

Analyst: Vincent Leung

Main Board Listing – Research

AUPU Group Holding Company Limited [Stock Code: 0477] 奥普集团控股有限公司

Global Coordinator and Bookrunner : ICEA Capital

Joint Lead Managers and Joint Sponsors : ICEA Capital

BCOM Securities

Sector : Electrical Appliances

Business : Design, manufacture and distribution of bathroom masters, exhaust fans and other home electrical appliances

<p>Total share offer: <u>204,000,000</u> shares (30% of the enlarged share capital)</p> <p>Public Offer: 20,400,000 shares (10%)</p> <p>Placing: *183,600,000 shares (90%)</p> <p>Greenshoe: 30,600,000 shares</p> <p><i>*Comprising 149,600,000 New Shares and 34,000,000 Sale Shares</i></p>	<p><u>Business of AUPU Group Holding</u></p> <p>Founded in 1993, AUPU is engages in the design, manufacture and distribution of bathroom masters, exhaust fans and other home electrical appliances under its own brand name “AUPU (奥普)”.</p> <p>The Company was the first to introduce into the PRC the bathroom master, which incorporates not only heating function but also lighting and ventilation functions into a single product. The all-in-one feature of bathroom master is an effective solution to those households, which have fairly low indoor temperature during winter and limited bathroom space. AUPU's bathroom master products are named “Bathroom Master 3-in-1 (浴霸)”.</p> <p>Its major product series, AUPU Bathroom Master 3-in-1 that has over 40 specifications, represents over 90% of its total revenue.</p> <p>AUPU's sales and distribution network comprises of 8 branch offices, 177 authorized agents, 257 distributors and over 3,000 points-of-sales in various cities, provinces and autonomous regions in the PRC. Its products under its own brand AUPU could be found in major retail chain stores, such as GOME, Yongle Household Electrical Appliances Store and B&Q. The Company also distributes its products to real-estate developers in the PRC and exports some of its products to countries, such as Australia, New Zealand, the US, South Korea and the UK.</p>
<p>Price: HK\$0.93 – HK\$1.23 per share</p> <p>Market Cap: HK\$632.4 million – HK\$836.4 million</p> <p>Pro-forma FY2006E P/E: 8.0x – 10.6x</p> <p>Adjusted NTA per share: HK\$0.35 – HK\$0.42</p> <p>Staffing: 1,011 (as of 20th November 2006)</p>	
<p>Book opens: 23rd November 2006</p> <p>Book closes: 30th November 2006</p> <p>Public Offer period: 27th November 2006 – 30th November 2006 noon</p> <p>Receiving bank: ICBC (Asia)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 8th December 2006</p>	

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

Mr. James Fang (Chairman and Executive Director of the Company)	32.53%
Mr. Fang Shengkang (Executive Director of the Company and cousin of the Chairman)	31.55%
Mr. Lu Songkang (Non-executive Director)	4.93%
Mr. Chai Junqi (Non-executive Director)	0.99%
	<u>70.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$162.8 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.08 each, being the midpoint of the indicative price range)

	HK\$ million
For the establishment of a new production plant, including construction, acquisition of land, decoration of the production plant as well as purchase of machinery and equipment.	79.1
For enhancing product development capability	31.1
For financing the enhancement and expansion of the Company's sales and distribution network, including establishment of its own chain stores, promotion of its franchised chain stores and marketing the point-of-sale	23.6
For brand name management, including TV advertising in the next 5 years and trade fairs	22.0
For improving and upgrading management and information systems	7.0

Financial Highlights

	Year ended 31 st December			Five months ended 31 st May
	2003	2004	2005	2006
	RMB million	RMB million	RMB million	RMB million
Revenue	213.7	267.0	336.5	146.6
Gross profit	110.3	139.3	170.6	79.4
Operating profit	38.0	61.8	77.0	34.9
Net profit	27.4	45.1	55.3	33.1
Gross margin	51.6%	52.2%	50.7%	54.2%
Operating margin	17.8%	23.1%	22.9%	23.8%
Net margin	12.8%	16.9%	16.4%	22.6%

Strengths/Opportunities

- ✓ Rising disposable income and urbanisation in the PRC should continue to push demand for better living conditions. Also supported by the solid property markets in the PRC, room for growth for the more sophisticated household products like bathroom master, which are only used in less than 2% of the entire PRC population and less than 15% of the PRC urban population, should be ample.
- ✓ The Company, having a 40.7% market share in terms of sales volume and a 52.4% market share in terms of sales amount in 2005, is the largest bathroom master supplier in the PRC. In fact, it has been ranked the top in terms of both sales value and volume for 4 consecutive years from 2002 to 2005. The No.2 player, AUCMA (澳柯瑪), only commands a market share of 11.1% and 8.4% in terms of sales volume and amount respectively in 2005. In addition, strong brand name recognition with numerous awards also gives AUPU an advantage over its competitors.
- ✓ The Company has a well-established and wide sales and distribution network, including 8 branch offices, 23 sales and distribution centres, 177 authorised agents, 257 distributors and over 3,000 points-of-sales nationwide.
- ✓ The Company's balance sheet is debt-free.
- ✓ There is no real direct comparables currently listed in Hong Kong given AUPU's focus on the niche market on bathroom small electrical appliances. Given its smaller size, AUPU's valuation is reasonably priced at 8x-10.6x FY2006E P/E when compared with its mainland-listed home-appliance sector peers, Qingdao Haier (stock code: 600690.SS) and Gree Electric Appliances (stock code: 000651.SZ) with FY2006E P/E ratios of 23.1x and 14.2x respectively.



Weaknesses/Threats

- × The entry barrier of bathroom master industry is relatively low for its low-technology requirement and non-capital intensive nature. In fact, the market is highly fragmented with over 300 players in the PRC. Intensifying price competitions from both foreign players and local rivals should put the Company's current gross margin of over 50% at risk. In addition, continued high and possibly increasing advertising expenditure for brand maintenance would also weigh on the bottom line.
- × Raw materials and components, including infrared light bulbs, plastic components and electric motors, accounted for over 90% of cost of sales. Fluctuation of their prices would adversely affect the Company's profitability.
- × Penetration into the 2nd-tier cities in the PRC may potentially put downward pressure on the Group's profit margin.

Recommendation: Trading Buy



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