of the original alloy are significantly enhanced, which are far better in quality than ordinary magnesium alloy. The excellent purification and strengthening effects of rare earth are continuously being recognised and mastered by adding the appropriate rare earth elements. Using magnesium with rare earth element alloys results in greater tensile strength, better heat and corrosion resistance thereby greatly expanding its application.

According to the specification required by the customer, different varieties and proportions of rare earth metal elements, such as: lanthanum, cerium, gadolinium, yttrium, praseodymium, etc.; are added to the company's rare earth magnesium alloy. The addition of rare earth elements significantly improves the solid solubility of magnesium alloys, enhances the high temperature mechanical properties and creeps resistance of magnesium alloys. In addition, rare earth elements can reduce the oxidation tendency of magnesium in liquid and solid state, and have the functions of dehydrogenation and deoxidation, so that the rare earth magnesium alloy has good heat resistance and corrosion resistance. High-performance rare earth magnesium alloys have a huge application market in the fields of spaceflight and aviation.

The chart below describes the properties and applications of specific rare earth alloys which are protected by patents to generate revenue for the company.

Patent No	Magnesium alloy	Properties	Applications
ZL 2008 1 0050482.6	High strength high resilience Cerium lanthanum die-casting alloys	Enhance resilience on impact and mechanical properties of Mg alloys	Steering wheels and seat skeletons of automobile
ZL 2007 1 0056279.5	Cerium lanthanum die-casting alloys with AE heat resistance	High resistant to heat, creep and vibration	High-strength parts such as automotive engine cradle
ZL 2007 1 0306663.6	Ytterbium rare earth, heat-and creep-resistant die-casting alloys	Superb strength and heat resistant to creep, ideal for die-casting craftmanship	Automobile engine cylinder block

Source: Company Presentation

The company currently owns 22 patents in magnesium alloy manufacturing process and preparation technologies ranging from intermediate alloy to applied alloy. It includes high strength, high toughness, heat resistance, corrosion resistance, damping rare earth magnesium alloy production methods, as well as die casting and extrusion rare earth magnesium alloy preparation methods. One of the 22 patents was applied on the electrical case of the Shenzhou Spacecraft IV, which managed to successfully reduce 13kg of its weight. Other patents are used to improve the performance of products and to optimize the production processes. The company adopts the most advanced technology within the magnesium industry and makes full use of the abundant high quality local raw material resources in Xinjiang to safeguard the sustainable development of the company's magnesium alloy production business. The company has adopted the innovative vertical retorts smelting technology. The new vertical retorts smelting production line installed in Xinjiang production base has officially completed construction and commenced operation. The implementation of this technology effectively improves energy conservation and environmental protection, as well as improves production efficiency, reduces labour intensity and achieves mechanization, automation and humanized production of the magnesium smelting process. The vertical retorts smelting technology is the most advanced smelting technology in the magnesium industry. After obtaining the title of "High and Advanced Technology Enterprise" from the Chinese Government, Xinjiang production base enjoys preferential policies such as tax concessions, which facilitate enterprises to increase investments in research and development. This will help in accelerating revenue growth, enhance production and improve the economies of scale for the REMT Group.

In the future, the company will continue to invest in R&D and develop more rare earth magnesium alloy products to meet the ever increasing and diversified demand globally.

Streamlining of Business Structure and Cost Optimization

In July 2018, the REMT Group sold its electronic business and decided to focus entirely on the magnesium and magnesium alloy production. According to the company the development of electronic communication technology is advancing in leaps and bounds, and the competition is intense. The profitability of the existing electronic businesses will continue to face pressure from rising operating costs and considerable investments in research and development of technologies. The exit from the electronic business in its entirety has allowed the company to shift focus on the development of magnesium and magnesium alloy products. The company has decided to use the proceeds from its electronic business for general working capital purposes and for the development of high margin magnesium alloy products which have greater market potential.

Inherent Demand for Patented Magnesium Alloy Products

With the continuous development of the magnesium alloy technology in China, the application of magnesium alloy products in China's domestic market continues to be rapidly promoted, with an inherent market demand. The production and sales of magnesium products of the company are mainly based on the domestic market of China. Company's products have been certified by international aluminium companies, which has further improved the image and legitimacy of the REMT Group.

Patented processes and technologies have exclusivity for the purpose of production, marketing and other aspects of the business which virtually creates uniqueness for the products that are being sold by the company giving an advantage in terms of very less or no competition at all in the market. The application areas can also increase with newer and better magnesium alloy products as per the requirement of a specific field or industry. Exclusivity in manufacturing of products protected by patented manufacturing processes allows the demand to consistently increase as newer products get introduced in the market for the same or different set of applications. For example, it is critical to lower the weight of air and space craft, as well as projectiles, if emissions are reduced and fuel efficiency is improved. These changes will result in lower operational costs as well. Magnesium is an ideal material for use in these applications, due to limited continuing improvements on aluminium weight reduction, the high cost of fibre metal laminates and the poor impact and damage properties of low density plastics when subjected to extreme temperatures.

There is an exponential demand for magnesium alloys from mid-stream manufacturers and end-users, for example automobile and high-speed rail, aerospace, 3C electronic; medical and sports device; and many other metal-structured things, such as suitcase, stroller, bikes etc.

Risk Reduction through Contract Based Revenue Model

The business model of the company is based on contracts that are signed during the deal. The supply pattern is decided based on the assessed demand from their customers and accordingly the production is planned. A contract is made based on the assessed demand of the customers and revenue is recognised according to the production carried out under the contract basis. The company gets the majority of payment for the order before the delivery which eliminates the credit risk entirely and helps in managing its working capital efficiently.

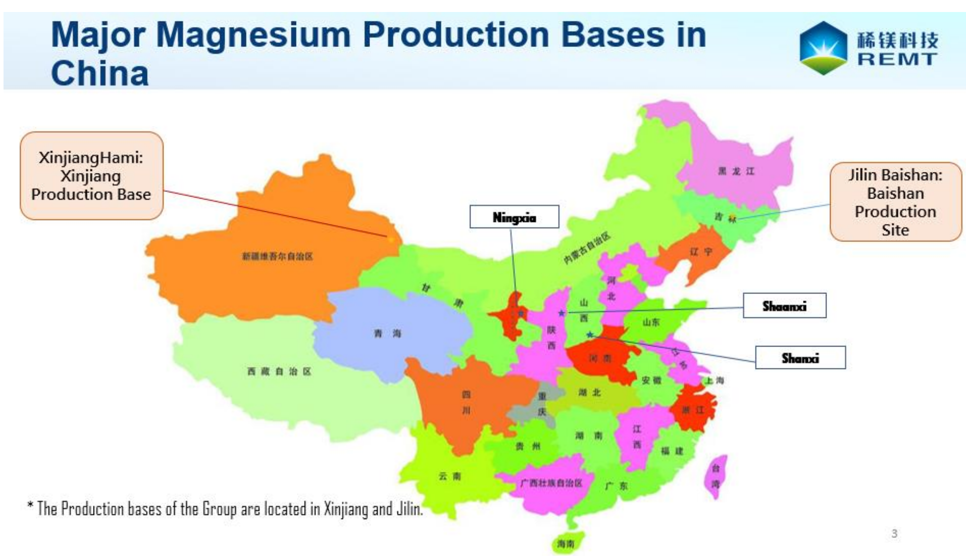
Also, the company is careful in selecting its customers that have a good credit rating history which helps in improving upon the collections for accounts receivables and reducing the risk for default of payments.

<u>Scalability of Production to Achieve Economies of Scale</u>

From FY2016 to FY2018 the annual production capacity of the company accounted for 40,000 tons, 50,000 tons and 68,000 tons, respectively, with a compounded growth of approximately 30%. The existing annual production capacity of Xinjiang base is 40,000 tons and the government construction approval is up to a cap of 100,000 tons. Upon completion of construction of 100,000 tons, Xinjiang production will become the largest rare earth magnesium alloy production base in the world. This way the company would be able to achieve economies of scale for their business to improve upon their cost competitiveness in the magnesium and magnesium alloy supply industry.

<u>Strategic Location of Production</u>

The production bases of the company are located in Xinjiang and Jilin Province in China. The Xinjiang production base is situated at Hami city, the main connection point of the implementation of the "One Belt, One Road" strategy of the Chinese Government. The location of production continues to remain strategic as it gets special significance in the policy designed by the Chinese Government. It is one of the enterprises in the southern circular economy industrial park of Hami High-tech Zone. Hami city in Xinjiang is the eastern front of Xinjiang, as well as a strategic center of the State along "One Belt, One Road". China's One Belt, One Road Initiative is an ambitious programme to connect Asia with Africa and Europe via land and maritime networks along six corridors with the aim of improving regional integration, increasing trade and stimulating economic growth. Xinjiang production base region has a dry climate which suits the production of magnesium. The source of magnesium is also abundant and cheap in the region as compared to other areas of production. These advantages are fundamental to the competitiveness of the REMT Group in China and represent a moat for the company in the magnesium industry. **There is an ample supply of raw materials near the production base in Xinjiang with low cost and the infrastructure is well developed to facilitate the production and transportation of magnesium.**



Source: Company Presentation

Xinjiang production base fully utilizes the advantageous high quality and lower priced resources in the Hami city area, to speed up project construction and industrial optimization to enhance the production capacity of magnesium and magnesium alloys and the construction of auxiliary ferro-silicon project. After the completion of the project, an integrated development model for the utilization of semi-coke, ferro-silicon and magnesium products is expected to be formed to boost the competitiveness of the company. And the output of Xinjiang and northeastern Baishan production bases will be flexibly adjusted to further optimize costs and to meet the market demand to create further benefits for the company.

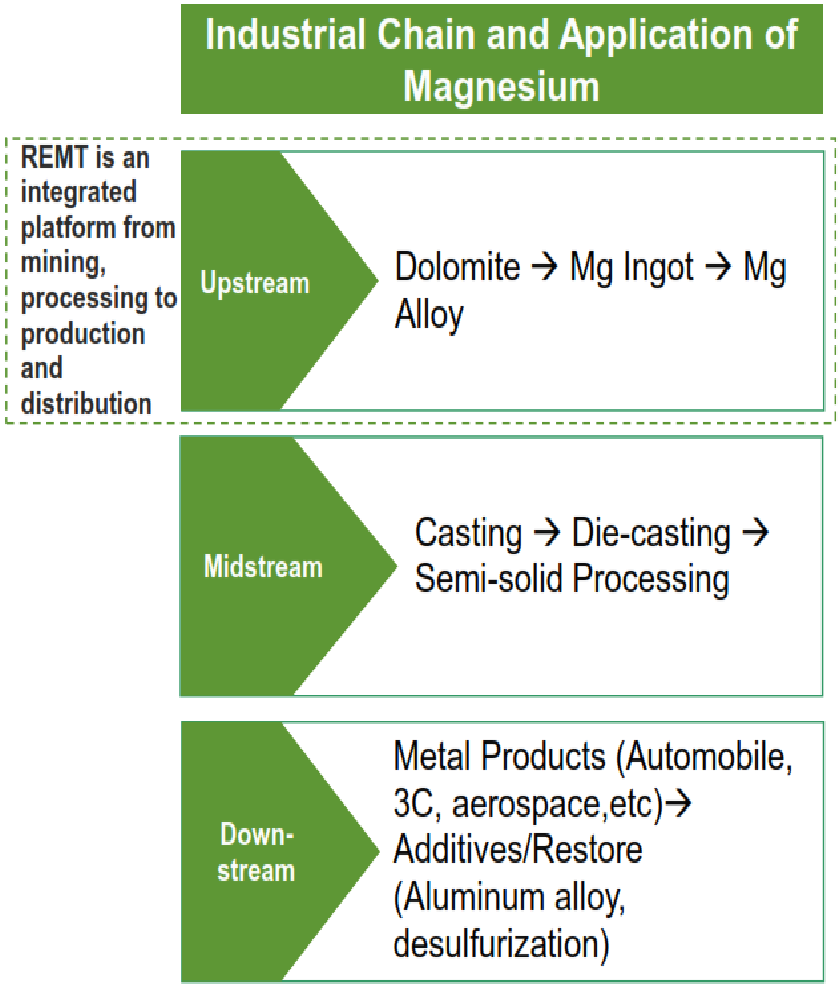
The company will focus on developing the production base in Xinjiang and expects that the revenue and profit contribution of the Xinjiang base will continue to grow. The sales areas are broadly located in Xinjiang, Inner Mongolia, Ningxia, Shandong, Henan, Guangxi, Anhui, Yunnan, Gansu, Qinghai, Sichuan and other regions. The company's current customers are mainly large sized and medium sized magnesium alloy smithing and casting enterprises.

Diversified Customer Base

For the year ended 31 December 2018: (i) The Company's largest customer and the five largest customers accounted for 9.2% and 27.1% respectively of the total revenue. (ii) The Group's largest supplier and the five largest suppliers accounted for 13.9% and 45.7% respectively of the total purchases (not including purchases of items which are capital in nature). The products are positioned at the upstream of the production chain and are mainly sold to midstream processing and die casting enterprises. No sales to a single customer contributed more than 10% which shows that the customer base is diversified to ensure minimum concentration of sales to one particular company thereby minimizing business risk for the REMT Group. At present, China's domestic sales accounted for about 98% of the total revenue for the REMT Group.

High Quality and Huge Quantity of Dolomite - 15mn Tons Reserves

REMT is a market leading company in China's #1 rank globally dominant control of critical, strategic and unique earth minerals such as magnesium. An undervalued and undiscovered gem with no research coverage whatsoever, REMT has a remaining reserve of 15 million tons, which provides a huge competitive moat and a long runway for further growth. China's magnesium industry with an 80% global market share in production (and second largest reserve base) is developing rapidly and continues to remain competitive because of a low overall cost of production in the world.



Source: Company Presentation

Dolomite is composed of calcium magnesium carbonate, a compound which is a source for magnesium. The Jilin production base of the REMT Group owns a dolomite ore mine with abundant reserves at an approximate remaining reserve of 15 million tons. The mine is operated by open pit method and therefore no additional exploration work is involved or required. Only simple infrastructure works for open-pit mining is involved in the development activities and no underground exploration or structural works are involved. The transportation cost for dolomite is relatively low due to the close proximity of the mine to the production base of the company. As a part of the vertical integration process the dolomite mine will continue to ensure optimum production of magnesium for supply of magnesium and alloy products. Given that the company possesses abundant reserves which would last for the next 40 years there will not be any major supply side issues from the company's perspective unless and until production gets halted due to external climatic conditions. The only thing important now for the company is to ensure that demand remains intact for their magnesium based alloy products on a consistent basis. Continuous innovation would help the company to ensure strong inherent demand for their products as newer alloys would be used primarily in the field of automobiles and telecommunications along with other varied application areas.

Vertical Integration of Business

The production bases of the Group are located in Xinjiang and Jilin Province in China. The Xinjiang production base is situated at Hami city, the main connection point of the implementation of the "One Belt, One Road" strategy of the Chinese Government. The company has strategized to grab all the developmental opportunities of rare earth magnesium alloy manufacturing and make full use of the available resources to take advantage of the strategic location of Hami city. The company continues to focus on accelerating the pace of project construction and industrial optimisation to achieve vertical integration. The plants will house the production of semicoke, ferrosilicon and magnesium to develop a fully integrated manufacturing facility. Vertical integration will allow the company to reduce per unit cost of magnesium and magnesium alloy products to achieve economies of scale in its operations and ultimately increase the competitive intensity.

Strong Balance Sheet

The company continues to maintain a healthy balance sheet. The gearing ratio defined as borrowings divided by total assets, was 34.2% for FY2019. The interest coverage multiple was 6.2x at the end of FY2019 which indicates the balance sheet of the company is healthy and if the need arises, further borrowing can be made for the purpose of capital expenditure given that demand for products is expected to remain high for a long time to come. Given the company has higher gross, operating and net profit margins it has an inherent ability to generate higher operating cashflows to service its debt, especially given that it is in a specialized commodity business and has further scope for borrowing to fund future growth.

Challenges

Environmental Policies and Regulations

China has dominated the world magnesia supply for decades, accounting for 80% of world magnesia production capacity and 85% of world production. China is the world's top producer of magnesium; however, production is in decline due to restrictive laws being placed by the Chinese government in due in large part to environmental reasons. The Chinese government has started a pro-green initiative all over the country, and this means reducing air pollutants by introducing stricter regulations around the country's mining and extraction sectors. Production in China is focused in Shaanxi and Shanxi province in China.

The Chinese Government's anti-pollution measures for the country's mining industry from early 2017 and into 2018 prompted the closure of many magnesia calcination and fusion plants. This led to a sudden reduction in supply and concern over the future of China's magnesium compounds supply chain. Part of the ongoing issue with magnesium production is the coal used for powering the smelters used to make it. Crackdowns on emissions and pollution are keeping China's output of magnesium production down. In 2018, January to July, China reported a production of 436,600 MT of refined magnesium, down 21.89% year-on-year. The supply continues to be tight in 2019 as well, as many small scale plants have been closed. The price of magnesium is expected to remain firm in the longer time horizon on account of tightness in supply which bodes well for the REMT Group.

All production plants of the REMT Group have been approved by the Chinese government. All procedures such as necessary environmental protection assessment have been completed in accordance with relevant regulations. The environment-protection facilities are complete hence the environmental emission is fully in line with the emission standard in the industry. Conforming to the set standards of the Government minimizes the uncertainty about unfavourable policy outcomes for the REMT Group. For example, IFC has established a long-term partnership with the Group to emphasize the importance of environmental protection and safety in the production process, and to take effective measures to ensure that environmental protection and safety meet the requirement of the local government.

Company's environment-protection facilities are complete hence the environmental emission is fully in line with the emission standard in the industry. The measures taken are as follows.

1. Zero sewage discharge
2. Provide solid slag to cement plant for comprehensive utilization
3. The gas is discharged to the standard after being processed by special equipment
4. Online monitoring of gas emissions that the data is directly uploaded to the environmental supervision institution.
5. IFC, as a long-term excellent partner of the Group, has injected the management philosophy into the Group. It includes urging the Group to always attach great importance to the awareness of environmental protection and safety in the production process, and to take effective measures to ensure that environmental protection and safety meet the requirement of the local government.

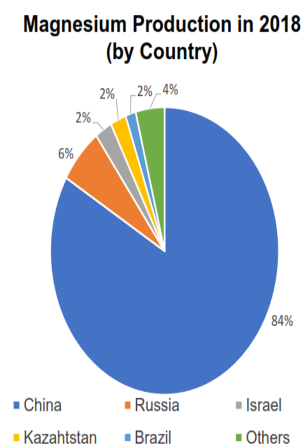
Even if any policies are made in the future to further curb pollution in China, the REMT Group would be least affected as they comply with all the necessary rules and regulations and have vertically integrated their production in the magnesium and magnesium alloy industrial products space. It presents an opportunity for the Group as small scale plants continue to close down and decrease the supply in the market thereby supporting the price of magnesium.

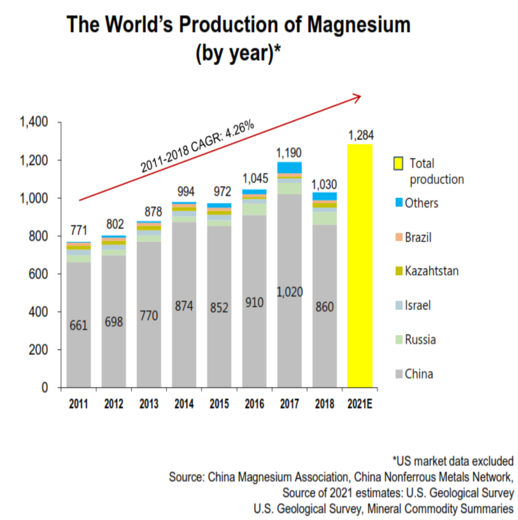
Environmental concerns for production of magnesium poses a challenge for small scale producers and gives an advantage to the large scale integrated manufacturers such as REMT to ultimately achieve economies of scale. REMT, being one of the largest producers of magnesium and magnesium based alloys, stands to gain from China's curb on pollution due to mining activities.

Opportunities

China’s Monopolistic Magnesium Production

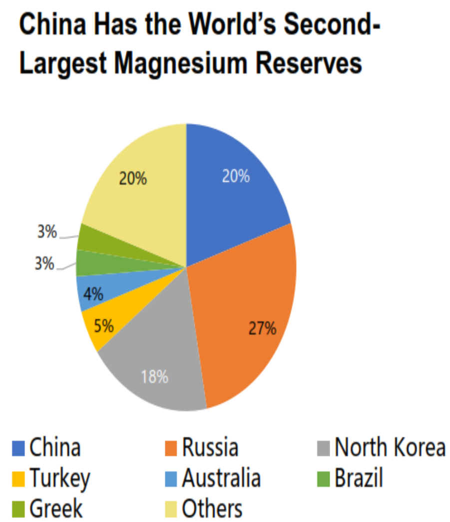
China is the world's largest producer of magnesium and possesses the world's second largest magnesium reserve. China's magnesium industry is developing rapidly with great potential and continues to remain globally competitive due to the overall cost of production being low in the region. The period of 2011-2018 shows a rapid surge in magnesium production in China and worldwide, reflecting a CAGR of 3.8% and 4.3% respectively. With demand expected to remain robust in the time ahead magnesium and magnesium alloy producers will find inherent demand for their products from OEMs in industries such as Automobiles, Aerospace and 3C. The production and supply of magnesium metal and its alloys from China will ensure a steady supply in the international market.

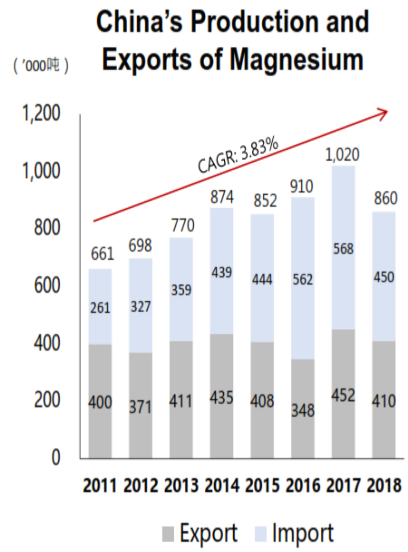




Source: Company Presentation

China's Production & Consumption





Source: Company Presentation

<u>Large Scope for Magnesium Alloy Usage in Automobiles</u>

Today's interest in magnesium alloys for automotive applications is based on the combination of high strength properties and low density. In automotive applications weight reduction will improve the performance of a vehicle by reducing the rolling resistance and energy is used in acceleration, thus reducing fuel consumption along with reduction in greenhouse gases.

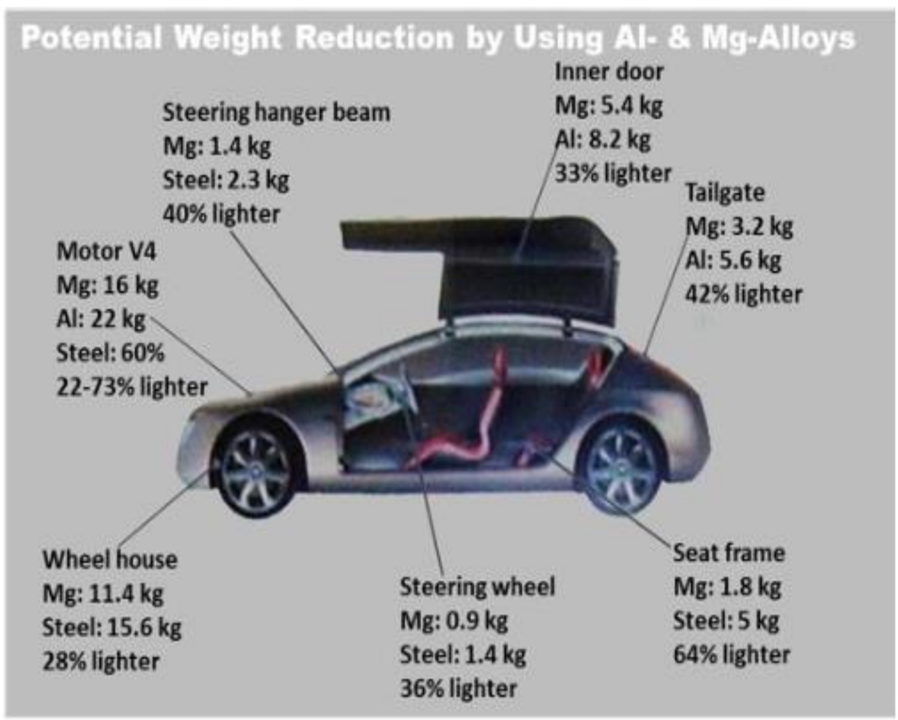
Current and potential application of magnesium alloys in vehicle parts

Engine and transmission (drive train) parts	Interior parts	Chassis components	Body components
Gear box	Steering wheels cores	Road wheels	Cast components
Crankcase	Seating components, rear seats	Suspension arms	Inner boot lid section
Cylinder head over	Instrument panel	Engine cradle	Cast A/B pillars
Oil pumping house	Steering column components	Rear support	Sheet components
Transfer case	Brake and cluth pedal brackets	Tailgate	Extruded components
Engine block	Air bag retainer		
Front cover			
Engine cradle			

Source: Global Automobile Industry Data

In the 1920s magnesium began to make an appearance in the automotive industry. The light weight metal began to be used in racing car adding to their competitive edge. About a decade later, magnesium began to be used in commercial vehicles such as the Volkswagen Beetle which contained about 20kg (44.09lbs) of the material. Interest in using magnesium in automotive applications has increased over the past decade in response to the increasing environmental and legislative influences. Fuel efficiency, increased performance and sustainability are top-of-mind issues. For example if the weight of the vehicle is reduced by 10% there is an increase in the fuel efficiency delivered to the extent of 6% to 8%.

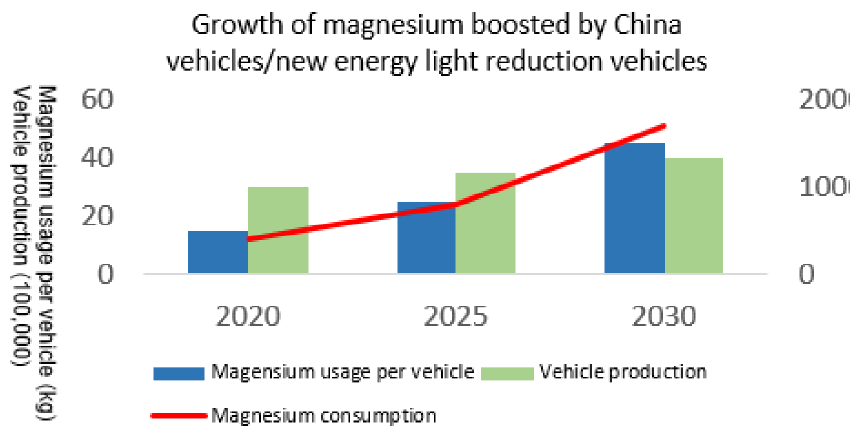
Magnesium is used in automobile components by manufacturers such as Ford, General Motors, Volkswagen, Audi, DaimlerChrysler, Jaguar, Kia Motors, Ferrari, Porsche and BMW. The use of magnesium reduces the overall weight of the vehicle. The amount of magnesium used in vehicles ranges from 30kg to a maximum of 40kg in developed countries. In China currently, the maximum amount of magnesium used is 5kg which is drastically lower than that used in developed countries. This paves the way for demand to increase exponentially for magnesium and magnesium alloy products specifically in China. Magnesium is currently being used in gearboxes, steering columns and driver's air bag housings as well as in steering wheels, seat frames and fuel tank covers.



Source: Company Presentation

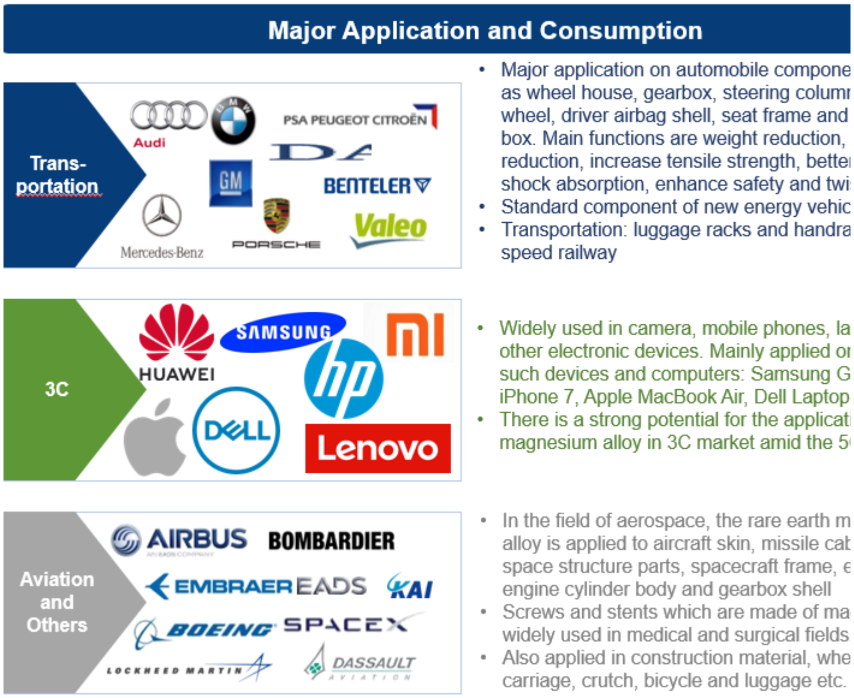
The use of magnesium in automotive applications can provide more than just weight savings. For many years, the desire to identify challenges, solutions, and opportunities regarding the use of magnesium in vehicles has been growing. Magnesium usage on the front end of a vehicle provides not just a lower overall mass for the car, but also allows for the shifting of the centre of gravity towards the rear improving the car's handling and turning capabilities. In addition, frequencies that reduce vibration and overall noise can be achieved through the tuning of magnesium parts. Steel components in vehicles can be replaced by a single cast piece of magnesium adding to the strength of the material and allowing for housings to be cast into place. This castability also requires less tooling and fewer gauges, which lowers manufacturing costs.

The magnesium market continues to grow given the demand for light weight vehicles is increasing. In 2018, the demand growth for magnesium reached 7.7%, which makes it one of the fastest growing metals in the world. The volume from sale of electric vehicles has reached more than 1 mn in 2018 globally and there is an increasing usage of magnesium in vehicles such as Roewe i6, Zotye T900, NIO ES8 and Tesla. The chart below gives an idea about the usage of magnesium with increasing vehicular production.



Source: "Route of Energy Saving and New Energy Vehicles Technology" – Weight reduction on vehicles

According to the United States Automotive Materials Partnership (USAMP), it is estimated that by 2020, 350 lbs of magnesium will replace 500 lbs of steel and 130lbs of aluminium per vehicle, an overall weight reduction of 15%. In turn, this weight saving would lead to fuel savings of 9% to 12% without any drastic changes in design. Considering the large number of vehicles produced worldwide, these weight savings could lead to a significant drop in the carbon dioxide released into the atmosphere, reducing its harmful impact on global warming. It is for this reason that magnesium is known as the green metal of the 21st century. Currently, multiple automobile parts can be made from magnesium alloys such as engine block, wheels, steering columns, seats, front consoles and hoods.



Source: Company Presentation

<u>Aerospace Applications</u>

Cars, vans and trucks are not the only vehicles that have incorporated magnesium in their designs. The aerospace industry has a long history of using the metal in many applications both civil and military. It is critical to lower the weight of air and space craft, as well as projectiles, if emissions are reduced and fuel efficiency is improved. These changes will result in lower operational costs as well. Magnesium is an ideal material for use in these applications, due to limited continuing improvements on aluminium weight reduction, the high cost of fibre metal laminates and the poor impact and damage properties of low density plastics when subjected to extreme temperatures. Magnesium can be found in the thrust reversers , as well as in engines and aircraft and helicopter transmission casings. Spacecraft and missiles also contain magnesium and its alloys. Lift-off weight reduction is of high importance in their design and a material is needed that can withstand the extreme conditions faced during their operation. Magnesium is capable of withstanding the extreme elevated temperatures, exposure to ozone and the impact of high energy particles and matter. It is also used in large quantity in intercontinental ballistic missiles such as Titan, Atlas and Agena.

<u>Medical Applications</u>

In the 1st half of last century, magnesium was first introduced in the medical industry as an orthopaedic biomaterial. There are many characteristics and properties that make magnesium a very attractive option for use in implants and similar applications. Magnesium is also much more akin to natural bone than other materials in regards to fracture toughness, elastic modulus and compressive yield strength. Not only does magnesium provide the mechanical and physical properties desirable in these applications, it also exhibits some special characteristics.

Magnesium is found naturally as an ion in the human body equating to about one mole in a 155lb (70kg) person, half of which is stored within bone tissue. Magnesium within the body assists in metabolic reactions, has good biocompatibility and is nontoxic. In addition, uncoated magnesium implants can be biodegradable in bodily fluids through corrosion, which eliminates the need for a further surgery to remove implants. Application of protective coatings can prevent corrosion issues in situations where a more permanent solution is needed. Research and testing of different alloys and formulas for protective finishes is currently in progress with the aim of increasing the array of ways in which magnesium can be used in medical applications.

Electronic Applications

In the current market, small and portable electronics are trending upward. The demand for compact devices that can be easily transported is booming and magnesium is often a key component in meeting this demand. Many magnesium alloys being used to replace plastics are just as light, but they are much stronger and more durable. Magnesium is also better in regards to heat transfer and dissipation as well as its ability to shield electromagnetic and radio frequency interference. Many electronics require parts or casings with complex shapes which are possible with magnesium. Cameras, cell phones, laptops and portable media device housings are all common applications in addition to the arms of hard drives. There is a strong potential for application of magnesium alloys in 3C market amidst implementation of 5G globally. **Companies such as Samsung and Apple continue to use magnesium alloys in their electronic products.**

The usage of magnesium is expected to grow among battery makers over the medium and long term because it is cheaper than lithium and cobalt, two other metals used to make batteries.

Magnesium has promise as a raw material for batteries as supplies are abundant and power cells made from magnesium are less prone to catching fire or exploding than the lithium-ion batteries widely used in electric cars and smartphones. Magnesium batteries also have the potential to store much more electricity than conventional power cells. Research and development aimed at bringing magnesium batteries to market is taking off around the world.

As a rechargeable battery is charged and discharged, ions shuttle between the battery's anode and cathode. In a lithium-ion battery, only one electron moves for each ion. But in a magnesium battery, two electrons move per ion, which translates to greater storage capacity. Conventional cathodes deteriorate as batteries are repeatedly charged and discharged, but the Tokyo University of Science cathode retained 80% of its capacity despite repeating the charge and discharge cycle five times, although the tests were conducted under controlled conditions.

Other Applications

Magnesium is utilized in optical and hand-held tool design. Wearers of spectacles often desire an aesthetically pleasing frame that is not felt during day-to-day wear but is sturdy enough to handle being removed and replaced throughout the day. Rifle scopes and binoculars must be stable in order to be effective and a light weight is also beneficial in their marketability. Magnesium allows for these design criteria to be met.

Hand-held work tools and devices such as chain saws, hand shears, hand drills, pneumatic nail guns and weed whackers are all perfect candidates for magnesium applications. The low density, comparative strength and vibration damping capabilities are all desirable characteristics in creation of the above mentioned handheld tools.

Magnesium has also found its way into small household appliances such as vacuums. By utilizing this material for a vacuum head, it will be light enough to easily move around as well as being dent resistant in normal use when coming in contact with furniture and other obstacles.

As the inherent benefits of magnesium applications are further realized, the ways in which it can and will be used become numerous. Demand for sustainable, lightweight and recyclable materials is ever increasing with the push towards environmentally-conscious products, which can only be beneficial for the magnesium industry.

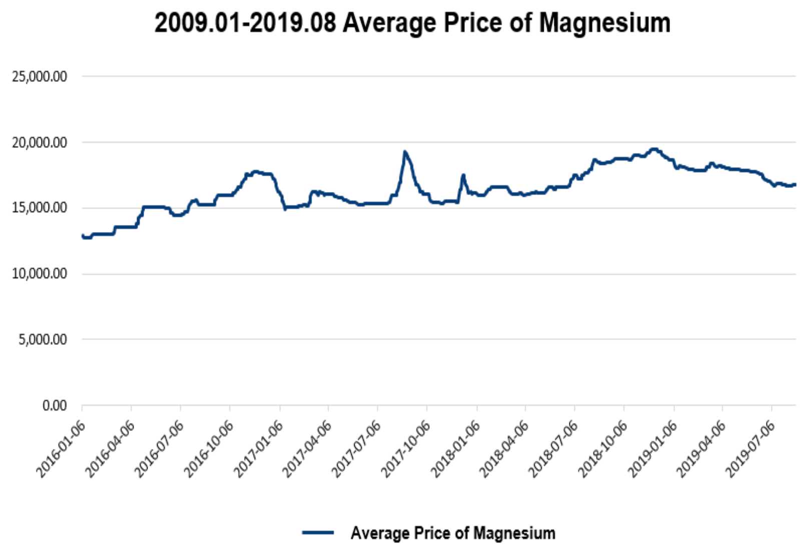
Exponential Downstream Business Potential

It is expected that the downstream of magnesium industrial chain is going to have an exponential growth going ahead. Magnesium alloys are the light metal material to replace aluminium alloy. In the downstream application of magnesium, 70% is applied in the transportation area, 20% in the 3C area and 10% in the areas of aviation, military along with other areas. With the rapid development of light-weight automobiles and 5G in the telecommunications industry, there will be a huge demand for magnesium alloys and the magnesium industry will face unprecedented development opportunities going forward. This will benefit the REMT Group who have patented their technology in the area of production of magnesium alloys.

Magnesium Pricing to Remain Elevated in the Long Term

It is predicted that the demand for magnesium products will show an explosive growth in the future. Magnesium alloys are widely used and being the ideal light metal material to replace aluminium alloy. In 2018, the global production of raw aluminium was about 64.34 million tons, while the global production of magnesium was only 1 mn tons. Even if magnesium replaces approximately 20% of the market share of aluminium, namely 13 mn tons and 13 times of the current production, it gives a lot of scope for the demand of magnesium products to show sustained growth for a long time to come. Increasing usage of magnesium and magnesium alloys in automobiles is mainly expected to keep the demand for products on the boil in the long term. The China Society of Automotive Engineers (CSAE) has issued 'the Roadmap for the Technology of Energy Conservation and New Energy Vehicles', which clearly sets the goals of weight reduction for an entire vehicle by 10%, 20% and 35% by 2020, 2025 and 2030, respectively and the consumption of magnesium per vehicle will reach 15kg, 25kg and 45kg respectively. The amount of magnesium used in a single vehicle was less than 1kg in 2016, while the demand for magnesium by 2030 will be higher than at least 45 times of that in 2016. 80% of the world's magnesium production comes from China and any changes in the environmental policies has an impact on the average price of magnesium. The magnesium industry has been affected by strict environmental policies, mine regulation and deleveraging in China and some of small-scale factories have been shut down as a result. The supply of magnesium therefore continues to be tight and as an effect the price of magnesium in the domestic and international market will continue to rise in the long term.

Pricing of magnesium has remained strong in the year 2018 which has aided the financial performance of the REMT Group. In FY2018, the company's revenue from supply of magnesium and magnesium alloy products increased by 33% from HK$1.15 bn in FY2017 to HK$1.54 bn. The reasons for this include a strong demand environment, elevated magnesium pricing and higher production. After-tax profits increased by 32% to HK$242 mn in FY2018 largely driven by strong revenue performance. Looking ahead, with demand estimated to remain robust and magnesium prices expected to remain elevated at current levels, the REMT Group's financials should continue to benefit.



Source: Company Presentation

<u>Favorable National Policies</u>

The Chinese Government has introduced policies in support of the development of the magnesium industry. In 2018, the MIIT announced the "Action Plan for Harmonization of Standards for Jointly Building the Belt and Road (2018-2020)", which boosted the standardization of exchanges and cooperation with countries along the "One Belt, One Road", and also promoted the cooperation within the manufacturing industry. In the field of non-ferrous metals, the focus is on strengthening the formulation of international standards in terms of rare earth, copper, lead, zinc, aluminium, magnesium and magnesium alloys, titanium and titanium alloys, to promote the formulation of relevant new material standards in cooperation with countries along the belt and road, so as to facilitate the trading of China's non-ferrous metal products along the "One Belt, One Road" countries. At the same time, the Development Plan for the Nonferrous Metal Industry (2016 - 2020) (the " Thirteenth Five-Year Plan for the Non-ferrous Metals Industry") has been issued by the Central Government earlier, where the development and production of new magnesium alloy materials has been listed as the development priority. The National Development and Reform Commission (NDRC) has announced that magnesium is categorized as 'Promoting Type' in the "Category of Industrial Reform in 2019". Under the "One Belt, One Road" and the favorable policies of the magnesium industry, REMT's business on magnesium alloy production has achieved high-speed development against the backdrop of these favourable policies.

MIIT will implement the following major tasks for the development of nonferrous metals industry in 2019:

(i) Improve both the quality and quantities of production and accelerate the development of new non-ferrous metals and new forms of businesses, including tracking the progress of construction of new energy automotive platform and strengthening the work supervision and coordination;
(ii) Optimize the stockpile and enhance the level of intelligence and green development of the industrial chain; and achieve ecological manufacturing in terms of green smelting, ultra-low emissions, non-hazardous slag disposal, and comprehensive utilization of resources around the production of copper, lead, zinc, tungsten and magnesium.

These reflect the continuous efforts of the Central Government in promoting and clarifying the direction of the development of non-ferrous metals industry, including the new magnesium alloy materials. The PRC Government highly values and encourages the application of rare earth technology and emphasises on strengthening the utilisation of rare earth resources, extending the industrial chain and increasing the added value of rare earth. National policies also continue to favour the Group's business development. The Group makes full use of its production method and patented technology from intermediate alloy to applied alloy, focusing on the R&D of high-end rare earth magnesium alloy products. The Group also achieved significant results by adopting the competitive strategy of product differentiation. The company's main products are basic magnesium products and rare earth magnesium alloy products. The rare earth magnesium alloy products accounted for approximately 36% of its production and sales volume and approximately 58% of its revenue for the first half ended June 2019. In 2018, Xinjiang Tengxiang, a subsidiary of the REMT Group, has been recognized as a national-level "High and Advanced Technology Enterprise" by the State. Leveraging on such achievement, the company has accelerated the development of scientific research of rare earth magnesium alloys. After obtaining the title of "High and Advanced Technology Enterprise", Xinjiang production base enjoys preferential policies such as tax concessions, which facilitates enterprises to increase investments in research and development. This will help in accelerating the development of magnesium products business, expand the production capacity and enhance the economies of scale for the REMT Group.

Risks

Slowdown in Global Automotive Industry and the Economy

Any slowdown in the global automotive industry can hamper growth and profitability for companies in the magnesium and magnesium alloy segment of the metals industry. Automotive sector has experienced slower growth in sales during 2019 YTD, particularly in China, which is the largest market in the world today and has been a critical driver of new volumes in recent years. In the smaller markets of Eastern Europe, Latin America and other parts of Asia, sales are expected to be steady to higher. Elsewhere in the automotive sector there have been a number of profit warnings in the first six months of 2019 and evidence of OEMs and suppliers reducing global footprint and curtailing expansion plans. The generally softer trends in consumer growth in the major economies may impact sales of other consumer goods as well as automobiles.

Exchange Rate

The REMT Group mainly operates in China and Hong Kong and is exposed to foreign exchange risk arising primarily with respect to Renminbi, HK$ and US$. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The company's management does not expect the net foreign currency risk from these activities to be significant and hence it does not presently hedge the foreign exchange risks. The company has planned to periodically review liquid assets and liabilities held in currencies other than HK$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

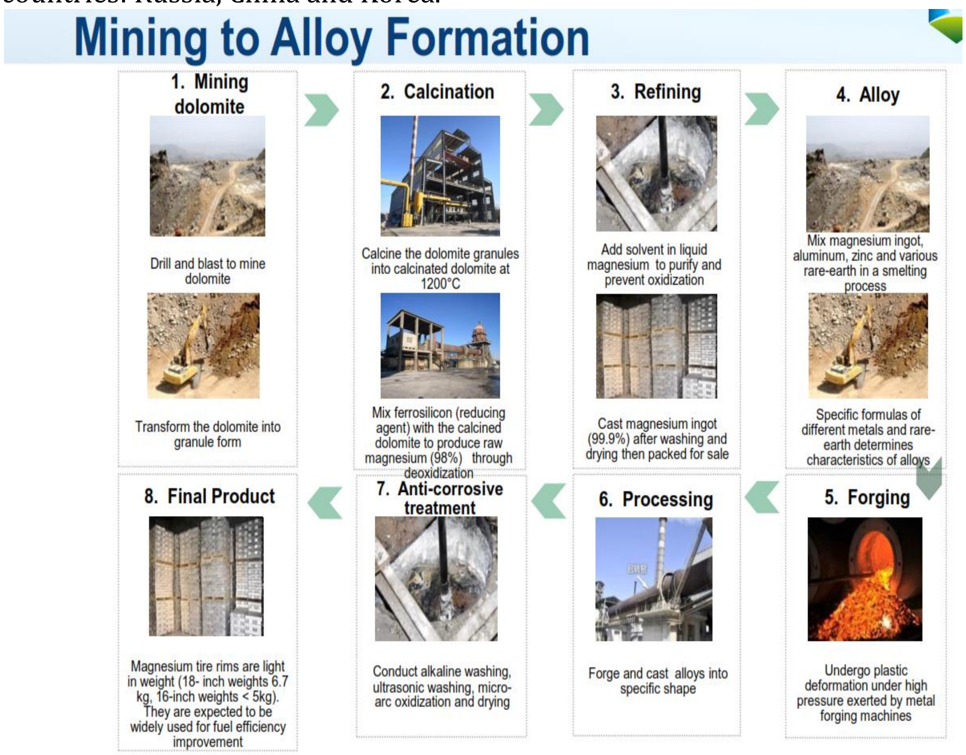
Industry Perspective

Magnesium Basics

Magnesium, a grayish-white and fairly tough metal, is a chemical element with the symbol Mg and atomic number 12. It is an alkaline earth metal and the eighth most abundant element in the Earth's crust-although not found in its elemental form. Magnesium is the fourth most common element in the Earth as a whole, making up 13% of the planet's mass and a large fraction of the planet's mantle. Due to magnesium ion's high solubility in water, it is the third most abundant element dissolved in seawater. Magnesium metal burns with a very bright light. Magnesium can be used to remove sulfur from iron and steel. Magnesium compounds, primarily magnesium oxide, are used mainly as refractory material in furnace linings for producing iron and steel, nonferrous metals, glass, and cement. Magnesium alloys are used as structural components of automobiles and machinery.

Magnesium is found in seawater and brines, as well as in deposits in the earth. There are three different types of magnesium ore: magnesite, dolomite and carnallite. It is also found in salt wells, brine and seawater. Traces of the element can be found in mineral waters. The element is also a part of green plant chlorophyll.

Resources from which magnesium may be recovered, range from large to virtually unlimited, and are globally widespread. Resources of dolomite and magnesium-bearing evaporite minerals are enormous. Magnesium-bearing brines are estimated to constitute a resource to the tune of billions of tons, and magnesium can be recovered from seawater at many places along the world's coastlines. Magnesium reserves are highly concentrated in three countries: Russia, China and Korea.



Source: Company Presentation

Dolomite

The global dolomite mining market with an estimated 4 billion tons dolomite reserve (expected to last next 1000 years) is anticipated to witness a healthy growth during the period from 2017 to 2025 on account of the thriving construction business especially in the emerging economies of Latin America and Asia Pacific. Moreover, the growing applications of dolomite in particle detectors, horticulture, iron smelting, and magnesium oxide is fuelling the growth of the global dolomite mining market. (Source: Transparency Market Research). Asia Pacific dolomite mining market is expected to witness significant growth over the forecast period owing to increasing road construction activities in the region. China is anticipated to be the frontrunner in the market over the foreseeable future. (Source: Grand View Research)

Magnesium – Historical Perspective- Industry Aspects

Due to its abundant reserves and the metal's unique properties, the magnesium industry will expand in the coming decades. Propelled by the needs of the electronics and automotive industries, world production has continued to rise in recent years. Despite several plant closures in the run-up to the 2008/09 downturn, especially in Canada, production in the USA, Russia and Israel has since expanded, albeit largely to feed demand from rising titanium metal output. Secondary magnesium production is more evenly spread globally, with the USA still the number one recycler. New primary magnesium plants have opened in Malaysia and South Korea since 2010. China tops the world in magnesium reserves, production capacity and volume as well as in exports. Its rapid development illustrates the future of the global magnesium industry. Nevertheless, trade disputes concerning magnesium occur frequently in the international trade markets, which are hindering the development of the industry. The U.S. Department of Commerce, International Trade Administration, imposed an anti-dumping duty of 339.6% ad valorem on imports of pure magnesium from China by Tianjin Magnesium Metal Co. Ltd. and an affiliate, Tianjin Magnesium International Co. Ltd., between May 1, 2011 and April 30, 2012 (U.S. Department of Commerce, International Trade Administration, In 2012, the magnesium alloy market demand is still the main engine driving global primary magnesium consumption. On the one hand, magnesium alloy demand in the automotive industry has slowed down, but still maintained stable growth; on the other hand, the demand from consumer electronics such as tablet PCs and smart phones for die casting products including magnesium alloy shell and brackets has ushered in rapid growth. As a result, China as the largest producer of primary magnesium and magnesium alloys in the world will maintain stable growth in the output of primary magnesium over the next few years.

Magnesium Alloy

Magnesium alloy is light material featuring in high resistance, vibration and noise reduction, resistant to electromagnetic radiation, environmentally friendly and with abundant resources. It is the green engineering material with the greatest potential for development and application in the 21st century and has become a global application research hotspot and development focus and obtained extensive attention in many industries. It has been widely applied in different fields including automobiles, railway transportations, 3C electronics products and aerospace. The Nonferrous Metal 13th Five Year Plan of China states that magnesium is one of the top five metals with the highest compound annual growth rate of 7.1% based on the 2020 key nonferrous metal consumption and production forecast. The Ministry of Industry and Information Technology of China announced the -Action Plan for Harmonization of Standards for Jointly Building the Belt and Road (2018 – 2020), which promoted the cooperation within the manufacturing industry among the countries along the 'One Belt One Road', facilitated the trading of China's non-ferrous metal products along the 'One Belt, One Road' countries. Magnesium product has achieved high-speed growth against the backdrop of the favorable policies. Magnesium is recognized as one of the three major materials following steel and aluminium.

Magnesium alloys products are widely applied in aerospace, military, transportation and high-tech areas with its outstanding capability. Its application has been increasing amid the trend of environmental protection and a greener era.

Magnesium is found in solution in sea-water (about 1.3 kg m-3 magnesium) and in natural brines. It is also found extensively in the ores magnesite ($MgCO_3$) and dolomite ($MgCO_3.CaCO_3$). Both of the two types of resources can be used as raw materials to manufacture magnesium metal.

Magnesium is principally produced by two methods:
a) Thermal reduction of magnesium oxide
b) Electrolysis of magnesium chloride

Before the expansion of production in China, electrolysis was the more common method of production in countries where electrical energy is produced relatively cheaply. Most Chinese plants, however, use an updated version of the thermal reduction process originally developed in Canada in the 1940s to boost production during World War II (the 'Pidgeon Process').

The main products of the company's business are basic magnesium products and rare earth magnesium alloy products. The rare earth magnesium alloy products accounted for approximately 36% of its production and sales volume and approximately 58% of its revenue for the first half ended June 2019.

Pure magnesium

Burning magnesium produces white light. This makes it ideal for firework sparklers, flares and flash photography. It also functions as an agent to produce uranium out of salt. The element's ions are necessary for every living organism. That is why magnesium salt is included in fertilizers and food. In many cases, magnesium bromide is utilized as a sedative. Magnesium is also used to remove sulphur from iron and steel.

Magnesium Compounds

This element has numerous compounds. The most vital commercially are sulfates, carbonates, chlorides, hydroxides and oxides. These are used in textile processing, leather tanning, insulation, fertilizers, cosmetics and ceramics. The citrates of magnesia and magnesium hydroxide are used in medication. The element can interact with organic halides.

Magnesium alloys

Magnesium alloys are in use around the world in a variety of different applications. They are a preferred material when looking for weight reduction without compromising overall strength. The vibration damping capacity is also beneficial in applications in which the internal forces of high-speed components must be reduced. The most common applications are:

<u>Conclusion</u>

We expect the revenue for the REMT Group to grow at a **CAGR of 14% from HK$1.51 bn in FY2019 to HK$2.52 bn in FY2023E.** The REMT Group, with increasing production enhancement and efficiencies driven by **22 patented production processes** has tremendous opportunities to grow its business. Furthermore, while the global production of raw aluminium was about 64.3 million tons in 2018 (according to International Aluminium Institute), global magnesium production was only 1.03 million tons (according to China Magnesium Association). Even if we assume that magnesium is able to replace 20% of the total market share of aluminium, which approximately amounts to 13 million tons and fully 13 times the current production amount, it gives a lot of scope for the demand of magnesium products to show sustained growth for a long time to come. In addition to all these revenue tailwinds, there is a favorable product mix shift which is enhancing margins, thus leading to positive EPS leverage. With demand estimated to remain robust and magnesium prices expected to trend higher in the long run as compared to current levels, the REMT Group's financials should continue to benefit.

Our price target for REMT from a one year perspective is **HK$0.35, suggesting a 75% upside, which would value the stock on a P/E of 8x on our FY2021E EPS.** The target price from a two year perspective is HK$0.50 as REMT deserves a much higher P/E and P/S multiple based on the company's and China's dominance in these strategic products, with a huge moat and patent protection, with increasing applications and demand. Also, as the company is expected to grow its revenues along with margin expansion, it indicates huge scope for creating shareholder value in the long-run. But given the current market scenario, even if it maintains a P/E of 8x on our FY2021E EPS, the target price of HK$0.35 in a one year time frame is conservative. REMT's stock trades at a **P/E multiple of 8x its trailing FY2019 EPS and 4.8x P/E on its forward FY2021E EPS.** Even the 12 month trailing P/S ratio of 0.87 suggests that the stock is undervalued. **The EV/EBITDA of 4.6x also indicates that the stock trades at a significant discount to the EV/EBITDA of 7.3x for Hang Seng index** while other emerging markets generally trade above 8x EV/EBITDA. Also, globally, **Lynas Corporation, an Australian rare-earths mining company**, listed on the Australian Securities Exchange in the S&P/ASX 200 index trades at **a 12 month trailing P/E of 14x its FY2019 EPS.** It indicates REMT trades at a significant discount to Lynas Corporation and we believe current valuations undervalue the large scale potential and opportunity that lies ahead for the company.

Lynas Corporation, Ltd. is an Australian rare-earths mining company, listed on the Australian Securities Exchange as a S&P/ASX 200 company with two major operations: a mining and concentration plant at Mount Weld, Western Australia, and a refining facility at Kuantan, Malaysia. Even though Lynas Corp is in a different business as compared to the REMT Group both the companies deal in unique rare earth minerals with the former being into mining and the latter into rare earth and magnesium alloy development and production. The aspect to highlight about Lynas corp is that unique rare earth minerals continue to be in limelight with utmost significance in its use and applications thereby garnering worldwide attention from the point of view of investment. The REMT stock therefore deserves premium valuations along the likes of Lynas Corp justifying a 75% upside.

5 Year Price Chart

Key Model and Forecast Assumptions

In terms of the income statement, our detailed earnings model below [see next five pages] forecasts higher net gross and net profit margins going forward from 2020 onwards.

Capital Expenditure is expected to increase gradually from FY2020 onwards till FY2022 on account of completion of construction of ongoing projects.

Assumed tax rate at 20% for the forecasts.

Overall, we expect higher double-digit EPS growth, at 17% in 2020 and 36% in 2021, which we believe is a fair assumption.

Income Statement ($HK million)	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	CAGR(19-23)
Total Revenue	**1,158.3**	**1,537.8**	**1,515.3**	**1,640.2**	**1,866.7**	**2,144.8**	**2,525.1**	13.6%
y/y	-	*32.8%*	*-1.5%*	*8.2%*	*13.8%*	*14.9%*	*17.7%*	
Cost of Revenue	-855.1	-1,128.3	-1,099.1	-1,180.9	-1,306.7	-1,458.4	-1,717.1	
Gross Profit	**303.2**	**409.5**	**416.2**	**459.2**	**560.0**	**686.3**	**808.0**	
Gross margin (%)	*26.2%*	*26.6%*	*27.5%*	*28.0%*	*30.0%*	*32.0%*	*32.0%*	
Selling & Distribution	-21.7	-15.3	-15.6	-17.2	-20.6	-22.7	-22.7	
as a % of sales	*-1.9%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.1%*	*-1.1%*	*-0.9%*	
Admin Expense	-48.3	-57.1	-77.6	-82.0	-74.7	-85.8	-93.4	
as a % of sales	*4.2%*	*3.7%*	*5.1%*	*5.0%*	*4.0%*	*4.0%*	*3.7%*	
Other Income/Gain	16.7	3.5	12.2	13.1	14.9	17.2	20.2	
as a % of sales	1.44%	0.23%	0.80%	0.80%	0.80%	0.80%	0.80%	
Operating income (Reported)	***249.9***	***340.6***	***335.2***	***373.2***	***479.7***	***595.0***	***712.1***	
y/y		*36.3%*	*-1.6%*	*11.3%*	*28.5%*	*24.0%*	*19.7%*	
Operating income reported margin (%)	*21.6%*	*22.1%*	*22.1%*	*22.8%*	*25.7%*	*27.7%*	*28.2%*	
Operating Income (adjusted)	**249.91**	**340.59**	**323.04**	**360.06**	**464.73**	**577.86**	**691.94**	21.0%
y/y	-	*36.3%*	*-5.2%*	*11.5%*	*29.1%*	*24.3%*	*19.7%*	
Operating income adjusted margin (%)	*21.6%*	*22.1%*	*21.3%*	*22.0%*	*24.9%*	*26.9%*	*27.4%*	
Interest Expense	-16.7	-73.1	-72.1	-71.0	-69.9	-66.8	-61.8	
Interest income	0.0	0.0	0.0	1.3	1.3	1.1	0.7	
Other non recurring (expenses) income	0.0	0.0	0.0	-10.0	-10.0	-10.0	-10.0	
Pretax Income (reported)	**233.2**	**267.5**	**263.1**	**293.5**	**401.1**	**519.3**	**641.1**	
y/y	-	*14.7%*	*-1.6%*	*11.5%*	*36.7%*	*29.5%*	*23.4%*	
Pretax Income (adjusted)	***233.2***	***267.5***	***251.0***	***290.4***	***396.2***	***512.1***	***630.9***	25.9%
y/y	-	*14.7%*	*-6.2%*	*15.7%*	*36.4%*	*29.3%*	*23.2%*	
- Income Tax Expense	-55.30	-49.84	-53.40	-58.70	-80.23	-103.86	-128.21	
effective tax rate (%)	*23.7%*	*18.6%*	*20.3%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	
Income Before XO Items	**184.21**	**242.56**	**209.74**	**234.82**	**320.92**	**415.44**	**512.86**	
y/y	-	*31.7%*	*-13.5%*	*12.0%*	*36.7%*	*29.5%*	*23.4%*	
Net Income (Reported)	**301.31**	**136.45**	**130.14**	**155.21**	**241.31**	**335.84**	**433.25**	
y/y	-	*-54.7%*	*-4.6%*	*19.3%*	*55.5%*	*39.2%*	*29.0%*	
Net Income (adjusted)	**184.21**	**198.96**	**197.58**	**231.69**	**315.97**	**408.28**	**502.65**	26.3%
y/y	-	*8.0%*	*-0.7%*	*17.3%*	*36.4%*	*29.2%*	*23.1%*	
Interest on convertible bonds								
Basic EPS (reported)	0.048	0.021	0.0198	0.024	0.037	0.051	0.066	
Basic EPS (adjusted)	0.029	0.030	0.0301	0.035	0.048	0.062	0.076	
Basic Weighted Avg Shares	6,337	6,574	6,574	6,574	6,574	6,574	6,574	
Diluted EPS (GAAP) - continuing ops.	**0.028**	**0.022**	**0.028**	**0.031**	**0.042**	**0.054**	**0.067**	
y/y	-	*-19.0%*	*22.7%*	*12.0%*	*36.7%*	*29.5%*	*23.4%*	
Diluted EPS (adjusted) - continuing ops.	**0.028**	**0.017**	**0.026**	**0.030**	**0.041**	**0.054**	**0.066**	26.3%
y/y	-	*-39.6%*	*55.2%*	*17.3%*	*36.4%*	*29.2%*	*23.1%*	
Diluted Weighted Avg Shares	6,661	7,624	7,624	7,624	7,624	7,624	7,624	

Reference Items	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
EBITDA (adjusted)	299.3	424.2	409.3	453.5	571.1	700.1	835.9
EBITDA (reported)	299.3	424.2	421.5	466.7	586.1	717.3	856.1
Dividends per Share	0.000	0.005	0.006	0.006	0.008	0.011	0.013
Dividend payout ratio	0.0%	22.3%	21.8%	20.0%	20.0%	20.0%	20.0%
Depreciation & Amortization	49.4	83.6	86.3	93.5	106.4	122.3	143.9
as a % of gross PPE							
as a % of sales	*4.3%*	*5.4%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*

Income Statement ($HK million)	1H2017	2H2017	1H2018	2H2018	1H2019	2H2019	1H2020E	2H2020E	1H2021E	2H2021E
Total Revenue	503.3	655.0	795.6	742.1	726.2	789.1	762.5	877.6	854.0	1,012.7
y/y			58.1%	13.3%	-8.7%	6%	5.0%	11.2%	12.0%	15.4%
Cost of Revenue	-365.7	-489.4	-593.0	-535.3	-519.9	-579.2	-549.0	-631.9	-597.8	-708.9
Gross Profit	137.6	165.6	202.7	206.8	206.3	209.9	213.5	245.7	256.2	303.8
Gross margin (%)	27.3%	25.3%	25.5%	27.9%	28.4%	26.6%	28.0%	28.0%	30.0%	30.0%
Selling & Distribution	-7.4	-14.3	-6.9	-8.4	-5.0	-10.6	-7.5	-9.6	-11.3	-9.3
as a % of sales	-1.5%	-2.2%	-0.9%	-1.1%	-0.7%	-1.3%	-1.0%	-1.1%	-1.3%	-0.9%
Admin Expense	-13.8	-34.5	-25.7	-31.4	-16.2	-61.4	-28.2	-53.8	-34.2	-40.5
as a % of sales	2.7%	5.3%	3.2%	4.2%	2.2%	7.8%	3.7%	6.1%	4.0%	4.0%
Other Income/Gain	8.9	7.9	1.2	2.4	2.1	10.1	0.0	13.1	0.0	14.9
						0.00	0.00	0.00	0.00	0.00
Operating income (Reported)	125.3	124.6	171.2	169.4	187.2	148.0	177.8	195.4	210.7	268.9
y/y	-	-	36.6%	35.9%	9.3%	-12.6%	-5.0%	32.0%	18.6%	37.6%
Operating income reported margin (%)	24.9%	19.0%	21.5%	22.8%	25.8%	18.8%	23.3%	22.3%	24.7%	26.6%
Operating Income (adjusted)	125.30	124.60	171.20	169.38	187.19	137.91	177.75	182.31	210.73	254.00
y/y	-	-	-	-	-	-18.6%	-5.0%	32.2%	18.6%	39.3%
Operating income adjusted margin (%)	91.0%	75.3%	84.5%	81.9%	90.7%	17.5%	23.3%	20.8%	24.7%	25.1%
Interest Expense	-4.4	-12.3	-35.9	-37.1	-37.4	-36.0	-35.5	-35.5	-34.9	-34.9
Interest income						0.0	0.7	0.7	0.7	0.7
Other non recurring (expenses) income						0.0	0.0	-10.0	0.0	-10.0
Pretax Income (reported)	120.9	112.3	135.3	132.3	149.8	112.0	142.9	150.6	176.5	224.7
y/y	-	-	-	-	-	-15.3%	-4.6%	34.5%	23.5%	49.2%
Pretax Income (adjusted)	120.9	112.3	135.3	132.3	149.8	101.9	142.9	147.5	176.5	219.7
y/y						-23.0%	-4.6%	44.8%	23.5%	49.0%
- Income Tax Expense	-31.91	-23.39	-30.58	-19.26	-33.52	-19.88	-28.58	-30.12	-35.30	-44.93
effective tax rate (%)	26.4%	20.8%	22.6%	14.6%	22.4%	17.8%	20.0%	20.0%	20.0%	20.0%
+ Profit from Discontinued Operations	0	6				0	0	0	0	0
Income Before XO Items	89.22	94.98	104.69	113.00	116.30	92.09	114.33	120.48	141.18	179.73
y/y	-	-	-	-	-	-3.0%	24.2%	5.4%	17.2%	27.3%
Net Income (Reported)	139.93	161.37	70.68	40.91	87.42	41.36	114.33	120.48	141.18	179.73
y/y						1.1%	30.8%	191.3%	23.5%	49.2%
Net Income (adjusted)	89.22	94.98	104.69	181.20	116.30	82.00	114.33	117.35	141.18	174.80
y/y	-	-	-	-	-	-54.7%	-1.7%	43.1%	23.5%	49.0%
Basic EPS (reported)	0.022	0.025	0.011	0.006	0.013	0.006	0.017	0.018	0.021	0.027
Basic EPS (adjusted)	0.014	0.015	0.017	0.028	0.018	0.012	0.017	0.018	0.021	0.027
y/y						-0.5	0.0	0.4	0.2	0.5
Basic Weighted Avg Shares	6,337	6,337	6,337	6,574	6,574	6,574	6,574	6,574	6,574	6,574
Diluted EPS (GAAP) - continuing ops.	0.013	0.014	0.016	0.015	0.015	0.012	0.015	0.016	0.019	0.024
y/y	-	-	-	-	-	-18.5%	-1.7%	30.8%	23.5%	49.2%
Diluted EPS (adjusted) - continuing ops.	0.013	0.014	0.016	0.024	0.015	0.011	0.015	0.015	0.019	0.023
y/y	-	-	-	-	-	-54.7%	-1.7%	43.1%	23.5%	49.0%
Diluted Weighted Avg Shares	6,661	6,661	6,661	7,624	7,624	7,624	7,624	7,624	7,624	7,624

Balance Sheet ($HK million)	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
Assets							
+ Cash & Near Cash Items	172.9	131.3	254.8	261.3	215.3	133.5	253.5
+ Pledged Bank Deposit	7.9	15.0	7.3	7.3	7.3	7.3	7.3
+ Accounts & Notes Receivable	297.0	218.0	151.5	179.7	255.7	293.8	345.9
+ Other Receivables & Prepayments	133.4	178.4	287.9	287.9	287.9	287.9	287.9
+ Inventories	151.9	146.4	186.6	194.1	161.1	179.8	211.7
+ Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**763.1**	**689.1**	**888.1**	**930.4**	**927.3**	**902.4**	**1,106.3**
+ Gross Fixed Assets	2,051.4	1,703.0	1,884.8	2,147.3	2,445.9	2,832.0	3,084.5
- Accumulated Depreciation	-462.8	-168.9	-359.8	-453.3	-559.7	-682.0	-825.9
+ Net Fixed Assets - PPE	1,588.6	1,534.1	1,525.0	1,694.0	1,886.2	2,150.0	2,258.6
+ Prepaid Lease Payments	70.6	52.0	0.0	0.0	0.0	0.0	0.0
+ Mining Rights	50.4	47.3	45.9	45.9	45.9	45.9	45.9
+ Other Long Term Assets	86.1	49.7	95.1	0.0	0.0	0.0	1.0
Total Long-Term Assets	**1,795.7**	**1,683.1**	**1,666.1**	**1,739.9**	**1,932.1**	**2,195.9**	**2,305.5**
Total Assets	**2,558.8**	**2,372.2**	**2,554.4**	**2,670.5**	**2,859.7**	**3,098.5**	**3,412.0**
Liabilities & Shareholders' Equity							
+ Accounts Payable	208.9	90.4	73.2	80.9	107.4	119.9	141.1
+ Other Payables & Accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Short-Term Borrowings	83.8	73.5	335.5	352.3	352.3	352.3	352.3
+ Other Short-Term Liabilities	8.1	8.2	395.9	395.9	395.9	395.9	395.9
Total Current Liabilities	**300.8**	**172.1**	**804.6**	**829.0**	**855.5**	**868.0**	**889.3**
+ Long-Term Borrowings	697.0	661.2	171.7	154.5	139.1	111.2	66.7
+ Other Long-Term Liabilities	437.8	267.7	190.2	190.2	190.2	190.2	190.2
Total Liabilities	**1,435.6**	**1,101.0**	**1,166.4**	**1,173.7**	**1,184.8**	**1,169.5**	**1,146.2**
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Minority Interest	-7.8	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	657.4	657.4	657.4	657.4	657.4	657.4	657.4
+ Retained Earnings & Other Equity	473.6	613.8	730.4	839.3	1,017.4	1,271.6	1,604.3
Total Shareholders' Equity	**1,123.2**	**1,271.2**	**1,387.9**	**1,496.8**	**1,674.9**	**1,929.1**	**2,265.8**
Total Liabilities & Equity	**2,558.8**	**2,372.2**	**2,554.3**	**2,670.5**	**2,859.7**	**3,098.5**	**3,412.0**

Cash Flow ($HK million)	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
+ Net Income	239.4	335.7	130.1	155.2	241.3	335.8	433.3
+ Depreciation & Amortization	42.7	73.2	86.3	93.5	106.4	122.3	143.9
+ Capitalizing Finance/Convert Costs	17.5	73.5	166.3	0.0	0.0	0.0	0.0
+ Working Capital + Overseas Cash from Operations	-113.5	-239.5	396.8	-28.1	-16.4	-44.3	-62.7
+ Other Non-Cash Adjustments	8.7	11.4	-109.5	0.0	0.0	0.0	0.0
+ Loss of Subsidiary Sale	0.0	-59.5	0.0	0.0	0.0	0.0	0.0
Cash From Operating Activities	**194.8**	**194.8**	**670.0**	**220.6**	**331.3**	**413.8**	**514.5**
+ Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	1.0
+ Capital Expenditures	-270.7	-204.3	-181.8	-262.4	-298.7	-386.1	-252.5
+ Investments	0.0	0.0	1.4	0.0	0.0	0.0	0.0
+ Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	1.0
+ Other Investing Activities	50.3	-10.3	52.0	0.0	0.0	0.0	0.0
Cash From Investing Activities	**-220.4**	**-214.6**	**-128.4**	**-262.4**	**-298.7**	**-386.1**	**-250.5**
+ Dividends Paid	0.0	-38.1	-45.7	-46.3	-63.2	-81.7	-100.5
+ Increase in Borrowings	83.5	-56.0	-227.5	-0.4	-15.5	-27.8	-44.5
+ Increase in Capital Stock	0.0	0.0	0.0	0.0	0.0	0.0	1.0
+ Other Financing Activities	-78.5	-82.6	105.2	0.0	0.0	0.0	0.0
Cash from Financing Activities	**5.0**	**-176.7**	**-168.1**	**-46.7**	**-78.6**	**-109.5**	**-144.0**
Net Changes in Cash	**-20.6**	**-196.5**	**373.5**	**-88.6**	**-46.0**	**-81.8**	**119.9**
Opening cash		172.9	-23.6	349.9	261.3	215.3	133.5
Closing cash		-23.6	349.9	261.3	215.3	133.5	253.5

Ratio Analysis	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
Per Share Data (HK$)							
Basic EPS (adjusted)	0.03	0.03	0.03	0.04	0.05	0.06	0.08
Diluted EPS (adjusted)	0.03	0.017	0.026	0.030	0.041	0.054	0.066
Dividend per share (DPS)	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Book Value per share (BVPS)	0.16	0.18	0.20	0.22	0.25	0.29	0.34
Margins (%)							
Gross Margin	26.2%	26.6%	27.5%	28.0%	30.0%	32.0%	32.0%
Operating Margin	21.6%	22.1%	21.3%	22.0%	24.9%	26.9%	27.4%
EBITDA Margin (adjusted)	25.8%	27.6%	27.0%	27.7%	30.6%	32.6%	33.1%
Pre-Tax Margin (adjusted)	20.1%	17.4%	16.6%	17.7%	21.2%	23.9%	25.0%
Net Income Margin (adjusted)	15.9%	12.9%	13.0%	14.1%	16.9%	19.0%	19.9%
Growth (%)	**FY2017**	**FY2018**	**FY2019**	**FY2020E**	**FY2021E**	**FY2022E**	**FY2023E**
Sales growth	-	32.8%	-1.5%	8.2%	13.8%	14.9%	17.7%
EBIT growth	-	36.3%	-5.2%	11.5%	29.1%	24.3%	19.7%
Net Income (adjusted) growth	-	8.0%	-0.7%	17.3%	36.4%	29.2%	23.1%
EPS (adjusted) growth	-	-39.6%	55.2%	17.3%	36.4%	29.2%	23.1%
	FY2017	**FY2018**	**FY2019**	**FY2020E**	**FY2021E**	**FY2022E**	**FY2023E**
Dupont ROE (%)	**16.4%**	**15.7%**	**14.2%**	**15.5%**	**18.9%**	**21.2%**	**22.2%**
Margin (%)	15.9%	12.9%	13.0%	14.1%	16.9%	19.0%	19.9%
Turnover (x)	0.45	0.65	0.59	0.61	0.65	0.69	0.74
Leverage (x)	2.28	1.87	1.84	1.78	1.71	1.61	1.51
RoCE	14.1%	16.7%	20.7%	21.9%	25.7%	28.4%	29.7%
ROA	7.2%	8.4%	7.7%	8.7%	11.0%	13.2%	14.7%
Net cash / equity	-53.4%	-46.3%	-17.7%	-15.9%	-16.0%	-16.7%	-7.0%
FCF Calculation							
Op. cash	194.8	194.8	670.0	220.6	331.3	413.8	514.5
capex	-270.7	-204.3	-181.8	-262.4	-298.7	-386.1	-252.5
FCF (HK$ million)	-75.9	-9.5	488.2	-41.8	32.6	27.7	261.9
FCF margin (%)	-6.6%	-0.6%	32.2%	-2.6%	1.7%	1.3%	10.4%
FCF per share	-0.01	0.00	0.06	-0.01	0.00	0.00	0.03
Price/FCF per share	-17.55	-160.51	3.12	-36.45	46.76	55.05	5.82
FCF Yield	**-5.7%**	**-0.6%**	**32.0%**	**-2.7%**	**2.1%**	**1.8%**	**17.2%**
Net Cash calculation							
Cash + short term investments	180.8	146.3	262.1	268.7	222.6	140.9	260.8
Less: long term debt	-780.8	-734.7	-507.2	-506.8	-491.3	-463.5	-419.0
Net Cash	**-600.0**	**-588.4**	**-245.0**	**-238.1**	**-268.7**	**-322.7**	**-158.2**
Net cash per share	**-0.09**	**-0.08**	**-0.03**	**-0.03**	**-0.04**	**-0.04**	**-0.02**
Net cash/market cap	**-45%**	**-39%**	**-16%**	**-16%**	**-18%**	**-21%**	**-10%**

Valuation ratio's	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E
P/B (tangible)	1.26	1.12	0.98	0.91	0.81	0.70	0.59
P/E (adjusted)	7.23	11.98	7.72	6.58	4.83	3.73	3.03
P/S	1.14	0.86	0.87	0.80	0.70	0.61	0.52
EV/sales	2.81	1.24	1.26	1.16	1.02	0.89	0.75
EV/EBITDA (adjusted)	10.88	4.49	4.65	4.20	3.33	2.72	2.28
EV/EBITDA (reported)	10.88	4.49	4.52	4.08	3.25	2.65	2.22
EV/EBIT	13.03	5.59	5.89	5.29	4.10	3.29	2.75
EV/FCF	-42.91	-200.35	3.90	-45.50	58.36	68.71	7.27
Dividend Yield (%)	0.0%	2.5%	3.0%	3.0%	4.1%	5.4%	6.6%
Receivable days	94	52	36	40	50	50	50
Inventory days	65	47	62	60	45	45	45
payables days	89	29	24	25	30	30	30
Current ratio	2.5	4.0	1.1	1.1	1.1	1.0	1.2

Enterprise Value Calculation	FY2018	Current
Market Cap.	2,664.3	1,314.9
+ Minority Interest	-7.8	0.0
+Total Debt (ST & LT Debt)	780.8	734.7
- Cash & Equivalents	181	146
Enterprise Value	**3,257**	**1,903**

DCF model	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
(in $HK million)								
EBIT	250	341	323	360	465	578	692	625
% growth	-	*36%*	*-5%*	*11%*	*29%*	*24%*	*20%*	*-10%*
Taxes @	23.7%	18.6%	20.3%	20.0%	20.0%	20.0%	20.0%	20.0%
EBIAT	191	277	257	288	372	462	554	500
% growth	-	*45%*	*-7%*	*12%*	*29%*	*24%*	*20%*	*-10%*
+ D&A	49	84	86	93	106	122	144	125
- Capital expenditures	-271	-204	-182	-262	-299	-386	-253	-377
- Change in net WC	0	-60	0	0	0	0	0	1
Free Cash Flow to Firm	-31	97	162	119	180	198	445	249
FCY y/y growth	-	*-416%*	*67%*	*-26%*	*51%*	*11%*	*124%*	*-44%*

Value per Share

	Cost of capital	
Terminal Growth	**11.2%**	**12.2%**
2.5%	0.30	0.26
2.8%	0.31	0.26
3.0%	0.31	0.27
3.3%	0.32	0.27
3.5%	0.33	0.28

WACC	***11.2%***
PV of Free Cash Flow	1,238
PV of Terminal Value	1,419
Add: Net Cash	-588
Less: Minority Interest	0
Total Equity Value	2,068
Shares outstanding	6,574.39
DCF value	**0.31**

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