

# Starlite

## Waiting for recovery

Not Rated

### Financial summary

Year to Dec	06A	07A	08F	09F	10F
Turnover (HK\$m)	1,128.01	1,170.6			
Net Profit (HK\$m)	32.5	44.1			
EPS (HK\$)	0.076	0.103			
EPS Δ%	4.3	35.5			
P/E (x)	3.9	2.8			
P/B (x)	0.05	0.29			
EV/EBITDA (x)	2.9	2.5			
Yield (%)	10.3	10.3			
ROE (%)	9.0	10.9			
ROCE (%)	18.6	20.2			
N. Gear. (%)	47.9	44.5			

Source: SBI E2-Capital

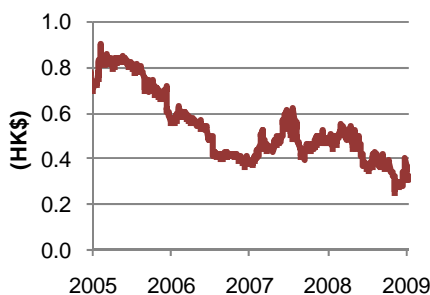
### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+11.9	+10.0	-34.1
Actual price changes (%)	+12.8	+7.3	+12.6

	08F	09F	10F
Consensus EPS (RMB)	n.a.	n.a.	n.a.
Previous forecasts (RMBm)	n.a.	n.a.	n.a.
Previous EPS (RMB)	n.a.	n.a.	n.a.

### Price Chart



Norman Zhang

(852) 2533 33715

normanzhang@sbie2capital.com

Ticker:	0403.HK	12 mth range:	HK\$0.25-0.56
Price:	HK\$0.29	Market cap:	US\$18.9m
Target:	n.a.	Daily t/o, 3 mth:	<US\$0.1m
		Free float %:	45.3%

### Key points:

- \* A long history player in printing industry.
- \* Satisfactory growth in 1H FY03/09A.
- \* Short-term pressure from economy slowdown.
- \* Above-average operating efficiency suggesting competitiveness for long term.
- \* Undemanding valuation.

**Long history printer.** Since its establishment in 1970 by Mr. Lam Kwong Yu, the chairman, Starlite has been engaged in printing business for more than 30 years. The company now has five plants located in Suzhou, Guangzhou, Shenzhen, Shaoguan and Singapore, with two major business lines: consumer package (core operation) and paper products.

**Satisfactory interim results.** Turnover rose 26.1% in 1H FY03/09A to HK\$789.1m. Gross margin was stable at 21.3% compared to 21.9% one year earlier. Operating profit increased 26.9% to HK\$56.6m and net profit 38.8% to HK\$41.0m, thanks to reduction in finance expenses.

**Short term outlook blurred.** We believe the entire printing industry is at its downside cycle-arm given the weakening in industrial production activities during the slowdown is pulling down demand for printing and packaging services. Although, according to our talking with several manufacturing companies, orders came back in Dec and Jan after silent Oct and Nov, it is more likely due to inventory restocking instead of demand recovery, in our view. Hence we expect a weak second half compared to the first one. However FY03/10F is uncertain, largely relying on the macro environment.

**Competitive strength.** We expect improvement in FY03/11F along with the economy recovery starting from 2010. Starlite had above-average gross margin, net margin and ROE in the past three years. After discussion with management, we think reasons might include:

- Diversified client base – the company has various customers from different industry.
- Skillful labor force – this allows the company to add more craftsmanship element into its work.
- Optimized plants locations – operation in Shaoguan brings down overall costs, though higher transportation expenses.

We think these competitive strengths will ensure the company's long term prospect.

**Table 1: Profitability comparison**

Company	Ticker	Fiscal year	Gross margin	EBITDA margin (%)	Net margin (%)	ROE (%)	Net gearing (%)*
Starlite	403 HK	03/2008	21.9	12.7	3.8	10.9	46.8
Chung Tai	55 HK	03/2008	17.1	8.7	5.4	5.8	Cash
Hung Hing	450 HK	03/2008	15.7	9.7	(0.5)	(0.8)	3.1
New Island	377 HK	03/2008	19.5	11.2	1.4	2.7	64.0
Midas	1172 HK	12/2007	19.2	0.3	(4.0)	(5.6)	19.7
Average			18.7	8.5	1.2	2.6	32.3

Source: Companies data, Bloomberg

Note: \* net gearing is based on the latest fillings.

**Leveraged balance sheet but still healthy.** We reckon players with healthy balance sheet will be less affected by the slowdown because: 1) Printing companies usually employ financial leverage to boost ROE. The credit crunch following financial crisis is testing their cash flow and ruling out weak ones. 2) Despite the contraction, momentum still remains in some sub-sectors such as staples. Companies with more resources can better capitalize on these opportunities by expanding capacities in selected areas. Startlite had a net gearing of 46.8% at end-Jun. According to the management, it needs slightly more working capital (longer A/R and shorter A/P) during the slowdown and also will repay around HK\$6m bank loan each month, which should be well covered by cash reserve (HK\$103.3m at end-Jun) and operating cash inflow.

**Corporate governance.** The company got listed in HK stock exchange in 1993. Mr. Lam Kwong Yu is the founder and chairman, owning 55.0% interest in the company.

**Valuation.** The counter is trading at 2.4x historical P/E, the lowest among industry peers. The company has been constantly paying out dividend (FY03/08A: HK\$0.03; 1H FY03/09A: HK\$0.01).

**Table 2: Valuation comparison**

Company	Ticker	Fiscal year	Mkt. Cap (US\$m)	P/E (x)	P/B (x)	ROE (%)	Net gearing (%)
Starlite	403 HK	03/2008	21.8	2.8	0.35	10.9	44.5
Chung Tai	55 HK	03/2008	91.5	77.8	0.92	5.8	cash
Hung Hing	450 HK	03/2008	131.5	18.8	0.33	(0.8)	38.3
New Island	377 HK	03/2008	9.7	6.7	0.25	2.7	73.3
Midas	1172 HK	12/2007	13.0	n.a.	0.17	(5.6)	23.8
Average				26.5	0.40	2.6	44.4

Source: Companies data, Bloomberg

**Table 3: P & L**

Year to Mar (HK\$m)	06A	07A	08A	1H 08A	1H 09A
Revenue	907.1	1,128.0	1,170.6	626.0	789.1
Cost of sales	(700.5)	(881.4)	(914.8)	(489.1)	(620.9)
Gross profit	206.5	246.6	255.9	136.9	168.2
Other gain - net	1.6	0.4	2.0	0.7	2.9
Other income					1.0
Selling and distribution costs	(50.4)	(62.9)	(64.2)	(30.4)	(33.7)
Administrative expenses	(90.7)	(125.2)	(121.2)	(62.6)	(81.8)
Operating profit	67.0	58.9	72.4	44.6	56.6
Finance costs - net	(13.4)	(17.3)	(15.3)	(8.0)	(7.1)
Profit before taxation	53.6	41.6	57.1	36.6	49.5
Income tax expenses	(22.5)	(9.1)	(13.0)	(7.0)	(8.5)
Profit for the period	31.1	32.5	44.1	29.5	41.0
Attributable to:					
Equity holders of the Company	31.1	32.5	44.1	29.5	41.0
Minority interests	0.0	0.0	0.0		
EPS - basic (HK\$)	0.073	0.076	0.103	0.069	0.085
EPS - diluted (HK\$)	0.073	0.076	0.103	0.069	0.085
Proposed DPS (HK\$)	0.030	0.030	0.030	0.015	0.010

Source: Company data

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [sbie2capital.com](http://sbie2capital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com) and [multex.com](http://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 Securities 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 Securities Limited 2008. All rights reserved.