

**Analyst: Vincent Leung**

## Main Board Listing – Research

Tai-I International Holdings Ltd. [Stock Code: 1808] (台一國際控股有限公司)

**Sole global coordinator, joint bookrunner and joint lead manager** : Polaris Capital (Asia) Limited  
**Sponsor** : Polaris Securities (Hong Kong) Limited  
**Joint bookrunner and joint lead manager** : Daiwa Securities SMBC HK Limited

**Sector** : Materials

**Business** : Manufacture of bare copper wire and magnet wire

<p><b>Total share offer:</b> <u>150,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>Public Offer:</b> 15,000,000 shares (10%)</p> <p><b>Placing:</b> 135,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 22,500,000 shares</p> <p><b>Price:</b> HK\$1.38 – HK\$1.66 per share</p> <p><b>Market Cap:</b> HK\$828– HK\$996 million</p> <p><b>Pro-forma FY06 PER:</b> 10.50X – 12.70X</p> <p><b>Adjusted NTA per share:</b> HK\$1.07 – HK\$1.14</p> <p><b>Staffing:</b> 1,299</p>	<p><b><u>Business of Tai-I International (Tai-I)</u></b></p> <p>Tai-I is a large-scale manufacturer of bare copper wire and magnet wire based in Guangzhou, PRC. It was the 3<sup>rd</sup> largest manufacturer of bare copper wire in the PRC in 2005 in terms of production output. The Group's production output of bare copper wire in 2005 accounted for 40% of the market share in the Pearl River Delta region. It was one of the top ten largest magnet wire manufacturers in the PRC (in terms of revenue) in 2004.</p> <p>Bare copper wire is the raw material for the production of different types of copper cable and wire for applications in industries such as construction works, water and electricity works, and the manufacturing of various electrical appliances and electronic devices. Magnet wire is a principal component for the manufacture of motors, transformers and coils.</p> <p>The Group's principal operating entities are Tai-I Copper and Tai-I Jiang Corp. At present, production capacity of Tai-I reaches some 150,000 tonnes of bare copper wire and 50,000 tonnes of magnet wire annually.</p>
<p><b>HK Public Offer period:</b> 28<sup>th</sup> December 06 – 3<sup>rd</sup> January 07 noon</p> <p><b>Receiving bank:</b> The Bank of East Asia, Limited</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 11<sup>th</sup> January 2007</p>	

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

Tai-I (BVI)	38.32%
First Sense International Limited (a wholly owned subsidiary of AIF Capital Asia III, L.P.)	17.00%
Green Island	11.25%
Citigroup Financial Products Inc.	8.43%
	<u>75.00%</u>

### Use of Proceeds

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Net proceeds from the offer are estimated to be HK\$183 million – HK\$225 million. (Assuming the over-allotment option is not exercised)

	HK\$ million
For upgrading the existing production facilities	15.37 - 18.90
For the acquisition of the new production facilities or related business	112.73 - 138.60
For the repayment of short-term borrowings for trade financing purpose	36.60 – 45.00
For the general working capital	18.30 – 22.50

### Financial Highlights

(RMB million)	Year ended 31 <sup>st</sup> December			Six months ended 30 <sup>th</sup> June
	2003	2004	2005	2006
Turnover	1,099.0	2,754.1	3,979.6	3,048.9
Gross profit	42.8	126.9	142.6	118.3
Operating profit	24.4	100.6	108.9	111.9
(Loss) / Net profit	(4.5)	62.8	67.5	77.4
Gross margin	3.9%	4.6%	3.6%	3.9%
Operating margin	2.2%	3.7%	2.7%	3.7%
Net margin	NA	2.3%	1.7%	2.5%

### Revenue Breakdown (% of Total Revenues)

	Year ended 31 <sup>st</sup> December			Six months ended 30 <sup>th</sup> June
	2003	2004	2005	2006
Sales of bare copper wires	69.44%	76.73%	75.46%	74.99%
Sales of magnet wires	28.80%	22.69%	24.23%	24.87%
Processing services	1.76%	0.58%	0.31%	0.14%
Total	100.0%	100.0%	100.0%	100.0%

### Strengths/Opportunities

- ✓ **Substantial production scale** Tai-I is one of the largest manufacturers of bare copper wire and magnet wire in the PRC with strong customer base. The Group's production output of bare copper wire in 2005 accounted for 40% of the market share in the Pearl River Delta region

### Weaknesses/Threats

- × **Low gross profit margin** During the track record period, the gross profit margins of bare copper wire and magnet wire have been in the range of 1.96% - 2.68% and 6.09% - 10.63%, respectively. The profit margin is expected to remain thin, thus it seems Tai-I would be less defensive to any shocks that could eat into its already thin margin.
- × **Copper price risk** As much as 95% of the cost of sales of Tai-I is copper cathodes as raw materials. Although Tai-I has effective hedging track record to mitigate the risk from the fluctuation of copper price in the international market, the profitability of Tai-I can significantly be affected by the gain/loss on hedging instrument. For instance, gain/loss from hedging instrument accounted for about 5% to 11% of the operating profit during FY2003 to FY2005, respectively. Such proportion increased to 69% during 1H06 when the global copper price soared.
- × **High gearing** As a result of higher requirement on working capital for inventory amid rising copper prices, Tai-I's net debt to equity ratio increased from 38.6% at the end of FY05 to 68.9% at the end of 1H06. Gross debt increased to RMB2,084 million at the end of 31<sup>st</sup> October 2006 from RMB1,010.2 million.
- × The pro-forma FY06E PER of 10.50X – 12.70X is a bit rich. Close peers that engage in wire and cable business in China and Taiwan trade at FY06E PER of 5.7X to 18.2X with most of them trading at the lower end. Hua Yi Copper (0559.HK), the only processed copper product manufacturer listed in HK, trades at 2.56X FY06E PER.

**Recommendation: Caveat Emptor**



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