

## **Main Board Listing - Research**

奕達國際集團有限公司

Fittec international Group Limited [Stock Code: 2662]

**Global Coordinator, Sole Bookrunner, Lead Manager and Sponsor** : ABN AMRO Rothschild

**Sector** : Technology Hardware & Equipment

**Business** : Electronic manufacturing service provider in the PRC's printed circuit board assembly industry

<p><b>Total share offer:</b> <u>240,000,000</u> shares  <b>(25% of the enlarged share capital)</b></p> <p><b>Public Offer:</b> 24,000,000 shares (10%)</p> <p><b>Placing:</b> 216,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 36,000,000 shares (15%)</p>	<p><b><u>Business of Fittec International</u></b></p> <p>The Group is one of the leading electronic manufacturing service ("EMS") providers in the PRC's printed circuit board ("PCB") assembly industry. The Group provides one-stop production solutions to its customers that include the following services:</p> <ul style="list-style-type: none"> <li>• material procurement;</li> <li>• production process design</li> <li>• PCB assembly and testing;</li> <li>• quality control and supply chain management</li> <li>• packaging and delivery; and</li> <li>• after-sales service.</li> </ul> <p>The Group assembles and procure materials for a wide variety of electronic products including hard disk drive controllers, mobile LCD controllers, motherboards and other electronic components, which account for approximately 65.5%, 10.3%, 14.1% and 10.1% of the Group's turnover for the year ended 30<sup>th</sup> June 2005, respectively.</p> <p>The Group's major customers are leading international brand names in the consumer electronic products and components markets, including Toshiba, ASRock and Sumitronics.</p>
<p><b>Price:</b> HK\$1.60 – HK\$2.30 per share</p> <p><b>Market Cap.:</b> HK\$1,536 million – HK\$2,208 million</p> <p><b>Historical FY2005 P/E:</b> 8.2x – 11.7x</p> <p><b>Adjusted NTA per share:</b> HK\$0.78 – HK\$0.94</p> <p><b>Staffing:</b> 6,892</p>	
<p><b>HK Public Offer period:</b>          30<sup>th</sup> November 2005 – 5<sup>th</sup> December 2005</p> <p><b>Receiving bank:</b> HSBC</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 14<sup>th</sup> December 2005</p>	

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

Fittec Holdings (BVI), wholly owned by Mr. Lam Chi Ho, Chairman

75%

### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$433 million.

*(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.95 each, being the mid-point of the indicative price range)*

	HK\$ million
To establish a new factory in Suzhou	105
To set up a new factory in Shenzhen to consolidate and expand the operations of Shenzhen Baoan Factory and Shenzhen Futian Factory	53
Purchasing equipment and addition of SMT production lines for the new and existing factories	260
Expansion of RMA centre and marketing team, as well as improvement of management information system	15

### **Financial Highlights**

	Year ended 30 <sup>th</sup> June		
	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000
Turnover	674,304	1,535,491	1,628,475
Gross profit	63,146	137,747	242,419
Operating profit	43,126	111,971	210,180
<b>Net profit</b>	<b>40,633</b>	<b>95,903</b>	<b>187,993</b>
<b>Earnings per share – basic</b>	<b>HK\$0.06</b>	<b>HK\$0.13</b>	<b>HK\$0.26</b>

### **Strengths/Opportunities**

- ✓ According to Market Intelligence Centre in Taiwan, the Group made up approximately 8% of the global market share of PCB assembly of motherboards during the 12 months ended 30<sup>th</sup> June 2005.
- ✓ The Group's operating profit increased from HK\$43.1 million in FY2003 to HK\$210.2 million in FY2005, representing a CAGR of 120.8%. Due to improvement in its product mix, operating margin strengthened from 6.4% to 12.9% over the same period.
- ✓ Valuation of the counter at 8.2x to 11.7x FY2005 P/E is not demanding when compared with the sector average of 11.8x for electronic providers.

### **Weaknesses/Threats**

- × Barriers to entry in providing EMS are relatively low, as it does not require huge capital investment. Both domestic and foreign manufacturers can easily get into the market to compete with the Group's existing business.
- × Competition in the EMS industry is intense and is characterised by price erosion and rapid technological change, resulting in margin pressures.
- × The Group does not own any patents or intellectual property rights. Instead, it relies on trade secrets, industry expertise and its customers' sharing of intellectual property.

**Recommendation: Unexciting**