

Tianjin TEDA Biomedical Engineering Co.

A fertilizer play diversifying into healthcare products...

to summarize...

- Tianjin TEDA engages in the development and sales of biological compound fertilizer products, medical and health products.
- Last reported earnings was for nine month ended FY09/11A. Revenue increased 29.9% YoY to RMB425.0m. Gross profit increased 39.9% YoY to RMB78.6m. Profit for the period increased 3.8x YoY to RMB11.7m. Gross profit margin increased 1.3pcp YoY to 18.5%. Net profit margin increased 0.8pcp YoY to 1.8%.
- The sales of fertilizer products amounted to RMB347.8m accounted for 81.8% of total sales, a decrease from 82.2%. The health products business amounted to RMB77.2m accounted for 18.2 % of the sales, an increased from 17.8%.
- On June 17th 2011, the group announced that they have entered into an acquisition agreement to acquire the 25% equity interest in Tianjin Alpha Healthcare Product for a cash consideration of RMB4.6m (~HK\$5.54m).
- The counter is currently trading at 71.1x current year fwd P/E on consensus. The Hong Kong listed fertilizer producers are currently trading at average 19.5x FY12/11F P/E and 13.7x FY12/12F P/E based on market consensus.

Description: Tianjin TEDA engages in the development and sales of biological compound fertilizer products, medical and health products. The Company operates in two segments: biological compound fertilizers and health product. The fertilizer products sells under the brand name Fulilong. The medical and health products includes diabetic health products, such as sugar reducing health foods and sugar free products. Sugar reducing health foods includes food developed in various forms, such as noodles, flour and biscuits. Sugar-free products such as sugar-free drinks and sugar-free Mooncakes.

Table 1. 1H FY06/11A Result

12 months to Dec	Turnover (RMB)	Gross Profit (RMB)	Gross margin (%)	Pre-tax profit (RMB)	Tax rate (%)	Net profit (HK\$)
1H FY11A	171.1	32.4	18.9	6.6	1.6	6.5
1H FY10A	137.4	20.5	14.9	3.2	18.8	2.6
YoY(%)	24.5	58.1		2.1x		2.5x

Source: Company data

Last reported results: Last reported earnings was for nine month ended FY09/11A. Revenue increased 29.9% YoY to RMB425.0m. Gross profit increased 39.9% YoY to RMB78.6m. Profit for the period increased 3.8x YoY to RMB11.7m. Earnings per share attributable to equity holder increased to RMB0.05 cents. Gross profit margin increased 1.3pcp YoY to 18.5%. Net profit margin increased 0.8pcp YoY to 1.8%.

Business segments: The sales of fertilizer products amounted to RMB347.8m accounted for 81.8% of total sales, a decrease from 82.2% in the previous year. The health products business amounted to RMB77.2m accounted for 18.2 % of the sales, an increased from 17.8%.

Fertilizers business: This segment of the business was affected by extreme weathers in China. Low rainfall in northern winter wheat region and lower parts of Yangtze River throughout first six months of the year. Then a sudden turn from drought to floods in middle and lower parts of Yangtze River. In autumn, streams from Yangtze River and Yellow River overflowed heavily. Unfavorable agricultural climate caused negative impact to the fertilizer sales and its raw material also saw a climb which resulted in higher production costs.

Please refer to important disclosures at the end of this report

Ticker	8189 HK
Rating	NR
Price (HK\$)	0.63
Target Price (HK\$)	NA
12m Price Range (HK\$)	0.30-0.81
Market cap. (US\$m)	114.7
Daily t/o (US\$m)	<0.1
Free float (%)	99.7

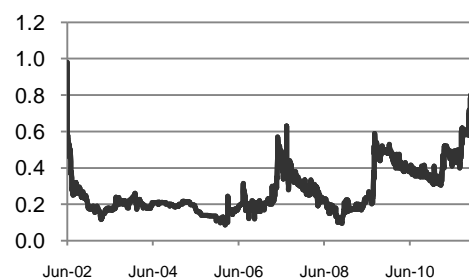
Financial summary

Year to Dec	08A	09A	10A
Turnover (RMB)	422.5	432.0	429.1
Net Profit (RMB)	(8.2)	4.1	8.0
EPS (RMB)	(0.014)	0.005	0.004
P/E (x)	-	141.9	91.6
P/B (x)	3.93	4.29	5.19
EV/EBITDA (x)	70.7	35.3	35.5
Yield (%)	-	-	-
ROE (%)	-	3.8	5.8
ROCE (%)	-	8.8	8.0
N. Gear. (%)	Cash	Cash	Cash

Source: SBI

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(11.6)	(1.7)	144.9
Actual price changes (%)	(10.0)	28.6	96.9



Source: Bloomberg

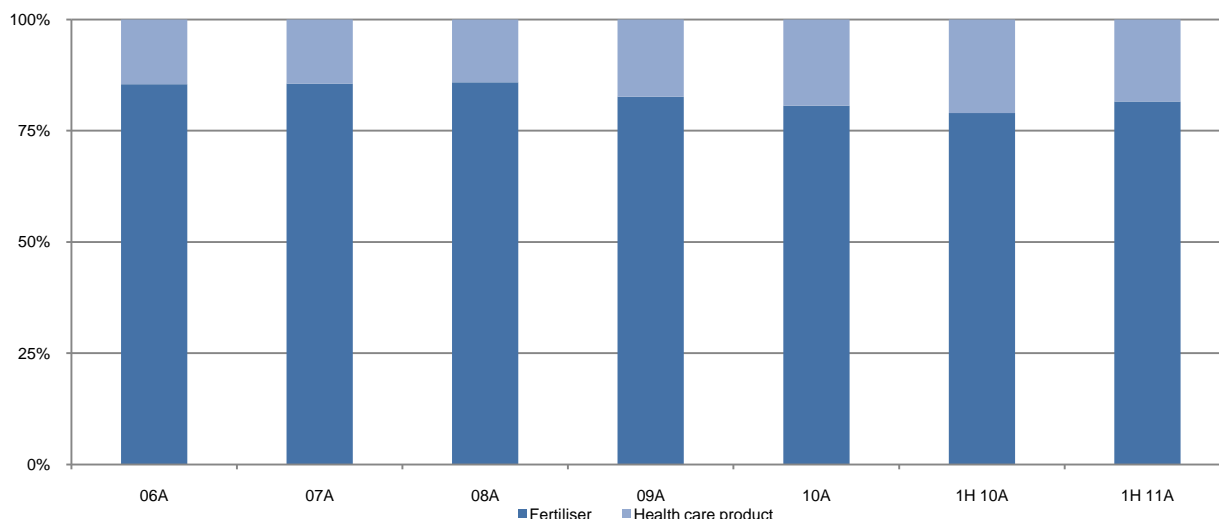
Research Team

(852) 2533 3700
 sbie2research@sbie2capital.com

Health products: This group mainly includes diabetic food products for controlling blood sugar level and general sugar-free products (i.e. biscuits, cereals). Due to the large number of diabetics China, the group sees a large potential in future sales of sugar-free products. Tianjin Alpha which is responsible for sales of this segment. On June 17th 2011, the group announced that they have entered into an acquisition agreement to acquire the 25% equity interest in Tianjin Alpha Healthcare Product for a cash consideration of RMB4.6m (~HK\$5.54m). The consideration was determined with reference to the asset valuation of RMB19.26m (~HK\$23.19m) of Alpha. The group previously owned 75% equity interest in Alpha, thus upon completion of this acquisition, the group will control 100% equity interest in Alpha.

Historical segment splits: The sales of fertilizer business accounted for the majority of the group's revenue, contributed 85.4% in FY12/06 and contributed 80.7% in FY12/10. The sales of health products contributing to group sales had a steady increase from 14.6% in FY12/06 to 19.3% in FY12/10. Although the increase in sales contribution has rise steadily, the group foresees that it should remain at around 20% going forward.

Chart 2. Sales breakdown between fertiliser and health care product



Source: Company data

Group structure: The group holds 100% in Guangdong Fulilong compound Fertilizers Co, 75% in Tianjin Alpha Healthcare product Co. and 51% in Shandong Hidersun Fertilizer Industry. Guangdong Fulilong and Shandong Hidersun engage in the research, development, manufacture and sales of biological compound fertilizers. Shandong Hidersun was previously named Shandong Fulilong Fertilizer industry Co. Tianjin Alpha HealthCare engages in the research, development manufacture and distribution of diabetic health food and related products.

Table 3. Group structure

	Percentage (%)
Tianjin TEDA Biomedical Engineering Company Ltd.	
Guangdong Fulilong Compound Fertilizers Co. Ltd.	100
Tianjin Alpha Healthcare Products Co. Ltd.	75
Shandong Hidersun Fertilizer Industry Co. Ltd. *	51

* previously named Shandong Fulilong Fertilizer industry Co.

Source: Company data

Shareholding structure: Major shareholders comprised a total of 670 million ordinary shares or 47% of the issued share capital. Tianjin TEDA International Incubator currently holds 14.1%, Shenzhen Xiangyong holds 12.7%, Shandong Zhinong Fertilizers holds 12% and Dongguan Lvye Fertilizers holds 8.5%.

Table 4. Major shareholders

Name of shareholders	Number of ordinary shares	Percentage of the issued share capital
Tianjin TEDA International Incubator	200,000,000	14.08%
Shenzhen Xiangyong Investment Company Limited	180,000,000	12.68%
Shandong Zhinong Fertilizers	170,000,000	11.97%
Dongguan Lvye Fertilizers Company Limited	120,000,000	8.45%
Total	670,000,000	47.18%

Source: Company data

Corporate actions: The group was listed on the GEM board of the Hong Kong Stock Exchange (HKEx) in June of 2002. The group had several fund raising exercises. They raised HK\$32m in May of 2005, raised HK\$37m in November 2009 and raised HK\$4.5m in June of 2009.

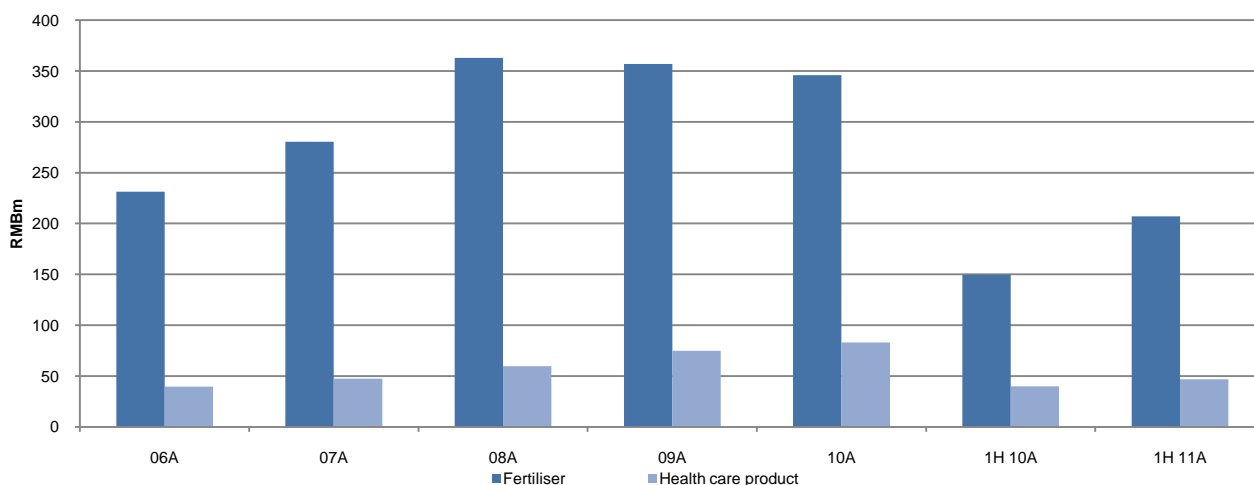
Table 5. Corporate action history

Date	Description
June 2002	Listed on the GEM board of HKEx in June 2002.
May 2005	Raised HK\$32 million. Transfer 21 million A shares to H shares.
Aug. 2006	Announced the acquisition of 49% equity interest in Fulilong.
Nov. 2008	Raised HK\$37 million. Transfer 34 million A shares to H shares.
June 2009	Raised HK\$54.52 million.
June 2011	Announced the acquisition of 25% equity interest in Tianjin Alpha Healthcare products.

Source: Company data

Financial performance: Last reported annual result was for FY12/10A. Revenue decreased 0.7% YoY to RMB429.1m. Gross profit decreased 2.7% YoY to RMB83.4m. Profit for the year increased 1.7x YoY to RMB8.0m. Earnings per share attributable to equity holder decreased to RMB0.43 cents. The Shandong hidersun Fertilizer can continue to enjoy the preferential tax rates during the transitional period subject to Enterprise income tax of 22%. Guangdong Fulilong and Tianjin Alpha Health Care was approved as a new and high technology enterprise and was entitle to a preferential tax rate of 15%.

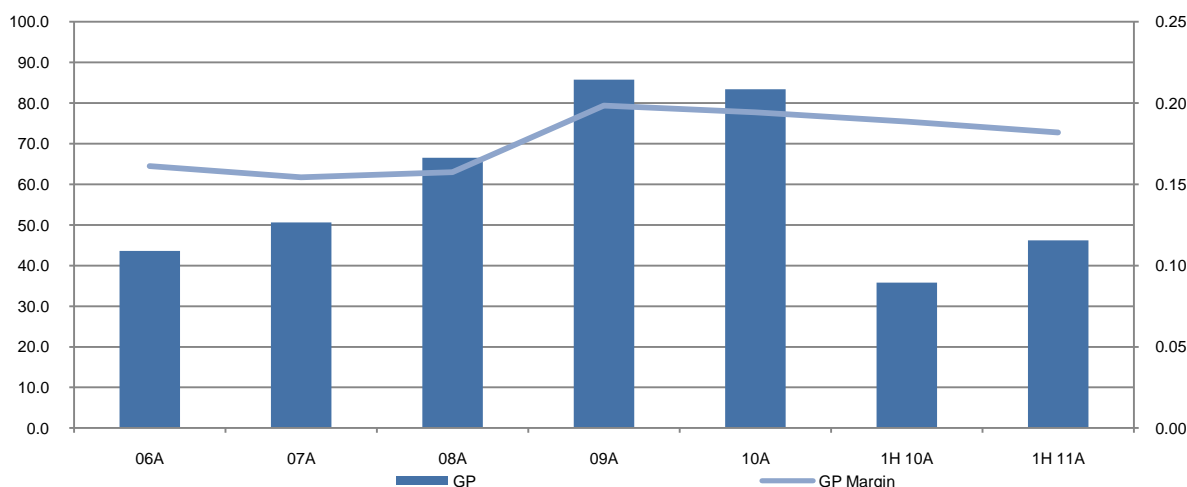
Chart 6. Sales from fertiliser and healthcare product



Source: Company data

Gross profit and margins: Gross profit enjoyed an upward trend for the last few years from RMB43.6m in FY12/06A to RMB83.4m in FY12/10A. Interim gross profit for 1H FY 12/11A increased 29.1% YoY to RMB46.2m. Gross profit margin increased 3.2pcp from 16.2% in FY12/06A to 19.4% in FY 12/10A. For 1H FY06/11A gross profit margin declined to 18.19%.

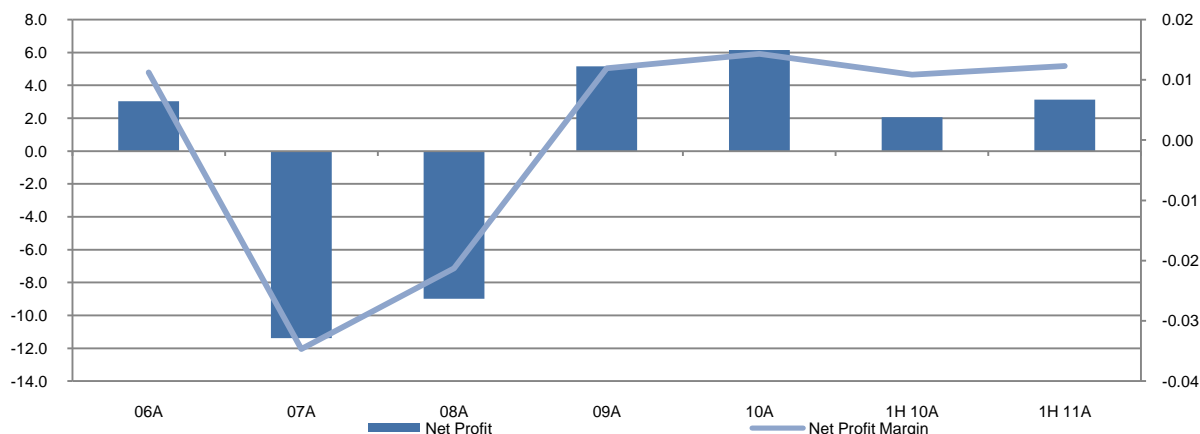
Chart 7. Gross profit and gross profit margin of the group



Source: Company data

Net profit and margins: Profit for the group saw some volatility for the last few years from net profit of RMB3.0m in FY12/06A to RMB6.1m in FY12/10A. But the group made a loss of RMB11.4m in FY12/07A and a loss of RMB9.0m in FY12/08A. Interim profit for 1H FY 12/11A increased 47.6% YoY to RMB3.1m. Net profit margin increased 0.3pcp from 1.1% in FY12/06A to 1.4% in FY 12/10A. For 1H FY06/11A it decreased to 1.23%.

Chart 8. Net profit and net profit margin of the group



Source: Company data

Peers comparison: The counter is currently trading at 71.1x current year fwd P/E on consensus. The Hong Kong listed fertilizer producers are currently trading at average 19.5x FY12/11F P/E and 13.7x FY12/12F P/E based on market consensus. With the highest PE from China Bluechem trading at 11.2x FY12/11F P/E and 9.9x FY12/12F P/E based on market consensus. The China listed fertilizer producers are currently trading at average 26.8x FY12/11F P/E and 19.4x FY12/12F P/E based on market consensus. The Hong Kong listed food and beverage counters are currently trading at average 26.8x FY12/11F P/E and 19.4x FY12/12F P/E based on market consensus.

Table 9. Valuation comparison

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	Curr-Yr P/E (x)	1-Yr P/E (x)	PB (x)	Est. ROE (%)
Fertilizers-HK listed								
China Bluechem	3983 HK	3,481.1	5.89	13.3	11.2	9.9	2.0	2.4
Sinofert	297 HK	1,953.7	2.17	17.9	11.6	10.1	1.0	1.8
China XLX	1866 HK	253.8	2.07	-	9.6	8.2	-	-
Tianjin Teda	8189 HK	114.7	0.63	71.1	-	-	-	-
KoYo Chemical	827 HK	102.4	0.11	10.1	9.0	4.5	0.7	0.1
Century Sunshine	509 HK	73.4	0.22	5.7	-	-	0.4	0.5
China Agrotech	1073 HK	31.1	0.30	1.4	-	-	0.2	1.8
<i>Average</i>				<i>30.2</i>	<i>19.5</i>	<i>13.7</i>	<i>0.8</i>	
Fertilizers-China listed								
Shandong Kinge	002470 CH	1,190.0	13.26	26.5	19.3	14.2	3.4	3.9
Yunnan Yuntian	600096 CH	1,173.0	13.18	52.0	38.8	25.6	1.4	9.3
Luxi Chemical	000830 CH	1,079.9	5.74	18.3	19.2	13.7	1.7	3.4
Shandong Hualu	600426 CH	887.6	7.26	17.2	16.4	9.5	1.4	5.2
Guizhou Chitia	600227 CH	482.5	3.97	33.7	18.0	14.7	1.1	3.6
Shindoo Chemic	002539 CH	452.0	10.65	17.2	9.6	8.0	4.0	2.7
Shindoo Chemic	002539 CH	452.0	10.65	17.2	9.6	8.0	4.0	2.7
Anhui Sierte	002538 CH	440.8	23.28	27.0	25.0	15.9	7.2	3.2
Liuzhou Chemical	600423 CH	305.1	5.96	53.9	-	-	1.6	3.7
Sichuan Chemical	000155 CH	263.3	4.37	-	-	-	1.4	3.2
Guangxi Hechi	000953 CH	148.2	3.93	39.2	-	-	2.3	1.7
Hunan Tianrun	002113 CH	89.3	5.88	-	-	-	46.5	0.1
<i>Average</i>				<i>21.1</i>	<i>26.8</i>	<i>19.4</i>	<i>6.3</i>	
F&B-HK listed								
Tingyi	322 HK	17,164.5	23.95	39.3	37.6	28.3	8.7	0.4
Want Want	151 HK	12,643.6	7.45	34.9	32.0	24.6	11.5	0.1
Uni-President	220 HK	2,224.3	4.82	27.2	34.7	22.0	2.1	1.9
Chaoda Modern	682 HK	464.2	1.10	0.7	-	-	0.1	7.4
China Green	904 HK	244.8	2.16	3.3	2.9	2.6	0.4	4.1
<i>Average</i>				<i>21.1</i>	<i>26.8</i>	<i>19.4</i>	<i>4.6</i>	

Source: Bloomberg

Appendix I

Table 10. Historical P & L

Year to Dec (RMBm)	2008A	2009A	2010A
Revenue	422.6	432.0	429.1
Cost of sales	(356.0)	(346.3)	(345.7)
Gross profit	66.6	85.7	83.4
Other revenue and net gains	3.8	4.9	4.3
Selling and distribution costs	(31.0)	(39.0)	(38.6)
Administrative expenses	(33.3)	(28.7)	(22.8)
Research and development	(2.8)	(11.5)	(14.4)
Finance costs	(10.5)	(6.7)	(3.9)
Share of profit of an associate	1.2	-	-
Profit before tax	(5.9)	4.7	8.0
Income tax	(2.3)	0.6	0.01
Profit and total comprehensive income	(8.2)	4.1	8.0
Attribute to			
Owners of the company	(9.0)	5.1	6.1
Non-controlling interest	0.8	(1.1)	1.9

Source: Company data, SBI E2-Capital

Appendix II

Human Resources: As of September 30th 2011, the group has approximately 708 employees.

Table 11. Management team

Name	Position	Description
Mr. Wang Shuxin	Executive Director/CEO	<input type="checkbox"/> Aged 46, is the Chairman of the Board of Directors of the Company and its subsidiaries and is responsible for the Company's strategic planning and business development. Mr. Wang was instrumental in the establishment of Tianjin TEDA International Incubator (天津泰達國際創業中心) ("TTII") in April 1996 and has been the legal representative of Tianjin TEDA Institute of Biomaterials and Medical Engineering (天津開發區泰達生物材料與醫學工程研究所) ("IBME") since January 1998. He was appointed as Chairman of the Board of Directors of the Company in September 2000. Mr. Wang graduated from Tianjin University (天津大學) in 1988 with a master's degree in Organic Chemical Engineering (有機化工專業). In February 1999, he obtained a postgraduate qualification in accounting from Tianjin University of Finance and Economics (天津財經學院). In 1997, Mr. Wang participated in the commercialization of the technology relating to clinical catheters. He subsequently became involved in the establishment of IBME in January 1998 and received one of the Ten Outstanding Youth awards (十大傑出青年) in 1998.
Mr. Hao Zhihui	Executive Director	<input type="checkbox"/> Aged 49, graduated from Tianjin Medical University in August 1984 with a bachelor's degree in medicine and thereafter taught in the university. He also completed his master's degree in Medicine offered by the same university in August 1992. From May 1995 to August 1997, he was in charge of production and technology in DPC (Tianjin) Co., Ltd (天津德普生物技術和醫學產品有限公司). From September 1997 to September 2000, he worked in Tianjin TEDA International Incubator and was the chief of the Medicine Industry Department (醫藥產業部部長). In March 2004, he graduated from the School of Continuing Education of Tsinghua University, Business Administration Major. From September 2000 to August 2006, he has assumed the posts of chief investment officer, chairman of the Supervisory Committee and executive vice president (常務副總裁) in the Company. He has been the President of the Company since August 2006. Mr. Hao has been appointed as an executive director of the Company since May 2009.
Mr. Xie Kehua	Executive Director	<input type="checkbox"/> Aged 54, is the director and general manager of Tianjin Alpha Health Care Products Co., Ltd. (天津阿爾發 保健品有限公司) ("Alpha"). Mr. Xie graduated from Chinese Traditional Medicine Department of Heilongjiang Institute of Commerce (黑龍江商學院中藥系) in July 1982 with a bachelor degree. Mr. Xie was appointed as the chief engineer of the Chinese medicine factory (中藥製藥廠) under the Tianjin Chinese Medicine Group (天津中藥集團) and was the supervisor of Hangzhou Wanaha Group Research and Development Centre (杭州娃哈哈集團科研開發中心). He was awarded the Best Scholar of New Products (新品狀元) and became Leader of the Initiation of Technology Development (新品開發帶頭人) in 1992 and was further recognized as a senior engineer in 1995. Mr. Xie was appointed as one of the first directors and the first manager of Alpha in August 1994. Mr. Xie was appointed as an executive director of the Company in September 2000.
Mr. Feng Enqing	Non-executive Director	<input type="checkbox"/> Aged 52, graduated from Tianjin Industrial University (天津工業大學) in 1982 with a degree in textile chemical engineering (紡織化學工程) and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggong Textile Manufacture (天津新港紡織廠). Mr. Feng is a director of Alpha and the chief engineer of TTII. He joined the Company in September 2000.
Mr. Xie Guangbei	Non-executive Director	<input type="checkbox"/> Aged 56, graduated from Nankai University in 1993 with a master's degree in Economics. In 1998, he was granted a MBA degree from Rensselaer Polytechnic Institute in Troy, New York, the US. He is the investment and financial

consultant of the Office of Residential Property Commercialization headed by the Ministry of Construction of the PRC. He is also the vice chairman and president of Tianjin Securities Investment Consulting Company Limited (天津證券投資諮詢有限公司). He was an engineer of the Business Department of China Shizheng Huabei College of Design (中國市政華北設計院計劃經營處), director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy (天津東方國際工程諮詢). He joined the Company as an independent supervisor in November 2000 and has been appointed as a non-executive director since November 2003.

Mr. Wei Jingquan	Non-executive Director	<input type="checkbox"/>	Aged 32, graduated from Nanchang University in July 2000 with a bachelor's degree in Chemical Engineering and Process (化工工藝). He worked in the Plastic Corp. of Grace T.H.W. Group (宏仁集團塑膠廠) in Guangzhou as the vice chief of the technology section from October 2001 to November 2002. From December 2002 to June 2006, he held various positions in Guangdong Fulilong Compound Fertilizers Co., Ltd. (廣東福利龍複合肥有限公司) ("Guangdong Fulilong"), including manager of the human resources department, manager of the production department, manager of the quality control department, deputy director of the technology center, assistant to general manager and vice general manager. He was appointed as the general manager of Guangdong Fulilong in July 2006. In September 2007, he received a master's degree in industrial engineering (工業工程) from the School of Business Administration of South China University of Technology. He is also an editor of the journal Guangdong Fertilizer Industry (《廣東肥業》). Mr. Wei has been appointed as a non-executive director since January 2010.
Mr. Ng Ka Kuen, Raymond	Accountant /Comp Sec	<input type="checkbox"/>	Aged 50, was an associate member of the Association of Cost and Executive Accountants in September 1985 and became a fellow member of that Association in October 1986. In November 1997, he was awarded a Graduate Diploma in Administration and a Bachelor Degree of Arts by Australian Catholic University, Australia and Ottawa University, Ottawa, Kansas State, the United States of America respectively. Mr. Ng became a member of the Institute of Certified Public Accountants in Ireland in October 2002, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2003 and an associate member of the Association of International Accountants in June 2004. In April and July 2005, Mr. Ng became a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Taxation Institute of Hong Kong respectively. Before joining the Company, Mr. Ng has more than 10 years audit experience.

Source: Company data

Appendix III

Table 12. Risk factors

Category	Types
Business	<ul style="list-style-type: none"> Production capacities may not be able to meet production demands. May be unable to sustain or manage future growth. Products may contain poisonous materials that are hazardous to health. Lack of commercial manufacture experience in manufacturing its medical health products Product liability in relation to medical and health products. Increase in raw materials prices that may not be able to pass on to customers and/or would reduce profit margins. Research and development risks. Reliance on key personnel. Reliance on stable supply of labor and labor cost. The products of the group are not scientifically tested. May involuntarily breach the law and regulation in the course of sales. Technologies acquired or developed may quickly become obsolete. Exposed to currency exchange rate fluctuations.
Industry	<ul style="list-style-type: none"> Face competition from existing market players and new entrants. Changes in existing laws and regulations or additional or stricter laws and regulation on environment protection.
PRC	<ul style="list-style-type: none"> Political and economic environment could affect operations and performance. Uncertainties regarding the interpretation and enforcement of the PRC laws and regulations. Government regulation of health food products. Registration certificates and approval certificate for health food of certain diabetes. Changes in policy regarding to tax treatment may have adverse impact on profitability.

Source: Company data, SBI E2-Capital

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-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% YoY to +10% over the next six months

SELL : absolute downside of >10% over the next six months

Investors should assume that SBI E2-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 E2-Capital Financial Services Limited ("SBI E2-Capital") from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-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 E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-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 E2-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 E2-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 E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Financial Services Limited. All rights reserved.
