

Analyst: Kelvin Li

Main Board Listing – Research

Value Partners Group Limited [Stock Code:0806] 惠理集團有限公司

Joint Sponsors and Joint Bookrunners	: J.P. Morgan Securities (Asia Pacific) Limited
	: Morgan Stanley Asia Limited
Joint Global Coordinators	: J.P. Morgan Securities Ltd.
	: Morgan Stanley Asia Limited

Sector : Financial Services

Business : Asset Management

Total share offer: *381,600,000 shares (23.85% of the existing share capital) Public Offer: 38,160,000 shares (10%) Placing: 343,440,000 shares (90%) <i>*All 381,600,000 shares are Sale Shares</i>	<u>Business of Value Partners Group</u> During its 14-year history, Value Partners (VP) has grown into one of the largest local asset management groups with a focus on the Asia-Pacific region and Greater China. As at 30 June 2007, VP had total assets under management (AUM) of US\$5.7 billion, with a CAGR of 67% since 2002. It was ranked as the second largest hedge fund manager in Asia in the July-August 2007 edition of Alpha Magazine. VP currently manages or sub-manages 7 authorized funds, 5 non-authorized funds, 4 white label or co-branded funds and 2 private equity funds. Led by Mr. Cheah Cheng Hye, the CIO of the company, VP uses bottom-up, research driven value-investing principles for all its investments. According to the analysis by Standard & Poor's, its Value Partners Classic Fund has an annualized volatility of 19.6% and annualized return of 22.1% over the period from April 1993 to August 2007, which places the fund at the lowest volatility and highest return amongst the peer group.
Price: HK\$6.78 – HK\$7.63 per share Market Cap: HK\$10,848 million– HK\$12,208 million Historical FY2006 PER: 12.7X – 14.3X NTA per share: HK\$0.48 (as of 30 th June 2007) Staffing: 78 (as of 30 th June 2007)	
HK Public Offer period: 8 th November 2007 – 13 th November 2007 Receiving banks: HSBC Bank of China (Hong Kong) Share registrar: Tricor Investor Services Limited Listing date: 22 nd November 2007	

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

CCML* - ultimate beneficiaries include Mr. Cheah Cheng Hye, the CIO of the co and certain members of his family	35.6%
Mr. Yeh V-Nee (co-founded of Value Partner Limited)	18.3%
VP's Directors and a trustee of certain family members of a Director	14.2%
Public Investors	31.9%
	<u>100.0%</u>

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**Use of Proceeds**

The Company is not issuing any new Shares in this Global Offering and will NOT receive any proceeds from it. The Selling Shareholders will receive all of the net proceeds, which will be approximately HK\$2,677 million (*Assuming the over-allotment option is not exercised, and at an issue price of HK\$7.21 each, being the midpoint of the indicative price range*).

Financial Highlights

	Year ended 31 st December			6 months to 30 th June 2006
	2004	2005	2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total income	373,530	493,357	1,518,125	582,558
Operating profit	196,346	284,545	1,034,944	397,154
Attributable profit	167,543	237,049	856,266	335,190
Net fee income margin	1.62%	2.21%	4.78%	1.24%
Net performance fee margin	0.83%	1.39%	4.03%	0.83%
Net management fee margin	0.68%	0.66%	0.72%	0.37%
Net profit margin	45.7%	48.9%	57.5%	59.6%

Revenue Breakdown (% of Total Revenues)

	Year ended 31 st December		
	2004 %	2005 %	2006 %
Management fees	42.0	33.3	16.2
Performance fees	44.6	61.7	81.3
Front-end fees	8.1	1.0	0.4
Back-end fees	3.5	2.3	0.2
Interest income	0.7	1.1	0.7
Dividend income	1.0	0.4	1.1
Others	0.1	0.2	0.0
Total	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Proven track record with strong brand name** During its 14-year history, VP has experienced a number of financial market cycles but its old-established Value Partners Classic Fund still manages to earn annualized return of 22.9% with low volatility of 19.5% p.a. With its outstanding performance, backed by its strong brand recognition and client loyalty, VP's total AUM grew at an amazing CAGR of 69.7% in the past 4.5 years, compared to the industry average of 29.0%. The sustainable enlargement of AUM should boost the management fees in the future.
- ✓ **Reasonable dividend payout ratio** VP specified its dividend policy at a rate of not lower than 30% of the net profit in each year. Such policy shows that the management is willing to share the earnings with its shareholders which can attract investors seeking regular dividend income, giving support to the stock price to some extents.
- ✓ **Ping An Asset Management Co.** is reportedly planning to invest approximately HK\$1 billion to buy a 9% stake in VP.



Weaknesses/Threats

- × ***No proceeds will be received by VP*** All the shares offered will be from the selling shareholders, Value Holdings, LLC and J.H. Whitney III, L.P, who are the private equity firms that became investors of VP in 1996 and 1998 respectively. As a result, VP will not receive any proceeds from the global offering and the listing is just a “profit-taking” action by those two firms, without adding real value to the company.
- × ***Peaking of net performance fee margin*** Performance fees, subject to a high watermark principle, represented 44.6%, 61.7% and 81.3% respectively, of total income for the fiscal year of 2004, 2005 and 2006. The net performance fee margin seems to have peaked in 2006 on the rallies of Hong Kong and China markets. But such remarkably growth of performance fees may not be sustainable in the coming years as the stock markets seem to have reached their respective peaks.
- × ***High concentration of clients*** The percentages of fee income to total income from the five largest customers in aggregate were 32.8%, 23.9%, 27.6% and 59.5% respectively, for the years ended 31 December 2004, 2005 and 2006, and the 6 months ended 30 June 2007. Losing any one of the major clients can severely reduce the AUM, leading to a substantial drop in revenue.

Recommendation: Hit & Run



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