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Keytone has Asian focus but at home on ASX

IPO watch

William McInnes

Float aspirant Keytone Dairy will lean on its New Zealand heritage to capture Asian consumer demand for "clean and green" powdered milk products but has no immediate plans to enter the "complex" infant formula market.

Chairman Bernard Kavanagh said that, although China is the main game, there is plenty of "untapped demand" across the continent.

"Demand for dairy products is continually increasing," he said. "It's a massive population. They have changing diets, strong demand for dairy products, increasing discretionary income, changes to one-child policy and they're the biggest importer of dairy products."

Keytone, which has been operating for four years and is profitable, hopes to raise $15 million to expand its production and product range and increase distribution through Asian markets.

"We have limited capacity on our production. We want to increase capacity by building a new facility by about 3500 tonnes. We want to expand the product range. We want to increase the distribution channels and we want to export to other countries," Mr Kavanagh said.

While acknowledging there were competitors in the space, he believed Keytone was uniquely positioned to access the Asian market.

"I think that there's quite a number of competitors," he said. "There's a lot of product from Europe on the shelves, but I think that NZ products are held in very high regard. There's a strong demand for clean and green products.

"We're a small but fast-growing company. We have achieved a lot in our short history, with established distribution channels in China and, with the funds, we will be seeking to grow our market share."

Mr Kavanagh said Keytone wasn't the next a2 Milk Company or Bellamy's Australia, both of which have delivered impressive returns to shareholders on the back of strong demand for infant formula, albeit with some setbacks for Bellamy's.

"We're not a manufacturer of infant formula," he said. "We see a lot of demand elsewhere. The infant formula space is very complex and there's a number of global players that dominate the market.

"We'll be watching what's happening and there could be opportunities that are of interest to Keytone. We're not saying no, but we shouldn't underestimate the complexity that exists."

Keytone was founded by chief executive James Gong, a former sales and marketing manager at Westland Dairies. While it will continue to be based in New Zealand, Mr Kavanagh said that the market and the company felt more comfortable listing in Australia.

"That decision wasn't taken lightly and a lot of thought went into it," he said. "When we did the roadshow, our view was that the investors were more comfortable with the ASX in terms of the depth of the market.

"We've been to Melbourne, Sydney, Perth, Singapore, Hong Kong and the perception is that the market felt more comfortable with the ASX."

As part of its initial public offering Keytone hopes to issue 75,000,000 shares at 20¢ a piece.

The company isn't carrying any debt and has been profitable from its first year. It has forecast revenue of $2 million and a pro-forma net profit of $470,000 for 2017-18. It will make a statutory loss of $745,000 due to costs associated with the float.

Mr Kavanagh said that Keytone was a small but fast-growing business and was well positioned to increase its market share in Asia through a successful IPO.

Keytone's IPO will close on June 1 and it is expected to begin trading on the ASX on June 19.

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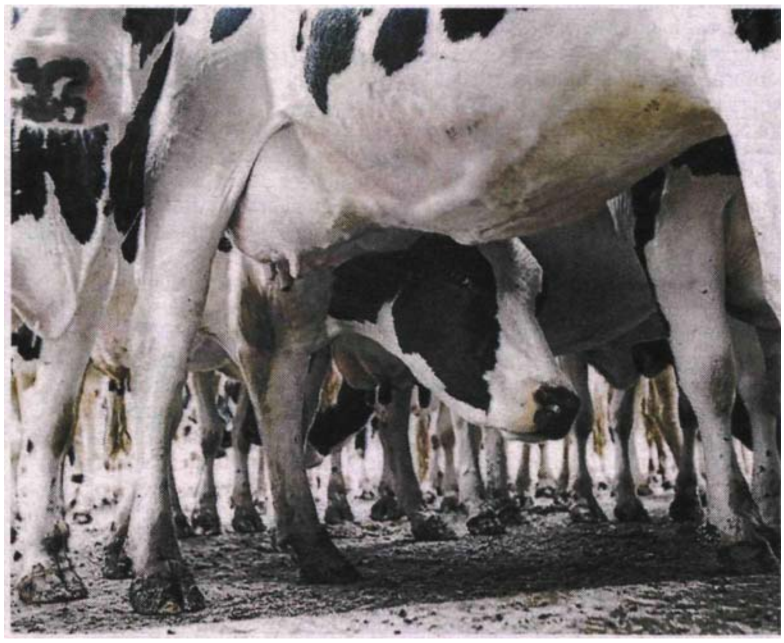

Keytone Dairy sees strong demand for dairy products in Asia but doesn't aim to be the next a2 Milk Company or Bellamy's Australia. PHOTO: LOUIE DOUVIS