

Global Bio-chem: Emerging “petrochemical producer”

Recommendation: Not Rated

China Agriculture

Price	HK\$2.50	Yield (12/06A)	1.2%
12 mth range	HK\$1.93-3.92	ROE (12/06A)	10.0%
Market cap.	US\$734.2m	Net gearing (12/06A)	78.9%
No. shares o/s	2,318.8m	Net debt/sh. (12/06A)	HK\$1.00
Daily t/o, 3 mth	US\$2.8m	BV/sh. (12/06A)	HK\$2.28
Free float %	59.0%	Consensus EPS	
Major shareholder	Mr. Liu Xiaoming – 17.5%	- 12/07F	HK\$0.260
Ticker	0809.HK/ 809 HK	- 12/08F	HK\$0.286

Key points:

- Dominant player in China’s lysine market.
- Lysine price solid in 1H FY12/07A.
- Only producer of corn-based EG/PPG, which is normally refined from crude oil.
- Mass production of EG/PPG launched in July with gross margin at 40-50% due to high oil price.
- Sweetener business spun off in September.

Business summary. Global Bio-chem Technology (GBT), one of Asia’s largest corn refiners, has three production bases in Jilin, Jinzhou and Shanghai, with a total corn refining capacity of 2.4m tonnes. In 1H FY12/07A, its refined upstream products, such as cornstarch, fiber and corn oil, generated around 27.6% of total revenue. The remainder came from downstream bio-chemicals such as lysine, protein lysine and corn sweeteners.

Table 1: Principal products

Segment	Principal products	Turnover (HK\$m)	% of total sales	YoY change (%)
Corn refined products	gluten, corn starch, fiber, corn oil	753.5	27.6	1.2
Corn based biochemical products		1,977.0	72.4	49.8
	amino acid	1,326.1	48.6	46.7
	<i>lysine</i>	544.7	19.9	20.1
	<i>protein lysine</i>	739.8	27.1	78.1
	<i>Others</i>	41.7	1.5	18.5
	corn sweeteners	569.6	20.9	84.6
	modified starch	81.0	3.0	(9.4)
	polyol chemicals	0.3	0.0	(98.3)

Source: Company data

Solid lysine price. GBT, with its 140,000 tonnes capacity, has about 70% of China’s lysine market and around 20% of the global market. Despite China’s overcapacity, prices of lysine and protein lysine were stable in 1H FY12/07A because of strong demand and production volume adjustments by producers. GBT’s sales of lysine grew 20.1% YoY in 1H and of protein lysine 78.1%. The company expects lysine price to stay steady. Considering its dominative position, we think it is possible for it to influence the price.

Only producer of corn-based EG/PPG. This July the company launched its commercial production (210,000 tonnes p.a.) of ethylene glycol (EG) / propylene glycol (PPG), which are used as raw materials to produce other downstream products like fiber, textile (for EG) or unsaturated resin, plastic (for PPG). So far, GBT is the only

company refining EG and PPG from corn instead of crude oil. According to the company, its EG/PPG business is profitable when oil price stands above US\$40 per barrel, which now is around US\$100. Hence this new business can enjoy a gross margin of 40 - 50%.

Strong domestic demand. China is the second largest consumer of EG. According to research from SRI and ChemNet, the country's demand for EG will increase from 4.3m tonnes in 2005 to 5.1m tonnes in 2008 and for PPG from 119,000 tonnes to 151,000 tonnes. Meanwhile domestic EG and PPG supply totaled to only 1.4m tonnes and 24k tonnes, respectively, equivalent to around 1/3 of consumption. Amid of such backdrop, The company expects to fully utilize its capacity by end-2008 and derive about 15% of its total gross profit from EG/PPG by then.

Sweeteners spun off. GBT spun off its sweetener subsidiary Global Sweeteners (3889 HK, HK\$1.26, NR) this September. Although the sugar price has been depressed since mid-2006, the company plans to expand capacity to meet growing demand from clients.

Stable margin. Despite a 20% YoY increase in the price of corn, its main raw material, GBT's blended gross margin was stable at 22.0% in 1H FY12/07 due to: (1) changes in the sales mix - higher contribution from high-margin downstream products and (2) sufficient storage capacity allowing flexible procurement (the company normally holds four-month corn inventory).

Expansion plan. GBT plans to spend HK\$1bn in each of 2007 and 2008 to set up EG/PPG production plant and expand its corn refining capacity to 3.6m tonnes by 2008 from the current 2.4m tonnes.

Valuation. Market estimates put its EPS at HK\$0.260 for FY12/07F and HK\$0.286 for FY12/08F. The counter is trading at 9.6x forward P/E for FY12/07F, in line with the industry average.

Corporate governance. GBT listed on HKEx in 2001. Present substantial shareholders include Liu Xiaoming (17.46%), Xu Zhouwen (10.90%), Kong Zhanpeng (9.04%) and Wang Tieguang (8.84%).

Table 2: P&L

Year to Dec (HK\$m)	04A	05A	06A	1H06A	1H07A
Revenue					
Upstream	1,506.6	1,811.5	1,616.0	744.4	753.5
Downstream	1,871.5	2,267.4	3,126.9	1,320.4	1,980.9
	3,378.1	4,078.9	4,742.9	2,064.8	2,734.5
Cost of sales	(2,076.4)	(3,027.5)	(3,536.2)	(1,602.1)	(2,133.4)
Gross profit	1,301.7	1,051.4	1,206.8	462.7	601.0
Other income and gains	23.2	28.9	48.6	13.7	28.0
Selling and distribution costs	(164.3)	(277.5)	(293.1)	(122.1)	(150.8)
Administrative expenses	(125.2)	(118.1)	(152.9)	(65.2)	(87.0)
Other expenses	(17.7)	(15.5)	(45.5)	(9.9)	(10.6)
Finance costs	(28.3)	(89.1)	(207.0)	(69.3)	(111.4)
Profit before tax	989.3	580.2	557.0	209.8	269.2
Tax	(58.5)	(39.9)	(55.7)	(20.5)	(39.3)
Profit for the period	930.8	540.3	501.2	189.4	229.9
Attributable to					
Equity holders of the Company	815.5	466.5	501.2	189.4	229.9
Minority interests	115.4	73.9	0.0	-	-
Dividends	166.1	81.2	69.6	23.2	23.2
EPS - Basic (HK\$)	0.389	0.204	0.216	0.082	0.099
EPS - Diluted (HK\$)	0.384	0.202	0.216	0.082	-

Source: Company data