

Analyst: Paul Sham

Main Board Listing – Research

越南製造加工出口(控股)有限公司

Vietnam Manufacturing and Export Processing (Holdings) Limited (VMEP) [Stock Code: 0422]
**Global Coordinator, Bookrunner, Lead
Manager and Sponsor**

: BNP Paribas Capital (Asia Pacific) Limited

Sector : Automobiles & Components

Business : Manufacture motorbikes and motorbike parts

Total share offer: <u>*226,920,000</u> shares (25% of the enlarged share capital) Public Offer: 22,692,000 shares (10%) Placing: 204,228,000 shares (90%) Greenshoe: 34,038,000 shares <i>*Comprising 175,680,000 New Shares and 51,240,000 Sale Shares</i>	<u>Business of VMEP</u> VMEP is one of the leading manufacturers of scooter and cub motorbikes in Vietnam, and was the 3 rd largest foreign-owned motorbike manufacturers in terms of sales volume in 2006. The company's manufacturing and assembly operations are conducted principally in two factories located the two main cities in Vietnam, namely Ho Chi Minh City and Hanoi. Its motorbikes are retailed under the SYM and SANDA brand names. In the first half of 2007, VMEP sold on average of 17,661 motorbikes per month. Besides motorbikes, the company also produces motorbike engines & parts, and sells moulds for making die-cast and forged metal parts. In 2003, VMEP began exporting its motorbikes and parts through its parent company, Sanyang, a listed company in Taiwan. For the six-month period ended 30 June 2007, the revenue generated from the export business amounted to 9.2% of total sales and the products go principally to Malaysia and the Philippines and Singapore, in addition to a number of countries in Europe.
Price: HK\$3.61 - HK\$4.64 per share Market Cap: HK\$3,277 million– HK\$4,212 million Pro forma fully diluted FY07E PER: 14.0x – 18.0x Adjusted NTA per share: HK\$1.72 – HK\$1.95 Staffing: 1,958 (as of 30 th September 2007)	
HK Public Offer period: 6 th December 2007 – 11 th December 2007 Receiving banks: Standard Chartered Bank Hong Kong share registrar: Computershare HK Investor Services Limited Listing date: 20 th December 2007	

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

SY International Ltd – a wholly-owned subsidiary of Sanyang Industry Co., Limited, which is a listed company in the Taiwan Stock Exchange	69.4%
Indopark Holdings Ltd – Indirectly wholly-owned by Merrill Lynch	5.6%
Public investors	25.0%
	<u>100.0%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$637.4 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.13 each, being the midpoint of the indicative price range)

	HK\$ million
For the construction and setting up of a research and development centre in Vietnam which is expected to commence operations in March 2009	114.7
For investment in the Group's distribution channel in Vietnam to be made within the next two years	388.8
For potential mergers and acquisitions	70.1
For additional general working capital purpose	63.8

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2004	2005	2006	30 th Jun 2006	30 th Jun 2007
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	260,956	183,794	184,308	91,832	114,965
Gross profit	69,668	40,589	44,232	25,652	27,676
Operating profit	44,042	15,633	22,162	14,625	13,158
Profit attributable to shareholders	42,890	16,457	23,309	15,147	13,996
Gross profit margin	26.7%	22.1%	24.0%	27.9%	24.1%
Operating profit margin	16.9%	8.5%	12.0%	15.9%	11.4%
Net profit margin	16.4%	9.0%	12.6%	16.5%	12.2%

Revenue breakdown in terms of business segments

(% percentage)	2004	2005	2006	1H06	1H07
Manufacture and sales of motorbikes					
Domestic	91.9	83.3	82.4	84.2	82.6
-Scooters	41.2	44.6	61.0	62.2	62.6
-Cubs	50.6	38.7	21.4	22.1	20.0
Export	2.0	2.6	5.3	4.4	7.0
-Scooters	0.1	0.0	2.1	1.8	4.5
-Cubs	1.9	2.6	3.2	2.6	2.5
Total scooters	41.3	44.6	63.1	64.0	67.1
Total cubs	52.6	41.3	24.6	24.6	22.5
Manufacture and sales of spare parts					
Domestic	4.4	7.5	8.1	7.8	8.1
Export	1.6	6.5	3.9	3.4	2.1
Moulds and repair services					
Domestic	0.2	0.2	0.2	0.2	0.1
Export	0.0	0.0	0.1	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0



Strengths/Opportunities

- ✓ **Robust economic growth** Similar to the PRC, Vietnam's economy is expanding rapidly, with the annual real GDP growth averaged 7.6% between 2001 and 2006, the highest among its ASEAN peers. The increasing disposable income of Vietnamese, benefiting from the growing economy, would drive up the demand of motorbikes which gives a positive impact on the motorbike market.
- ✓ **Well-established brand with significant market share** VMEP ranked 3rd among the foreign-owned motorbike manufacturers in terms of sales volume. It has launched a total of 41 models, with high-end scooters and cubs under the SYM brand and low-end cubs under the SANDA brand. Such wide range of products and dual-branding strategy position enable VMEP to benefit from the growth of different sectors of the motorbike market.
- ✓ **Healthy Balance Sheet** The liquidity ratios were sustainable at above 2.0 from 2004 to 2006. It even reached 2.7 in the first half-year of 2007. We believe that VMEP will not face any immediate liquidity problem in short term.

Weaknesses/Threats

- × **Decreasing gross profit margin in 1H07** The gross profit margin dropped from 27.9% in 1H06 to 24.1% in 1H07, which was principally a consequence of the price competition in the cub market. The average sales price of cub decreased drastically from US\$726 in 2004 to US\$505 in 1H07, indicating an intensifying competition in this segment.
- × **Government intervention** Between 2003 and 2005, sales of VMEP were drastically affected by the government policy restricting motorbike registrations in large cities. Despite the government lifted the restriction at the end of 2005, the adoption of other new laws or regulations could pose material threat on the company's earnings.
- × **Increasing competition due to WTO** Vietnam completed its accession to the WTO in early 2007 and will reduce its tariffs on motorbikes and motorbike parts from other WTO member countries. As a result, it is expected that VMEP will face a fiercer competition in the domestic motorbike market.

Recommendation: Hit and run

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