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China Investors Rush Into Baby Care for Year of Dragon: Retail  
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By Vinicy Chan

Nov. 21 (Bloomberg) -- China's emerging baby boom, driven by more-relaxed government policies and the year of the dragon, is fertile ground for both domestic and overseas companies.

The world's second-largest economy will experience a population boom from 2005 to 2020 and the country's birth rate will peak in 2016, the National Bureau of Statistics predicts. The Chinese population is expected to reach 1.388 billion by 2020 from 1.334 billion in 2009, according to the United Nations.

Many families are also likely to want their children born in 2012, the year of the dragon. Five percent more babies are born in a dragon year because the icon of China's emperors symbolizes power and wealth, said Cheung Tak Hong, who runs the obstetrics and gynecology department at the Prince of Wales Hospital in Hong Kong.

"The baby boom is a good investment idea in the near term," said Jessie Guo, Jefferies Group Inc.'s Hong Kong-based head for consumer research in Asia. "The growth is likely to sustain for the next two to three years."

The boom is expected to increase sales of formula companies such as Inner Mongolia Yili Industrial Group Co., diaper maker Hengan International Group Co. and Prince Frog International Holdings Ltd., a maker of toiletries for children.

#### Sure Thing

Investors who sold Chinese dairy companies after tainted formula killed at least six infants three years ago are buying again.

Yili dropped 67 percent in 2008 in Shanghai trading after it was identified among 22 companies that sold products containing melamine. The stock of China's top publicly traded baby formula maker has jumped more than fivefold since then, and 21 out of 22 analysts tracked by Bloomberg who cover the stock predict it will continue to rise. The Shanghai Composite Index has gained 33 percent since the end of 2008.

China Mengniu Dairy Co., the country's biggest listed milk producer, lost 65 percent of its market value in 2008. Its stock has since more than doubled. Mengniu gained 1 percent to HK\$26.35 in Hong Kong trading today, while the benchmark Hang Seng Index slid 1.4 percent.

"The dragon year baby boom is almost a sure thing, which will boost the demand for infant products such as baby formula, diapers and clothes," said Michele Mak, a consumer-sector analyst at BNP Paribas.

China introduced a one-child policy in 1979 to curb population growth and drive prosperity. Now, facing an aging labor force, the government has eased restrictions by allowing couples who are both only children to have two kids of their own. In addition, rural couples whose first child is a girl over four years old are allowed a second child.

#### Disposable Income

As incomes rise, Chinese parents have more money to spend on their children. Per-capita disposable income for households in towns and cities rose 8 percent to 19,109 yuan last year, almost doubling from 2005.

China's baby-food market will grow about 22 percent to more than 68 billion yuan (\$11 billion) in 2011 and will almost double to 136 billion yuan by 2015, researcher Euromonitor International estimates. Baby food and pediatric supplement maker Biostime International Holdings Ltd. has gained 1.3% percent in Hong Kong trading this year.

The baby boom is also likely to "provide a good boost in sales" for Prince Frog and for children's clothing retailer Boshiwa International Holding Ltd., said Ray Sze, director at Tianda Securities. "The companies are cheap right now." Prince Frog is trading at 8.2 times expected earnings and Boshiwa is at a multiple of 9.1 Hong Kong's Hang Seng Index is at 10 times expected earnings.

Boshiwa expects sales orders to rise 40 percent to 50 percent in 2012 on rising birth rates and a robust economy, it said last month.

#### 'Less Trustworthy'

As more children are born, diaper maker Hengan is also "well positioned to monetize on the baby boom," said Dawei Feng, a Hong Kong-based analyst at CLSA Asia-Pacific Markets. Diaper sales will grow from 24.3 billion yuan in 2011 to 28.4 billion yuan in 2012, Euromonitor estimates.

Still, Chinese makers of formula and other baby products face tough competition because consumers continue to view local brands "as less trustworthy," said James Roy, a consultant at China Market Research Group. "For those who can afford, they will definitely go for imported foreign brands."

Overseas companies dominate in sectors such as baby food. For infant formula, overseas manufacturers including Mead Johnson Nutrition Co. and Danone have the highest market share, according to data from Euromonitor.

Mead Johnson had the biggest market share for infant formula in China last year with 11.7 percent, followed by France's Danone at 9.8 percent, the data show. Closely held Hangzhou Beingmate Group Co. had 9.2 percent and Yili 7.9 percent.

#### 'Guarantee of Safety'

Glenview, Illinois-based Mead Johnson's sales network covers 250 cities across China, with 50 added this year and a further 50 to be added in 2012, according to the company's website. Chief Executive Officer Stephen Golsby, in an October earnings call, cited the growing number of children born into middle-class families in the southern Chinese city of Guangzhou, which the company entered almost 20 years ago.

Mead Johnson made 23.7 percent of last year's \$3.1 billion sales in China, compared with 15.3 percent in 2009, according to data compiled by Bloomberg.

At a Shanghai Carrefour, shopper George Zhai bought a 400-gram pack of Wyeth's Promil Gold baby formula for 92 yuan.

"For imported milk powder, we know what's in there," Zhai said. "For some of the domestic ones, we aren't sure. I think unless people can't afford, most will always choose foreign brands, if not buying overseas. That gives you a guarantee of safety."

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