

Analyst: Sam Ho

Main Board Listing- Research

Nam Tai Electronic & Electrical Products Limited - [Stock Code: 2633]

Global Coordinator, Sponsor, Bookrunner and Lead Manager : HSBC

Sector : Electronic

Business : Provision of hardware and software design as well as mechanical-parts development services

<p>Total share offer: <u>200,000,000</u> shares (25% of the enlarged share capital)</p> <p>Placement: 180,000,000 sale shares (90%) IPO: 20,000,000 sale shares (10%)</p> <p>Greenshoe: 30,000,000 shares</p>	<p><u>Business of Nam Tai E&E Products</u></p> <p>The Company is principally engaged in the provision of hardware and software design as well as mechanical-parts development services to its customers. The Company focuses on 4 segments of the consumer electronics and communications sectors, including optical devices, home-entertainment devices, mobile-phone accessories and educational products.</p> <p>Its clients comprise Sony Ericsson, Texas Instruments, Sony Computer Entertainment, Seiko Instruments, OmniVision, Appeal Telecom and Canon.</p> <p>Its production site is located in Baoan, Shenzhen in the PRC, with a total GFA of about 11,945 m². In order to expand its production capacity, the Company is in the course of building a new factory with a GFA of 24,579.3 m² on a piece vacant land adjacent to its existing production site.</p>
<p>Price: HK\$3.55-HK\$4.20 per share Market cap. : HK\$2,840 mln-HK\$3,360 mln</p> <p>Staffing: 1,219</p> <p>Historical 2003 P/E: 16.0x-18.9x (fully-diluted) Adjusted NAV per share: US\$15.05</p>	
<p>Book opens: 12th April 2004 Book closes: 21st April 2004</p> <p>IPO commences: 16th April 2004 IPO ends: 21st April 2004</p> <p>Share registrar: Computershare Hong Kong Investor Services Receiving bank: HSBC</p> <p>Listing date: 28th April 2004</p>	

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Nam Tai Electronic, Inc., which is listed on New York Stock Exchange

75.0%

Use of Proceeds

The Company is not issuing any new shares in the offering and will not receive any of the net proceeds from the offering.

Financial Highlights

	Year ended 31 st December		
	2003 US\$'000	2002 US\$'000	2001 US\$'000
Turnover			
Optical devices	4,650	-	-
Home-entertainment devices	29,178	-	-
Mobile-phone accessories	49,255	39,753	3,157
Educational products	45,562	53,574	69,810
Others	134	705	463
Discontinued businesses	<u>7,114</u>	<u>89,752</u>	<u>94,189</u>
	<u>135,893</u>	<u>183,784</u>	<u>167,619</u>
Operating profit	22,804	11,469	4,704
Net profit	<u>22,793</u>	<u>11,447</u>	<u>4,977</u>
Dividend	=	<u>14,747</u>	=
EPS- basic	<u>US¢2.85</u>	<u>US¢1.43</u>	<u>US¢0.62</u>

Note:

1. Discontinued businesses were the trading and manufacturing of essential components and subassemblies for mobile phones.
2. As part of the reorganization, a dividend payment of US\$35,915,023 was paid on 8th April 2004 to Nam Tai Electronic, Inc.

Strengths

- ✓ According to IDC, the total EMS (electronic manufacturer service) revenue is expected to achieve a CAGR of 11.8% for the period of 2003 - 2007. EMS revenue is estimated to have reached US\$92.25 billion in 2003, up 3.9% on year. The manufacturing outsourcing trend in the EMS industry should be in favour of the Company's business.
- ✓ The Company has been granted ISO9001:1994 and ISO9001:2000 certificates for quality control in 1996 and 2002 respectively. In fact, the Company achieved a low PPM (parts per million) defects of 101 in 2003, compared with the industry average of 2,000 PPM.
- ✓ The Company improved its product mix during the track record period with the introduction of new products (optical devices & home-entertainment devices). As a result, its gross margin rose from 2001's 9.6% to 2003's 22.4%, while net margin grew from 2001's 3% to 2003's 16.8%.
- ✓ Valuation of Nam Tai E&E Products (historical P/E: 16x-18.9x) is not too demanding when compared with similar electronic-product manufacturers Truly (stock code: 0732)'s P/E of 15x and Wong's International (stock code: 0099)'s P/E of 19.8x. Its valuation also compares well with industrial stocks' average P/E of some 15x.

Weaknesses

- × Competition in the EMS industry is intense as entry barriers are comparatively low. The market is characterized by price erosion, rapid technological change and competition from major international companies.
- × The Company's customers do not have long-term purchase commitments and its sales are made on the basis of individual purchase orders. In addition, for each of the 3 years ended 31st December 2003, its largest customer accounted for 45%, 42% and 36% of its total turnover. The 5 largest customers in aggregate accounted for 92%, 94% and 91% of its total turnover.

Recommendation: Unappealing