

China Green

Land is the backbone

BUY (unchanged)

Financial summary

Year to Apr	07A	08A	09F	10F	11F
Turnover (RMBm)	954.11	267.11	581.31	969.92	358.3
Net Profit (RMBm)	346.0	471.0	460.3	569.8	676.4
EPS (RMB)	0.448	0.538	0.521	0.644	0.765
EPS Δ%	20.1	20.1	(3.1)	23.7	18.7
P/E (x)	10.9	9.1	9.4	7.6	6.4
P/B (x)	2.24	1.91	1.65	1.42	1.24
EV/EBITDA (x)	8.3	5.6	4.6	3.2	2.4
Yield (%)	2.2	3.0	3.7	4.5	5.3
ROE (%)	24.6	24.0	19.0	20.1	20.7
ROCE (%)	21.7	19.9	17.5	19.5	23.4
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

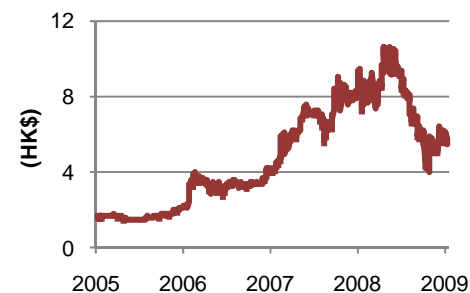
Source: SBI

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-2.3	+25.1	+3.6
Actual price changes (%)	-9.3	+1.8	-35.8

	08F	09F	10F
Consensus EPS (RMB)	0.586	0.697	0.782
Previous forecasts (RMBm)	486.2	567.4	688.8
Previous EPS (RMB)	0.550	0.642	0.779

Price Chart



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Ticker:	0904.HK	12 mth range:	HK\$3.85-11.30
Price:	HK\$5.55	Market cap:	US\$630.0m
Target:	HK\$7.94 (+43%)	Daily t/o, 3 mth:	US\$0.8m
		Free float %:	50.0%

Key points:

- * Cultivation area expanded by 19.7% in FY04/09F.
- * Successful geographic expansion.
- * Japanese market to catch up in 2H.
- * Effective tax rate shot from 4.4% to 15.8%.
- * Forecasts fine tuned, target price revised down slightly from HK\$8.17 to HK\$7.94.

Net profit eroded by tax hike. Turnover increased 26.0% YoY to RMB672.4m in 1H FY04/09A. The gross margin was relatively stable at 51.2% (1H FY04/08A: 51.6%) and the operating margin widened 2.5pcp to 43.4% as a result of: 1) a 46.7% increase in gain from biological assets to RMB50.0m; 2) 2pcp decline in administrative expenses / turnover ratio. Net profit edged up 7.4% to RMB223.3m due to a hike in the effective tax rate from 4.4% to 15.8%.

Japan to catch up in 2H. Sales to Japan dropped 15.6% to RMB145.4m as some clients held orders in 1H after quality problems related to some China-made food products. The management expects the orders to be delivered in 2H so that the Japanese market will achieve a single-digit growth in the full FY04/09F.

Strong growth in other geographic markets. Except Japan and Australia (down 33.6% to RMB0.4m), the company recorded strong growth in other regions, with sales up 45.9% at RMB526.7m, thanks mainly to its geographic expansion worldwide, especially in Europe, the Middle East and America.

Hurt by the melamine crisis. Turnover from the beverage segment increased 24.9% YoY to RMB111.6m in 1H. However, due to the melamine-tainted milk scandal, the growth rate will drop to 10% in 2H, according to the management.

Slow instant noodle capacity expansion. The company announced last month that the construction of its instant noodle plant in Shandong had been postponed to reserve cash in the current economic slowdown. The move will reduce capex in FY04/09F by around RMB312.3m to RMB789.0m. The company almost halved its instant noodle capacity target for FY04/09F from 24,000tonne to 14,000tonne.

Earning forecast. We have adjusted our forecasts to reflect:

- larger-than-expected impact from the melamine crisis – we have cut segmental turnover estimates by 12.5% to RMB262.4m in our last report (“Whisked by the milk storm”, 22 Oct 08). However, as the impact is larger than expected, we lower our by another 17.3% to RMB217.1m.
- delayed instant noodle plant in Shandong – we used to be optimistic about the short-term outlook of the company's instant noodle business given its non-fried concept, good market response in Jiangxi and Fujian and low comparison basis at the start-up stage. However, we are a bit conservative now after segmental sales growth moderated to 23.1% in 1H from 245.2% in FY04/08A and the company froze construction of Shandong instant noodle plant.
- better control over operating expenses – other than the decline in administrative costs, the company managed

Please refer to important disclosures at the end of this report

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to maintain selling expenses in 1H at 11.0% of total sales.

- Rising effective tax rate – we originally expected the tax rate hike in FY04/10F and FY04/11F. In our new forecast, we lift it to 15% in FY04/09F and 18% in FY04/10F from 6% and 13%, respectively.

Overall, we pencil down our top-line and earnings projection by 2.8% and 5.4%, respectively, to RMB1,581.3m and RMB460.3m for FY04/09F.

Slight target price cut. We believe the company's core driver is its cultivation land expansion (target at 15 – 20% increase each year), which can potentially translate into a steady and sustainable earnings growth. Its cultivation area increased from 66,100mu (4,406.7 hectares) in FY04/08A to 79,100mu (5,273.3 hectares) in FY04/09F. In our valuation, we assume a net increase of about 14,000mu (933.3 hectares) per year. We have slightly cut our target price from HK\$8.17 to HK\$7.94 after the forecast adjustments. The new target price is an aggregation of HK\$6.52 from our DDM model and HK\$1.41 net cash per share at end-FY04/09F.

Table 1: P & L

Year to Apr (RMBm)	07A	08A	09F	10F	11F	1H 09A	1H 10A
Turnover	954.1	1,267.1	1,581.3	1,969.9	2,358.3	533.7	672.4
Fresh produce	328.0	360.1	442.6	509.9	583.8	140.4	170.7
Processed	318.3	474.9	654.3	867.3	1,087.0	208.9	285.6
Rice	174.7	183.5	189.0	194.7	200.5	67.5	70.6
Beverage products	114.6	184.8	217.1	303.9	375.7	89.3	111.6
Instant noodles	18.5	63.8	78.3	94.0	111.3	27.6	34.0
Cost of sales	(456.2)	(590.5)	(743.4)	(914.6)	(1,089.0)	(258.3)	(327.9)
Gross profit	497.9	676.6	837.9	1,055.2	1,269.3	275.4	344.5
Other revenue	23.8	58.3	24.1	31.0	31.0	8.3	10.2
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	15.2	19.9	23.7	27.7	31.8	34.1	50.0
Selling and distribution expenses	(92.9)	(125.2)	(160.8)	(205.0)	(249.2)	(51.4)	(66.0)
General and administrative expenses	(83.8)	(119.4)	(125.2)	(156.0)	(186.8)	(48.0)	(47.2)
Operating profit	360.1	510.3	599.6	752.8	896.1	218.5	291.5
Finance cost	(14.4)	(26.6)	(58.0)	(58.0)	(29.0)	(1.1)	(26.3)
Profit before taxation	345.8	483.7	541.6	694.8	867.1	217.3	265.2
Income tax	0.2	(12.8)	(81.2)	(125.1)	(190.8)	(9.5)	(41.9)
Net profit	346.0	471.0	460.3	569.8	676.4	207.8	223.3
EPS - basic (RMB)	0.448	0.538	0.521	0.644	0.765	0.240	0.250
EPS - diluted (RMB)	0.417	0.506	0.524	0.633	0.758	0.210	0.250
Proposed DPS (RMB)	0.109	0.144	0.180	0.220	0.260	0.063	0.063
Proposed dividend	91.3	125.1	159.1	194.5	229.8	55.3	57.0

Source: Company data and SBI E2-Capital

P & L (RMBm)	07A	08A	09F	10F	11F	Cash Flow (RMBm)	07A	08A	09F	10F	11F
Year to Apr						Year to Apr					
Turnover	954.1	1,267.1	1,581.3	1,969.9	2,358.3	EBIT	345.3	481.4	578.6	731.8	875.1
% chg	39.0	32.8	24.8	24.6	19.7	Depre./amort.	70.5	94.2	154.8	217.3	244.3
Gross profit	497.9	676.6	837.9	1,055.2	1,269.3	Net int. paid	0.4	2.4	(37.0)	(37.0)	(8.0)
						Tax paid	0.0	(25.5)	(54.9)	(81.2)	(125.1)
EBITDA	415.8	575.6	733.4	949.1	1,119.4	Dividends received					
Depre./amort.	(70.5)	(94.2)	(154.8)	(217.3)	(244.3)	Gross cashflow	416.2	552.5	641.5	830.9	986.4
EBIT	345.3	481.4	578.6	731.8	875.1	Chgs. in working cap.	21.5	34.5	(31.7)	(22.6)	(22.8)
Net int. income/(exp.)	0.4	2.4	(37.0)	(37.0)	(8.0)	Operating cashflow	437.7	587.0	609.8	808.3	963.6
Exceptionals						Capex	(190.9)	(235.0)	(689.0)	(404.8)	(391.2)
Associates						Free cashflow	246.9	352.0	(79.2)	403.6	572.4
Jointly-controlled entit.						Dividends paid	(83.7)	(103.1)	(127.1)	(188.2)	(209.6)
Pre-tax profit	345.8	483.7	541.6	694.8	867.1	Net distribution to MI					
Tax	0.2	(12.8)	(81.2)	(125.1)	(190.8)	Investments	0.0	(139.5)	0.0	132.0	0.0
Minority interests						Disposals	0.3	0.0	0.0	0.0	0.0
Net profit	346.0	471.0	460.3	569.8	676.4	New shares	43.7	34.6	0.0	0.0	0.0
% chg	27.5	36.1	(2.3)	23.8	18.7	Others	227.7	124.8	48.9	52.2	(31.5)
Dividends	(91.3)	(125.1)	(159.1)	(194.5)	(229.8)	Net cashflow	434.8	268.9	(157.4)	399.5	331.3
Retained earnings	254.7	345.8	301.2	375.3	446.5	Net (debt)/cash - Beg.	551.1	985.9	1,254.8	1,097.4	1,496.9
EPS (RMB) - Basic	0.448	0.538	0.521	0.644	0.765	Net (debt)/cash - End.	985.9	1,254.8	1,097.4	1,496.9	1,828.2
EPS (RMB) - F.D.	0.417	0.506	0.524	0.633	0.758						
DPS RMB)	0.109	0.144	0.180	0.220	0.260	Interim Results (RMBm)	06A	07A	08A		
No. sh.s o/s (m) - W.A.	847.0	847.0	884.0	884.0	884.0	Six months to Jun					
No. sh.s o/s (m) - Y.E.	772.5	875.5	883.3	884.0	884.0	Turnover	262.5	387.2	533.7		
No. sh.s o/s (m) - F.D.	864.8	983.1	989.0	992.0	892.8	% chg		47.5	37.8		
						Profit from operations	106.4	148.0	218.5		
Margins (%)						Interest expenses		(6.4)	(1.1)		
Gross	52.2	53.4	53.0	53.6	53.8	Associates					
EBITDA	43.6	45.4	46.4	48.2	47.5	Jointly-controlled entit.					
EBIT	7.0	38.0	36.6	37.2	37.1	Pre-tax profit	106.4	141.5	217.3		
Pre-tax	36.2	38.2	34.2	35.3	36.8	Tax			(9.5)		
Net	36.3	37.2	29.1	28.9	28.7	Minority interests					
						Net profit	106.4	141.5	207.8		
Balance Sheet (RMBm)	07A	08A	09F	10F	11F	% chg		33.0	46.8		
Year to Apr						EPS (RMB) - Basic	0.150	0.190	0.240		
Fixed assets	475.5	523.4	784.2	818.2	821.9	DPS (RMB)	0.040	0.048	0.063		
Intangible assets	176.8	265.4	529.0	672.2	806.2	Shareholding Structure					
Other LT assets										Shares o/s (m)	%
Cash	1,050.5	2,098.0	1,998.6	2,456.1	1,828.2	Sun Shaofeng				405.0	45.8
Accounts receivable	50.6	34.7	43.3	54.0	64.6	Others				340.6	54.2
Other receivables						Total				884.0	100.0
Inventories	14.3	26.2	47.3	58.9	70.5						
Due from related co.s						Background					
Other current assets	73.3	220.1	231.0	118.0	136.1	Established in 1998, China Green is a vertically-integrated food producer with headquarter in Fujian province. The company has three buesiness segments: fresh produce, processed products and branded beverage and instrant noodle products. The company listed in Hong Kong exchange in 2004.					
Total assets	1,841.0	3,167.8	3,633.4	4,177.4	3,727.6						
Accounts payable	(22.4)	(24.1)	(30.3)	(37.3)	(44.4)	Key Ratios	07A	08A	09F	10F	11F
Other payable						Net gearing (%)	Cash	Cash	Cash	Cash	Cash
Tax payable	(67.6)	(54.9)	(81.2)	(125.1)	(190.8)	Net ROE (%)	24.6	24.0	19.0	20.1	20.7
Due to related co.s						EBIT ROCE (%)	21.7	19.9	17.5	19.5	23.4
ST debts						Dividend payout (%)	26.4	26.6	34.6	34.1	34.0
Other current liab.	(0.8)	(6.0)	(5.9)	(7.3)	(8.7)	Effective tax rate (%)	(0.1)	2.6	15.0	18.0	22.0
LT debts	(64.6)	(843.2)	(901.2)	(959.2)	0.0	Net interest coverage (x)	na	na	15.6	19.8	109.2
Other LT liabilities	0.0	0.0	0.0	0.0	0.0	A/R turnover (days)	21.2	12.3	9.0	9.0	9.2
Total liabilities	(155.4)	(928.2)	(1,018.6)	(1,128.9)	(243.8)	A/P turnover (days)	7.4	6.7	6.3	6.3	6.3
Share capital	88.9	92.1	92.3	92.3	92.3	Stock turnover (days)	8.8	12.5	18.0	21.2	21.7
Reserves	1,596.6	2,147.5	2,522.5	2,956.3	3,391.5						
Shareholders' funds	1,685.5	2,239.6	2,614.8	3,048.6	3,483.8						
Minority interest											
Total	1,685.5	2,239.6	2,614.8	3,048.6	3,483.8						
Capital employed	1,750.1	3,082.8	3,516.0	4,007.8	3,483.8						
Net (debt)/cash	985.9	1,254.8	1,097.4	1,496.9	1,828.2						

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