

**Analyst: Vincent Leung**

## Main Board Listing – Research

Capxon International Electronic Company Limited [Stock Code: 0469] 凱普松國際電子有限公司
**Sole Bookrunner, Sponsor and Lead Manager** : Mega Capital (Asia) Company Limited

**Sector** : Capital Goods

**Business** : Production of aluminum electrolytic capacitors and anode foils

<b>Total share offer:</b> <u>211,200,000</u> shares <b>(25.01% of the enlarged share capital)</b>  <b>Public Offer:</b> 21,120,000 shares (10%) <b>Placing:</b> 190,080,000 shares (90%) <b>Greenshoe:</b> 31,680,000 shares	<b><u>Business of Capxon International Electronic</u></b>  Established in 1980, Capxon International Electronic (Capxon) is a vertically-integrated aluminum electrolytic capacitor (鋁質電解電容器) manufacturer, which also focuses on the development of high quality anode foils. In 2003, Capxon expanded its business to the production of anode foils (陽極箔). Since then, it did not have to rely on Japanese suppliers for anode foils, and Capxon is now one of the few PRC manufacturers capable of producing high quality anode foils.  In addition to meeting in-house demand, anode foil products are also sold to other aluminum electrolytic capacitors manufacturers or anode foils producers under the Group's own brand name, "Capxon/凱普松".  According to the research of Paumanok in 2004, Capxon was ranked 12 <sup>th</sup> worldwide and 3 <sup>rd</sup> among aluminum electrolytic capacitors manufacturers from the PRC, Hong Kong and Taiwan in global sales for aluminum electrolytic capacitors. The aluminum electrolytic capacitors are sold under its own brand name, "CapXon /豐賓" and have a wide range of applications in computer peripherals, power supply products, consumer electronic products, telecommunication products, lighting products and automation products.
<b>Price:</b> HK\$0.88 – HK\$1.48 per share <b>Market Cap:</b> HK\$743 million – HK\$1,250 million  <b>Historical fully-diluted 2006 P/E:</b> 9.9x – 16.7x  <b>Adjusted NTA per share:</b> HK\$0.74 – HK\$0.89  <b>Staffing:</b> 3,012 (as of 20 <sup>th</sup> April 2007)	
<b>Public Offer period:</b> 24 <sup>th</sup> April 2007 – 27 <sup>th</sup> April 2007 noon  <b>Receiving bank:</b> The Bank of East Asia  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 7 <sup>th</sup> May 2007	

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

Lin's Family [including Mr. Lin Chin Tsun (chairman & president of the Group), Ms. Chou Chiu Yueh (vice-president & an executive director of the Group and spouse of the chairman), Mr. Lin Yuan Yu (CEO & an executive director of the Group and son of the chairman), Ms. Liu Fang Chun (spouse of the CEO) and Ms. Lin I Chu (daughter of the chairman)] 69.97%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$228 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.18 each, being the midpoint of the indicative price range)

	HK\$ million
For the expansion of anode foil production capacity	138
For the expansion of aluminum electrolytic capacitors production capacity	57
For potential merger or acquisition	23
For general working capital	10

**Financial Highlights**

	Year ended 31 <sup>st</sup> December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Revenue	737,290	789,910	843,856
Gross profit	140,031	179,992	200,739
Operating profit	57,449	90,895	91,363
<b>Profit attributable to equity holders</b>	<b>40,794</b>	<b>77,918</b>	<b>73,872</b>
Gross margin	19.0%	22.8%	23.8%
Operating margin	7.8%	11.5%	10.8%
Net margin	5.5%	9.9%	8.8%

**Revenue Breakdown by Products (% of Total Revenues)**

	Year ended 31 <sup>st</sup> December		
	2004 %	2005 %	2006 %
Anode foils	8.3%	7.7%	8.2%
Aluminum electrolytic capacitors	91.7%	92.3%	91.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Revenue Breakdown by Geographical Region (% of Total Revenues)**

	Year ended 31 <sup>st</sup> December		
	2004 %	2005 %	2006 %
The PRC	51.7%	70.8%	75.1%
Taiwan	22.4%	8.4%	2.9%
Asia (excluding the PRC)	18.6%	13.9%	16.9%
Europe	6.4%	6.2%	4.3%
US	0.9%	0.7%	0.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Strengths/Opportunities**

- ✓ The Group has adopted a vertically-integrated operating model which includes the production of anode foils as well as the production of aluminum electrolytic capacitors. With its in-house anode foils production capability, the Group should be able to lower its aluminum electrolytic capacitors production cost. This contributes to the Group's improving gross margins in 2004-2006.
- ✓ Having been in the capacitors industry for more than 25 years, the Group has established a renowned customer base for its capacitors products comprising over 300 customers, including long-term customers with established brand names such as LG, Samsung, Philips, Vestel, Foxconn and Lite-On.
- ✓ The Group intends to pay out not less than 30% of its net profit as dividends.



**Weaknesses/Threats**

- × The Group is in a net-debt position, with net debt-to-equity ratio of 95.8% as of 31<sup>st</sup> December 2006.
- × To be priced at historical FY2006 P/E of 9.9x-16.7x, valuation of Capxon is not attractive when compared with Hong Kong-listed sector peer Man Yue International (stock code: 0894). Man Yue International, whose wholly-owned subsidiary Man Yue Electronics was ranked 7<sup>th</sup> worldwide in global sales for aluminum electrolytic capacitors in 2004 but is not engaged in the production of anode foils, is trading at historical FY2006 P/E of 8.7x.

**Recommendation:     Unattractive**



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