

More details on laminates spin-off

Hong Kong Industrials

Kingboard (148 HK, HK\$29.35)

BUY (unchanged)

Target price: HK\$33.0 (+12%)

More details on laminates spin-off. Kingboard (148 HK) announced further details on the impending spin-off of its laminates business. Kingboard Laminates (the spin-off company) will be listed under a global offering. The final structure and price range of the offering are yet to be finalised, but the following details are available:

- 25% of the enlarged share capital will be offered to the public. Parent company will retain remaining 75%;
- 20% of the shares to be offered will be new Kingboard Laminate shares, with the remaining 80% from the existing shares of the parent company;
- 37.5m shares will be set aside (Reserved Shares) for subscription by Qualifying Shareholders, who will be entitled to subscribe on an assured basis. The subscription will be at the offer price of 1 Reserved Share for every 22 shares, or 22 Reserved Shares for every full board lot of 500 shares. Qualifying Shareholders are those who hold existing Kingboard shares at the close of the record date (20 Nov);
- Public offer will be from 24 Nov to 29 Nov, with trading of the new Kingboard Laminates commencing on 7 Dec.

Use of proceeds. Kingboard Laminates intends to utilize the IPO proceeds as to: 60% for expansion, 30% for the repayment of bank borrowings and 10% as working capital.

Spin-off will unlock value. As we have mentioned in our previous report "Vertical integration drives margins" (30 Aug), the laminates spin-off is positive for Kingboard, allowing the parent company to: 1) focus on expanding its chemical business and vertical integration of its PCB business, 2) unlock value in its laminates business, 3) reduce inter-segment competition for the company's capital resources and 4) reduce debt (net gearing stood at 52.4% at the end of 1H FY12/06).

Still attractive, maintain target price of HK\$33.00. Kingboard's stock price has risen some 21.8% since our last report on 30 Aug. However, we still see upside in the counter. Management has given a preliminary FY12/06F net profit forecast of HK\$1,623.8m for Kingboard Laminates. Assuming that the new company is valued at 13x FY12/06F earnings, representing a 20% holding discount on industry average of 16.8x, Kingboard's remaining businesses is valued at only 9.7x and still attractive in our view. We will await further details on the spin-off. We maintain our target price of HK\$33.00, implying 12x FY12/07 P/E (EPS: HK\$2.749).

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
04A	1,103.8	1.587	106.5	18.5	3.8	13.2	1.0	24.4	13.6	74.3
05A	1,661.3	2.137	34.6	13.7	2.9	8.9	1.1	20.9	13.3	57.6
06F	2,068.0	2.386	11.7	12.3	2.5	7.4	1.3	23.3	14.1	50.8
07F	2,382.7	2.749	15.2	10.7	2.1	6.2	1.5	22.1	14.8	43.1
08F	2,775.0	3.202	16.5	9.2	1.7	5.1	1.6	21.3	15.8	32.4

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