

FY3/06 results review

Hong Kong F&B

Pacific Andes (1174 HK, HK\$1.53)

BUY (unchanged)

Target price: HK\$1.78 (+16.3%)

FY3/06 turnover rose 16.2%. Pacific Andes International (PAI) posted a 16.2% rise in FY3/06 turnover to HK\$6,157m, below consensus forecast of HK\$6,534m and our forecast of HK\$6,533.7m. The core businesses of 'Frozen Fish' and 'Fillets and Portions' registered steady revenue growth of 7% and 9.4% to HK\$2,921m (47.4% of total turnover) and HK\$2,537m (41.2%) respectively. Revenue was especially boosted by a strong 223% rise in sales to HK\$620.2m (10.1% of revenue) in the upstream 'Fishing' business, which is administered by Singapore-listed China Fishery Group.

China continues to be the main contributor market. All geographical markets registered growth with China remaining the largest contributor, accounting for some HK\$3,069m (+9.2%) or 49.9% of total revenue for PAI. The European and North American markets continue to remain important revenue drivers too, contributing HK\$1,286m (+14.4% and accounting for 20.9% of total revenue) and HK\$1,204m (+15.1% and accounting for 19.6% of total revenue).

Gross margins expanded mainly due to 'Fishing' business. As a result of the integration of the 'Fishing' business, overall gross margin expanded from 11.8% to 15.1%. Importantly, the 'Fishing' business will underpin the business performance of PAI going forward.

However, net profit was below expectations. Despite the 16% rise in turnover, net profit growth did not keep pace, growing a shade lower at 12.1%, after exceptional items, to HK\$183.1m, which was below our forecast of HK\$232m and consensus (HK\$235m). There were three key reasons for the weaker profit growth. One was the marked increase in administrative expenses, due to the acquisition of a 60% interest in Kyoshoku (who owns three processing plants) earlier this calendar year, which jumped 55% to HK\$240m; and the other was higher finance costs, which doubled to HK\$204m. Also, PAI recognized 60% of the HK\$32m loss incurred by Kyoshoku who is now expected to breakeven in the 2H of calendar year 2006. If exceptional items were not accounted for, net profit would have risen 21.3% to HK\$199.5m.

Dividend of HK\$0.052 per share. A final dividend of HK\$0.052 per share was declared, which was lower than consensus estimate of HK\$0.06 and also lower than the dividend per share of HK\$0.054 paid last year. Dividend pay out FY3/06 was reduced to 30.5% compared to 33.3% a year ago. That was still in line with management's dividend policy of distributing one-third of its net profit as dividend each year and essentially gives a current dividend yield of 3.4%.

Short-term loans restructured to long-term loans. PAI recently signed a US\$160m (HK\$1.25b) term loan facility with 20 international and local banks. The term loan can be split into two batches of US\$60m (HK\$468m) with tenure of 5 years and US\$100m (HK\$780m) with a term of 4 years. The US\$60m batch will

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Mar	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
04A	111.6	0.149	9.0	10.3	1.24	8.4	3.2	11.1	9.6	72.8
05A	163.2	0.163	9.6	9.4	1.10	8.7	3.6	12.4	10.2	103.1
06A	183.1	0.183	11.8	8.4	0.97	6.3	3.4	12.3	13.2	124.6
07F	228.0	0.227	24.6	6.7	0.90	3.8	4.9	13.9	12.4	57.5
08F	249.5	0.249	9.4	6.1	0.82	2.9	5.4	12.4	13.8	58.1

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be used to finance the construction of the new processing plant in Hongdao, Qingdao while the US\$100m batch will be used to refinance PAI's short-term borrowings and for general working capital usage.

Business outlook remains positive. The Hongdao processing plant, with a processing capacity of 60,000 tonnes, is expected to start operation in the summer of 2007, together with a continuing strong showing from the 'Fishing' business, we remain optimistic on PAI's business outlook going forward. Our optimism is justified by the favorable macro-environment especially since fish consumption per capita in China, PAI's largest market, is projected to reach 34.3kg by 2030, from the estimated 25.6kg in 2003, according to the Food and Agriculture Organization.

Maintain BUY with price target unchanged at HK\$1.78. Pending a more detailed discussion with management in the near term, we may update our profit forecast again. We maintain BUY with price target unchanged for at HK\$1.78.