

Analyst: Kevin Tam

Main Board Listing – Research

瀚宇博德國際控股有限公司

HannStar Board International Holdings Ltd. [Stock Code: 0667]

Sole Global Co-ordinator, Joint Bookrunner and Joint Lead Manager

: Polaris Capital (Asia) Ltd.

Joint Bookrunner and Joint Lead Manager

: Taiwan Securities (Hong Kong) Company Ltd.

Sponsors

: Polaris Securities (Hong Kong) Ltd.

TSC Capital Ltd.

Co-lead Manager

: DBS Asia Capital Ltd.

Sector : Technology hardware & equipment

Business : Electronic equipment manufacturer

Total share offer: 325,000,000 shares
(25% of the enlarged share capital)

Public Offer: 32,500,000 shares (10%)

Placing: 292,500,000 shares (90%)

Greenshoe: 16,250,000 shares

Price: HK\$1.77 per share

Market Cap: HK\$2,301 million

Forecasted FY06E net profit:

Not less than US\$29 million

Forecasted FY06 PER: 10.2X

Adjusted NTA per share: US\$0.127

Staffing: 2,503

HK Public Offer period:

26th September 06 – 29th September 2006 noon

Receiving bank: Hang Seng Bank Ltd.

Share registrar: Computershare Hong Kong
Investor Services Limited.

Listing date: 6th October 2006

Business of HannStar Board International

HannStar Board International is a manufacturer of PCBs for the notebook computer industry. HannStar produces a wide range of double-sided PCBs and multi-layer PCBs of up to 12 layers, which are principally used in notebook computers. The Group also supplies PCBs for the consumer electronics and communication industries for the use in game console, Set-Top-Box, server and mobile phone.

Customers of HannStar comprise mainly ODMs and EMS providers engaging in the production of a diverse range of products for industries such as notebook computer, consumer electronics and communication industries. The Group's principal customers include Quanta, Compal and Wistron, which are the leading notebook computer ODMs in the world.

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

HannStar Taiwan

75%

Public Shareholders

25%

100%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$541 million. (Assuming the over-allotment option is not exercised)

	HK\$ million
For capital expenditures on the construction of a new factory building for Plant IV	120
For the acquisition of new equipment and machinery for the production of HDIs	130
For the acquisition of new equipment and machinery for the production of PCBs to be installed in Plant IV	130
For the repayment of a portion of the Group's banking borrowings	161

Financial Highlights

	Year ended 31 st December			Three months ended 31 st March	
	2003	2004	2005	2005	2006
	USD' 000	USD' 000	USD' 000	USD' 000	USD' 000
Turnover	22,228	76,362	170,279	30,434	58,883
Gross profit	4,659	18,305	34,669	6,127	10,734
Operating profit	2,098	10,698	28,743	4,362	10,284
Net profit	1,628	9,110	23,431	3,386	7,785
Gross margin	21.0%	24.0%	20.4%	20.1%	18.2%
Operating margin	9.4%	14.0%	16.9%	14.3%	17.5%
Net margin	7.3%	11.9%	13.8%	11.1%	13.2%

Strengths / Opportunities

- ✓ From FY03 to FY05, HannStar registered CAGR in revenue and net profit at 177% and 279% respectively demonstrating that the Group has successfully grabbed market share in addition to riding industry growth. The forecasted net profit for FY06 of not less than US\$29 million represents a 23.8% y-o-y growth.
- ✓ Share of turnover for notebook computers dropped from 95.6% in FY03 to 72.5% in 1Q06. This was due to the Group has successfully penetrated its PCB into other applications such as game console and Set-Top-Box, bringing greater future growth opportunities.
- ✓ Raw materials account for 60's% of total cost of goods sold, with laminates and prepregs together account for nearly 50% of raw material cost. The prices of laminates are subject to fluctuation in oil and copper prices. The recent softening oil and copper prices should help ease part of the cost pressure.
- ✓ At 10.2X FY06E PER, the IPO's valuation is roughly in line with its overseas listed counterparts, which are trading at low-to-mid double digit prospective PERs.

Weaknesses / Threats

- × The Group's customer is highly concentrated. For 1Q06, five largest customers accounted for 87% of total turnover.
- × The Group's operation is highly capital intensive. For FY04 and FY05, capital expenditures amounted at US\$49 million and US\$81 million respectively, which were significantly higher than the operating cash flow during the respective period.
- × The Group is highly geared. As of 31/03/2006, total interest-bearing debt amounted at US\$150 million. The pre-IPO debt to equity ratio stood at 157% while the pro forma post-IPO debt to equity ratio is estimated at a still high level of 90%.

Recommendation: Speculative Buy

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