

Analyst: Kelvin Li

Main Board Listing - Research

利和經銷集團有限公司

Integrated Distribution Services Group Limited [Stock Code: 2387]
Global Coordinator, Bookrunner, : HSBC

Lead Manager and Sponsor
Co-Lead Managers : BNP Paribas Peregrine

Cazenove Asia Limited

Co-Managers : DBS Asia Capital Limited

Macquarie Securities Limited

Sector : Logistics

Business : Integrated-distribution service provider

Total share offer: 120,000,000 shares
(40% of the enlarged share capital)

Public Offer: 12,000,000 shares (10%)
Placing: 108,000,000 shares (90%)

Greenshoe: 9,000,000 shares

Price: HK\$3.00 – HK\$3.75 per share
Market Cap.: HK\$900 million – HK\$1,125 million

Forecast FY2004 P/E: 12x – 15x
(Pro forma diluted)

Adjusted NTA per share: HK\$1.96 – HK\$2.11

Staffing: 4,293 (as of 18th November 2004)

HK Public Offer period:
24th November 2004 - 29th November 2004

Receiving bank: HSBC
Standard Chartered Bank (HK)

Share registrar: Abacus Share Registrars Limited

Listing date: 7th December 2004

Business of IDS Group

The Group, a unit of Li & Fung (0494), is principally engaged in the provision of integrated-distribution service in the Asian region. In 1999, Li & Fung acquired assets from Inchcape Marketing Services Ltd. and privatised the company from the Stock Exchange of Singapore. Via a series of restructuring in the acquired assets, three core business areas (Marketing, Logistics and Manufacturing) were identified and IDS Group was formed.

IDS Marketing now operates in eight Asian countries, providing comprehensive marketing solutions to brand-owners of FMCG and healthcare products. IDS Logistics operates in seven Asian countries, managing 42 distribution centres and depots as well as offering a full suite of logistics solutions to FMCG, healthcare, footwear and apparel, electronics and retail clients. IDS Manufacturing runs three manufacturing plants in SE Asia, specializing in making food & beverage, pharmaceutical, household, and personal care products.

Clients of the Group are mainly multinational manufacturers of products ranging from food & beverage to lifestyle and footwear apparel. Well-known client accounts included Nike, Carrefour, Gillette, Pfizer, Boots, etc.

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

Li & Fung (Distribution) Limited

55.65%

Capital Joint Holdings Limited

4.35%

60.00%

Use of Proceeds

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Net proceeds from the offer are estimated to be HK\$181.3 million

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.38 each, which is the mid-point of the indicative price range)

	HK\$ million
For strengthening of the Group's logistics and marketing business in China, including facilities, infrastructure and resources	36.2
For investing and enhancing its three core businesses in economies	26.9
For regional expansion in new economies, including logistics and manufacturing operations in Vietnam and logistics operations in Indonesia	26.9
For investment in IT systems in China, enhancement of existing applications and systems	26.9
For strategic M&As or joint venture and/or alliance in the three core business in the Asian region	52.9
For general working capital	11.5

Financial Highlights

	6 months ended 30 th June 2004 US\$'000	2003 US\$'000	2002 US\$'000	2001 US\$'000
Revenue	269,394	591,814	466,050	457,783
Operating profit / (loss)	7,174	13,097	5,571	19,118
Net profit / (loss)	6,619	8,368	2,975	9,823

Breakdown of Revenue by Business Segments

	6 months ended 30 th June 2004		Year ended 31 st December					
	US\$'000	%	2003 US\$'000	%	2002 US\$'000	%	2001 US\$'000	%
Logistics	40,875	15.2	78,764	13.3	69,203	14.8	48,673	10.6
Marketing	174,567	64.8	424,070	71.7	324,382	69.6	335,792	73.4
Manufacturing	60,179	22.3	101,414	17.1	82,375	17.7	82,452	18.0
Less: Inter-segment elimination	(6,227)	(2.3)	(12,434)	(2.1)	(9,910)	(2.1)	(9,134)	(2.0)
Revenue	<u>269,394</u>	100.0	<u>591,814</u>	100.0	<u>466,050</u>	100.0	<u>457,783</u>	100.0

Strengths/Opportunities

- ✓ The Group has a broad base of multinational clients, including global brand names in the FMCG, footwear and apparel, tobacco, wine and spirits and healthcare industries. A strong client relationship should earn the Group a good reputation and further strengthen its worldwide client base.
- ✓ According to International Data Corp, the Asian outsourcing industry is expected to grow at an estimated 22.6% CAGR in the next two years, surpassing the global outsourcing industry growth at 12.2%. And stronger demand for logistics and delivery services should help boost the Group's business.
- ✓ The IDS Marketing division of the Group is among one of the first distribution companies to win approval from the State Ministry of Commerce of China to set up a wholly owned entity in the mainland under CEPA. Besides, with the strong heritage of the Parent Group (Li & Fung; stock code: 0494) and its long operational experiences in the fast-growing country, IDS Group has accumulated in-depth market knowledge and strong institutional relationships, which is so essential in carrying out a successful business in China.
- ✓ For the year ended 31st December 2003, revenue from the PRC only accounted for 3.2% of the total. With the rapidly growing economy and international trade in China, we expect higher demand for distribution services in China and the Group should find plenty of room for business expansion in the region.

- ✓ At the high end of the indicative price range, shares of IDS Group is priced at 15x FY2004E P/E, much lower than that of 25x of its Parent Group. Despite slightly higher than its peers (9x-14x), valuation of the Group is not too demanding as we believe there should be a “China” premium in the counter.
- ✓ The Group outlined a clear dividend policy of paying 50% of earnings of the applicable year. (subject to discretion of the Board)

Weaknesses/Threats

- × The Group’s integrated logistics business is closely correlated to the economic environment of the Asian region as well as consumption habit of people in these countries. Therefore, the Group’s earning and business outlook is subject to the economic and social risks in the region.
- × Due to a series of group restructuring during the last couple of years, the Group’s net profit was shown to be volatile. And a lack of consistency may slightly hinder investors’ interest in the IPO.

Recommendation: Subscribe