

Ka Shui International Holdings Limited

benefiting from growing preference of “ultra-thin and slim” notebook

to summarize...

- Ka Shui International engages in the manufacturing of zinc, magnesium and aluminium alloy die casting and plastic injection products and components.
- The products are sold to customers engaging in the household products, consumer electronics, communication, computer products and automotive parts industries. The 3C Products accounted for 54.2% of sales, household products accounted for 42.2% and auto parts accounted for 5.4%.
- Last reported full year earnings was for FY2011A. Revenue increased 31% to HK\$1,191.7m. Gross profit increased 28% to HK\$230.8m. Profit for the year increased 12% to HK\$62.8m.
- Zinc Alloy accounted for 29% of group sales. Magnesium Alloy accounted for 24% of group sales. Aluminium Alloy accounted for 21% of group sales. Plastic Injection Moulding accounted for 25% of group sales.
- Ka Shui aims to expend the business currently from 100% OEM/ODM to 60% OEM/ODM and 40% OBM by FY2015. The growth in the OEM/ODM business comes from replacement demands of notebook computer and smart phones, from preference for “ultra-thin and slim” notebook computer designs.
- The counter is currently trading at 8.9x historical P/E. The Hong Kong listed peers are currently trading on average at 8.0x historical P/E, 6.1x current year fwd P/E and 4.6x 1-yr fwd P/E based on market consensus.

Description: Ka Shui International engages in the manufacturing of zinc, magnesium and aluminum alloy die casting and plastic injection products and components. The products are sold to customers engaging in the household products, consumer electronics, communication, computer products and automotive parts industries.

Table 1. FY2011A

12 months to Mar	Turnover (HK\$m)	Gross Profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)
FY2011A	1,191.7	230.8	19.4	82.9	23.7	62.8
FY20010A	913.3	179.6	19.7	73.8	23.8	56.1
YoY(%)	31	28		12		12

Source: Company data

Last reported financial: Ka Shui's last reported full year earnings was for FY2011A. Revenue increased 31% to HK\$1,191.7m. Gross profit increased 28% to HK\$230.8m. Profit for the year increased 12% to HK\$62.8m. Earnings per share attributable to equity holder increased 11% to HK\$7.09 cent. Gross profit margin decreased -0.3p.p. to 19.4% and net profit margin decreased -0.8p.p to 5.3%.

Sales analysis: The Company operates in four divisions - zinc, magnesium, aluminum alloy die casting and plastic injection products and components. Zinc Alloy accounted for 29% of group sales. Magnesium Alloy accounted for 24% of group sales. Aluminum Alloy accounted for 21% of group sales. Plastic Injection Moulding accounted for 25% of group sales. For the end products applications, 3C Products (Communication, computer and consumer electronics) accounted for 54.2% of sales, household products accounted for 42.2% and auto parts accounted for 5.4%.

Zinc Alloy Die Casting: Sales of Zinc Alloy die casting decreased 2% YoY to HK\$350m for FY2011. It accounted for 29% of the group's sales. The major application for zinc is used in furniture and household accessories. Major customers

Ticker	0822 HK
Rating	NR
Price (HK\$)	0.63
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.48-0.68
Market cap. (US\$m)	560.0
Daily t/o (US\$m)	0.2
Free float (%)	25.6

Financial summary

Year to Dec	09A	10A	11A
Turnover (HK\$)	633.8	913.3	1,191.7
Net Profit (HK\$)	37.8	56.1	62.8
EPS (HK\$)	0.043	0.063	0.071
P/E (x)	14.7	9.9	8.9
P/B (x)	1.00	0.85	0.77
EV/EBITDA (x)	25.8	8.9	(10.3)
Yield (%)	1.7	5.1	6.8
ROE (%)	13.6	9.7	9.5
ROCE (%)	22.9	16.5	19.3
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

	12F	13F
Consensus EPS (HK\$)	-	-
Previous EPS (HK\$)	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-1.1	5.7	16.1
Actual price changes (%)	0	0	3.3



Source: Bloomberg

Baron Sun

(852) 2533 3715

baronsun@sbie2capital.com

includes: IKEA, 3M and Schick. The gross profit for this segment amounted to 15.2%. The largest cost is direct materials which accounted for 45.9%, next is manufacturing expenses which accounted for 27.9% and direct labor accounted for 11.0%.

Magnesium Alloy Die casting: Sales of Magnesium Alloy die casting increased 73% YoY to HK\$287m for FY2011. It accounted for 24% of the group's sales. The major application for Magnesium is used in Electronic products. Major customers includes: Wistron, Felextronics, STIHL, Velbon. The gross profit for this segment amounted to 21.4%. The largest cost is manufacturing expenses which accounted for 36.9%, next is direct materials which accounted for 24% and direct labor accounted for 17.8%.

Table 2. Business Segements

	Revenue	YoY	% of Sales	Major Applications	Major Customers
Zinc Alloy Die Casting	350m	-2%	29	Furniture, household accessories	IKEA, 3M, Schick
Magnesium Alloy Die casting	287m	+73%	24	Electronic products	Wistron, Felextronics, STIHL, Velbon
Aluminum Alloy Die casting	253m	+29%	21	Consumables, electronics, auto parts	Philips, Panasonic, Nikon, HarmanI
Plastic Injection Moulding	302m	+55%	25	Electronics, consumable products	Otter Box, Schick
Total	1,192m				

Source: Company data

Aluminum Alloy Die casting: Sales of Aluminum die casting increased 29% YoY to HK\$253m for FY2011. It accounted for 21% of the group's sales. The major application for Aluminum is used in consumables, electronics and auto parts. Major customers includes: Philips, Panasonic, Herman International and Nikon. The gross profit for this segment is 23.9%. The largest cost is manufacturing expense which accounted for 32.7%, next is direct materials which accounted for 31.4% and direct labor accounted for 12.0%.

Table 3. COGS & Gross profit (% of segement sales)

	Direct Materials (%)	Manufacturing Expenses (%)	Direct Labor (%)	Gross Profit (%)
Zinc Alloy Die Casting	45.9	27.9	11.0	15.2
Magnesium Alloy Die casting	24.0	36.9	17.8	21.4
Aluminum Alloy Die casting	31.4	32.7	12.0	23.9
Plastic Injection Moulding	58.4	15.3	6.4	19.9

Source: Company data

Plastic Injection Moulding: Sales of plastic Injection moulding increased 55% YoY to HK\$302m for FY2011. It accounted for 25% of the group's sales. The major application for plastic Injection moulding is used in electronic and consumable products. Major customers includes: Otterbox and Schick. The gross profit for this segment amounted to 19.9%. The largest cost is direct materials which accounted for 58.4%, next is manufacturing expenses which accounted for 15.3% and direct labor accounted for 6.4%.

Table 4. Production Facilites

Plant	Location	Site Area	Production
Daya Bay Production	Huizhou	210,000 sq. m. (50,000 sq.m. developed)	Zinc and Aluminum alloy die casting components Plastic injection products and components
Kai Shui Metal	Shenzhen	7,286 sq.m.	Zinc alloy die casting components
MG Technology	Shenzhen	47,880 sq.m.	Magnesium and Aluminum alloy die casting components
Wing Yu Industries	Huizhou	20,000 sq.m.	Provision of surface finishing treatment

Source: Company data

Production Facilities: Ka Shui currently has four production facilities in the Guangdong Province. The largest facility is the Daya Bay production complex in Huizhou with total site area of 210,000 sq.m. Currently only 50,000 sq.m. are developed. The plant produces Zinc and aluminum alloy die casting components. MG Technology production complex is in Longgang district, Shenzhen with total site area of 47,880 sq.m. The plant produces Magnesium and aluminum alloy die casting components. Ka Shui Metal manufacturing production complex with total site area of 7,286 sq.m also in Longgang district in Shenzhen. The plant only produces zinc alloy die casting components. The Wing Yu Industries production complex in Huizhou has total site area of 20,000 sq.m. The plant only provides provision of surface finishing treatment.

Future Prospects

Possible growth driver: Ka Shui aims to expend the business currently from 100% OEM/ODM to 60% OEM/ODM and 40% OBM by FY2015. The growth in the ODM/OEM business comes from notebook computer, smart phones and home appliances. The notebook computer growth driver comes from high replacement demands and growing preference for "ultra-thin and slim" notebook computer designs. The notebook computer casing segment is expected to be driven by manufacturer such as: Dell, Asus, Lenovo, HP. The smart phones growth comes from increasing sales of smart phones/tablets worldwide and protective casing segment to be driven by manufacturer such as Apple, Samsung, HTC, LG. The home appliances order comes from the acquisition of new client that manufacture coffee maker casings with potential sales of HK\$30m for FY2012.

OBM Business: The OBM business comes from demand for slim and light-weight 3C products, Ka Shui utilize core competency in thin-wall technology to develop their own house brands. And other possible new business venture in the Plasma lighting sector, LEP. The LEP product demand will be driven by demand for energy-saving products. Currently Ka Shui has already established marketing office in US for the new LEP products.

Capex Plan: Capex Plan for FY2011 totals HK\$73.8m. With HK\$9.2m is planned for R&D, HK\$12.9m for new equipment purchases and HK\$51.7m for others. For FY2012, planned capex amounts to HK\$88m. With HK\$28.5m planned for R&D, HK\$27m for capacity expansion in the Daya Bay production complex, new equipment purchase amounts to HK\$30m and HK\$2.5m for others.

Valuation: Ka Shui is currently trading at 8.9x historical P/E. The Hong Kong listed peers are currently trading on average at 8.0x historical P/E, 6.1x current year fwd P/E and 4.6x 1-yr fwd P/E based on market consensus.

Table 5. Valuation Comparison

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	PB (x)	Est ROE (%)
KA SHUI	822 HK	71.8	0.63	8.9	-	-	0.8	27.7
JU TENG	3336 HK	320.6	2.21	9.7	7.8	5.7	0.5	16.1
TONGDA	698 HK	174.1	0.29	5.4	4.3	3.6	0.7	
Average				8.0	6.1	4.6		
HONGTU TECHNOL-A	002101 CH	202.7	9.64	18.2	8.8	6.9	1.7	16.0

Source: Bloomberg

Shareholding Structure: The Chairman Mr. Lee Yuen Fat holds 68.3%, the Directors (Dr. Keung Wing Ching, Mr. Wong Wing Chuen, Mr. Alan Chan, Mr. Andrew Look) holds 6% and the public shareholders accounted for 25.7%.

Table 6. Historical P & L

Year to Dec (HK\$m)	2009A	2010A	2011A
Revenue	663.8	913.3	1,191.7
Cost of sales	(491.6)	(733.7)	(960.9)
Gross profit	142.3	179.6	230.8
Other revenue	3.7	12.3	2.5
Other net income/(loss)	8.5	-	-
Distribution costs	(7.6)	(13.8)	(18.0)
Administrative expenses	(86.5)	(102.2)	(125.1)
Other operating expenses	(0.3)	-	(3.2)
Profit from operations	51.9	75.9	86.9
Finance costs	(1.6)	(2.1)	(4.6)
Share of Profit of associates	-	-	-
Profit before tax	50.0	73.8	82.3
Income tax	(12.2)	(17.6)	(19.5)
Net profit	37.8	56.1	62.8

Source: Company data

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-Capital stock ratings:

STRONG BUY: absolute upside of >50% over the next three months

BUY: absolute upside of >10% over the next six months

HOLD: absolute return of -10% to +10% over the next six months

SELL: absolute downside of >10% over the next six months

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Financial Services Limited ("SBI E2-Capital") from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Financial Services Limited. All rights reserved.