

Analyst: Sabina Cheng

Main Board Listing – Research

霸王國際（集團）控股有限公司
BaWang International (Group) Holding Limited [Stock Code: 01338]
**Joint Global Coordinators or
Joint Bookrunners or Joint
Sponsors or Joint Lead
Managers**

: HSBC

Morgan
Stanley

Sector : Consumer

Business : Manufacturing Chinese herbal shampoo and hair-care products under the Bawang brand

Total share offer: <u>700,000,000</u> shares (25.0% of the enlarged share capital) Public Offer: 70,000,000 shares (10%) Placing: 630,000,000 shares (90%) Greenshoes: 105,000,000 shares	<u>Business of Bawang International (“Bawang”)</u> Bawang manufactures Chinese herbal shampoo and other products such as skin-care products, toothpaste and shower gels. Its major products are shampoo under the Bawang brand, which is the leading Chinese brand in the Chinese herbal and overall shampoo market in the PRC with market share of 46.3% and 7.6% respectively in 1H2008. Currently, there are multi-brands under the company, namely Bawang, Litao, Sherry and Royal Wind. As of 31 December 2008, the company distributed its products through 567 distributors and 46 retailers. Its distribution network covered 24 provinces and four municipalities in the PRC as well as Hong Kong, Macao and Singapore.
Price: HK\$1.95 – HK\$2.38 per share Market Cap: HK\$5.460 billion – HK\$6.664 billion Pro forma fully diluted FY09 P/E: 14.8x – 18.1x Adjusted NTA per share: HK\$0.58 – HK\$0.68 Staffing: 625 (as of 31 st December 2008)	
HK Public Offer period: 22 nd June 2009 – 25 th June 2009 noon Receiving bank: HSBC Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 3 rd July 2009	

Shareholders after Listing (Assuming the over-allotment option is not exercised)

Fortune Station	
<ul style="list-style-type: none"> - 51% owned by Mr. Chen Qiyuan, chairman and executive Director of Bawang (also one of the two co-founders of Bawang), and - 49% owned by Ms. Wan Yuhua, chief executive officer and executive Director of Bawang (another co-founder of Bawang). 	75.0%
Public shareholders	25.0%
	<u>100.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1,404 million (Assuming an offer price of HK\$2.165, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For marketing and promoting its existing and new brands and products	421.2
For designing, researching and developing new products	280.2
For expanding and enhancing distribution network in the PRC	252.7
For establishing new production facilities and purchasing new production equipment	168.5
For potential future acquisition of HPC related businesses	140.4
For working capital and other general corporate purposes	140.4

Financial Highlights

	Year ended 31 st Dec		
	2006	2007	2008
	RMB '000	RMB '000	RMB '000
Revenue	392,369	921,680	1,411,248
Gross profit	225,826	498,972	901,924
Operating profit	118,557	182,453	341,925
Profit attributable to shareholders	115,959	181,345	281,774
Gross profit margin	57.55%	54.14%	63.91%
Operating profit margin	30.22%	19.80%	24.23%
Net profit margin	29.55%	19.68%	19.97%
Cash and cash equivalents	71,441	102,830	298,148

Strengths/Opportunities

- ✓ **Expanding distribution network outside the PRC** Bawang expects to launch its products in Malaysia, Myanmar and Thailand in 2009. Additionally, it plans to continue expanding its business by exploring more markets outside the PRC such as Taiwan.
- ✓ **Expanding production capacity** The company expects to have capital expenditures of approximately RMB133.0 million, RMB60.2 million and RMB67.8 million in 2009, 2010 and 2011 to enhance its production capacity.
- ✓ **Valuation** Given the IPO price range of HK\$1.95 to HK\$2.38, the share is trading at 15x-18x 2009 P/E. Such valuation represents some 18% to 30% premium to other international brands like P&G (PG US) and Unilever (UN US). However, since Bawang is a market leader in the fast-growing Chinese herbal shampoo market in the PRC with unique brand positioning and strong brand recognition, such higher premium on share price among the major international brands should be justified.

Weaknesses/Threats

- × **Bawang's performance is vulnerable to increases in prices of raw materials and packaging materials.**
- × **Rely on celebrities for marketing its brands and products** The company depends on celebrities like Mr. Jackie Chan and Ms. Faye Wong, to be its ambassadors to market its brands and products. Any unexpected or undesirable side effects of the company's products may result in severe reputation damage, monetary losses or lawsuits.

Recommendation: Trading buy



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