

Analyst: Anita Hwang

Main Board Listing – Research

Vinda International Holdings Limited [Stock Code: 3331]

維達國際控股有限公司
Sole global coordinator, sole bookrunner, sole sponsors and sole lead manager

: Merrill Lynch

Sector : Consumer Staples

Business : Manufacture of tissue paper products

<p>Total share offer: <u>300,570,000</u> shares (35 % of the enlarged share capital)</p> <p>Public Offer: 30,058,000 shares (10%)</p> <p>Placing: *270,512,000 shares (90%)</p> <p>Greenshoe: 45,085,000 shares</p> <p><i>*Comprising 191,077,006 New Shares and 79,434,994 Sale Shares by Cathay Paper and Lee Der Fung</i></p>	<p><u>Business of Vinda International (Vinda)</u></p> <p>Vinda is a leading manufacturer of tissue paper products in China. According to the National Bureau of Statistics Information Centre, from 2001 to 2006, Vinda had the highest market share for tissue paper products in China as measured by total annual sales. Vinda's principal products include toilet paper, paper handkerchiefs, facial tissue paper and paper napkins.</p> <p>Vinda targets its products primarily to the mid to high-end markets. The flagship brand "Vinda" is a well-recognized brand of tissue paper products in China and has been recognized by the PRC State Administration for Industry and Commerce Trademark Office as a "China Famous Trademark" since 2002.</p> <p>In 2006, 50.0% of the sales were made to distributors and 50.0% were made to direct customers (out of which 28.3% were made to supermarkets). Key customers include certain international supermarket chains, fast-food chains and hotel chains.</p> <p>Vinda had 5 production bases with 14 paper machines strategically located in Beijing, Guangdong, Hubei and Sichuan, with a total annual design production capacity of approximately 190,000 tonnes.</p>
<p>Price: HK\$3.18 – HK\$3.68 per share</p> <p>Market Cap: HK\$2,731 million – HK\$3,160 million</p> <p>Pro-forma fully diluted estimated FY06 PER (EAS): 25.6X – 29.6X</p> <p>Adjusted NTA per share: HK\$1.238– HK\$1.363</p> <p>Staffing: 3,635</p>	
<p>HK Public Offer period: 26th June 07 – 29th June 07 noon</p> <p>Receiving bank: Hang Seng Bank Bank of China (HK) The Bank of East Asia ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 10th July 2007</p>	

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

CW Li Family Trust (of which the beneficiaries include Mr. Li Chao Wang and his family members). Mr Li is the founder and CEO of Vinda.	31.71%
SCA Hygiene – a wholly-owned subsidiary of Svenska Cellulosa Aktiebolaget (Swedish Cellulose Incorporated), a company listed on the Stockholm, London and New York stock exchanges	14.85%
Cathay Capital Holdings, L.P., a private equity fund, via Cathay Paper Ltd.	9.85%
Mr. Lee Kwong Sang, a non-executive director, via Lee Der Fung Company Ltd.	4.89%
ML GCRE – a wholly-owned subsidiary of Merrill Lynch	3.70%
Public shareholders	35.0%
	<u>100.0%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$603.2 million – HK\$709.9 million. (Assuming the offer price range of HK\$3.18 – HK\$3.68 per share and assuming the over-allotment option is not exercised)

	HK\$ million
To construct new manufacturing facilities	110.0 -144.7
To acquire paper machines	220.0 – 254.3
To acquire processing machines and related facilities	110.0 – 127.4
To repay short term loans with interest rates ranging from 6.12% to 8.25% and maturity dates up to March 2008	130.0 – 137.5
For working capital requirements and general corporate purposes	33.2 – 46.0

Financial Highlights

Year ended 31 Dec (HK\$ million)	2004	2005	2006
Revenue	726.0	925.9	1,358.2
Gross profit	200.7	248.4	340.2
Operating profit	80.6	97.3	159.0
Net profit	45.2	58.4	106.8
Gross Margin	27.6%	26.8%	25.0%
Operating Margin	11.1%	10.5%	11.7%
Net Margin	6.2%	6.3%	7.9%

Breakdown of turnover by products

Year ended 31 Dec	2004		2005		2006	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Toilet paper	407.8	56.2	535.8	57.9	835.8	61.5
Paper handkerchiefs	108.5	14.9	126.4	13.6	156.0	11.5
Facial tissue paper	94.3	13.0	97.8	10.6	110.1	8.1
Paper napkins	50.6	7.0	62.8	6.8	69.7	5.1
Other products	47.1	6.6	81.2	8.8	116.9	8.6
Semi-finished goods and other materials	17.7	2.3	21.9	2.3	69.8	5.2
Total	726.0	100.0	925.9	100.0	1,358.2	100.0



Strengths/Opportunities

- ✓ **Good brand recognition** Vinda has established a good brand name in China. The brand “Vinda” was recognised as the “Most Influential Household Paper Brand in China” in 2005 by the China Top 10 Most Influential Brands Selection Committee and as one of the “Top 100 Most Valuable Famous Trademarks in China” in 2005 by the China Brand Research Institute. In 2006, Vinda had approximately 14.7% market share in China in terms of the quantity of tissue paper sold. A well-recognized brand is important to compete in this fragmented but fast-growing tissue paper market.
- ✓ **Fast-growing market** According to RISI, a source of independent economic analysis for the international forest products industry, the total tissue paper consumption in China amounted to 4.1 million tonnes in 2005, representing 13% growth over 2004. Usage of tissue paper products in China is still low but is expected to grow with increasing disposable income. The per capita expenditure on tissue paper products was US\$2.5 in China in 2005 versus US\$33 in developed markets such as the US and Japan.
- ✓ The closest peer to Vinda is Hengan International (1044.HK), which has a more diversified portfolio of products including feminine care products and disposable diapers in addition to tissue paper products. In terms of operational scale, Hengan has many different brands for various products lines. Its FY06 total turnover was HK\$4.12 billion with a net profit margin of 16.9%. Hengan has a larger market capitalization (HK\$27.24 billion) and is trading at a FY06A and FY07E PER of 39.1X and 32.2X, respectively. Vinda should trade at a lower valuation multiple than Hengan; at a FY06 pro-forma fully diluted PER range of 25.6X – 29.6X, its valuation is reasonable.

Weaknesses/Threats

- × Pulp is the principal raw material in the production of tissue paper. For the fiscal years 2004, 2005 and 2006, 53.7%, 54.1% and 58.8% of total cost of sales was for the purchase of pulp. Pulp price has risen some 30% internationally over the past year as demand outpaced the limited supply. Prices are expected to go up though at a steadier pace. Given the competitiveness of the tissue paper market and the homogenous nature of tissue paper products, price sensitivity is still high among the Chinese consumers. Margin squeeze may worsen when hiked costs cannot be passed on to end-customers amid fierce competition.

Recommendation: Trading Buy



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