

Analyst: Vincent Leung

Main Board Listing – Research

Kingboard Laminates Holdings Ltd. [Stock Code: 1888] 建滔積層板控股有限公司
Sole global coordinator, sole bookrunner and sole sponsor : Goldman Sachs
Co-Managers

BCOM Securities Company Limited
CITIC Securities Corporate Finance (HK) Limited
Taifook Securities Company Limited
Shenyin Wanguo Capital (HK) Limited
China Merchants Securities (HK) Co., Ltd.
Phillip Securities (HK) Limited

Sector : Electronics Materials

Business : Manufacture of laminates used in printed circuit board fabrication

Total share offer: <u>750,000,000</u> shares (25% of the enlarged share capital) Public Offer: 75,000,000 shares (10%) Placing: 675,000,000 shares (90%) Greenshoe: 75,000,000 shares	<u>Business of Kingboard Laminates</u> Kingboard Laminates (KBL) is a vertically integrated supplier of laminates used in rigid printed circuit board (PCB) fabrication. Established in May 2006 in preparation for the separate listing, KBL is a subsidiary of Kingboard Chemical Group (0148). The restructuring involved the transfer of interests in companies that conduct laminate and laminate-related operations from Kingboard Chemical to KBL. KBL currently operates 16 manufacturing sites in China and is pursuing a strategy of further expansion in the PRC to meet the growing demand for laminate and laminate-related products driven by global demand growth for electronic products. Laminates are one of the basic materials for the production of PCBs, the primary component in the manufacturing of all electronic products. KBL specializes in the production and sale of glass epoxy laminates, paper laminates and composite epoxy materials (CEM) laminates. It also sells some upstream components to produce the laminates.
Price: HK\$5.97 – HK\$7.73 per share Market Cap: HK\$17.9 – HK\$23.2 billion Pro-forma FY06 PER: 11.06X – 14.31X Adjusted NTA per share: HK\$1.96 – HK\$2.05 Staffing: 6,926	
HK Public Offer period: 24 th November 06 – 29 th November 06 noon Receiving bank: Standard Chartered Bank (HK) HSBC Bank of Communications The Bank of East Asia Share registrar: Tricor Investor Services Limited Listing date: 7 th December 2006	

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

Jamplan (BVI) – a wholly-owned subsidiary of Kingboard Chemical Holdings Ltd.

75.0%

Use of Proceeds

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Net proceeds from the offer are estimated to be HK\$936.8 million. *(Being the mid-point of the offer price range [HK\$6.85 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For the expansion of production capacity in China	566.2
For the repayment of bank borrowings	281.0
For general working capital	89.6

Financial Highlights

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Turnover	2,973.0	4,660.2	6,131.1	3,838.7
Gross profit	710.4	1,540.9	1,733.7	1,136.1
Profit before tax	459.9	1,140.3	1,233.1	913.3
Net profit	388.4	1,036.7	1,078.2	803.9
Gross margin	23.9%	33.1%	28.3%	29.6%
Net margin	13.1%	22.2%	17.6%	20.9%

Strengths/Opportunities

- ✓ **A global market leader** According to Japan Marketing Survey (JMS), KBL was the largest rigid laminate manufacturer globally in 2005, with a global share based on production value of 9.9% and a PRC share of 31.7%. It was also the global leader in paper laminate in 2005 with a market share of 26.3%, and the PRC market leader in glass epoxy laminate with a market share of more than 23.0%.
- ✓ **Vertically integrated production process** KBL is unique among its peers in producing various upstream component materials. The backwardly integrated business model offers the advantages of cost savings, less susceptibility to price volatility in the raw materials, faster and more flexible to changes in product specifications and improved quality assurance.
- ✓ **Low cost structure** Relative to its competitors in the US, Taiwan, Korea and Japan, KBL has access to skilled and cost-efficient labour in China. Moreover, its vertically integrated business model helps control raw material costs better than its key competitors.
- ✓ The IPO price range indicates a FY06E PER range of 11.06X – 14.31X is attractively valued. Its parent company, Kingboard Chemical, is trading at 11X FY06E PER. A close peer, Guangdong Shengyi Scitech (600183 CH) is currently trading at 15X FY06E PER. Including other Taiwan and Korea peers, the average FY06E PER is in the range of 12X – 20X.

Weaknesses/Threats

- × KBL's debt gearing could rise significantly as a result of the restructuring. KBL declared a special dividend of HK\$2 billion to its holding company to be paid on the Listing date and the funding is from a new loan agreement of up to HK\$2.8 billion. This is a significant increase over the long-term debt amount of HK\$250.3 million as of 30 June 2006.
- × There has been a strong shift towards the use of flexible PCBs with higher technological requirements and sophistication. KBL currently only produces rigid laminates and does not service the flexible PCB market. There is a risk that KBL fails to develop the new products in time in the highly competitive PCB/ electronics markets.

Recommendation: Buy



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