

Analyst: Vincent Leung

GEM-Board H-share Listing - Research

寧波屹東電子股份有限公司

Ningbo Yidong Electronic Company Limited [Stock Code: 8249]

Joint Sponsors : Guotai Junan Capital Ltd Barits Securities (Hong Kong) Ltd

Joint Lead Managers : Guotai Junan Securities (Hong Kong) Ltd Barits Securities (Hong Kong) Ltd

Sector : Electronics

Business : Design, manufacture and sale of intelligent controller systems for consumer electrical and electronic appliances

<p>Total share offer: <u>130,000,000</u> H shares (26% of the enlarged share capital)</p> <p>IPO: 13,000,000 H shares (10%) Placement: 117,000,000 H shares (90%)</p>	<p><u>Business of Ningbo Yidong Electronic</u></p> <p>Established in August 2000, the Company is principally engaged in the design, manufacture and sale of intelligent controller systems for various consumer electrical and electronic appliances.</p> <p>The intelligent controller systems manufactured by the Company are used in a range of appliances such as air-conditioners, refrigerators, televisions, mobile phones, smoke extractors and fan control systems. The Company is currently expanding into the telecommunication arena as well as the controller market for thin-film transistors (TFT-LCD devices) used for LCD flat-panel display screens.</p> <p>The Company's production plant is located in Yuyao City, Zhejiang province, with a total site area of approximately 48,000 m². The Company currently has a total of 4 production lines. Annual production capacity of up to approximately 833,000 controller-system units.</p>
<p>Price: HK\$0.45 – HK\$0.60 per share H-share Market Cap. : HK\$58.5 million – HK\$78.0 million</p> <p>Historical FY2002 P/E: 6.5x – 8.7x (pro forma fully diluted)</p> <p>Adjusted NTA per share: RMB0.26-RMB0.30</p> <p>Staffing: 639</p>	
<p>IPO commences: 30th October, 2003 IPO closes: 4th November, 2003</p> <p>Receiving bank: Standard Chartered Bank Share registrar: Abacus Share Registrars Limited</p> <p>Listing date: 14th November, 2003</p>	

Major Shareholders after Listing

Mr. WANG Ya Qun (aged 41; an executive director and the chairman of the Company)	25.90%
Mr. CHEN Zheng Tu (aged 51; an executive director of the Company)	18.50%
Mr. LI Ming (aged 40; a non-executive director of the Company)	9.79%
Mr. ZHENG Yi Song (an initial management shareholder)	7.46%
Mr. LIU Xiao Chun (aged 35; an executive director and the vice-chairman of the Company)	6.06%
China Electronic Chamber of Commerce (an initial management shareholder)	2.59%
Mr. SHI Jian Er (an initial management shareholder)	1.85%
Mr. WEI Hong Jun (an initial management shareholder)	1.85%
	<u>74.00%</u>

Note: All of the above shareholders are subject to a 12-month lock-up period after the listing.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$47 million.

(Assuming an issue price of HK\$0.45, being the minimum of the proposed range of issue prices of HK\$0.45 and HK\$0.60 per offer share)

	HK\$ million
To expand the Company's production capacity and volume	27
To strengthen the Company's R&D capacity and develop new products	14
To enhance the Company's sales and marketing capability	5
To enhance the Company's management system and employee training	1

Financial Highlights

	4 months ended 30 th April 2003 RMB '000	Year ended 31 st December 2002 RMB '000	2001 RMB '000
Turnover			
Air-conditioner controller systems	28,390	143,577	39,646
Refrigerator controller systems	-	585	1,963
Smoke-extractor controller systems	598	1,350	543
Fan controller systems	-	1,031	2,671
Television controller systems	20,131	16,503	-
*Manufacture of mobile-phone controller systems and assembly of mobile phones	2,176	12,204	3,778
#Other controller systems	<u>151</u>	<u>1,471</u>	<u>1,281</u>
	<u>51,446</u>	<u>176,721</u>	<u>49,882</u>
Operating profit	<u>9,549</u>	<u>59,340</u>	<u>14,485</u>
Net profit	<u>5,064</u>	<u>36,863</u>	<u>9,121</u>
Dividend	400	114	-
EPS - basic	<u>RMB0.01</u>	<u>RMB0.13</u>	<u>RMB0.07</u>

* The Group's customers supply designs of the controller systems for mobile phones to the Company.

#Other controller systems designed and manufactured by the Company included water-dispenser, air-purifier and vacuum cleaner controller systems.

Strengths

- ✓ The Company has more than 40 customers, including some well-known international and domestic manufacturers of consumer electrical and electronic appliances, such as Electrolux and Aucma.
- ✓ The Company has been granted a number of awards and accreditations, including ISO9002:1994 certification and "Innovative and High-Tech Enterprise" accreditation by Ningbo authorities.
- ✓ Priced at a historical P/E of 6.5x-8.7x, valuation of Ningbo Yidong is not demanding when compared with recently-listed peer Shenzhen EVOC Intelligent Technology (Stock code: 8285), whose products are applied to more sophisticated systems such as automatic teller machines and highway tolls-collection stations. However, trading of the shares of Shenzhen EVOC, which were priced at historical P/E of 11.4x, has been unexciting since its trading debut in early October this year.

Weaknesses

- × Two of the Company's major customers, Elec Appliance [a sino-foreign joint venture between Electrolux and Kai On (Holdings)] and Aucma, accounted for 64%, 59% and 42% of its total turnover for the 2 years ended 31st December 2002 and the 4 months ended 30th April 2003. Should any of these 2 customers terminate the business relationship with the Company, the Group's financial position would adversely be affected.
- × The Company faces keen competition from other electronic-controller-system designers and manufacturers in the PRC. Moreover, barriers of entry are not high for this industry. Thus, intensifying pricing competition should be inevitable, eventually eroding the Company's profitability.
- × The Company does not anticipate paying any cash dividends in the foreseeable future.

Recommendation: Unexciting