

Analyst: Sam Ho

## **Main Board Listing- Research**

博智國際藥業控股有限公司

Broad Intelligence International Pharmaceutical Holdings Limited [Stock Code: 1149]

**Sponsor and Joint Lead Manager**

: Sun Hung Kai International Limited

**Joint Lead Manager**

: China Southern Securities (HK) Limited

**Sector** : Pharmaceutical

**Business** : Manufacture and sale of small & large volume of injection solutions

**Total share offer:** 108,000,000 shares  
(27% of the enlarged share capital)

**Placement:** 97,200,000 shares (90%)  
- 73,200,000 new shares  
- 24,000,000 sale shares

**IPO:** 10,800,000 shares (10%)

**Greenshoe:** 16,200,000 shares

**Price:** HK\$0.93 per share  
**H-share market cap.:** HK\$372 million

**Historical P/E:** 6.4x (fully diluted)  
**Adjusted NAV per share:** HK\$0.47

**Staffing:** 173

**IPO opens:** 11<sup>th</sup> November 2003

**IPO closes:** 14<sup>th</sup> November 2003

**Receiving bank:** Standard Chartered Bank  
**Share registrar:** Standard Registrars Limited

**Listing date:** 24<sup>th</sup> November 2003

### **Business of Broad Intelligence**

The Company is engaged in the research, development, manufacturing and sale of small and large volume parenteral solutions in the chemical preparations medicine arena, including anti-infectious medicine, anti-neoplastic medicine and functional supplementary medicine.

The Company has obtained approval from SFDA for over 40 pharmaceutical products, all of which are in liquid injection form. 17 of them have already been launched to the market. Its products are sold under the “南少林” (Nan Shaolin) brand name to licensed distributors, hospitals and clinics. The 2 major products (etoposide injection solution, a Class 1 State Anti-cancer Drug - for curing tumors and cancers & citicoline sodium injection solution, a Class A State Protected Medicine - for curing acute craniocerebral trauma) accounted for more than 70% of its turnover.

The Company has 2 GMP-compliant workshops and other production facilities, that have a total GFA of 8,523 m<sup>2</sup>, in Fujian province for the production of small volume and large volume parenteral solutions, with an annual production capacity of 240 million ampules for small volume and 36 million bottles for large volume.

### **Major Shareholders after Listing**

(Assuming the over-allotment option is not exercised)

Zhou Houtai, Chairman of the Company  
Chan Chau Wan, an independent 3<sup>rd</sup> party

52.93%

20.07%

73.00%

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$69 million  
(Assuming the over-allotment option is not exercised)

	HK\$ million
To establish new GMP-certified production lines for pharmaceutical products in pill and capsule forms	20
To expand the Company's production capabilities	15
To invest in product development	12
To spend on R&D on biotechnology	7
To develop sales and distribution network in the PRC and the Asia Pacific region	4
To establish an electronic media and platform	2
To serve as general working capital	9

### Financial Highlights

	6 months ended 30 <sup>th</sup> June 2003 RMB'000	2002 RMB'000	2001 RMB'000	Year ended 31 <sup>st</sup> December 2000 RMB'000
Revenue				
<i>Sales of pharmaceutical products</i>	<u>89,328</u>	<u>155,547</u>	<u>78,099</u>	<u>35,233</u>
Operating profit	<u>34,405</u>	<u>53,421</u>	<u>28,249</u>	<u>10,149</u>
Net profit	<u>31,700</u>	<u>49,017</u>	<u>25,877</u>	<u>10,026</u>
Dividend	-	20,810	10,363	-
EPS	<u>RMB0.100</u>	<u>RMB0.155</u>	<u>RMB0.082</u>	<u>RMB0.032</u>

### Strengths

- ✓ The Company enjoyed high profit margins, achieving gross-profit margins of around 36%-41% and net-profit margins of around 28%-25% for each of the 3 years ended 31<sup>st</sup> December 2002, and the 6 months ended 30<sup>th</sup> June 2003.
- ✓ Priced at a historical P/E of 6.4x and an estimated FY2003 P/E of 4.7x, valuation of Broad Intelligent is undemanding when compared with its listed peers. China Pharmaceutical (*stock code: 1093*) is trading at a 2003E P/E of 6.4x and Far East Pharmaceutical (*stock code: 2973*) is trading at a 2003E P/E of 10.8x. Meanwhile, GEM-listed Tong Ren Tang (*stock code: 8069*) is trading at a 2003E P/E of 15.9x.

### Weaknesses

- × Competition in the pharmaceutical industry is highly intensive. It is a highly-fragmented market, with the top 10 pharmaceutical companies in China together holding no more than 3% market share in 2000. However, since the deadline for GMP standards compliance is due in June 2004, many small players that could not attain the standard before the deadline will be forced out of businesses.
- × Since the 6 major products accounted over 80% of the Company's total turnover during the track record period, product substitution from other similar products that have comparable medicinal applications or therapeutic effects may adversely impact on the Company's business and profitability.
- × New products in the pipeline are all Class 2-Class 4 State New Medicines, which do not give any comparative advantages to the Company when compared to its competitors.

### Recommendation: Trading buy