

## Growing application drives demand

## Taiwan Electronics

## CapXon International (469 HK)

## Not Rated

**Table 1: Offer statistics**

Offer price range	HK\$0.88 - 1.48
No. of share offered	211,200,000
Offer P/E (FY12/06A F.D.)	10x - 17x
Market cap	US\$95m - 160m
IPO opens	24-Apr-07
IPO closes	27-Apr-07
Price determination	3-May-07
Listing	7-May-07

Source: SBI E2-Capital

**Company background.** Founded in 1980, CapXon is a manufacturer of aluminum electrolytic capacitors. The company started producing anode formed foils (a key material for aluminum electrolytic capacitors) in 2003 and anode etched foils in 2004 and the products have become its core focus. The vertical integration allowed it to lower its overall production costs and reduce reliance on the external anode foil suppliers. The company also sells anode foil products under the “CapXon” brand to other aluminum electrolytic capacitors manufacturers or anode foil producers.

**Product description and production plant.** Capacitors are used in electrical circuits for energy storage. Through charging or discharging electricity, capacitor are able to transform energy and smooth circuit operation. They are commonly found in computer peripherals, consumer electronics products, power supply products, telecommunications products and automation products. CapXon has three production facilities, in Baotou, Yichang and Shenzhen.

**Table 2: Production capacity by products**

Products	Production capacity per month
Aluminum electrolytic capacitors	363,000,000 units
Anode etched foils	708,000 sq.m.
Anode formed foils	492,000 sq.m.

Source: Company data

**Table 3: Financial highlights**

Year to Dec (RMBm)	04A	05A	06A
Turnover	737.3	789.9	843.9
Gross profit	140.0	180.0	200.7
Pre-tax profit	57.4	90.9	91.4
Net profit	40.8	77.9	73.9

Source: SBI E2-Capital and Company data

**Customer base.** For aluminum electrolytic capacitors business, CapXon maintains long-term relationship with over 300 renowned customers such as Samsung, LG, and Philips. As for anode foils business, this company has successfully secured 4 customers who are among the top 10 capacitor manufactures in the world.

**Industry overview.** According the China Electronic Components Association (CECA), China is one of the world’s largest aluminum electrolytic capacitor production bases, producing c.70b aluminum electrolytic

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capacitors (accounting for 40% of the global output). The world's estimated aluminum capacitor consumption value will grow 12.3% from US\$3.6b in 2005 to US\$4.0b in 2010. Asia, especially China will benefit from this trend, as more electronic goods makers relocate production to China. Technological advances and the growing application of capacitors in IT, consumer electronics, telecom and automotive areas fuel demand.

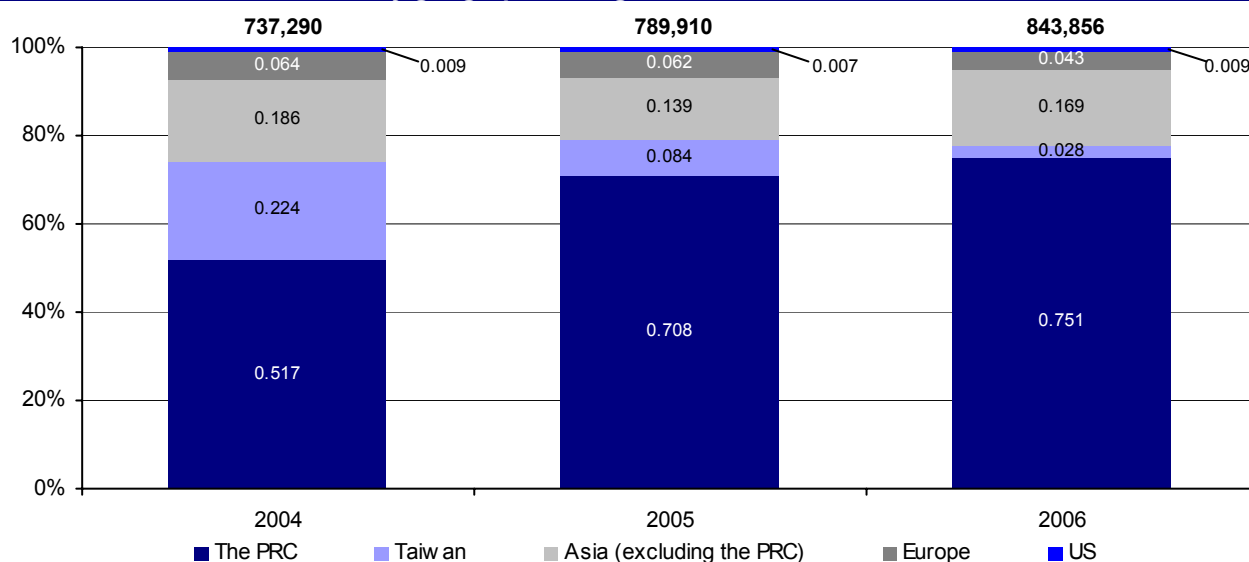
**Future plans.** CapXon plans to expand its capacitor production capacity in Shenzhen and increase the number of V-chip and solid-state polymer production lines from 14 to 26 and from 5 to 20, respectively by 2008. The company will add 8 more anode etched foil production line at its Yichang plant and install 50 anode formed foil production line in the new plant in Baotou, where trial production should start in July 2007. Its monthly production capacity is expected to increase by 20% per year. CapXon also plans to focus on expanding its domestic sales in China and strengthening its market presence overseas, in countries such as India, Brazil and Russia. To take advantage of strong long-term prospects of the auto industry, the company plans to develop products for use in automobile electronic panels.

**Table 4: Plan capacity expansion**

	2006	2007	2008
Aluminum electrolytic capacitors (units)	363m	436m	523m
Anode foils (sq.m.)	0.49m	1.2m	1.6m

Source: Company data

**Chart 1: Turnover breakdown by geographical regions**



Source: Company data

**Valuation.** CapXon did not provide any financial forecast for FY12/07. Compared with the sector's current average P/E of 18.7x, the offer price represents 10x to 17x FY12/06A P/E. In our view, the entry barrier for the aluminum electrolytic capacitors market is low and competition is intense. The major upside will come from the continuous growth of the aluminum electrolytic capacitor market and the aluminum electrode foil market and also the increasing demand for consumer electronic goods.

**Table 5: Peer comparison**

Company name	Ticker	Yr End	Market Cap (US\$m)	Current P/E (x)	ROA (%)	ROE (%)
Man Yue Int.	894 HK	Dec	135.0	10.4	10.8	24.9
CEC Int.	759 HK	Apr	18.5	6.1	3.4	7.1
Nichidenbo Corp	3090 TT	Dec	112.3	16.5	14.1	32.3
Holystone Enterprise Co. Ltd.	3026 TT	Dec	441.6	15.4	9.7	19.1
Taiwan Chinsan Electronic	8042 TT	Dec	85.4	27.7	5.7	13.9
Nichicon Corp.	6996 JP	Mar	1,100.1	36.1	2.8	3.7
<b>Average</b>				<b>18.7</b>	<b>7.8</b>	<b>16.8</b>

Source: SBI E2-Capital