SBI China Capital

Initiate Coverage

China Huishan Dairy 6863 HK

A ripe patch for China's vertically integrated dairy company

- Initiate with BUY rating with TP HKD2.92, indicating an upside potential of 56.7%
- Its upstream resources supported the bullish gross margin of 62.2% in FY03/14, much higher than its peers
- Price of raw milk will remain strong while the issue with supply shortage persists
- We expect the proportion of milkable cows to gradually increase after the completion of its cow-importing plan
- The milk powder business will flourish under the upcoming integration process in China

David Li
(852) 2533 3723
davidli@sbichinacapital.com

Stock Data (6863 HK)

Rating	Not Rated
Price (HK$)	1.86
Target Price (HK$)	n.a.
12m Price Range (HK$)	1.5-3.24
Market cap. (HK$m)	26,654.4
Daily t/o (HK$m)	125.3
Free float (%)	33.6

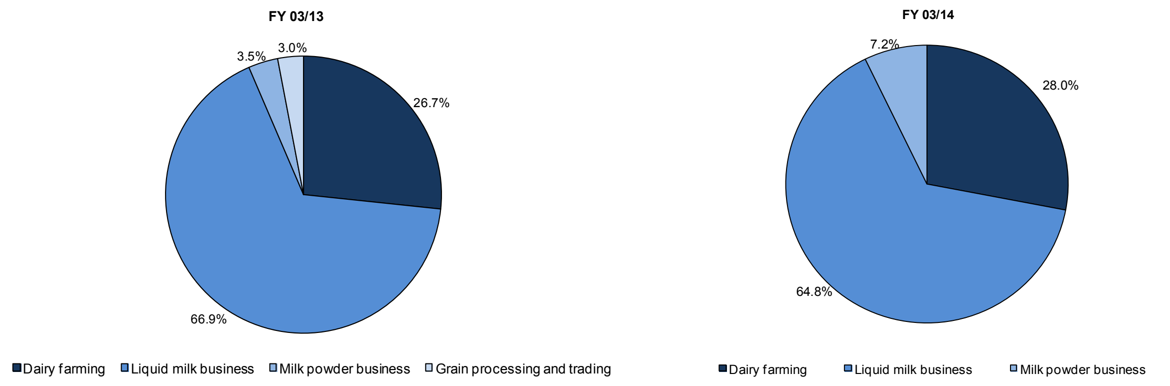
Source: Bloomberg

A highly integrated dairy company with self-operated farm. China Huishan Dairy (CHD) is a leading vertically integrated dairy company based in Liaoning Province, China. The company owns the second largest herd of dairy cows in China. CHD pioneered and currently operates a fully integrated business model. The company owns and operates every part of its dairy business, from planting the forage it feeds to its cows, to importing the cows its feeds for production, and finally to producing the raw milk, liquid milk, and formula for sale. In this regard, CHD's advantage is beyond the reach of most firms within the industry. Starting from the initial stage of milk manufacturing, CHD supervises each part of its operating process, targeting and mitigating any potential risk that could compromise the quality of its milk products. This has enabled CHD to earn and in turn maintain its customers' confidence in its products.

China's dairy industry — its reputation in particular — has suffered significant damage in recent years from various contamination scandals, including scares involving melamine (2008), aflatoxin (2011), mercury and alkaline water (2012), and botulism contamination (2013). Needless to say, the reputation of the dairy market could benefit from manufacturers who are able to re-establish and to maintain the public's trust. As one of China's most vertically-integrated dairy manufacturers, CHD has the potential to serve as that manufacturer.

Its upstream resources supported the bullish gross margin of 62.2% in FY03/14, much higher than its peers. CHD maintained its robust growth in FY03/14. For the period the company recorded revenue of RMB3,530.4m, a 38.3% YoY increase; gross profit of RMB2,204.6m, a 60.0% YoY increase with gross margin of 62.2%; and net profit of RMB1,249.4m, a 19.8% YoY increase. Upon examining the company's revenue in FY03/14, we find that 28.0% came from its dairy farming business, 64.8% came from its liquid milk business, and around 7.2% came from its milk powder business (See Figure 1). Specifically, revenue from its dairy business was RMB988.9m, a YoY increase of 45.3%; revenue from its liquid milk business was RMB2,287.8m, a YoY increase of 34.0%; and revenue from its milk powder business was RMB253.8m, a YoY increase of 188.1% (See Figure 2).

Figure 1: Revenue breakdown by sectors for FY03/13 and FY04/14 (Percentage)



Source: Company data

Figure 2: Revenue breakdown by sectors for FY03/13 and FY04/14 (RMB m)

	FY 03/13	FY 03/14	Growth
Dairy farming	680.6	988.9	45.3%
Liquid milk business	1707.1	2287.8	34.0%
Milk powder business	88.1	253.8	188.1%
Grain processing and trading	76.6	-	-
Total	**2552.4**	**3530.5**	**38.3%**

Source: Company data

As shown on its FY03/14 annual result report, CHD commanded a GPM of 62.2% in FY03/14, much higher than the 26.7% GPM recorded by China Modern Dairy (CMD) (1117HK, HKD3.35) in FY12/13, and the 42.6% GPM Yuanshengtai Dairy (YST) (1431HK, HKD1.33) recorded in FY12/13. We reiterate that such higher-than-average GPM achieved by CHD was significantly aided by the presence of its upstream resources, a unique advantage for the company within the industry. By the end of FY03/14, CHD expanded its alfalfa plantation field from 120,000mu (80.0km^2) to an aggregate area of approximately 140,000mu (93.3km^2), an increase of 16.7%, solidifying the company's position as having the largest commercial alfalfa field in China (See Figure 3).

Figure 3: Major alfalfa producers by production volume in 2012

Ranking	Grower	Output (Thousand tons)	Percentage of total Alfalfa in China
1	Huishan Group	113.0	28.3%
2	Qiushi	84.8	21.3%
3	Yasheng Tianyuan Muge	80.0	20.1%
4	Daye	55.0	13.8%
5	Nongken Maosheng	30.0	7.5%

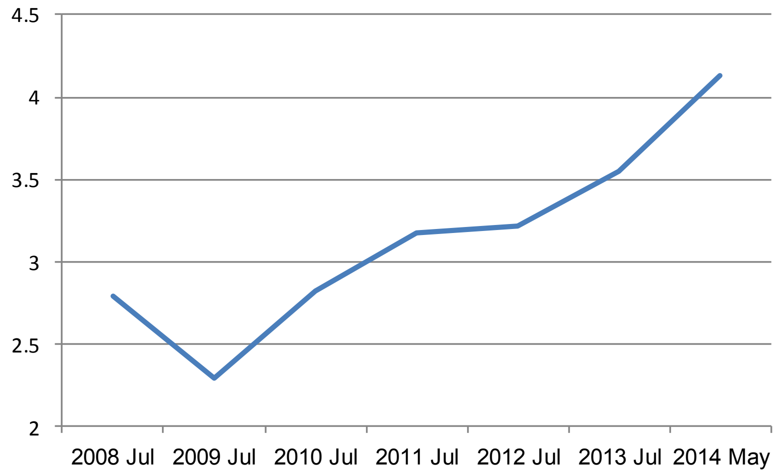
Source: Company data

Apart from the aforementioned alfalfa plantation fields, in May 2013, CHD also planted other feeds for dairy cows including corn silage in Liaoning Province on approximately 100,000 mu (66.7km^2) of land with fixed rents. Corn silage is the most essential quality forage for dairy cows, representing 60%-70% of the total forage consumption. The advantages of corn silage include high production volume, good quality, long storage period and simple processing procedure. It could also extend the milk production period of dairy cows. Corn silage has the highest feeds value among the top three crops in China. CHD's self-planted corn silage not only further strengthens the safety of the milk through the origin of source, but also provides cost advantages and ensures quality and a stable supply through fixed rent costs combined with the implementation of large-scale mechanical operations and the introduction of advanced Mexican corn silage plantation technology. In the FY03/14, the area of its feeds plantation fields (including the abovementioned alfalfa plantation fields) was over 240,000 mu (160km^2). During the period, approximately 280,000 tonnes of concentrated feeds was processed by its two concentrated feeds plants, which satisfied almost all of the demand for concentrated feeds.

Moreover, CHD participated in China's Alfalfa Development Convention held by the China Animal Agriculture Association (CAAA), and achieved the highest score among all participants. The self-planted forage confirms a lower cost of operation. If CHD were to buy the same amount of forage of the same quality in 1H FY03/14, an additional expense of RMB641.7m would have incurred, and GPM would have been dragged down to 16.2%.

Price of raw milk will remain strong while the issue with supply shortage persists. Going forward, we believe CHD's performance will be positively affected by increases in milk prices, which have jumped significantly since Sep 2009. In fact, given data from the Dairy Association of China, we find that average raw milk prices have doubled since then, reaching RMB4.13 per kilogram by the end of Mar 2014. Even though the increase was partly attributable to the 2008 melamine contamination that significantly reduced the available supply of milk, it was also attributable to the recovering demand and confidence of Chinese milk.

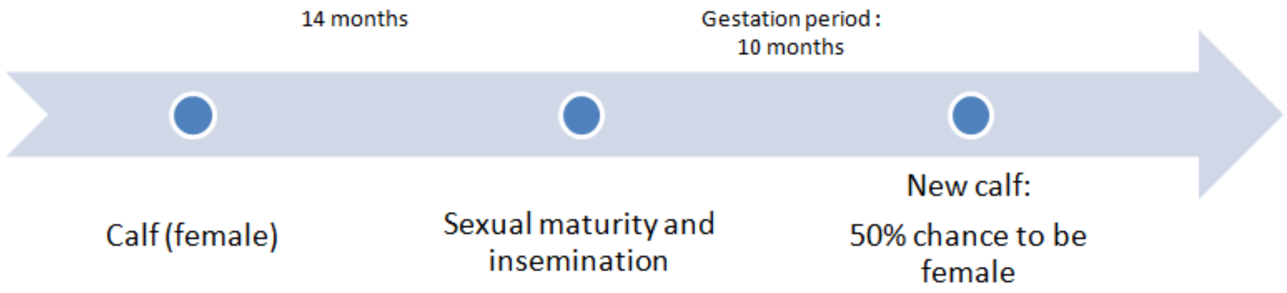
Figure 4: Price of raw milk (RMB per kilogram)



Source: Dairy Association of China

After increasing for a long period, the price of raw milk fell slightly at the end of May 2014, stabilizing at RMB4.13 per kilogram (See Figure 4). This notion raised concerns amongst investors, with some considering whether or not the industry had encountered a turning point. However, we do not think the downside risk of the price of raw milk is material; rather that it is probable that raw milk prices will maintain at their current levels in the coming months for three reasons in particular: The first being the nature of the biological cycle of a mature cow. Suppose competitors receive a large number of baby female cows, or heifers, during a season. Naturally, it takes about 2 years for those baby heifers to reach a proper maturity level to be able to produce milk (See Figure 5). As such, it is not easy for the market to provide additional supply that quickly. The second also has to do with biology. There is a 50.0% chance that the new baby calf is a female. So the supply of female cows is another problem for its competitors. Moreover, when some Chinese companies plan to import cows from foreign countries (especially Australia), the cows need to be transported properly due to regular customs inspection, a process that takes at least 4 months. Accordingly, we think the shortage of raw milk will persist. We also believe that the raw milk price will remain strong going forward into the following 6 months.

Figure 5: 2-year biological cycle of milkable cows



Source: SBI China Capital

Another piece of evidence that supports our opinion regarding the milk price came from the year-end results conference of China Modern Dairy (CMD) on Mar 21, 2014, at which CMD's management stated that it had agreed to a contract with Mengniu, one of the two largest dairy products companies in China, to sell raw milk at a fixed price of RMB4.5 per kilogram, 5.0% higher than the current market price.

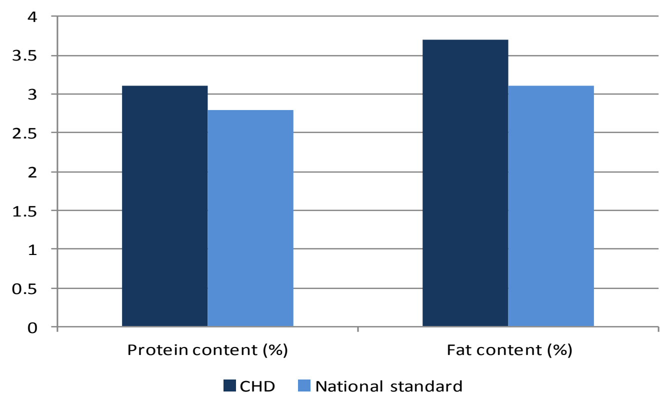
Currently, CHD owns the second largest herd of cows in China and occupied the second largest market share in raw milk industry by the end of 2012 (See Figure 6). Suppose all the cows in the market breed naturally, meaning no genetic modification involved, every participant in the market will have the rate to expand their herds. Under this circumstance, CHD will keep its market share as the second largest owner of cows in China. With regards to natural breeding, we think this will give a huge advantage to the company as the shortage of raw milk is still a problem in the market. Additionally, because of the credibility of the milk from the large-scale farms as well as its high quality (See Figure 7), we estimate that a 10.0% price premium relative to its immediate competitors has been afforded to CHD by the market.

Figure 6: Distribution of dairy cows in China (2012)

Ranking	Company	Raw milk production (thousand tonnes)	Market share (%)
1	Modern Dairy	584.1	1.6%
2	Huishan Dairy	327.8	0.9%
3	Lvhe-Dairy	270.5	0.7%
4	Shenmu High-tech	187.9	0.5%
5	Shanghai Dairy Group	182.5	0.5%

Source: Company data

Figure 7: CHD's milk quality vs. national standard



Source: Company data, China Dairy Data Report

The proportion of milkable cows will improve gradually after the completion of its cow-importing plan. By the end of FY03/14, CHD had a herd of 144,191 total cows, of which 42.5% were milkable cows. CMD and YST, on the other hand, have a much bigger proportion of milkable cows, 52.9% and 53.3% of their total cows respectively by the end of December 2013 (See Figure 8).

Figure 8: Proportion of milkable cows for CHD, CMD, and YST

	CMD	CHD	YST
Number of cows	186,838	144,191	40,396
Number of milkable cows	98,791	61,286	21,544
Proportion of milkable cows	52.9%	44.4%	53.3%

Source: Company data

Some investors expressed their concerns as to the current herd structure of CHD. However, we believe that the lower-than-average proportion of milkable cows was mainly due to its cow importing strategy, under which only calves can be imported, according to China's Law. We also believe the proportion will gradually increase, as our simulation model shows that a long-term equilibrium structure for a developed herd will be achieved when the proportion of milkable cows reaches ~60% (See Figure 9).

Figure 9: Deduction to a developed herd*

	Number of calves	Number of milkable cows	Milkable cows/total cows (%)
Year 1	a	b	b/(a+b)
Year 2	(c) 0.5a+0.85*0.5b	(d) 0.5a+b	(0.5a+b)/(a+1.425b)
Year 3	(e) 0.5c+0.85*0.5d	(f) 0.5*c+d	(0.5c+d)/(c+1.425d)
Year 4	(g) 0.5e+0.85*0.5f	(h) 0.5*e+f	(0.5e+f)/(e+1.425f)
Year 5	(i) 0.5g+0.85*0.5h	(j) 0.5*g+h	(0.5g+h)/(g+1.425h)
Year 6	(k) 0.5i+0.85*0.5j	(l) 0.5*i+j-a	(0.5i+j)/(i+1.425j-a) (around 60.0%)

Source: SBI China Capital

** Assumptions we made before the deduction*

(1) For the milkable cows, they have 50.0% chance to born a female calve and it will take two years for the new born female calve to produce milk

(2) In the herd of calves and heifers, 50.0% of them will become milkable cows each year

(3) For the new born cows, the survival rate is around 85.0%

(4) For milkable cows, the average total number of lactations is 5

(5) No imported cows

From 2014 to 2016, CHD plans to import 25,000 calves each year. Given the fact that all the imported animals are calves, we think this will continue to drag down the company's proportion of milkable cows to total cows. However, from the simulation model above, we think this proportion will improve eventually after CHD stops importing from overseas. Thus, we believe there is still significant room to increase the total amount of raw milk that it produces after completing its cow importing plan. Based on a strong milk price and its increasing production of raw milk, coupled with its integrated business model, we think CHD will continue to outperform its peers in FY03/15E.

The milk powder business will flourish under the upcoming integration process in China. In January 2014, CHD was selected to participate in the second domestic product launch of Infant Milk Formula (IMF) event organized by the China Dairy Industry Association (CDIA). The CDIA rigorously assesses companies offering IMF in various areas including corporate management, quality control management, as well as brand satisfaction amongst consumers. CHD's presence at this industry event indicates the company's desire to expand into the field of milk powder.

For the infant formula industry, more and more strict policies have been laid out in 2014 by China's authorities with the purpose of consolidating this industry. For example, on 1 Apr 2014, China has implemented new regulations on the labeling of infant milk formula (IMF) for sale in which the Chinese label has to be printed on the can/packing, with label stickers being banned. Therefore, people buying IMF from foreign countries cannot re-sell those products. This may help to ease the concerns of foreign countries on Chinese tourists snapping up IMF overseas, and ease illegal competition due to smuggling from China. For infant formula that is manufactured overseas, stricter rules have also been implemented. Based on the new policy launched by the China Food and Drug Administration (CFDA) effective on 1 May 2014, these manufacturers need to be registered in China in order to export their infant formulas to Mainland China. As such, some small overseas manufacturers have been eliminated. For example, approximately 70 out of 140 infant formula manufacturers in New Zealand did not get the approval from the authorities in China. Additionally, local infant formula manufacturers in China face stricter rules as well. If the wet-process production method has been applied, these manufacturers will be required to provide the raw milk used to manufacture their milk powder by the end of May 2014. As a result, 51 out of 133 China local manufacturers did not meet the requirement and have been eliminated from the infant formula industry. Moreover, according to the latest information from China's local press "Economy & Nation Weekly", a new regulation called "Re-organization Plan to Infant Formula Industry" will be launched soon. Within the schedule, the following plans have been made. In the first stage, authorities will lead a deep due diligence process into local infant formula manufacturers in China to have a better understanding of the current market situation. Under the second stage, authorities will devote themselves to developing 10 large-scale infant formula manufacturers, which will generate RMB2.0b revenue each year. It has been estimated that there will be around 3 to 5 large-scale manufacturers that will generate RMB5.0b revenue each year by the end of 2018.

Looking ahead, we expect there will be more policies to be launched in order to accelerate the consolidation of the infant formula industry in China. Such consolidation should be favorable for major brands both foreign and local. In this regard, we are confident that CHD, as the most integrated dairy manufacturer in China, is beyond the reach of most firms within the industry. It operates every part of its dairy business, from producing the forages it feeds to its cows, to importing the cows for production, and finally to producing the raw milk, liquid milk, and formula for sale. Moreover, CHD announced a possible strategic partnership with FrieslandCampina. According to the announcement, CHD will provide its own high quality raw milk to the joint venture, and the joint venture will in turn produce dairy products including an infant milk formula brand that will be introduced to the Chinese market. Therefore, the current situation is quite positive for CHD.

Financial highlights. Here are the key assumptions we made for CHD's operation in FY03/15E: (1) Its herd size will increase to 203.0 thousand, a 40.9% YoY increase; (2) Its raw milk price will increase to RMB5100.0 per ton, a 2.5%YoY increase; (3) Its liquid milk price will increase to RMB8275.0 per ton, a 3.5% YoY increase; and (4) Its infant formula sector will contribute revenue of approximately RMB500.0m. Based on these assumptions, we estimate the company's revenue will hike from RMB3,530.4m in FY03/14 to RMB6,745.9m in FY03/17E, indicating the CAGR of 24.1% in the following three years. Specifically, we are confident that its revenue in FY03/15E will be achieved around RMB4,684.7m, representing a YoY increase of 32.7%. The increase will be significantly driven by (1) Its increasing productivity of both raw milk and liquid milk, with the output of 238.9 thousand tons and 358.4 thousand tons in FY03/15E, respectively; (2) The strong milk price; and (3) Its flourishing milk powder business. We also forecast the GPM in FY03/15E will be kept around 60.0% in FY03/15E given the upstream resources it manages; and the profit attributable to shareholders will be achieved around RMB1,514.6m, representing a YoY increase of 21.2%.

Valuation. Based on the nature of CHD's business, we chose China Modern Dairy, Yuanshengtai Dairy and China Shengmu Organic Milk as its peers in the Hong Kong stock market. The company is currently trading at a 16.6x P/E for FY03/14, while CMD and YST are trading at 35.2x and 19.0x P/E for FY12/13, respectively (See Figure 10). We believe CHD has been undervalued compared with CMD and YST as CHD's integrated business line, including alfalfa planting, raw milk/liquid milk producing, and milk power business.

China Shengmu Organic Milk (1432 HK), a new dairy company with a similar operating model with CHD, kicked off its IPO on Jun 30th. From its prospectus, its fully diluted P/E for FY12/13 ranges from 37.2x to 45.9x, signalling a bullish IPO price. After considering this new IPO, we find the average 1-Yr forward P/E for these companies is around 21.2x. Given the second largest herd CHD operates and the integrated operating model, we have been confident that 21.2x is an appropriate P/E ratio for FY03/15E for CHD. With the EPS of RMB0.11 in FY03/15E and the P/E ratio above, the fair value of CHD should be around HKD2.92, indicating an upside potential of 56.7%.

Figure 10: Peer comparison

Company	Ticker	Spot (HDK)	Market cap (HKD m)	Fiscal year end	P/E (x) (Curr-Yr P/E)	P/E (x) (1-Yr Fwd P/E)	ROE (%)	ROA (%)	Total debt/ Total equity (%)
China Huishan Dairy	6863 HK	1.86	26,798.0	March	16.6	13.9	13.1	7.9	37.2
China Modern Dairy	1117 HK	3.35	162,680.0	December	35.2	28.7	8.9	4.5	53.1
Yuanshengtai Dairy	1431 HK	1.33	5,199.0	December	19.0	14.5	9.7	5.7	21.3
China Shenmu Organic Milk*	1432 HK	2.6	16,966.0	December	37.2	27.7	19.2	10.5	45.1
Average			**52,910.8**		**27.0**	**21.2**	**12.7**	**7.2**	**39.2**

Source: Bloomberg, Hong Kong Exchange, SBI China Capital

For China Shenmu Organic Milk (1432 HK), the information is from its prospectus

Risks: Major risks to the company include: (1) Sharp declines in the prices of raw milk, liquid milk, and milk powder; (2) A sharp increase in the supply of raw milk; (3) Natural disasters, including drought, flood, and animal diseases, which could negatively impact the productivity of its dairy cows; and (4) general execution risks with regard to its new market expansion.

Figure 11: Per share items (RMB)

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
EPS					
- Basic	0.07	0.10	0.11	0.13	0.17
DPS	0.00	0.20	0.20	0.20	0.20
BVPS	0.73	1.46	1.61	1.79	2.00

Source: Company data, SBI China Capital

Figure 12: Ratio analysis

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Growth (YoY)					
Revenue	91.5%	38.3%	32.7%	20.0%	20.0%
Gross profit	150.7%	60.0%	26.8%	20.0%	20.0%
Operating profit	144.5%	22.7%	38.0%	21.8%	21.7%
Net profit	162.7%	23.2%	23.2%	24.8%	24.6%
Margins					
Gross margin	54.0%	62.4%	59.7%	59.7%	59.7%
EBIT margin	47.9%	42.5%	44.2%	44.8%	45.4%
Net profit margin	39.7%	35.4%	32.9%	34.2%	35.5%
Other ratios					
Return on average assets	13.1%	9.7%	8.4%	8.2%	9.2%
Return on average equity	42.5%	18.8%	13.8%	13.2%	14.9%
Dividend payout ratio	0.0%	20.0%	20.0%	20.0%	20.0%

Source: Company data, SBI China Capital

Figure 13: Income statement (RMB m)

	FY03/13 RMB m	FY03/14 RMB m	FY03/15E RMB m	FY03/16E RMB m	FY03/17E RMB m
Turnover	**2,552.4**	**3,530.4**	**4,684.7**	**5,621.6**	**6,745.9**
Cost of sales	(1,174.3)	(1,325.8)	(1,890.2)	(2,268.2)	(2,721.8)
Gross profit	**1,378.1**	**2,204.6**	**2,794.5**	**3,353.4**	**4,024.1**
Loss arising from changes related to biological assets	(86.8)	(68.4)	(78.7)	(90.5)	(104.0)
SG&A	(197.5)	(713.7)	(646.0)	(742.8)	(854.3)
Others	128.4	77.6	103.0	90.3	96.7
Profit from operations	**1,222.5**	**1,500.1**	**2,069.9**	**2,520.1**	**3,065.8**
Finance costs	(141.6)	(205.7)	(462.8)	(514.8)	(566.8)
Profit before taxation	**1,080.9**	**1,294.4**	**1,607.0**	**2,005.2**	**2,498.9**
Taxation	(67.0)	(45.1)	(67.5)	(84.2)	(105.0)
Profit attributable to shareholders	**1,013.9**	**1,249.3**	**1,539.5**	**1,921.0**	**2,394.0**
EPS (RMB)	**0.08**	**0.10**	**0.11**	**0.13**	**0.17**

Source: Company data, SBI China Capital

Figure 14. Balance sheet (RMB m)

	FY03/13 RMB m	FY03/14 RMB m	FY03/15E RMB m	FY03/16E RMB m	FY03/17E RMB m
Non-current assets					
PPE	3,637.0	4,317.2	6,077.3	7,759.9	9,368.5
Biological asset	3,242.0	4,297.7	5,878.9	7,564.2	9,369.9
Others (including goodwill,lease prepayment)	1,685.8	5,122.6	5,225.1	5,329.6	5,436.1
Total non-current assets	**8,564.8**	**13,737.5**	**17,181.2**	**20,653.7**	**24,174.6**
Current assets					
Inventories	447.0	915.4	1,144.3	1,430.3	1,787.9
Trade and other receivables	173.0	220.4	253.5	291.5	335.2
Deposit,repayments and other receivable	500.3	1,084.1	1,246.7	1,433.7	1,648.8
Cash and cash equivalents	825.7	5,062.6	3,403.5	1,975.9	799.2
Total current assets	**1,946.0**	**7,282.5**	**6,047.9**	**5,131.4**	**4,571.1**
Total Asset	**10,510.8**	**21,020.0**	**23,229.1**	**25,785.1**	**28,745.7**
Current liabilities					
Trade and other payables	910.0	737.7	848.4	975.6	1,121.9
Receipts in advance	14.0	26.1	30.0	34.5	39.7
Accrued expenses and other payable	434.0	489.7	563.2	647.6	744.8
Amounts due to related parties	15.0	0.0	0.0	0.0	0.0
Bank loans	909.0	1,641.2	1,841.2	2,041.2	2,241.2
Tax payables	10.0	24.5	17.3	20.9	19.1
Total current liability	**2,292.0**	**2,919.2**	**3,300.0**	**3,719.8**	**4,166.7**
Non-current liability					
Bank loans	2,103.0	4,679.2	5,279.2	5,879.2	6,479.2
Derivative financial liability	0.0	0.0	0.0	0.0	0.0
Deferred income	233.0	226.6	226.6	226.6	226.6
Total non-current liability	**2,336.0**	**4,905.8**	**5,505.8**	**6,105.8**	**6,705.8**
Total liability	**4,628.0**	**7,825.0**	**8,805.8**	**9,825.6**	**10,872.5**
Net asset	**5,882.8**	**13,195.0**	**14,423.4**	**15,959.5**	**17,873.2**
Equity	**5,882.8**	**13,195.0**	**14,423.3**	**15,959.5**	**17,873.2**

Source: Company data, SBI China Capital

Figure 15. Cash flow statement (RMB m)

	FY03/13 RMB m	FY03/14 RMB m	FY03/15E RMB m	FY03/16E RMB m	FY03/17E RMB m
Operating activity					
Profit before taxation	1,012.4	1,294.4	1,607.0	2,005.2	2,498.9
Adjustments for:					
Depreciation and amortisation	68.9	160.0	189.9	267.4	341.4
Interest income	(4.3)	(2.0)	(3.0)	(2.0)	(1.0)
Interest expenses	144.2	205.7	462.8	514.8	566.8
Government grants amortisation	(6.8)	(7.0)	(6.0)	(5.0)	(2.0)
(Gain)/loss arising from the changes in fair value related to biological assets	86.8	68.4	78.7	90.5	104.0
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	(18.3)	0.0	0.0	0.0	0.0
Changes in working capital	228.4	(1,204.1)	(236.5)	(294.9)	(367.7)
Others	(14.5)	(1.6)	1.2	(1.7)	0.6
Cash Generated from operation	**1,496.9**	**513.8**	**2,094.2**	**2,574.3**	**3,141.1**
PRC income tax paid	(53.8)	(30.6)	(74.7)	(80.6)	(106.8)
Net cash generated from operating activities	**1,443.1**	**483.2**	**2,019.4**	**2,493.7**	**3,034.3**
Investing activity					
Payment for acquisition of a subsidiary	0.0	0.0	0.0	0.0	0.0
Payments for purchase of property, plant and equipment	(488.4)	(1,950.0)	(1,950.0)	(1,950.0)	(1,950.0)
Lease prepayments	(75.7)	(3,621.0)	(94.7)	(95.8)	(104.2)
Payments for purchase of biological assets	(197.0)	(550.0)	(593.9)	(550.0)	(500.0)
Payments for breeding calves and heifers	(806.0)	(926.9)	(1,065.9)	(1,225.8)	(1,409.7)
Others	200.0	(15.0)	0.0	0.0	0.0
Net cash generated from investing activities	**(1,367.1)**	**(7,062.9)**	**(3,704.5)**	**(3,821.6)**	**(3,963.9)**
Finaning activity					
Cash received from contributions by investors of the Group	907.0	7,544.0	0.0	0.0	0.0
Cash paid for acquisitions of the controlling equity	0.0	0.0	0.0	0.0	0.0
Dividend paid	-	-	(311.20)	(384.89)	(480.26)
Net proceeds from new bank loans	385.90	3478.30	800.00	800.00	800.00
Interest paid	(191.00)	(205.70)	(462.83)	(514.83)	(566.83)
Others	(852.50)	0.00	0.00	0.00	0.00
Net cash generated from financing activities	**249.4**	**10,816.6**	**26.0**	**(99.7)**	**(247.1)**
Opening balance of cash and cash equivalent	512.96	825.71	5062.61	3403.50	1975.90
Net change	325.35	4236.90	(1659.11)	(1427.61)	(1176.68)
Effect of foreign exchange rate changes	(12.60)	0.00	0.00	0.00	0.00
Closing balance of cash and cash equivalent	**825.7**	**5,062.6**	**3,403.5**	**1,975.9**	**799.2**

Source: Company data, SBI China Capital

SBI China Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: research@sbichinacapital.com, thomsononeanalytics.com, factset.com and multex.com

SBI China Capital stock ratings:

STRONG BUY	: absolute upside of >50% over the next three months
BUY	: absolute upside of >10% over the next six months
HOLD	: absolute return of -10% to +10% over the next six months
SELL	: absolute downside of >10% over the next six months

Investors should assume that SBI China Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI China Capital Financial Services Limited ('SBI China Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI China Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI China Capital as of the date of this report only and are subject to change without notice. Neither SBI China Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI China Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI China Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI China Capital located in such recipient's home jurisdiction.