

**Analyst: Vincent Leung**

## **Main Board Listing - Research**

**聯泰控股有限公司**
**Luen Thai Holdings Limited [Stock Code: 0311]**
**Global Coordinator, Bookrunner, Sponsor and Joint Lead Manager**

: BNP Paribas Peregrine

**Joint Lead Manager**

: CLSA

**Co-Lead Manager**

: DBS Asia Capital

**Sector** : Manufacturing

**Business** : Apparel manufacturing on an OEM-basis and logistics services

<b>Total share offer:</b> <u>225,000,000</u> shares <b>(25.0% of the enlarged share capital)</b>  <b>Public Offer:</b> 22,500,000 shares (10%) <b>*Placing:</b> 202,500,000 shares (90%)  <b>Greenshoe:</b> 33,750,000 shares	<b><u>Business of Luen Thai</u></b>  The Group is principally engaged in the apparel manufacture on an OEM-basis (since 1983).  The Group's primary products are knitwear and woven wear, which together accounted for approximately 86% of its FY2003 turnover. It also produces sleepwear, intimate wear, pants & shorts, sports & active wear, ladies' fashion and children's wear. Its top customers include Polo Ralph Lauren, Liz Claiborne, Dillard's, Fast Retailing and Express/Limited Brands.  Its manufacturing facilities are located in Saipan, the Philippines, the PRC (Dongguan and Panyu, Guangdong province) and Cambodia. Estimated output in 2004 will reach 65.4 million pieces.  Luen Thai also has a wholly-owned subsidiary called CTSI Logistics, which is responsible for domestic and international freight-forwarding and supply-chain integration logistics services.  In September 2003, the Group has formed a 50-50 sports-apparel joint venture, Yuen Thai Industrial, with Yue Yuen Industrial (Stock code: 0551).
<b>Price:</b> HK\$2.325 – HK\$3.025 per share <b>Market Cap.:</b> HK\$2,092.5 mln – HK\$2,722.5 mln  <b>Forecast FY2004 P/E:</b> 9.6x – 12.5x (pro-forma)  <b>Adjusted NTA per share:</b> HK\$1.01 – HK\$1.17 <i>(before the over-allotment option is exercised)</i>  <b>Staffing:</b> 17,180	
<b>IPO commences:</b> 30 <sup>th</sup> June 2004 <b>IPO ends:</b> 8 <sup>th</sup> July 2004  <b>Receiving banks:</b> The Bank of East Asia  <b>Share registrar:</b> Computershare Hong Kong Investor Services Ltd  <b>Listing date:</b> 15 <sup>th</sup> July 2004	

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

Mr. TAN Siu Lin (the chairman and founder of the Group) and his family	75.0%
*Yue Yuen Industrial (subject to a 6-month lock-up period after the listing)	9.9%
	<u>84.9%</u>

\*Yue Yuen Industrial has entered into a strategic-placing agreement to subscribe for 89.1 million shares (representing 44.0% of the initial placing shares or 39.6% of the total offered shares) at the offer price as part of the placing.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$563.1 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$2.675, being the midpoint of the proposed range of issue prices of HK\$2.325 and HK\$3.025 per offer share)

	HK\$ million
To open new factories in the PRC	296.4
To upgrade and conduct maintenance of the Group's existing production facilities in Saipan, the Philippines, Cambodia and the PRC	78.0
To repay existing short-term bank loans which are of a trade-financing nature	140.4
To serve as the Group's general working capital	balance

**Financial Highlights**

	Year ended 31 <sup>st</sup> December		
	2003 US\$'000	2002 US\$'000	2001 US\$'000
Turnover			
<i>Sales of garment &amp; textile products</i>	512,722	533,935	437,254
<i>Provision of freight-forwarding &amp; logistics services</i>	31,640	29,330	25,035
<i>Provision of system-consultancy services</i>	562	393	202
	<u>544,924</u>	<u>563,658</u>	<u>462,491</u>
Operating profit	<u>33,994</u>	<u>23,725</u>	<u>33,343</u>
Net profit	<u>23,566</u>	<u>14,052</u>	<u>21,466</u>
Dividend	41,855	11,000	-

**Geographical Breakdown of Turnover:**

	Year ended 31 <sup>st</sup> December					
	2003		2002		2001	
	US\$'000	%	US\$'000	%	US\$'000	%
The US	414,138	76	455,495	81	374,392	81
Europe	31,149	6	24,432	4	29,792	6
Japan	28,709	5	30,306	6	18,593	4
Rest of the world	<u>70,928</u>	<u>13</u>	<u>53,425</u>	<u>9</u>	<u>39,714</u>	<u>9</u>
Total	<u>544,924</u>	<u>100</u>	<u>563,658</u>	<u>100</u>	<u>462,491</u>	<u>100</u>

**Breakdown of Turnover by Product & Service Category:**

	Year ended 31 <sup>st</sup> December					
	2003		2002		2001	
	US\$'000	%	US\$'000	%	US\$'000	%
Knit and woven wear	469,434	86	475,331	84	431,700	93
Sleepwear/intimate apparel and other apparel	39,301	7	54,857	10	-	-
Freight-forwarding and logistics services	31,640	6	29,330	5	25,035	6
Textile trading	3,987	1	3,747	1	5,554	1
Provision of system-consultancy services	<u>562</u>	<u>0</u>	<u>393</u>	<u>0</u>	<u>202</u>	<u>0</u>
Total	<u>544,924</u>	<u>100</u>	<u>563,658</u>	<u>100</u>	<u>462,491</u>	<u>100</u>



## **Strengths/Opportunities**

- ✓ The Group is one of Asia's largest players in the garment industry with a strong reputation of quality, consistency and reliability. It has established long-standing relationships (over 10 years) with top apparel brands.
- ✓ The Group has a geographically-diversified production base, locating in Saipan, the PRC, the Philippines and Cambodia. This mitigates the risks of trade actions aiming any specific area.
- ✓ The removal of the quota system under the WTO Agreement on Textile and Clothing from 1<sup>st</sup> January 2005 should help save over US\$8 million annually for the Group.
- ✓ After listing, Luen Thai will be the largest listed garment maker in Hong Kong in terms of turnover.
- ✓ At FY2004E P/E of 9.6x-12.5x, valuation of Luen Tai looks reasonable when compared with other locally-listed peers like Glorious Sun (*11.9x P/E; Stock code: 0393*), Tack Fat (*7.3x P/E ; Stock code: 0928*) and Tungtex (*8.2x P/E; Stock code: 0518*).

## **Weaknesses/Threats**

- × The abolition of quotas is expected to trigger industry consolidation that production of apparel will concentrate in fewer countries with lower costs structures and more efficient logistics infrastructure. This would lead to increased competition from other large-scale knit and woven shirt producers in Asia to drive down prices.
- × As at 31<sup>st</sup> December 2003, the Group had net debts totalling some US\$72.7 million, with a net debt-to-equity ratio of 130.6%. Nevertheless, after the listing and debt restructuring, the net-gearing ratio is expected to fall to 10%-15%.

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