

Analyst: Kelvin Li

Main Board Listing – Research

復星國際有限公司

Fosun International Limited [Stock Code: 0656]
Joint Global Coordinators, Joint

: Morgan Stanley

UBS

CICC

Bookrunners, Joint Sponsors and Joint
Lead Managers
Sector : Capital goods

Business : Investments in various businesses and industries

Total share offer: 1,250,000,000 shares
(20% of the enlarged share capital)

Public Offer: 125,000,000 shares (10%)

Placing: 1,125,000,000 shares (90%)

Greenshoe: 187,500,000 shares

Price: HK\$6.98 – HK\$9.23 per share

Market Cap: HK\$43.6 billion–HK\$57.7 billion

Pro forma FY2007E PER: 20.5x to 27.1x

Adjusted NTA per share: HK\$1.87 – HK\$2.30

Staffing: over 22,000 among its business units
(as of 31st December 2006)

HK Public Offer period:

29th June 2007 – 5th July 2007 noon

Receiving bank: Bank of China (Hong Kong)
ICBC (Asia)
The Bank of East Asia

Share registrar: Computershare Hong Kong
Investor Services Limited

Listing date: 16th July 2007

Business of Fosun International

Fosun International is an investment holding company with interest in multiple business areas. It mainly conducts its businesses via its wholly owned subsidiary Fosun Group, while Fosun Group was ranked the 4th-largest privately held enterprise in the Mainland in terms of revenue in 2005 and the largest among privately held PRC industrial conglomerates in 2005.

Fosun's core businesses consist of steel, property development, pharmaceuticals, and investments in the retail business via Yuyuan, an associate. It also has strategic investments in the financial services industry and in industries complementary to its core businesses like gold mining and iron ore mining.

Fosun operates its steel business via its 60% owned Nanjing Steel United, which holds interests in Nanjing Iron & Steel (600282.SH) and Ningbo Steel. The Company also operates its property development via Forte (HKEx: 2337), which has development projects in Shanghai and other eight major PRC cities. The pharmaceuticals business is operated via Fosun Pharma (600196.SH), one of the leading pharmaceuticals manufacturers in the Mainland.

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

Fosun Holdings*

80%

Public

20%

100%

Remark: (*) Fosun Holdings is 58% owned by Mr Guo Guangchang, Fosun's Chairman & CEO, and 22%, 10% and 10% owned by executive directors Mr. Liang Xinjun, Mr. Wang Qunbin and Mr. Fan Wei, respectively.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$11,091 million (Assuming an offer price of HK\$9.23, being the top-end of the indicative offer price range, and the over-allotment option is not exercised)

	Percentage of the net proceeds raised
For the repayment of debt	40%
For investments and/or acquisitions in the steel, pharmaceuticals and retail industries	20%
For investments and/or acquisitions in raw material suppliers, especially those of iron ore and coking coal	15%
For investments and/or acquisitions in the financial services industry and for other strategic investments	15%
For general working capital	10%

Financial Highlights

(RMB in millions)	2004	2005	2006
Revenue	18,033	23,453	24,231
Gross profit	3,537	3,689	4,107
Share of results of associates	469	257	628
Profit/(loss) for the year	1,279	1,362	1,096
EPS	RMB0.26	RMB0.27	RMB0.22
Gross profit margin	19.61%	15.73%	16.95%
Net profit margin	7.09%	5.81%	4.52%

Breakdown of revenue by business segments

(RMB in millions)	2004		2005		2006	
		%		%		%
Steel	13,371	74.1%	17,519	74.7%	17,694	73.0%
Property development	1,833	10.2%	2,057	8.8%	2,533	10.5%
Pharmaceuticals	2,829	15.7%	3,876	16.5%	4,005	16.5%
Other businesses	-	0.0%	-	0.0%	-	0.0%
Total	18,033	100.0%	23,453	100.0%	24,231	100.0%

Breakdown of gross profit by business segments

(RMB in millions)	2004		2005		2006	
		%		%		%
Steel	2,057	58.2%	1,938	52.5%	2,316	56.4%
Property development	712	20.1%	845	22.9%	966	23.5%
Pharmaceuticals	768	21.7%	906	24.6%	825	20.1%
Other businesses	-	0.0%	-	0.0%	-	0.0%
Total	3,537	100.0%	3,689	100.0%	4,107	100.0%

Breakdown of profit attributable to shareholders by business segments

(RMB in millions)	2004		2005		2006	
		%		%		%
Steel	530	41.4%	388	28.5%	592	54.0%
Property development	172	13.4%	277	20.3%	273	24.9%
Pharmaceuticals	76	5.9%	67	4.9%	(102)*	(9.3%)
Other businesses	527	41.2%	656	48.1%	377	34.4%
Unallocated expenses	(25)	(2.0%)	(25)	(1.9%)	(44)	(4.0%)
Total	1,279	100.0%	1,362	100.0%	1,096	100.0%

Remark: (*) The decrease in profit in the pharmaceuticals segment was mainly due to a RMB124.6 million change in fair value of convertible bonds in 2005 and 2006 and a RMB93.3 million non-recurring loss recorded in connection with share desegregation reforms of Fosun Pharma.

Strengths/Opportunities

- ✓ Fosun has a strong reputation in identifying and capturing favourable business investment opportunities and a good proven record in achieving good investment returns.
- ✓ The share offering of Fosun has attracted strong investor interest so far in the institutional tranche. Besides, it has also attracted 11 cornerstone investors subscribing for the share issue. They include China Life (subscription amount: US\$20 million), China Pacific Insurance and China Pacific Life Insurance (US\$10 million each), the Dickson Poon family (US\$20 million), First State Investments (US\$20 million), The Government of Singapore Investment Corporation Pte Ltd. (US\$20 million), Honeybush Limited (a trustee for Mr. Kuok Hock Nien and associated persons) (US\$20 million), Mr Lau Luen-hung (US\$20 million), the Kwok family of SHKP (0016.HK) (US\$20 million), Starr International Investments (owned by AIG's single largest shareholder SICO) (US\$20 million), Shau Kee Financial (US\$20 million) and Cheung Kong (Holdings) (0001.HK) (US\$20 million). Assuming an issue price of HK\$8.11, being the mid-point of the indicative price range, and the over-allotment option is not exercised, the stakes of these 11 cornerstone investors would represent an aggregate 3.3% of the enlarged share capital of Fosun and an aggregate of 16.5% of the total shares in offer. Besides, the cornerstone investors are all subject to a lock-up period of six months following the Listing Date.

Weaknesses/Threats

- × Fosun operates its core business through its share holdings in various business units, while these units are listed stocks in both HK and the Mainland China as well as unlisted companies. However, we see little synergies between these business segments, as the Company only holds a minority interest in some of those companies and therefore has only limited influence over the management of the business units.
- × The core businesses of Fosun now face quite different industry outlook due to different government policy and operational environment. Investment strategy would be more flexible for investors buying into stocks in specific sectors or industries rather than holding conglomerate stocks like Fosun.
- × Steel business makes up the integral part of Fosun's business portfolio, contributing more than 70% of total revenue in 2006 and being the biggest profit contributor last year. Nonetheless, the outlook of the steel industry turned more challenging, as Beijing has imposed taxes between 5-10% on exports of more than 80 types of steel products since 1st June 2007.
- × To be priced at 27x (at the top end of the indicative price range) 07E P/E, Fosun's valuation is much higher than its peer CITIC Pacific (HKEx: 0267)'s 22x forward P/E.

Recommendation: Neutral

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