

Analyst: Ernest Tan

Main Board Listing – Research

億和精密工業控股有限公司

EVA Precision Industrial Holdings Limited [Stock Code: 838]
Joint Sponsors and Joint Lead Managers : CAF Securities and SBI Crosby Limited

Sector : Capital goods

Business : Design and manufacturing of metal stamping moulds and components

Total share offer: <u>130,000,000</u> shares (25% of the enlarged share capital)	<u>Business of EVA (the “Group”)</u>
Public Offer: 13,000,000 shares (10%) Placing: 117,000,000 shares (90%) Greenshoe: 19,500,000 shares (15%)	<p>The Group is principally engaged in the design and fabrication of precision metal stamping moulds, manufacturing of metal stamping components and the provision of assembly services in the PRC.</p> <p>The precision metal stamping products manufactured by the Group are mainly used in the manufacture of photocopiers and printers as well as metal components, such as handle components for car doors, and DVD components for stereo systems of automobiles.</p> <p>The Group has over 100 customers that are mainly Hong Kong or PRC affiliates of Japanese office automation equipment and consumer electronic product manufacturers like Toshiba, Canon and Konica Minolta, etc. For each of the three years ended 31 December 2004, the Group's sales to such customers accounted for approximately 69%, 70% and 77% of the Group's turnover for the track record period respectively.</p>
Price: HK\$1.10 per share Market Cap.: HK\$572 million Fully diluted FY2004 P/E: 8.7x Adjusted NTA per share: HK\$0.46 Staffing: 1,795	
IPO commences: 29 th April 2005 IPO ends: 5 th May 2005 Receiving bank: DBS Bank (Hong Kong) Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 11 th May 2005	

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

* Mr. Zhang Hwo Jie (chairman)	27.00%
* Mr. Zhang Yaohua (chief executive officer)	24.75%
* Mr. Zhnag Jian Hua (Brother of Mr. Zhang Yaohua)	23.25%
	<u>75.00%</u>

* Equity holdings in the Company are being held through their respective interest in Prosper Empire Limited (BVI).

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$128 million.

(Assuming the over-allotment option is not exercised)

	HK\$ million
Purchase of machinery and equipment for plastic injection moulds	32.0
Purchase of additional 25 sets of stamping machines for existing production plant	25.0
Setting up of a moulding development centre to strengthen the Group's engineering and product development capability	35.0
Repayment of bank loans	30.0
General working capital	6.0

Financial Highlights

	Year ended 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	122,845	167,729	296,860
Operating profit	31,708	32,978	75,446
Net profit	23,592	30,166	65,763
Dividends	Nil	Nil	31,127

Strengths/Opportunities

- ✓ According to industry statistics, total mould production in the PRC amounted to approximately RMB45 billion in 2003 and ranked third globally after Japan and the United States. In fact, the PRC mould market has been catching up and growing at a faster pace (20.3% y-o-y) than the rest of the world (7.2% y-o-y) in 2004.
- ✓ The Group's customer base comprises top-tier Japanese brand names for office automation equipment and consumer electronic products such as Toshiba Tec (HK) Logistics and Procurement Ltd, Konica Minolta Business Technologies Manufacturing (HK) Ltd. and Kyocera Mita Industrial Co., (H.K.) Ltd etc. that have high credit quality.
- ✓ Even though raw materials, i.e. metal, comprises about 70% of production costs, the company is relatively resilient to the rising metal prices as it had been signing new contracts that would transfer most of the price increase to its customers since 2004.
- ✓ The valuation of the Group at a historical FY2004 PER of 8.7x seems fair as compares with the sector average of about 10x.

Weaknesses/Threats

- × Despite the fact that the Group's gearing (net debt over shareholder's equity) rose sharply from 17.5% in FY2003 to 84.2% in FY2004, about half of its net profit was distributed as dividends instead of ploughing back to the company.
- × Some HK\$30 million proceeds from the listing would be applied for repayment of bank loan
- × There is no earnings guidance for Q1 2005 and/or FY2005.

Recommendation: Unexciting