

Analyst: Anita Hwang

Main Board Listing – Research

Dah Chong Hong Holdings Limited [Stock Code: 1828] 大昌行集團有限公司

Global coordinator, bookrunner, lead manager and sponsor : BNP Paribas

Sector : Consumer Services

Business : Distribution of motor vehicles and food and consumer products

Total share offer: <u>781,200,000</u> shares (43.4% of the enlarged share capital) Placing: *658,180,000 shares (90%) Public Offer: 123,020,000 shares (10%) Greenshoe: 117,000,000 shares <i>*Comprising 56,980,000 New Shares and 601,200,000 Sale Shares</i>	<u>Business of Dah Chong Hong (DCH)</u> DCH is a diversified business conglomerate in motor vehicle sales, motor vehicle related business and services, sales of food and consumer products (including appliances), as well as logistics services, supported by integrated distribution platforms and a well-established base and network in the PRC, HK and Macao. With distributorships for 11 brands of motor vehicles in HK, DCH managed to command approximately 27% of the brand new vehicle market in HK in 2006. DCH also sold, through its subsidiaries and contractual arrangements with local partners, 17 vehicle brands in 10 major cities in the PRC. DCH provided FY07E combined attributable profit forecast [^] to be no less than HK\$406.6 million, equivalent to a pro forma fully diluted EPS of HK\$0.224.
Price: HK\$4.55– HK\$5.88 per share Market Cap: HK\$8.19 billion – HK\$10.58 billion Pro-forma fully diluted FY07 PER: 20.3X – 26.3X [^] Adjusted NTA per share: HK\$1.98 – HK\$2.11 Staffing: 6,423	
HK Public Offer period: 4 th October 07 – 9 th October 07 noon Receiving bank: Bank of East Asia Bank of China (HK) Hang Seng Bank ICBC Share registrar: Tricor Investor Services Limited Listing date: 17 th October 2007	

[^] before revaluation gains on investment properties, losses on discontinued operations & pre-IPO share option scheme

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

CITIC Pacific (0267.HK)	56.6%
Public shareholders*	43.4%
	<u>100.0%</u>

Remarks: * DCH and the global coordinator have entered into placing agreements with several cornerstone investors:

- **Dr. Cheng Yu-Tung**, through Chow Tai Fook Nominee Ltd., will subscribe for US\$30 million worth of shares (some 2.49% of the enlarged share capital).
- **Cheung Kong (Holdings) Ltd.**, through Dayjoro International Ltd., will subscribe for US\$15 million worth of shares (some 1.25% of the enlarged share capital).
- **Li Ka Shing Foundation Ltd.** will subscribe for US\$15 million worth of shares (some 1.25% of the enlarged share capital).
- **Dr. Lee Shau Kee**, through Longfit Ltd., will subscribe for US\$30 million worth of shares (some 2.49% of the enlarged share capital).

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- **Otsuka Pharmaceutical Co. Ltd.** will subscribe for US\$15 million worth of shares (some 1.25% of the enlarged share capital).

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$893.9 million. (Assuming an offer price of HK\$5.22, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For expansion of motor vehicle business	400
For expansion of food and consumer products trading business	200
For expansion of logistics and food supply chain business	260
For general working capital and general corporate purposes	balance

Financial Highlights

HK\$ million	Year ended 31 December		
	2005	2006	2007
Turnover	11,494	10,520	12,926
Gross profit	1,622	1,676	1,904
Profit from operations	336	365	477
Profit for the year	286	252	335
Gross margin	14.1%	15.9%	14.7%
Operating margin	2.9%	3.5%	3.7%
Net margin	2.5%	2.4%	2.6%

Breakdown of turnover by activities

Year ended 31 December	2004		2005		2006	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Motor	6,681	58.1%	5,533	52.6%	7,684	59.5%
Food and consumer products	4,678	40.8%	4,822	45.8%	5,047	39.0%
Logistics	86	0.7%	118	1.1%	144	1.1%
Others	50	0.4%	48	0.5%	51	0.4%
Total	11,494	100.0%	10,520	100.0%	12,926	100.0%

Strengths/Opportunities

- ✓ **Riding on consumption growth and its strong brand equity** DCH is a distributor of a wide spectrum of consumer goods with a strong brand name and long established operational history. It is expected to ride on the growth in domestic consumption in the PRC in FMCGs (fast moving consumer goods) and auto. In addition to the vehicle distribution, DCH now supplies more than 500 different food products, 70 brands of FMCGs and several brands of electrical appliances and cosmetics in the PRC and HK.
- ✓ The IPO price range of DCH is at a FY07E pro-forma fully diluted PER range of 20.3X – 26.3X. Reasonable comparable listed in HK would be China Resources Enterprise (0291.HK), which trades at FY07E PER of 39X. DCH is priced at about 32%-48% discount to the peer, which we think is a reasonable discount for DCH's smaller business and retail network.

Weaknesses/Threats

- × **Highly-competitive industry** DCH does not have exclusive distribution rights to most of the products. For instance, motor vehicle brands typically have multiple dealers for each brand in a particular country or region and they can also set up their own subsidiaries to directly carry out importation and distribution. Competition in the distribution of food and consumer products is also intense competing on prices, branding and distribution network.

Recommendation: Trading Buy



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