

Pacific Andes: Revising up earnings

Recommendation: BUY (unchanged)

Hong Kong F&B

Price	HK\$1.53	Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$1.86 (+21%)	Mar	HK\$m	HK\$	Δ%	x	x	x	%	%	%	%
12 mth range	HK\$1.25-2.00	05A	163.2	0.163	10.0	9.4	1.1	9.4	3.5	12.4	10.3	103.1
Market cap.	HK\$1,554.3m	06A	183.1	0.183	11.8	8.4	1.0	7.9	3.4	12.3	11.8	124.7
Daily t/o, 3 mth	HK\$2.1m	07F	236.4	0.233	27.5	6.6	0.9	6.4	5.1	14.2	12.3	102.0
Free float %	24.3%	08F	411.1	0.405	73.9	3.8	0.7	4.6	8.8	21.3	16.3	76.6
Ticker	1174.HK/1174 HK	09F	477.8	0.470	16.2	3.3	0.6	4.4	10.2	21.1	16.6	55.6

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -5.4%, -16.6%, +2.0%
Actual price changes (1 mth, 3 mth, 12 mth): -0.6%, -15.0%, +13.3%

Key points:

- China Fishery and Pacific Andes Holdings reported robust financial results.
- China Fishery has also completed its due diligence of Peruvian acquisition.
- FY07 and FY08 earnings revised upwards.
- Maintain BUY with new target price of HK\$1.86.

China Fishery and Pacific Andes Holdings reported robust financial results. Singapore-listed China Fishery (CFG SP), of whom Pacific Andes International (1174 HK) holds indirectly through Pacific Andes Holdings (PAH SP), has reported a 53.8% YoY increase in 1H FY07 (six months to June 2006) revenue to US\$81.7m and a 54.2% YoY rise in net profit to US\$33.4m. Pacific Andes Holdings also reported its financial results, posting a 86.4% YoY jump in revenue for 1Q FY07 (three months to June 2006) to HK\$1,500.2m and a 72.9% YoY increase in net profit to HK\$70.4m.

China Fishery has also completed its due diligence of Peruvian acquisition. Separately, China Fishery has also completed its due diligence of Peruvian fishing and fishmeal producer, Alexandra S.A.C., and that the acquisition will be completed in 2H of calendar year 2006. We now expect contributions from Alexandra S.A.C. to kick in from 2H of calendar year 2006, with full-year contribution for Pacific Andes from FY08 and beyond.

FY07 and FY08 earnings revised upwards. On account of the robust earnings posted by China Fishery and Pacific Andes Holdings, in addition to the expected contribution from the Peruvian acquisitions, we have revised up our FY07 and FY08 earnings estimates for Pacific Andes International. Additionally, our earnings estimates have also been further raised based on expectations of a strong growth in the fillets and portions business in FY08 following a discussion with management recently. Specifically, we now expect net profit to rise 29.2% to HK\$236.4m for FY07F and 73.9% to HK\$411.1m for FY08F, mainly lifted by the contribution from China Fishery's Peruvian acquisitions and also by contribution from the new processing plant in Hongdao, Qingdao, which is expected to be operational in mid-2007.

Maintain BUY with new target price of HK\$1.86. Based on our earnings estimates, Pacific Andes International now trades at attractive P/E of 6.6x FY07F and 3.8x FY08F with prospective yield at 5.1-8.8%. With expectations of strong earnings growth for the next two years, we believe that Pacific Andes deserves a higher valuation. As such, we have conservatively attached a fair P/E of 8x FY07F earnings, placing the target price at HK\$1.86 (HK\$1.78 previously). Maintain BUY with potential price upside of 21.6%.

P & L (HK\$m)	05A	06A	07F	08F	09F	Cash Flow (HK\$m)	05A	06A	07F	08F	09F
Year to Mar						Year to Mar					
Turnover	5,298.3	6,157.0	7,368.8	9,516.6	11,056.6	EBIT	345.9	561.8	755.8	1,116.9	1,246.2
% chg	20.6	16.2	19.7	29.1	16.2	Depre./amort.	44.7	106.1	132.8	158.2	165.2
Gross profit	623.2	930.5	1,109.5	1,573.7	1,776.9	Net int. paid	(88.7)	(169.2)	(247.9)	(233.9)	(219.9)
EBITDA	390.9	668.2	888.6	1,275.1	1,411.3	Tax paid	(2.5)	(5.4)	(6.0)	(6.0)	(6.0)
Depre./amort.	(45.0)	(106.4)	(132.8)	(158.2)	(165.2)	Other non-cash	11.0	(79.0)	77.3	49.6	47.1
EBIT	345.9	561.8	755.8	1,116.9	1,246.2	Gross cashflow	308.5	482.4	711.9	1,084.8	1,232.5
Net int. income/(exp.)	(97.7)	(204.2)	(247.9)	(233.9)	(219.9)	Chgs. in working cap.	(875.5)	(1,632.4)	(200.9)	(716.2)	(794.1)
Exceptionals	(1.2)	68.5	-	-	-	Operating cashflow	(567.0)	(1,149.9)	511.0	368.6	438.4
Associates	(0.7)	(0.4)	-	-	-	Capex	(96.4)	(161.2)	(624.0)	(100.0)	(100.0)
Others	-	-	-	-	-	Free cashflow	(663.4)	(1,311.1)	(113.0)	268.6	338.4
Pre-tax profit	246.3	425.7	507.8	883.0	1,026.2	Dividends paid	(49.0)	(54.2)	(55.9)	(78.7)	(136.9)
Tax	(3.3)	(14.3)	(15.2)	(26.5)	(30.8)	Net distribution to MI	(13.8)	(17.5)	-	-	-
Minority interests	(79.8)	(228.4)	(256.2)	(445.4)	(517.6)	Investments	(174.6)	(67.4)	-	-	-
Net profit	163.2	183.1	236.4	411.1	477.8	Disposals	3.1	6.5	-	-	-
% chg	46.2	12.1	29.2	73.9	16.2	New shares	0.7	18.7	-	-	-
Dividends	(54.4)	(55.9)	(78.7)	(136.9)	(159.1)	Others	820.4	1,487.2	498.4	(140.0)	(135.5)
Retained earnings	108.8	127.2	157.7	274.2	318.7	Net cashflow	(76.5)	61.9	329.5	49.8	66.0
EPS (HK\$) - Basic	0.163	0.183	0.233	0.405	0.470	Net (debt)/cash - Beg.	(964.6)	(1,747.0)	(2,736.6)	(2,875.1)	(2,625.2)
EPS (HK\$) - F.D.	0.163	0.182	0.233	0.405	0.470	Net (debt)/cash - End.	(1,747.0)	(2,736.6)	(2,875.1)	(2,625.2)	(2,359.2)
DPS (HK\$)	0.054	0.052	0.078	0.135	0.157						
No. sh.s o/s (m) - W.A.	999.3	1,002.7	1,015.9	1,015.9	1,015.9	Interim Results (HK\$m)	05A	06A			
No. sh.s o/s (m) - Y.E.	999.4	1,015.9	1,015.9	1,015.9	1,015.9	Six months to Sep					
No. sh.s o/s (m) - F.D.	1,002.2	1,005.5	1,015.9	1,015.9	1,015.9	Turnover	2,032.0	2,487.5			
						% chg	16.2	22.4			
Margins (%)						Profit from operations	126.2	220.9			
Gross	11.8	15.1	15.1	16.5	16.1	Interest expenses	(36.4)	(74.9)			
EBITDA	7.4	10.9	12.1	13.4	12.8	Associates	(1.0)	0.0			
EBIT	6.5	9.1	10.3	11.7	11.3	Others	(1.1)	(12.7)			
Pre-tax	4.6	6.9	6.9	9.3	9.3	Pre-tax profit	87.7	133.4			
Net	3.1	3.0	3.2	4.3	4.3	Tax	(2.8)	(3.1)			
						Minority interests	(24.3)	(59.1)			
Balance Sheet (HK\$m)	05A	06A	07F	08F	09F	Net profit	84.9	130.3			
Year to Mar						% chg	24.1	17.4			
Fixed assets	391.7	578.2	1,123.8	1,120.1	1,109.3	EPS (HK\$) - Basic	-	-			
Intangible assets	99.8	152.3	152.3	152.3	152.3	DPS (HK\$)	-	-			
Other LT assets	324.3	784.0	621.9	459.9	297.8						
Cash	282.4	337.3	666.8	716.6	782.6	Shareholding Structure					
Accounts receivable	1,701.9	2,329.7	2,523.6	2,998.4	3,483.6				Shares o/s (m)	%	
Other receivables	381.8	372.9	345.2	367.6	366.5	NS Hong Investments			617.4	60.8	
Inventories	1,403.9	1,951.5	2,057.9	2,393.8	2,796.6	Value Partners			151.5	14.9	
Due from related co.s	50.7	23.6	23.6	23.6	23.6	Public			247.1	24.3	
Other current assets	45.7	2.9	2.9	2.9	2.9	Total			1,015.9	100.0	
Total assets	4,682.3	6,532.3	7,518.0	8,235.1	9,015.3						
Accounts payable	(539.4)	(362.9)	(434.6)	(551.6)	(644.4)	Background					
Other payable	-	-	-	-	-	Pacific Andes International has been supplying frozen seafood products since 1986 and was listed in 1994. The company has a Singapore-listed arm, Pacific Andes Holdings, who is engaged in the trading and distribution of seafood. In turn, Pacific Andes Holdings has also a Singapore-listed arm, China Fishery, who is engaged in the fishing business.					
Tax payable	(7.8)	(13.9)	(23.2)	(43.6)	(68.4)						
Due to related co.s	(7.9)	(7.8)	(7.8)	(7.8)	(7.8)						
ST debts	(1,936.6)	(2,865.3)	(2,085.3)	(1,885.3)	(1,685.3)						
Other current liab.	(286.2)	(437.2)	(437.2)	(437.2)	(437.2)						
LT debts	(92.9)	(208.5)	(1,456.5)	(1,456.5)	(1,456.5)						
Other LT liabilities	(21.8)	(37.5)	(37.5)	(37.5)	(37.5)						
Total liabilities	(2,892.6)	(3,933.3)	(4,482.2)	(4,419.6)	(4,337.2)	Key Ratios	05A	06A	07F	08F	09F
Share capital	99.9	101.6	101.6	101.6	101.6	Net gearing (%)	103.1	124.7	102.0	76.6	55.6
Reserves	1,293.1	1,478.8	1,659.4	1,993.8	2,338.7	Net ROE (%)	12.4	12.3	14.2	21.3	21.1
Shareholders' funds	1,393.0	1,580.4	1,761.0	2,095.3	2,440.3	EBIT ROCE (%)	10.3	11.8	12.3	16.3	16.6
Minority interest	396.7	1,018.7	1,274.8	1,720.2	2,237.8	Dividend payout (%)	33.3	30.5	33.3	33.3	33.3
Total	1,789.7	2,599.1	3,035.8	3,815.5	4,678.1	Effective tax rate (%)	1.3	3.4	3.0	3.0	3.0
Capital employed	3,819.1	5,672.9	6,577.6	7,157.4	7,819.9	Net interest coverage (x)	3.5	2.8	3.0	4.8	5.7
Net (debt)/cash	(1,747.0)	(2,736.6)	(2,875.1)	(2,625.2)	(2,359.2)	A/R turnover (days)	117.2	138.1	125.0	115.0	115.0
						A/P turnover (days)	42.1	25.3	25.3	25.3	25.3
						Stock turnover (days)	109.6	136.3	120.0	110.0	110.0

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