

IPO write-up

Honworld Group

Ivan LI, CFA
 ivanli@kimeng.com.hk
 (852) 2268 0641

Stock Information

| | |
|---------------------------|--|
| Stock code: | 2226 HK |
| Issue size: | 125m shares (all new shares) |
| Green shoe option: | 15% |
| Public/Placement tranche: | 10%/90% |
| Share issue price: | HKD4.95-7.15 |
| Market cap after listing: | HKD2,475-3,575m |
| Use of proceeds (net): | HKD694.5m, 50% purchase of rice, 25% production facilities, 10% repaying loans, 5% distortion network, 10% general working capital |
| Application list open | 16 Jan- 21 Jan |
| Expected listing date: | 28 Jan |
| Book runners: | Macquarie |
| Profit forecast: | FY13 net profit no less than CNY152m |
| Dividend policy: | 20-30% dividend payout ratio (indicative only) |
| PER: | 10-15x FY14E PER (media reports) |
| Post IPO shareholders | Founder Mr. Chen (55.63%), Ms. Ho (19.37%) |
| Cornerstone investors | China TaiPing Insurance Group USD10m. 2.6% of post -IPO share capital, or 10.3% of offer shares |

Company background

The company is the largest manufacturer of cooking wine in China, with a market share of 13.8% and 5.8% in terms of retail sales value and retail sales volume in 2012, respectively. Cooking wine is an essential ingredient widely used in food preparation to deliver richer flavors and dissolve meat and fish odors. The PRC cooking wine market, in terms of retail sales value, grew at a CAGR of 23.4% from 2008 to 2012, and is expected to grow at a CAGR of 20.3% from 2012 to 2017 and reach approximately RMB10.6 billion by 2017. The company also offers other condiment products, including soy sauce and vinegar. Honworld's market leadership earned it the accolade of National Flagship Enterprise in Agricultural Industrialization (農業產業化國家重點龍頭企業) in 2013. Products are branded under "Lao Heng He" (老恒和), which dates back to more than 130 years ago, and is recognized for its strong heritage in China's condiment market.

Selling points and strength

- 1) Leading position in China's fast growing cooking wine market.
- 2) Superior products manufactured through distinctive traditional methods enhanced by modern production techniques.
- 3) Effective market positioning leveraging established brand recognition and strong heritage.
- 4) Extensive distribution network and strong relationships with key distributors.

Some points of concern

- 1) The company has experienced rapid growth in a relatively short period of time and may not be able to maintain similar rates of growth in the future.
- 2) Honworld depends primarily upon sales of cooking wine products and a decline in the growth of demand for these products would have a material adverse effect on operating results and growth prospects.
- 3) The company faces intense competition which may affect market share and profit margins.

Financial Summary (Year ended Dec 31)

| CNY'000 | FY10 | FY11 | FY12 | Jan-Aug13 |
|-------------------------|--------|---------|---------|-----------|
| Turnover | 36,297 | 109,492 | 337,125 | 322,862 |
| Gross profit | 13,387 | 46,242 | 192,899 | 192,612 |
| Net profit | 6,282 | 20,214 | 98,438 | 95,996 |
| Gross profit margin (%) | 36.9 | 42.2 | 57.2 | 59.7 |
| Net profit margin (%) | 17.3 | 18.5 | 29.2 | 29.7 |

Source: Company data, Maybank Kim Eng

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