

Analyst: Paul Sham

Main Board Listing – Research

科通芯城集團

Cogobuy Group [Stock Code:00400]

Sole Sponsor : UBS
Joint Global Coordinators : UBS, Jefferies
Joint Bookrunners and Joint Lead Managers : UBS, Jefferies, CCBI, CSCI

Sector : Semiconductors & Semiconductor Equipment

Business : An e-commerce distributor of IC

<p>Total share offer: *343,800,000 shares (25.02% of the enlarged share capital)</p> <p>Public Offer: 34,380,000 shares (10.0%) Placing: 309,420,000 shares (90.0%) Greenshoe: 51,570,000 shares *All 343,800,000 shares are New Shares</p>	<p><u>Business of Cogobuy Group (“Cogobuy” or “the Company”)</u></p> <p>Cogobuy is an e-commerce company dedicated to serving the electronics manufacturing industry in China. It operates the largest transaction-based e-commerce platform for IC and other electronic components in China as measured by GMV (Gross Merchandise Value) in 2013. Through its e-commerce platform, including a direct sales platform and an online marketplace, Cogobuy provides customers with comprehensive online and offline services across pre-sale, sale and post-sale stages.</p> <p>Cogobuy offers a wide selection of products at competitive prices, which are sourced from approximately 500 suppliers, including some of the top brand-name suppliers in key product categories. On the other hand, its customers are mainly electronics manufacturers based in China. The products offered by Cogobuy cater for the needs of electronics manufacturers of all scales, including both SME customers and blue-chip customers.</p>
<p>Price: HK\$3.20 – HK\$4.48 per share</p> <p>Market Cap: HK\$4,397 million – HK\$6,156 million</p> <p>Historical fully diluted FY13 P/E: 40.6x – 56.9x</p> <p>Adjusted NTA per share: HK\$0.91 – HK\$1.21</p> <p>Staffing: 490 (as of 31st March 2014)</p>	
<p>HK Public Offer period: 8th July 2014 – 11th July 2014</p> <p>Receiving bank: Bank of China (Hong Kong)</p> <p>Share Registrar: Computershare HK Investor Services Limited.</p> <p>Listing date: 18th July 2014</p>	

Shareholders after Listing

Envision Global (BVI) – wholly owned by Mr. Kang Jingwei, the Chairman, the CEO and an Executive Director of Cogobuy	50.95%
Total Dynamic (BVI) – wholly owned by Ms. Yao Yi, the wife of Li Feng, one of the members of senior management of Cogobuy	21.83%
Scheme Trustee – Scheme is for the reward to the directors, executive officers and employees of Cogobuy	2.20%
Public shareholders	25.02%
	100.00%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,253.8 million (based on an offer price of HK\$3.84, being the mid-point of indicative price range).

	HK\$ million
For expansion of marketing and promotion activities	438.8
For expansion and enhancement of its e-commerce platform, investing in its technology infrastructure, as well as for conducting other research and development activities	376.1
For potential acquisition of, or investment in, technologies and complementary online business, partnerships and licensing opportunities	313.5
For working capital and other general corporate purposes	125.4

Financial Highlights

(RMB'000)	1 st Feb 2012 to: 31 st Dec 2012	For the year ended 31 st Dec 2013	For the three months ended 31 st Mar 2013	For the three months ended 31 st Dec 2013	For the three months ended 31 st Mar 2014
Turnover	199,306*	2,417,277*	387,572	1,011,920	1,354,018
Gross profit	53,618	202,086	24,525	91,178	102,440
Attributable profit	29,619	86,565	6,918	40,947	28,989
Gross margin	26.9%	8.4%	6.3%	9.0%	7.6%
Net profit margin	14.9%	3.6%	1.8%	4.0%	2.1%

(*) The Company did not have significant operations prior to 15th November 2012. The changes in operating results of the Group from 2012 to 2013 are primarily due to the acquisition of the online platform on 15th November 2012

Breakdown of revenue in terms of products

(RMB'000)	1 st Feb 2012 to 31 st Dec 2012		For the year ended 31 st Dec 2013		For the three months ended 31 st Mar 2013		For the three months ended 31 st Mar 2014	
		%		%		%		%
Sales of IC and other electronic components	199,306	100.0%	2,391,838	98.9%	385,650	99.5%	1,350,487	99.7%
Marketplace income	-	0.0%	25,439	1.1%	1,922	0.5%	3,531	0.3%
Total	199,306	100.0%	2,417,277	100.0%	387,572	100.0%	1,354,018	100.0%

Breakdown of direct sales revenue in terms of client types

(RMB'000)	FY2011		FY2012		FY2013		For the three months ended 31 st Mar 2014	
		%		%		%		%
Blue-chip clients	452,368	38.7%	627,174	40.0%	1,337,318	55.9%	712,454	52.8%
SME clients	717,580	61.3%	941,198	60.0%	1,054,520	44.1%	638,033	47.2%
Total	1,169,948	100.0%	1,568,372	100.0%	2,391,838	100.0%	1,350,487	100.0%

Strengths/Opportunities

- ✓ There are two major business models in IC online procurement market: transaction-based model (holding inventories for sales) and information service model (providing information of suppliers, without holding inventories). In 2013, the transaction-based market size in China amounted to RMB7.1 billion by gross merchandise value while the information service market size by revenue reached RMB50.1 billion. Since transaction-based platform is a relatively new business model in the online procurement market, the growth of the transaction-based market (through which Cogobuy provides its services), is expected to significantly outpace that of the information service market.
- ✓ Cogobuy was the leading transaction-based platform operator in China in terms of gross merchandize value, accounting 55.1% of total market share in 2013. The dominant market share enables Cogobuy to enjoy certain pricing power on its services.

Weaknesses/Threats

- × The electronic components procurement market in China is intensely competitive. Cogobuy's main competitors with direct sales e-commerce platforms include Alibaba, Made-in-China.com and Global Resources. In addition, the Company faces competition from offline distributors and manufacturers of IC and other electronic components, many of which possess significant brand recognition, sales volume and customer bases, and some of which currently sell, or in the future may sell, products or services through their online service platforms.
- × Cogobuy only started operating the direct sales platform in June 2011. Prior to June 2011, its sales were conducted primarily through traditional offline sales models. With such a short operating history, it is difficult to evaluate the sustainability of its business growth.
- × Unlike Alibaba, Made-in-China.com and Global Resources which offer various kind of products, Cogobuy derives substantially all of its revenue from purchases made by companies in China that engage in electronics manufacturing. Therefore, it is likely to see higher fluctuation in Cogobuy's revenue than that of other B2B peers.
- × There is no direct comparable for Cogobuy in Hong Kong stock market. Given the limited operating history as well as the uncertainty over sustainability of its new business model, investors may face substantial downside risk if they subscribe Cogobuy's shares under the FY13 P/E ratios of 40.6x to 56.9x.

Recommendation: Unattractive

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