

Analyst: Anita Hwang

Main Board Listing – Research

Noble Jewelry Holdings Limited [Stock Code: 0475] (億鑽珠寶控股有限公司)

International Coordinator, Sponsor : Evolution Watterson Securities Ltd.

Sector : Consumer Durables & Apparel

Business : Design and manufacture of fine jewelry

Total share offer: <u>78,000,000</u> shares (30% of the enlarged share capital) Public Offer: 7,800,000 shares (10%) Placing: 70,200,000 shares (90%) Greenshoe: 11,700,000 shares Price: HK\$1.08 – HK\$1.50 per share Market Cap: HK\$280.8 – HK\$390.0 million Pro-forma FY07 PER: 5.0X – 7.0X Adjusted NTA per share: HK\$0.62 – HK\$0.71 Staffing: 1,691	<u>Business of Noble Jewelry (Noble)</u> Noble Jewelry (Noble) is a Hong Kong-based fine jewelry designer, manufacturer and related integrated service provider to jewelry retailers and wholesalers in the US, the Middle East, Europe and the Asia-Pacific region. Its business objective is to become a fine jewelry service provider providing customers with a variety of fine jewelry products, together with supply-chain and management services, ranging from branding and product support, sales and marketing management, inventory management and technology support. The products are broadly categorized into diamond jewelry products and diamond jewelry products with semi-precious and synthetic stones. Noble mainly focuses on tailor-made original design manufacture (ODM), exclusive ODM, and generic ODM. It also provides original brand manufacturing (OBM) services for a number of customers. In April 2006, Noble completed the acquisition of the assets and liabilities of Chad Allison Designs, LLC, which was one of the customers of Noble and explored the branded jewelry market in the US. The acquisition forms part of the original strategy management (OSM) business model and represents a step to enter into the branded fine jewelry market through mergers and acquisitions. Noble's production facilities are located in Panyu, Guangdong. Profit forecast for the year ending 31 March 2007 is not less than HK\$56 million and the pro-forma fully diluted EPS is HK\$0.215.
HK Public Offer period: 30 th March 07 – 10 th April 07 noon Receiving bank: Hang Seng Bank ICBC (Asia) Share registrar: Tricor Investor Services Limited Listing date: 17 th April 2007	

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

Mr. Johnny Chan – Chairman and Executive director (through a wholly-owned BVI Co.)	66.5%
Mr. Tang Chee Kwong – Executive director	1.5%
Ms Chan Lai Yung – Executive director	1.0%
Mr. Yu Yip Cheong – Executive director	1.0%
	<u>70.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$56 million. *(Being the mid-point of the offer price range [HK\$1.29 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For acquisition of new factory units for the expansion of production lines	30
For expansion of sales networks in China market through Sinoble Jewellery (PRC)*	5
For expansion of sales networks in the US and European markets	5
For the repayment of short term bank borrowings due to Standard Chartered Bank (HK) which bear interest rate of 1.5% over HIBOR	11
For general working capital	5

* Sinoble Jewellery (PRC) is a wholly-foreign owned enterprise established in China on 17 October 2006 with limited liability and a wholly-owned subsidiary of Noble Jewellery.

Financial Highlights

(HK\$ million)	Year ended 31 March			Six months ended 30 Sep
	2004	2005	2006	2006
Turnover	357.52	453.92	547.61	317.29
Gross profit	82.33	94.97	132.76	77.94
Operating profit	35.33	41.55	61.16	38.68
Net profit	28.28	33.38	48.55	28.07
Gross margin	23.0%	20.9%	24.2%	24.6%
Operating margin	9.9%	9.2%	11.2%	12.2%
Net margin	7.9%	7.4%	8.9%	8.8%

Turnover Breakdown by business basis (% of Total turnover)

	Year ended 31 March			Six months ended 30 Sep
	2004	2005	2006	2006
OBM	15.8%	20.2%	24.8%	34.8%
Exclusive and tailor-made ODM	34.8%	35.7%	29.7%	24.6%
Generic ODM	49.4%	44.0%	45.5%	40.6%
Total	100.0%	100.0%	100.0%	100.0%

Turnover Breakdown by geographical locations (% of Total turnover)

	Year ended 31 March			Six months ended 30 Sep
	2004	2005	2006	2006
The Middle East	17.5%	22.2%	29.4%	29.0%
US	30.0%	27.0%	25.7%	24.2%
Europe	22.6%	23.1%	23.2%	21.8%
Japan	12.8%	11.3%	9.7%	7.1%
Hong Kong	8.0%	10.7%	7.6%	12.3%
Other Asian-Pacific countries	9.1%	5.7%	4.4%	5.6%
Total	100.0%	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Integrated business model** Noble started the business as a generic ODM fine jewelry manufacturer in 1995. ODM involves provision of product designs for the customers, and generic ODM is built on regular product designs appealing to customers in different markets. Noble also provides OBM services to several clients. OBM involves provision of finished fine jewelry products and management mix and marketing services to help customers develop their brands in target markets. In 2006, Noble acquired Chad Allison Designs and hence diversified into the OSM business. OSM, which includes ODM and OBM, involves provision of supply chain and management mix services. As Noble diversifies up the value chain into different business models targeting different customer segments, this distinguishes Noble from many mid-size peers in the Southern China involved in low-end OEM and generic ODM.



- ✓ **Leading player in fine jewellery industry** Noble has over 600 active customers around the world. Based on the statistics for the total export of fine jewelry conducted by the Census and Statistics Department of Hong Kong and Noble's actual results, Noble is one of the Hong Kong largest fine jewelry exporters to countries in the Middle East. During the fiscal year ended 31 March 2006, approximately 29% of total turnover was generated from the Middle East.
- ✓ **Fair Valuation** Noble's pro-forma FY07E PER of 5.0X – 7.0X is fair. Close peers, such as Hang Fung Gold (0870.HK), Luk Fook (0590.HK) and Ming Fung Jewelry (0860.HK) trade at FY07 PER of 5.2X - 8.0X.

Weaknesses/Threats

- × **Exposure to diamond and gold price fluctuations** Diamond and gold account for the largest share among all the cost items. Diamond and gold respectively account for as much as 72% and 28% of total purchase of principal raw materials during the track record period. Noble did not enter into any hedging transaction or adopt other measures to mitigate price fluctuations in diamond and gold. Therefore, any significant shocks to the prices of diamond and gold can adversely affect the profit margin.
- × **Highly competitive industry** The fine jewelry industry is competitive both on the retail level and on the chain of suppliers producing fine jewelry products. Competitors can easily close down Noble's competitive edges on product design, pricing and quality control. Any misses in the ability of Noble to meet the fast changing consumers' preference and demand can adversely affect its top-line.
- × **High gearing** Noble's net debt to equity ratio for the fiscal years ended 31 March 2004, 2005 and 2006 were 82.6%, 75.3% and 95.7% respectively. The increase in gearing was primarily resulted from the increase in bank and other borrowings to finance business operation. For the six months ended 30 September 2006, a dividend of HK\$38 million was paid to Mr. Johnny Chan, the Chairman and Executive Director, making the net debt to equity ratio during that period soar to 139.3%. After utilizing about HK\$11 million of the listing proceeds to repay some of the short-term loans, the net debt to equity ratio of Noble decreased to roughly 92%.

Recommendation: Unattractive



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