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Greatview Aseptic Packaging (468.HK)

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Listing particulars:

Listing Statistics	468
Issuer	Greatview Aseptic Packaging
Industry/Sector	Packaging
Listing exchange	Main board
Major shareholders	Bain Capital, CDH Packaging (31.6% and 23.9% post listing)
Total shares outstanding (shares m)	1,333.6
Issue price (HKD)	3.55-4.98
Total share offer size (shares m)	333.4
Total share offer size (HKD m)	1,183.57-1,660.332
Shares offered for placement (shares m)	300.06 (30% old shares)
Shares offered for IPO (shares m)	33.34
Market cap. (HKD m)	4,734.28-6,641.328
Earnings:FY09/FY10F (Rmb m)	164.908/>198
FY10F PE (x)	20.5-28.8
Board lot (shares)	1000
IPO open	26-Nov-10
IPO close	01-Dec-10
Expected price determination date	02-Dec-10
Results announcement	08-Dec-10
Cheques refunded	08-Dec-10
Dealing commence	09-Dec-10
Global Coordinator, sponsor	MS, GS
Bookrunner & Lead manager	MS, GS
Cornerstone investors	nil

Source: IPO prospectus; Media reports, VC estimates

Company background. Headquartered in Beijing, Greatview Aseptic Packaging is one of the global aseptic packaging and related services provider and a leading alternative supplier in the PC based on sales volume. The company was initially engaged in the production and sale of multi-layered compound packaging materials, paper cartons and other paper packages for beverage companies in the PRC, and re-established as a manufacturer of aseptic packs after its current CEO, Mr Bi, and Chairman, Mr Hong joined the company in 2003.

Products: Greatview Aseptic Packaging generates over 98% of revenue from aseptic packs that are used for filled products such as pure and flavoured milk, as well as non-carbonated soft drinks (NCSDs) such as juice and tea. Its aseptic packs are currently sold under the trade name Tralin Pak in carton form under the name "Tralin Brick" and in soft pouch form under the name "Tralin Pilo"

Beside aseptic packs, the company also generates less than 2% by providing support services to its customers, and that include producing spare parts that are compatible with the standard roll-fed filling machines to meet customers' maintenance and operations needs, providing complimentary onsite technical assistance for its customers' filling machines, and selling new and refurbished filling machines to customers.

Name of Product

1. Tralin Brick Aseptic 200mL Base
2. Tralin Brick Aseptic 200mL Slim
3. Tralin Brick Aseptic 250mL Base
4. Tralin Brick Aseptic 250mL Slim
5. Tralin Brick Aseptic 330mL Slim
6. Tralin Brick Aseptic 1000mL Base
7. Tralin Brick Aseptic 1000mL Slim
8. Tralin Pilo Aseptic 200mL
9. Tralin Pilo Aseptic 250 mL
10. Tralin Pilo Aseptic 500 mL
11. Tralin Pilo Aseptic 1000 mL

Source: Prospectus

Customers: Greatview's customers include some of the major PRC and international dairy and NCSD producers, namely Mengniu, Huierkang, Yili and Milch Union Hocheifel as well as a global dairy conglomerate based in France (Mengniu, Huierkang and Yili are the top three customers and accounted for 62.9% of revenue in the latest track record period). The company has supplied its five largest customers over the track record period for more than four years on average. In 2009, the Greatview had more than 100 customers, and from 2003 to 2009, it produced an aggregate of ~ 10.3bn packs.

Production facilities: Greatview currently have two factories, one in Gaotang, Shandong Province (totally ~54,744.6 sq. meters), and the other recently completed one in Hellingeer, Inner Mongolia (totally ~66,667 sq. meters) which is expected to commence operations by end-2010. As at 2009, Greatview's annual production capacity was 5.1bn packs, and is expected to increase to 9.4bn packs by end-2010 after the Hellingeer factory commences operations. With the implementation of the initial phase of its European expansion, the company expects that the annual production capacity could reach ~15.2bn packs by end-2012.

For spare parts, the main production and R&D facility is located at the Beijing R&D Centre. In addition, the Shanghai R&D Centre was set up in 2005 for developing existing technology in spare parts and filling machines production.

Production capacity and utilisation

The following table sets forth our annual production capacity, production volume, and capacity utilisation during the Track Record Period:

	Year ended 31 December									Six months ended 30 June		
	2007			2008			2009			2010		
	Annual production capacity ⁽¹⁾	Production volume	Capacity utilisation ⁽²⁾	Annual production capacity ⁽¹⁾	Production volume	Capacity utilisation ⁽²⁾	Annual production capacity ⁽¹⁾	Production volume	Capacity utilization ⁽²⁾	Production capacity ⁽³⁾	Production volume	Capacity utilisation
(billion packs)	(billion packs)	(%)	(billion packs)	(billion packs)	(%)	(billion packs)	(billion packs)	(%)	(billion packs)	(billion packs)	(%)	
Gaotang Factory	3.0	1.8	60.9%	4.5	2.6	57.3%	5.1	3.9	76.6%	2.6	2.1	81.6%
Hellingeer Factory	—	—	—	—	—	—	—	—	—	2.1	0.1	6.2%
Total	3.0	1.8	60.9%	4.5	2.6	57.3%	5.1	3.9	76.6%	4.7	2.3	48.1%

Source: Prospectus

Market share: According to Frost & Sullivan, Greatview's Tralin Pak was the second largest supplier in the PRC with a market share of 9.6% in terms of sales volume in 2009, and it is the second largest roll-fed supplier of aseptic packaging globally, with an estimated market share of about 1.5% by volume in 2009. Its major competitor in the industry, Tetra Pak, had an estimated market share of ~79.7% globally and 70.2% in the PRC by sales volume in 2009.

Ranking	Name	Market Share by Volume
1	Tetra Pak	70.2%
2	Tralin Pak ⁽¹⁾	9.6%
3	SIG Combibloc	8.2%
—	Others	12.0%
	Total	100.0%

Note:

(1) Greatview sells its aseptic packs using the trade name Tralin Pak.

Source: Prospectus

Sales network: Sales group is divided into domestic and international sales team. In the PRC, Greatview has a sales team comprising 26 staff as of 30 Jun10 to serve its customers that are located in 20 provinces, three municipalities and three autonomous regions. In the international market, the company has sales personnel in certain European countries including Switzerland, France and Germany, and maintains a network of direct and third-party representatives and agents throughout North America, South America and Asia. Greatview has already entered into agreements with its representatives and agents in Asia and signed letters of intent with its representatives and agents in North America and South America.

Revenue mix

	Year ended 31 December						Six months ended 30 June								
	2007		2008		2009		2009		2010						
	% of Total Revenue (RMB'000)	Gross Profit (RMB'000)	% of Total Revenue (RMB'000)	Gross Profit (RMB'000)	% of Total Revenue (RMB'000)	Gross Profit (RMB'000)	% of Total Revenue (RMB'000)	Gross Profit (RMB'000) unaudited	% of Total Revenue (RMB'000)	Gross Profit (RMB'000) unaudited	% of Total Revenue (RMB'000)	Gross Profit (RMB'000)			
PRC	375,304	98.7%	92,072	509,466	97.0%	133,683	731,702	94.8%	257,415	365,072	96.4%	129,088	465,516	92.5%	157,704
International	5,084	1.3%	(265)	15,502	3.0%	689	40,168	5.2%	11,242	13,651	3.6%	2,749	37,710	7.5%	7,995
Total	380,388	100.0%	91,807	524,968	100.0%	134,372	771,870	100.0%	268,657	378,723	100.0%	131,837	503,226	100.0%	165,699

	Year ended 31 December						Six months ended 30 June					
	2007		2008		2009		2009		2010			
	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000) unaudited	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	% of Total Revenue (RMB'000)	
Dairy	244,175	64.2%	339,363	64.6%	515,409	66.8%	242,798	64.1%	375,850	74.7%		
NCSD	136,213	35.8%	185,605	35.4%	256,461	33.2%	135,925	35.9%	127,376	25.3%		
Total	380,388	100.0%	524,968	100.0%	771,870	100.0%	378,723	100.0%	503,226	100.0%		

Source: Prospectus

Litigation. The company is currently subject to a lawsuit brought by Tetra Pak relating to alleged infringement of a European patent related to aseptic packaging material. Although the company have a strong case to defend against the infringement allegation and to invalidate the patent in the opposition proceeding, it could potentially face maximum damage and cost reimbursement claims by Tetra Pak of ~Rmb20m and ~EUR140,000 respectively if it were to fail to defend against the litigation.

Financials

(Rmb m)	Dec-07	Dec-08	Dec-09	1H09	1H10
Turnover	380	525	772	379	503
COGS	(289)	(391)	(503)	(247)	(338)
Gross profit	92	134	269	132	166
Operating profit	59	81	189	101	124
Net profit	56	88	165	87	109
Gross margin	24.1%	25.6%	34.8%	34.8%	32.9%
Operating margin	15.4%	15.4%	24.5%	26.6%	24.6%
Net margin	14.7%	16.7%	21.4%	23.1%	21.7%

Source: Prospectus

Dividend: Greatview intends to pay dividends each year in the amount of no more than 30% of net profit for the year attributable to equity holders.

Use of proceeds

- ~40% for expansion of production capacity in the PRC.
- ~20% for expansion in Europe including construction and outfitting of its new factory in Germany.
- ~30% for repayment of bank borrowings.
- ~10% for potential M&A.

VC Brokerage's investment recommendations are based on Absolute Total Return, which is the sum of the expected price appreciation and dividend yield. Rating definitions are set forth as follows:

STRONG BUY (>20% total return over the next three months)

BUY (>15% total return over the next 12 months)

HOLD (0-15% total return over the next 12 months)

SELL (negative total return over the next 12 months)

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