

Analyst: Louis Chan

## Main-board Listing - Research

三九東傑(控股)有限公司

**Mitsumaru East Kit (Holdings) Limited [Stock Code: 2358]**

<b>Sponsor</b>	: First Shanghai Capital Limited	
<b>Lead Manager &amp; Bookrunner</b>	: First Shanghai Securities Limited	
<b>Co-Managers</b>	: Guotai Junan Securities (H.K.) Ltd	Japan Asia Securities Limited
	Kingsway Financial Services Group Ltd	Oriental Patron Asia Limited
	Sun Hung Kai International Limited	SBI-E2-Capital Securities Ltd

**Sector:** Industrials – consumer electronics

**Business:** Design, development & sale of TV chassis

<p><b>Total share offer:</b> <u>100,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>Public offer:</b> 10,000,000 shares (10%) <b>Placement:</b> 90,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 15,000,000 shares</p>	<p><u>Business of Mitsumaru East Kit</u></p> <p>The Group specializes in the design, development and sale of TV chassis, materials requisition and assembling.</p> <p>Since its establishment in 1993, the Group has positioned itself as a “NO BRAND” solutions provider. Customers of the Group are mainly manufacturers of audio-visual products and consumer electronics in the PRC, Hong Kong, India, Cuba, Russia, Germany and Australia.</p> <p>The Group designs and develops printed-circuit-board layout and control system software of colour TV according to customer requirements. It will purchase for its customers all the necessary parts and components for mass production. They will be put together with the circuitry boards designed by the Group and delivered to locations designated by its customers, in kits in completely-knocked-down (CKD) format. Product assembling and testing are either carried out at the Group’s factory in Wuhu, Anhui province or other designated assemblers.</p>
<p><b>Price:</b> HK\$1.05-HK\$1.21 per share <b>Market cap.:</b> HK\$420 million-HK\$484 million</p> <p><b>Historical P/E:</b> 6.5x-7.5x <b>Adjusted NTA per share:</b> HK\$0.59-HK\$0.63</p> <p><b>Staffing:</b> 744</p>	
<p><b>Public offer opens:</b> 30<sup>th</sup> June 2004 <b>Public offer closes:</b> 6<sup>th</sup> July 2004</p> <p><b>Receiving bank:</b> Hang Seng Bank <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 15<sup>th</sup> July 2004</p>	

### Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Mr ZHANG Shuyang (the founder and chairman of the Group)	62.25%
Ms WU Lixia & her son	11.25%
	73.50%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$99.5 million.

(Assuming that the over-allotment option is not exercised and an issue price of HK\$1.13 per share, being the mid-point of the indicated price range of HK\$1.05-HK\$1.21)

	HK\$ million
To expand the Group's existing colour-TV business to cover colour TVs of larger size	20.0
To carry out the R&D works for solutions for new products	30.0
To acquire new facilities for the Group's assembling plant in Wuhu	7.0
To construct an office building, an R&D centre and a warehouse in Shanghai	15.0
To repay bank loan re. its new office building, R&D centre and warehouse in Shanghai	12.0
To expand the sale & marketing network	5.0
As the Group's general working capital	10.5

**Financial Highlights**

	Year ended 31 <sup>st</sup> December		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<u>624,057</u>	<u>667,357</u>	<u>650,245</u>
Operating profit	74,522	14,926	21,190
Net profit	<u>64,732</u>	<u>23,856</u>	<u>20,089</u>
EPS	<u>HK¢21.6</u>	<u>HK¢8.0</u>	<u>HK¢6.7</u>

**Strengths / Opportunities**

- ✓ The Group is seen to have been successful in diversifying its revenue sources in terms of geographical markets. The PRC accounted for more than 80% of its total revenue for 2001. However, the percentage decreased to less than half for 2003, with relevant percentages for Europe and Australia being 10% and 7% respectively.
- ✓ The digitalization of the TV industry will bring radical changes to this sector in the mainland and users will be anxious to have more better-quality video and visual products. With approximately 300 million traditional TV sets currently in mainland households, the Group should reap the benefits of more demand in the nation.
- ✓ The Group has long-established relationships with certain renowned home-appliance and consumer-electronic suppliers. Leveraging on this, the Group looks set to be able to enhance its competitiveness in the TV industry.
- ✓ The Group's net-profit margin jumped from 3.1% in 2001 to 10.4% in 2003, mainly due to the absence of provision for bad and doubtful debts last year. Excluding the provisions in both 2001 and 2002, the Group's operating-profit margin also improved from 8.9% and 9.2% for those 2 years to 11.9% for 2003.
- ✓ Valuation of the counter can be compared with those of TCL International (*stock code*: 1070) and Skyworth Digital (*stock code*: 0751). TCL is trading at a historical P/E of 10x with a prospective P/E of 9x while Skyworth is trading a historical P/E of 20x with a prospective P/E of 14x. Valuation of Mitsumaru's shares seems not too demanding.

**Weaknesses / Threats**

- × Total funds intended to be raised amount to HK\$99.5 million but the Group has paid a special dividend of HK\$65 million earlier this month.
- × Competition in the mainland TV industry is tense and cut-throat pricing strategies by TV makers are commonly seen.

**Recommendation: Trading Buy**