

Analyst: Kelvin Li

Main Board Listing – Research

太平洋網絡有限公司

Pacific Online Limited [Stock Code: 0543]
Global Coordinator, Bookrunner, Sponsor and Lead Manager : BNP Paribas

Sector : Software and services

Business : An Internet content provider

<p>Total share offer: <u>285,000,000</u> shares (30% of the enlarged share capital) (comprising 190 million new shares and 95 million existing shares)</p> <p>Public Offer: 28,500,000 shares (10%)</p> <p>Placing: 256,500,000 shares (90%)</p> <p>Greenshoe: 42,750,000 shares</p> <p>Price: HK\$2.98 – HK\$3.58 per share</p> <p>Market Cap: HK\$2,831 million–HK\$3,401 million</p> <p>Pro forma FY2007E PER: 30.0x to 36.0x</p> <p>Adjusted NTA per share: HK\$0.71 - HK\$0.83</p> <p>Staffing: 497 (as of 30th June 2007)</p>	<p><u>Business of Pacific Online</u></p> <p>The Group is one of the leading Internet content providers in the Mainland in terms of advertising revenue. The Group operates five vertically-integrated portals, including PConline, which is the largest portal in the PRC specializing in IT product-related content in terms of advertising revenue, and PCauto, which is the second largest portal in the PRC specializing in automobile-related content in terms of advertising revenue.</p> <p>The Group's business model is based on the provision of specialized content designed to provide online users with product and brand information required to make an informed purchase decision. The Group's ability to develop substantive and specialized content to facilitate product selection enables the Group to keep increasing its active user base.</p> <p>The Group's five vertically-integrated portals:</p> <ul style="list-style-type: none"> • PConline (www.pconline.com.cn) • PCauto (www.pcauto.com.cn) • PCgames (www.pcgames.com.cn) • PClady (www.pclady.com.cn) • PCKids (www.pckids.com.cn)
<p>HK Public Offer period: 5th December 2007 – 10th December 2007 noon</p> <p>Receiving bank: Bank of Communications Standard Chartered Bank</p> <p>Share registrar: Tricor Investor Services Ltd.</p> <p>Listing date: 18th December 2007</p>	

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

Mr Lam Wai Yan, the Group's chairman & CEO	27.01%
Mr Wang Ko Chiang, father of the Group's CFO Mr Wang Jeff Da-Shin	23.69%
Mr Ho Kam Yah, an executive director, and his spouse Ms Yeung Yuk Chun	9.05%
Other investors*	10.25%
Public Investors	30.00%
	<u>100.00%</u>

Remark: "Other investors" are financial investors of the Group's key investment holding unit, Takehigh, prior to the reorganisation preceding the HK IPO. They are not regarded as pre-IPO investors.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$572.7 million (Assuming an offer price of HK\$3.28, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For expanding and upgrading the Group's internet portal operations	130.0
For expanding the Group's sales & marketing teams	40.0
For the enhancement of the Group's research & development activities	40.0
For the development of the Group's e-commerce platform	30.0
For the purchase of facilities to accommodate additional staff and to serve the Group's headquarters and the R&D centre	50.0
For strategic acquisitions, investments and joint ventures that for synergy with the Group's current business operations	225.4
For working capital and general corporate purposes	57.3

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2004	2005	2006	30 th Jun 2006	30 th Jun 2007
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	81,332	114,341	170,973	71,858	94,187
Gross profit	65,792	86,338	124,761	53,318	67,258
Operating profit	36,164	51,734	80,964	37,485	47,044
Profit attributable to shareholders	32,254	45,992	67,199	30,789	39,863
Gross profit margin	80.89%	75.51%	72.97%	74.20%	71.41%
Operating profit margin	44.46%	45.25%	47.35%	52.17%	49.95%
Net profit margin	39.66%	40.22%	39.30%	42.85%	42.32%

Strengths/Opportunities

- ✓ PConline, one of the earliest Chinese language portals offering specialized content on the Internet in the Mainland, has attracted favourable market acceptance and its brand name was widely recognised since its launch in April 1999.
- ✓ As at end June 2007, the Group had 39 million users, compared with a total of 162 million Internet users in the PRC, which implied 24% of the Mainland's total Internet population were users of PConline.
- ✓ The Group's revenue grew at a CAGR of 45% over the last couple of years. To be priced at 36x FY07E P/E (assuming at the high end of the indicative price range), the valuation is not too demanding given its strong growth potential when compared with industry rivals like the NASDAQ-listed Sina Corp's 44x and Sohu.com's 72x forward P/E.

Weaknesses/Threats

- × In order to comply with PRC laws and regulations relating to foreign ownership restrictions in the value-added telecommunication services business, the Group has to conduct its operations through contractual arrangements with GZ Yingxin and its wholly-owned subsidiary GDP Internet. The Group did not have direct ownership of GZ Yingxin and so GDP Internet, but the contractual agreements allow it to effectively control GZ Yingxin and GDP Internet and receive economic benefits from GDP Internet. In fact, GZ Yingxin is owned by the Group's CFO, the chief administrative officer and the accounting director, who all are PRC citizens. However, ones should note that any bankruptcy or closure of GDP Internet would have adverse impact of the Group's business.

Recommendation: Trading Buy

Important Disclosure / Analyst Certification / Disclaimer

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