

20th December 2017

CTG Fibersway International Ltd

China-based fibre optic cable manufacturer

CTG Fibersway International Ltd was formed in October 2017 and following a corporate restructure became a 100% holder of four existing companies with two manufacturing facilities in China and associated sales, marketing and administration functions. It undertook a compliance listing on NSX on 11 December 2017 (ascribed value \$0.20 per share) as a way of giving the company a higher profile and the potential to raise capital. The founding family retains 70% ownership with shares in escrow for 24 months from the date of listing.

Business model and strategy

The business had its origin in electric cable manufacturing commencing business in Hangzhou, China in 1996 and has since added the manufacture and marketing of networking cables and optic fibre cables. Production capacity is 800,000 kilometre of optic fibre cable per annum. This compares with market leader Fiberhome Telecommunications (600498.SHH) which has 20m kilometres' capacity pa ~25x that of CFW. CFW has 120 employees compared with Fiberhome's 12,500 employees.

In FY16, 74% of revenue came from sales to US however the business plan is to focus on the Chinese market where the Government is constructing 5G networks. This together with the rapid development of artificial intelligence, Big Data and cloud computing, big video and the Internet of Things (IoT) is expected to fuel optic fibre cable market growth. The CAGR in global optic fibre cables is estimated by Allied Market Research at 20.5% for the period from 2014 to 2022. CFW also sells products sourced from a company associated with the Chairman's father Sheng Guoxian. Purchases of these products accounted for 20% of the cost of goods sold in FY16. Other related party transactions disclosed in the Information Memorandum (IM) include leases of factory and office premises and the sale of trademarks for A\$1.7m. The IM did not include historical cash flow statements however, the detailed combined financial statements provide cash flow statements for three years and show a capital repayment of RMB13.4m (A\$2.7m using exchange rate of RMB1.00 to A\$0.20) made in FY16. CFW is customer focused and tailors its offering to include product customisation and integration services as well as product procurement and management of the supply chain for customers. Supply chain management can include product sourcing and price negotiation or can be a one-stop services which sees CFW overseeing receiving, inspecting and shipping of the products to the customer for which it earns a service fee.

Earnings outlook

The company has not provided earnings forecasts and does not expect to pay dividends whilst it remains in a growth phase. Working capital at the time of listed was considered by the directors to be sufficient for at least the first three months after listing.

Shares Summary

Share Code	CFW
Share Price	\$0.22
Market Capitalisation	\$44.0M
Number of Shares	200.0M
Net Cash (Debt) at 30 Nov 2016	(\$4.6M)
Share Registry	Boardroom Ltd

5-Point Score = 2

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (0) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- 5G rollouts, data centre development, Internet of Things (IoT) and Fibre to the Home (FTH) rollouts, particularly in China fuel demand
- Family business with cable industry experience spanning >20 years
- Intellectual property including six patents granted in China and submitted applications for a further six patents.

Downside Case

- Highly competitive industry dominated by large multi-nationals.
- Board controls 70% of shares on issue (shares escrowed for 24 months from listing date)
- Key man risk

Board of Directors

Chairman/CEO	SHENG Zejun (Richard)
Independent Director	HU Yuxing (Paul)
Director	SHENG Yanjun (Angel)

Catalysts

- Evidence of earnings growth as a listed company

Comparative Companies

600498.SHH, GLW.US, 6869.HK, 5802.TKO

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Earnings history (A\$m)

Year ended	Revenue	EBIT*	NPAT reported	NPAT Adjusted*	EPS (c)
Nov-14	8.4	0.45	(0.16)	(0.16)	(0.08)
Nov-15	7.9	0.87	0.10	0.10	0.05
Nov 16 [^]	12.6	0.96	0.27	0.27	1.37

Source: Company data: Note: Combined financial information has been audited by HML & Co, Chartered Accountants (Malaysia).

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 11th May 2017

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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