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Viewing Investment Opportunities in Mobile Communication Sector through Analysis on ChiNext-Listed Companies

Written by Blade Bai, Zero2IPO Capital

The investment in China's communication sector has always stayed above RMB200B since 2000. In 2009, the sector grew into an RMB800B-a-year industry, and contributed 2.4% of the GDP. By the yearend of 2009, China's mobile phone user base had amounted to 747M, including 233M mobile phone Internet users. The users of the 3G networks, which commenced operation only one year ago, have also expanded to 13.25M.

Up till April 23, 2010, a total of 70 companies have successfully listed their stocks on the ChiNext. Five of these growth enterprises

operate in the mobile communication sector, representing 7% of the total. They are Beijing Ultrapower Software Co., Ltd. (Ultrapower, 300002.SZ), Hangzhou Huaxing Chuangye Communication Technology Co., Ltd. (Huaxing, 300025.SZ), Meteon Corporation (Meteon, 300038.SZ), Shenzhen Tianyuan Dic Information Technology Co., Ltd. (Tianyuan, 300047.SZ) and Dingli Communications Corp., Ltd. (Dingli, 300050.SZ).

Ultrapower

Ultrapower, founded in May 2001, is the only IT operation & maintenance service provider of the Femoo business system platform of China Mobile, the top-ranking mobile operator in the nation. The company started building and managing the Femoo platform for China Mobile in 2007, and signed a three-year new service contract with the mobile operator before its listing in 2009. The company's revenue from the Femoo business exceeded RMB400M in 2008. In the first half of 2009, the Femoo business contributed more than 88% of the company's revenue, and represented the most important revenue source.

Huaxing

Huaxing, founded in June 2003, is a company that offers survey, evaluation and optimization of mobile communication networks, and other products and services. As one of the companies that offer the broadest range of services in the industry, Huaxing counts among the top three in the field of third-party mobile network evaluation and optimization services in China.

The company's most important customer is China Mobile and its branches and subsidiaries. The revenue from this biggest customer once accounted for more than 95% of Huaxing's sales revenue, and this proportion declined to 74% in the first half of 2009.

Reportedly, the company had not accepted PE investment before it landed on the ChiNext.

Meteon

Incepted in September 2004, Meteon is mainly a provider of integrated solutions for communication towers. The company is a pioneer in developing and promoting three-pipe communication towers in China, and also one of the most important suppliers in this sector. The company takes about 1% of the communication tower sector, which has a relatively lower concentration.

In September, BlueStone Investment, a VC fund mainly financed by the private investors in Zhejiang Province, invested RMB30.00M for a 14.19% equity in Meteon. This equity proportion has been diluted to 10.63% after Meteon's listing.

Tianyuan

Founded in January 1993, Tianyuan is a leading software product and service provider in the domestic telecom and public security sectors. In 2009, the telecom business derived 85% of the company's total revenue, representing the principal income and profit source. The company has maintained the long-term business relation with China Telecom, an integrated telecom operator in the nation. In 2008, Tianyuan was the fourth biggest supplier of China Telecom, with a market share of 11%. The company cut into China Unicom in 2008, and ranked 5th among all the suppliers of China Unicom with a 9% market share in the first half of 2009. The company is now planning to expand the business to the financial industry, with the target customers including Shenzhen Stock Exchange.

In 2008, the top five suppliers of business support software to China Telecom include Linkage Technology Co., Ltd., ZTE, AsiaInfo, Tianyuan and Huawei. At the end of 2009, AsiaInfo (NASDAQ: ASIA) announced the merger with Linkage Technology Co., Ltd. After the merger, the new AsiaInfo earned a net profit of more than USD60M in 2009. This event will deliver a far-reaching influence on industry landscape and future development.

It is reported that Tianyuan has not received VC investments before its listing.

Dingli

Established in October 2001, Dingli is a leading provider of mobile communication network optimization solutions in China. Like Huaxing, Dingli mainly delivers mobile communication network optimization, testing and analysis systems built with its own intellectual property rights and high technical contents to telecom operators and telecom equipment makers. Also, Dingli provides one-stop mobile communication network optimization services for telecom operators. The company specializes in independent research, design, production and sales of the mobile communication network optimization, testing and analysis system, which encompasses the drive test & analysis system, automatic test & analysis system, portable test & analysis system, back-end analysis system, and own the independent intellectual property rights.

Key customers of the company include China Mobile, China Unicom, China Telecom and other telecom carriers as well as telecom equipment suppliers like Huawei and ZTE.

It is reported that the company had not ac-

List of ChiNext-listed Mobile Communication Companies

Stock Code	Company Name	Segment	Listing Date	Market Capitalizati	P/E Raito
300002	Ultrapower	Femoo business	2009.10.30	224.4	98.1
300025	Huaxing	Mobile network optimization	2009.10.30	24.9	72.3
300038	Meteon	Communication tower	2010.01.08	24.1	52.6
300047	Tianyuan	Support software	2010.01.20	33.3	58.1
300050	Dingli	Mobile network optimization	2010.01.20	70.3	63.1

Source: Zero2IPO Database

cepted PE investment before it landed on the ChiNext.

All the companies specialize in offering communication-related services, except that Meteon is an equipment manufacturer. Dingli and Huaxing belong to the same segment - mobile network optimization. So far, all the leading companies in this segment have gone public, including Guomai Technologies (002093), which was listed in 2006. An exception is Beijing Rising Technology Corp., Ltd., which also obtained a USD10.00M investment from SAIF.

It is worth mentioning that two of these five companies have sought private financing from VC funds, all of which are RMB funds. This to a certain extent demonstrates the active role of the ChiNext in helping PE funds exit their investment.

Summary

The biggest feature of the industrial chain in the mobile communication sector is that operators stay in the favorable position, and other players are divided into service providers and equipment suppliers (except suppliers of mobile phones and other terminal consumer products). They need to cooperate with operators and provide products and services to the latter. The biggest resource in the entire industrial chain - end users - is always firmly controlled by the operators. This also explains the ultimate reason for different development routes of the wireless industry and Internet industry.

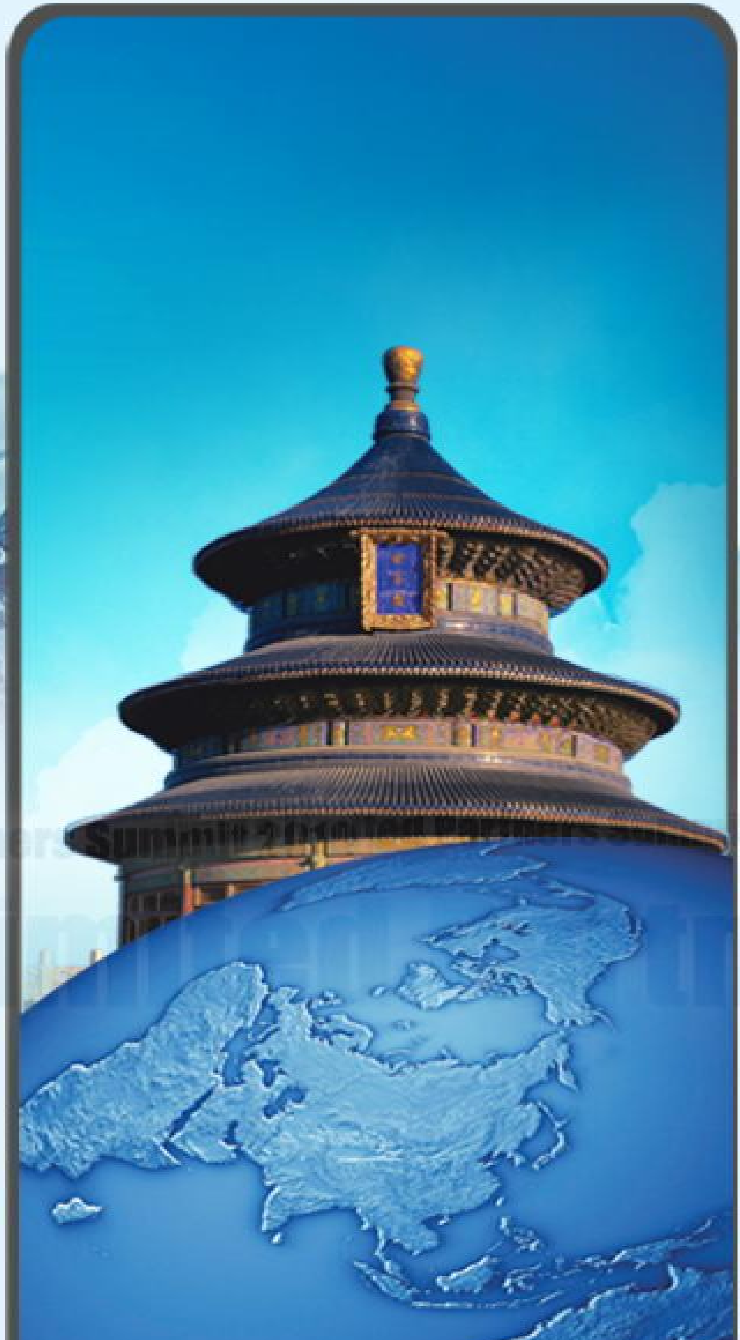
With a high valuation level, these companies have raised funds in excess of their expectation. Standing at a new starting point after the listing, these pioneers in the ChiNext will have to face the most imperative issue - how to leverage the platform advantage and fund advantage to build up their strengths, expand the gap over rivals and integrate the industrial chain.

2010中国有限合伙人峰会
Zero2IPO-CHINA LIMITED PARTNERS
SUMMIT

The 3rd China Limited Partners Summit

2010第三届中国有限合伙人峰会

Venue: Park Hyatt Beijing, China
Date: May 26, 2010



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110 Chinese Enterprises Launch IPOs in Q1'10; 39 VC/PE-backed Enterprises Provide Average Return Rate of 8.74 Times

Released by Zero2IPO Research Center

According to the China Enterprises IPO Report Q1 2010 recently released by Zero2IPO Group, a famous research, advisory and investment institution focusing on VC and PE industries in Greater China Region, 167 Chinese enterprises went public on 13 overseas markets and three domestic markets closely watched by Zero2IPO Research Center in Q1'10, raising a combined US$30.88B, or US$185.00M on average. The performance of Chinese enterprises was most impressive, with 110 enterprises landing on domestic and overseas markets, almost doubling the total number of IPOs by enterprises based in other countries. The aggregate amount of capital raised by Chinese enterprises reached US$19.35B, accounting for 62.7% of the world total, and the average financing amount stood at US$175.93M (See Table 1). As China took the lead in world economic recovery and the restarted domestic A-share IPOs picked up momentum, domestic IPOs continued to surge. In spite of a slow down in overseas IPOs, Chinese enterprises reported a historic high and a year-on-year record since Q1'07 in terms of total IPO number and financing amount on both domestic and overseas markets. To be specific, the number of IPOs was up by 105 from a year earlier and 79 from the same period of 2008, while the financing amount soared by 100.91 times from Q1'09 and by 71.7% from Q1'08. (See Chart 1)

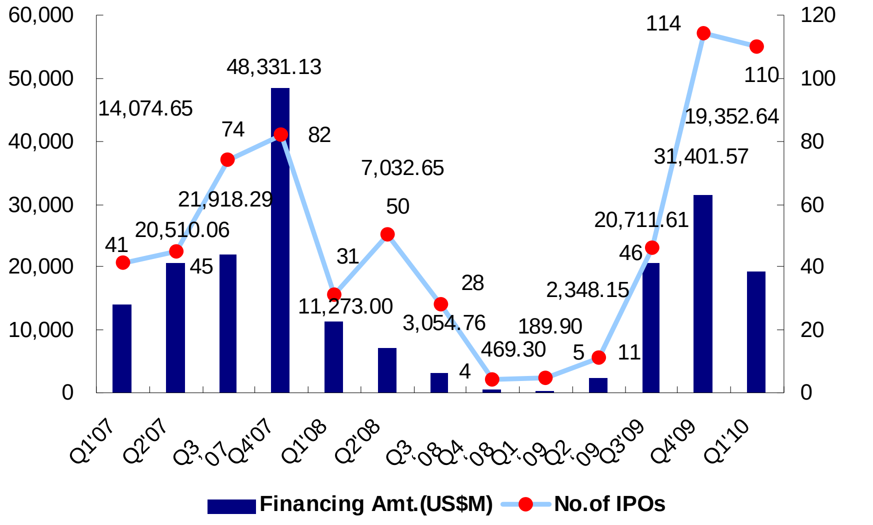
By market, 19 of the 110 Chinese enter prises got listed on overseas markets1, raising a total of US$2.05B. Year-o-year, the number of IPOs was up by 15,

Table 1 Distribution of IPOs in Global Market in Q1'10 by Type of Enterprise

Type of Enterprise	Financing Amt. (US$M)	% of Total	No. of IPOs	% of Total	Average Financing Amt. (US$M)
Chinese Enterprise	19,352.64	62.7%	110	65.9%	175.93
Non-Chinese Enterprise	11,527.85	37.3%	57	34.1%	202.24
Total	**30,880.49**	**100.0%**	**167**	**100.0%**	**184.91**

Source: Zero2IPO Research Center

Chart 1 Quarter-on-quarter Comparison of Chinese Enterprises' Domestic IPOs between Q1'07 - Q1'10



Source: Zero2IPO Research Center

while the financing amount jumped 9.77 times. The increasingly attractive domestic market saw 91 enterprises float their shares, which raised a combined US $17.31B. The number of IPOs soared by 91 and the averaging financing amount hit US $190.18M. (See Table 2)

Overseas IPO Number and Financing Amount down Quarter-on-quarter, but up Sharply Year-on-year, Featuring High Market and Industry Concentration

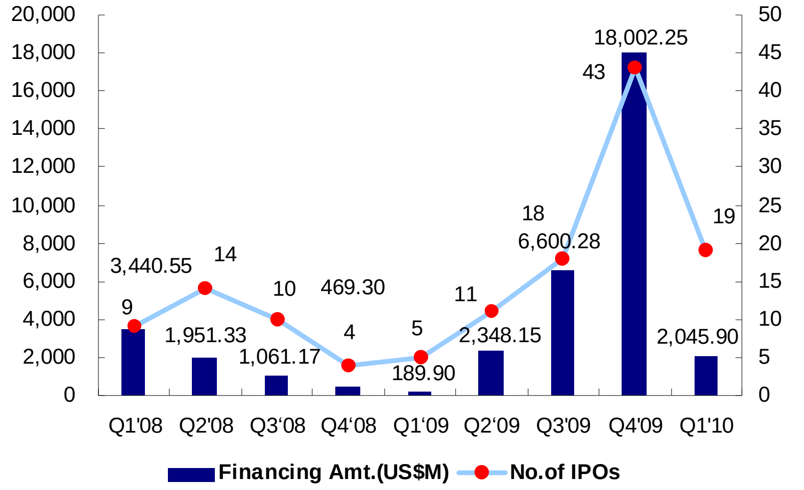
In Q1'10, thanks to the continuously improving macro-economy around the world, overseas markets maintained the good trend of the second half of 2009 and major stock indexes spiraled upward by and large, with active new stock issuance. Under such circumstances, this quarter saw 19 Chinese enterprises going public on six overseas markets, which raised a total of US $2.05B. Quarter-on-quarter, Chinese enterprises were less active in getting listed overseas, with both IPO number and financing amount scaling back from the level of Q4'09. To be specific, the number of IPOs fell by 24, while the amount raised sagged by 89.0%. Year-on-year, Chinese enterprises maintained the growth momentum in going public overseas, with the number of overseas IPOs up by 15 and the amount raised by 9.77 times. (See Chart 2)

Table 2 Distribution of Chinese Enterprises' IPOs in Q1'10 by Listing Market

Listing Market	Financing Amt. (US$M)	% of Total	No. of IPOs	% of Total	Average Financing Amt.(US$M)
Domestic Market	17,306.74	89.4%	91	82.7%	190.18
Overseas Market	2,045.90	10.6%	19	17.3%	107.68
Total	**19,352.64**	**100.0%**	**110**	**100.0%**	**175.93**

Source: Zero2IPO Research Center

Chart 2 Quarter-on-quarter Comparison of Chinese Enterprises' Overseas IPOs between Q1'08 - Q1'10



Source: Zero2IPO Research Center

In market breakdown, Chinese enterprises became even more concentrated in terms of listing destinations, with 19 enterprises mainly listed on three markets: HKMB, NASDAQ, and SGX. HKMB attracted most of these enterprises, with nine IPOs collecting US $1.38B, which ac counted 47.4% of the total number of Chinese en terprises' overseas IPOs and 67.4% of the amount raised thereby. NASDAQ, NYSE, SGX and KOSDAQ also had Chinese listings, though the number was relatively small and the distribution of IPOs and fi nancing amount was relatively balanced. (See Table 3)

By industry, ten listed enterprises from five sectors - energy & mineral, automobiles, real estate, bio/healthcare and chain retail -- attracted US $15.50B, accounting for 75.8% of the total overseas financing amount. To be specific, three energy & mineral listings raised US $520.73M, representing 25.5% of the total; Real estate, chain retail, clean-tech and bio/healthcare each had two overseas listings, accounting for 10.5% of the total overseas IPO number, while the financing amount was generally on the same level. There was only one automobile debut, which raised a stunning US $368.76M, compromising 18.0% of the overseas total, second only to the energy/mineral sector. (See Table 4)

Domestic IPOs Continued to Expand; Both IPO Number and Financing Amount Hit Quarterly High

In Q1'10, domestic economy took the lead to recover from the financial crisis, the ChiNext market gradually gets on track and the index futures and margin trading were officially launched. Thanks

Chart 3 Quarter-on-quarter Comparison of Chinese Enterprises' Domestic IPOs between Q1'08-Q1'10

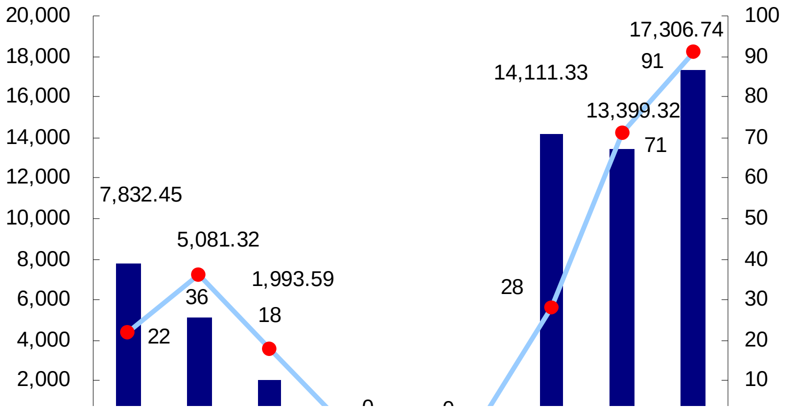


Table 3 Distribution of Chinese Enterprises' Overseas IPOs in Q1'10 by Listing Market

Listing Market	Financing Amt. (US$M)	% of Total	No. of IPOs	% of Total	Average Financing Amt.(US$M)
HKMB	1,377.88	67.3%	9	47.4%	153.10
NYSE	183.41	9.0%	2	10.5%	91.71
NASDAQ	152.5	7.5%	3	15.8%	50.83
FWB	121.33	5.9%	1	5.3%	121.33
KOSDAQ	117.23	5.7%	2	10.5%	58.62
SGX	93.54	4.6%	2	10.5%	46.77
Total	**2,045.90**	**100.0%**	**19**	**100.0%**	**107.68**

Source: Zero2IPO Research Center

Tabel 4 Top Five Industries in Q1'10 (By Financing Amt. of Chinese Enterprises' Overseas IPOs)

Industry	Financing Amt. (US$M)	% of Total	No. of IPOs	% of Total	Average Financing Amt.(US$M)
Energy & Mineral	520.73	25.5%	3	15.8%	173.58
Automobiles	368.76	18.0%	1	5.3%	368.76
Real Estate	288.44	14.1%	2	10.5%	144.22
Bio/Healthcare	192.64	9.4%	2	10.5%	96.32
Chain Retail	179.9	8.8%	2	10.5%	89.95
Total	**1550.47**	**75.8%**	**10**	**52.6%**	**155.05**

Source: Zero2IPO Research Center

to the string of good news mentioned above, domestic IPOs on both Shanghai and Shenzhen stock markets flourished in this quarter, with both IPO number and financing amount posting steep rises. Q1'10 saw a total of 91 enterprises listed on three domestic markets, raising a combined US $17.31B or an average of US $190.18M. With the