

Asian Citrus Holdings Limited

12A year end result recorded solid core earnings growth

to summarize...

- **FY06/12A result reported: 8.7% YoY growth in core earnings to MB629.1m, or RMB0.52 per share for FY12A ended June 2012.**
- **Operating cash flow increases by 19% to 754.7m; net cash position of RMB2,388.1m.**
- **The group's gross profit for the period up 7.3% YoY to RMB792.4m; Gross margin of sales of orange for the period dropped to 53.8% from 60.3%**
- **Planting of an additional 750,000 trees is scheduled for completion before end of 2013.**

Stable core earnings growth. Asian Citrus (73 HK) reported 8.7% YoY growth in core earnings to RMB629.1m, or RMB0.62 per share for FY12A ended June 2012. The group's turnover up 25.7% YoY to RMB1,776.1m, while its headline net profit down 27.8% YoY to RMB750.2m, or RMB0.62 per share, due to the 67.1% drop in fair valuation gain of biological asset of RMB166.9m. Recommended final DPS of RMB0.13 together with interim and special DPS of RMB0.05 will bring the total DPS for FY12A to RMB0.18, representing a payout ratio of 29.3%.

Cash rich. As of the end of June 2012, the group was in a net cash position of RMB2,388.1m. In the period, the group reported a 18.6% YoY increase in operating cash flow to 754.7m, and it reported a net cash inflow of about RMB259.0m. Capex for the period was RMB414.1m.

Turnover analysis. During the period, sales of orange and processed fruits accounted for 59.5% and 40.3% of the group's total turnover, respectively. Meanwhile, sales of self-bred saplings accounted for 0.2% of the group's turnover. Revenue from sales of oranges and processed fruits increased 9.9% YoY and 71.4% YoY, respectively, to RMB1,057.3m and RMB715.5m. Meanwhile, revenue generated from the sales of self-bred saplings dropped 51.6% YoY to RMB3.3m.

Expansion in production. The group orange's production increased 12.2% YoY to 243,421 tonnes. Beihai BPG's pineapple juice concentrates production increased 46.4% YoY to 24,348 tonnes, while its other fruit juice concentrates production surged 149.4% YoY to 10,017 tonnes. Other fruit purees and frozen and dried fruits and vegetables production soared by 383.2% YoY and 88.6% YoY, respectively, to 17,472 tonnes and 18,170 tonnes. The utilization rate at BPG's two existing processing plants in Beihai and Hepu reached 91.8% and 93.6%, respectively.

GPM analysis. The group's gross profit for the period up 7.3% YoY to RMB792.4m. Nevertheless, the group's blended margin dropped to 44.6% from 52.3%, which was attributable to a number of factors in orange production and juice production. Gross margin of sales of orange for the period dropped to 53.8% from 60.3%, due to the drop in GPM at Hepu Plantation and the increase in contribution from Xinfeng Plantation with lower GPM. GPM of the Hepu Plantation decreased to approximately 64.3% (FY11:70.1%) due to the decrease in production volume of winter oranges from the ongoing replanting programme, lower ASP of summer oranges due to oversupply in winter orange and higher amount of fertilizers used as a result of the heavy rainfall in the 2Q 2012. The drop in ASP of summer oranges produced in Hepu Plantation was attributable to unseasonably warm weather in winter time of 2011 resulted in an unusually strong winter orange crop in China. Consequently a short-term over supply of winter oranges to the market suppressed summer orange price. GPM of Xinfeng Plantation humbly enhanced to 40.4% from 40.2% reported in FY11A. The normalized GPM of the group's processed fruit operation, Beihai BPG for the period decreased to 30.8% compared to 34.0% in the corresponding period last year, due to the inclusion of the trading of fruit juice with minimal gross margin at special request by customers during the year and lower selling price of the pineapple juice concentrates as a result of the decrease in prices in international market.

Ticker	0073 HK
Rating	NR
Price (HK\$)	4.45
Target Price (HK\$)	-
12m Price Range (HK\$)	2.7-6.3
Market cap. (US\$m)	695.7
Daily t/o (US\$m)	0.4
Free float (%)	60.5

Financial summary

Year to June	10A	11A	12A
Turnover (RMB)	812.5	1,412.6	1,776.1
Net Profit (RMB)	585.5	1,039.0	750.2
EPS (RMB)	0.74	0.99	0.62
P/E (x)	4.9	3.7	5.9
P/B (x)	1.2	0.6	0.5
EV/EBITDA (x)	6.5	2.4	2.9
Yield (%)	3%	4%	5%
ROE (%)	17%	18%	10%
ROCE (%)	19%	20%	11%
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

	11F	12F	13F
Consensus EPS (RMB)	0.6	0.7	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	21.9	(6.9)	(30.9)
Actual price changes (%)	27.1	1.6	(18.9)



Source: Bloomberg

Research Team

(852) 2533 3700
sbie2research@sbie2capital.com

Expansion in direct sales channel. All of the group's oranges were sold domestically. Orange sales to supermarket chain, corporate customers, wholesales customers and other customers accounted for 34.8%, 36.6%, 28.0% and 0.6%, respectively of the group's total orange sales. Currently, the group has expanded its direct sales channel to 24 supermarket chains included one new international chain and a national chain based in Guangxi. The group is selling ungraded oranges and graded oranges to its customers. Ungraded oranges are neither packaged nor branded and the customers have to arrange for the transportation of the oranges at their own cost. Usually, the ungraded oranges are sold to wholesale and corporate customers. Graded oranges are oranges that the group grades, packages and delivers to the customers at its cost, usually to supermarket customers. The graded oranges are sold under the "Royal Star" brand at a premium price compared to the selling price of ungraded oranges without brand. The group's processed fruits operation, Beihai BPG currently generates most of its sales from domestic market, with key customers being beverage mixers supplying major beverage groups.

Expansion in production. The group has invested RMB458.3m in Hunan Plantation and planted approximately 1.0 million summer orange trees. Planting of an additional 750,000 trees is scheduled for completion before end of 2013. As the group's two existing fruit processing plants in Beihai and Hepu are operating in full capacity, a third 40,000 tonnes capacity plant is expected to commence operation in 1Q 2013, with trial production scheduled in December 2012. The group has more than RMB2.0b net cash in hand, sufficient for its capital expenditure plan.

Plantations overview. The group has three orange plantations in China occupying in total approximately 155,000 mu of land, with approximately 46,000 mu at the Hepu Plantation in the Hepu county of the Guangxi Zhuang Autonomous Region, approximately 56,000 mu at the Xinfeng Plantation in the Xinfeng county of the Jiangxi province and approximately 53,000 mu at the Hunan Plantation in the Dao county of the Hunan province. The Hepu Plantation is fully planted and comprises approximately 1.3 million orange trees of which approximately 1.1 million trees were producing oranges during the current year. During the year, 66,449 winter orange trees were removed and the same number of summer orange trees were replanted as part of the ongoing replanting programme. The Xinfeng Plantation is fully planted and comprises 1.6 million winter orange trees and all of which are producing oranges during the current year. The Hunan Plantation is still under development and comprises approximately 1.0 million summer orange trees planted as of the end of June 2012. During the period, approximately 622,000 summer orange trees were planted with 750,000 summer orange trees to be planted in FY13F. By that time, the construction of Hunan Plantation is expected to be completed. The first batch of the 427,400 summer orange trees is expected to begin trial production in the summer of 2014.

Valuation. Pursuant to Bloomberg, the consensus estimate for FY06/12F net profit was RMB586.5m, 7% below the actual core net profit. The FY06/12A P/E are trading at 4.6x over the counter. The street estimated P/E ratio before FY06/12A result review for FY06/13F and FY06/14F are trading at 6.3x and 5.3x respectively.

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-Capital stock ratings:

STRONG BUY : absolute upside of >50% over the next three months

BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Financial Services Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Financial Services Limited. All rights reserved.