

Analyst: Paul Sham

Main Board Listing – Research

華熙生物科技有限公司

Bloomage BioTechnology Corporation Limited [Stock Code: 00963]

Sponsor : Hantec Capital Limited

Sole Bookrunner and Lead Manager : Oriental Patron Asia Limited

Sector : Pharmaceuticals

Business : Manufacturing & sales of cement products pharmaceutical products

<p>Total share offer: <u>*78,000,000</u> shares (25.0% of the enlarged share capital)</p> <p>Public Offer: 7,800,000 shares (10%)</p> <p>Placing: 70,200,000 shares (90%)</p> <p><i>*All 78,000,000 shares are New Shares</i></p>	<p><u>Business of Bloomage BioTechnology</u></p> <p>The Group principally engages in the manufacture and sale of a diversified portfolio of Hyalurinic Acid (HA) products in the PRC.</p> <p>HA is a naturally occurring substance found in many parts of human bodies and animals, typically in the joints, vitreous humor in the eyes, skin and umbilical cord.</p> <p>The key characteristic of HA is its viscoelasticity since HA can form protective films in human and animal bodies to maintain the moisture, withstand friction and compression, and lubricate the body tissues. It is widely used as raw materials in pharmaceutical, cosmetic and healthcare products. The HA products of the Group can be classified into four grades as set out below:</p> <p>Injection – mostly used as viscoelastic agent in eye surgeries and injection for treatment of osteoarthritis;</p> <p>Eye drop – applied in eye care products such as eye drop, eye wash and contact lens care lotion;</p> <p>Cosmetic – applied in skin-care products, hair-care products and topical ointment;</p> <p>Food – applied in healthcare products such as oral health supplement.</p> <p>The Group's products are sold and exported to pharmaceutical and cosmetic products manufacturers located in the PRC or overseas such as US, Japan, Korea, the European Union and Taiwan.</p>
<p>Price: HK\$1 per share</p> <p>Market Cap: HK\$312 million</p> <p>Historical FY07 PER: 7x</p> <p>Unaudited pro forma adjusted NTA per share: HK\$0.32</p> <p>Staffing: 205 (as of 31st August 2008)</p>	
<p>HK Public Offer period: 19th September 2008 – 24 September 2008</p> <p>Receiving banks: Standard Chartered Bank (Hong Kong) Limited</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 3rd October 2008</p>	

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Shareholding Structure after Listing

AIM First Investment Ltd. – <i>wholly owned by Ms. Zhao Yan, the Chairman and an executive Director of the Group</i>	58.50%
Newgrand Holdings Ltd – <i>wholly owned by Mr. Cheng Bo, a non-executive Director of the Group</i>	9.00%
Forever Shining Holdings Ltd – <i>owned by 5 staff members of the Group</i>	3.75%
United Creation Investment Ltd – <i>owned by Mr. Wang Ren Ping, an Independent 3rd Party</i>	3.75%
Public Investors	25.0%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$60.0 million at an issue price of HK\$1 per share.

	HK\$ million
For the construction of the Group's new production line for the manufacture of eye drop and injection grade HA products	20
For the construction of the Group's new production line for the manufacture of finished injection grade HA products	15
For enhancing the Group's research and development capability	8
For the promotion and expansion of the Group's distribution network	12
For the general working capital	5

Financial Highlights

	Year ended 31 st December			3 months ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	87,327	84,585	91,081	18,561	29,555
Gross profit	74,594	71,408	72,459	15,256	23,563
Operating profit	67,891	56,579	54,366	11,888	19,833
Attributable profit	56,991	43,650	40,611	8,522	11,118
Gross margin	85.4%	84.4%	79.6%	82.2%	79.7%
Operating margin	77.7%	66.9%	59.7%	64.0%	67.1%
Net margin	65.3%	51.6%	44.6%	45.9%	37.6%

Revenue Breakdown by product (% of Total Revenues)

	Year ended 31 st December						For the 3 months ended 31 st March			
	2005		2006		2007		2007		2008	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Injection	1,924	2.2	13,977	16.5	9,181	10.1	1,621	8.7	3,586	12.1
Eye drop	20,016	22.9	15,316	18.1	13,236	14.5	2,631	14.2	5,106	17.3
Cosmetic	47,771	54.7	39,757	47.0	49,925	54.8	11,232	60.5	16,118	54.5
Food	13,018	14.9	11,268	13.3	16,707	18.4	2,555	13.8	4,308	14.6
Others	4,598	5.3	4,267	5.1	2,032	2.2	522	2.8	437	1.5
Total	87,327	100	84,585	100	91,081	100	18,561	100	29,555	100



Strengths/Opportunities

- ✓ **Positive industry outlook** The demand of HA is largely affected by the demand of each of the cosmetic, pharmaceutical and healthcare product markets and correlated with the global ageing population because of its hydrating and lubricating properties for ageing skins and joints. Owing to the prolonged declines in fertility and the general ageing of the population, the consumption of HA based and related products is expected to increase accordingly.
- ✓ **Undemanding valuation** Compared with other listed biotechnology companies such as Natural Beauty (00157.HK), Sino Biopharmaceutical (01177.HK) and Hua Han Bio-pharmaceutical (00587), with low-teen to mid-teen P/E multiples, Bloomage BioTechnology's FY07 PE ratio of 7x looks undemanding.

Weaknesses/Threats

- × **Increasing competition reflected in the declining margins** The selling prices of the Group's major products (i.e. cosmetic and food grade HA products) showed a downward trend as the Group adjusted the selling price of such products in order to stimulate sales amid increasing competition. Accordingly, the Group's gross profit margin showed a downward trend from 85.4% in 2005 to 84.4% in 2006 and further to 79.6% in 2007 and 79.7% during the three months ended 31 March 2008. The Group's turnover will be adversely affected if competition in the market continues to intensify and the reduction of selling prices is unable to maintain the Group's volume of sale.
- × **A small participant on a global basis** The market share of Bloomage BioTechnology was not disclosed in detail in the prospectus. However, given the global sales of HA based biomaterials was around US\$1,616 million in 2007, the total revenue of the Group's HK\$91 million in FY07 appears to be very small, suggesting the Group owns less than 1% of the market share in the industry.

Recommendation: Unattractive



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