

Analyst: Anita Hwang

Main Board Listing – Research

Centron Telecom International Holding Limited [Stock Code: 1155] 星辰通信國際控股有限公司

Global coordinator and lead manager : J.P. Morgan Securities Ltd.
Sponsor and bookrunner : J.P. Morgan Securities (Asia Pacific) Ltd.

Sector : Technology Hardware & Equipment
Business : Provision of wireless network coverage solutions

<p>Total share offer: *238,000,000 shares (34% of the enlarged share capital)</p> <p>Public Offer: 23,800,000 shares (10%)</p> <p>Placing: *214,200,000 shares (90%)</p> <p>Greenshoe: 35,700,000 shares</p> <p><i>*Comprising 151,200,000 New Shares and 63,000,000 Sale Shares</i></p>	<p><u>Business of Centron Telecom (Centron)</u></p> <p>Centron is one of the top three wireless coverage solution providers in China based on sales revenue for 2006. Centron provides most of the wireless coverage solutions to local affiliates of the 2 leading wireless operators in China, the China Mobile group and the China Unicom group.</p> <p>It provides customized wireless coverage solutions that expand the reach of wireless networks to areas with weak or no coverage such as high-rise buildings, highways, railways, tunnels and remote regions, including some of the most complicated topographic areas, including mountains, coastlines and grasslands.</p> <p>Centron's wireless coverage solutions consist of project design, RF (radio frequency) product manufacturing, installation and testing, and after-sales services. Its capabilities span a wide range of RF technologies and RF products, including repeaters, trunk amplifiers and RF modules, support transmission protocols including GSM, CDMA, PHS, WCDMA, TD-SCDMA, CDMA2000 and digital TV.</p>
<p>Price: HK\$2.96 – HK\$3.55 per share</p> <p>Market Cap: HK\$2,072 – HK\$2,485 million</p> <p>Pro-forma fully diluted FY07 PER: 10X – 12X</p> <p>Adjusted NTA per share: HK\$1.10 – HK\$1.24</p> <p>Staffing: 630</p>	
<p>HK Public Offer period: 21st June 07 – 26th June 07 noon</p> <p>Receiving bank: Bank of China (HK) ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 5th July 2007</p>	

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

Mr. Dai Guoliang, the Chairman and executive director, through Oriental City Profits Ltd.	39.30%
Cathay Capital, a private equity firm, through Cathay Mobile Communications Ltd.	15.00%
Mr. Selwyn D. Sussman, a founder of Cathay Capital, through Molatis Ltd.	6.75%
Other individual investors	4.95%
Public investors	34.00%
	<u>100.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$527 million. *(Being the mid-point of the offer price range [HK\$3.26 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For the second phase of construction of new facility in Xunmei Industrial Park, Quanzhou	170
For the purchase of manufacturing and testing equipment	140
For long-term research and development expenditure	50
For the expansion of domestic sales and marketing channels	75
For the establishment of overseas sales and marketing channels	50
For working capital	42

Financial Highlights

	Year ended 31 st December		
RMB million	2004	2005	2006
Revenue	159.2	253.8	553.4
Gross profit	70.0	108.4	206.4
Operating profit	59.7	92.1	173.3
Profit for the year	37.2	57.8	133.9
Gross Margin	44.0%	42.7%	37.3%
Operating Margin	37.5%	36.3%	31.3%
Net Margin	23.3%	22.8%	24.2%

Breakdown of turnover by customers

RMB million	2004	%	2005	%	2006	%
China Mobile group	91.9	57.7	160.6	63.3	283.6	51.2
China Unicom group	50.7	31.8	69.3	27.3	212.5	38.4
China Telecom group	7.0	4.4	4.1	1.6	14.8	2.7
China Netcom group	0.0	-	2.9	1.1	13.1	2.4
Others	9.6	6.1	16.9	6.8	29.4	5.3
Total	159.2	100.0	253.8	100.0	553.4	100.0

Strengths/Opportunities

- ✓ **Less competitive inland regions** Centron has early-mover advantages in inland areas. Firstly, the increasing capital expenditures on 2G networks in inland markets provide significant opportunities with fewer competitors. Centron should be more beneficial from the higher 2G demand from the inland regions. Secondly, Centron has a relatively short accounts receivable period of 64 days in FY2006, compared with 172 days for the closest peer, Comba (2342.HK). The better payment terms can be attributed to less competition in inland regions.
- ✓ **Demand for 2G still string; 3G is the catalyst** According to CCID, an information technology research house affiliated with the PRC Ministry of Information Industry, wireless coverage equipment capital expenditure in the PRC will grow at a CAGR of 12.1% over the next five years, compared with a 4.7% CAGR from 2004 to 2006. The rapid growth is attributed to a persistent increase in 2G demands and the upcoming 3G launch.
- ✓ **Reasonable valuation** Centron gives a profit forecast of no less than RMB203.3 million for FY2007E, which translates into a FY07E pro-forma fully diluted PER range of 10X -12X at the IPO price range. According to CCID's research based on 2006 contract revenue, Centron has 10.4% of wireless coverage solutions market share trailing behind Comba (2342.HK) with 17.2% and US-listed, Shenzhen-based Grentech being 12.5%. Comba and Grentech are trading at 14.4X and 23.4X FY07E PER, respectively. Given Centron's lower market share, the valuation discount is reasonable.



Weaknesses/Threats

- × Over 50% and 30% of Centron's revenue were derived from China Mobile group's local affiliates and China Unicom group's local affiliates, respectively. Centron's performance will be dependent on mobile operators' CAPEX spending and is also subject to a further delay in the launch of 3G.
- × Compared with other larger players such as Comba and Greentech, Centron does not have complete 3G products. Smaller exposure in large coastal cities and its relatively late entry into the 3G market may limit its 3G opportunities going forward.

Recommendation: Trading Buy



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