

Analyst: Ernest Tan

Main Board Listing – Research

福記食品服務控股有限公司

FU JI Food and Catering Services Holdings Limited [Stock Code: 1175]

Sponsor : CAF Securities (*wholly-owned subsidiary of Agricultural bank of China*)

Joint Lead Managers & Bookrunners : CAF Securities & SBI E2-Capital

Sector : Consumer Discretionary

Business : Food catering and restaurants

<p>Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 10,000,000 shares (10%)</p> <p>Placing: 90,000,000 shares (90%)</p> <p>Greenshoe: 15,000,000 shares (15%)</p>	<p><u>Business of FU JI</u> 福記</p> <p>FU JI is the third largest licensed catering business in Shanghai (in terms of sales) and one of the top 100 food and beverage enterprises in the PRC in 2002 and 2003. The company has three major businesses, namely: 1) institutional catering, 2) restaurants and 3) convenience food.</p> <p>FU JI's catering service customers include prominent multinational and PRC corporations (such as Panasonic, Siemens, General Motors, ASE and Bank of China, etc.) and government bodies (such as the Shanghai Police Bureau). All procurement and food processing are organized by its food-processing centre to comply with HACCP standards for food hygiene and safety.</p> <p>The company runs three sizeable restaurants in Pudong, Puxi and Suzhou that focus on higher spending customers, i.e. RMB 150 bill per person. It recently launches pre-cook convenience food at its restaurants and catering outlets and the results show growth potentials.</p>
<p>Price: HK\$3.10 per share</p> <p>Market Cap.: HK\$1,240 million</p> <p>Adjusted net tangible asset value: HK\$1.19 per share</p> <p>Prospective FY2005 P/E: 9.0x (fully diluted)</p> <p>Staffing: 830</p>	
<p>Book opens: 26th November 2004</p> <p>Book closes: 3rd December 2004</p> <p>HK Public Offer period: 7th Dec 2004 – 10th Dec 2004</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Receiving bank: Standard Chartered Bank</p> <p>Listing date: 17th December 2004</p>	

Major Shareholders after Listing

Mr. Wei Dong, Chairman and Co-founder	52.50%
Ms. Yao Juan, Executive Director and Co-founder	18.75%
Mr. Wei Ming, Vice General Manager	3.75%
	<u>75.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$288 million.

	HK\$ million
Establish sourcing and initial processing centres in Shandong, Zhejiang and Hainan	45
Establish processing centres in Songjiang, Wuxi and Shenhen	112
Open restaurants in Shanghai and Wuxi	38
Set up convenience food products outlets in Shanghai and Suzhou	60
Sales and marketing promotion	5
Future business development and general working capital	28

Financial Highlights

	<u>Year ended 31 March</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>RMB'M</u>	<u>RMB'M</u>	<u>RMB'M</u>
Turnover			
Catering	-	15.2	98.4
Restaurant	75.0	115.7	149.5
Convenience food	-	-	5.1
	75.0	130.9	253.0
% change	n.a.	74.5%	93.2%
Gross profit	48.8	84.0	159.1
Gross margin	65.1%	64.2%	62.9%
EBITDA	23.4	58.5	120.1
Depreciation	(8.3)	(12.1)	(16.3)
EBIT	15.1	46.4	103.8
Net interest expense	(0.1)	(0.5)	(3.0)
Tax	(1.8)	(9.5)	(18.2)
Net profit	13.2	36.4	82.6
% change	n.a.	175.8%	126.9
Net margin	17.6%	27.8%	32.6%

Key Balance Sheet Data

<i>RMB'M (unless otherwise stated)</i>	As of 30 June 2004
Cash	56
Net (debt)* / cash	(35)
Shareholders' equity	200
Total assets	325
Accounts payable turnover (days)	22
Account receivables turnover (days)	8
Net gearing	17%

**Most of which is the US\$4 million convertible bonds held by Arai fund*

Strengths/Opportunities

- ✓ The company is riding on the trend of increasing foreign direct investments in China, i.e. catering demand derived from the newly set-up factories are expected to be strong. Revenue from FU JI's catering service is expected to double from the FY2004 level in a year's time and would replace restaurant business as the company's growth driver.
- ✓ FU JI has first mover advantage. It enjoys low rents as leases (10 years in general) were entered years before the recent rental hikes in Shanghai. Furthermore, the economies of scale resulted from centralizing production also helps bringing costs down. As a result, the counter enjoys higher margins compares with its competitors.
- ✓ Food catering is business with strong recurring cash flows. Earnings quality is high as revenue is secured by contracts with large multinational corporations and government bodies.



Weaknesses/Threats

- × FU JI's businesses have low entry barriers. Besides numerous small local players, foreign enterprises like Sodexo and Compass also compete in the PRC market.
- × Profit margins might be lowered if FU JI expands to other provinces. It is because the company might no longer enjoy preferential tax treatment (15% corporate tax rate as granted by the Shanghai city government). Moreover, higher rentals and depreciation charges would also make Fu JI difficult to replicate its current success elsewhere.

Recommendation: Trading Buy