

Analyst: Kelvin Li

Main Board Listing – Research

詩天控股(國際)有限公司

CT Holdings (International) Limited [Stock Code: 01008]

Sponsor : Optima Capital
Bookrunner & Lead Manager : Sun Hung Kai Financial

Sector : Commercial services and supplies
Business : Provision of printing services to publishers

<p>Total share offer: <u>50,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 5,000,000 shares (10%)</p> <p>Placing: 45,000,000 shares (90%)</p> <p>Greenshoe: Nil</p>	<p><u>Business of CT Holdings</u></p> <p>CT Holdings (“the Group”) is mainly engaged in the provision of printing services to customers including international publishers and multi-national corporations. The Group’s printed products include case bound books, paperback books, spiral bound books, novelty books and other paper-related products like greeting cards, party decoratives, calendars, paper bags and packaging boxes. All the Group’s printed products and printed books were required to be exported out of China under the PRC laws. The UK and Europe were the two major markets over the last couple of years, with sales accounted for 60%-70% of total.</p> <p>The Group’s production was carried out by its wholly-owned subsidiary CT Printing at its Processing Factory located in Shenzhen. The Group established another production base CT Shenzhen in order to enhance its printing capacity and explore business opportunities for its packaging and decorative printed products in the Mainland.</p>
<p>Price: HK\$1.25 per share</p> <p>Market Cap: HK\$250 million</p> <p>Pro forma fully diluted FY08E P/E: 8.3x</p> <p>Adjusted NTA per share: HK\$0.71</p> <p>Staffing: 981 (as of 13th March 2009)</p>	
<p>HK Public Offer period: 18th March 2009 – 23rd March 2009 noon</p> <p>Receiving bank: Standard Chartered (HK)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 30th March 2009</p>	

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

Mr Tsoi Tak – a non-executive director and Chairman of the Group	52.50%
Mr Cai Xiao Ming, David – an executive director and son of Mr Tsoi Tak	22.50%
Public shareholders	25.00%
	<u>100.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$48.9 million (based on an offer price of HK\$1.25, assuming the over-allotment option is not exercised)

	HK\$ million
For the purchase of new machinery and equipment, including offset printing machines, hot stamping machines and die cutters.	38.9
For the business development of the domestic market of packaging and decorative printed products in the PRC, including setting up a new sales office in Shenzhen.	4.0
For the expansion of sales network by participating in international book fairs and trade shows and expanding the sales and marketing team.	1.5
For general working capital.	4.5

Financial Highlights

	Year ended 31 st Dec			9 months ended	
	2005	2006	2007	30 th Sep 2007	30 th Sep 2008
	HKD '000	HKD '000	HKD '000	HKD '000	HKD '000
Revenue	170,027	268,193	335,392	246,037	306,441
Gross profit	49,782	71,488	84,369	64,771	73,325
Operating profit	21,983	36,475	41,955	31,513	35,055
Profit/ (Loss) attributable to shareholders	16,833	27,570	29,937	23,408	26,500
Gross profit margin	29.3%	26.7%	25.2%	26.3%	23.9%
Operating profit margin	12.9%	13.6%	12.5%	12.8%	11.4%
Net profit margin	9.9%	10.3%	8.9%	9.5%	8.6%
	31/12/2005	31/12/2006	31/12/2007	30/9/2007	30/9/2008
Net debt to Equity	468.6%	201.9%	137.7%	N/A	108.4%

Strengths/Opportunities

- ✓ The Group has established long business relationship with well-known international publisher like Parragon Books, which operates in more than 35 countries and has offices in 10 offices.
- ✓ The Group's newly built production facilities in CT Shenzhen will begin trial production in May this year and is scheduled to commence full commercial operation by September 2009. It would add an annual capacity of 17 million printed sheets (28 x 40 inches) (assuming 10 hours a day and 260 days of operation a year) upon its full operation, or about 2.5% of the existing annual capacity of 666 million printed sheet in the Group's production facilities in the Processing Factory as in March 2009.
- ✓ Paper costs accounted for more than half of the Group's total costs. The average price index of woodfree paper had been largely stable, which showed an 11% y-o-y fall in Jan-Sep 2008.

Weaknesses/Threats

- × Revenue from the UK, Europe and the US accounted for around 75%-85% of the Group's total turnover over the past years, and this revenue mix is expected to stay more or less the same in the next few years. Deepening recession in the Western economies may depress the Group's growth momentum in the next couple of years. Meanwhile, despite a y-o-y drop in paper costs last year, the Group's profit margin continued to flatten out, which may be a reflection of weaker demand for the Group's products.
- × The use of e-book is becoming more popular, reducing the demand for printed-paper book products.
- × Given the challenging global economic outlook, pricing the issue at 8.3x FY08E P/E and 1.76x FY08E price-to-book ratio is excessive.

Recommendation: Unattractive



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