

**BEA securities**

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HONG KONG RESEARCH**19th January 2005**

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Main Board Listing - Research

三希科技有限公司

3CEMS Corporation [Stock Code: 0453]**Global Coordinator, Bookrunner, Lead Manager and Sponsor** : DBS Asia Capital Limited**Sector** : Technology Hardware & Equipment**Business** : Manufacturer of printed circuit boards in China**Total share offer:** 116,250,000 shares
(25% of the enlarged share capital)**Public Offer:** 11,628,000 shares (10%)**Placing:** 104,622,000 shares (90%)**Greenshoe:** 17,436,000 shares (15%)**Price:** HK\$1.68 – HK\$2.26 per share**Market Cap.:**
HK\$781.2 million – HK\$1,050.9 million**Forecast FY2004 P/E:** 10.02x – 13.48x (pro forma)**Adjusted NTA per share:** HK\$2.46 – HK\$2.60**Staffing:** 7,292**HK Public Offer period:**18th January 2005 – 21st January 2005**Receiving bank:** DBS Bank (Hong Kong) Limited**Share registrar:** Tricor Investor Services Limited**Listing date:** 28th January 2005**Business of 3CEMS**

3CEMS is an established provider of engineering and manufacturing solutions in China for printed circuit boards (PCB), printed circuit board assembly (PCBA) and PCBA-based components used in 3C products (Consumer electronics, Communications and Computer peripherals).

3CEMS manufactures a wide spectrum of PCBs, including double-sided, multi-layer and high-density interconnection (HDI) PCBs, with a monthly production capacity of approximately 1.7 million sq. ft. as at 31st December 2004. As an extension of its PCB fabrication operation, 3CEMS offers PCBA solutions which principally involve the process of assembling electronic components onto a PCB. Leveraged on its PCBA capabilities, 3CEMS also provides manufacturing and engineering services for PCBA-based components such as LCD modules.

Products manufactured by 3CEMS could be broadly applied in the following categories: (i) computer and computer peripherals such as servers, notebooks, scanners, printers, monitors, etc; (ii) consumer electronics such as game consoles, MP3 players, CD players, digital cameras, optical devices, medical devices, etc; (iii) communication products such as ADSL, mobile phones, cordless phones, setup boxes, etc.

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

FIC Global and its associates ⁽¹⁾	32.50%
Institutional shareholders ⁽²⁾	38.36%
Employee and other shareholders	4.14%
	<u>75.0%</u>

(1) FIC Global is a public listed company in Taiwan.

(2) Institutional shareholders comprise Reliance Global Investments Limited (18.90%), Amazing Tone Corporation (6.87%), Henriksen Group Limited (2.86%), Boardtek Global Corp (2.86%), Taiwan Special Opportunities Fund II (2.58%), Asia Corporate Partners Fund Limited (2.58%) and Taiwan Special Opportunities Fund III (1.71%).

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$206 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.97 each, which is the mid-point of the indicative price range)

	HK\$ million
Purchasing machinery and equipment to increase production capacity of HDI PCBs	117
Constructing a new production factory of multi-layer PCBs	78
General working capital	11

Financial Highlights[#]

	2001 US\$'000	Year ended 31 st December 2002 US\$'000	2003 US\$'000	9 months ended 30 th September 2004 US\$'000
Turnover	134,190	160,404	178,925	233,645
Gross profit	20,171	31,391	28,916	20,213
Operating profit	4,630	13,043	10,974	4,062
Net profit	3,353	11,435	10,351	3,770
EPS – Basic	US¢1.0	US¢3.4	US¢3.1	US¢1.1

[#] On 26th August 2004, 3CEMS acquired the remaining 53.85% equity interests in its associate Broadteam (BVI) and disposed of the assets and liabilities of its Discontinued Business to companies controlled by the Controlling shareholders. The financial information reflects the acquisition of the remaining equity interests in Broadteam (BVI) but does not take into account its Discontinued Business.

Breakdown of Turnover by Operation

	2001 US\$'000	%	Year ended 31 st December 2002 US\$'000	%	2003 US\$'000	%	9 months ended 30 th September 2004 US\$'000	%
PCB fabrication								
2-layer PCBs	9,474	7.1	14,940	9.3	20,710	11.6	19,593	8.4
4-layer PCBs	48,236	35.9	56,467	35.2	88,979	49.7	79,947	34.2
6-layer+ PCBs	2,547	1.9	3,547	2.2	15,434	8.6	20,221	8.6
HDI PCBs	-	-	-	-	12	-	130	0.1
PCBA								
Sales of materials	64,396	48.0	64,487	40.2	36,034	20.2	98,744	42.3
Processing income	9,537	7.1	20,963	13.1	17,756	9.9	15,010	6.4
Turnover	134,190	100.0	160,404	100.0	178,925	100.0	233,645	100.0

Breakdown of Turnover by Product Applications

	2001 US\$'000	%	Year ended 31 st December 2002 US\$'000	%	2003 US\$'000	%	9 months ended 30 th September 2004 US\$'000	%
Computer and computer peripherals	77,535	57.8	102,154	63.7	122,491	68.5	147,457	63.1
Consumer electronics products	55,814	41.6	51,224	31.9	55,155	30.8	67,416	28.9
Communication products	841	0.6	7,026	4.4	1,279	0.7	18,772	8.0
Turnover	134,190	100.0	160,404	100.0	178,925	100.0	233,645	100.0

Strengths/Opportunities

- ✓ China has emerged as a global manufacturing centre for 3C products with an annual growth rate of more than 20%. Brand owners and OEMs (Original Equipment Manufacturers) of 3C products have increasingly outsourced their manufacturing activities to manufacturing services providers in China, which in turn, have been propelling the growth of PCB and EMS (Electronics Manufacturing Services) industries in China.
- ✓ 3CEMS has adopted an integrated service portfolio that spans from PCB fabrication, PCBA to PCBA-based component assembly. This integrated business model allows the company to secure a stable supply of cost-effective PCBs for its PCBA operation whilst its PCBA operation can keep its PCB fabrication facilities operating at a high utilisation rate.
- ✓ The proceeds from its share offering are intended to expand product coverage for other critical components of 3C products. 3CEMS aims to increase the proportion of its high-layer and HDI PCB production for use in high-end computer and communication products, such as servers and mobile phones, which normally yields a higher margin.

Weaknesses/Threats

- × 3CEMS recorded a significant decline of net profit margin over the past 3 years, which fell from 7.1% in FY2002 to 5.8% in FY2003 and an estimated 3.1% last year. The surging prices of raw materials and components for its PCB fabrication operation would continue to weigh on its margin level.
- × For the 9 months ended 30th September 2004, 3CEMS incurred a US\$5.2 million loss by its subsidiary Delton Electronics, which manufactures high-layer and HDI PCBs. As the production of HDI PCBs by Delton Electronics is still at the start-up phase (HDI PCBs accounts for merely 0.1% of the company's total turnover as at 30th September 2004), there is no assurance that Delton Electronics would turn into profit in the near term.
- × Sales of products and solutions for use in computer and computer peripherals accounts for some 60% of 3CEMS' total turnover. As such, the company's profitability is vulnerable to the slowing demand growth of the computer and computer peripherals sector in the US.
- × The valuation of 3CEMS at 10.02x – 13.48x FY2004E P/E is not cheap, compared with 10.9x FY2004E P/E for Kingboard Chemicals (*stock code*: 0148).

Recommendation: Prefer Kingboard Chem (stock code: 148)