

## Regent Manner International Holdings

### In a favorable business trend

#### to summarize...

- RMIH is a SMT specialist, concentrating on LCD panel control boards, LED light bars and TV main boards, which are mainly used in PCs and TVs.
- The company offers clients cost effective solutions to replace their in-house SMT capacities.
- Boosted by favourable development of both PC and LED TV market, sales surged 50% in the first eleven months of this year.
- Such satisfactory performance is expected to extend into FY12/11F with push from organic growth of both PC and LCD TV market, increasing outsourcing by major customers and newly launched TV main board business.
- Enlarging economy of scale will offset cost pressure and stabilize the company's gross margin.
- 48% and 21% top line growth are projected in our preliminary estimates for FY12/10F and FY12/11F. Net profit will rise 34% and 14%, respectively, to US\$74m and US\$85m.
- Valuation is undemanding at 6.9x one-year forward P/E with 6%+ dividend yield.
- US\$80-100m capex is need for the next year.

**A SMT specialist with principal operation related to PC and LCD TV.** Headquartered in Suzhou, Jiangsu province, Regent Manner International Holdings (RMIH) is specialized in surface mounting technology (SMT) solutions and concentrated in selective segments – LCD panel control boards (CB), LED light bars (LB) and TV main boards (MB). The three segments contributed 57%, 41% and 2%, respectively, of total revenue in 3Q FY12/10A. RMIH's parent is Taiwan Surface Mounting Technology (TSMT, 6278 TT), which, although also engaged in SMT operation, serves mainly Taiwan market and acts sometimes as a technology incubator.

**Table 1. Business summary**

Segment	LCD panel control board	LED light bar	TV main board
Year of launch	Since establishment	2008	Mar 2010
Proportion to revenue	57%	41%	2%
Monthly output	~12m pieces	~6m pieces	~0.32m pieces
ASP	US\$4+	US\$5+	US\$9+
Gross margin	12%	8%+	6%+
Major clients	AUO, CMO, Samsung	Radiant, Coretronic, Towa, and Nano-OP	Haier, Hisense

Source: Company data

**The only sizable player in the market.** Entry barriers to the industry are low and electronic manufacturing service (EMS) firms usually have their own SMT lines. RMIH probably is the only sizable independent player in the market now. Accordingly to our estimates, the company's output of CB and LB accounts for ~25% and ~30% of the world's total, respectively. Its core competitiveness relies on scale, specialization and management efficiency, which allows it to provide cost effective SMT solutions to replace those in-house capacities and, thus, create demand.

**A sustainable growth model.** By carefully expanding product portfolio and client base, RMIH is able to grow its business continuously. The company launched LB business in 2008 and MB in 2010, apart from the original CB business. Sequentially, its turnover was enlarged from US\$432m in FY12/07A to US\$1,037m in the first

Ticker	1997 HK
Rating	Not Rated
Price (HK\$)	4.00
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	3.30-4.40
Market cap. (US\$m)	512.8
Daily t/o (US\$m)	0.3
Free float (%)	25.8

#### Financial summary

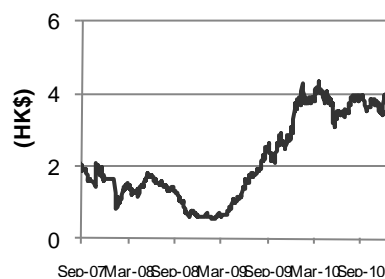
Year to Dec	07A	08A	09A
Turnover (US\$m)	432	456	773
Net Profit ( US\$m)	40	37	55
EPS ( US\$)	0.070	0.037	0.055
P/E (x)	7.3	13.9	9.3
P/B (x)	3.16	2.86	2.36
EV/EBITDA (x)	9.6	9.5	6.7
Yield (%)	3.5	3.8	4.3
ROE (%)	24.9	21.5	27.8
ROCE (%)	23.6	20.6	26.4
N. Gear. (%)	cash	cash	cash

Source: SBI E2-Capital

	10F	11F	12F
Consensus EPS (US\$)	0.075	0.103	0.120
Previous earnings (US\$m)	-	-	-
Previous EPS (US\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+18.3	+2.1	+2.7
Actual price changes (%)	+15.3	+6.7	+12.7



Source: Bloomberg

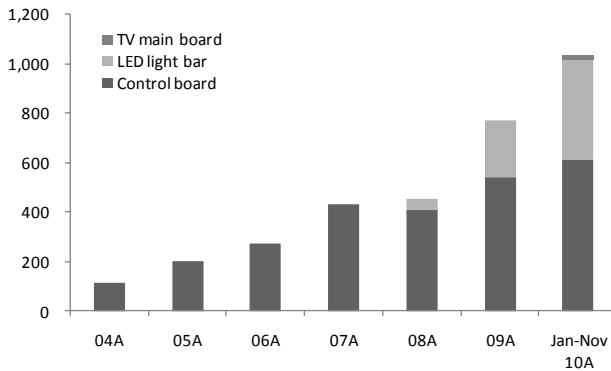
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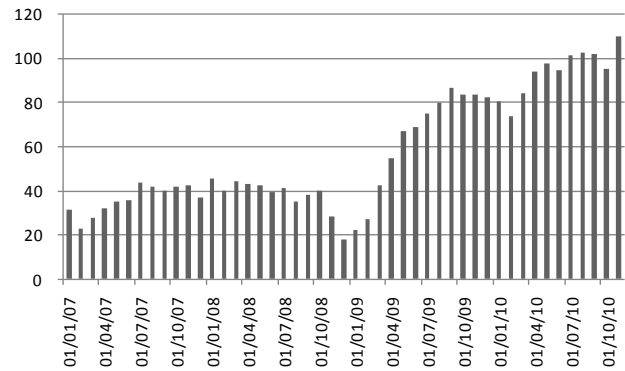
eleven months of FY12/10A. New products in pipeline, for time being, include display control board for white goods and LED lamp.

Chart 1. Sales growth (US\$m)



Source: Company data

Chart 2. Monthly sales (US\$m)



Source: Company data

**Revenue up 50% in Jan-Nov.** Sales in Oct 10 dipped 7% MoM (up 13% YoY) partly due to temporary slowdown of TV market. The market rebounded quickly and RMIH's sales picked up in Nov to US\$110m, up 32% YoY. The management expects a stable Dec. Therefore, full year revenue may reach US\$1,146m, up 48% YoY. The growth was spotted in every segment owe to improving macros. Demand from TV sector is particularly strong for all the three products, which we attribute to China's "Home Appliance at Countryside" policy and increased outsourcing from TV makers.

Table 2. Sales breakdown by end applications

Year to Dec (%)	LCD panel control board		LED light bar		TV main board		Aggregate	
	1-3Q 10A	09A	1-3Q 10A	09A	1-3Q 10A	09A	1-3Q 10A	09A
TV	35	27	2	minimal	100	n.a.	23	19
Notebook	24	28	82	97			47	49
Monitor	16	21	13	2			15	15
Small-sized product	25	24	3	1			15	17
Total	100	100	100	100	100	n.a.	100	100

Source: Company data

**Growth drivers for FY12/11F.** We expect the growth to largely maintain in 2011, given: 1) a friendly business environment in the context of global economy recovery; 2) outsourcing trend under cost pressure; 3) additional contribution from the newly launched MB operation. In our preliminary calculation, RMIH will achieve 21% top line growth in FY12/11F to US\$1,395m.

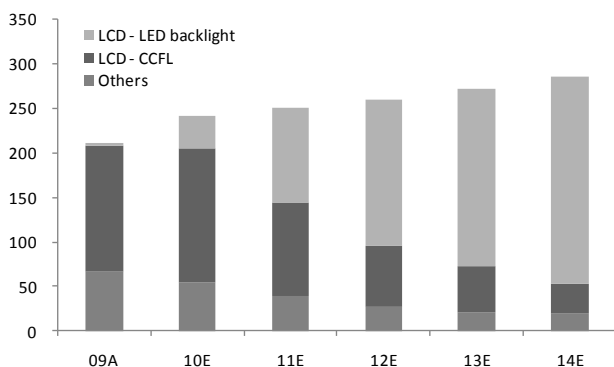
- Friendly business environment – Both PC and LCD TV markets, the two major application areas of RMIH's products, are expected to retain prosperous. Global PC shipment is anticipated to increase 14% in 2011 to 406m units while LCD TV 14% to 215m units. Among all LCD TVs, during the same period, proportion of LED backlight models will rise from 20% to 50%+ (i.e. from 37m units to 107m).
- Outsourcing trend – CMO will probably increase CB outsourcing due to high defect rate internally. RMIH currently supplies ~50% of CMO's CB. Meanwhile, Samsung will shift some TV production from Korea to China to lower manufacturing cost. RMIH is Samsung's major LB supplier (~40%) and the only Chinese supplier (out of total six) for CB.
- MB contribution – Shipment to Haier started in Mar and expanded to Hisense in Jun. Production volume jumped quickly from an average of ~120,000 pieces per month in 1H to ~500,000 pieces in Aug. Trial for several other major domestic TV brands commenced in Nov. RMIH expects the volume can increase further to 700,000-800,000 pieces a month, translating into US\$76-86m revenue a year and equivalent to ~5% of RMIH's annual turnover.

Table 3. Major growth drivers

Year to Dec	10E	11E
LCD panel control board	<ul style="list-style-type: none"> <li>• 30% growth of LCD TV</li> <li>• 20% growth of PC</li> </ul>	<ul style="list-style-type: none"> <li>• 14% growth of LCD TV</li> <li>• 14% growth of PC</li> <li>• More outsourcing by CMO</li> <li>• Samsung's shift of production from Korea to China</li> </ul>
LED light bar	<ul style="list-style-type: none"> <li>• 20% growth of PC</li> <li>• Acceptance of LED backlight TV by the market</li> </ul>	<ul style="list-style-type: none"> <li>• 191% growth of LED backlight TV</li> <li>• 14% growth of PC</li> <li>• Samsung's shift of production from Korea to China</li> </ul>
TV main board	<ul style="list-style-type: none"> <li>• New business</li> </ul>	<ul style="list-style-type: none"> <li>• More clients</li> </ul>

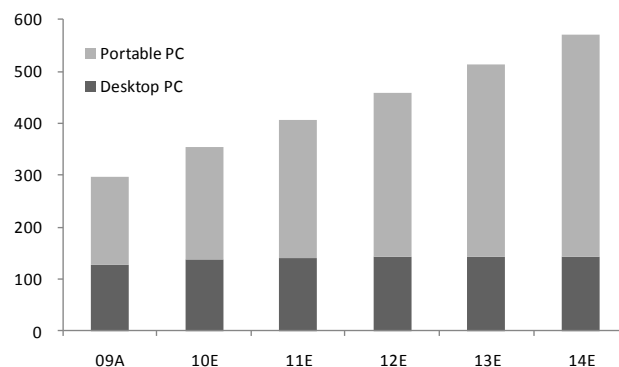
Source: SBI E2-Capital

Chart 3. Global TV shipment forecast (units m)



Source: Displavsearch. Dec 2010

Chart 4. Global PC shipment forecast (units m)

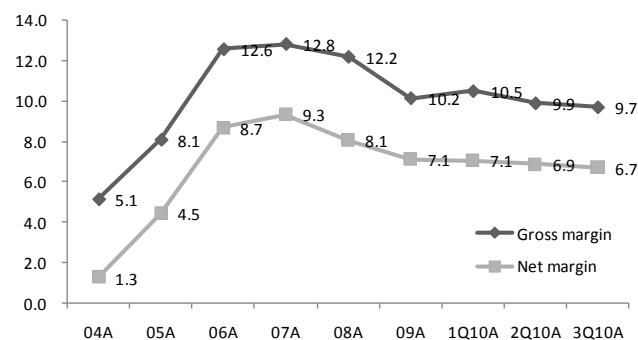


Source: IDC. Jun 2010

**Gross margin to be underpinned by economy of scale.** Blended gross margin slid consecutively in FY12/08A and FY12/09A to 12.2% and 10.2%, respectively, due to dilution from LB business launched in 2008 (gross margin: ~6%) and the outbreak of financial crisis in 2H 08. We see the rising labor cost in China (~4.5% of RMIH's COGS) and appreciating renminbi as two negative factors in short term. Nevertheless such effect should be offset by enlarging economy of scale. Notably, RMIH's gross margin of a single product is highly correlated to the production scale. As we can observe, gross margin of CB widened from 5.1% in FY12/04A to 12.8% in FY12/07A simultaneously when its revenue increased from US\$112m to US\$432m. It stayed at 12.0% in 3Q FY12/10A. Similarly, LB's gross margin improved to 8%+ from ~6% following the expanding operation.

**34% and 14% earnings growth in FY12/10F and FY12/11F.** The company raised its employee's wage twice this year in Jan and Apr, which, together with the renminbi appreciation, depressed the gross margin, which narrowed from 10.5% in 1Q to 9.9% in 2Q and 9.7% in 3Q. We expect it to stay at 9.7% in 4Q. According to the management, effective tax rate will reach 25% in 4Q (17% in 3Q), which will certainly drag down the bottom line. Therefore, we estimate net profit in 4Q FY12/10F will be US\$17m, bringing the full year number to 74m, up 34% YoY. For FY12/11F, assuming that the sales of both CB and LB will grow in tandem with market (i.e. 15% and 25%, respectively), while MB shipment will gradually increase to 700,000 pieces a month, total turnover will go up another 21% to US\$1,395m. Gross margin is expected to stabilize at 9.9% and effective tax rate will stay at 25% compared with 20% in FY12/10F. Thus, net profit will increase 14% to US\$85m.

Chart 5. Margin trend



Source: Company data

Table 4. Preliminary estimates

Year to Dec (US\$m)	09A	10E	11E
Monthly output (pieces m)			
LCD panel control board	-	12.3	14.2
LED light bar	-	6.7	8.4
TV main board	-	0.3	0.6
Revenue	773.4	1,146.3	1,395.3
LCD panel control board	541.4	647.0	744.0
LED light bar	232.0	469.2	586.5
TV main board	0.0	30.1	64.8
Gross profit	78.5	113.6	138.2
Operating profit	64.7	93.1	113.3
Net profit	55.1	74.1	84.6
Gross margin (%)	10.2	9.9	9.9
Operating margin (%)	8.4	8.1	8.1
Net margin (%)	7.1	6.5	6.1

Source: Company data, SBI E2-Capital

**Undemanding valuation with limited downside risk.** The counter is trading at 6.9x of our preliminary FY12/10F earnings forecast, which is at the lower end of the HK-listed peers group. Considering also: 1) 14% earnings growth in FY12/11F (market consensus: 34% to US\$100.5m); 2) ~45% dividend payout ratio (i.e. 6%+ yield for FY12/10F), we believe the valuation is undemanding and downside risk is limited.

Table 5. Valuation matrix

Company	Ticker	FY end	Market cap (US\$m)	Historical PER			P/BV (x)	ROE (%)
				(x)	1-year PER (x)	2-year PER (x)		
RMIH	1997 HK	12/2009	512.8	7.1	6.9	5.0	2.1	27.8
TSMT	6278 TT	12/2009	465.7	10.8	8.2	7.0	2.1	21.9
Great Wall Tech	74 HK	12/2009	572.8	7.6	n.a.	n.a.	0.8	9.6
TPV	903 HK	12/2009	1,485.7	8.3	9.9	8.7	0.9	9.8
Foxconn	2038 HK	12/2009	5,042.4	n.a.	n.a.	70.6	1.5	1.1
Ju Teng	3336 HK	12/2009	538.9	5.8	6.4	5.4	1.0	20.8
BYD Electronic	285 HK	12/2009	1,138.2	8.4	9.1	8.2	1.1	12.2
Tongda Group	698 HK	12/2009	235.7	11.4	10.0	7.5	1.2	8.1
Average				8.3	8.9	20.1	1.1	10.3

Source: Bloomberg

**Capacity expansion in plan.** As in 3Q FY12/10A, RMIH had a total of 148 production lines in seven cities in China (120 at the year beginning). Utilisation rate was high at ~90% and the company plans to add 11 new lines in 4Q 10 and 32 in 2011. Capex will be around US\$60-70m for the full FY12/10F and US\$80-100m for FY12/11F, including investment on production lines (~US\$1.3m per line) and new plants (in Suzhou and Liaobu to replace the old Suzhou and Dongguan plants). At end-Sep, there was US\$70m cash on the balance sheet together with US\$52m short-term bank loan (mainly for LC purpose). External financing seems necessary to meet the coming capex and working capital needs.

Table 6. Production lines

Year to Dec (lines)	06A	07A	08A	09A	Sep 10A	10E	11E	Co-location customers
Existing								
Dongguan *	27	31	31	30	30	30	35	AUO, CMO
Suzhou	37	48	52	60	64	70	85	AUO, Samsung
Ningbo	10	13	15	17	23	25	25	CMO
Xiamen		5	10	13	15	15	20	AUO
Hefei					6	6	10	
Qingdao					8	10	10	
Chongqing					2	3	6	
Planned								
Tianjin								Samsung
Dalian								
Chengdu								BOE, AUO
Liaobu								AUO, CMO
Total	74	97	108	120	148	159	191	

Source: Company data

**Risks mainly from market.** The company's operation is well established in our eyes. Risks related to labor / raw material cost and renminbi appreciation should be more or less manageable given its bargaining power based on scale and industry position. We reckon the major uncertainty will come from the market side.

**Table 7. Key financials**

Year to Dec (US\$m)	07A	08A	09A
Revenue	431.5	456.3	773.4
Gross profit	55.4	55.7	78.5
Operating profit	46.0	43.6	64.7
Net profit	40.3	36.8	55.1
EBITDA	53.1	53.9	75.9
Fixed assets	84.1	90.5	95.9
Inventories	23.2	15.2	39.0
Receivables	174.6	116.6	322.1
Payables	159.7	118.6	291.2
Cash	54.0	83.9	58.6
Short-term debt	12.9	12.8	13.1
Long-term debt	0.0	0.0	0.0
Shareholders' fund	162.3	179.2	216.9
Total equity	162.3	179.2	216.9
Net cash from operating activities	30.6	67.7	10.4
Net cash used in investing activities	(41.1)	(26.0)	(27.9)
Net cash from financing activities	46.7	(20.8)	(18.0)
Net change in cash and cash equivalents	36.2	20.9	(35.5)

Source: Company data

**Table 8. P&L**

Year to Dec (US\$m)	07A	08A	09A	1-3Q 09A
Revenue	431.5	456.3	773.4	832.2
Cost of sales	(376.1)	(400.6)	(694.9)	(749.0)
Gross profit	55.4	55.7	78.5	83.2
Other income and gain	3.1	4.1	1.4	0.0
Selling and distribution costs	(1.2)	(0.8)	(1.1)	(1.5)
Administrative expenses	(10.8)	(13.2)	(13.5)	(12.4)
Other expenses	(0.6)	(2.2)	(0.5)	0.7
Profit from operations	46.0	43.6	64.7	70.0
Finance costs	(1.1)	(1.3)	(0.8)	0.2
Profit before tax	44.8	42.3	63.9	70.3
Income tax	(4.5)	(5.5)	(8.8)	(13.1)
Profit for the period	40.3	36.8	55.1	57.2
Attributable to:				
Equity holders of the Company	40.3	36.8	55.1	57.2
Minority interests				
EPS - Basic (US\$)	0.070	0.037	0.055	0.057
Proposed DPS (HK\$)	0.140	0.150	0.170	-
Proposed dividend	18.0	19.3	21.9	-

Source: Company data

**Table 9. Shareholding structure**

Shareholders	Interest (%)
TSMT	73.48
Others	26.52
Total	100.00

Source: Bloomberg

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