

Launch Tech



Fundamentals intact despite US slowdown

BUY (unchanged)

Fundamentals intact. We discussed with the management yesterday about the potential impact of US slowdown and the company's performance in 2008. According to the management, the company has not yet observed any market contraction. In addition, it expects the slowdown to shift consumer from first-hand cars to second-hand ones, which will potentially stimulate demand for diagnostic products.

China Industrials

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FY12/08F outlook. The management also shared its 1H performance with us.

- Sales of X431, the company's core product, stays in good shape. Around 5,000 units were shipped in 1Q and full-year target maintains unchanged at 25,000, versus 22,000 in FY12/07A. The new X431 Daigun has been released. It will probably bring surprise to this year and become a driver to the next year. The company faces substantial exposure to US\$/RMB exchange rate, as half of its turnover comes from overseas market, especially US. To reduce renminbi appreciation impact, the company raised its selling price of X431 by an average 15.0% (in US\$) on 1 Jun. Consequently full-year gross margin will be stable at 60.0% level.
- DIY products, including CRecorder and CReader, are well accepted by the market. The company expects to sell total 150,000 units in the whole year of FY12/08F. Related fee-based online consulting service will officially launch by the end of this year to enrich the company's service.
- The company sold 3,000 units of automobile lift in 1Q FY12/08A. Full-year target is 16,700 units, 47.1% higher than the actual sales volume (11,350 units) last year. However, due to the soaring steel cost, the company expects this segment only to break even this year.
- Meanwhile, the company guided down sales target for some non-core products including wheel aligner (due to delayed launch in overseas market to wait for a new model) and injector cleaner (due to over-estimate of the market).

Corporate governance. The company will submit application for transferring from GEM to Main Board by the end of this year. The application for issuance of A-share is under process, but we do not expect any announcement in short term.

Forecast and target price. We revise down our earnings forecast for FY12/08F from RMB82.2m to RMB74.1m due to nil contribution from automobile lift segment. Considering the recent correction of equity market globally, we choose a more conservative 8.0x forward P/E ratio to build

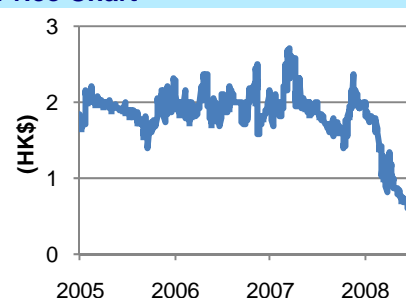
Stock data

Price	HK\$0.52
Target price	HK\$1.08 (+108%)
12 mth range	HK\$0.52-2.56
Market cap.	US\$41.1m
Daily t/o, 3 mth	US\$0.1m
Free float %	34.4%
Ticker	8196.HK/8196 HK

Financial summary

Year to Dec	06A	07A	08F	09F	10F
Net profit (RMBm)	41.1	61.4	74.1	92.2	114.3
Turnover (RMBm)	304.2	412.5	532.0	638.2	729.9
EPS (RMB)	0.074	0.109	0.123	0.153	0.189
EPS Δ %	4.2	47.3	12.6	24.5	24.0
P/E (x)	6.4	4.3	3.9	3.1	2.5
P/B (x)	0.63	0.54	0.50	0.47	0.43
EV/EBITDA (x)	6.8	4.0	3.6	2.9	2.3
Yield (%)	0.0	6.6	10.5	16.8	20.9
ROE (%)	10.9	13.0	13.6	15.6	17.9
ROCE (%)	10.9	13.1	12.4	15.9	20.8
N. Gear. (%)	52.2	31.4	13.2	cash	cash

Price Chart



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our target price for the counter. Our new target price is HK\$1.08 and we maintain our BUY recommendation.

Table 5: P&L

Year to Dec (RMBm)	06A	07A	08F	09F	10F
Sales	304.2	412.5	532.0	638.2	729.9
Automobile diagnostic devices and other equipments	231.2	302.5	337.7	405.6	474.1
Automobile lift	73.0	110.0	194.2	232.6	255.9
Cost of sales	(141.3)	(183.8)	(260.6)	(308.2)	(339.5)
Gross profit	162.9	228.7	271.4	330.0	390.4
Other income	19.8	23.7	30.6	36.7	41.9
Selling expenses	(64.9)	(74.3)	(95.8)	(115.0)	(131.5)
Administrative expenses	(37.7)	(44.6)	(57.5)	(69.0)	(78.9)
R&D expenses	(12.9)	(16.0)	(20.6)	(24.8)	(28.3)
Other operating expenses	(19.1)	(30.1)	(38.8)	(46.6)	(53.3)
Operating profit	48.1	87.4	89.1	111.4	140.4
Finance costs	(8.1)	(23.2)	(7.3)	(6.6)	(5.9)
Share of result of an associate	(1.0)	(2.7)	0.0	0.0	0.0
Profit before tax	39.1	61.5	81.8	104.8	134.5
Tax	2.0	(0.1)	(7.8)	(12.6)	(20.2)
Net profit	41.1	61.3	74.1	92.2	114.3
EPS - Basic	0.074	0.109	0.123	0.153	0.189

Source: Company data