Kim Eng

Hong Kong

Initial Public Offering

27 December 2013

IPO write-up

China Packaging

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Stock Information

Stock code:	1439 HK
Issue size:	380m shares (200m new shares, 180m old shares)
Green shoe option:	15%
Public/Placement tranche:	10%/90%
Share issue price:	HKD0.40-0.60
Market cap after listing:	HKD320-480m
Use of proceeds (net):	HKD74m. 76.5% increasing the production capacity, 4.8% R&D, 12.1% construction of a new production block, 6.6% general working capital
Application list open	27 Dec 2013 – 2 Jan 2014
Expected listing date:	13 Jan 2014
Book runners:	Oriental Patron
Profit forecast:	N/A
Dividend policy:	No fixed dividend policy (indicative only)
PBR:	1.5-1.9x pro forma adjusted net assets per share
Post IPO shareholders	Founders Mr. Sun (58.5%)
Cornerstone investors	N/A

Company background

China Packaging is principally engaged in the design, manufacture, printing and sale of paper-based packaging products, which include flexo-printed cartons and offset-printed cartons of different sizes, shapes and design to customers in the PRC. Its products are generally used in packaging of a wide variety of products. The company ranked 7th with a market share of approximately 3.2% in the paper and paperboard-based container manufacturing industry in the Jiangxi Province in the PRC in terms of turnover in 2012, and was therefore one of the largest paper-based packaging product manufacturers in the Jiangxi Province. Jiangxi Province accounted for approximately 2.1% of the paper-based packaging product market in the PRC in 2012 in terms of quantity of the paper-based packaging products. Paper-based packaging products have the advantages such as light weight and high recyclability.

Selling points and strength

1) Diversified and solid customer base with most of its customers located in the proximity of production plant in the Jiangxi Province in the PRC.

2) Advanced technological know-how, machinery and equipment for production and printing of paper-based packaging materials.

3) Environmentally responsible practices in the production process.

4) Ability to provide one-stop cost control and/or tailored-made packaging and printing solutions to customers.

Some points of concern

1) Increase in the prices of raw materials would have adverse effects on profit margin if the company cannot pass on such increase to customers.

2) The expiration of the tax concession treatment the company has been enjoying in the fourth quarter of 2015.

3) Reliance on short term purchase orders from customers, which makes it difficult to forecast future order quantities.

Financial Summary (Year ended Dec 31)

CNY'000	FY10	FY11	FY12	Jan-Aug 2013
Turnover	132,998	193,933	280,553	218,161
Gross profit	24,178	36,487	59,262	49,589
Profit before tax	14,665	22,445	39,388	31,779
Net profit	12,879	19,593	34,222	22,808
Gross profit margin (%)	18.2	18.8	21.1	22.7
Net profit margin (%)	9.7	10.1	12.2	10.5

Source: Company data, Maybank Kim Eng

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