

Analyst: Kevin Tam

## **Main Board Listing – Research**

DBA 電訊（亞洲）控股有限公司

DBA Telecommunication (Asia) Holdings Limited [Stock Code: 3335]

**Sponsor** : Sun Hung Kai International Limited  
**Joint Book-runners and Joint Lead Managers** : Sun Hung Kai International Limited  
 : SBI E2-Capital Securities Limited

**Sector** : Technology Hardware & Equipment  
**Business** : Telecommunication equipment

<p><b>Total share offer (excluding over-allotment):</b>  <u>250,000,000</u> shares          (25% of the enlarged share capital)</p> <p><b>Public Offer:</b> 25,000,000 shares (9%)  <b>Placing:</b> 225,000,000 shares (78%)  <b>Greenshoe:</b> 37,500,000 shares (13%)</p>	<p><b><u>Business of DBA Telecommunication</u></b></p> <p>The Group is principally engaged in the design, manufacture and sale of telecommunication equipment and related products under the brand name of “緯邦” (DEBAN) in the PRC. The Group's revenue is generated from the sale of communication terminal equipment, intelligent electronic products and communication transmission connection products, accounting for 65.1%, 26%, 8.9% for total turnover in FY05 respectively.</p> <p>Public telephone booths, public telephones and wireless business telephones, which are under the communication terminal equipment category, are the principal products of the Group. The Group also manufactures smart card vending machines as its intelligent electronic products. The communication transmission connection products, comprises a range of connection devices for telecommunication purpose including ODFs and optical passive devices.</p> <p>The Group had approximately 15 active customers in the PRC, which include major operators of telecommunication services.</p>
<p><b>Price:</b> HK\$1.26 per share  <b>Market Cap:</b> HK\$1,260 million  <b>Pro Forma FY2005 P/E:</b> 8.9X  <b>Adjusted NTA per share:</b> HK\$0.56  <b>Staffing:</b> 582</p>	
<p><b>HK Public Offer period:</b>          26<sup>th</sup> April 2006 – 2<sup>nd</sup> May 2006  <b>Receiving bank:</b> Standard Chartered Bank (HK)  <b>Share registrar:</b> Tricor Investor Services Ltd.  <b>Listing date:</b> 11<sup>th</sup> May 2006</p>	

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

Daba International Investments Limited (77.6% owned by the Group's Chairman & CEO)	50.04%
Kenwell Enterprise Corp	24.96%
Public	25%
	<u>100%</u>

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$258 million.

(Assuming the over-allotment option is not exercised)

	HK\$ million
Purchase of land and construction of new production facilities	70
Acquisition of advanced production equipment and machinery	65
Expansion of sales and marketing network in the PRC and certain other markets in Asia	36
Development of FTTH products	33
Enhancement of existing products	29
General working capital	25

### Financial Highlights

	Year ended 31 <sup>st</sup> December		
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
Turnover	265,252	384,470	557,883
Gross profit	105,677	161,270	231,840
Operating profits	83,654	123,549	175,001
Profit before tax	80,693	120,500	174,750
<b>Net profit</b>	<b>74,169</b>	<b>110,831</b>	<b>146,969</b>
	RMB'000	RMB'000	RMB'000
Owner's equity	119,037	229,868	311,767

### Strengths/Opportunities

- ✓ The Group has established its reputation and brand identity of “緯邦” (DEBAN). The Group has extensive distributive network covering 28 municipalities, provinces and autonomus regions in the PRC.
- ✓ It is estimated the Group's market shares in the PRC for public telephone booths, public telephones, ODFs and optical passive devices were approximately 11.9%, 7.5%, 2.7% and 5.7% respectively in 2004.
- ✓ From FY03 to FY05, the Group's gross margin were 39.8%, 41.9% and 41.6% respective; while operating margin were 31.5%, 32.1% and 31.4% respectively. This track record suggested the Group has strong pricing power amid rising material cost and competitive environment.
- ✓ Priced at 8.9x FY2005 P/E, valuation is cheap.

### Weaknesses/Threats

- × Increasing popularity of mobile communications cast uncertainty on the long-term demand growth for public telephone, a major revenue source for the Group.
- × The Group is too reliant on major customers. For FY05, the Group's five largest customers accounted for approximately 97.8% of its total turnover.
- × The Group is too reliant on major suppliers. For FY05, the Group's five largest suppliers accounted for approximately 70.9% of its total purchase.
- × From FY03 to FY05, average trade receivable turnover days were 76.3 days, 76.7 days and 84.2 days respectively. The long trade receivable poses some constraint on cash flows.
- × Raw material accounted for 94% of cost of goods sold. Surging commodity prices are likely to pose some pressure on the Group's margin eventually.

**Recommendation: Trading Buy**

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