



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.

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Financial Highlights

	Year ended 31 st December		
	2003 US\$'000	2002 US\$'000	2001 US\$'000
Turnover			
<i>Optical devices</i>	4,650	-	-
<i>Home-entertainment devices</i>	29,178	-	-
<i>Mobile-phone accessories</i>	49,255	39,753	3,157
<i>Educational products</i>	45,562	53,574	69,810
<i>Others</i>	134	705	463
<i>Discontinued businesses</i>	<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