

Analyst: Anita Hwang

Main Board Listing – Research

Ta Yang Group Holdings Limited [Stock Code: 1991] (大洋集團控股有限公司)
Global Coordinator, Sole Bookrunner, Sponsor and Lead manager : Cazenove Asia Limited

Sector : Technology Hardware & Equipment

Business : Design and manufacture of silicone rubber input devices

Total share offer: <u>200,000,000</u> shares (25 % of the enlarged share capital) Public Offer: 20,000,000 shares (10%) Placing: 180,000,000 shares (90%) Greenshoe: 30,000,000 shares Price: HK\$2.72 – HK\$3.50 per share Market Cap: HK\$2,176 – HK\$2,800 million FY07E PER: 14.3X – 18.4X Adjusted NTA per share: HK\$0.90 – HK\$1.08 Staffing: 5,067	<u>Business of Ta Yang Group (Ta Yang)</u> Ta Yang Group focuses on the design and manufacture of silicone rubber input devices, which are mainly used in consumer electronic devices, keypads for computers and notebooks, mobile phone handsets and automotive peripheral products. Ta Yang was among one of the earliest silicone rubber keypads suppliers founded by Taiwanese to set up production facilities in the PRC. Ta Yang produced approximately 345 million pieces of silicone rubber keypads in 2006, representing 9.9% and 14.6% of the total production volume in the world and the PRC respectively. The production facilities are situated in Dongguan of Guangdong and Huzhou of Zhejiang. Currently, the aggregate annual production capacity is approximately 500 million pieces of silicone rubber based products. Ta Yang's customers include renowned consumer electronic device manufacturers and brands like Casio, Philips, Samsung, Siemens VDO, Thomson, Fujitsu ten and Flextronics. In addition to silicone rubber keypads, Ta Yang also expanded vertically to manufacture silicone rubber for their own production use.
HK Public Offer period: 28 th May 07 – 31 st May 07 noon Receiving bank: Hang Seng Bank Ltd. Share registrar: Tricor Investor Services Limited Listing date: 8 th June 2007	

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

Mr. Huang Sheng-Shun, the chairman & executive director (the shares are held via Huang Trust, a discretionary trust of Mr. Huang)	51.74%
Mr. Wu Ih Chen, the executive director and chief executive officer (the shares are held via Wu Trust, a discretionary trust of Mr. Wu)	12.24%
Mitsubishi, a strategic investor & a major raw material supplier to Ta Yang	1.52%
Shin-Etsu Polymer, a strategic investor & a major customer of Ta Yang	1.50%
Seven existing shareholders (who are executive directors or employees of Ta Yang)	8.00%
	<hr/> 75.0%

Use of Proceeds

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.



Net proceeds from the offer are estimated to be HK\$549 million. *(Being the mid-point of the offer price range [HK\$3.11 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For expansion of existing production facilities for silicone rubber based products	384
For upgrading and expansion of upstream production facilities for silicone rubber	55
For strengthening of R&D capabilities and improvement on quality control	38
For implementation of an enterprise resources planning system to analyze performance data	32
For general working capital	40

Financial Highlights

	Year ended 31Jul			For the 4 months ended
HK\$ million	2004	2005	2006	30 Nov 2006
Revenue	408.9	523.9	579.6	200.5
Gross profit	150.1	201.0	228.9	74.5
Operating profit	103.6	146.1	162.3	52.0
Net profit	84.6	127.6	144.1	43.8
Gross margin	36.7%	38.4%	39.5%	37.1%
Operating margin	25.3%	27.9%	28.0%	25.9%
Net margin	20.7%	24.4%	24.9%	21.8%

Revenue Breakdown by business activities (% of Total revenue)

	Year ended 31 July 2004		Year ended 31 July 2005		Year ended 31 July 2006		For the 4 months ended 30 Nov 2006	
	HK\$ million	%	HK\$ million	%	HK\$ million	%	HK\$ million	%
Keypads for consumer electronic devices	261.1	63.8	299.8	57.2	346.8	59.8	113.8	56.8
Keypads for computers and notebooks	53.0	13.0	67.6	12.9	119.4	20.6	49.3	24.6
Mobile phone keypads	35.5	8.7	65.3	12.5	16.3	2.8	0.0	0.0
Automotive peripheral products	8.9	2.2	16.4	3.1	29.5	5.1	10.0	5.0
Others	50.5	12.3	74.8	14.3	67.6	11.7	27.3	13.6
Total	408.9	100.0	523.9	100.0	579.6	100.0	200.5	100.0

Strengths/Opportunities

- ✓ Ta Yang established strategic relationships with firms along the supply chain. Ta Yang partnered with Mitsubishi, who has been a key supplier of raw materials to Ta Yang for the production of silicone rubber keypads. Approximately 11% of Ta Yang's total purchases were from Mitsubishi. Through the relationship, Ta Yang can source raw materials at competitive prices. Ta Yang also partners with its key customer, Shin-Etsu Polymer, which accounted for approximately 8% of total turnover. Ta Yang and Shin-Etsu Polymer also engaged in joint development and design of certain new products. Both Mitsubishi and Shin-Etsu Polymer became strategic shareholders of Ta Yang since December 2006.
- ✓ According to the CAITEC PRC Report (an independent industry report jointly prepared by the Chinese Academy of International Trade and Economy Cooperation and Cinsos Consulting Corporation), there was a supply deficiency of 400 million pieces of keypads in the PRC in 2006. Ta Yang, capturing 14.6% of the PRC market share, is the largest among its peers and achieves economies of scale. The large scale of production enables Ta Yang to capture the growing market demand.

Weaknesses/Threats



- × The demand of Ta Yang's products is primarily driven by the overall demand for consumer electronic devices, computers and notebooks, and mobile phones, which tends to be fluctuating.
- × The dependence of Ta Yang's revenue on key customers is quite concentrated. Top five customers accounted for 38% to 55% of Ta Yang's total revenue during the track record period.
- × Ta Yang gave a profit forecast of no less than HK\$153 million for the fiscal year ending 31 July 2007, which translates into FY07E PER of 14.3X – 18.4X. There is no direct comparables listed in Hong Kong. Silitech (3311.TW), Taiwan's largest and one of the world's major mobile phone keypad maker, trades at FY07E PER of 15.1X. Shin-Etsu Polymer (4603.T), one of the Ta Yang's customers and is also one of the world's largest mobile phone keypad manufacturer, trades at FY07E PER of 19.1X. Ta Yang's valuation appears a bit competitive if it is to be priced at the high end of the price range.

Recommendation: Neutral



Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.