

Analyst: Kelvin Li

Main Board Listing – Research

比亞迪電子(國際)有限公司

BYD Electronic (International) Company Limited [Stock Code: 0285]
Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor : UBS

Sector : Technology hardware & equipment

Business : Manufacture of handset components and modules

<p>Total share offer: <u>550,000,000</u> shares (25% of the enlarged share capital) (comprising 330 million new shares and 220 million sale shares)</p> <p>Public Offer: 55,000,000 shares (10%)</p> <p>Preferential Offer: 48,853,000 shares (8.9%) (reserved to the Qualifying Shareholders of BYD Company (HKEx Code: 1211))</p> <p>Placing: 446,147,000 shares (81.1%)</p> <p>Greenshoe: 82,500,000 shares</p> <p>Price: HK\$10.75 – HK\$14.00 per share</p> <p>Market Cap: HK\$23.65 billion–HK\$30.80 billion</p> <p>Pro forma FY2007E PER: 20.8x to 27.1x</p> <p>Adjusted NTA per share: HK\$2.02 - HK\$2.50</p> <p>Staffing: 31,200 (as of 30th November 2007)</p>	<p><u>Business of BYD Electronic</u></p> <p>The Group is a manufacturer of handset components and modules. It also provides its customers with the assembly services for handsets. The Group's customers are mainly original equipment manufacturers (OEMs), while Nokia is its major customer.</p> <p>The Group commenced its operations in December 2002 as a division of the BYD Group. It grew rapidly over the past years, thanks to increasing sales volume of its handset components and modules. Growth in sales volume to Nokia, the Group's largest client, was remarkable last year, as Nokia has started offering contracts to the BYD Electronic since February 2005.</p> <p>The Group mainly manufactures and sells two key handset components: handset casings and handset keypads. Its handset modules generally include handset casings, microphones and connectors.</p> <p>The Group's production facilities are located in Shenzhen and Tianjin. It is also in the process of developing new production facilities in India and Hungary. Besides, the Group plans to build new facilities in Huizhou, Guangdong province, and Romania.</p>
<p>HK Public Offer period: 7th December 2007 – 12th December 2007 noon</p> <p>Receiving bank: The Bank of East Asia ICBC (Asia) Standard Chartered Bank</p> <p>Share registrar: Computershare Hong Kong Investor Services Ltd.</p> <p>Listing date: 20th December 2007</p>	

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

BYD Company Limited (HKEx Code: 1211)	67.35%
HSBC Trustee (HK) Limited – trustee for the Share Award Scheme of 35 senior management and full-time employees of BYD Company	7.65%
Public Investors*	25.00%
	<u>100.00%</u>

Remark: (*) Mr Lau Luen-hung, the only cornerstone investor, will subscribe for US\$20 million of the offer shares, which represents about 0.57% of the enlarged share capital following the completion of the offering, assuming the over-allotment option is not exercised.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$3,945 million (Assuming an offer price of HK\$12.38, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To expand capacity in the design and production of handset components and modules	1,381
To expand capacity in the design and production of molds used in the production of plastic and metallic components	1,183
To expand capacity in the design and production of metallic components	592
To pay bank borrowings	394
For working capital and general corporate purposes	Remaining balance

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2004	2005	2006	30 th Jun 2006	30 th Jun 2007
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	362,605	600,813	3,043,966	992,662	1,854,170
Gross profit	93,973	140,391	952,496	245,695	626,861
Profit attributable to shareholders	43,777	45,468	731,089	181,466	446,316
Gross profit margin	25.92%	23.37%	31.29%	24.75%	33.81%
Net profit margin	12.07%	7.57%	24.02%	18.28%	24.07%
	31/12/2004	31/12/2005	31/12/2006	30/6/2006	30/6/2007
Net debt/(cash) to equity	(1.29%)	10.77%	(43.74%)	N/A	67.17%

Strengths/Opportunities

- ✓ The handset component industry is highly competitive. However, the Group's vertically integrated business model of provision of both handset components and modules manufacturing and assembly services should help it maintain good business relationship with its customers.
- ✓ The Group generally prices its products on a cost-plus calculation basis. As the costs of handset casings and other modules account for only a small portion of the total manufacturing cost of a mobile handset, we expect pricing pressure from OEMs to stay contained and the Group should be able to keep its profit margins steady in coming years.

Weaknesses/Threats

- × BYD Electronic's revenue grew rapidly in 2006 and 1H2007, as it started receiving a significant amount of orders from Nokia since it has met with the quality standards of the world's largest mobile handset manufacturer. For instance, revenue from Nokia accounted for more than 53% of the Group's total in 2006. If the business relationship with Nokia turns sour or there is a slowdown in Nokia's sale, the Group's operation will be severely affected.
- × Foxconn International (HKEx Code: 2038) has initiated legal proceedings against BYD for improper use of confidence information from them. If the issues go in favour of Foxconn, the Group may be subject to legal payment and cessation in developing certain new products and services.
- × BYD Electronic contributed about 65% and 70% of its parent BYD Company's net profit in 2006 and 1H2007, respectively. To be priced at 27x FY07E P/E (assuming at the top end of the indicative price range), valuation of BYD Electronic is less attractive when compared with BYD Company's 18x forward price-earnings multiple.

Recommendation: Neutral

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