

Analyst: Kelvin Li

Main Board Listing – Research
COFCO Meat Holdings Limited (01610)

Joint Sponsors	:	Morgan Stanley	JPMorgan
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Sector : Food, Beverage & Tobacco

Business : A PRC-based port company

<p>Total share offer: <u>975,600,000</u> shares <i>(25% of the enlarged share capital)</i></p> <p>Public Offer: 97,560,000 shares (10%)</p> <p>Placing: 878,040,000 shares (90%)</p> <p>Greenshoe: 146,340,000 shares <i>(sale shares from Pre-IPO Investors MIY, KKR, Baring & Boyu)</i></p> <hr/> <p>Price: HK\$2.00 – HK\$2.65 per share</p> <p>Total Market Capitalisation: HK\$7,804 million – HK\$10,340 million</p> <p>Pro-forma fully diluted FY2015 P/E: 32x-43x <i>(based on net profit from Continuing Operation)</i></p> <p>Adjusted NTA per share: HK\$1.12-HK\$1.28</p> <p>Staffing: 5,202 (as of 31st August 2016)</p> <hr/> <p>HK Public Offer period: 19th October 2016 – 24th October 2016 noon</p> <p>Receiving banks: BOC (Hong Kong) & DBS Bank (HK)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 1st November 2016</p>	<p><u>Business of COFCO Meat ('The Group')</u></p> <p>The Group is a pork company in China with a vertically integrated business model across the entire industry value chain. Its business operations included feed production, hog production, slaughtering, production, distribution and sale of fresh pork and processed meat products and the import and sale of frozen meat products.</p> <p>As of 9th October 2016, the Group had 47 hog farms, 2 slaughtering plants and 2 processed meat plants located in China. As of 30th April 2016, the Group had 1.0 million live hogs, and produced 1.2 million hogs in the year of 2015. In terms of production volume of finishing hogs, the Group ranked the fourth in China in 2015.</p>
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Shareholders after Listing (assuming the Over-allotment option is not exercised):

• COFCO (state-owned)	27.64%
• KKR Asian Fund (Pre-IPO investor)	15.00%
• MIY Corporation (Pre-IPO investor) – the controlling shareholder of the Tokyo-listed Mitsubishi Corporation	13.61%
• Baring Asia Private Equity (Pre-IPO investor)	6.75%
• Temasek (Pre-IPO investor)	6.15%
• Boyu Capital Management (Pre-IPO investor)	5.85%
• Public shareholders	25.00%
	100.00%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,158.4 million (based on an offer price of HK\$2.33).

	HK\$ million
For construction of new hog farms and mills	1,403.0
For repayment of bank borrowings	431.7
For marketing	107.9
For the general working capital	215.8

Financial Highlights (from Continuing operations*)

	Year ended 31 st December			4 months ended	
	2013	2014	2015	30 th Apr 2015	30 th Apr 2016
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue	3,733.6	3,746.0	5,055.7	1,375.6	1,967.6
Gross profit	185.0	119.9	118.0	41.4	21.7
Operating profit/ (loss) (#)	40.1	(208.2)	353.0	(86.5)	501.5
Profit/(loss) attributable to shareholders	(79.7)	(323.6)	209.7	(138.6)	460.6
Gross profit margin	5.0%	3.2%	2.3%	3.0%	1.1%
Operating profit margin	1.1%	(5.6%)	7.0%	(6.3%)	25.5%
Net profit margin	(2.1%)	(8.6%)	4.1%	(10.1%)	23.4%
	31/12/2013	31/12/2014	31/12/2015	30/4/2015	30/4/2016
Net debt to shareholders' equity	442.8%	57.6%	85.0%	N/A	77.9%

Remark: (*) The Group completed the disposal of its poultry operation ('Discontinued Operation') on 22nd April 2016. (#) Operating profit included fair value change (net of costs to sell) of agriculture produce at the point of harvest and biological assets (at the end of the reporting period).

Peer valuation comparison

	COFCO Meat (01610)		WH Group (00288)		Putian Food (01699)	
	FY2015	FY2016E	FY2015	FY2016E	FY2015	FY2016E
Net profit margin	4.1%	N/A	3.7%	4.2%	LOSS	N/A
P/E ratio	32x-43x	N/A	13.2x	12.8x	LOSS	N/A
Market capitalisation	HK\$7,804-10,340 million		HK\$101,953 million		HK\$768 million	

Sources: Reuters

Strengths/Opportunities

- ✓ The Group had an integrated business model, which helped it maintain effective control over product quality and food safety.
- ✓ The PRC hog production industry had been consolidating from small-scaled and household farming to large-scaled farming, which would benefit big players like COFCO Meat to obtain a larger market share.
- ✓ As of the end of 2015, the Group's annual hog production capacity amounted to 2.3 million heads. With commencement of five newly added production plants, the Group's annual hog output capacity is expected to grow to 3.5 million heads (+50% y-o-y) by end of this year. In addition, the Group aims to expand its annual hog production capacity to 5.5 million heads by end of 2020, which would represent CAGR of some 19% over the next five years.



Weaknesses/Threats

- × The Group's earnings results fluctuated sharply during the Track Record Period, owing to volatile product prices and profit margins.
- × The domestic live hog prices in China fluctuated sharply over the last few years. The average annual domestic live hog price fell to RMB13.19 per kg in 2014 from RMB14.91 per kg 2013 and then bounced back to RMB15.23 per kg in 2015. The average price further jumped to RMB20.08 per kg in April 2016 before retreating to RMB18.51 per kg in August. The domestic live hog price may not sustain at the latest multi-year highs for a prolonged period amid rising hog production capacity. Any price control imposed by the Chinese government or any possible removal of imports restriction may also depress hog prices.
- × There are a number of Pre-IPO and Cornerstone investors, who will hold a total of some 56% of the Group's enlarged share capital upon Listing. These investors may sell off their interests after the six-month lock-up period. For those Pre-IPO investors, they acquired their respective interests at deep discount from 32% to 62% when compared with the IPO pricing range, which would lead to huge paper gain upon the Group's Listing.
- × The counter does not look attractive with its rich valuation and limited earnings visibility.

Recommendation: Unattractive



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