

Sunlink Int'l: Tapping into auto-part market

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Recommendation: Not Rated

China Industrials

| | | | |
|-------------------|--|-----------------------|-----------|
| Price | HK\$0.70 | Yield (12/06A) | n.a. |
| 12 mth range | HK\$0.09-0.95 | ROE (12/06A) | 24.0% |
| Market cap. | US\$167.3m | Net gearing (12/06A) | Cash |
| No. shares o/s | 1,863.7m | Net debt/sh. (12/06A) | Cash |
| Daily t/o, 3 mth | <US\$0.8m | BV/sh. (12/06A) | HK\$0.252 |
| Free float % | 41.6% | Consensus EPS | |
| Major shareholder | Wong Shu Wing / Yeung Shew Yee – 32.5% | - 12/07F | n.a. |
| Ticker | 2336.HK/ 2336 HK | - 12/08F | n.a. |

Key points:

- Launches a tracking device called KENJI mCar Terminal to tap into the auto part market.
- Its auto-part turnover rose 823.5% YoY to HK\$109.8m in 1H FY12/07A and is likely to double in 2H.
- Leading supplier (50% of the market) of wireless modules used mainly in power meters.
- Original business remains stable.

A solution provider. Headquartered in Hong Kong, Sunlink listed on HKEX in 2003. Originally a distributor of semiconductors for consumer electronics and provider of electronic turkey device solutions, Sunlink now offers solutions for three business sectors: auto parts & devices, semiconductors, and wireless devices. Employing about 150, mostly engineers, the company owns a research center in Shenzhen and sales offices in major cities in China such as Beijing and Shanghai.

New product launched. At end-2005, the company completed the development of KENJI mCar Terminal, also known as KENJI Blackbox, which is a tracking device used in automobiles. Made of GPS and GPRS modules, it allows control centers to exactly position each vehicle under operation. According to the company, some places in China, like Shenzhen require vehicles involved in logistics, public communication and transportation of dangerous chemicals to install tracking devices. The company expects more local governments to adopt some similar policies in the future for safety reasons.

Good potential of KENJI Blackbox. Driven by KENJI Blackbox, the turnover of Sunlink's auto part & device segment increased eight fold YoY to HK\$109.8m in 1H FY12/07A. The company said its 1H sales normally account for around one third of its full year total. As the product was released to market only in 2006, we expect a quick ramp-up in sales in 2H. China's car tracking device market is still fragmented and filled with small players. Sunlink believes that KENJI Blackbox gives it a technical edge against peers and expects to corner 15% of the market by 2008, from the current 4%.

Top in wireless modules. The company supplies wireless devices and solutions, used in power metres, in a partnership with WaveCom, a leading European wireless communication company. Sunlink currently has about 50% of the market, with segmental revenue up 102.6% YoY in 1H FY12/07A to HK\$83.4m. The Chinese government aims to replace traditional power meters with wireless ones step by step in the future. To capitalize on this opportunity, Sunlink has established a joint venture with WaveCom in Jul 2007 to manufacture more cost effective wireless modules under the Sunlink brand.

Stable performance of original business. Its semiconductor & related business has been relatively stable since 2005. Segmental revenue declined 2.1% YoY to HK\$290.1m in 1H FY12/07A, accounting for 60.0% of the company's total turnover in the period. Sunlink has a diversified client base, comprising small & mid-size

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customers producing consumer electronic products such as MP3 players, toys, etc, which helps it to trace market movements. We expect the segment's performance to remain stable this year.

Valuation. We preliminarily estimate the company's total revenue at HK\$1,025.5m, up 27.0% YoY, and EPS at HK\$0.038, down 28.3% yoy due to issuance of new shares in Feb 2007. The counter is trading at HK\$0.70, representing a forward 18.4x P/E for FY12/07F, which reflects its present business mix.

Corporate governance. The company issued 60.0m new shares in 2004 at HK\$0.14 each and 114.7m new shares in 2007 at HK\$0.13 each. At present, major shareholders include Wong Shu Wing / Yeung Shew Yee Annie (32.5%), Lee Yin Yee (15.0%) and Leung Yu Ming Steven / Sin Yue Duk (9.0%).

Table 1: P&L

| Year to Dec (HK\$m) | 04A | 05A | 06A | 1H06A | 1H07A |
|---|---------|---------|---------|---------|---------|
| Revenue | 520.4 | 675.4 | 807.7 | 349.4 | 483.3 |
| Cost of sales | (467.5) | (613.7) | (727.2) | (311.5) | (417.4) |
| Gross profit | 52.9 | 61.6 | 80.5 | 37.8 | 65.8 |
| Other income | 3.2 | 8.9 | 9.7 | 1.6 | 1.6 |
| Increase in fair value in investment properties | 0.2 | 0.9 | - | - | - |
| Selling and distribution costs | (17.2) | (18.4) | (13.3) | (4.6) | (6.5) |
| General and administrative expenses | (25.3) | (32.5) | (37.3) | (18.1) | (22.5) |
| Amortization of technology know-how | (2.7) | (2.7) | - | - | - |
| Finance costs | (5.1) | (6.5) | (9.3) | (4.3) | (4.0) |
| Share of results of an associate | - | - | - | - | (0.0) |
| Profit before taxation | 6.1 | 11.3 | 30.2 | 12.4 | 34.4 |
| Income tax expense | (0.3) | (1.7) | (4.8) | (2.4) | (7.0) |
| Profit after tax | 5.8 | 9.6 | 25.3 | 10.0 | 27.4 |
| Minority interest | (0.0) | 0.0 | (0.1) | (0.0) | (0.0) |
| Net profit | 5.8 | 9.6 | 25.3 | 10.0 | 27.4 |
| Dividend | - | - | - | - | - |
| EPS - Basic (HK\$) | 0.013 | 0.020 | 0.053 | 0.021 | 0.017 |
| EPS - Diluted (HK\$) | 0.013 | 0.020 | 0.053 | 0.021 | 0.017 |

Source: Company data