

Sinotronics: An undervalued gem

Recommendation: BUY (initiating coverage) Hong Kong Electronics

| Price | HK\$1.05 | Year to Net profit | EPS | EPS | P/E | P/B | EV/EBITDA | Yield | ROE | ROCE | N. Gear. | |
|------------------|-----------------|--------------------|-------|-------|-------|-----|-----------|-------|-----|------|----------|------|
| Target price | HK\$1.65 (+57%) | Jun | RMBm | RMB | Δ % | x | x | x | % | % | % | |
| 12 mth range | HK\$0.65-1.35 | 04A | 81.2 | 0.188 | 2.9 | 5.8 | 1.2 | 3.1 | 3.4 | 18.8 | 19.3 | Cash |
| Market cap. | US\$63.0m | 05A | 80.4 | 0.172 | (8.3) | 6.3 | 1.0 | 1.8 | 3.4 | 14.6 | 14.5 | Cash |
| Daily t/o, 3 mth | US\$0.8m | 06F | 100.6 | 0.215 | 25.1 | 5.1 | 1.0 | 2.7 | 3.9 | 16.4 | 15.5 | Cash |
| Free float % | 29.2% | 07F | 123.4 | 0.223 | 3.7 | 4.9 | 0.7 | 2.4 | 4.1 | 16.6 | 15.7 | Cash |
| Ticker | 1195.HK/1195 HK | 08F | 161.3 | 0.292 | 30.7 | 3.7 | 0.6 | 1.5 | 5.3 | 17.0 | 17.7 | Cash |

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -1.9%, -12.8%, +40.3%

Actual price changes (1 mth, 3 mth, 12 mth): +5.0%, -8.7%, +56.7%

Consensus EPS (06F-07F): n/a

Previous forecasts (06F-08F): n/a

Key points:

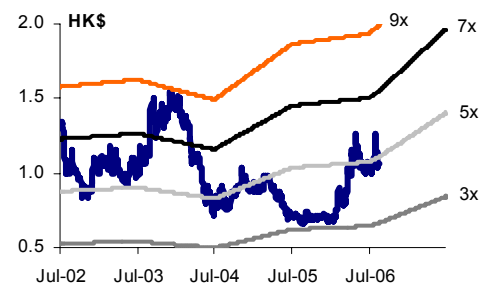
- Sinotronics differs from traditional PCB manufacturers by adopting a high mix / low volume strategy, hence allowing it to enjoy above industry average margins.
- A solid roadmap to drive growth, comprising capacity expansion and new product lines. We estimate a three year net profit CAGR of 26%.
- Toxic CB has been dissolved, which will allow the stock to unlock value going forward.
- Chairman Lin has increased his stake by 94.0m shares to 66.6% in the past 3 months, suggesting the stock is grossly undervalued.
- Net cash amounted to RMB0.69, or 63% of the share price.
- Supplying to reputable domestic and international customers including TPV, Nidec Sankyo, Fujian Start Network and Epson.
- Initiate coverage with a target price of HK\$1.65, implying 7.7x FY06/07F fully diluted P/E and 0.27x PEG.

A niche PCB/EMS play. Sinotronics is a vertically integrated EMS services provider offering a suite of services along the value chain, including proto-type engineering, schematic capture, PCB layout design and manufacturing, as well as assembly services. The smaller, more flexible scale of Sinotronics allows it to adopt a high-mix/low-volume manufacturing strategy, compared with the larger counterparts, which rely more heavily on economies of scale and the mass market. The end result is that the company can command higher ASPs, deriving above-industry-average growth rates and margins.

Reputable clientele base. The company currently operates three plants, each with a different product focus, in Fuqing, Huizhou and Mawei. Its main products are chiefly 4-8 layer multi-layered PCBs though it has the ability to produce high-end PCBs of up to 30 layers. Sinotronics boasts a solid customer base, with the largest being Start Network, a subsidiary of Fujian Start Computer (600734 CH), CIROATS, Newland and TPV (903 HK, HK\$7.80, BUY), with the top 3 customers accounting for 13%, 10% and 8% of turnover respectively. Other customers include Epson, NEC, Samsung and Nidec Sankyo, a renowned Japanese electronic components supplier to tier one manufacturers such as Sony and Sharp.

New products drive growth. The EMS provider has been growing solidly over the past few years through a combination of capacity expansion and a launch of new products, including aggressively adding multi-layer PCB capacity and broadening into the manufacturing of flexible PCB (FPCB) and PCB assembly (PCBA) services

Chart 1: P/E bands



Source: SBI E2-Capital

since 2H FY6/05. For 1H FY6/06, Sinotronics' turnover surged 40.4% to RMB223.4m, aided by the maiden contribution from FPCB/PCBA services of RMB25.7m. Meanwhile, single/double-sided and multi-layered PCBs recorded revenues of RMB83.8m and RMB113.8m, jumping 15.4% and 31.7% YoY, respectively. Net profit was RMB50.6m, up 23.0% YoY.

Above-average margins. 1H FY6/06 gross margin amounted 39.6%, representing an improvement of 4.0 pcp HoH, but down 5.6 pcp YoY. The YoY decline was mainly attributed to a combination of initial depreciation costs on its Huizhou and Mawei plants, as well as higher laminate/copper prices. Despite the cost pressure, Sinotronics continues to enjoy a gross margin well above the industry norm of around 21%. The company attributes its higher-than-average margins to its design capability (i.e. acting as an ODM instead of OEM) and the focus on higher-margin but lower volume businesses (designing tailor-made PCB-related products for customers' new products). In addition, Sinotronics' clientele are mainly located in close proximity in the Fujian province. This amplifies the company's core competitive advantages of: 1) the ability to develop products jointly with clients and 2) flexible response time and fast time to market, making the company attractive as the preferred partner for new product development. It also helps mitigate supply chain cost and facilitate a leaner cost structure. Note that copper only accounts for 7-8% (up from 5% before) of its cost of production at present while cost of materials usually represents 40% of turnover.

More nimble than the large players. The pricing mechanism for low volume products differs from the traditional mass market EMS. Sinotronics' customers are more willing to pay a premium to ensure a fast turnaround, while large scale mass-market EMS plays are subject to price squeeze from customers as they strive to secure large volumes. The company's ASPs are in the order of 10%+ higher than those charged by mass-market EMS counterparts. Other niche players and specialists in the industry can also derive similar margins including Daisho Microline (567 HK, HK\$2.48, NR) (45%), Career Tech (28%), Eucon (39%) and Plotech (24%).

Capacity expansion. Sinotronics will continue its capacity expansion strategy. With its Fuqing plant close to full capacity, the company aims to construct a second plant (or the fourth overall) in the area due to strong demand from clients (mainly TPV). The plant will have a PCB production capacity of 45,000m² per month, which will be developed over several phases. First phase is scheduled to be commissioned by 1H FY6/08. Furthermore, the company will also need to expand the production capacity of its Huizhou plant. It was operating at around 55% capacity in Nov 2006, though an order ramp up from Nidec Sankyo commencing July 2006 is likely to fuel utilization rate to around 80%. The management plans to double capacity at its Huizhou to 20,000-25,000m² per month by the end of FY6/07 and increase PCBA lines from the current 5 lines to 11 lines over the same period. We estimate the company's capex requirement in the region of RMB390m to RMB450m over the next two years.

Launch of R-FPCB. To further combat margin erosion, the company plans to launch a new product in the form of rigid-flexible PCB (R-FPCB). The monolithic rigid/flexible PCB product has improved durability and can command gross margin up to 75%. Sinotronics currently has 5 models for this product under qualification with various customers.

Contribution from new businesses to kick in from 2006. Sinotronics' growth will be derived from both newly installed capacity and margin expansion from its FPCB/PCBA businesses. The new segment was close to breakeven at the end of 1H FY6/06 and is expected to start making profit from 2H FY6/06 onwards. Top line growth and increasing profitability in this segment will offset some of the margin pressure stemming from increased raw material prices. Note that the company incurred a loss of >RMB10m from its two new plants (PCBA and FPCB) in FY6/05 and a slightly loss in 1H FY6/06 as they only began operational in Sep 2004 and Jan 2005 respectively.

Fund-raising history. 1) The company was listed in GEM board in May 2001 by issuing 67.5m new shares at HK\$0.9 per share, raising HK\$47.6m. It switched to the main board in Jan 2003. 2) In Mar 2002, it did a top-up placement by issuing 25m shares at HK\$1 each. 3) In Jun 2002, it did another top-up placement by issuing 35m shares at HK\$1.35m each. 4) In Jan 2004, it did a 57m-share top-up placement at HK\$1.4 per share. 5) The company issued a 2% 3-year US\$10m CB (with a floating conversion price term) to Credit Suisse (CS) on April 27, 2005.

Toxic CB dissolved while Chairman increasing stake. Chairman Lin has bought back 38.11m shares (6.9% of current share capital) between HK\$0.697 to HK\$1.197 during the period Aug 5, 2005 to May 15, 2006. On 19 July 2006, CS agreed to convert the CB at a conversion price of HK\$0.909 (85.5m shares, representing 15.46% of the enlarged share capital). Pursuant to the conversion, Chairman Lin purchased CS's entire lot of conversion shares at HK\$1.02 per share (10% premium to the conversion price), hence increasing his stake from 51.1% to 66.6%. As the toxic CB has been dissolved, the market can now value the actual EPS of the stock.

Corporate governance issues. 1) Though the company does not have a strict dividend policy, it generally maintains a dividend payout ratio of around 20% (21.6% in FY6/05, 19.8% in FY6/04 and 23.3% in FY6/03). 2) The management is proactive in improving the company's corporate governance and financial disclosure transparency, changing its auditors from CCIF CPA to KPMG In July 2005. 3) After the CB conversion and dilution, the Chairman now holds a 66.6% stake (368.3m shares) in the company, while Fidelity is the other substantial shareholder with a 4.2% stake (23.4m shares).

Valuation. We project the company's FY6/06F net profit to increase 25.1% YoY to RMB100.1m (fully diluted EPS: RMB17.5 cents) on a turnover of RMB482.2m. Thereafter, capacity addition over the subsequent two years is expected to propel the bottom line to RMB123.4m (fully diluted EPS: RMB22.1 cents) and RMB161.3m (fully diluted EPS: RMB28.9 cents) in FY6/07F and FY6/08F, representing YoY increase of 22.6% and 30.7% respectively. Gross margin is expected to trend down to 37.7% in FY6/06F from 39.8% in FY6/05.

Initiating BUY with a target price of HK\$1.65. Currently trading at 6.2x FY6/06F and 4.9x FY6/07F fully diluted P/E, we believe Sinotronics is undervalued. The counter is backed by a net cash of RMB68.9 cents, or 63% of its stock price, suggesting latent value to be unlocked. We initiate a BUY on Sinotronics with a target price of HK\$1.65, representing 7.7x FY6/07F and 0.27x PEG (FY6/06F to FY6/08F). The target price represents a 15% valuation discount to domestic and international comparables from Singapore and Taiwan, given its thinner trading volume. Peers are presently trading at an average of 10.7x current year and 8.9x next year P/E based on consensus estimates.

Table 1: Valuation comparisons

| Company Name | Stock Code | Country | Mkt Cap (US\$m) | Price | His. Turnover (US\$m) | His. Net Profit (US\$m) | Cur Yr P/E (x) | Nxt Yr P/E (x) |
|----------------------|------------|---------|-----------------|-----------|-----------------------|-------------------------|----------------|----------------|
| Daisho Microline | 567 HK | HK | 149 | HK\$2.38 | 79.9 | 14.0 | n/a | n/a |
| Kingboard | 148 HK | HK | 2,306 | HK\$22.65 | 1,679.3 | 184.1 | 9.7 | 8.4 |
| MFS Technology | MFS SP | SP | 400 | SG\$0.95 | 240.4 | 22.2 | 13.1 | 11.1 |
| Elec & Eltek Int'l | ELEC SP | SP | 447 | SG\$2.49 | 437.5 | 42.6 | 8.3 | 7.2 |
| Tripod Technology | 3044 TT | TW | 1,143 | TW\$104 | 461.1 | 64.8 | 12.4 | 9.7 |
| Unimicron Technology | 3037 TT | TW | 1,441 | TW\$46.20 | 858.0 | 92.3 | 10.0 | 8.2 |
| Average | | | | | | | 10.7 | 8.9 |
| Sinotronics | 1195 HK | HK | 74 | HK\$1.05 | 46.5 | 10.1 | 6.2 | 4.9 |

Source: Bloomberg & SBI E2-Capital

Table 2: Industry gross margin comparisons

| Company | Stock Code | Mkt Cap (US\$m) | Description | Gross Margin (%) |
|----------------------------------|------------|-----------------|--|----------------------------------|
| Niche player/ specialists | | | | |
| Daisho Microline | 567 HK | 160 | High density interconnect PCB | 45 |
| Eucon | EUCON SP | 76 | Specialist in laser drilled PCBs | 39 |
| Career Tech | 6153 TT | 214 | Focus on flexible PCBs | 28 |
| Kingboard | 148 HK | 1,997 | Vertically integrated PCB manufacturer | 24 |
| Plotech | 6141 TT | 92 | Focus on multi-layer PCBs | 24 |
| Industry average* | | | | 21 |
| Sinotronics | 1195 HK | 64 | Focus on high-mix/low-volume orders | 39.8 (FY6/05A) 37.7 (FY6/06F) |

Source: Bloomberg & SBI E2-Capital; *Industry average is based on figures from: Kingboard (148 HK), Topsearch (2323 HK), Global Flex (471 HK), MFS (MFS SP), Elec & Eltek (ELEC SP), Tripod Technology (3044 TT), Unimicron (3037 TT), Career Tech (6153 TT), Hannstar (5469 TT), Nan Ya (8046 TT), New Era (4909 TT), Plotech (6141 TT), Taiwan Union Tech (6274 TT), EUCON (EUCON SP) & Multi-Chem (MC SP)

Table 3: Top 5 customers (approx 40% revenue in FY6/05)

| | |
|----|---------------------------------|
| 1. | Fujian Start Network Technology |
| 2. | CIROATS MUFLEX USD |
| 3. | Fujian Newland Computer |
| 4. | TPV |
| 5. | Epson |

Source: Company data & SBI E2-Capital

Table 4: Plant expansion schedule

| Plant No. | Location | Commissioning Date | Current Capacity | Planned Ultimate Capacity | Scheduled Commissioning Date |
|-----------|--------------|--------------------|---------------------------|---|------------------------------|
| 1 | Fuqing | 2004 | 40,000m ² /mth | 40,000m ² /mth | n/a |
| 2 | Huizhou | Jan 2005 | 15,000m ² /mth | 35,000m ² /mth | In phases from Jan 2007 |
| 3 | Fuzhou Mawei | Sept 2004 | 5 SMT lines | 10,000m ² /mth (PH I) 17 SMT lines | In phases from Jan 2007 |
| 4 | Fuqing | | Nil | 20,000m ² /mth 15,000m ² /mth (PH I) | Jun 2007 |

Source: Company data & SBI E2-Capital

Table 5: Earnings model

| Year to Jun (RMBm) | 04A | 05A | 06F | 07F | 08F |
|--|--------------|--------------|--------------|--------------|--------------|
| Turnover | | | | | |
| Single/double sided PCBs | 121.0 | 159.7 | 175.2 | 178.7 | 196.6 |
| Multi-layer PCBs | 180.3 | 198.0 | 237.4 | 245.4 | 309.3 |
| Flexible PCB & PCB Assembly | - | 12.1 | 67.6 | 187.0 | 277.7 |
| | 301.3 | 369.8 | 480.2 | 611.2 | 783.5 |
| Cost of sales | (164.9) | (222.8) | (299.3) | (398.9) | (515.3) |
| Gross profit | 136.3 | 147.0 | 180.9 | 212.3 | 268.2 |
| Other revenues | 1.9 | 2.9 | 2.6 | 3.4 | 4.2 |
| Selling & distribution costs | (6.5) | (3.9) | (11.9) | (12.5) | (14.8) |
| Administrative expenses | (15.9) | (27.6) | (21.6) | (28.9) | (35.5) |
| Other operating expenses | (8.1) | (6.2) | (5.3) | (3.2) | (4.4) |
| Operating profit | 107.7 | 112.3 | 144.7 | 171.1 | 217.6 |
| Finance expenses | (7.0) | (8.8) | (13.8) | (10.3) | (11.4) |
| Share of profit/(losses) of associates | 2.7 | 6.7 | - | - | - |
| Loss on disposal of associates | - | (5.1) | - | - | - |
| Profit before tax | 103.4 | 105.1 | 130.9 | 160.8 | 206.3 |
| Tax | (14.7) | (18.3) | (24.0) | (30.5) | (36.0) |
| After-tax profit | 88.7 | 86.8 | 106.9 | 130.3 | 170.3 |
| MI | (7.4) | (6.4) | (6.2) | (6.9) | (9.0) |
| Net profit | 81.2 | 80.4 | 100.6 | 123.4 | 161.3 |
| % chg | 10.7 | (1.0) | 25.1 | 22.6 | 30.7 |
| Dividends | (16.1) | (17.4) | (20.1) | (24.7) | (32.3) |

Source: Company data, SBI E2-Capital

Table 6: Segment results

| Year to Jun (RMBm) | 04A | 05A | 1H 05A | 1H 06A |
|--|--------------|--------------|--------------|--------------|
| Turnover | | | | |
| Single/double sided PCBs | 121.0 | 159.7 | 72.7 | 83.8 |
| Multi-layer PCBs | 180.3 | 198.0 | 86.5 | 113.8 |
| Flexible PCB & PCB assembly | - | 12.1 | - | 25.7 |
| | 301.3 | 369.8 | 159.1 | 223.4 |
| Segment results | | | | |
| Single/double sided PCBs | 43.3 | 48.4 | 20.8 | 27.0 |
| Multi-layer PCBs | 64.5 | 82.9 | 35.6 | 45.8 |
| Flexible PCB & PCB assembly | - | (19.1) | - | (0.7) |
| | 107.7 | 112.3 | 56.4 | 72.1 |
| Finance expenses | (7.4) | (8.8) | (3.5) | (6.9) |
| Share of profit/(losses) of associates | 2.7 | 6.7 | 1.1 | - |
| Loss on disposal of associates | - | (5.1) | - | - |
| Profit before tax | 103.4 | 105.1 | 54.0 | 65.2 |

Source: Company data

| P & L (RMBm) | 04A | 05A | 06F | 07F | 08F |
|----------------------------|--|----------------|----------------|----------------|----------------|
| Year to Jun | | | | | |
| Turnover | 301.3 | 369.8 | 480.2 | 611.2 | 783.5 |
| % chg | 24.7 | 22.7 | 29.9 | 27.3 | 28.2 |
| Gross profit | 136.3 | 147.0 | 180.9 | 212.3 | 268.2 |
| EBITDA | 120.7 | 125.6 | 162.9 | 189.5 | 238.0 |
| Depre./amort. | (14.9) | (16.3) | (20.8) | (21.8) | (24.6) |
| EBIT | 105.9 | 109.3 | 142.1 | 167.7 | 213.5 |
| Net int. income/(exp.) | (5.2) | (5.8) | (11.2) | (6.9) | (7.2) |
| Exceptionals | - | (5.1) | - | - | - |
| Associates | 2.7 | 6.7 | - | - | - |
| Jointly-controlled entit. | - | - | - | - | - |
| Pre-tax profit | 103.4 | 105.1 | 130.9 | 160.8 | 206.3 |
| Tax | (14.7) | (18.3) | (24.0) | (30.5) | (36.0) |
| Minority interests | (7.4) | (6.4) | (6.2) | (6.9) | (9.0) |
| Net profit | 81.2 | 80.4 | 100.6 | 123.4 | 161.3 |
| % chg | 10.7 | (1.0) | 25.1 | 22.6 | 30.7 |
| Dividends | (16.1) | (17.3) | (20.1) | (24.7) | (32.3) |
| Retained earnings | 65.2 | 63.1 | 80.5 | 98.7 | 129.0 |
| EPS (RMB) - Basic | 0.188 | 0.172 | 0.215 | 0.223 | 0.292 |
| EPS (RMB) - F.D. | 0.188 | 0.163 | 0.175 | 0.221 | 0.289 |
| DPS (RMB) | 0.037 | 0.037 | 0.043 | 0.045 | 0.058 |
| No. sh.s o/s (m) - W.A. | 433.0 | 467.6 | 467.6 | 553.2 | 553.2 |
| No. sh.s o/s (m) - Y.E. | 467.6 | 467.6 | 467.6 | 553.2 | 553.2 |
| No. sh.s o/s (m) - F.D. | 433.0 | 486.7 | 557.2 | 557.2 | 557.2 |
| Margins (%) | | | | | |
| Gross | 45.3 | 39.8 | 37.7 | 34.7 | 34.2 |
| EBITDA | 40.1 | 34.0 | 33.9 | 31.0 | 30.4 |
| EBIT | 35.1 | 29.6 | 29.6 | 27.4 | 27.2 |
| Pre-tax | 34.3 | 28.4 | 27.3 | 26.3 | 26.3 |
| Net | 27.0 | 21.7 | 21.0 | 20.2 | 20.6 |
| Balance Sheet (RMBm) | 04A | 05A | 06F | 07F | 08F |
| Year to Jun | | | | | |
| Fixed assets | 111.9 | 193.5 | 342.8 | 594.5 | 648.9 |
| Intangible assets | - | - | - | - | - |
| Other LT assets | 139.0 | 14.7 | 54.3 | 34.0 | 13.7 |
| Cash | 319.4 | 546.2 | 463.9 | 355.2 | 382.1 |
| Accounts receivable | 148.8 | 180.1 | 240.9 | 301.6 | 393.9 |
| Other receivables | - | 0.2 | 0.3 | 0.3 | 0.3 |
| Inventories | 12.1 | 21.2 | 21.4 | 35.4 | 38.0 |
| Due from related co.s | - | - | - | - | - |
| Other current assets | (0.0) | 0.0 | 0.0 | 0.0 | (0.0) |
| Total assets | 731.1 | 956.0 | 1,123.6 | 1,321.0 | 1,476.8 |
| Accounts payable | (54.6) | (101.1) | (115.4) | (168.8) | (192.6) |
| Other payable | - | - | - | - | - |
| Tax payable | (6.4) | (6.4) | (6.7) | (7.0) | (7.4) |
| Due to related co.s | - | - | - | - | - |
| ST debts | (70.3) | (110.7) | (123.0) | (98.4) | (78.7) |
| Other current liab. | - | (9.9) | (8.9) | (8.0) | (7.2) |
| LT debts | (57.9) | (102.4) | (206.5) | (145.6) | (101.9) |
| Other LT liabilities | - | (3.1) | - | - | - |
| Total liabilities | (189.1) | (333.5) | (460.5) | (427.8) | (387.9) |
| Share capital | 49.6 | 49.6 | 49.6 | 58.4 | 58.4 |
| Reserves | 458.0 | 547.1 | 582.3 | 797.5 | 985.5 |
| Shareholders' funds | 507.6 | 596.6 | 631.9 | 856.0 | 1,043.9 |
| Minority interest | 35.4 | 25.8 | 31.2 | 37.2 | 45.0 |
| Total | 543.0 | 622.5 | 663.1 | 893.2 | 1,089.0 |
| Capital employed | 671.1 | 835.5 | 992.7 | 1,137.2 | 1,269.6 |
| Net (debt)/cash | 191.2 | 333.2 | 134.4 | 111.2 | 201.4 |
| Cash Flow (RMBm) | 04A | 05A | 06F | 07F | 08F |
| Year to Jun | | | | | |
| EBIT | 105.9 | 109.3 | 142.1 | 167.7 | 213.5 |
| Depre./amort. | 14.9 | 16.3 | 20.8 | 21.8 | 24.6 |
| Net int. paid | (5.2) | (5.5) | (10.1) | (6.2) | (6.3) |
| Tax paid | (9.3) | (21.2) | (27.9) | (35.4) | (41.8) |
| Dividends received | - | - | - | - | - |
| Gross cashflow | 106.2 | 98.9 | 124.9 | 147.9 | 189.9 |
| Chgs. in working cap. | (34.4) | 14.1 | (30.0) | (6.7) | (54.3) |
| Operating cashflow | 71.8 | 113.0 | 94.9 | 141.2 | 135.6 |
| Capex | (17.1) | (102.0) | (170.0) | (230.0) | (30.0) |
| Free cashflow | 54.6 | 11.0 | (75.1) | (88.8) | 105.6 |
| Dividends paid | (17.4) | (17.3) | (17.3) | (20.1) | (24.7) |
| Net distribution to MI | - | (0.8) | (0.8) | (0.9) | (1.2) |
| Investments | - | - | - | - | - |
| Disposals | 3.0 | 52.0 | 2.0 | 2.0 | 2.0 |
| New shares | - | - | - | - | - |
| Others | 97.7 | 182.1 | 14.1 | (0.8) | (54.9) |
| Net cashflow | 137.9 | 226.9 | (77.1) | (108.7) | 26.9 |
| Net (debt)/cash - Beg. | 53.3 | 106.3 | 211.5 | 219.9 | 174.6 |
| Net (debt)/cash - End. | 191.2 | 333.2 | 134.4 | 111.2 | 201.4 |
| Interim Results (RMBm) | 05A | 06A | | | |
| Six months to Dec | | | | | |
| Turnover | 159.1 | 223.4 | | | |
| % chg | 23.1 | 40.4 | | | |
| Profit from operations | 56.4 | 72.1 | | | |
| Interest expenses | (3.5) | (6.9) | | | |
| Associates | 1.1 | - | | | |
| Jointly-controlled entit. | - | - | | | |
| Pre-tax profit | 54.0 | 65.2 | | | |
| Tax | (9.7) | (11.6) | | | |
| Minority interests | (3.2) | (3.0) | | | |
| Net profit | 41.1 | 50.6 | | | |
| % chg | (0.7) | 23.0 | | | |
| EPS (RMB) - Basic | 0.088 | 0.108 | | | |
| DPS (RMB) | - | - | | | |
| Shareholding Structure | Shares o/s (m) | % | | | |
| Lin Wan Qiang, Chairman | 368.3 | 66.6 | | | |
| FMR Corp | 23.4 | 4.2 | | | |
| Public | 161.4 | 29.2 | | | |
| Total | 553.2 | 100.0 | | | |
| Background | Sinotronics is an integrated printed circuit board (PCB) manufacturer. The company offers a full range of solutions including single to multi-layered PCB, flexible PCB and PCB assembly services. The company has three production facilities located in China, namely Fuqing, Mawei and Huizhou. | | | | |
| Key Ratios | 04A | 05A | 06F | 07F | 08F |
| Net gearing (%) | 41.3 | 57.2 | 20.9 | 14.3 | 20.3 |
| Net ROE (%) | 18.8 | 14.6 | 16.4 | 16.6 | 17.0 |
| EBIT ROCE (%) | 19.3 | 14.5 | 15.5 | 15.7 | 17.7 |
| Dividend payout (%) | 19.8 | 21.6 | 20.0 | 20.0 | 20.0 |
| Effective tax rate (%) | 14.2 | 17.4 | 18.4 | 19.0 | 17.4 |
| Net interest coverage (x) | 20.4 | 18.7 | 12.7 | 24.2 | 29.7 |
| A/R turnover (days) | 160.7 | 162.3 | 160.0 | 162.0 | 162.0 |
| A/P turnover (days) | 51.8 | 76.8 | 82.3 | 84.9 | 84.2 |
| Stock turnover (days) | 22.4 | 27.3 | 26.0 | 26.0 | 26.0 |

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. If you would like to access our research reports and know more about our services, please contact Raymond Jook, Head of Research, on (852) 2533 3715 or raymondjook@softbank.com.hk. Find our research on: sbie2capital.com, thomsononeanalytics.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

SBI E2-Capital ratings distribution: STRONG BUY/BUY: 28(62%), HOLD: 7(16%), SELL: 10(22%) as of 1 July 2006.

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