

A vote of confidence from IFC

China Agriculture

Century Sunshine (8276 HK, HK\$5.63)

BUY (unchanged)

Target price: HK\$6.85 (+22%)

9M results review. 9M06 turnover rose 85% to RMB217.8m while net profit surged 89% to RMB76.1m, on track to reach our full year 2006 forecast of RMB107m. We maintain our target price and earnings forecasts.

- The 200,000t Phase One Yunxiao Plant is expected to commence production in 1Q07, which is a bit behind schedule due to bad weather. Phase Two of another 200,000t will be completed by end-07.
- ASP rose 10 in the first nine months of 2006 while sales volume jumped 68% YoY to 123,000t, on track to meet our full year assumption of 176,000t.
- Eucalypt tree fertilizer recorded the highest sales growth at 214% YoY and accounted for 32.7% of the sales (from 19.2% the year before) during the period.
- Gross margin edged down 1 pcp to 49% mainly due to higher contribution from lower margin eucalypt tree fertilizer.

RMB120m loan from IFC. On Nov 14, 2006, the company announced that it has entered into a loan agreement with IFC for a 7-year RMB120m loan (@ c.5% interest rate). Under the agreement, 48.9m shares or 12% of the share capital held by Chairman Chi have been mortgaged to IFC as a collateral on Nov 13. The loan will be used for working capital and future business expansion. The significance of this exercise is two-fold:

- The company has been in a net cash position (RMB215m at end-Jun 2006) and free of debt. This loan actually carries a relatively low interest rate of 5% and more importantly, the leverage helps improve Sunshine's capital structure and enhance ROE going forward.
- More significantly, IFC, an international known and reputable financial institution, underwent some very strenuous due diligence exercises on the company before reaching the loan agreement. It is believed at least 3 teams of experts, including technical, environmental and legal, visited all three plants of Sunshine for at least one week each.

Endorsement by IFC. As such, this loan agreement can serve as an external endorsement from a reputable independent third party, enhancing Sunshine's credibility as a listed company and eventually its rating.

M&A. The company is looking to acquire a 500,000-6000,000tpa chemical fertilizer in northern China and revamp it into an organic fertilizer plant in order to further penetrate into the new markets there. No timetable is given, but we expect to see more concrete development in 2007.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as one of the two placing agents for the Century Sunshine top-up placement (56.5m new shares at HK\$2.2 each) on Dec 16, 2005.

Table 1: Financial summary

Year to Dec	Net profit RMBm	EPS RMB	EPS Δ %	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
04A	35.5	0.117	30.9	51.4	17.2	47.1	0.5	48.9	44.8	Cash
05A	71.4	0.217	86.6	26.7	7.4	19.7	0.9	33.7	34.5	Cash
06F	107.0	0.250	15.1	23.2	6.0	16.2	1.3	30.6	32.9	Cash
07F	200.2	0.468	87.1	12.4	4.4	8.5	2.6	43.7	48.9	Cash
08F	301.5	0.705	50.6	8.2	3.1	5.4	3.9	47.6	53.2	Cash

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. If you would like to access our research reports and know more about our services, please contact Raymond Jook, Head of Research, on (852) 2533 3715 or raymondjook@softbank.com.hk. Find our research on: sbi2capital.com, thomsononeanalytics.com and multex.com

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other primary businesses with the companies in this report.

Analyst certification: the views expressed in this report accurately reflects 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: the information and opinions in this report were prepared by SBI E2-Capital Securities Limited. SBI E2-Capital Securities Limited does not undertake to advise you of changes in its opinion or information. SBI E2-Capital Securities Limited and others associated with it may have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies. This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell the securities mentioned.