

## Earnings to jump in 1H

## Under Review (from BUY)

### Financial summary

Year to Dec	06A	07A	08A	09F	10F
Turnover (RMBm)	2,445.73	585.34	3,377.24	827.55	426.7
Net Profit (RMBm)	45.1	294.7	503.1	552.3	591.8
EPS (RMB)	0.028	0.178	0.303	0.333	0.356
EPS Δ%	(86.0)	533.9	70.8	9.8	7.2
P/E (x)	100.1	15.8	9.3	8.4	7.9
P/B (x)	3.21	2.67	2.22	1.98	1.78
EV/EBITDA (x)	34.5	9.8	5.9	5.1	4.1
Yield (%)	0.3	3.1	6.5	7.1	7.6
ROE (%)	4.6	18.5	26.2	24.8	23.9
ROCE (%)	2.4	16.6	25.5	25.7	27.6
N. Gear. (%)	40.6	22.8	11.4	4.8	Cash

Source: SBI E2-Capital

### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+74.9	+104.8	+605.6
Actual price changes (%)	+71.1	+156.0	+503.8

  

	09F	10F	11F
Consensus EPS (RMB)	0.300	0.330	0.360
Previous forecasts (RMBm)	n.a.	n.a.	n.a.
Previous EPS (RMB)	n.a.	n.a.	n.a.

### Price Chart

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Ticker:	0546.HK	12 mth range:	HK\$0.21-3.24
Price:	HK\$3.20	Market cap:	US\$681.0m
Target:	Under review (previous HK\$2.77)	Daily t/o, 3 mth:	US\$1.2m
		Free float %:	40.3%

### Key points:

- \* Profit alert for 1H FY12/09A.
- \* Gross margin to improve in 1H on lower costs.
- \* Capacity expansion to be a driver in 2H.
- \* Recommendation under review as share price has exceeded target.
- \* Fair value at HK\$4.63 in a market-leader scenario.

**Encouraging 1H performance.** The company announced yesterday that, based on its preliminary unaudited management accounts for Jan-May 09 and business conditions in Jun, net profit in 1H FY12/09F is anticipated to be greater than the full-year earnings in FY12/08A (RMB297.4m). Spurred by this positive news, share price jumped 10.0% to HK\$3.20.

**Temporarily removed rating during recommendation review.** The strong results should be attributed largely to widening gross margin, in our view. Based on prices movement in Jan-May, we estimate that the company's gross margin in 1H will improve from 4Q FY12/08A basis (MSG segment: 19.9%, xanthan gum segment: 37.0%), which has been embedded in our forecasts. The guided RMB297.4m+ net profit in 1H is equivalent to 58.6%+ of our full-year estimates, because we were a bit cautious towards the margin trend in 2H given the likely recovering commodities market. Nevertheless, we also admit, with its cost advantage and planned capacity expansion, including 12,000-tonne xanthan gum and 100,000-tonne MSG, Fufeng might be able to achieve a HoH growth in the second half. We are reviewing our model, especially on the prices and costs trend. Old estimates will be remained at the moment, though the BUY tag has been removed as yesterday's closing price has been 15.5% higher than our target of HK\$2.77, and new ones will be released after a plant visit scheduled in 16-19 Jul.

**Market-leader scenario.** Our major investment theme towards the company, other than margin enhancement backed by softened raw materials costs, is a sound mid-term growth pattern based on its potential gain in market occupancy, despite relatively mature and static demand. Thus, we have developed a market-leader scenario, where Fufeng is assumed to achieve a long-term sustainable market share of 35.0% for MSG and 65.0% for xanthan gum by 2012, versus 29.1% and 53.8%. In this scenario, Fufeng's fair value is calculated at HK\$3.68 (DDM model) or HK\$4.63 (DCF model).

**Table 1: Prices of xanthan gum's main raw materials**

(RMB/tonne)	1Q08	2Q08	3Q08	4Q08	1Q09	QoQ change	YoY change	2Q09 (Apr/May)	QoQ change	YoY change
xanthan gum	22,271.0	21,111.0	21,622.0*	21,622.0*	Steady	n.a.	n.a.	Steady	n.a.	n.a.
Coal	281.3	295.7	434.7	393.3	361.3	(8.1)	28.4	327.5	(9.4)	10.8
Corn	1,432.3	1,460.3	1,482.7	1,380.7	1,295.3	(6.2)	(9.6)	1,364.0	5.3	(6.6)
Soybean	4,589.0	4,829.7	4,600.3	3,480.0	3,441.7	(1.1)	(25.0)	3,571.0	3.8	(26.1)

Source: Company data, [www.sxcoal.com](http://www.sxcoal.com), [www.ex-starch.com](http://www.ex-starch.com), [www.feedonline.cn](http://www.feedonline.cn)

**Table 2: Prices of MSG and its main raw materials**

(RMB/tonne)	1Q08	2Q08	3Q08	4Q08	1Q09	QoQ change	YoY change	2Q09 (Apr/May)	QoQ change	YoY change
MSG	5,645.7	6,804.0	7,087.7	6,815.0	6,472.7	(5.0)	14.6	6,532.0	0.9	(4.0)
Coal	303.8	344.5	495.0	463.3	433.3	(6.5)	42.6	406.8	(6.1)	18.1
Corn	1,432.3	1,460.3	1,482.7	1,380.7	1,295.3	(6.2)	(9.6)	1,364.0	5.3	(6.6)
Liquid ammonia	2,136.3	2,792.7	3,060.7	2,717.0	2,161.7	(20.4)	1.2	2,162.0	0.0	(22.6)
Sulphuric acid	855.0	1,107.0	1,312.7	416.3	273.3	(34.3)	(68.0)	280.0	2.4	(74.7)

Source: [www.bbcalf.com](http://www.bbcalf.com), [www.sxcoal.com](http://www.sxcoal.com), [www.ex-starch.com](http://www.ex-starch.com), [www.cheminfo.gov.cn](http://www.cheminfo.gov.cn), [www.chemcp.com](http://www.chemcp.com)

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