

## 1H06 results review

## China F & B

### Andre Juice (8259 HK, HK\$0.53)

### Not Rated

This morning we had a conference call with Mr. Rex Chow, assistant to chairman after its 1H06 results announcement. The takeaway messages are as follows:

**Net loss in 2Q06.** 1H06 net profit slumped by 94% to RMB3.4m. Actually it recorded a net loss of RMB3m in 2Q06, mainly due to the surge in cost of goods sold and the decrease of shipment volume to around 23,000 tonnes (original target is 30,000 tonnes) from 28,900 tonnes in 1Q06. In 2Q06, raw apple price was estimated to be around US\$980 per tonne, gross margin was hence squeezed to 18.07% from 40.39% in 1H06.

**Marginal increase in ASP.** ASP is estimated to have only increased by around 6.3% to RMB6,800/tonne (6,400 /tonne) in 2Q06.

**Financials.** Net finance costs increased by 29.17% in 1H06, mainly due to the expansion of new plants and the costs for refinancing its short-term loans. Net gearing ratio reached 70% and gross cash was around RMB320m as at 30 June 2006. Estimated capex for FY12/06 is around RMB100m. According to Mr. Chow, payout ratio is expected to around 30%.

**Turnover breakdown by markets** Management did not disclose the figures but indicated that it should be similar to that of the 1Q06 figures. In 1Q06, the US was the largest market, accounting for 60% of the total turnover. The remaining 20% sales were from Europe and another 10% from Japan. Exposure in China is estimated to contribute no more than 10% of turnover in 1Q06, partly through the co-operation with Uni-President who currently holds a 4.68% interest.

**Strategic alliance.** In addition to Chengdu President Enterprise Food Co, Mitsui & Co. Ltd and International Finance Corporation, the company entered into a share transfer agreement with AGRANA AG (Europe's largest manufacturer of fruit juice concentrates) through transferring a 50% equity interest in its new plant (Xianyang Andres Juice Co).

**Production capacity.** The production capacity will be increased by 60k tones to 240k tonnes in FY12/06. Dalian's plant is expected to start production by mid September 2006. New plant in Xiangyang is expected to produce another 30,000 tonnes by mid 2006. Production volume is expected to be around 150,000 – 170,000 tonnes in FY06.

**Sales volume.** Sales volume is expected to reach 130k tonnes in FY06 (2Q06: 23k; 1Q06: 29k; and 80k in 2H06) assuming apple supply becomes normal.

**Apple supply.** Management expects that apple supply in Shandong should become normal and these should be sufficient supply from Western China in 2006.

**Switching to the main board.** In July 2006, Andre submitted its application to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong for the switching to the main board.

**Valuation.** At HK\$0.53, it is trading at historical and forward P/E of 17x and 11.3x respectively. Its closest peers, Haisheng (359 HK, HK\$0.76, NR) is trading at 6.5x historical P/E and 8.9x forward P/E while Zhonglu (600962 CH, RMB4.91, NR) is trading at 22x historical P/E and 24x forward P/E.