

**Analyst: Vincent Leung**

## Main Board Listing – Research

**大成糖業控股有限公司**
**Global Sweeteners Holdings Limited [Stock Code: 3889]**

<b>Sponsor</b>	: Goldbond Capital (Asia)	
<b>Sole Bookrunner and Sole Global Coordinator</b>	Goldbond Securities	
<b>Joint Lead Managers</b>	: Goldbond Securities	DBS Asia Capital

**Sector** : Food, Beverage & Tobacco

**Business** : Manufacture and sale of corn sweeteners in the PRC

<b>Total share offer:</b> <u>300,000,000</u> shares <b>(30% of the enlarged share capital)</b>  <b>Public Offer:</b> 30,000,000 shares (10%) <b>Placing:</b> *270,000,000 shares (90%) <b>Greenshoe:</b> 45,000,000 shares	<b><u>Business of Global Sweeteners Holdings</u></b>  Global Sweeteners Holdings is a spin-off from Global Bio-Chem Technology Group ("GBT"; #0809) and is principally engaged in the production and sale of various corn sweeteners.  The Group is currently producing a variety of products under 3 broad categories: (i) corn syrup – glucose/maltose syrup (葡萄糖漿/麥芽糖漿) and high fructose corn syrup ("HFCS", 高果糖漿); (ii) corn syrup solid – crystallised glucose (結晶葡萄糖) and maltodextrin (麥芽糊精); and (iii) sugar alcohol – sorbitol (山梨醇).  The Group has a total designed capacity (including JV overall volume) of 960,000 metric tonnes p.a. as of 31 <sup>st</sup> March 2007, comprising 580,000 metric tonnes of glucose/maltose syrup, 100,000 metric tonnes of HFCS, 200,000 metric tonnes of crystallised glucose, 20,000 metric tonnes of maltodextrin and 60,000 metric tonnes of sorbitol.  Production facilities of the Group are located in Changchun, Jilin province and Shanghai, with GFA of about 31,807 m <sup>2</sup> and 11,320 m <sup>2</sup> respectively.  The Group has established a 50/ 50 JV with the US' Cargill Inc engaging in the manufacture of HFCS and a 51/49 JV with Japan's Mitsui Group engaging in the production of sorbitol.
<b>Price:</b> HK\$1.57 – HK\$2.04 per share <b>Market Cap:</b> HK\$1.57 billion – HK\$2.04 billion  <b>Historical FY2006 full-diluted P/E:</b> 10x – 13x  <b>Adjusted NTA per share:</b> HK\$0.69 – HK\$0.82  <b>Staffing:</b> 578 (as of 4 <sup>th</sup> September 2007)	
<b>Bookbuilding Period:</b> 4 <sup>th</sup> September 2007 – 13 <sup>th</sup> September 2007  <b>HK Public Offer period:</b> 10 <sup>th</sup> September 2007 – 13 <sup>th</sup> September 2007 noon  <b>Receiving bank:</b> Hang Seng Bank  <b>Share registrar:</b> Tricor Investor Services Limited  <b>Listing date:</b> 20 <sup>th</sup> September 2007	

*Remark (\*): 15 million shares have been reserved for application by qualifying shareholders of Global Bio-Chem Technology Group (GBT) - an Assured Entitlement of one Reserved Share for every whole multiple of 154 GBT Shares held as the close of business on 3<sup>rd</sup> September 2007.*

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

Global Bio-Chem Technology Group Company Limited (stock code: 0809)

70%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$499.5 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.805 each, being the midpoint of the indicative price range)

	HK\$ million
For the construction of new production facilities in Jinzhou, Liaoning province	119.0
For the construction of new production facilities in Changchun, Jilin province	214.0
For the acquisition or construction of production facilities in relation to the expansion of the production capacity of the HFCS products	117.0
For general working capital	49.5

**Financial Highlights**

	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March
	2004	2005	2006	2007
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Turnover	265.0	825.0	1,144.1	336.4
Gross profit	54.9	179.9	251.6	55.8
Operating profit	27.2	112.9	190.1	43.2
<b>Attributable profit</b>	<b>18.5</b>	<b>80.7</b>	<b>156.7</b>	<b>34.6</b>
Gross margin	20.7%	21.8%	22.0%	16.6%
Operating margin	10.3%	13.7%	16.6%	12.8%
Net margin	7.0%	9.8%	13.7%	10.3%

**Turnover Breakdown (% of Total Turnover)**

	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March
	2004	2005	2006	2007
	%	%	%	%
Glucose syrup	28.2%	55.8%	55.9%	56.6%
Maltose syrup	55.3%	32.4%	26.6%	25.3%
HFCS	10.0%	5.5%	9.9%	8.4%
Crystallised glucose	-	-	1.9%	5.3%
Maltodextrin	5.4%	5.0%	4.6%	4.0%
Sorbitol	1.1%	1.3%	0.5%	0.4%
Others (^)	-	-	0.6%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

Remark (^): Others include mother solution and other by-products.

**Average Selling Price of Global Sweeteners' Products**

(HK\$ per tonne)	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March
	2004	2005	2006	2007
Glucose syrup	1,639	1,364	1,468	1,642
Maltose syrup	1,526	1,553	1,737	1,897
HFCS	1,645	1,793	2,378	2,314
Crystallised glucose	-	-	2,237	2,140
Maltodextrin	1,727	1,945	2,219	2,380
Sorbitol	1,847	2,625	2,368	2,617
Others	-	-	1,405	586

**Gross Profit Margins of Global Sweeteners' Products**

	Year ended 31 <sup>st</sup> December			3 months ended 31 <sup>st</sup> March
	2004	2005	2006	2007
Glucose syrup	20.8%	21.7%	21.3%	15.9%
Maltose syrup	24.8%	24.9%	23.2%	20.0%
HFCS	13.3%	24.3%	34.2%	21.0%
Crystallised glucose	-	-	(8.0%)	10.0%
Maltodextrin	(4.5%)	6.2%	14.1%	13.2%
Sorbitol	5.1%	0.7%	17.1%	(51.6%)
Others	-	-	(15.5%)	(402.1%)

**Strengths/Opportunities**

- ✓ The continual fast-growing food and beverages industry in the PRC should continue to drive demand for corn sweeteners.
- ✓ The Group is one of the largest corn sweetener producers in the PRC in terms of production capacity and production output of corn sweeteners. The Group's total capacity is expected to be boosted to 1,460,000 metric tonnes p.a. by the end of 2008 and further to 1,960,000 by the end of 2009.
- ✓ The Group's production facilities are strategically located in Changchun, Jilin province and Shanghai. The Changchun facilities are located in the PRC's Golden Corn Belt with abundant supply of the major production material at competitive cost. The Shanghai facilities give access to a number of large food and beverages producers in the Yangtze River Delta.

**Weaknesses/Threats**

- × The Group has been reliant on a few customers, including parent Global Bio-chem Technology. The top 5 customers accounted for approximately 54.5% of the total FY2006 turnover, with Global Bio-chem Technology accounting for 40.2%. Management of the Group expects proportion of sales to the parent will be reduced as it expands sales to other third parties over time.
- × The Group purchases its principal production material, corn starch, from parent Global Bio-chem Technology. Purchase from the parent accounted for 99.9% of the Group's total FY2006 cost of procurement of corn starch. Management of the Group expects the reliance on parent will decline gradually as it will increase purchases of raw materials from other suppliers in the market. In addition, the Group has been and will continue to rely on the parent for waste-water treatment facilities, electricity, steam and water.
- × The Group's profitability is subject to the price fluctuation of corn starch (i.e. its principal production material) and its products. Given the rising trend corn starch prices driven by the market prices of corn kernels, the Group's profitability will be adversely affected should it not be able to pass on the increasing production costs to its customers.
- × The Group is in a net-debt position, with net debt-to-equity ratio of 54.7% as of 30<sup>th</sup> March 2007.
- × To be priced at 10x-13x FY2006 fully-diluted P/E, Global Sweeteners' valuation is not particularly attractive when compared with sweetener sector peer Xiwang Sugar (stock code: 2088), which is trading at its 10.5x FY2006 P/E and 9.7x FY2007E P/E.

**Recommendation: Hit & Run**



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