

Analyst: Paul Sham

Main Board Listing – Research

宇陽控股(集團)有限公司

Eyang Holdings (Group) Co., Limited [Stock Code: 0117]
Sponsor, Bookrunner and Lead Manager

: CAF Securities Company Limited

Sector : Capital Goods

Business : Sale of electrical components & equipment

Total share offer: * <u>100,000,000</u> shares (25% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%) Greenshoe: 15,000,000 shares <i>*All 100,000,000 shares are New Shares</i>	<u>Business of Eyang</u> The Group engages in (1) the manufacture, sale and trading of multi-layer ceramic capacitor (MLCC), a type of capacitor widely used in IT, communication and consumer electronics and (2) mobile phone related business. MLCC business (26.8% of group turnover): The Group's MLCC products were sold to electronic product manufacturers and to distributors for their onward sale. The Group's strategy in MLCC business is to focus on the research and development of mini size and high capacitance MLCC with competitive pricing. Mobile phone related business (73.3% of group turnover): The Group engages in the manufacture and sale of mobile phones under its own brand name – "EY". All the mobile phones produced by the Group are all sold to mobile phone distributors through their own distribution networks. Besides, the Group also engages in the manufacture, sale and trading of mobile phone components. The Group's strategy for its mobile phone is to develop low cost mobile phone products equipped with common functions so as to attract customers in the rural market like towns and counties in the PRC. In addition, Eyang is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions such as PDA phones, to better serve customers with higher purchasing power in the urban market in the PRC.
Price: HK\$1.30 per share Market Cap: HK\$520 million Pro forma FY2007E PER: 7.4X Adjusted NTA per share: HK\$0.92 Staffing: 1,920 (as of 6 th December 2007)	
HK Public Offer period: 11 th December 2007 – 14 th December 2007 Receiving banks: Hang Seng Bank Limited ICBC (Asia) Ltd. Share registrar: Computershare Hong Kong Investor Services Ltd. Listing date: 21 st December 2007	

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

EY Ocean – an investment holding company whose ultimate shareholders mainly include the management team of Eyang: Mr. Chen Weirong, the chairman of Eyang; Ms. Shuang Mei, an executive Director of Eyang and the general manager of mobile division; Mr. Liao Jie, an executive Director of Eyang and the general manager of MLCC division; Mr. Luo Chaoen, a director of Eyang Shenzhen; Mr. Li Heiqui, a non-executive Director of Eyang; Mr. Cheng Wusheng, a non-executive Director of Eyang; Mr. Zhang Zhilin, a non-executive Director of Eyang;	65.51%
Legend New-Tech – wholly-owned by Right Land Limited which is owned as to 50% by Legend Holding Limited	6.72%
Shengxue – an investment holding company	1.47%
Ever-win – an investment holding company	1.30%
Public Investors	25.00%
	100.00%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$100 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.30 each)

	HK\$ million
To acquire MLCC production facilities to expand the production capacity of MLCC products	59
To enhance the research and development capability of MLCC products	12
To acquire third party solutions designated for the application of 3G mobile phones	6
To acquire mobile phones production	9
To strengthen the marketing, sale and distribution of mobile phones with “EY” brand	9
To upgrade the existing computer system	3
For general working capital	2

Financial Highlights

	Year ended 31 st December			Six months ended June 30	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Revenue	658,612	455,410	681,617	507,121	568,891
Gross profit	56,997	69,747	106,158	73,794	85,630
Attributable profit	29,877	19,826	48,176	33,977	42,106
Gross margin	8.7%	15.3%	15.6%	14.6%	15.1%
Net margin	4.5%	4.4%	7.1%	6.7%	7.4%



Revenue Breakdown (% of Total Revenues)

	Year ended 31 st December						For the six months ended June 30			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
MLCC business	115,470	17.5	151,737	33.3	182,402	26.8	136,142	26.8	164,346	28.9
Mobile phone business										
Mobile phones	51,924	7.9	235,844	51.8	484,428	71.0	358,579	70.8	401,256	70.5
Mobile phone components	491,218	74.6	67,829	14.9	14,787	2.2	12,400	2.4	3,289	0.6
Total	658,612	100	455,410	100	681,617	100	507,121	100	568,891	100

Strengths/Opportunities

- ✓ **Huge market in China** There are currently some 461 millions mobile phone users in 2006 which accounted for 35.3% of the PRC population. Compared with other developed markets, China's mobile phone penetration rate is still very low, implying a high growth potential of the mobile phone market.
- ✓ **Successful product restructuring** Mobile phones and mobile phone components represented 7.9% & 74.6% of total revenue in 2004, and the ratio changed dramatically to 71.1% & 2.2% respectively in 2006. During the period, the mobile phone sub-segment showed higher gross margin than mobile phone components sub-segment (10.7% versus 6.7% in 2006; 13.7% versus 6.0% in 2005), suggesting the management's ability in making the right move on products restructuring.

Weaknesses/Threats

- × **Lacking comparative advantage in mobile phone business** In terms of turnover in 2006, the top 10 mobile phone manufacturers shared 85.3% of the mobile phone market in the PRC and it is estimated that Eyang's market share was less than 0.3%. There is no short-term catalyst that could lead Eyang to achieve a significant breakthrough in its mobile phone business.
- × **High Competition in MLCC business** Japanese and Taiwanese, with more advanced technology in electronics industry, are the two largest MLCC manufacturers, consisting of 61% and 14% of global MLCC production in 2006 respectively. As Eyang did not disclose its market share, we assume Eyang is not one of the top MLCC producers in the PRC. Therefore, the Group has to face competition from both the larger PRC manufacturers and the worldwide manufacturers mainly from Japan and Taiwan.

Recommendation: Unattractive



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