

SHENYANG PUBLIC UTILITY HOLDINGS COMPANY LTD :
WATER, WATER, EVERYWHERE, BUT DON'T TAKE A DRINK, YET

If Shenyang Public Utility Holdings Company Ltd had been a private company, domiciled and operating, let us say, in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), then its shareholders may consider putting very difficult and very serious questions to Management.

But, since it must be considered an enterprise, controlled by an entity of the Government of the PRC, then one may not challenge the fact that Management is, clearly, very poor – if not absolutely lousy.

This is TARGET's opinion, of course, on studying the recently published Prospectus of the Company, which is launching a bid to raise about \$HK720 million, gross, by offering a total of 400 million renminbei 1 shares (about 93.45 cents, Hongkong) at a price of not more than \$HK1.80 per share.

Shenyang Public Utility is a Company which describes itself as being '*a leading urban public utility developer and operator based in Shenyang, Liaoning Province, the PRC. The principal business of the Group is the production and sale of purified water. The Group also provides long distance bus service and, through a joint venture, engages in coal-fired power and heat co-generation ... is the principal vehicle of the Shenyang Municipal Government for the development of and investments in urban public utility sector ...*'.

Shenyang has a human population of about 6.80 million people, spread over an area, measuring about 12,980 square kilometers. Of this population, about 4.80 million people are considered to be the urban population, the Prospectus explains on Page 256.

In terms of the urban population, Shenyang is ranked as Number 6 in the PRC.

Going back, now, to the Company's long-distance bus service, Page 3 of the Prospectus states that it served about 9.12 million people in 1998.

That would appear to indicate that the total urban population of Shenyang used the service, on average, about 1.9 times per person per year.

May be the urban population does not travel by bus too often?

But, hold on there, one of the reasons that Shenyang Public Utility is going to the public for more money is to purchase 146 new buses.

For what reason?

The buses don't appear to be well used in any event.

The financial results of this Company over the past 42 months do not paint a very positive picture for Management, as the following makes only too clear:

	Year Ended December 31			
	1996	1997	1998	Six Months to June 30, 1999
	<i>(All Figures Are Denominated In Renminbei '000)</i>			
Adjusted pro forma turnover from:				
1. Notional sales of purified water	346,147	377,489	385,232	195,653
2. Rental Income from leasing of buses and granted routes	30,763	30,666	27,837	13,241
3. Income from provision of bus terminal services	3,410	3,352	3,010	1,308

Total Turnover	380,347	411,507	416,079	210,202
Adjusted pro forma profit from operations	210,307	224,543	221,167	121,831
Share of profit of joint venture	42,199	41,609	41,747	14,721
Adjusted pro forma profit before taxation	252,506	266,152	262,914	136,552
Adjusted taxation	(35,009)	(36,821)	(36,415)	(20,597)
Adjusted pro forma profit after taxation	217,497	229,331	226,499	115,955
Adjusted Minority Interests	(1,788)	(1,909)	(1,880)	(1,000)
Adjusted pro forma profit after taxation and minority interests	215,709	227,422	224,619	114,955
Pro forma earnings per share	renminbei 0.36	renminbei 0.38	renminbei 0.37	renminbei 0.19

The following points are only too apparent and one does not have to be a chartered accountant to understand them:

1. Over the past 42 months, earnings have been flat;
2. Over the past 42 months, income from the rental of buses has been on the decline;
3. Over the past 42 months, income from the provision of bus terminal services has been on the decline; and,
4. The Net Profit Margin in 1996 was about 57 percent, dropping in 1997 to about 55 percent, and, then in 1998, it dropped further to about 54 percent. For the Current Financial Year, it appears that the Company is headed for a Net Return of about 55 percent.

For the Current Financial Year, ending December 31, the forecast adjusted pro forma Net Profit is estimated to be *'not less than renminbei 214 million.'*

This is a decline of about renminbei 11 million, or about 4.88 percent, compared with... [CLICK TO ORDER FULL ARTICLE](#)