

**Analyst: Paul Sham**

## Main Board Listing – Research

中國旺旺控股有限公司

Want Want China Holdings Limited [Stock Code: 0151]

**Sole Global Coordinator** : UBS AG

**Joint Bookrunner and Joint Lead Managers** : UBS AG  
Goldman Sachs (Asia) LLC  
BNP Paribas Capital (Asia Pacific) Limited

**Sector** : Consumer goods

**Business** : A food and beverage manufacturers in China

<p><b>Total share offer:</b> <u>*2,717,882,000</u> shares (20.51% of the enlarged share capital)</p> <p><b>Public Offer:</b> 271,788,000 shares (10%)</p> <p><b>Placing:</b> 2,446,094,000 shares (90%)</p> <p><b>Greenshoe:</b> 407,682,000 shares</p> <p><i>*Comprising 397,582,000 New Shares and 2,320,300,000 Sale Shares</i></p>	<p><b><u>Business of Want Want China</u></b></p> <p>Want Want China Holdings (WWCH) is a diversified manufacturer of snack foods and beverages in China. Its 3 key product categories – rice crackers, flavored milk and soft candy, have leading market shares of 68.6%, 40.6% and 28.5% respectively.</p> <p>WWCH's flagship "Want Want" brand, together with the "Hot-Kid" logo was first created in Taiwan in early 1980s and was introduced into Mainland China in 1992. Over the past 25 years, it has become one of the most widely recognized food and beverage brands in China among children, parents and the elderly. For the 9 months ended 30/9/2007, its sales generated in China, Taiwan and HK &amp; Overseas markets accounted for 91.0%, 4.4%, and 4.6% respectively, of total sales.</p> <p>WWCH has also established an extensive sale &amp; distribution network in the PRC, with 308 sales offices, over 15,000 3<sup>rd</sup> party wholesalers, 31 production bases and 90 factories in strategic locations, which allow the company to distribute its products at all levels, from cities and urban centres to counties, townships and villages throughout China.</p>
<p><b>Price:</b> HK\$3.00 - HK\$4.10 per share</p> <p><b>Market Cap:</b> HK\$39,758 million-HK\$54,336 million</p> <p><b>Pro forma FY2007E PER:</b> 25.7X – 35.1X</p> <p><b>Adjusted NTA per share:</b> HK\$0.45 – HK\$0.48</p> <p><b>Staffing:</b> 35,674 (as of 30<sup>th</sup> September 2007)</p>	
<p><b>HK Public Offer period:</b> 11<sup>th</sup> March 2008 – 14<sup>th</sup> March 2008</p> <p><b>Receiving banks:</b> ICBC (Asia) The Bank of East Asia HSBC</p> <p><b>HK branch share registrar &amp; transfer office:</b> Computershare Hong Kong Investor Services Ltd.</p> <p><b>Listing date:</b> 26<sup>th</sup> March 2008</p>	

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**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Hot-Kid Holdings Ltd – ultimately owned by Mr. Tsai Eng-Meng, the Chairman and Chief Executive Officer of WWCH	47.92%
Tsai Entities – ultimately owned by Mr. Tsai Eng-Meng or members of his immediate family	6.03%
Tsai Family Interests – consist of 19 shareholders who are Mr. Tsai's relatives, including his daughter, siblings, nieces, nephews and certain of their respective spouses	20.67%
Iwatsuka Confectionery Co., Ltd – a company incorporated in Japan with limited liability, whose shares are listed on the Tokyo Stock Exchange	4.87%
Public Investors	20.51%
	<u>100%</u>

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1,353 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.55 each, being the midpoint of the indicative price range)

	HK\$ million
For expansion of rice cracker production facilities	30
For expansion of dairy products and beverages manufacturing facilities	580
For expansion of the snack foods production facilities	150
For expansion of packaging materials production capacity	120
For enhancement of distribution network, marketing and promotion activities	338
For working capital and general corporate purposes	135

**Financial Highlights**

	Year ended 31st December			Nine months ended Sep 30	
	2004 US\$'000	2005 US\$'000	2006 US\$'000	2006 US\$'000	2007 US\$'000
Revenue	518,529	681,856	861,656	602,864	765,477
Gross profit	200,960	262,555	327,317	226,990	302,493
Operating profit	80,909	124,607	148,921	100,413	1454,509
<b>Attributable profit</b>	<b>72,625</b>	<b>110,774</b>	<b>126,826</b>	<b>85,791</b>	<b>124,205</b>
Gross margin	38.8%	38.5%	38.0%	37.7%	39.5%
Operating margin	15.6%	18.3%	17.3%	16.7%	19.0%
Net margin	14.0%	16.2%	14.7%	14.2%	16.2%

**Group's revenue by product type**

	Year ended 31 <sup>st</sup> December						Nine months ended Sep 30			
	2004 US\$'000	%	2005 US\$'000	%	2006 US\$'000	%	2006 US\$'000	%	2007 US\$'000	%
Rice crackers	217,389	42.4	267,267	39.8	307,511	36.2	191,053	32.1	230,031	30.4
Dairy products and beverage	135,544	26.4	198,487	29.5	276,754	32.5	195,303	32.9	275,144	36.4
Snack food	148,924	29.1	195,962	29.1	257,314	30.3	201,827	34.0	244,666	32.3
Other products	10,659	2.1	10,632	1.6	8,369	1.0	6,078	1.0	6,505	0.9
<b>Total *</b>	<b>512,516</b>	<b>100</b>	<b>672,348</b>	<b>100</b>	<b>849,948</b>	<b>100</b>	<b>594,261</b>	<b>100</b>	<b>756,346</b>	<b>100</b>

\* The figures do not include non-core operations comprising the hospital, hotel and property businesses and other investments.



## **Strengths/Opportunities**

- ✓ **Well-recognized brand** Since 2000, the company has adopted a multi-brand strategy. Apart from the two core brands “Want Want” and “Hot-Kid”, WWCH also developed the “Aiyo” brand for yogurt drinks, “O-Bubble” for fruit milk drinks and two lower-priced sub-brands “Mitailang” and “Yappy” for tapping into a broader range of consumer groups.
- ✓ **Superior profit margin** Despite it is the smallest among other listed rivals namely Tingyi (0322) and Uni-President China (0220) in terms of total sales in 2006, WWCH generates the highest profit margin (16.5% in 2006, versus Tingyi’s 6.4% and Uni-President’s 1.9%), which can be attributed to the more differentiated product mix and hence higher pricing power.
- ✓ **Minimal impact from government policies** Food & Beverage (F&B) industry should be a relatively resilient sector amid China’s macro tightening measures and the F&B plays, especially the highly reputable brands like Want Want, would continue to benefit from improving disposable income and rising awareness of food safety.

## **Weaknesses/Threats**

- × **Only minority of proceeds goes to the company** 85.4% of the total shares offered are from the selling shareholders. As a result, only HK\$1,353m will ultimately go to the company’s pocket. Also, it seems that WWCH does not urgently rely on IPO proceeds for expansion, as the company already had US\$304m cash on hand, as of 30/9/2007. The listing is largely a “profit-taking” action and will not directly benefit the company.
- × **Rising raw material costs** The raw materials including rice, milk powder and sugar, accounted for 78.5% of cost of goods sold for the 9 months ended 30 Sept 2007. The recent rising trend of domestic prices in those materials would materially affect WWCH’s profitability going forward.
- × **Reliance on very few products in niche markets** The 3 key products - rice crackers, flavoured milk and soft candies, contributed over 75% of total sales for the past 3 years, reflecting a lack of diversified product mix of WWCH. Any changes in consumer tastes in these 3 products will hurt the company seriously if it fails to react to such changes.

**Recommendation:     Neutral**



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