

Analyst: Sabina Cheng

Main Board Listing – Research

統一企業中國控股有限公司

Uni -President China Holding Limited [Stock Code:0220]
Sole Global Coordinator

: UBS AG

**Joint Bookrunner, Joint Lead Managers and
Joint Sponsors**

: Morgan Stanley Asia Limited
: UBS AG

Sector : Consumer goods

Business : A leading manufacturers of beverages and instant noodles

Total share offer: *<u>881,720,000</u> shares (25% of the enlarged share capital) Public Offer: 88,172,000 shares (10%) Placing: 793,548,000 shares (90%) <i>*Comprising 526,810,000 New Shares and 354,910,000 Sale Shares</i>	<u>Business of Uni-President</u> <p>Uni-President China was established in 1992 as the PRC branch of the Uni-President Group, the largest food and beverage conglomerate in Taiwan and one of the largest in Asia. Since then, the “Uni-President” (“統一”) brand has grown into one of the leading food and beverage brands on the Mainland. As of June 2007, the Group has operations with 13 production plants and over 530 sales offices manufacturing and distributing over 300 different products.</p> <p>The Group is the second largest manufacturers in the PRC in terms of juice drinks and ready-to-drink teas with market shares of 29.1% and 22.8% respectively. In the 9 months ended Sept 2007, juice drinks represented 71.1% of the total juice market by value. Sales of beverage products accounted for 59.4%, 64.6%, and 71.2% respectively of its total revenue in the 3 years ended December 2004, 2005 and 2006. Over the same period, its Beverage Business segment generated average profits of RMB344.7 million.</p> <p>In terms of instant noodles, the Group is the 3rd largest manufacturer in the PRC. Sales of instant noodles accounted for 40.2%, 35.0%, 28.1% and 25.6%, respectively of the Group’s totally revenue in the 3 years ended in December 2004, 2005 and 2006. However, amid of the intensive market competition, the Group’s instant noodle business made segmental losses in the years ended December 2004, 2006 and the 6 months ended June 2007.</p>
Price: HK\$3.75 - HK\$4.68 per share Market Cap: HK\$13,225.5million-HK\$16,505.5million Pro forma FY2007E PER: 30.8X – 38.4X Adjusted NTA per share: HK\$1.40 – HK\$1.54 Staffing: 14,727 (as of 30 th June 2007)	
HK Public Offer period: 4 th December 2007 – 7 th December 2007 Receiving banks: HSBC, Standard Chartered Bank, Bank of East Asia Principal share registrar & transfer office: Butterfield Bank (Cayman) Limited HK branch share registrar & transfer office: Computershare Hong Kong Investor Services Limited. Listing date: 17 th December 2007	

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

Cayman President (Cayman President Holdings Limited, a wholly-owned subsidiary of Uni-President)	75%
Public Investors	25%
	<u>100%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,880.9 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.75 each, being the midpoint of the indicative price range)

	HK\$ million
To fund capital expenditure plan of existing beverage production facilities	754.3
To expand and upgrade sales and distribution network and IT platform and on marketing and promotional activities	598.4
To make futures strategic investments which either supplement the existing business or fit into the Group's long-term strategy in the PRC	734.8
For working capital and other general corporate purpose	33.5

Financial Highlights

	Year ended 31 st December			Six months ended June 30	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Revenue	5,691,258	6,537,450	7,883,692	4,177,163	4,453,182
Gross profit	1,842,229	2,154,221	2,327,940	1,230,856	1,485,904
Operating profit	228,163	303,999	265,811	166,093	307,127
Attributable profit	185,203	254,455	146,070	119,518	260,111
Gross margin	32.4%	33.0%	29.5%	29.5%	33.4%
Operating margin	4.0%	4.7%	3.4%	4.0%	6.9%
Net margin	3.3%	3.9%	1.9%	2.9%	5.8%

Group's revenue by product type

	Year ended 31 st December						For six months ended June 30			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Beverages	3,382.3	59.4	4,223.3	64.6	5,617.0	71.2	3,089.8	74.0	3,286.0	73.8
Juice Drinks	1,969.4	34.6	2,209.6	33.8	2,600.4	33.0	1,467.3	35.1	1,440.6	32.4
Ready to Drink Tea	1,216.6	21.4	1,770.9	27.1	2,535.2	32.2	1,375.4	32.9	1,616.8	36.3
Others*	196.3	3.4	242.8	3.7	481.4	6.0	247.1	6.0	228.6	5.1
Instant Noodles	2,290.5	40.2	2,290.9	35.0	2,211.5	28.1	1,064.4	25.5	1,139.5	25.6
Others**	18.5	0.4	23.3	0.4	55.2	0.7	23.0	0.5	27.7	0.6
Total	5,691.3	100.0	6,537.5	100.0	7,883.7	100.0	4,177.2	100.0	4,453.2	100.0

* Includes milk tea and coffee, bottled water, chilled juice and yoghurt products.

** Includes soy sauce, certain dried meat products, tomato paste and bakery products..



Strengths/Opportunities

- ✓ Market leader with strong brand presence and scale.
- ✓ Uni-President China is expanding and developing distribution networks to further penetrate into the rural areas where disposable incomes are on a rising trend. This should help further capture market shares and enhance its brand reputation.
- ✓ Uni-President China has a number of partnerships, which include a beverage joint venture with Changchun-based Jinmailang and Kirin, as well as a strategic stake in Tianjin Wondersun Dairy and Andre Juice, which should help strengthen the product development.
- ✓ Investors who are interested in beverage and noodle industries can compare the similar and successful business model of another Taiwanese-managed food and beverage company Tingyi (0322) which operates the well-known brand of Master Kong. It is now trading with PE ratio around 38 times. In the event that the offer price is being set at the lower end of the indicative range due to the recent subsiding of the IPO frenzy, this stock is cheaper than its related rival.

Weaknesses/Threats

- × Beverages and instant noodle industries in the PRC are very competitive. The Group recorded loss in the Instant Noodle Business segment in FY 2004, 2006 and nine months ended in 2007. The company admitted such decreased sales volumes and lower prices were results of intense competition apart from fluctuating raw materials costs. Nevertheless, the Group has just announced a price hike of some 12% to its noodle products.

Recommendation: Neutral

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