



Analyst: Kelvin Li

GEM Board H-share Listing – Research

北京京客隆商業集團股份有限公司

Beijing Jingkelong Company Limited [Stock Code: 8245]
**Global Coordinator, Bookrunner, Lead
Manager and Sponsor**

: DBS Asia Capital Limited

Sector : Retailing

Business : Operator of retail chains and wholesale distributor in Beijing

| | |
|---|--|
| Total share offer: <u>132,000,000</u> H shares (36% of the enlarged share capital) Public Offer: 13,200,000 H shares (10%) Placing: 118,800,000 H shares (90%) Greenshoe: 19,800,000 H shares | <u>Business of Beijing Jingkelong</u> Jingkelong ("the Group") is one of the retail chain operators and wholesale distributors in the Greater Beijing Region, ranking the 34 th among the top 100 chain enterprises in China in 2005. As of 30/06/2006, the Group's retail distribution network comprised 169 retail outlets, of which 68 were directly operated and 101 were operated under franchise arrangements. Of the directly operated retail outlets, 4 are hypermarkets, 29 supermarkets and 35 convenience stores, while franchised outlets consisted of 5 hypermarkets and 96 convenience stores. The Group's wholesale distribution business mainly supply daily consumer products to its retail outlets as well as other retailers. Jingkelong has been operating in the Greater Beijing Region since its inception in 1996, with a strong presence in the Chaoyang District. Of the 169 outlets, 138 were situated in the district. The Group now operates two distribution centres to provide wholesale supply of daily consumer products, one in the Chaoyang District and the other in Tianjin. |
| Price: HK\$3.90 – HK\$4.50 per H share H-share Market Cap: HK\$514.8 million – HK\$594.0 million Historical FY2005 P/E: 13.0x – 15.0x Adjusted NTA per H share: HK\$2.10-HK\$2.28 Staffing: 4,281 (as of 30 th June 2006) | |
| HK Public Offer period: 12 th September 2006 – 15 th September 2006 noon Receiving bank: DBS Bank (HK) Standard Chartered Bank (HK) Share registrar: Computershare Hong Kong Investor Services Limited. Listing date: 25 th September 2006 | |

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

| | |
|----------------------|---------------|
| Chaoyang Auxiliary | 46.91% |
| Shanxi Trust | 7.27% |
| Beijing Gaoya | 1.42% |
| Beijing Jiazeng | 0.85% |
| Tianjin Jinganghua | 1.42% |
| Individual promoters | 6.13% |
| | <u>64.00%</u> |

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$462.0 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.20 each, being the mid-point of the indicative price range)

| | HK\$ million |
|--|--------------|
| For the expansion of the Group's retail network in the PRC | 281.8 |
| For the improvement and development of the Group's information and logistics systems | 138.6 |
| For general working capital | 41.6 |

Financial Highlights

| | Year ended 31 st December | | | 6 months ended |
|-------------------|--------------------------------------|---------------|---------------|----------------------------|
| | 2003* | 2004* | 2005 | 30 th June 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 2,894,108 | 3,568,865 | 4,121,748 | 2,161,105 |
| Gross profit | 349,413 | 404,013 | 500,081 | 263,086 |
| Operating profit | 82,226 | 146,729 | 164,609 | 101,095 |
| Net profit | 38,172 | 73,167 | 75,098 | 47,305 |

Remark (*): excluding discontinued operations.

Strengths/Opportunities

- ✓ The Group's retail outlets are mainly situated in the Chaoyang district of Beijing. With the hosting of the Beijing 2008 Olympic Games and principal event auditoriums being located in the Chaoyang district, strong tourist arrivals and commencement of infrastructure projects should strengthen the district's economic development and enhance the Group's growth potential in the area.
- ✓ Thanks to the robust economic growth in the Mainland, China's consumer spending continues to grow strongly, with retail sales up a sharp 13.8% y-o-y in August and 13.5% during the first eight months this year.
- ✓ Institutional investors have shown a good response on the share offering, with the placing portion 24x oversubscribed as of 11th September 2006.

Weaknesses/Threats

- × As of 30/06/2006, the Group's bank borrowings amounted to RMB757.3 million. With a cash holding of RMB242.1 million, the Group's possessed a high net debt-to-shareholders' equity ratio of 147% by the end of June. After the listing, the Group's management expects the gearing ratio would be reduced to around 70%.
- × Competition is expected to become more intense, after the PRC fully opened its market to foreign retailers for complying with WTO requirements. Rivalry is expected to turn more severe during the next couple of years, as other retailers may enter to ride on business opportunities from the hosting of Beijing 2008 Olympic Games.
- × The Group's top line growth was sluggish during the first half when compared with rivals, with revenue up 5% y-o-y. Amongst industry rivals, Lianhua (HKEx: 0980) reported a 21% y-o-y in revenue in 1H06, while Wumart (HKEx: 8277) registered a top line growth of 44% y-o-y in the first half. Nonetheless, to be priced at 15x FY05 P/E, Jingkelong's valuation is much less demanding when compared with Lianhua's 22x and Wumart's 43x historical price-earnings multiples.

Recommendation: Trading Buy

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