

Pacific Andes



FY03/08F results preview

BUY (unchanged)

Estimates update. Pacific Andes International holdings (PAIH) will release its FY03/08F results on this Thursday (Jul 24). We expect the company will earn HK\$383.6m (up 23.4% YoY) on HK\$10,037.1m turnover (up 18.4% YoY). The new estimates are 11.2% and 12.1% lower than previous ones. The adjustments were made mainly according to the reported FY03/08A results from Pacific Andes Holdings (PAH SP, S\$0.43, NR), PAIH's main direct subsidiary.

China Agriculture

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Overview of PAH results. PAH's revenue in FY03/08A increased 32.3% to HK\$7,005.0m. Net profit increased to HK\$481.0m from HK\$384.3m in FY03/07A, which includes HK\$385.1m one-off gain arising from share issuance.

- ❑ Fishing division – Despite fishmeal price retreat during the period, segmental turnover went up 76.0% to HK\$3,149.9m, driven by continuous capacity expansion (signed 3rd and 4th VOAs by the end of 2007, acquired 3 fishmeal plants and 11 purse seine fishing vessels in Peru). Operating profit enlarged by 1.9 fold to HK\$1,131.3m.
- ❑ Frozen fish SCM division – Segmental turnover rose 10.2% to HK\$3,855.1m. However, pressured by high oil price, operating profit declined 13.9% to HK\$302.4m.

Stock data

Price	HK\$1.41
Target price	HK\$1.84 (+30%)
12 mth range	HK\$1.15-3.03
Market cap.	US\$328.9m
Daily t/o, 3 mth	US\$0.5m
Free float %	39.4%
Ticker	1174.HK/1174 HK

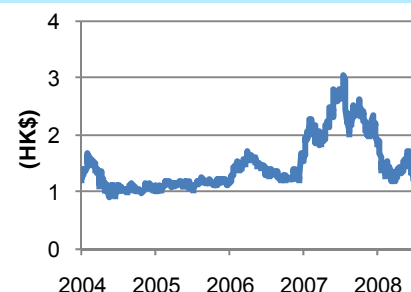
Fish fillets processing and distribution division. PAIH runs this business directly. As mentioned in our previous reports, the company's product delivery was affected by the stricter food export control adopted by Chinese government last year with intention to reduce food safety problem. We expected segmental turnover to shrink from HK\$3,192.5m in FY03/07A to HK\$3,032.1m.

Financial summary

Year to Mar	06A	07A	08F	09F	10F
Turnover (HK\$m)	6,157.08	4,478.61	10,037.11	11,503.31	12,649.4
Net profit (HK\$m)	183.1	310.8	383.6	499.0	670.4
EPS (HK\$)	0.183	0.270	0.230	0.273	0.367
EPS ..	12.3	47.5	(15.0)	18.9	34.4
P/E (x)	7.7	5.2	6.1	5.2	3.8
P/B (x)	0.91	0.79	0.50	0.46	0.42
EV/EBITDA (x)	9.2	6.5	5.0	3.8	2.8
Yield (%)	3.7	2.9	2.8	5.7	7.1
ROE (%)	12.3	16.7	10.5	9.3	11.5
ROCE (%)	10.2	12.0	11.7	11.3	13.2
N. Gear. (%)	144.6	147.4	84.6	54.2	37.7

Valuation and recommendation. PAIH increased its shareholding in China Fishery (CFG SP, S\$1.42, BUY), the subsidiary in responsible for fishing operation, from 18.4% to 40.8% in Jul 2007. Overall, we forecast the company will have HK\$10,037.1m in top line and HK\$385.1m in bottom line for F03/08F. Considering the market correction in the past months and PAIH's high gearing ratio (FY03/07A: 147.4%), we employ a prudent 8.0x FY03/08F P/E to derive our new target price of HK\$1.84.

Price Chart



Recent movements

- ❑ CFG acquired three additional vessels in Peru at US\$11.6m in Jul 2008.
- ❑ CFG has sent two trawlers to international water of the South

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Pacific. Fishing operation in this region will become a major driver for the company in FY03/09F.

- Peru may change its fishing quota system from present "Olympic System" to "Individual Transferrable Quota System" in 2009. PAIH expects overall impact of the change to be positive as it will help the company achieve better operating efficiency. However, it will also probably incur non-cash loss due to potential write-off of spare fishmeal processing capacities (current utilization rate: around 30.0%).

Table 1: Peers comparison

Company name	Ticker	Fiscal Year end	Mkt Cap (US\$m)	His P/E(x)	Curr-Yr Fwd P/E(x)	Nxt-Yr Fwd P/E(x)	ROE (%)
Pacific Andes	1174 HK	03/2007	328.9	6.0			16.7
Zhangzidao	002069 CH	12/2007	725.9	29.5	25.8	22.2	15.0
Homey	600467 CH	12/2007	851.7	28.8	23.2	18.0	20.1
Kyokuyo	1301 JP	03/2008	204.3	14.3	n.a.	n.a.	8.3
Nippon Suisan	1332 JP	03/2008	1,328.4	15.0	19.5	33.6	8.5
Katokichi	2873 JP	03/2007	n.a.	n.a.	96.6	n.a.	(10.6)
Toyo Suisan	2875 JP	03/2008	2,500.4	21.5	28.7	40.8	8.3
Yonk Yu	9955 JP	03/2008	59.9	792.0	n.a.	n.a.	0.0
Tassal	TGR AU	06/2007	335.3	18.0	15.1	11.3	21.7
ITATA	ITATA CI	12/2007	230.3	11,379.7	n.a.	n.a.	12.6
Aker Seafoods	AKS NO	12/2007	260.6	n.a.	22.7	15.6	0.8
Copeinca	COP NO	12/2007	470.6	48.2	31.8	19.2	2.7
Marine Harvest	MHG NO	12/2007	2,723.0	n.a.	59.1	17.9	0.0
Vinnslustodin	VNST IR	12/2006	n.a.	n.a.	n.a.	n.a.	15.0
Average					35.8	22.3	7.9

Source: Bloomberg

Table 2: P&L

Year to Mar (HK\$m)	06A	07A	08F	09F	10F
Revenue					
Industrial fishing	620.2	1,789.3	3,149.9	3,729.0	4,346.7
Frozen fish SCM	2,981.9	3,496.7	3,855.1	4,240.6	4,664.7
Fish fillets processing and distribution	2,537.2	3,176.7	3,017.8	3,520.8	3,626.4
Others	17.7	15.8	14.2	12.8	11.5
	6,157.0	8,478.6	10,037.1	11,503.3	12,649.4
Cost of sales	(5,226.5)	(7,156.5)	(8,192.1)	(9,278.6)	(10,072.7)
Gross profit	930.5	1,322.0	1,845.0	2,224.7	2,576.7
Other income	50.0	132.4	171.4	166.1	169.0
Selling and distribution expenses	(145.8)	(138.3)	(223.7)	(229.5)	(247.4)
Administrative expenses	(240.0)	(321.2)	(388.0)	(538.5)	(567.8)
Other expenses	(32.9)	(10.5)	(3.7)	(4.2)	(4.3)
Gain on dilution of interest in a subsidiary	220.0	385.1	24.7	0.0	0.0
Loss on deemed disposal of interest in a subsidiary	(12.7)	0.0	0.0	0.0	0.0
Finance costs	(204.2)	(357.3)	(486.1)	(459.1)	(387.1)
Share of results of associates	(0.4)	0.4	0.8	0.9	1.0
Profit before taxation	564.5	1,012.6	940.3	1,160.4	1,540.2
Taxation	(14.3)	(19.3)	(38.0)	(93.9)	(135.0)
Profit for the period	550.2	993.3	902.3	1,066.5	1,405.2
Attributable to:					
Shareholders of the company	183.1	310.8	383.6	499.0	670.4
Minority interest	367.1	682.5	518.7	567.5	734.8

Source: Company data, SBI E2-Capital