

1Q FY3/07 results on track

China F & B

Fu Ji (1175 HK, HK\$13.22)

BUY (unchanged)

Target price: HK\$19.0 (+43.5%)

Results summary. Fu Ji reported 1Q FY3/07 net profit of RMB77.1m, up 50.7% YoY. Market consensus for FY3/06 net profit is around RMB380m. The results were in line with market expectations (20% of sales was booked in 1Q). Turnover grew 56.4% to RMB252m, mainly due to the 81.7% surge in catering service sales to RMB179.2m. Operating profit grew 39.6% to RMB87.9m.

Table 1: 1Q FY3/07 results

Year to Mar	Turnover (RMBm)	Gross profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Net profit (RMBm)	Basic EPS (cents)
FY07	242.0	132.8	54.9	83.7	77.1	15.4
FY06	154.7	86.0	55.6	60.0	51.2	12.3
YoY (%)	56.4	54.3	-	39.6	50.7	25.2

Source: Company data

Margin recovery from 4Q06

Table 2: Margin analysis

Year to Mar	Gross margin (%)	Operating margin (%)	Net margin (%)
1Q07	54.9	36.4	31.9
4Q06	56.6	34.4	27.9
1Q06	55.6	40.7	33.1

Source: Company data

Growth drivers

Wuxi and Hangzhou central processing centres are expected to be fully operational in 2Q FY3/07, which will boost Fu Ji's production capacity by 300,000 meal sets per day. Shanghai Jiading Center will commence operation in 3Q FY3/07, which will increase further 300,000 meal sets per day to the Group's overall capacity.

Fu Ji is considering to open more centralized processing centres in Beijing and Shandong province and to strengthen its vertically integrated business model by establishing more Sourcing and processing centre (SIPC)s, Fu Ji can benefit from lower purchasing and processing material costs by developing more SIPC's.

Fu Ji also explores new business opportunities in supplying pre-packaged meals to the education, tourist's attraction points, railway and highway segments.

Table 3: Financial summary

Year to Mar	Net profit RMBm	EPS RMB	EPS Δ %	P/E X	P/B X	EV/EBITDA X	Yield %	ROE %	ROCE %	N. Gearing %
04A	82.6	-	-	-	-	-	-	-	-	-
05A	165.4	0.462	-	29.4	6.7	18.3	0.3	38.9	40.7	Cash
06A	251.4	0.488	5.6	27.9	4.9	16.4	1.2	23.7	24.4	Cash
07F	402.1	0.780	59.7	17.5	3.8	10.7	1.7	25.9	23.5	Cash
08F	570.0	1.108	42.1	12.3	2.9	6.7	2.4	27.2	29.4	Cash

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Valuation. Being the beneficiary of catering outsourcing boom in China, and having an attractive operating margin and high growth PEG, Fu Ji should deserve premium valuation compared to other catering-related peers. Trading at FY08 P/E of 12.3x and a PEG of 0.6x, we retain our Buy call.

Table 4: Peer comparisons

Company	Ticker	Year end	Currency	Mkt cap. (US\$m)	His. P/E (x)	06F P/E (x)	07F P/E (x)	Operating margin (%)	PEG (x)
Compass	CPG LN	Sep	GBP	10,226.4	68.5	18.2	15.6	3.5	2.6
Sodexo	SW FP	Aug	EUR	8,171.4	25.1	21.7	19.2	4.0	1.5
Café de Coral	341 HK	Mar	HK\$	846.8	20.4	17.0	15.0	11.2	1.2
Fairwood	52 HK	Mar	HK\$	123.7	12.7	11.6	9.4	5.91	Na
Singapore Food	SFI SP	Dec	SGD	298.4	13.5	12.7	11.0	8.9	Na
Fu Ji	1175 HK	Mar	HK\$	854.0	27.9	17.5	12.3	37.6	0.4
AVG					28.0	16.5	13.8	11.9	1.4
Median					22.8	17.3	13.7	7.4	1.4

Source: Bloomberg & SBI E2-Capital