

Eagle Health Eyes China Vitamin Boost

Tim Boreham, 13th June 2017

It's tempting to view this one as a miniature Chinese version of nutraceuticals group Blackmores or the privately owned Suisse – because it is.

There's a key difference as well: Blackmores and Suisse sell their product to China predominantly online, while Eagle Health distributes its wares purely by bricks and mortar channels, via 250 pharmacies and supermarkets around its base at Xiamen in the capacious nation's south.

Being China domiciled, Eagle Health faces none of the cross-border regulatory issues besetting foreign suppliers.

Eagle is following the well-worn path of Chinese aspirants listing on the ASX, with hitherto mixed results. Following a \$10m investment from a South African investor, Eagle Health last week was on track to fill its minimum subscription of \$25m, with the prospect of the maximum \$30m being obtained.

This will value the group at \$125-130m.

In comparison Blackmores (ASX code: BLK) sports a \$1.7bn market cap, while the China-focused infant nutrition group Bellamy's (BAL) is valued at \$280m.

Founded six years ago, Eagle has always been profitable, reporting a \$15.8m net profit in calendar 2016 on revenue of \$84m. Turnover has grown at a compound annual rate of 29% and net profits at 35% over the last three years.

In common with its Chinese peers, Eagle is cash rich with little debt and intends to pay dividends.

As is the norm for a Middle Kingdom play, Eagle has a dominant shareholder: founder Zhang Mingwang, his missus Tina and other related parties will account for 64% of the register post IPO.

In a sense Eagle strives for the best of both worlds: the distribution benefits of being on the ground in China and the ability to source clean and green Australian products.

Wisely no forecasts are provided, but based on 2016 earnings Eagle is being offered on an earnings multiple of six times. This compares with 24 times for Blackmores, 17 times and 13 times for honey exporter Capilano Honey.

To date, the mainland China ASX listings to date – and there have been dozens – have been ascribed the China Discount. This is a reference to the opaque and complex structures of most of the offerings and the difficulty – perceived or otherwise – of getting money out of the joint.

Eagle claims a deeper than usual Australian presence, with former Howard-era sports minister and Sinophile Andrew Thomson chairing the board. Another non-executive director, Rod Hannington, has wide marketing experience at consumer goods outfits including Novartis and Mondelez.

Close to 50% of Eagle's products are weighted to amino acid and protein lines that enhance the immune system, while throat lozenges (made from exotic ingredients such as honeysuckle, malva nuts and loquats) account for a further 19%.

Others are ginseng and enzyme derivatives and dendrobiums that “enhance physical fitness, improve hypoxia tolerance, improve gastrointestinal function, lower lipid and blood sugar, nourish the skin and improve eyesight.”

Clinical claims for these assertions are sparse. But given the Chinese have been using such pills and potions for thousands of years, at least they won't kill you.

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