COMPANIES

SunMoon hails deal with Chic

The Singaporean-listed supplier of fresh fruit and dehydrated produce from China has hailed a new investment deal with Chic Foods

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Executive chairman of SunMoon Food Gary Loh says a recent investment deal with Chic Foods secures the company's financial stability and paves the way for its expansion into new product lines such as mandarins and other citrus products.

SunMoon Food entered into a Memorandum of Understanding (MoU) with Chic Foods Asia Pacific, China's largest exporter of processed fruit products, in September.

Under the deal, Chic Foods has agreed to invest in SunMoon by way of a S$24 convertible loan and an additional optional S$60m convertible loan facility.

SunMoon Food plans to use the proceeds from the S$24m convertible loan from Chic to settle the outstanding principal on another convertible loan agreement signed on 21 March 2007, which amounts to S$24m, together with S$6.43m accruing.

To facilitate the proposed transactions, SunMoon plans to undertake a 20:1 consolidation of all its issued ordinary shares in the capital of the company.

SunMoon has replaced the high-cost infrastructure inherited from FHTK with a new back-end model

Buyout brings renewed strength

The deal, which is expected to go through in the first quarter of 2011 in conjunction with a rights issue, would give Chic a 75 per cent shareholding in SunMoon once its S$24m investment is converted. The agreement would effectively see Chic buy out most of the original group of investors who stepped in to bail out SunMoon in 2007, when it was on the brink of bankruptcy.

Gary Loh, chairman of First Alverstone Partners, fronted that pack of investors in 2007, but remains very much committed to the cause as executive chairman of SunMoon.

"When the new investors came in 2007, they invested S$40m and around S$16m of that was converted into shares, the bulk of them going to myself," he explains. "Most of the remaining funds (around S$24m) came from the other investors and this was supposed to be a two-year convertible loan agreement, but when the two years were up, we could not agree on a [share] price with them for conversion. As such, we decided to restructure the loan and effectively buy them out, but we had to find a strategic partner to do this, which is where Chic comes in."

While the share deal effectively means Chic is acquiring the majority of SunMoon at a low price, Mr Loh says the agreement allows himself and other existing shareholders to participate in SunMoon's forthcoming rights issue and remain very active players in the business under a new strategic partnership.

SunMoon's current share price is low because the company is technically in a default position, he adds, but he stresses that this is not a true reflection of its financial health.

Clean-up completed

Since the S$40m bailout in 2007, Mr Loh says his management team have "cleaned up" SunMoon, which was mired in debt and bogged down by an expensive plantation and packing infrastructure in China.

"When we came in, the business had these cancer cells that we needed to chop off to revive it, namely the plantation and packaging businesses," he says. "We offloaded those and focused on managing the SunMoon brand and on the quality control side."

Since divesting its plantation and packing operations, SunMoon has been sourcing apples from accredited packers in China that meet its strict quality standards, according to Mr Loh.

A more realistic reflection of the company's financial health is its earnings before interest, depreciation and tax, Mr Loh believes, which recently moved into the black for the first time in the past six or seven years. "The company has been turned around – it's now a leaner, more efficient organisation, not a forbidden city that was dragging everyone down," he tells Asiafruit Magazine.

Adding a back-end

Having stripped SunMoon down to the bones, the next stage for Mr Loh and his team was to secure investment to resume expansion, albeit on the right course – and this is where Chic represents the ideal partner, he says. "We were fundamentally sound [as a company]. Now, with this agreement, we're financially sound too."

SunMoon intends to use the

proceeds from the optional S$60m convertible loan facility to meet the working capital expenditure requirements for future expansion and development of the business, and to fund future acquisitions as and when such opportunities arise.

"To go to the next level [with SunMoon], we need a back-end in place," says Mr Loh. "Chic brings in that back-end [infrastructure] – they're very strong in sourcing and packaging. If we chopped off our limbs by offloading our plantation and packing business, then partnering with Chic is like adding bionic arms and legs."

Chic's fruit processing business is one of China's largest, shipping several thousand container loads of fruit in plastic cups such as peaches, oranges and pears and servicing the needs of major customers such as Del Monte in North America, SPC in Australia and Heinz in New Zealand. Part of a conglomerate headed up by Shanghai-based businessman and entrepreneur Edward Zhu, Chic Foods is led by Steven Schafer, who previously worked with Dole Asia, and in the fruit juice business with Tropicana.

Chic has an extensive sourcing base covering its own farms and processing facilities. "They'll take over our sourcing and while the bulk of their business is in for processed fruit, they can turn their strengths to sourcing fresh fruit," says Mr Loh. "They'll be able to go in and buy crops lock, stock and barrel, keeping the best product for the fresh market, using the mid-range product for fruit in cups and such like and directing the lower end product to juicing."

Extending the brand

The SunMoon brand, long synonymous with high-quality apples and pears in markets like South East Asia and Europe, will now be extended to more products, such as mandarins and other citrus lines.

"Indonesia is a big market for SunMoon and it's also one of the world's biggest buyers of mandarins," says Mr Loh. "There'll be an opportunity to supply not only apples, but premium range mandarins and oranges to our customers as well as

SunMoon will benefit from Chic's sourcing base and it plans to extend its brand to mandarins

other products such as blueberries, peaches and nectarines."

Mr Loh says the kudos of the SunMoon brand was a key draw to the deal for Chic, which was keen to foray into the fresh fruit market. "As well as an established name, we also have an established network and distribution chain, and we took them to meet all our partners before signing the MoU," says Mr Loh.

SunMoon since 1977

Executing the vision

SunMoon's small but committed management team, which has succeeded in reversing the company's ailing fortunes, are also an important part of the package, Mr Loh says.

If taken up, Chic's optional S$60m convertible loan facility will increase its shareholding in SunMoon to more than 90 per cent, but Mr Loh and his team expect to remain heavily involved in executing the company's vision, albeit as part of a greatly beefed up operation.

"Up until now, we've had a thin group of people doing an awful lot," he says. "Now, with Chic, there'll be more people, new sourcing managers, new QC staff, new market-branding executives," he reveals.

As for the top-end management, Mr Loh says there would be work to do in areas such as promoting the company to prospective investors and developing the integrated rural urbanisation projects that Chic has already been working on in Chongqing, China. The schemes are aimed at developing larger-scale, commercial farming operations in China and ultimately securing tighter control over the supply chain. "Our long-term focus is on farm to table – and we're committed to securing control over the supply chain in the next five to 10 years," he notes.

While the majority of Chic's optional S$60m loan is likely to be spent on working capital requirements, there should be some funds to develop infrastructure where appropriate, according to Mr Loh. But he stresses that any investments on this front would not be of the size or scale characterised by the plants set up by SunMoon in its FHTK Holdings days.

"They won't be huge facilities with long lines and loads of people like before – they'll be smaller, more automated and efficient operations," he asserts.

China will remain the sourcing hub for SunMoon's fresh fruit offer, but the company also plans to develop procurement programmes from off-season suppliers in South America, South Africa, Australia and New Zealand, thereby building the year-round presence of the brand.

When the rights issue for SunMoon is completed, the company should have around S$8-10m in equity, Mr Loh predicts. "The conversion and the rights issue is one simultaneous process," he notes. "It's one massive exercise to fundamentally build strength into the company – and the group is now in a great position going forward."