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Smithfield owner shelves IPO

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HONG KONG — Chinese pork giant WH Group, which bought U.S. producer Smithfield Foods last year, is shelving its multibillion-dollar Hong Kong IPO as investor demand sags in uncertain markets, the company said Tuesday.

The decision to abandon the share offering complicates the company's efforts to pay off loans it took out to complete the takeover of Smithfield, a deal that turned it into a global butcher with the means to buy lots of U.S. pork to feed rising demand in China.

"In light of deteriorating market conditions and recent excessive market volatility, the company, having consulted the joint sponsors, has decided that the global offering will not proceed at this time," it said in a statement posted on the Hong Kong stock exchange's website.

A company spokeswoman in Hong Kong declined to comment.

The Chinese company had initially planned to raise up to $5.3 billion in an initial public offering on Hong Kong's stock exchange. It changed its name from Shuanghui International Holdings after buying Smithfield, whose array of brands, including Armour, Farmland and its namesake, will appeal to Chinese consumers wary of domestic producers since food safety scandals, including one involving WH Group, tainted their reputations.

In Nebraska, Smithfield owns Farmland Foods in Crete, which employs almost 2,000 people slaughtering hogs and packing pork; Cook's Hams in Lincoln, which employs about 500 people; and a Margherita sausage plant in Omaha, which employs about 200 people.

Most of the proceeds were intended to be used to pay off the debt from the Smithfield takeover, which was valued at $7.1 billion including debt. News reports indicated that investors were lukewarm on the offering, forcing bankers to cut the size of the deal before scrapping it altogether.

WH Group Ltd.'s aborted attempt to list came as signs emerged in the Far East of less investor interest in equities. Sentiment has been especially weak in Hong Kong, where the benchmark Hang Seng Index has fallen 3.2 percent this year.

In its prospectus, the world's biggest pork producer outlined its grand plan to boost profits by sourcing cheap, high quality hogs from the U.S., where pork consumption is leveling off, to feed growing demand for pork in China, where rapid growth in the world's second biggest economy means millions more can afford to buy the meat, China's favorite.

The country accounted for more than half of the 107 million metric tons of pork consumed globally in 2012, according to research commissioned by the company.

Hog prices from 2010 to 2012 were 40 percent cheaper in the U.S. than China because of higher farm productivity, the company said. Grain used for hog feed was also cheaper in the U.S.

But those plans have been thrown into doubt since the spread of porcine epidemic diarrhea virus, which has killed millions of baby pigs in the United States since last year and pushed up pork and bacon prices. At the same time, oversupply in China has driven pork prices to their lowest in years.

Some authorities believe there are forces other than market conditions at work.

Usha Haley, professor of management at West Virginia University, who has written several books on business in China, told Meatingplace.com: "WH took on huge debt, mostly through government and government-assisted bank loans and other subsidies for the $4.9 billion acquisition of Smithfield Foods last year. But, as I brought up in my testimony before the U.S. Senate last year, there is no evidence of cost savings through the deal, and the deal was not made for efficiency considerations.

"The acquisition was made to further the goals of state capitalism and not private investors — to become the biggest pork company in the world, which WH now is, and to acquire U.S. technology, which WH now has."

Just two weeks ago, Standard & Poor's Ratings Services gave Smithfield Foods Inc., a "BB-" corporate credit rating on CreditWatch, with positive implications, but S&P said it would re-evaluate if WH Group didn't complete the proposed IPO.