

Main Board Listing - Research

AAC Acoustic Technologies Holdings Inc. [Stock Code: 2018]

Global Coordinator, Bookrunner, Sponsor and Lead Manager : Credit Suisse First Boston
(Hong Kong) Limited

Sector : Consumer Durables

Business : Design and production of miniature acoustic components

<p>Total share offer: <u>312,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 31,200,000 shares (10%)</p> <p>Placing: 280,800,000 shares (90%)</p> <p>Greenshoe: 46,800,000 shares (15%)</p>	<p><u>Business of AAC Acoustic ("The Group")</u></p> <p>The Group is one of the leading manufacturers on the design and production of miniature acoustic components, which are used in mobile phone handsets, MP3 players and other consumer handheld devices.</p> <p>Its products are used by leading global mobile phone handset and consumer electronics manufacturers, such as Motorola, Sony-Ericsson, Kyocera, UTStarcom, Creative Technology and Nintendo, etc.</p> <p>Turnover of the Group had grown from RMB318.1 million in 2002 to RMB626.8 million in 2004 and the net profit margins had been maintained at above 30% in each of the last three years. For 2004, the Group's customers in the mobile phone handset, consumer electronics, and other industries accounted for 77.1% 15.4% and 7.5% respectively of its turnover.</p>
<p>Price: HK\$2.38 – HK\$2.82 per share</p> <p>Market Cap.: HK 2,970.2- \$3,519.4 million</p> <p>Historical FY 2004 P/E: 15.0x – 17.8x</p> <p>Adjusted NTA per share: RMB0.75 – RMB0.85</p> <p>Staffing: 4,845</p>	
<p>HK Public Offer period: 28th July 2005 – 2nd August 2005</p> <p>Receiving bank: HSBC</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 9th August 2005</p>	

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

Founders of the Group*	57.29%
Chengwei AAC**	5.68%
Others ***	12.03%
	<u>75.0%</u>

* Mr. Benjamin Zhengmin Pan, the Executive Director and Ms. Ingrid Chunyuan Wu, the spouse of Mr. Pan, together own a 51.05% of the Group while Mr. Pan Zhenglai and Mr. Li Xiang each owns 1.15% and 5.09% of the Group respectively.

** Chengwei AAC is 54.76% owned by Chengwei Ventures Fund I LP and is 45.24% owned by 26 shareholders who are mostly independent third parties.

*** Others refer to 36 shareholders who are mostly independent 3rd parties.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$665.7 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.60 each, which is the mid-point of the indicative price range)

	HK\$ million
Expansion of production facilities in Changzhou, Shenzhen and Suzhou	500
Enhancement of R&D activities in Changzhou, Shenzhen, Nanjing and Shanghai	100
Working capital and other general corporate purposes, including setting up new sales offices and expanding sales forces in Taiwan, Europe, Japan and the United States	65.7

Financial Highlights

	Year ended 31 st December			3 months ended 31 st March	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	318,122	422,025	626,847	130,441	168,845
Gross profit	170,937	228,143	311,133	68,438	74,649
Operating profit	116,377	172,903	233,823	50,420	48,843
Net profit	100,426	149,106	198,343	42,180	42,739
Basic EPS (RMB)	0.094	0.1449	0.2068	0.0436	0.0447

Strengths/Opportunities

- ✓ The rapid consumer adoption of MP3 players and content is leading mobile phone handset manufacturers to incorporate digital music capability in their handsets. This trend is expected to fuel the strong growth of the acoustic component industry in the next four years as the total sales of music-enabled mobile phone handsets are expected to grow at a five year CAGR of 59.5% from 40.8 million units in 2004 to 421.3 million units in 2009.
- ✓ In order to stay competitive on the technological front, the Group has established a collaborative relationship with the Institute of Acoustics of Nanjing University, which is the leading academic research institution in acoustics in the PRC.
- ✓ The company is currently developing new products such as Bluetooth headsets, MEMS microphones, SMD miniature receivers, SMD ECM microphones and linear vibrators etc. for uses in mobile handsets and video games consoles. This tightly filled product pipeline is expected to support the growth of the Group in the near future.
- ✓ Priced at 15.0x – 17.8x FY2004 PER, valuation of ACC Acoustic is not as demanding as other close comparables such as Foxconn International Holdings (2038) that is currently trading at around 23.0x FY2004 PER.

Weaknesses/Threats

- × The acoustic component industry is highly competitive as characterized by price competition, rapid technological development and short product life cycles. The Group has to compete with major conglomerates such as Royal Philips Electronics, Pioneer Corporation and Hosiden Corporation whose not only have strong brand names, but also enjoy cost economies and strong R&D capabilities.
- × Rising raw materials costs will erode margins of the Group. For instance, the portion of raw materials costs to turnover had been increased from 34.8% in FY2004 to 40.3% in the first three months in FY2005.

Recommendation: Trading Buy