

Analyst: Ernest Tan

Main Board Listing – Research

貿易通電子貿易有限公司
Tradelink Electronic Commerce Limited [Stock Code: 0536]
Global Coordinator, Bookrunner, Lead Manager and Sponsor : DBS Asia Capital Limited
Sector : Industrials
Business: Trade related electronic services

Total share offer: <u>233,280,000</u> shares (30% of the enlarged share capital) Public Offer: 23,328,000 shares (10%) Placing: 209,952,000 shares (90%) Greenshoe: 34,992,000 shares (15%)	<u>Business of Tradelink</u> Tradelink is the leading provider of trade-related electronic services for corporate and logistics service providers in Hong Kong and overseas. It is the first company appointed by the Government to provide Government Electronic Trading Services in relation to certain official trade-related documents, such as import and export declarations (TDEC) and dutiable commodities permits (DCP). It is also the sole provider of services in relation to certificates of origin (CO), electronic submission of manifests in respect of cargoes carried by air, rail or water (EMAN), product notification (PN) and the Textile Trader Registration Scheme (TTRS). According to Government statistics, the company controls 94% of TDEC market and 99% of DCP markets for the six months ended 30 th June 2005. TDEC is the major income source of Tradelink. It represented 70.4%, 71.3% and 73.3% of the company's total revenue in FY2002, FY2003 and FY2004 respectively.
Price: HK\$1.09 – HK\$1.29 per share Market Cap.: HK\$848 million – HK\$1,003 million Forecast 2005 P/E: 10.0x – 11.8x (pro forma) Adjusted NTA per share: HK\$0.42 – HK\$0.43 Staffing: 335	
HK Public Offer period: 18 th October 2005 – 21 st October 2005 Receiving bank: Standard Chartered Bank (Hong Kong) Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 28 th October 2005	

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

HKSAR Government via The Financial Secretary Incorporated	16.80%
The Hong Kong & Shanghai Banking Corporation Limited	8.12%
PCCW-HKT Limited	8.12%
China Resources (Holdings) Company Limited	4.90%
HACTL Investments Limited	4.90%
Modern Terminals Limited	4.90%
Swire Pacific Limited	4.90%
TAL Apparel Limited	4.37%
HIT Enterprises Limited	4.34%
Hong Kong General Chamber of Commerce	3.78%
The Federation of Hong Kong Industries	3.21%
Standard Chartered Bank (Hong Kong) Limited	1.46%
Hong Kong Association of Freight Forwarding and Logistics Limited	0.20%
	<u>70.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$53.8 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.19 each, which is the mid-point of the indicative price range)

- Approximately HK\$40.0 million for the identification and development of new electronic services such as the electronic submission of advance information and manifests in respect of cargoes carried by the road mode of transport across the land boundary, and new services relating to application of RFID (radio frequency identification) technology in logistics.
- The remaining balance as general working capital.

Selected Consolidated Financial Data

	<u>Year ended 31st December</u>			<u>4 months ended 30th April</u>	
	2002	2003	2004	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	302,748	308,481	279,706	86,792	75,773
Operating profit	126,213	125,789	83,612	36,931	35,224
Net profit	114,165	97,698	62,968	30,419	29,603
Cash and cash equivalents	322,726	394,667	417,472	-	391,818
Trade receivables	17,048	21,159	20,242	-	18,213
Fixed assets	76,875	49,059	27,350	-	71,287
Trade and other payables	213,695	213,708	218,575	-	229,102
Net assets	219,963	264,432	258,922	-	277,016

Strengths/Opportunities

- ✓ Tradelink has a strong financial position. Thanks to the combined benefits of low debtors' turnover and low maintenance capital expenditure, the company is able to accumulate sizable cash throughout the years i.e., the company was debt free with HK\$391.8 million of cash as of 30th April 2005.
- ✓ Tradelink currently intend to declare dividends in total to not less than 80% of distributable profit in respect of the remaining period of FY2005 and FY 2006, and generally not less than 60% of the distributable profit thereafter. This goal is achievable given the strong cash position and the high earnings quality of the company. It is estimated that the prospective dividend yield of FY2005 could reach from 6.8% to 8.0% (depending on the final offer price).
- ✓ In order to alleviate its reliance on TDEC revenue, Tradelink is launching new services, i.e. Digital Trade and Transportation Network (DTTN), e-Outward Processing Agreement (eOPA) and Electronic Road Manifest by the end of 2005 to capture the business opportunities resulted from CEPA.

Weaknesses/Threats

- × Core business of Tradelink, i.e. import and export declarations (TDEC) is expected to experience decline in the near term due to the removal of textile quotas, increases in direct shipments to or from mainland China and diversion of cargo through mainland ports. Thus, net profit of Tradelink is expected to remain flat before the new business initiatives prove viable.
- × With the expiration of an exclusive Government franchise in 2003, the company started facing competitions in the TDEC and DCP areas from a start-up company called Global e-Trading Services. As prices of this new competitor are lower than that of Tradelink, it limits the pricing power of Tradelink to its customers.
- × The founding shareholders (as listed on previous pages) might dispose their holdings after the lockup period expires, i.e. six months after debut.

Recommendation: Subscribe for dividend yield