

## **Main Board Listing - Research**

成謙聲匯控股有限公司

**Shinhint Acoustic Link Holdings Limited [Stock Code: 2728]**

**Sponsors** : Asian Capital (Corporate Finance) Limited

Sun Hung Kai International Limited

**Lead Managers** : Asian Capital (Corporate Finance) Limited

Worldwide Finance (Securities) Limited

**Sector** : Information Technology

**Business** : Manufacture of consumer electronic products

<b>Total share offer:</b> <u>75,000,000</u> shares <b>(25% of the enlarged share capital)</b>  <b>Public Offer:</b> 7,500,000 shares (10%) <b>Placing:</b> 67,500,000 shares (90%)  <b>Greenshoe:</b> 11,250,000 shares	<b><u>Business of Shinhint Acoustic Link</u></b>  The Group is mainly engaged in the provision of manufacturing services for certain leading consumer electronics brands. Major products include PC speakers, digital audio players, automobiles and home theatre. The Group also produces PC headsets, gaming consoles, communications and other multimedia devices.  Since establishment in 1990, the Group has built up a solid customer base with internationally renowned consumer electronics brands, including Logitech Group, Altec Lansing Group and Sennheiser Communications.  The Group's production facilities are located in Dongguan, Guangdong province, occupying a total gross floor area of approximately 91,300 square metres. As at 30 <sup>th</sup> April 2005, the Group employed over 3,000 workers, including more than 80 engineers.
<b>Price:</b> HK\$0.80 – HK\$1.07 per share <b>Market Cap.:</b> HK\$240 million – HK\$321 million  <b>FY2004 P/E:</b> 5.95x – 7.96x (on a pro forma basis)  <b>Adjusted NTA per share:</b> HK\$0.53 – HK\$0.59  <b>Staffing:</b> 3,083 (as of 30 <sup>th</sup> April 2005)	
<b>HK Public Offer period:</b> 30 <sup>th</sup> June 2005 – 6 <sup>th</sup> July 2005 noon  <b>Receiving bank:</b> Standard Chartered Bank  <b>Share registrar:</b> Computershare Hong Kong Investor Service Limited  <b>Listing date:</b> 14 <sup>th</sup> July 2005	

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

Mr. Cheung Wah Keung – the Group's chairman	50.89%
Senior Management	5.44%
S. I. Technology Venture Capital Limited *	5.50%
Lucky Merit Holdings Limited ^	5.50%
Individual Shareholders	7.67%
	<u>75.00%</u>

Remarks : (\*) S. I. Technology Venture Capital is a wholly-owned subsidiary of Shanghai Industrial Holdings (HKEx: 0363).

(^) Lucky Merit Holdings is an indirect wholly-owned subsidiary of New World Development (HKEx: 0017)

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$58.5 million

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$0.94 each, which is the mid-point of the indicative price range)

	HK\$ million
For enhancing the Group's manufacturing capabilities and capacity.	24.0
For enhancing the Group's product development capabilities.	18.0
For repayment of a bank loan due to a commercial bank with a principal amount of HK\$10 million and two finance leases with principal amounts of HK\$700,000 and HK\$3.4 million, respectively. As at 27 <sup>th</sup> June 2005, the outstanding amounts of the loan and the two finance leases were HK\$8.6 million, HK\$100,000 and HK\$1.4 million, respectively.	10.1
For update of the Group's management information systems.	4.0
For general working capital.	2.4

### Financial Highlights

	Shinhint Group		The Group	
	For the year ended 31 <sup>st</sup> December 2002	For the period from 1 <sup>st</sup> January 2003 to 17 <sup>th</sup> August 2003	For the period from 17 <sup>th</sup> August 2003 to 31 <sup>st</sup> December 2003	For the year ended 31 <sup>st</sup> December 2004
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Turnover	513,780	365,979	254,032	529,946
Operating profit / (loss)	29,877	27,079	30,069	49,852
Net profit / (loss)	<b>19,718</b>	<b>18,289</b>	<b>25,647</b>	<b>40,315</b>

Remarks: On 11<sup>th</sup> May 2005, Shinhint Acoustic Link (the listing vehicle) carried out a corporate reorganization and acquired a 100% equity stake in Shinhint Industries and its subsidiary (Shinhint Group). Shinhint Acoustic Link became the holding company of the Group (Shinhint Acoustic Link and its subsidiary) on 8<sup>th</sup> June 2005.

### Strengths/Opportunities

- ✓ Worldwide demand for multimedia peripherals and other EMS products is expected to stay strong in the coming years. According to IDC, worldwide EMS industry revenue is forecast to grow from US\$93.3 billion in 2003 to US\$164.9 billion by 2008, representing a CAGR of 12.1%.
- ✓ The management of Shinhint said the Group intends to maintain its dividend payout ratio of no less than 30% in the future, which would translate into a dividend yield of 3.8%-5.0% when compared with FY2004 price/earnings ratio.

### Weaknesses/Threats

- × The Group's gearing ratio was high at 63.5% as of 31<sup>st</sup> December 2004, mainly due to increase in bank loans for dividend payments. Meanwhile, the Group plans to use about HK\$10.1 million or 17% of the proceeds raised from the initial share offering to repay bank loans and finance leases. However, it would only help reduce slightly the Group's overall short-term liabilities (31/12/2004: HK\$176.6 million).
- × The Group is going to price its shares at 6x-8x FY2004 P/E. The valuation is not too demanding given the Group's ROE improved from 27.0% in FY2002 to 37.4% in FY2004. However, SDM printer and EMS manufacturer Jolimark (HKEx: 2028), which offered a more attractive valuations and growth picture, received only lukewarm response for its IPO in June. It may turn to weaken investors' interests in the Group's share offer.

**Recommendation: Unexciting**