

MSPEA in \$147m Chinese take-private(2)

Morgan Stanley's \$147 million take-private of Beijing-based Feihe International is the latest in a string of private equity-backed privatisations of Chinese companies.

By **Michelle Phillips** - 6 March 2013

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Morgan Stanley Private Equity Asia has agreed to take private Beijing-based Feihe International, a producer and distributor of infant formula and milk powder listed on the New York Stock Exchange, in a deal worth \$147 million, according to a Feihe International statement.

The deal includes a \$28.1 million equity commitment from MSPEA, and is leveraged with a \$50 million loan from Wing Lung Bank in Hong Kong and Cathay United Bank in Taiwan. The remainder of the financing will come from Feihe's founder, You-Bin Leng, and a few other shareholders, according to the statement.

The offer represents a price of \$7.40 per share of Feihe's stock on the NYSE, a 21 percent premium over the closing price of \$6.10 per share on October 2, 2012, the day that Feihe announced receiving the offer.

MSPEA declined to comment on the deal.

Last June, a scandal broke out in the PRC when a number of baby formula products from certain Chinese companies were found to contain "an unusual level" of mercury. Consumers lost confidence in Chinese baby milk and mainland visitors and parallel traders began buying out Hong Kong baby milk products, which are perceived as safer. Hong Kong has imposed a two-can limit on baby milk leaving the territory.

Feihe itself was never involved in or suspected of unsafe products, according to a company spokeswoman. But the company's share price still plunged in June



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MSPEA is providing its share of the funding from Morgan Stanley Private Equity Asia III, a \$1.5 billion buyout fund. The deal is still pending shareholder approval, and is expected to close in Q2 2013.

The private equity firm intends to take a substantial minority stake in the company and the matter of board seats is still being worked out, according to a source close to the matter.

Eight private equity-backed take-privates of Chinese companies have been announced since June, as compared to four completed in the full year 2011, according to data compiled by law firm O'Melveny & Myers. Many of the deals announced are just now being closed. The Feihe deal, for example, was first announced in October.

As an arm of the Morgan Stanley bank, MSPEA has invested \$2.4 billion across Asia over 20 years. In 2013, the firm launched its fourth fund, Morgan Stanley Private Equity Asia IV, with a target of \$1.5 billion. The fund has had a first close on \$750 million, according to *PEP's* Research & Analytics division.

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