

Analyst: Vincent Leung

Main Board Listing - Research

積華生物醫藥控股有限公司

Jiwa Bio-Pharm Holdings Limited [Stock Code: 2327]

Sponsor, Bookrunner and Lead Manager

: DBS Asia Capital Limited

Sector : Pharmaceuticals

Business: R&D, manufacture and sale of pharmaceutical products

<p>Total share offer: <u>150,000,000</u> shares (30% of the enlarged share capital)</p> <p>IPO: 15,000,000 shares (10%)</p> <p>Placement: 135,000,000 shares (90%)</p> <p>Price: HK\$0.43 – HK\$0.50 per share Market Cap. : HK\$215 million – HK\$250 million</p> <p>Prospective P/E: 5.4x – 6.3x (pro forma fully diluted)</p> <p>Adjusted NTA per share: HK¢25.7 – HK¢27.9</p> <p>Staffing: 271</p>	<p><u>Business of Jiwa Bio-Pharm</u></p> <p>Established in 1987 and headquartered in Hong Kong, the Company is principally engaged in the research & development, manufacture and sale of pharmaceutical products, including new medicines, generic pharmaceutical products, and to a lesser extent, health-care products.</p> <p>The Company has a diversified product range, including 20 pharmaceutical products and 7 health-care products manufactured by the Company, as well as 3 traded pharmaceutical products manufactured by European pharmaceutical companies in the PRC. The Company's major manufactured pharmaceutical products include antibiotics, gastro-intestinal, gynaecological, hepatitis and steroid. Meanwhile, the Company is the exclusive distributor of the 3 traded pharmaceutical products.</p> <p>The Company's manufacturing base is located in Kunming City, Yunnan province. The Company has obtained all the relevant approvals and permits for the production of its manufactured pharmaceutical products in the PRC, including the Pharmaceutical Production Enterprise Permit. All 5 of the Company's production lines have been accredited with GMP (Good Manufacturing Practice) certificates.</p>
<p>Book opens: 25th September, 2003 Book closes: 2nd October, 2003</p> <p>IPO commences: 30th September, 2003 IPO closes: 6th October, 2003</p> <p>Receiving bank: Standard Chartered Bank</p> <p>Share registrar: Standard Registrars Limited</p> <p>Listing date: 14th October, 2003</p>	

Major Shareholders after Listing

LAU Yau Bor (Aged 65, Chairman and Executive director)	56%
CHAN Hing Ming (Aged 62, Executive Director and spouse of the Chairman)	7%
LAU Kin Tung (Aged 33, Vice-Chairman and Executive Director - son of the Chairman)	7%
	<u>70%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$56 million.

(Based on an issue price of HK\$0.47, being the midpoint of the proposed range of issue prices of HK\$0.43 and HK\$0.50 per offer share)

	HK\$ million
To establish a new GMP-compliant complex at Kunming National High Technology Industry Development Zone	28
To conduct research and development of new products	12
To fund production, sales and marketing activities of new drugs and health-care products	12
To serve as general working capital of the Group	balance

Financial Highlights

	Year ended 31 st March		
	2003 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Turnover			
<i>Manufactured pharmaceutical products</i>	128,361	149,880	120,571
<i>Traded pharmaceutical products</i>	51,286	27,628	50,333
<i>Manufactured Health-care products</i>	<u>9,115</u>	<u>8,887</u>	<u>7,005</u>
	<u>188,762</u>	<u>186,395</u>	<u>177,909</u>
Operating profit	<u>45,275</u>	<u>39,679</u>	<u>31,706</u>
Net profit	<u>30,813</u>	<u>24,793</u>	<u>22,325</u>
Dividends	16,000	8,000	-
EPS – basic	<u>HK\$8.80</u>	<u>HK\$7.08</u>	<u>HK\$6.38</u>

Strengths

- ✓ The Company has an extensive sales and marketing network, with over 800 pharmaceutical distributors covering 27 provinces and over 130 exclusive marketing agents appointed in major cities in the PRC.
- ✓ The Company has been able to achieve improvements in gross-profit margin from 30.2% to 48.4% and net-profit margin from 12.5% to 16.3% over of the 3 years ended 31st March 2003, thanks to changing sales mix in favour of higher-margin products and decreasing costs of raw materials.
- ✓ The Company has received several certificates and recognition from the PRC governmental authorities in recognition of its high product quality and advanced production technology.
- ✓ Jiwa's valuation at a FY2004E P/E range of 5.4x-6.3x on a pro-forma fully-diluted basis looks fair when compared with its latest listed peer Dawnrays Pharmaceutical (*Stock code: 2348*). Dawnrays, which made its trading debut on the main board in July this year, is trading at a FY2004E P/E of 4.9x.

Weaknesses

- × 19 of the Company's 20 pharmaceutical products sold in the PRC are subject to price controls by relevant state and provincial administration authorities, while the remaining 1 is market priced. As a result of market competition and governmental price controls, prices of the Group's products have generally dropped during the Track Record Period.
- × Formulae for all but 1 of the pharmaceutical products, which accounted for over 64% of the Group's turnover during the Track Record Period, currently manufactured and sold by the Company are publicly available. Moreover, the 13 products in the pipeline, although new to the PRC market, are products that have already been launched for sometime in the foreign markets. Potential substitutes for the Company's existing and new products would negatively affect its profitability outlook.

Recommendation : Hit & Run