

## China Green: FY04/07 results preview

**Recommendation: BUY (unchanged)**

**China F&B**

Price	HK\$6.58	Year to Net profit	EPS*	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.	
Target price	HK\$10.32 (+56.8)	Apr	RMBm	RMB	Δ %	x	x	x	%	%	%	
<b>12 mth range</b>	HK\$3.07-7.65	<b>05A</b>	183.5	0.275	(8.3)	23.2	4.8	23.2	1.0	25.1	25.1	Cash
<b>Market cap.</b>	US\$736.57m	<b>06A</b>	271.3	0.357	29.8	17.8	4.1	17.8	1.6	26.9	23.4	Cash
<b>Daily t/o, 3 mth</b>	US\$2.1m	<b>07F</b>	340.9	0.401	12.3	15.9	3.4	13.0	2.0	25.3	21.3	Cash
<b>Free float %</b>	52.1%	<b>08F</b>	450.0	0.505	25.9	12.6	3.2	9.0	2.6	28.2	24.4	Cash
<b>Ticker</b>	904 HK/0904.HK	<b>09F</b>	570.7	0.640	26.7	9.9	2.3	7.0	3.3	29.2	25.4	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -5.2%, -3.9%, +47.2%

Actual price changes (1 mth, 3 mth, 12 mth): -7.8%, +0.8%, +90.2%

Consensus EPS (07F-08F): RMB0.403, RMB0.504

\*Fully Diluted EPS

### Key points:

- FY04/07F results will be released by late August.
- We expect China Green to maintain over 30.0% sales growth momentum in FY04/07F.
- We expect CG's gross margins to reach 51.6% in FY04/07F on the back of increasing contributions from high margin food and beverage products.
- Overall product ASP is expected to increase around 4.0 – 8.0% in FY04/08F.
- Expanding beverage distribution network will further increase its market share.
- With its fully integrated business model and strong demand for Green Food, we reiterate our BUY call and target price of HK\$10.32.

**Results due in August.** China Green (CG) will announce its FY04/07F results by late August 2007. We expect the company will continue to post strong growth. We expect turnover to reach RMB941.2m up 37.1% YoY and net profit to achieve RMB340.9m, up 25.7% YoY.

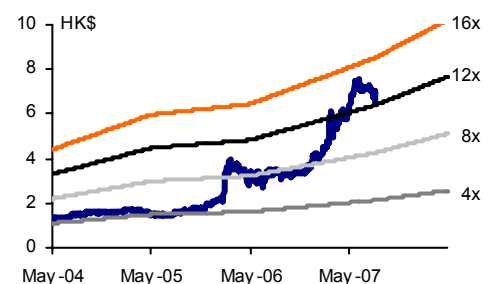
**Strong corn exports growth.** China's corn exports rose 55.2% YoY to 3.5m tones in the first five months of 2007 and are expected to reach 5.2m tones (up 40.0% YoY) by the end of 2007, according to China's Customs. In the first five months of 2007, CG's corn exports rose more than 50.0% YoY and should account for more than 95.0% of its total vegetable exports in FY04/07F, according to our estimates.

**Industry update.** Leading instant noodle producers Tingyi (322 HK, HK\$9.03, HOLD) and other leading market players have increased their ASP over 10.0% since July in order to offset the rising wheat prices and palm oil prices. As China Green mainly uses their own corn to make corn flour for non-deep fried noodle, it enjoys a gross margin of around 45.0% due to its relatively low raw materials costs.

**ASP hike expected.** CG's fully vertically integrated business model (own vegetables and fruit supply) gives it bargaining power to increase prices. We expect China Green should be able to increase its overall product ASP by 4.0% – 8.0% in FY04/08F based on our conservative estimates.

**Gross margin to rebound.** We are more positive on its margin expansion as we expect its gross margin will reverse its two-year downtrend as contributions from the high-margin food and beverage segment (gross margin at 42.3% in FY04/06A) are expected to increase to around 46.0% in FY04/07F. We expect CG's gross margins to reach 51.6% in FY04/07F.

**Chart 1: P/E bands**



Source: SBI E2-Capital

**Table 2: F&B Peer comparison**

Company	Ticker	Currency	Price	Mkt Cap (US\$m)	Hist. P/E (x)	Fwd Yr. 1 P/E (x)	Fwd Yr. 2 P/E (x)	ROE (%)	FY07 PEG (x)
China Mengniu	2319 HK	HKD	26.40	4,808.2	48.0	37.9	29.5	27.3	1.3
Yili	600887 CH	RMB	33.74	2,300.4	48.2	42.9	36.1	14.1	7.2
Tingyi	322 HK	HKD	9.03	6,446.1	43.4	36.0	28.8	16.7	1.8
Groupe Danone	BN FP	EUR	53.28	37,576.7	21.6	19.4	17.5	24.4	1.8
Uni-President	1216 TT	TWD	33.40	3,396.2	33.9	18.2	17.3	8.0	na
Nissin Food	2897 JP	JPY	3420	3,664.7	22.7	20.3	20.6	7.3	na
Kirin Brewery	2503 JP	JPY	1,538	12,727.3	29.3	24.3	22.3	6.3	na
<b>Average</b>					<b>35.3</b>	<b>28.4</b>	<b>24.6</b>	<b>14.9</b>	<b>3.0</b>

Source: Bloomberg & SBI E2-Capital

**Capacity expansion.** Its non-fried noodle plant is currently working at full capacity. In the next 12 months, CG plans to add three to six production lines at its facility in Jiangxi province to quadruple its annual output to 132.0m packs, to meet growing demand.

**New organic food plan.** CG plans to lease 20,000 mu (1,333.3 hectares) in Tianmen, Hubei province, and use it as an organic cultivation base, producing mainly for Japanese and domestic clients. CG will implement at their base with its first organic seasonal complementary cultivation model and use contemporary ecological principles and advanced technologies to ensure that its products meet organic standards. CG's first organic crops are expected in three years.

**Expanding beverage distribution.** The company currently has 60 beverage distributors in Fujian and Jiangxi. It plans to double the number and extend its network to Zhejiang, Jiangsu, Hunan and Hubei.

**Financials.** Its capex, estimated at around RMB444.0m in FY04/07F and RMB600.0m in FY04/08F, will be spent mainly on the Tianmen organic cultivation base and new production facilities in Jiangxi province. Cash on hand is estimated at over RMB900.0m, sufficient for the company's near-term expansion.

**Valuation.** Benefiting from strong demand for healthy green food and beverages, the company's turnover is expected to grow more than 30.0% annually in the next three years. Given its ROE of 26.9%, second highest among peers, and strong growth prospects, we reiterate our BUY call and target price of HK\$10.32.

**Major risks.** 1) RMB appreciation; 2) execution of capacity and downstream expansion; 3) execution of new product launches and 4) natural disasters.

P & L (RMBm)	05A	06A	07F	08F	09F
<b>Year to Apr</b>					
<b>Turnover</b>	<b>470.5</b>	<b>686.6</b>	<b>941.2</b>	<b>1,223.6</b>	<b>1,540.5</b>
% chg	25.3	45.9	37.1	30.0	25.9
Gross profit	254.5	354.4	485.7	642.4	825.7
EBITDA	242.5	316.8	437.9	595.7	800.0
Depre./amort.	(32.6)	(53.9)	(93.7)	(124.9)	(148.1)
EBIT	209.9	262.9	344.2	470.7	651.9
Net int. income/(exp.)	(2.1)	(0.7)	(3.3)	(3.2)	(3.3)
Exceptionals	-	-	-	-	-
Associates	-	-	-	-	-
Jointly-controlled entit.	-	-	-	-	-
<b>Pre-tax profit</b>	<b>207.9</b>	<b>262.3</b>	<b>340.9</b>	<b>467.5</b>	<b>648.5</b>
Tax	(24.4)	9.0	-	(17.5)	(77.8)
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>183.5</b>	<b>271.3</b>	<b>340.9</b>	<b>450.0</b>	<b>570.7</b>
% chg	21.9	47.8	25.7	32.0	26.8
Dividends	(50.1)	(75.2)	(92.0)	(121.5)	(154.1)
Retained earnings	133.4	196.1	248.9	328.5	416.6
EPS (RMB) - Basic	0.275	0.373	0.468	0.618	0.784
EPS (RMB) - F.D.	0.275	0.357	0.401	0.505	0.640
DPS (RMB)	0.069	0.103	0.126	0.167	0.212
No. sh.s o/s (m) - W.A.	667.7	728.1	825.7	825.7	825.7
No. sh.s o/s (m) - Y.E.	667.7	728.1	825.7	825.7	825.7
No. sh.s o/s (m) - F.D.	667.7	760.8	849.9	891.3	891.3
<b>Margins (%)</b>					
Gross	54.1	51.6	51.6	52.5	53.6
EBITDA	51.5	46.1	46.5	48.7	51.9
EBIT	44.6	38.3	36.6	38.5	42.3
Pre-tax	44.2	38.2	36.2	38.2	42.1
Net	39.0	39.5	36.2	36.8	37.0
<b>Cash Flow (RMBm)</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
<b>Year to Apr</b>					
EBIT	209.9	262.9	344.2	470.7	651.9
Depre./amort.	32.6	53.9	93.7	124.9	148.1
Net int. paid	(2.1)	(0.7)	(3.3)	(3.2)	(3.3)
Tax paid	(3.6)	-	(9.4)	(12.6)	(16.9)
Others	(15.8)	(8.4)	(39.1)	(24.9)	(16.9)
<b>Gross cashflow</b>	<b>221.0</b>	<b>307.8</b>	<b>386.1</b>	<b>555.0</b>	<b>762.9</b>
Chgs. in working cap.	16.9	1.1	11.0	0.9	13.9
<b>Operating cashflow</b>	<b>237.9</b>	<b>308.8</b>	<b>397.0</b>	<b>555.9</b>	<b>776.8</b>
Capex	(67.4)	(229.5)	(450.0)	(400.0)	(400.0)
<b>Free cashflow</b>	<b>170.5</b>	<b>79.3</b>	<b>(53.0)</b>	<b>155.9</b>	<b>376.8</b>
Dividends paid	(34.8)	(57.5)	(62.8)	(74.8)	(85.9)
Net distribution to MI	-	-	-	-	-
Investments	-	-	-	-	-
Disposals	-	0.1	0.2	0.3	0.4
New shares	162.5	-	-	-	-
Others	(120.0)	(2.6)	159.6	(402.1)	(60.0)
<b>Net cashflow</b>	<b>178.2</b>	<b>19.3</b>	<b>44.0</b>	<b>(320.7)</b>	<b>231.4</b>
Net (debt)/cash - Beg.	353.6	531.8	551.1	595.2	274.4
Net (debt)/cash - End.	531.8	551.1	595.2	274.4	505.8
<b>Interim Results (RMBm)</b>	<b>05A</b>	<b>06A</b>	<b>07A</b>		
<b>Six months to Oct</b>					
<b>Turnover</b>	<b>177.9</b>	<b>262.5</b>	<b>387.2</b>		
% chg	90.9	47.5	47.5		
Profit from operations	82.6	106.4	151.8		
Interest expenses	-	-	(10.3)		
Associates	-	-	-		
Jointly-controlled entit.	-	-	-		
<b>Pre-tax profit</b>	<b>82.6</b>	<b>106.4</b>	<b>141.5</b>		
Tax	(20.5)	-	-		
Minority interests	-	-	-		
<b>Net profit</b>	<b>62.1</b>	<b>106.4</b>	<b>141.5</b>		
% chg	4.3	71.4	33.0		
EPS (RMB) - Basic	0.100	0.150	0.190		
DPS (RMB)	0.030	0.038	0.048		
<b>Balance Sheet (RMBm)</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
<b>Year to Apr</b>					
Fixed assets	196.7	400.9	850.9	1,250.9	1,650.9
Intangible assets	(6.3)	-	-	-	-
Other LT assets	82.3	131.5	110.1	128.0	143.7
Cash	531.8	852.9	799.0	566.2	797.6
Accounts receivable	9.2	22.6	30.7	41.3	55.7
Other receivables	107.7	37.8	38.2	43.2	58.2
Inventories	5.2	7.7	15.2	20.7	27.9
Due from related co.s	-	-	-	-	-
Other current assets	56.6	65.0	74.0	84.2	97.1
<b>Total assets</b>	<b>983.3</b>	<b>1,518.4</b>	<b>1,918.0</b>	<b>2,134.5</b>	<b>2,831.1</b>
Accounts payable	(23.0)	(16.2)	(30.1)	(41.1)	(55.5)
Other payable	-	-	-	-	-
Tax payable	(73.1)	(67.3)	(121.9)	(164.7)	(204.5)
Due to related co.s	-	-	-	-	-
ST debts	-	-	-	-	-
Other current liab.	(0.9)	-	(0.6)	(0.7)	(0.8)
LT debts	-	(301.8)	(203.9)	(291.8)	(291.8)
Other LT liabilities	(3.8)	(0.5)	(2.2)	(3.7)	(4.1)
<b>Total liabilities</b>	<b>(100.7)</b>	<b>(385.8)</b>	<b>(358.6)</b>	<b>(501.9)</b>	<b>(556.8)</b>
Share capital	77.1	77.5	81.3	81.3	81.3
Reserves	805.5	1,055.1	1,478.1	1,551.3	2,193.1
<b>Shareholders' funds</b>	<b>882.6</b>	<b>1,132.6</b>	<b>1,559.4</b>	<b>1,632.6</b>	<b>2,274.3</b>
Minority interest	-	-	-	-	-
<b>Total</b>	<b>882.6</b>	<b>1,132.6</b>	<b>1,559.4</b>	<b>1,632.6</b>	<b>2,274.3</b>
Capital employed	882.6	1,434.4	1,763.2	1,924.4	2,566.1
Net (debt)/cash	531.8	551.1	595.2	274.4	505.8
<b>Shareholding Structure</b>					
				<b>Shares o/s (m)</b>	<b>%</b>
Mr. Sun Shao Feng				405.7	47.9
Janus Capital				42.6	5.0
Arisaig Great China Fund				39.8	4.7
Mccarthy Kent				38.5	4.5
Value Partners				38.5	4.5
Public				281.9	33.4
<b>Total</b>				<b>847.0</b>	<b>100.0</b>
<b>Background</b>					
China Green started with cultivating fresh products for its Japanese clients and established its first factory for processing fresh vegetables in 1999. It now has 10 advanced processing factories with a net production area of about 41,800 sqm and annual capacity of 397,999 tonnes. It operates 33 cultivation bases with a total area of 52,100 mu and an annual capacity of about 236,000 tonnes and 10 production plants in Fujian, Zhejiang, Jiangxi, Hubei and Hebei provinces					
<b>Key Ratios</b>	<b>05A</b>	<b>06A</b>	<b>07F</b>	<b>08F</b>	<b>09F</b>
Net gearing (%)	Cash	Cash	Cash	Cash	Cash
Net ROE (%)	25.1	26.9	25.3	28.2	29.2
EBIT ROCE (%)	28.8	22.7	21.5	25.5	29.0
Dividend payout (%)	27.3	27.7	27.0	27.0	27.0
Effective tax rate (%)	11.7	(3.4)	-	3.7	12.0
Net interest coverage (x)	100.7	403.2	104.7	147.7	195.1
A/R turnover (days)	7.1	12.0	11.9	12.3	13.2
A/P turnover (days)	17.8	8.6	11.7	12.2	13.1
Stock turnover (days)	4.1	4.1	5.9	6.2	6.6

---

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [sbie2capital.com](http://sbie2capital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com) and [multex.com](http://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 Securities 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 Securities Limited 2007. All rights reserved.

---