

Alex Wong Smart Investor

Only Quamnet.com can provide Alex Wong's trading portfolio & daily pre-market opening video analysis

Follow Alex Wong and become a smart investor!

All round analysis & recommendations covering HK stocks, US stocks, Futures, Commodities

This is only one of the articles dated on 17 November, 2009 for reference.

**For details, please refer to <http://subscription.quamnet.com>
Subscription Hotline: (852) 2217 2705 / email support@hk.quamnet.com**

COFCO Packaging (906) (ii)

(Following from previous analysis)

New product type:

2-piece beverage cans - 2-piece beverage cans are mainly used for packaging carbonated drinks, tea drinks and beer. It is expected that by the end of 2009, the plant in Hangzhou, with an annual capacity of 700 million cans, will start production (2,000 cans per minute). Potential customers are Jiaduobao, Coca-Cola and China Resources. In addition, COFCO packaging will expand into plastic packaging business and at an appropriate time into paper packaging business, but there is no clear road map yet.

Gross profit margin may rise:

Gross profit margin of the Group in 06 and 2007 was 12.3%, compared with 11.9% in 2008.

According to the explanation from the management, the decline in gross profit margin was due to the relatively high prices of tin (the major raw materials for the group's production) in 2008 Q4.

However, the prices of tin had retreated by nearly 25% from their highs, and the Group has always been using a "cost plus fixed fee" pricing model with its major customers. During the

second half last year, the Group was forced to bear the rising cost of raw materials, which should have been an extraordinary measure amid the outbreak of the financial tsunami. It is expected that as the business environment turns stable, the original "cost plus fixed fee" pricing model can boost up the gross profit margin again.



Jiaduobao (Wang Laoji):

According to data from the Internet, the sales of Wang Laoji at present is double that of Coca-Cola in China. In addition, the growth of Wang Laoji is amazingly fast:

Table 6: Sales of Wang Laoji (2002-2007)

| Year | Sales (RMB 100M) |
|------|------------------|
| 2002 | 1.8 |
| 2003 | 6 |
| 2004 | 15 |
| 2005 | 25 |
| 2006 | 35 |
| 2007 | 50 |
| 2008 | 100+ |

Jiaduobao is the most important customer of the Group. The table below shows the sales percentage of Jiaduobao for COFCO Packaging:

Table 7: Sales percentage of top five customers for COFCO Packaging (2006-2009H1)

| Year | Jiaduobao | 4 biggest in top 5 |
|--------|-----------|--------------------|
| 2006 | 37.70% | 8.30% |
| 2007 | 44.20% | 7.30% |
| 2008 | 47.90% | 8.30% |
| 2009H1 | 49.50% | 7.10% |

(To be continued)