

Boosted by surging glucose price

China F & B

Xiwang Sugar (2088 HK, HK\$4.34)

Not Rated

We attended Xiwang's 1H FY12/06 results announcement analyst meeting yesterday and the key takeaways are as follows:

Results highlights. 1H06 net profit rose 110% YoY to RMB158.9m, which was above market expectations. Turnover increased 67.8% YoY to RMB687.8m, which were mainly driven by the surge of glucose price and an increase of overall production capacity. No interim DPS was declared.

Margin expansion. Operating margin reached 24.7% compared with only 19.7% in 1H05. Net margin also expanded to 23.1% in 1H06 (+18.5% in 1H05).

Table 1: Interim results

| Six months to June | Turnover (RMBm) | Gross profit (RMBm) | Gross margin (%) | Operating profit (RMBm) | Tax rate* (%) | Net profit (RMBm) | Basic EPS (RMB) |
|--------------------|-----------------|---------------------|------------------|-------------------------|---------------|-------------------|-----------------|
| 1H06 | 687.8 | 191.9 | 27.9 | 170.0 | - | 158.9 | 0.198 |
| 1H05 | 409.9 | 91.3 | 22.3 | 80.6 | - | 75.7 | 0.135 |
| YoY (%) | 67.8 | 110.2 | | 111.1 | | 110.0 | 46.7 |

Source: Company data *The company was not subject to any income tax in Bermuda and the British Virgin Islands during the period. No provision for PRC enterprises income tax was provided taking into account the availability of tax holidays enjoyed by the company's subsidiaries incorporated in the PRC.

Table 2: Turnover breakdown

| % of total turnover | 1H05 | 1H06 |
|---------------------------------|------------|------------|
| Corn refined products | 29.2 | 26.4 |
| Corn-based biochemical products | | |
| - Crystallised glucose | 51.2 | 37.7 |
| -Glucose syrup | 15 | 26.4 |
| -Lysine products | 4.6 | 26.9 |
| Total | 100 | 100 |

Source: Company data

Table 3: Gross profit margin

| (%) | 1H05 | 1H06 | % points change |
|---------------------------------|------|------|-----------------|
| Corn refined products | 12 | 19 | 7 |
| Corn-based biochemical products | | | |
| - Crystallised glucose | 27 | 36 | 9 |
| -Glucose syrup | 27 | 36 | 9 |
| -Lysine products (65%) | 26.6 | 22.5 | (4.1) |
| -Lysine products (98.5%) | 22.3 | 27.9 | 5.6 |

Source: Company data

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Table 4: Average selling price of key products

| RMB per tonne | 1H05 | 1H06 | YoY (%) |
|---------------------------------|-------|--------|---------|
| Corn-based biochemical products | | | |
| - Crystallised glucose | 2,595 | 2,920 | 12.5 |
| -Glucose syrup | 1,760 | 2,262 | 29.0 |
| -Lysine products (65%) | 5,915 | 4,760 | (19.5) |
| -Lysine products (98.5%) | - | 10,825 | na |

Source: Company data

2H06 outlook

Sugar cane price. Management expects that under the worse case scenario, sugar cane price will drop another 7% to around RMB3,500 per tonne. At the same time, corn prices may drop around 7% to RMB1,150 per tonne. Overall, the company expects to maintain the 1H FY12/06 gross margin of 27.9%.

Capacity expansion. The company plans to expand its production capacity for crystallised glucose and starch paste to 800,000 tonnes and 1 million tonnes respectively by the end of 2006.

New product. The company developed a new product – crystallised fructose-glucose, which is a natural sweetener made of corn and is 10% sweeter than cane sugar. The company is currently applying patent for this crystallised fructose-glucose and expects to commence mass production in 2007.

Financials. As at 30th June 2006, the company had net debt of RMB17m.

Valuation. Based on consensus forecasts, the counter is trading at 12.1x FY12/06F P/E (EPS: RMB0.371) and 10.7x FY12/07F P/E (EPS: RMB0.420), while its listed peers are trading at 14.1x and 11.9x respectively.

Table 5: Peer comparisons

| Company | Ticker | Mkt cap. (US\$m) | FY05 P/E (x) | FY06F P/E (x) | FY07F P/E (x) | FY05 ROE (%) | FY05 Operating margin (%) |
|------------------------|---------|---------------------|-----------------|------------------|------------------|-----------------|------------------------------|
| Global Bio-Chem | 809 HK | 781.4 | 12.8 | 8.3 | 7.6 | 10.5 | 16.3 |
| China Sun Bio-Chem | CSBT SP | 419.8 | 13.2 | 10.9 | 8.7 | 35.0 | 31.2 |
| Luzhou Bio-Chem | LUBC SP | 165.8 | 13.2 | na | Na | 94.0 | 7.4 |
| Tate & Lyle PLC | TATE LN | 6,459.8 | Na | 15.3 | 13.2 | (3.1) | 8.7 |
| Corn Products Intl | CPO US | 2,401.4 | 24.6 | 21.8 | 17.4 | 7.9 | 7.4 |
| Archer-Daniels-Midland | ADM US | 27,126.4 | 30.8 | 16.4 | 13.9 | Na | 4.9 |
| Xiwang Sugar | 2088 HK | 449.7 | 12.3 | 12.1 | 10.7 | 37.7 | 21.9 |
| Average | | | 17.8 | 14.1 | 11.9 | 30.3 | 14.0 |

Source: Bloomberg