

Analyst: Anita Hwang

Main Board Listing – Research

Tech Pro Technology Development Limited [Stock Code: 3823] 德普科技發展有限公司

Sponsor : Hantec Capital Ltd
Joint lead managers : OSK Asia Securities Ltd Hantec Capital Ltd
Sole bookrunner : OSK Asia Securities Ltd

Sector : Technology Hardware & Equipment

Business : Manufacture and sale of aluminium electrolytic capacitors

Total share offer: 150,000,000 shares
(25% of the enlarged share capital)

Public Offer: 15,000,000 shares (10%)

Placing: 135,000,000 shares (90%)

Price: HK\$1.06 – HK\$1.30 per share

Market Cap: HK\$636 – HK\$780 million

Historic FY06 PER: 10.9X – 13.4X

Adjusted NTA per share: RMB0.35 – RMB0.40

Staffing: 1,091

HK Public Offer period:

24th August 07 – 29th August 07 noon

Receiving bank: Standard Chartered Bank (HK)

Share registrar: Tricor Investor Services Limited

Listing date: 6th September 2007

Business of Tech Pro Technology (Tech Pro)

First started in 1993, Tech Pro has 3 operating subsidiaries in the PRC, namely Huawei Electronics, Huaqiang Electronics and South Huawei, all of which are principally engaged in the manufacture and sale of aluminum electrolytic capacitors. The production plants are located in Changzhou, Jiangsu Province and Shenzhen, with a total gross floor area of approximately 21,000 sq. m.

Tech Pro offers a variety of capacitors, which is largely marketed under the brand name “Chang”, with different specifications in order to meet the needs of its customers.

Tech Pro's products can be used in a wide range of electronics devices such as audio and video consumer electronics devices, power supply equipment, telecommunications equipment and home appliances. Major customers of the Group include Konka Group Co., Ltd. (康佳集團), Qingdao Hisense Air Conditioner Co. (青島海信空調), Shanghai Feilo Co. (上海飛樂) in the PRC and Vestel Elektronik Sanayi ve Ticaret A.S. in Turkey.

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

Mr. Yan Qixu, the Chairman and executive director and Ms. Xiang Xiaoqin, executive director (via Tong Heng Company Ltd.) 75.0%

Public investors 25.0%

100.0%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$149 million. *(Being the mid-point of the offer price range [HK\$1.18 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
To acquire production facilities	70.7
For the repayment of bank loans	25.6
For research and development	14.2
To finance the construction of new production plants	10.2
For general working capital	28.3

Financial Highlights

RMB million	Year ended 31 st December		
	2004	2005	2006
Revenue	124.9	185.4	256.7
Gross profit	32.9	52.4	77.1
Operating profit	24.8	44.0	67.7
Profit for the year	15.9	32.8	56.8
Gross Margin	26.3%	28.2%	30.0%
Operating Margin	19.8%	23.7%	26.4%
Net Margin	12.7%	17.7%	22.1%

Breakdown of turnover by customers

RMB million	2004	%	2005	%	2006	%
Lead wire type	114.8	91.9	157.9	85.2	198.0	77.1
Lug type and screw type	10.1	8.1	27.5	14.8	34.6	13.5
V-Chip type	0.0	-	0.0	-	24.1	9.4
Total	124.9	100.0	185.4	100.0	256.7	100.0

Strengths/Opportunities

- ✓ **Strong global demand** Demand for electrolytic capacitors has been strong globally and growing at 7.9% CAGR from 2004 to 2007 mainly driven by demand for PC products and audio-visual products.
- ✓ Tech Pro's major customers included Konka Group Co., Ltd. (康佳集團), Qingdao Hisense Air Conditioner Company Limited (青島海信空調), Shanghai Feilo Co., Ltd. (上海飛樂) in the PRC and Vestel Elektronik Sanayi ve Ticaret A.S. in Turkey. These customers are prominent players in their respective industries and collectively accounted for about 40% of total turnover of Tech Pro.
- ✓ **Reasonable valuation** Tech Pro did not give a profit forecast for 1H07 or FY07. The historic FY06 PER range is 10.9X –13.4X. Comparable peers are mostly listed in Taiwan, Korea and Japan: Yageo (2327.TW) trades at 10.91X forward PER, Samsung Electro-Mechanics (009150.KS) trades at 33.5X forward PER and Shinko (4062.JP) trades at 17.3X forward PER.

Weaknesses/Threats

- × **Highly competitive industry** The aluminium electrolytic capacitor manufacturing market is highly competitive with Taiwan, Korea and Japan in the technological forefront and China as the manufacturing base. Price of aluminium electrolytic capacitors has been on a falling trend because the production technology has become matured and manufacturers often compete on price.
- × 75% - 85% of total cost of sales is attributed to purchase of raw materials, of which over 60% is for the sourcing of aluminium foil and related components. Fluctuations in the costs of raw materials can materially affect the profit margins.

Recommendation: Neutral

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