

Analyst: Sabina Cheng

Main Board Listing – Research

摩比發展有限公司
MOBI Development Co., Ltd. [Stock Code:00947]

Joint Sponsors : Piper Jaffray Asia Limited
 First Shanghai Capital Limited
Global Coordinator, Lead Manager and Joint Bookrunner : Piper Jaffray Asia Securities Limited
Joint Bookrunner and Co-Lead Manager : First Shanghai Securities Limited

Sector : Information Technology

Business : One-stop providers of wireless communication antennas and base station radio frequency subsystems

<p> Total share offer: <u>175,515,000</u> shares <i>(25% of the enlarged share capital)</i> Public Offer: 17,552,000 shares (10%) Placing: 157,963,000 shares (90%) Greenshoes: 26,327,250 shares </p>	<p> <u>Business of MOBI Development (“the Group” or “MOBI”)</u> The Group is a one-stop providers of wireless communication antennas and base station radio frequency (RF) subsystems in China. Its business consists of the design, manufacture, marketing and sale of antennas, base station RF subsystems and solutions that are the required components of mobile communication coverage systems, including wireless access systems (WiFi and PHS), 2G(GSM and CDMA), 3G (TD_SCDMA, CDMA 2000, W-CDMA and WiMax), satellite communication and microwave transmission networks. The Group’s products are in three main groups: antenna systems, base station RF subsystems and coverage extension solutions. It sells its products directly to domestic network operators, like China Unicom, China Telecom, China Mobile and overseas ones, such as Reliance (India’s second largest wireless operator). It also sells its products to wireless network solution providers, including ZTE, Nokia Siemens Networks and Alcatel-Lucent, which then sell to network operators worldwide. </p>
<p> Price: HK\$2.72 – HK\$3.50 per share Market Cap: HK\$1,909.6 million – HK\$2,457.2 million Pro forma fully diluted FY09 P/E: 17.0x – 21.9x Adjusted NTA per share: HK\$1.28 – HK\$1.47 Staffing: 2,281 (as of 31st August 2009) </p>	
<p> HK Public Offer period: 4th Dec 2009 – 9th Dec 2009 noon Receiving bankers: Standard Chartered Bank (Hong Kong) Limited Hong Kong Share registrar: Computershare Hong Kong Investor Services Listing date: 17th December 2009 </p>	

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Shareholders after Listing - (Assuming the over-allotment option is not exercised)

Fangyi Holdings, an investment company owned by 39 shareholders, of which majority of them are senior management and employees of ZTE Corporation (52.9% in total). The chairman of ZTE Corporation, Hou Weigui is the largest shareholder with 18% interest in Fangyi.	29.86%
Junyi Holdings, an investment company which is wholly owned by Hou Weigui	3.99%
Hu Xiang, an executive director and chief executive officer of MOBI	3.29%
Wang Guoying, an executive director of MOBI Shenzhen (a fully-owned subsidiary of MOBI) and MOBI Jian (a fully-owned subsidiary of MOBI), and the chief executive officer of MOBI Xian (a fully-owned subsidiary of MOBI Shenzhen)	3.53%
Shao Zhiguo, the vice president of MOBI, MOBI Shenzhen and MOBI Jian	5.91%
SB Asia Infrastructure Fund L.P., a private equity fund making investments across sectors such as consumer products & services, technology, media, telecom, financial services, healthcare, travel and tourism, and manufacturing.	21.79%
Cisco Systems International, a wholly-owned subsidiary of Cisco Systems in the US	4.99%
Manitou Ventures I, L.P., a venture fund established in the United States. The fund invests in early and mid-stage companies, based either in Asia or the United States, with a focus on Asian markets such as the PRC and Taiwan. The primary investment focus of the fund is in high growth technology sectors including telecommunications, internet, new media, semiconductors and information technology services.	1.64%
Public shareholders	25.0%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$510.3 million (based on an offer price of HK\$3.11, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
For expansion of manufacturing capacity	153.1
For merger and acquisition reserve	229.6
For research and development on strategic products and technologies	76.6
For general corporate purposes	51.0

Financial Highlights

	Year ended 31 st December			Eight months ended	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	30 th June 2008 RMB'000	30 th June 2009 RMB'000
Revenue	360,956	626,806	671,182	426,438	632,367
Gross profit	85,068	154,132	183,298	113,845	180,494
Operating profit	33,653	62,436	73,280	46,466	99,563
Profit attributable to shareholders	31,481	56,773	61,925	37,348	84,205
Gross profit margin	23.6%	24.6%	27.3%	26.7%	28.5%
Operating profit margin	9.3%	10.0%	10.9%	10.9%	15.7%
Net profit margin	8.7%	9.1%	9.2%	8.8%	13.3%

Revenue Breakdown

	Year ended 31 st December						Eight months ended 30 th June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Antenna System	186,392	51.7%	268,751	42.9%	260,543	38.8%	129,641	30.4%	276,282	43.7%
Base Station RF Subsystem	165,433	45.8%	340,940	54.4%	388,675	57.9%	285,025	66.8%	274,501	43.4%
Coverage Extension Solution	9,131	2.5%	17,115	2.7%	21,964	3.3%	11,772	2.8%	81,584	12.9%
Total Revenues	360,956	100.0%	626,806	100.0%	671,182	100.0%	426,438	100.0%	632,367	100.0%



Strengths/Opportunities

- ✓ In Jan-Aug 2009, over 90% of the Group's revenue was derived from China domestically, driven by the telecommunication restructuring in China in January 2009. The Group had been well prepared for such a change in telecommunication landscape by producing more 3G products ahead of the government's announcement and successfully met the increase in market demand. Outlook of the RF device market in China is positive, given there will be a sustainable rapid growth in 3G applications in the PRC. It is projected that the number of 3G subscribers in China will reach 161 million by the end of 2013, compared with 0.8 million at the end of 2007.
- ✓ The Group has strong relationships with domestic wireless network operators, China Mobile and China Unicom since 2001, as well as China Telecom since 2002. Moreover, since 2007, it has business relationships with certain overseas network operators, like Reliance, the India's second largest wireless operator. Besides, it has worked with many global wireless network solution providers, including ZTE (the largest customer of MOBI, accounted for 36.7% of the Group's sales between January 2009 and August 2009), Nokia Siemens Networks and Alcatel-Lucent. It is expected that the Group can ride on the long and strong relationships with these key customers to capture more 3G opportunities going forward.
- ✓ The Group's gross, operating and net profit margins have been improving since 2006 on its lower cost structure and change in their product mix (offering more 3G products with higher margins amid the telecom reform in China).

Weaknesses/Threats

- × The Group depends on a few customers for majority of its revenues as the top five customers accounted for more than 85% of the Group's total revenue over the same period. Any unexpected and significant changes in orders of these customers could have a material adverse effect on the Group's business, results of operations and financial condition.
- × The initial public offering price of MOBI shares is priced between HK\$2.72 and HK\$3.50, representing a FY09 P/E range of 17x to 21.9x. The Group's sector peer, Comba, is trading at 21.2x FY09 P/E. It is expected that shares of MOBI to trade at a discount to Comba as Comba can offer a more comprehensive range of products including wireless enhancement and wireless transmission. Valuation of MOBI shares will only be fair if they are priced towards the lower end of its indicative IPO price range.

Recommendation: Trading Buy



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