

Analyst: Sam Ho

GEM Board Listing- Research

TOM Online Inc. - [Stock Code: 8282]

Joint Global Coordinators and Joint Global Bookrunners : Citigroup Morgan Stanley

Sector : Internet

Business: Provision of wireless value-added, wireless IVR and online-advertizing services

Total share offer: <u>1,000,000,000</u> shares (25.6% of the enlarged share capital)	<u>Business of TOM Online Inc.</u>
Placement: 900,000,000 shares (90%) IPO: 100,000,000 shares (10%)	The Group is a leading Internet company in China providing value-added multimedia products and services. It delivers its products and services from its Internet portal to its users both through their mobile phones and through "tom.com" websites.
Greenshoe: 150,000,000 shares	Its newly-acquired wireless interactive voice response (wireless IVR) service business provides an additional distribution channel for its content and services. In addition, commercial-enterprise solutions services can leverage on its expertise in Internet and wireless value-added services by offering business system solutions to corporate and government entities. Meanwhile, online-advertizing services have been part of its business since the launch of its Internet portal.
Price: HK\$1.30-HK\$1.50 per share ADS: US\$13.56-US\$15.56 per ADS (1 ADS= 80 ordinary shares)	
Market cap. : HK\$5.1billion-HK\$5.8 billion Adjusted NAV per share: HK\$0.32-HK\$0.37	
Staffing: 440 Estimated 2004 P/E: 20x-23x (fully-diluted)	
IPO commences: 2 nd March 2004 IPO ends: 5 th March 2004	
Share registrar: Computershare Hong Kong Investor Services Limited Receiving bank: HSBC, BOC Hong Kong	
Listing date: 11 th March 2004	

Note: There will be a preferential offering of 38,782,700 ordinary shares (included in the placing tranche) to certain qualifying shareholders of Tom.com Limited

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

Tom.com Limited (stock code: 8001) #
Cranwood Company Limited ^

Based on an offer price of
HK\$1.30-HK\$1.50

71.6%-71.8%

2.8%-2.5%

74.4%-74.3%

#- subject to a 12-month lock-up period

^- lock-up period expected to be until at least September 2005

Use of Proceeds

Net proceeds from the offer are estimated to be US\$146 million-US\$170 million.

(Assuming the over-allotment option is not exercised)

	US\$ million
To enhance and expand its content and applications for wireless value-added services	7
To research & develop new technologies and fund future upgrade of its existing technologies and infrastructure	15
To spend on sales and marketing activities	8
To pay for any contingent payments owed in connection with the acquisition of Puccini	10
To fund future potential acquisitions and strategic alliances in the wireless value-added services, content and Internet industries in China	80
To serve as general corporate purposes	Balance

Financial Highlights

	Year ended 31 st December			
	2003 US\$'000	2002 US\$'000	2001 US\$'000	2000 US\$'000
Revenue				
Wireless value-added services	55,843	9,958	30	-
Advertizing	5,845	4,228	2,950	321
Commercial enterprise solutions	13,825	11,244	1,479	2,289
Internet access	1,560	4,545	1,974	-
	<u>77,073</u>	<u>29,975</u>	<u>6,433</u>	<u>2,610</u>
Operating profit/ (loss)	<u>19,765</u>	<u>(8,319)</u>	<u>(23,091)</u>	<u>(74,739)</u>
Net profit/ (loss)	<u>19,572</u>	<u>(8,354)</u>	<u>(23,144)</u>	<u>(74,684)</u>
EPS/ (losses per share)- basic	<u>US¢0.699</u>	<u>(US¢0.298)</u>	<u>(US¢0.827)</u>	<u>(US¢2.667)</u>

Selected operation data

	For the 3 months ended			
	31 st December 2003	30 th September 2003	30 th June 2003	31 st March 2003
SMS subscriptions	9.1	8.5	8.7	5.5
SMS downloads	72.9	78.8	89.1	83.4

	Content fees			Transmission
	Fee per message	Fee per monthly subscription	Tom Online's share	Fee per message
	RMB	RMB	%	RMB
SMS (China Mobile)	0.10-2.00	2.00-30.00	85	0.05-0.08
SMS (China Unicom)	0.05-2.00	2.00-30.00	83	None
MMS (China Mobile)	1.00-4.00	5.00-40.00	85	0.125-0.300
WAP (China Mobile)	N/A	2.00-10.00	85	None

Strengths

- ✓ China has experienced rapid growth in Internet use in recent years. According to China Internet Network Information Centre, the number of Internet users in China increased from 9 million in 1999 to over 80 million in 2003, making China the 2nd-largest Internet market in the world. In addition, China is also the largest mobile market globally. This should create an opportunity for Internet companies to deliver their Internet-portal products and services to users through mobile phones.
- ✓ The Company has a leading position in the wireless-data services industry, achieving top rankings in terms of revenues in IVR (1st), MMS & WAP (2nd) and SMS (3rd).
- ✓ The Company has a strong shareholder backing from its parent Tom.com Limited (*stock code: 8001*) and Hutchison Whampoa (*stock code: 0013*). Hutchison's leadership position in developing and understanding advanced mobile-telecommunications networks and technologies, such as 3G, may assist in the Company's development of products and services
- ✓ Based on the pricing range, Tom Online is selling its shares at 2004E P/E of 20x-23x, which is undemanding when compared with other US-listed peers. Netease.com Inc was trading at 2004E P/E of 29.25x, while Sina Corporation and Sohu.com Inc were trading at 2004E P/E of 36.55x and 22.54x respectively.

Weaknesses

- × Competition in China's wireless value-added-services market has intensified with an increasing number of new entrants due to its low entry barrier. The primary competitors include Sina.com, Sohu.com, Netease.com and Tencent Technology.
- × The Company has only attained profitability recently. However, as of 31/12/2003, it had an accumulated deficit of US\$64.7 million, US\$59.8 million of which were impairment charges relating to the past acquisitions.
- × Since the Company is still at the high-growth phase, it will intend to retain future earnings to finance its business and to fund growth and expansion. Thus, it may not pay any cash dividends in the foreseeable future.
- × Policy risk is huge for the Internet industry as it is highly regulated by the central government. Should there be an adverse change in policy towards the provision of value-added telecommunications services, profitability of the Company will be badly affected.

Recommendation: Trading Buy