

## Keystone Dairy: Powder milk play for China

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Keystone Dairy Corporation

ASX code: KTD

Shares on offer: 75 million

Listing price: 20c

Market capitalisation: \$30m

Listing date: June 19

China is poised to become the world's largest dairy market, on track to overtake the US in the next five years.

Research shows that per capita consumption of dairy products, including milk, cheese or yoghurt, remains well below the average of most other Western countries. The average Chinese person consumes approximately 14 litres of milk a year, compared to over 50 litres in the US. Rising acceptance of dairy and other typical western food supplements is projected to drive demand.

Many foreign companies, including Australian groups, seek to take advantage of this trend including ASX-listed a2 Milk (A2M), Bellamy's (BAM) or Blackmores (BKL). All companies have experienced exceptional growth, but also regulatory challenges and heavy volatility in its share price. Market valuations are too often unsustainable.

The coming IPO of Keystone Dairy Corporation offers investors exposure to a New Zealand-based company focused on powdered dairy products. The majority of the company's products is exported to China and other Asian markets to supermarket chains, dairy producers and other retail channels. Keystone seeks to raise up to \$15 million — led by Peloton Capital — in order to increase its manufacturing capabilities, expand its product lines and launch into new geographic markets.

The risk with investing in China-focused companies is not so much demand but heavy scrutiny and regulatory hurdles imposed by the Chinese government. There is little imminent risk for dairy products out of Australia and New Zealand as they are considered to be of high quality and clean, however standards are strict and rigorous.

Keystone has a limited track record and despite strong growth in recent years its business model remains somewhat unproven. The company commenced production in 2014 and generated \$1.6m in revenues during FY2017. While growth opportunities appear abundant and China recently announced to further open up its market to the world, the company's reliance on capital and subsequent shareholder dilution is a risk for IPO investors.

**The Australian** - <https://www.theaustralian.com.au/business/wealth/keytone-dairy-powder-milk-play-for-china/news-story/5ad6876679ac77ac2b1da3d3dc3152f3>