

## Regent Manner: A niche value play

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**Recommendation: Not Rated**

**China Industrials**

<b>Price</b>	<b>HK\$1.25</b>	<b>Yield (12/07A)</b>	11.2%
<b>12 mth range</b>	HK\$0.79-3.03	<b>ROE (12/07A)</b>	33.3%
<b>Market cap.</b>	US\$160.9m	<b>Net gearing (12/07A)</b>	Cash
<b>No. shares o/s</b>	1,000.0m	<b>Net debt/sh. (12/07A)</b>	Cash
<b>Daily t/o, 3 mth</b>	US\$0.4m	<b>BV/sh. (12/07A)</b>	US\$0.16
<b>Free float %</b>	26.5%	<b>Consensus EPS</b>	
<b>Major shareholder</b>	TSM – 73.5%	<b>- 12/08F</b>	US\$0.053
<b>Ticker</b>	1997.HK/ 1997 HK	<b>- 12/09F</b>	US\$0.062

### Key points:

- Niche player specializing in control boards for TFT LCD panels.
- Aggressive LCD capacity expansion prompted by shortages in 2007 to fuel demand for control boards.
- Co-location and aggressive capacity expansion – development strategy.
- Increasing number of production lines - good indicator of growth.
- Undemanding 3.5x historical P/E with a 11.2% dividend yield.

**A leading SMT provider.** Regent Manner International Holdings (RMIH) is a provider of professional surface mounting technology (SMT) solutions, specializing in control boards for TFT LCD panels. Its main clients are Taiwan-based panel makers such as AUO (accounting for 65.0% of RMIH's FY12/07 turnover), Chi Mei (13.0%) and Innolux (10.0%). RMIH offers turnkey and consignment services. In turnkey projects, the company is responsible for the procurement of components and production. For consignment projects, customers provide raw materials and components while RMIH handles the production part.

**Table 1: Major customers**

Clients	Description
AU Optronics	The world's top 3 TFT-LCD panel maker
Innolux Display	Member of Foxconn Group and the world's second largest LCD monitor assembler
Chi Mei Optoelectronics	The world's fourth largest TFT-LCD panel maker
BOE Technology	The largest TFT-LCD panel maker in China
Proview International	The world's top 5 LCD monitor manufacturer
AmTRAN Technology	The world's top 5 LCD TV manufacturer
USC Corporation	A professional electronics manufacturer

Source: Company data

**Competitive strengths.** Specialization is the company's major competitive edge. Around 90.0% of its turnover comes from control boards for TFT LCD panels and RMIH is the largest player in this niche market (around 16.0% globally) which enables it, despite being relatively small compared to EMS companies, to enjoy industry expertise and economies of scale, especially in components sourcing,

**Development strategy.** The company expands through co-location, establishing plants in the proximity to its customers. The TFT LCD panel market was plagued by shortages in 2007, which prompted panel makers to expand their capacity. To keep apace, RMIH also plans to boost its capacity by adding 25 production lines in FY12/08 and 15 in FY12/09.

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**Table 2: Plants and major customers**

Location	Target customers	Complete construction	Commence operation
Dongguan	Innolux, USC	n.a.	n.a.
Suzhou	AUO, BOE, AmTRAN	n.a.	n.a.
Nanjing	Toppoly, Inventec, Siemens	n.a.	n.a.
Ningbo	CMO, Proview, TPV	n.a.	n.a.
Xiamen	AUO	Sep 2007	n.a.
Foshan	CMO	Mar 2007	Aug 2008
Tianjin	a Korean manufacturer	2008	2009
Beijing	BOE	2008	2009
Chengdu	BOE	2008	2009
Wuhan			To be set up soon
Dalian			To be set up soon

Source: Company data

**Indicator of growth.** With the company's close cooperation with customers and effectiveness in adding new capacity (usually one-month construction plus one-week test operation for a new line), we believe RMIH's sales trends can be observed via its capacity expansion plans.

**Table 3: Capacity expansion (no. of production lines)**

Location	2006	2007	2008F	2009F
Dongguan	27	31	31	31
Suzhou	37	48	53	53
Nanjing	2	2	7	8
Ningbo	10	13	18	22
Xiamen	0	5	10	15
Foshan	0	0	5	10
<b>Total</b>	<b>76</b>	<b>99</b>	<b>124</b>	<b>139</b>

Source: Company data

**Margin trend.** In view of strong demand, we expect the company's gross margin to be relatively stable in the next two years. Some pressure may come from potential sales mix changes and a shift to lower-margin (about 10%) turnkey services from consignment services (margin of 25.0%). At present, turnkey services represent around 80.0% of RMIH's total capacity.

**FY12/07A results review.** Turnover surged 57.4% to US\$431.5m thanks to capacity expansion and increased orders from key customers including AUO, Innolux and Chi Mei. RMIH added 23 new production lines during the year mainly in Suzhou, Ningbo, Xiamen and Dongguan. As a result, gross profit increased 60.7% to US\$55.4m and the gross margin widened 0.2pcp to 12.8%. Net profit jumped 69.5% to US\$40.3m.

**Table 4: Annual results**

12 months to Dec	Turnover (US\$m)	Gross profit (US\$m)	Gross margin (%)	Pre-tax profit (US\$m)	Tax rate (%)	Net profit (US\$m)	EPS (US\$)	DPS (US\$)
FY06	274.1	34.5	12.6	24.7	3.7	23.8	0.032	Na
FY07	431.5	55.4	12.8	44.8	10.0	40.3	0.046	0.018
YoY (%)	57.4	60.7		81.4		69.5		

Source: Company data

**Corporate governance.** The company was listed on the HKEx via a global offering in Jul 2007 (250.0m new shares at HK\$1.68 each). Taiwan Surface Mounting Technology (TSM) holds 73.5% in RMIH and Mr. Wu, chairman of both listcos, 5.8% in TSM. TSM was suspended from trading between 30 Nov 2007 and 9 Jan 2008, due to resignation of its directors, qualified accountant and company secretary.

**Attractive valuation and dividend yield.** Currently, RMIH is trading at 3.5x FY12/07A P/E and 3.0x FY12/08F P/E, while its parent, TSM, which listed on the Taiwan Stock Exchange in 2004, is trading at P/E of 7.4x. Despite its strong fundamentals, the share price plummeted in the beginning of this year due to restructuring-related uncertainties. This makes RMIH very appealing compared with its SMT peers' average current P/E of 9.7x, PCB peers' 7.7x and LCD panel peers' 8.1x. A final DPS of HK\$0.14 was proposed, implying an attractive yield of 11.2%.

**Table 5: Peer comparison**

Company	Ticker	Market Cap (US\$m)	P/E (x)		ROA (%)	ROE (%)
			Current	1-yr Fwd		
<b>SMT companies</b>						
Fittec International	2662 HK	46.1	na	na	6.2	8.1
TSM	6278 TT	281.5	7.4	5.0	14.8	23.9
Universal Scientific	2350 TT	531.5	7.8	5.8	5.9	11.7
Info-Tek Tech	8183 TT	49.7	na	na	0.7	1.3
Nan Ya Printed Circuit	8046 TT	2,599.3	9.3	8.8	na	na
Hon Hai Precision	2317 TT	34,504.8	14.4	12.3	14.5	26.2
FDK Corp	6955 JP	143.5	na	na	0.2	na
<i>Average</i>			9.7	8.0		
<b>PCB companies</b>						
Kingboard	1888 HK	1,516.4	5.6	5.0	14.0	34.9
Nan Ya Plastics Corp	1303 TT	18,169.5	9.3	9.4	13.6	21.4
Eternal Chemical	1717 TT	865.7	8.1	7.8	10.5	18.4
<i>Average</i>			7.7	7.4		
<b>LCD panel companies</b>						
AUO	2409 TT	14,548.1	5.8	6.9	na	na
Chi Mei	3009 TT	9,062.9	5.7	6.9	1.0	2.4
Innolux	3481 TT	7,082.6	13.7	10.9	na	na
LG Philips	034220 KS	16,365.4	7.1	9.2	10.3	17.7
Samsung Electronics	005930 KS	84,502.9	na	8.7	14.4	18.5
<i>Average</i>			8.1	8.5		

Source: Bloomberg and SBI E2-Capital

**Table 6: P&L**

Year to Dec (US\$m)	05A	06A	07A
Revenue	203.6	274.1	431.5
Cost of sales	(187.1)	(239.6)	(376.1)
Gross profit	16.5	34.5	55.4
Other income and gain	0.3	1.4	3.1
Selling and distribution costs	(0.5)	(0.7)	(1.2)
Administrative expenses	(4.6)	(7.3)	(10.8)
Other expenses	(0.1)	(1.0)	(0.6)
Finance costs	(1.5)	(2.2)	(1.1)
Profit before income tax	10.1	24.7	44.8
Income tax	(1.0)	(0.9)	(4.5)
Profit for the year attributable to equity holders of the parent	9.1	23.8	40.3
Dividend	0.0	0.0	18.0
EPS (US\$)	0.0121	0.0317	0.0464

Source: Company data