

IPO FACT SHEET

Sprocomm Intelligence Limited (1401)

ISSUE STATISTICS

Offer Size:	HK\$125m – HK\$150m
Placement Tranche:	250m
Price:	HK\$0.50 – HK\$0.60
Board lot:	20,000
Entry fee:	HK\$12,120.92
Historical PE	10.04x – 12.05x
Net tangible asset per share:	HK\$0.29 – HK\$0.31
Market Cap (post-IPO):	HK\$500m – HK\$600m
Open:	30 Oct 2019
Close:	12.00 noon on 4 Nov 2019
Trading:	13 Nov 2019
Sponsor:	Dakin Capital Limited

Year ended 31 Dec	(RMB'000)	yoy % chg
Revenue		
2017	2,889,658	33.0%
2018	2,943,724	1.9%
Total comprehensive income for the year / period		
2017	20,677	-55.9%
2018	42,919	107.6%

BACKGROUND

- They are an ODM mobile phone supplier based in the PRC targeting emerging markets.
- According to the CIC Report, they ranked the 5th amongst all ODM mobile phone suppliers in the PRC with 3.3% market share in terms of unit shipments in 2018. Also according to the CIC Report, they had market share of 1.1% of China's total mobile phone unit shipments in 2018.
- They are primarily engaged in R&D, designing, manufacturing and sale of mobile phones and PCBAs for mobile phones on ODM basis to markets covering more than 15 countries worldwide, with strategic focus on India and other emerging markets which have growing demands and high population.
- Their customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in India, Thailand, China, other Asian countries and other parts of the world.
- During the Track Record Period, they primarily offered to their customers: (i) smartphones equipped with complete operating systems, processors, large storages, front-facing and rear-facing cameras and third-party apps; (ii) feature phones with voice calling and text messaging functionality, in addition to basic multimedia and internet capabilities; (iii) PCBAs for mobile phones sold as stand-alone products; and (iv) IoT related products including PCBAs or IoT modules for smart locks and automatic electricity meter readers.

BUSINESS STRATEGIES

- Diversification in emerging markets.
- To further strengthen their R&D capabilities to enrich their product offering.
- To expand their production capacity by setting up new SMT lines and employing more labour.
- To upgrade their ERP system to further enhance their management standards.

COMPETITIVE STRENGTHS

- They are a top ten ODM mobile phone supplier in the PRC targeting emerging markets.
- They continue expanding their customer base with stable relationship with major customers.
- They provide one-stop vertically integrated ODM services under quality management systems.

- They have strong R&D and adaptive design capabilities.
- They have an experienced, stable and dedicated management team.

KEY RISKS

- They operate in the mobile phone industry characterised by rapid technological changes with short product life cycle, and they may not be able to maintain their revenue growth and any delay by them in rolling out new and competitive mobile phones will adversely affect their financial performance.
- They may be unable to respond to rapidly changing new trends and customers' preferences for mobile phones in a cost and time efficient manner and their competitiveness will drop.
- They have a relatively thin net profit margin and hence are highly sensitive to any unfavorable change in the cost of sales, selling price and sales volume.
- They had a concentration of customers during the Track Record Period and any decrease or loss of business from these major customers could adversely and substantially affect their operation and financial conditions.
- Fluctuations in the prices of raw materials may affect their cost of sales and adversely affect their business operations and profitability.
- Potential relocation of their Shenzhen Plant and suspension of production at their Luzhou Plant due to the title defects and/or non-compliance with the environmental protection and fire protection laws and regulations.
- They may not continue to receive similar level of government subsidies, or at all, and they plan to early terminate an investment agreement relating to the operation of an R&D centre in Guizhou and may be required to return subsidies previously received.
- Challenges or downturn in economic conditions or political and regulatory uncertainties of emerging markets, in particular, India, may affect the demand for their products which could adversely affect their sales or growth.

DIVIDEND POLICY

- No fixed dividend policy.

USE OF PROCEEDS

	HK mn	As a percentage of gross proceeds from the Invitation
Increase of production capacity of PCBA assemblies in their Luzhou Plant.	44.1	46.0%
Strengthening of their R&D capabilities to enrich their product offering on both mobile phone and IoT related products.	16.1	16.8%
Strengthening their sales and marketing force to enhance their market penetration in India, broaden their customer base in emerging markets and to promote IoT related products in China.	9.8	10.2%
Upgrading their computer hardware, software and ERP system to link up product design, costs and budgeting, procurement, production planning, inventory monitoring, quality control and financial reporting functions.	6.5	6.7%
Partial repayment of mortgage loans.	10.0	10.4%
Additional working capital and other general corporate purposes.	9.5	9.9%
Total:	96.0	100.0%

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