



Analyst: Stanley Lau

Main Board Listing – Research

銀河半導體控股有限公司

Galaxy Semi-Conductor Holdings Limited [Stock Code: 0527]

Sponsor	: South China Capital Limited
Joint Bookrunners and Joint Lead Managers	: South China Securities Limited China Merchants Securities (HK) Co., Ltd.
Co-Lead Managers	: Core Pacific – Yamaichi International (H.K.) Limited Partners Capital International Limited
Sector	: Software & Services
Business	: Manufacturer of diodes in the PRC

Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital) Public Offer: 10,000,000 shares (10%) Placing: 90,000,000 shares (90%) Greenshoe: Nil	<u>Business of Galaxy Semi-Conductor</u> The Group's operations are principally conducted through its PRC subsidiaries, namely Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology. Galaxy Electrical is engaged in the design, development, manufacture and sale of diodes (Diode is a device that allows electric current to pass through in one direction only. Various types of diodes are made up of wafers with different structures and different packaging methods). A substantial part of diodes manufactured and sold by Galaxy Electrical are traded under the brand name of "BILIN". Galaxy Semiconductor is engaged in the design, development, manufacture and sale of 3-inch wafers, while Galaxy Technology is engaged in the design, development, manufacture and sale of 4-inch wafers. The wafers manufactured are mainly for the use of Galaxy Electrical. Plastic-packaged diodes are the major products of the Group, accounting for 80.9% of its total revenue for the year ended 31 st December 2005.
Price: HK\$0.7 – HK\$0.9 per share Market Cap.: HK\$280 million – HK\$360 million Pro Forma FY2005 P/E: 5.6x – 7.1x Adjusted NTA per share: HK\$0.40 – HK\$0.45 Staffing: 2,301	
HK Public Offer period: 29 th May 2006 – 2 nd June 2006 Receiving bank: Bank of China (Hong Kong) Share registrar: Tricor Investor Services Limited Listing date: 9 th June 2006	

Major Shareholders after Listing

Mr. Yang Senmao, <i>Chairman and Executive Director of the Group</i> *	41.850%
Mr. Meng Quanda, <i>Director of Galaxy Electrical</i> *	15.345%
Mr. Xu Xiaoping, <i>Executive Director of the Group</i> *	12.555%
Zhong Shan Company Limited, <i>wholly owned by the Jiangsu Provincial People's Government</i>	5.250%
	<u>75.000%</u>

Remark (*): interest held via Rapid Jump Limited and Kalo Hugh Limited, which hold 38.25% and 31.50% of Galaxy Semi-Conductor respectively.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$65 million.

(Assuming an issue price of HK\$0.8 each, being the mid-point of the indicative price range)

	HK\$ million
Expansion of production facilities for diodes	63
Additional working capital	2

Financial Highlights

	1 st January 2003 to 18 th April 2003**	19 th April 2003 to 31 st December 2003	Year ended 31 st December	
	RMB'000	RMB'000	2004 RMB'000	2005 RMB'000
Turnover	26,031	95,880	182,761	252,826
Gross profit	9,978	27,020	57,902	66,058
Operating profit	6,591	19,923	37,211	45,239
Net profit	6,198	17,627	32,394	39,414
Owner's Equity	30,581	46,851	68,879	108,221

Remark (**): Results of Galaxy Electric and Galaxy Semiconductor.

Strengths/Opportunities

- ✓ The economy of the PRC as well as the electronics industry in the PRC had been growing rapidly over the past years. The continuous development of the electronics industry in the PRC should facilitate the demand for diodes.
- ✓ As diode manufacturing is a relatively mature sector in the electronics industry, cost control is the key to gain competitive advantage and that the operating scale and vertical integration capabilities of the Group have enabled it to effectively control procurement costs and fixed costs of its products.
- ✓ Priced at 5.6x to 7.1x FY2005 P/E, valuation of the counter is at a discount to the industry average of 12x. Nonetheless, several companies within the industry, such as Semiconductor Manufacturing International Corp (stock code: 0981), reported a net loss in FY2005.

Weaknesses/Threats

- × Copper wire is a core raw material used to manufacture diodes. Last year's rapid surge in copper prices dragged significantly on the Group's gross profit margin, which was squeezed to 26.1% in FY2005 from 31.7% in FY2004. Copper prices have risen quite a lot since the beginning of this year and are expected to be volatile in the rest of this year.
- × Diodes of the Group are mainly applied in the consumer electronics products, the demand of which is driven by the persistent development of the electronics industry in the PRC. In the event of any further economic macro control in the PRC, it might decelerate the development of the electronics industry and, in turn, slow down the demand for diodes.
- × As a result of PRC's accession into the WTO, commencing 1st January 2005, the PRC had completely eliminated tariffs on all information technology products listed in the Information Technology Agreement. This change has attracted foreign competitors to further increase their investment in the PRC, resulting in more competition in the industry.

Recommendation: Unattractive

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