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# Lerado

Baby strollers flying high

Company visit

HK\$1.69

Add

Generating over 40% return on core capital employed (ROCE), Lerado is a strong value creator, given a weighted average cost of capital (WACC) of about 13%. Based on discounted cash flow (DCF), the estimated fair value of Lerado is HK\$2.83, which is 68% above the current share price. We recommend an Add.

- **Strengths** - Lerado enjoys a dominating 50% share in the US stroller market. Its strong R&D capabilities enable the company to continuously introduce innovative new products. The ability to produce high-quality products at low cost in China gives Lerado a strong competitive edge.
- **Opportunities** - With the strengths mentioned above, Lerado is well-positioned to expand further in the steadily-growing US market, benefit from the outsourcing trend in Europe and explore the enormous, under-developed China market.
- **Earnings outlook** - Given steady turnover growth and margin expansion, we have a target profit increase over the next three years of 70%, from HK\$101m in 1998 to HK\$171m in 2001.
- **Financial position** - With strong operating cash flow and a prudent capital expenditure programme, net cash balance is expected to reach HK\$367m (or HK\$0.51/share) by the end of 2001.

## Core

Price

HK\$1.69  
(US\$0.22)

Market Cap

HK\$1.2bn  
(US\$157.0m)

Reuters

1225.HK

Bloomberg

1225 HK

## Frank Lai

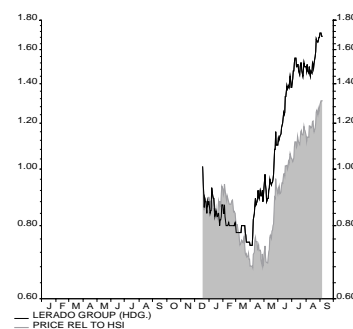
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Y/E Dec	Net	EPS			EV /						
	Profit (HK\$m)	EPS (HK¢)	Gth (%)	CFPS (HK¢)	DPS (HK¢)	PER (x)	P/CF (x)	Yld (%)	EBITDA (x)	ROCE (%)	ROE (%)
1997	74.5	14.8	N/A	10.0	N/A	11.4	16.8	N/A	15.1	88.3	62.0
1998	100.9	18.7	26.2	26.3	N/A	9.0	6.4	N/A	9.2	48.4	24.4
1999E	126.1	17.5	-6.4	13.9	7.5	9.7	12.1	4.4	7.7	47.9	25.9
2000E	147.4	20.5	16.9	20.7	8.8	8.3	8.2	5.2	6.2	50.7	25.9
2001E	170.7	23.7	15.8	28.0	10.3	7.1	6.0	6.1	4.8	58.1	25.6
Relative (%)	1M	+15.6	3M	+40.9	12M	+29.8	52 Weeks	H 1.71	L 0.74		

Sources: Company reports, Datastream, DKBR estimates

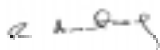
## Share price relative



Source: Datastream

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Richard Armstrong  
Director, Kleinwort Benson  
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Kleinwort Benson Securities  
(Singapore) Pte Limited



# Valuation

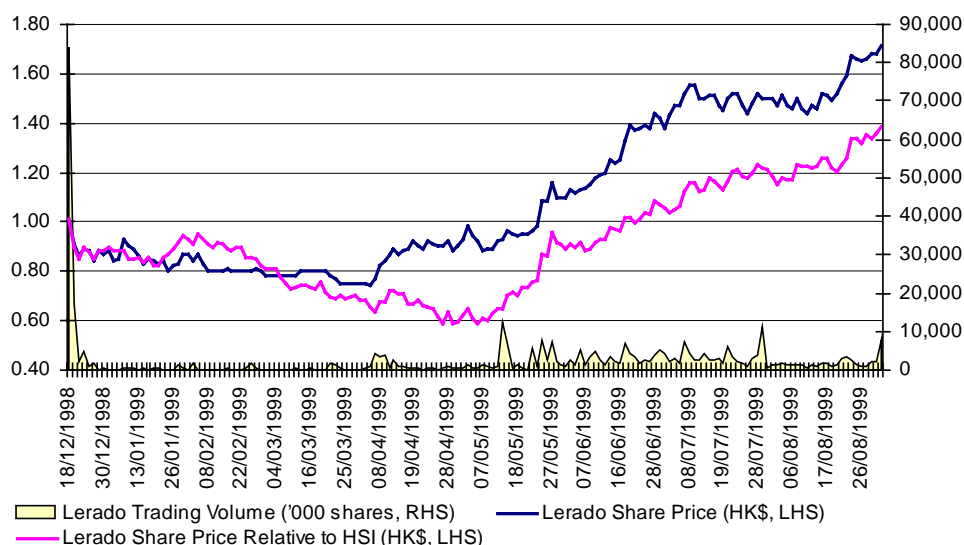
**Generating over 40% return on core capital employed (ROCE), Lerado is a strong value creator, given a weighted average cost of capital (WACC) of about 13%. Based on discounted cash flow (DCF), the estimated fair value of Lerado is HK\$2.83, which is 68% above the current share price.**

## Share price performance

70% above IPO price and over 100% outperformance in the last five months

Since listing in mid-December last year, Lerado's share price has been quite sluggish, drifting down to HK\$0.74 in early April. Both trading volume and the share price started to pick up in early May following the announcement of 1998 final results, which showed a 35% increase in net profit to HK\$101m, 6% higher than forecast in the prospectus. The share price recently hit a high of HK\$1.71, 70% above the IPO price of HK\$1.00 and outperforming the HSI by more than 100% over the last five months.

**Fig. 1.1: Share-price performance and trading volume**



Sources: Datastream and Dresdner Kleinwort Benson Research estimates

## ROCE/WACC analysis

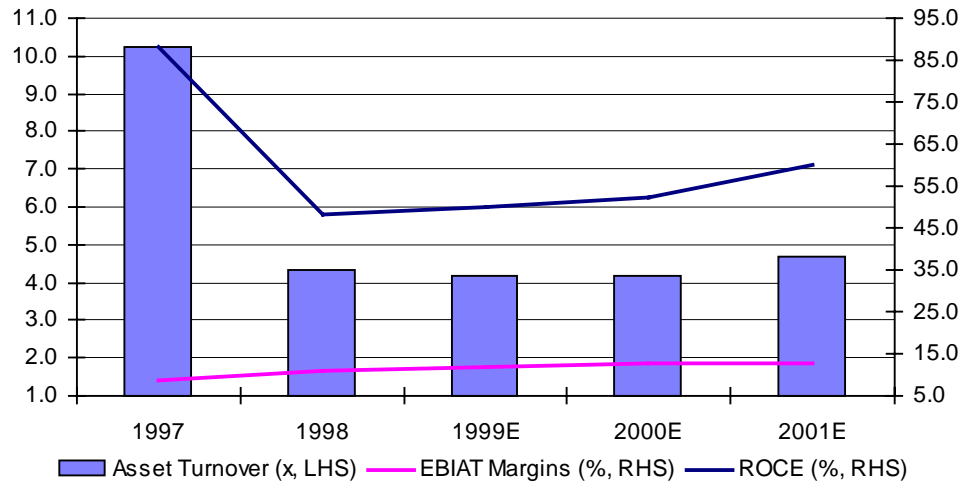
An undervalued value creator

Lerado has enjoyed a very high ROCE, which is primarily driven by the steadily increasing asset turnover and margins. A ROCE/WACC ratio of 3.7x in 1998 suggests that Lerado has been generating good value for shareholders (i.e., a value creator). Moreover, as the estimated ROCE/WACC ratio for 2000 (3.9x) is greater than the



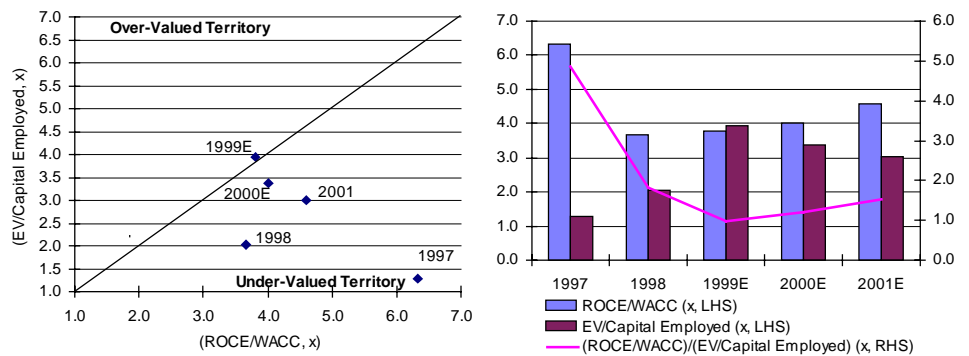
EV/Capital Employed ratio (3.3x), Lerado seems to be undervalued. In fact, the gap (between ROCE/WACC and EV/capital employed) is expected to widen in 2001.

**Fig. 1.2: ROCE analysis**



Source: Dresdner Kleinwort Benson Research estimates

**Fig. 1.3: ROCE/WACC vs. EV/capital employed**



Source: Dresdner Kleinwort Benson Research estimates

**Comparison with other export companies**

Higher valuation justified by higher returns

Compared with other listed exporters of consumer products, Lerado does not look particularly cheap in terms of PER and EV/EBITDA. This, however, may be justified by the better ROCE generated by Lerado.

**Fig. 1.4: Comparison with selected exporters of consumer products\***

	PER (x)	EV/EBITDA (x)	ROCE (%)
<b>Lerado</b>	<b>9.7</b>	<b>7.7</b>	<b>47.9</b>
Boto	4.1	3.7	24.5
IDT	5.7	3.0	42.2
Techtronic	4.2	2.0	30.1
Vtech	6.7	3.9	38.5
Yue Yuen	9.6	7.6	23.5

\* 1999 figures, annualised to calendar year for Boto, IDT, VTech and Yue Yuen.  
Sources: I/B/E/S and Dresdner Kleinwort Benson Research estimates

### DCF analysis

Fair value = HK\$2.83, 68%  
above current market price

Due to the short trading history, it is difficult to establish a meaningful valuation range (in terms of PER or EV/EBITDA) for Lerado. Therefore, we think that DCF is a better method to derive a fair value for Lerado.

The dominating market share (not less than 50%) enjoyed by Lerado in the US stroller market and the significant investments in R&D required by the infant product industry make it very difficult for new entrants (refer to SWOT analysis on page 8 for details). We therefore believe Lerado's excess ROCE of more than 40% (relative to WACC of 13%) is sustainable for at least for another two years. We have assumed prudent 8% year-on-year growth in EBIT in 2002 and 2003 and normal growth of 4% in the long-run inflation rate from 2004 to perpetuity.

Based on our DCF model, the fair value for Lerado is HK\$2.83/share, which is about 68% above the current share price.

**Fig. 1.5: DCF analysis (HK\$m)**

	At present	1999E	2000E	2001E	2002E	2003E	2004E+
<b>Operating EBIT</b>		<b>128.7</b>	<b>150.2</b>	<b>173.3</b>	<b>187.1</b>	<b>202.1</b>	<b>210.1</b>
Less: tax paid		(3.0)	(4.2)	(6.0)	(6.5)	(7.0)	(7.3)
<b>Operating EBIAT</b>		<b>125.7</b>	<b>146.0</b>	<b>167.3</b>	<b>180.6</b>	<b>195.1</b>	<b>202.8</b>
Depreciation		20.1	22.0	23.8	25.8	27.8	28.9
Working capital		(48.2)	(23.2)	4.1	4.4	4.8	5.0
Capital expenditure		(46.9)	(32.4)	(38.7)	(41.7)	(45.1)	(30.1)
<b>Operating Free Cash Flow</b>		<b>50.7</b>	<b>112.5</b>	<b>156.6</b>	<b>169.1</b>	<b>182.6</b>	<b>206.7</b>
Discounted at WACC (%)		13.1	13.1	13.1	13.1	13.1	13.1
<b>Present Value</b>		<b>48.6</b>	<b>95.4</b>	<b>117.5</b>	<b>112.1</b>	<b>107.1</b>	<b>1,326.0</b>
Assumed annual growth of EBIT (%)					8.0	8.0	
Long-run expected inflation (%)							4.0
<b>Present Value</b>	<b>1,806.8</b>						
<b>Net (Debt)/Cash</b>	<b>212.0</b>						
<b>Other Non-Core Assets</b>	<b>16.3</b>						
<b>Fair Value</b>	<b>2,035.1</b>						
No. of shares (m)	720.0						
<b>Fair Value Per Share (HK\$)</b>	<b>2.83</b>						

Source: Dresdner Kleinwort Benson Research estimates



It may be argued that our discount rate assumptions are not conservative enough given current economic conditions. However, the sensitivity analysis in Fig. 1.6 shows that Lerado remains undervalued at more conservative discount rates.

**Fig. 1.6: Sensitivity analysis**

<b>Discount Rates (%)</b>	<b>Fair Value per share (HK\$)</b>	<b>Current Price (HK\$)</b>	<b>Fair Value/Current Price (%)</b>
Base Case As Above	2.83	1.69	67.5
14.0	2.62	1.69	55.0
15.0	2.40	1.69	42.0
16.0	2.22	1.69	31.4
17.0	2.07	1.69	22.5
18.0	1.94	1.69	14.8

Source: Dresdner Kleinwort Benson Research estimates



# Company profile

**Combining strong R&D capabilities, high product quality and a low-cost production base in China, Lerado has developed into a leading supplier of infant products (strollers, beds, soft goods etc). Including the major markets, namely US and Europe, Lerado's products now reach over 40 countries in the world.**

Founded in 1988 as an OEM manufacturer

The business was founded in 1988 by Huang Ying Yuan, Tsang Yat Kiang and Chen Hsing Shin (all are currently Executive Directors of Lerado) as a Sino-foreign joint venture to produce strollers and soft carriers on an OEM basis in a factory in Zhongshan. The company expanded into the production of baby beds in 1993 and continued to launch new products over the years.

Three factories in China

To cope with the increasing demand from customers, Lerado established new factories in Zhongshan 1992 and Shanghai in 1994. Currently, Lerado has two factories in Zhongshan and one in Shanghai. In 1995, Lerado started to explore the China market under its own registered trademark "Angel".

Attracted venture capitalists in 1996

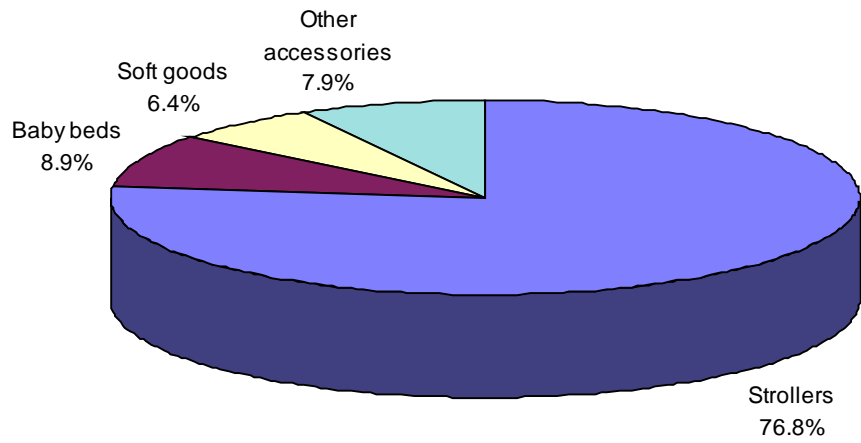
Lerado began tapping the capital market for funding in December 1996 when AIG Group and Investor AB acquired an aggregate shareholding of about 33.4% in the company. In March 1998, the two investment companies increased their shareholding in Lerado to about 36.4%, which was diluted to approximately 27.3% after the IPO in December 1998.

Main product – strollers; main market - US

Currently, strollers is the largest product category for Lerado, representing 77% of total turnover in 1998. The balance comes from baby beds, soft goods and other accessories. The US and Europe are the two largest markets for Lerado, contributing 67% and 19% to turnover, respectively, in 1998.

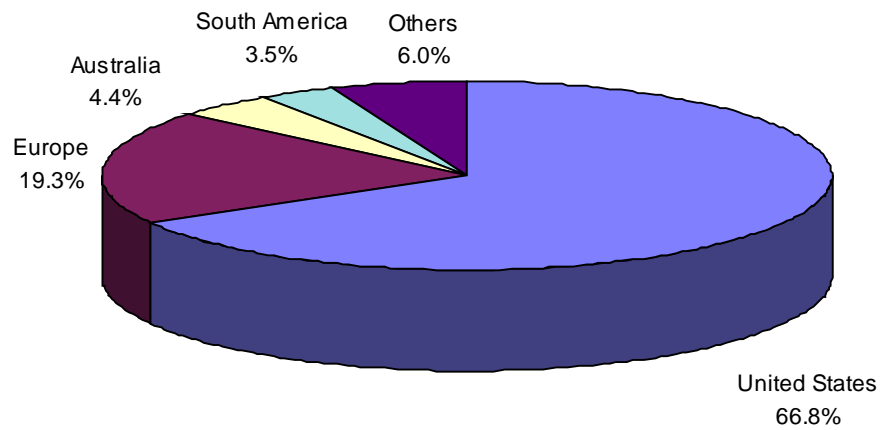


**Fig. 2.1: Breakdown of turnover by product (1998)**



Source: Lerado

**Fig. 2.2: Breakdown of turnover by market (1998)**



Source: Lerado



# SWOT analysis

## Summary

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> <li>• Dominant market share in US</li> <li>• Strong R&amp;D capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Reliance on a few key customers</li> <li>• Reliance on one major product</li> </ul>	<ul style="list-style-type: none"> <li>• US market to grow steadily</li> <li>• European market to open up due to out-sourcing trend</li> <li>• China market to offer huge potential</li> </ul>	<ul style="list-style-type: none"> <li>• Appreciation of NT dollar</li> <li>• Exposure to product liability</li> </ul>
<ul style="list-style-type: none"> <li>• Cost advantage</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of own brand name in major markets</li> </ul>		

Source: Dresdner Kleinwort Benson Research

## Strengths

Dominant market position in US

Lerado sold 3.8m strollers in 1998, in which about 85% went to the US market, giving the company more than 50% market share in the world's largest single market. Long-established business relationships (averaging six to seven years) with five of the top six brand names in US (Kolcraft, Evenflo, Century, Gerry and Graco) constitute significant entry barriers.

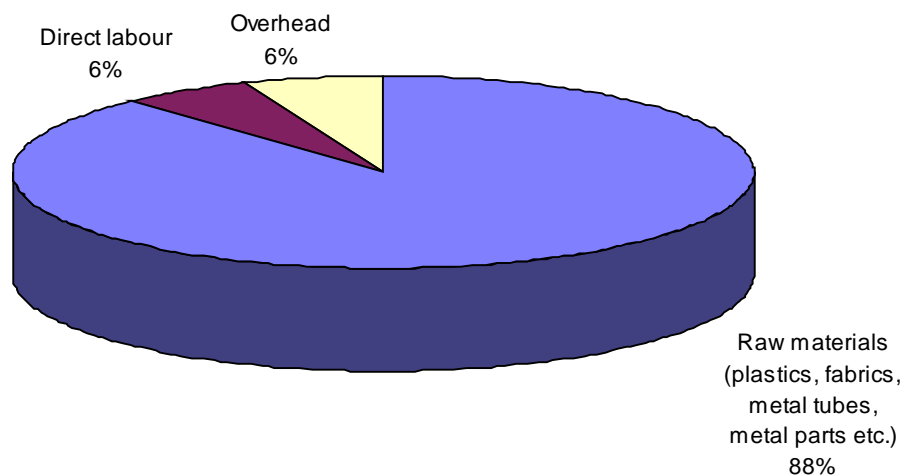
Strong R&D capabilities

One major key success factor in the infant-product market is the introduction of new products with innovative features. This is especially important for ODM manufacturers, like Lerado, which derived approximately 86% of its sales from ODM business in 1998. Having invested over HK\$100m in R&D in the last four years, Lerado owns more than 100 registered patents for over 70 product features. 62 patent applications have been filed in various jurisdictions. The company intends to spend about 2.0-2.5% of sales on R&D every year.

Cost advantage

Through economies of scale, Lerado is able to achieve better leverage on R&D expenditures and other fixed costs, giving it a cost advantage over other smaller competitors. On the other hand, as manufacture of infant products involves many labour-intensive processes (like sewing and assembling), Lerado's China-based production brings significant cost advantages over competitors in Europe and Japan.

**Fig. 3.1: Breakdown of 1998 cost of goods sold**



Source: Lerado

### Weaknesses

Reliance on a few key customers

The consolidation of the US infant product industry in recent years has increased Lerado's reliance on the top three customers, namely Evenflo, Kolcraft and Century, which accounted for approximately 50% of turnover in 1998. Moreover, the top five customers contributed to about 60% of sales in 1998. Although we do not expect these key customers to change the purchase levels from Lerado significantly in the foreseeable future, their bargaining power is likely to increase. Lerado intends to diversify its customer base by stepping up development of the European market.

One major product

As strollers accounted for over 70% of turnover in 1998, any significant slowdown in the stroller market will have adverse effects on Lerado. To diversify its product range, Lerado will introduce more new products, such as battery-operated ride-on cars, which target different age groups.

Absence of own brand name in major markets

In 1998, ODM and OEM businesses represented about 86% and 14% of Lerado's total sales, respectively. Without a brand name, Lerado has limited control over pricing, marketing and product strategy at the consumer level. Although Lerado currently has no intention to develop its brand name for the existing product lines, the company will develop its own brand name for the new ride-on cars. In China, Lerado will continue to sell products under its own registered trademark "Angel".

### Opportunities

US market to grow steadily

The US infant-products market appears to have matured given that the number of births and birth rates have been declining since hitting a peak in 1990. We however believe that Lerado can still achieve steady sales growth in US because:

- ▶ As late baby boomers are approaching their prime childbearing years (about 35-40), births and birth rates are unlikely to fall much further.

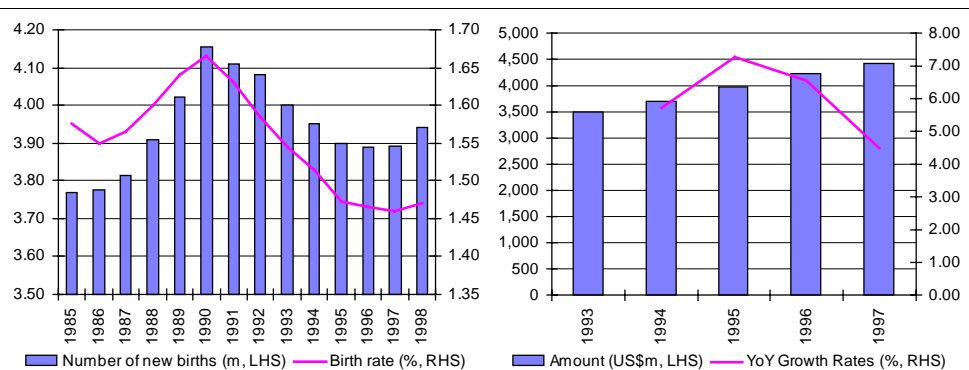


- ▶ As more women enter the workforce and tend to stay working for a longer period, household income has been increasing.

These two factors lead to higher spending per child. Indeed, retail sales of juvenile products in US have been growing at a compounded annual growth rate of 6.6% from 1993 to 1997. We think this growth rate is at least sustainable in the next three to five years, provided the US economy remains steady. To capture this opportunity, Lerado will explore the battery-operated ride-on car market, which has an estimated market size of about US\$220m (about 70% of the market size of strollers), under its own brand name.

**Fig. 3.2: US births and birth rates**

**Fig. 3.3: Retail sales of juvenile products in the US**



Source: US National Vital Statistics Reports

Source: Juvenile Products Manufacturers Association

European market to open up due to outsourcing trend

Although major European countries, such as Germany, the UK and France, have similar trends regarding birth rates and spending pattern, the European market offers much better growth opportunities to Lerado. Currently, most of the strollers sold in Europe are produced domestically. Given the high cost of production in Europe, more and more European distributors will increase outsourcing, benefiting manufacturers like Lerado, which can making high-quality products at much lower costs.

China offers huge potential

In the longer term, the Chinese market will offer huge potential for Lerado, given the 22m annual new births and low penetration of strollers. However, in the short term, Lerado will employ a very prudent strategy in China market, as low-end products still dominate the market (about two-thirds of strollers sold in China are priced below Rmb300).

**Fig. 3.4: Penetration of strollers in China and the US**

	Approximate number of strollers sold in 1998	Approximate number of new births in 1998	Penetration Rate
US	5.0m	3.9m	128.2%
China	1.5m	22.0m	6.8%

Sources: Lerado and Dresdner Kleinwort Benson Research estimates



### Threats

Appreciation of NT dollar

As about 47% of total costs of Lerado are denominated in NT\$ and 99% of sales are made in US dollar, appreciation of the NT dollar against US dollar will have adverse effects on the company. Assuming all other factors (selling prices, cost structure, etc.) remain unchanged, we estimate that 1% appreciation of NT dollar will reduce net profit by 3.4%. The company has some measures to mitigate the impact. These include:

- ▶ There is usually a clause in sales contracts that Lerado has the right to adjust the selling prices if appreciation of the NT dollar exceeds 3-5%.
- ▶ As Lerado is one of the major customers of many suppliers, it is possible to switch the settlement currency from NT dollars to other currencies, such as US dollars or Rmb.

Exposure to product liability

Safety and reliability are extremely important for infant products. It is challenging to infant producers, including Lerado, to keep up with consumers' expectations. This will not only increase the costs for product development, but also exposure to product liability. In the past, Lerado did not maintain product liability insurance, as the customers usually have their own insurance coverage. Although Lerado experienced only minor product recalls and/or sales cessations in the past, the company has decided to purchase its own product liability insurance to minimise risks.



# Earnings forecasts

**Lerado's profit is expected to increase by about 70% over the next three years, from HK\$101m in 1998 to HK\$171m in 2001.**

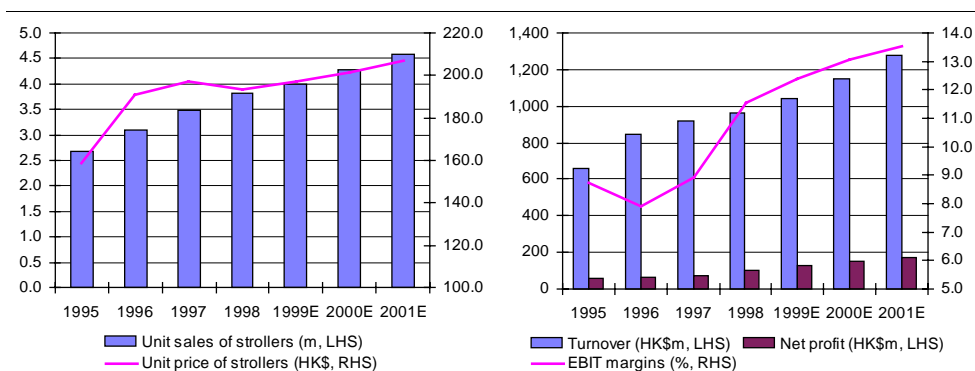
Earnings expected to grow steadily

We expect Lerado's earnings will continue to grow steadily in the coming three years, driven primarily by:

- ▶ Stroller sales are expected to grow steadily by 7-10% a year, on the back of having more high value-added models in the sales mix.
- ▶ European sales are expected to grow at 10-15% a year due to the benefits from the out-sourcing trend.
- ▶ Bed sales are expected to be back on a rising track as the negative impact of sales suspension of one bed model by an OEM customer is over.
- ▶ Core EBIT margins are expected to expand from 11.5% in 1998 to 13.6% in 2001 on the back of better margins secured by high value-added products and better leverage on fixed expenditures (economies on scale).

**Fig. 4.1: Unit sales and unit price of strollers**

**Fig 4.2: Profit trend**



Sources: Lerado and Dresdner Kleinwort Benson Research estimates



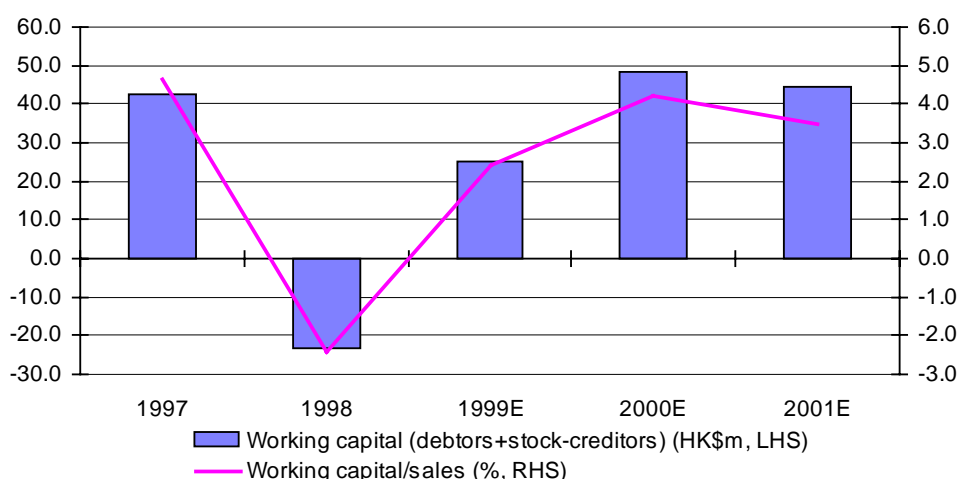
# Balance sheet & cash flow

**On the back of strong operating cash flow, net cash balance is expected to reach HK\$377m (or HK\$0.52/share) by the end of 2001.**

Sound working-capital management

Lerado has been adopting very prudent policies in working capital management. Stock days (stock/cost of sales) are expected to stay at less than 40 days in the next three years. For accounts receivable, as more than 50% of sales are made by L/C and credit terms (not more than 60 days) are only granted to major long-term customers, we do not expect debtor days to exceed 50 in the next three years. As Lerado receives 30-90 days credit from suppliers, operating cash flow has been very healthy, as reflected in very low working capital-to-sales ratios of less than 10%.

**Fig. 5.1: Working-capital analysis**



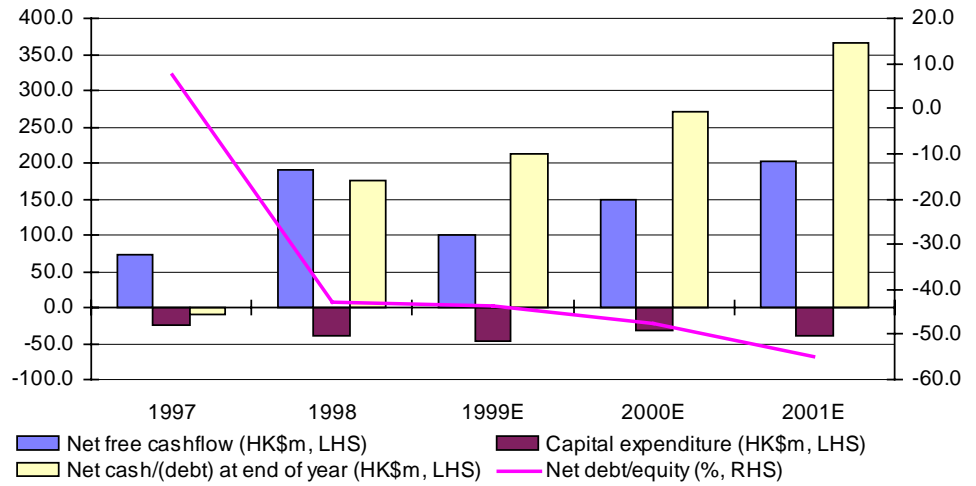
Sources: Lerado and Dresdner Kleinwort Benson Research estimates

Capex well covered by IPO proceeds and operating cash flow

To cope with business expansion, Lerado recently bought a new office premise at Shun Tak Centre in Hong Kong at a cost of approximately HK\$37m, which is partially covered by a mortgage loan. Capital expenditure on the production front is forecast at HK\$10-15m in 1999 and HK\$30-35m in 2000, which should be comfortably covered by IPO proceeds (about HK\$160m) and operating cash flow. Net cash balance is expected to climb from HK\$177m at the end of 1998 to HK\$367m (or HK\$0.51/share) in 2001.



**Fig. 5.2: Cash flow and gearing analysis**



Sources: Lerado and Dresdner Kleinwort Benson Research estimates



# Appendix 1 – Calculation of ROCE and WACC

**Fig. 6.1: Calculation of ROCE**

(HK\$m)	1997	1998	1999E	2000E	2001E
Total assets	301.7	668.6	731.2	828.0	957.3
Less: non-core assets	(19.0)	(16.7)	(16.3)	(16.3)	(16.3)
Less: cash	(22.4)	(212.7)	(239.1)	(296.2)	(390.0)
Less: accounts payable	(107.1)	(212.2)	(173.4)	(179.6)	(204.4)
Less: other current liabilities (ex-bank loans)	(63.8)	(6.3)	(44.5)	(53.0)	(62.8)
<b>Capital Employed</b>	<b>89.4</b>	<b>220.8</b>	<b>257.9</b>	<b>282.9</b>	<b>283.7</b>
Net core operating earnings	79.0	106.8	123.5	143.5	164.9
<b>ROCE (%)</b>	<b>88.3</b>	<b>48.4</b>	<b>47.9</b>	<b>50.7</b>	<b>58.1</b>

Source: Dresdner Kleinwort Benson Research estimates

**Fig. 6.2: Calculation of WACC**

	1997	1998	1999E	2000E	2001E
Equity - market cap (HK\$m)	120.2	640.8	1,216.8	1,216.8	1,216.8
% in total capital	79.3	94.7	97.8	98.0	98.1
Debt (HK\$m)	31.4	36.1	27.1	25.2	23.3
% in total capital	20.7	5.3	2.2	2.0	1.9
<b>Total Capital (HK\$m)</b>	<b>151.6</b>	<b>676.9</b>	<b>1,243.9</b>	<b>1,242.0</b>	<b>1,240.1</b>
<b>Cost Of Equity (%)</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>
<b>Cost Of Debt - After-Tax (%)</b>	<b>16.9</b>	<b>13.3</b>	<b>8.6</b>	<b>8.4</b>	<b>8.4</b>
<b>WACC (%)</b>	<b>14.0</b>	<b>13.2</b>	<b>13.1</b>	<b>13.1</b>	<b>13.1</b>
Beta (x)	0.7	0.7	0.7	0.7	0.7
Equity premium (%)	6.0	6.0	6.0	6.0	6.0
Risk free rate (%)	9.0	9.0	9.0	9.0	9.0
<b>Cost Of Equity (%)</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>

Source: Dresdner Kleinwort Benson Research estimates

**Fig. 6.3: Summary of ROCE/WACC**

	1997	1998	1999E	2000E	2001E
Return On Capital Employed (ROCE, %)	88.3	48.4	47.9	50.7	58.1
Weighted Average Cost of Capital (WACC, %)	14.0	13.2	13.1	13.1	13.1
ROCE/WACC (x)	6.3	3.7	3.7	3.9	4.4

Source: Dresdner Kleinwort Benson Research estimates

**Fig. 6.4: Summary of EV/capital employed**

	1997	1998	1999E	2000E	2001E
Enterprise Value (HK\$m)	115.9	447.4	988.5	929.5	833.8
Capital Employed (HK\$m)	89.4	220.8	257.9	282.9	283.7
EV/Capital Employed (x)	1.3	2.0	3.8	3.3	2.9

Source: Dresdner Kleinwort Benson Research estimates



# Financials

## Earnings model

Y/E Dec (HK\$m)	1997	1998	1999E	2000E	2001E
<b>Turnover</b>	<b>917.3</b>	<b>959.7</b>	<b>1,038.6</b>	<b>1,145.6</b>	<b>1,277.7</b>
Strollers	686.1	736.8	788.3	861.3	951.8
Beds	106.2	85.3	99.6	114.7	131.4
Soft Goods	45.4	61.5	70.5	79.4	89.0
Others	79.6	76.2	80.1	90.1	105.5
United States	591.7	641.0	694.3	764.1	853.5
Europe	226.6	185.0	205.1	231.4	265.8
Australia	37.6	42.7	46.2	49.3	52.4
South America	29.4	33.3	36.4	41.8	44.1
Others	32.1	57.8	56.6	59.0	62.0
<b>Gross Profit</b>	<b>244.7</b>	<b>266.1</b>	<b>298.3</b>	<b>331.2</b>	<b>370.0</b>
Gross Margin	26.7%	27.7%	28.7%	28.9%	29.0%
<b>Operating Expenses/(Income)</b>	<b>167.4</b>	<b>161.5</b>	<b>167.0</b>	<b>176.9</b>	<b>190.7</b>
General & Selling Expenses	107.8	111.0	116.2	121.1	128.9
Directors' Emoluments	13.6	13.6	15.6	18.0	20.7
Depreciation & Amortisation	2.5	8.8	9.9	10.0	10.4
Operating Lease	3.2	3.2	3.6	3.9	4.3
Research & Development	34.5	17.2	22.8	26.3	30.7
Interest Expense	2.8	4.6	2.8	2.3	2.1
Interest Income	(1.1)	(3.8)	(5.2)	(6.1)	(7.8)
Other Expenses/(Income)	4.2	6.8	1.2	1.3	1.4
<b>Operating Profit</b>	<b>77.3</b>	<b>104.7</b>	<b>131.3</b>	<b>154.3</b>	<b>179.3</b>
<b>EBIT</b>	<b>78.9</b>	<b>105.5</b>	<b>129.0</b>	<b>150.5</b>	<b>173.6</b>
Strollers	43.6	64.7	77.8	90.5	104.8
Beds	13.9	11.9	15.7	18.7	21.7
Soft Goods	8.0	13.8	16.8	19.4	22.2
Others	13.4	15.1	18.7	22.0	24.8
Operating Margin	8.4%	10.9%	12.6%	13.5%	14.0%
Core EBIT Margin	8.9%	11.5%	12.4%	13.1%	13.6%
Core EBITDA Margin	9.9%	12.6%	13.7%	14.5%	14.9%
Share Of Profits Of Associates	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Taxation &amp; Exceptionals</b>	<b>77.3</b>	<b>104.7</b>	<b>131.3</b>	<b>154.3</b>	<b>179.3</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Profit After Exceptional Items	77.3	104.7	131.3	154.3	179.3
Taxation	(2.8)	(3.8)	(5.3)	(6.9)	(8.6)
Profit After Taxation	74.5	100.9	126.1	147.4	170.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Profit For The Year</b>	<b>74.5</b>	<b>100.9</b>	<b>126.1</b>	<b>147.4</b>	<b>170.7</b>
Dividends	(29.6)	(37.5)	(54.0)	(63.4)	(74.2)
<b>Profit Retained For The Year</b>	<b>44.9</b>	<b>63.4</b>	<b>72.1</b>	<b>84.0</b>	<b>96.5</b>
<b>Basic EPS (x-excepts, HKc)</b>	<b>14.8</b>	<b>18.7</b>	<b>17.5</b>	<b>20.5</b>	<b>23.7</b>
<b>% Change</b>	<b>N/A</b>	<b>26.7</b>	<b>-6.4</b>	<b>16.9</b>	<b>15.8</b>
<b>Fully-Diluted EPS (x-excepts, HKc)</b>	<b>14.8</b>	<b>18.7</b>	<b>17.5</b>	<b>20.5</b>	<b>23.7</b>
<b>% Change</b>	<b>N/A</b>	<b>26.2</b>	<b>-6.4</b>	<b>16.9</b>	<b>15.8</b>
<b>Operating Cashflow/Share (HKc)</b>	<b>10.0</b>	<b>26.3</b>	<b>13.9</b>	<b>20.7</b>	<b>28.0</b>
<b>Cashflow Multiple (x)</b>	<b>16.8</b>	<b>6.4</b>	<b>12.1</b>	<b>8.2</b>	<b>6.0</b>
<b>PER - Basic (x)</b>	<b>11.4</b>	<b>9.0</b>	<b>9.7</b>	<b>8.3</b>	<b>7.1</b>
<b>PER - Fully-Diluted (x)</b>	<b>11.4</b>	<b>9.0</b>	<b>9.7</b>	<b>8.3</b>	<b>7.1</b>
<b>PER-To-Growth Ratio (x)</b>	<b>N/A</b>	<b>0.3</b>	<b>N/A</b>	<b>0.5</b>	<b>0.5</b>
<b>DPS (HKc)</b>	<b>N/A</b>	<b>N/A</b>	<b>7.5</b>	<b>8.8</b>	<b>10.3</b>
<b>Yield (%)</b>	<b>N/A</b>	<b>N/A</b>	<b>4.4</b>	<b>5.2</b>	<b>6.1</b>
<b>Payout Ratio (%)</b>	<b>N/A</b>	<b>N/A</b>	<b>42.8</b>	<b>43.0</b>	<b>43.5</b>
<b>Return On Equity (%)</b>	<b>62.0</b>	<b>24.4</b>	<b>25.9</b>	<b>25.9</b>	<b>25.6</b>
<b>Return On Assets (%)</b>	<b>24.7</b>	<b>15.1</b>	<b>17.2</b>	<b>17.8</b>	<b>17.8</b>

Sources: Lerado annual reports and Dresdner Kleinwort Benson Research estimates



## Balance sheet

As at Y/E Dec (HK\$m)	1997	1998	1999E	2000E	2001E
<b>Fixed Assets</b>	<b>110.5</b>	<b>166.9</b>	<b>200.4</b>	<b>217.1</b>	<b>238.2</b>
Intellectual Property Rights	0.0	83.1	76.8	70.4	64.0
Other Non-Current Assets	0.8	16.7	16.3	16.3	16.3
<b>Current Assets</b>	<b>190.4</b>	<b>401.8</b>	<b>437.7</b>	<b>524.2</b>	<b>638.7</b>
Stock	79.1	64.1	69.2	82.1	87.0
Trade Debtors & Other Prepayments	70.7	125.1	129.5	145.9	161.7
Other Debtors & Prepayments	18.2	0.0	0.0	0.0	0.0
Cash	22.4	212.7	239.1	296.2	390.0
<b>Current Liabilities</b>	<b>175.6</b>	<b>251.8</b>	<b>220.5</b>	<b>234.6</b>	<b>269.0</b>
Trade Creditors & Accruals	107.1	212.2	173.4	179.6	204.4
Other Creditors & Accruals	26.8	0.0	0.0	0.0	0.0
Taxation	5.9	6.3	8.5	11.2	13.9
Dividends	31.2	0.0	36.0	41.8	49.0
Bank Borrowings	4.6	33.4	2.6	2.0	1.8
<b>Total Assets</b>	<b>14.8</b>	<b>150.1</b>	<b>217.2</b>	<b>289.6</b>	<b>369.7</b>
Bank Borrowings	0.0	2.7	24.5	23.2	21.5
Other Long -Term Liabilities	6.0	0.3	0.3	0.3	0.3
<b>Net Assets</b>	<b>120.2</b>	<b>413.9</b>	<b>485.9</b>	<b>570.0</b>	<b>666.5</b>
<b>Against:</b>					
Share Capital	0.0	72.0	72.0	72.0	72.0
Reserves	120.2	341.9	413.9	498.0	594.5
<b>Shareholders' Funds</b>	<b>120.2</b>	<b>413.9</b>	<b>485.9</b>	<b>570.0</b>	<b>666.5</b>

Sources: Lerado annual reports and Dresdner Kleinwort Benson Research estimates



## Cash flow

Y/E Dec (HK\$m)	1997	1998	1999E	2000E	2001E
<b>Operating Profit After Adjustments</b>	<b>90.0</b>	<b>122.1</b>	<b>146.1</b>	<b>168.4</b>	<b>191.5</b>
Operating Profit Before Tax	77.3	104.7	131.3	154.3	179.3
Depreciation & Amortisation	9.2	16.8	20.1	22.0	23.8
Other Non-Cash Items	3.4	3.2	0.0	0.1	0.0
Other Non-Operating Items	1.6	0.8	(2.3)	(3.8)	(5.7)
Tax Paid	(1.4)	(3.4)	(3.0)	(4.2)	(6.0)
<b>Changes In Working Capital</b>	<b>(16.1)</b>	<b>67.9</b>	<b>(48.2)</b>	<b>(23.2)</b>	<b>4.1</b>
Changes In Debtors & Other Receivables	(24.4)	(54.0)	(4.4)	(16.5)	(15.8)
Changes In Stock	(11.6)	15.0	(5.0)	(12.9)	(4.9)
Changes In Creditors & Other Accruals	30.4	104.8	(38.8)	6.2	24.8
Other Items	(10.4)	2.2	0.0	0.0	0.0
<b>Operating Free Cash flow</b>	<b>73.9</b>	<b>190.0</b>	<b>97.9</b>	<b>145.2</b>	<b>195.6</b>
Interest Paid	(2.8)	(4.6)	(2.8)	(2.3)	(2.1)
Interest Received	1.1	3.8	5.2	6.1	7.8
<b>Net Free Cash flow</b>	<b>72.3</b>	<b>189.2</b>	<b>100.2</b>	<b>149.0</b>	<b>201.3</b>
<b>Cash flow from investing</b>	<b>(24.2)</b>	<b>(128.0)</b>	<b>(46.9)</b>	<b>(32.4)</b>	<b>(38.7)</b>
Net (Purchase)/Sale Of Fixed Assets	(24.1)	(38.8)	(46.9)	(32.4)	(38.7)
Net (Purchase)/Sale Of Investments	0.0	(0.5)	0.0	0.0	0.0
Amount Repaid From/(Advance To) Related Parties	(0.2)	0.3	0.0	0.0	0.0
<b>Residual Cash flow</b>	<b>48.1</b>	<b>61.2</b>	<b>53.4</b>	<b>116.6</b>	<b>162.6</b>
<b>Cash flow From Financing</b>	<b>(45.2)</b>	<b>129.1</b>	<b>(27.0)</b>	<b>(59.5)</b>	<b>(68.9)</b>
Dividends Paid	(23.2)	(68.6)	(18.0)	(57.6)	(67.0)
Changes In Bank Borrowings	(11.8)	31.4	(9.0)	(1.9)	(1.9)
Issue Of Shares	0.0	200.1	0.0	0.0	0.0
Amount Repaid From/(Advance To) Related Parties	(10.1)	(26.8)	0.0	0.0	0.0
Other Items	0.0	(7.0)	0.0	0.0	0.0
<b>Changes In Cash</b>	<b>2.9</b>	<b>190.3</b>	<b>26.4</b>	<b>57.1</b>	<b>93.8</b>
<b>Cash At Beginning Of Year</b>	<b>19.5</b>	<b>22.4</b>	<b>212.7</b>	<b>239.1</b>	<b>296.2</b>
Foreign Exchange Difference	(0.0)	0.0	0.0	0.0	0.0
<b>Cash At End Of Year</b>	<b>22.4</b>	<b>212.7</b>	<b>239.1</b>	<b>296.2</b>	<b>390.0</b>

Sources: Lerado annual reports, Dresdner Kleinwort Benson Research estimates

## Prices of listed companies mentioned in this report

As at 3 September	Share Price
Boto	HK\$0.95
IDT	HK\$0.87
Techtronic	HK\$1.44
Vtech	HK\$20.60
Yue Yuen	HK\$21.30
Graco	US\$34.50
AIG	US\$95.72
Investor AB (A shares)	SKr101.00
Investor AB (B shares)	SKr101.50



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#### DRESDNER KLEINWORT BENSON RESEARCH - RECOMMENDATION DEFINITION

(Expected performance over next 12 months)

BUY	Outperform by 10% or more	REDUCE	Underperform, but by less than 10%	CORE and NON-CORE reflect long-term views, i.e. whether stocks should form a significant part of a portfolio beyond the 12-month period.
ADD	Outperform, but by less than 10%	SELL	Underperform by 10% or more.	
HOLD	Track market			

## Summary information (consolidated)

Y/E DEC

Profit & loss (HK\$m)	1998	1999E	2000E	2001E
Revenues	959.7	1,038.6	1,145.6	1,277.7
EBITDA	121.2	142.0	165.9	190.7
EBIT	110.8	128.7	150.2	173.3
Operating profit	104.7	131.3	154.3	179.3
Pre-tax profit	104.7	131.3	154.3	179.3
Tax	(3.8)	(5.3)	(6.9)	(8.6)
Minority	0.0	0.0	0.0	0.0
Net profit	100.9	126.1	147.4	170.7

Balance sheet (HK\$m)	1998	1999E	2000E	2001E
Fixed assets	166.9	200.4	217.1	238.2
Other long-term assets	99.9	93.1	86.7	80.4
Net current assets/(liabilities)	150.1	217.2	289.6	369.7
Long-term liabilities	(3.0)	(24.8)	(23.5)	(21.8)
Shareholders' funds	(413.9)	(485.9)	(570.0)	(666.5)

Cash flow (HK\$m)	1998	1999E	2000E	2001E
Cash flow from operations	190.0	97.9	145.2	195.6
Net free cash flow	189.2	100.2	149.0	201.3
Cash flow from investing	(128.0)	(46.9)	(32.4)	(38.7)
Cash flow from financing	129.1	(27.0)	(59.5)	(68.9)
Net cash at end of year	176.6	212.0	271.0	366.7

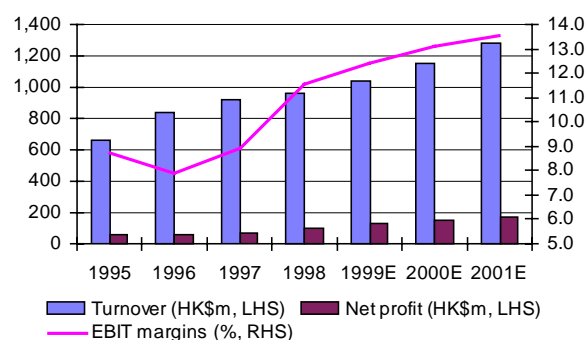
Key ratios	1998	1999E	2000E	2001E
Operating margins (%)	10.9	12.6	13.5	14.0
EBIT margins (%)	11.5	12.4	13.1	13.6
EBITDA margins (%)	12.6	13.7	14.5	14.9
Return on equity (%)	24.4	25.9	25.9	25.6
Return on assets (%)	15.1	17.2	17.8	17.8

Current ratio (x)	1.6	2.0	2.2	2.4
Quick ratio (x)	1.3	1.7	1.9	2.1
Debtors days (Days)	47.6	45.5	46.5	46.2
Stock days (Days)	33.7	34.1	36.8	35.0
Creditors days (Days)	111.7	85.5	80.5	82.2
Working capital/turnover (%)	(2.4)	2.4	4.2	3.5

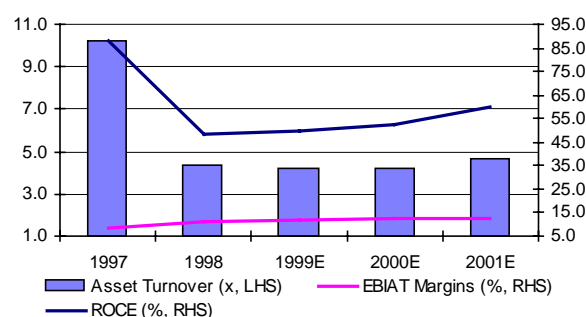
Net debt/equity (%)	net cash	net cash	net cash	net cash
Interest cover - profit & loss (x)	130.9	net int inc	net int inc	net int inc
Interest cover - cash flow (x)	235.4	net int rec	net int rec	net int rec
Price-to-book (x)	2.9	2.5	2.1	1.8

Sources: Company reports, Dresdner Kleinwort Benson Research estimates

### Earnings track record (1995-01E)



### Breakdown of ROCE (1997-01E)



### Share information

Shares in issue	(m)	720.0
Market capitalisation	HK\$bn	1.2
Free float	%	25.0

### Major shareholders:

Various directors	%	47.7
AIG Group	%	16.0
Investor AB	%	11.3

### Average Daily Turnover ('000)

1m	1,875	3m	2,725	12m	2,369
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