

Bathroom appliance maker

China Electronics

AUPU Group (477 HK)

Not Rated

Table 1: Offer stats

Offer price range	HK\$0.93 - 1.23
No. of share offered	204,000,000
Green shoe	30,600,000
Offer P/E (FY12/06F)	8.0x - 10.6x
Market cap	US\$81.3m – 107.5m
IPO opens	27-Nov-06
IPO closes	30-Nov-06
Listing	8-Dec-06

Source: Company data

Company profile. AUPU is a mainland bathroom appliance maker that engaged in design, manufacture and distribute bathroom masters (a small electrical appliance, which combines heating, lighting and ventilation functions into single product), exhaust fans and other home appliances under its own brand name, AUPU. The company is headquartered in Hangzhou with extensive sales network including 177 authorized agents, 257 distributors and over 3,000 point of sales. Currently, the company has obtained the registration of 55 patents in PRC.

Production facility. The production facility of the company is located in Hangzhou, Zhejiang Province. At present, the company has seven assembly lines in operation. The key production process of AUPU is the assembly of parts and components as the parts and components are sourced from suppliers. The company intends to set up an additional line to increase its annual production capacity.

Table 2: Utilization rate

	FY03	FY04	FY05
No. of assembly lines	4	4	6
Max annual operating hours	8,448	8,448	9,504
Actual annual operating hours	5,914	7,532	9,009
Annual utilization rate	70%	89.20%	94.80%

Source: Company data

Market. The demand of bathroom masters is increasing because bathroom masters provide added value features such as reducing electricity costs, saving household expenditure (buying bathroom masters instead of buying heating, ventilation and lighting appliances separately), saving bathroom space and offering safety and reliability. Thus, the competition in bathroom masters market is getting intense. Because of the potential market and entry barrier is low, some of the domestic enterprises are now entering into this market together with market penetration from foreign enterprises. In order to stay competitive and maintain its market share, AUPU started to engage an independent OEM manufacturer to produce a certain specification of bathroom masters. By doing so, it also enables AUPU to enjoy economies of scale.

Use of proceeds

- To build a plant with six assembly lines in Hangzhou between 2008 and 2009 to expand its existing production capacity.
- To develop new products and recruit more research staffs.

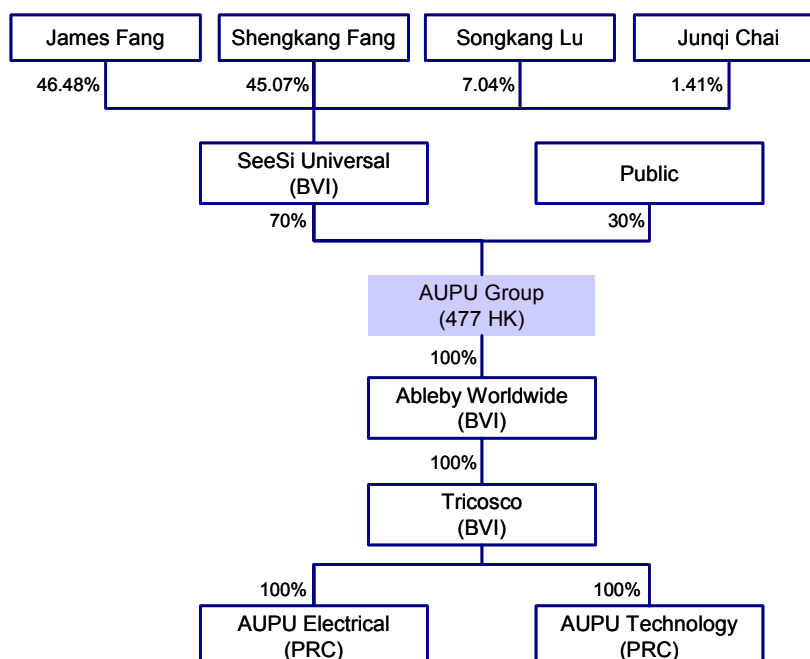
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- ❑ To expand the company's sales and distribution network.
- ❑ The balance will be spent on brand management and improve management systems.

Chart 1: Group structure

Source: Company data

Table 3: P&L

Year to Dec (RMBm)	03A	04A	05A	5M05	5M06
Revenue	213.7	267.0	336.5	118.2	146.6
COGS	(103.4)	(127.8)	(166.0)	(63.5)	(67.2)
Gross profit	110.3	139.2	170.5	54.7	79.4
Other income	2.5	5.1	6.7	0.7	1.2
Selling and distribution expenses	(59.6)	(64.1)	(72.4)	(25.8)	(33.7)
Administration expenses	(13.2)	(16.5)	(25.5)	(8.6)	(11.7)
Other expenses	(1.9)	(1.9)	(2.5)	(0.9)	0.3
Profit before tax	38.1	61.8	76.8	20.1	35.5
Tax	(10.6)	(16.7)	(21.7)	(5.5)	(1.8)
Profit attributable to equity holders	27.5	45.1	55.1	14.6	33.7
EPS -Basic (RMB)	0.06	0.10	0.11	0.03	0.06

Source: Company data

Risk. (1) Over 90% of the company's revenue came from PRC. The performance of the PRC economy has a significant impact on the company. (2) The bathroom master industry in the PRC is undergoing rapid development and competition is getting intense. Since the entry barrier is low, the company is subject to competition from existing and new rivals, this might erode the ASP and profit margins of the company.

Valuation. The net profit is projected to be RMB80m for 2006, representing an increase of c. 44.7%. The stock will be priced at 8.0 – 10.6x FY12/06F P/E, which is higher than Sim Siang Choon's (SSC SP, S\$0.1, NR) current P/E of 6.2x but much less demanding than Taiwan Sakura's (9911 TT, TWD7.1, NR) current P/E of 19.1x.