

A Little Disappointing

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Industry: Processed Food

Phillip Securities Research Pte Ltd

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Report type: Quarterly Results

Company Overview

Sino Grandness is an integrated manufacturer and distributor of canned fruits and vegetables as well as bottled juices. The Group has rapidly grown to become one of the leading exporters of canned asparagus, long beans and mushrooms from the PRC.

- FY2011 revenue ↑ 58.1%, net profit ↑ 29.4%
- Strong growth, but below expectations
- Reduce estimates to conservative terms
- Reduce to accumulate with target price of S\$0.45

What is the news?

Sino Grandness reported strong growth y-y with revenue coming in at RMB1,019.7mn (+58.1%) and net income at RMB151.7mn (+29.4%). We see broad base revenue growth in both the canned products segment as well as the beverage segment. However the company did not declare any dividend for the financial year.

Income statement (Extract)	FY10	FY11	y-y (%)	Comments
RMB mn				
Revenue	645.1	1019.7	58.1	Strong growth in beverage
EBITDA	165.8	226.7	36.7	
EBIT	158.2	216.0	36.5	
Net Income	117.2	151.7	29.4	

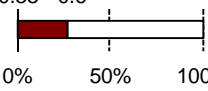
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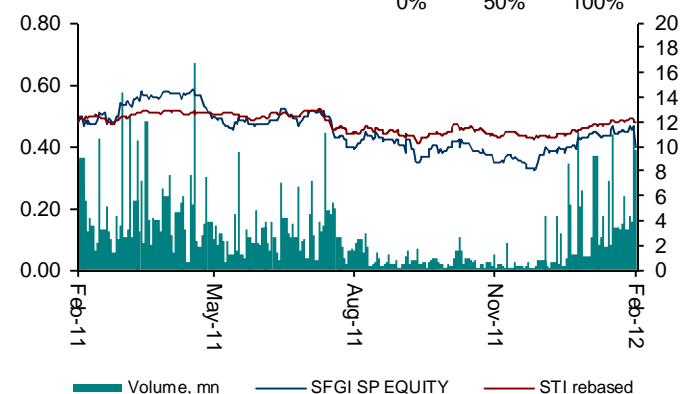
Although FY2011 achieved strong growth, however bottom-line was 19% below our estimate. Revenue was in-line with our estimates but net profit was impacted primarily on higher expenses. The results reflected the growth potential of the beverage segment. However being a relatively young brand (launched 2 years ago), there is an also high start-up cost and this has come in higher than our expectations. No dividend was declared. Balance sheet is healthy, however capex and working cap needs are high.

Investment Actions?

We adjusted down our estimates to reflect a Europe austerity and higher operating expenses. We believe there is still growth potential on the beverage segment. We downgrade our recommendation from Buy to accumulate with a lower target price of \$0.45

Sino Grandness Food Industry Group Ltd

Rating	2	Accumulate
- Previous Rating	1	Buy
Target Price (SGD)	0.45	
- Previous Target Price (SGD)	0.56	
Closing Price (SGD)	0.400	
Expected Capital Gains (%)	12.5%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	12.5%	
Raw Beta (Past 2yrs w weekly data)	1.50	
Market Cap. (USD mn / SGD mn)	84 / 106	
Enterprise Value (USD mn / SGD mn)	97 / 122	
3M Average Daily T/O (mn)	2.6	
52 week range (SGD)	0.33 - 0.6	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Yupeng Huang	44.4
2. Phillip Ventures	4.9

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (RMB mn)	1020	1262	1374	1384
Net Profit, adj. (RMB mn)	152	171	209	216
EPS, adj. (RMB)	0.57	0.64	0.79	0.81
P/E (X),adj.	3.5	3.1	2.5	2.5
BVPS (RMB)	2.09	2.74	3.53	4.34
P/B (X)	1.0	0.7	0.6	0.5
DPS (RMB)	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

3.5x FY12e

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Growth driven by geographical expansion

Both the canned products segment and the beverage segment achieved strong growth. For the former, the company entered into new markets of Australia and USA. It also managed to increase market share in existing markets. GPM for this segment managed to remain constant at 30.2%. The beverage segment grew strongly as the company increased its distributorships coupled with aggressive marketing campaigns. Revenue more than doubled from a year ago. GPM for the beverage segment improved in FY2011 to 40.9%. Overall GPM improved from 32.5% to 34.4%, lifted by the beverage segment. However NPM saw a drop from 18.2% to 14.9% on the back of higher operating expenses and also one-off expenses (convertible bond related expenses, provision of employee benefit cost).

	FY2010	FY2011	y-y (%)	comments
<i>Revenue (RMB mn)</i>				
Canned products	465.5	618.0	32.8	New markets; Australia, USA
Beverage	179.6	401.7	123.7	
<i>GPM (%)</i>				
Canned products	30.5	30.2	-	
Beverage	37.5	40.9	3.4ppt	
Overall	32.5	34.4	1.9ppt	
<i>NPM (%)</i>	18.2	14.9	(3.3)ppt	Impacted by higher expenses

High expenses impacted net profit

Both Distribution & selling expenses and Admin expenses increased significantly. Of particular note are the increases in transportation costs, advertising and promotion expenses, as well as staff costs. We expect these expenses to persist in FY2012 as the company will still be embarking on aggressive A&P activities for the beverage segment. One-off expense includes convertible bond related expense and provision for employee benefits.

Future growth premised mainly on beverage

Although profit breakdown is not available, but the beverage segment most likely met its milestone profit target of RMB70mn for FY2011 according to management. In order to meet the second milestone target of RMB140mn for FY2012, the company has signed on a second supplier, doubling its capacity. The Chengdu production facility is also schedule to begin production from next month onwards.

These effectively triple the original capacity. Optimistically and mathematically, ceteris paribus, the increase in capacity should generate a corresponding increase in sales, which should also result in a similar magnitude increase in net profit. Thereby meeting the target of RMB140mn. Additionally, assuming the beverage net profit of RMB70mn, which implies the canned segment generated a profit of RMB70-80mn. We are conservatively in our outlook. The bulk of the canned segment is for export to the European countries. With austerity in the Europe region, we assume flat growth in the canned segment. Short of a decline in profit as the company is already beginning introducing this business segment to the local market of China, which we believe will pick up the slack left by export. We further assume the beverage net profit to be approximately RMB100mn, in spite of the increase in capacity as we factor in high start-up cost and a gestation period in penetrating into new provinces.

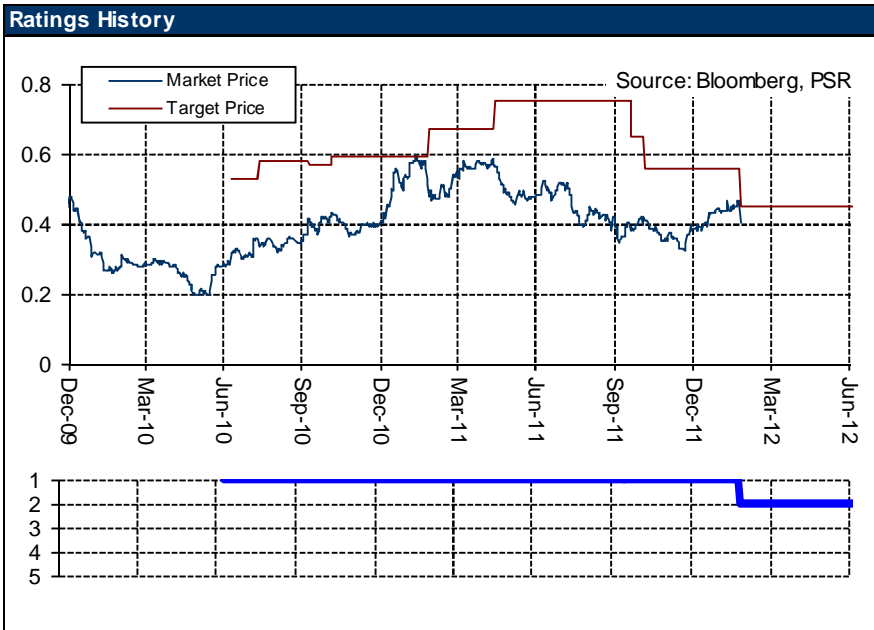
Previously our valuation is base on the eventual listing of the beverage segment. This is still a probable outcome but we think the deviation risk is too high at this point in time. We would likely switch back to this valuation method at year-end when the second profit milestone is met. For now we are pegging the target price to 3.5x FY2012e, which is the midpoint of the historical trading band of Sino Grandness. We downgrade to accumulate with target price of \$0.45.

FYE Dec	FY11	FY12F	FY13F	FY14F
Valuation Ratios				
P/E (X), adj.	3.5	3.1	2.6	2.5
P/B (X)	1.0	0.7	0.6	0.5
EV/EBITDA (X), adj.	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Per share data (RMB)				
EPS, reported	0.57	0.64	0.79	0.81
EPS, adj.	0.57	0.64	0.79	0.81
DPS	0.00	0.00	0.00	0.00
BVPS	2.09	2.74	3.53	4.34
Growth & Margins (%)				
Growth				
Revenue	58.1%	23.8%	8.8%	0.7%
EBITDA	36.4%	12.4%	23.1%	3.9%
EBIT	36.6%	7.6%	22.2%	3.0%
Net Income, adj.	29.3%	12.7%	22.4%	3.0%
Margins				
EBITDA margin	22.2%	20.2%	22.8%	23.6%
EBIT margin	21.2%	18.4%	20.7%	21.1%
Net Profit Margin	14.8%	13.7%	15.4%	15.7%
Key Ratios				
ROE (%)	31.3%	26.7%	25.2%	20.7%
ROA (%)	21.3%	18.4%	18.9%	16.9%
Net Debt/(Cash)	(6)	(9)	(123)	(211)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (RMB mn)				
Revenue	1020	1262	1374	1384
EBITDA	227	255	314	326
Depreciation & Amortisation	(11)	(22)	(30)	(33)
EBIT	216	232	284	293
Net Finance (Expense)/Income	(11)	(2)	(2)	(2)
Other items	-	-	-	-
Associates & JVs	-	-	-	-
Profit Before Tax	210	230	282	290
Taxation	(60)	(58)	(70)	(73)
Profit After Tax	151	173	211	218
Non-controlling Interest	(1)	2	2	2
Net Income, reported	152	171	209	216
Net Income, adj.	152	171	209	216

Source: PSR

FYEMar	FY11	FY12F	FY13F	FY14F
Balance Sheet (RMB mn)				
PPE	371	455	528	558
Intangibles	61	60	58	57
Associates & JVs	-	-	-	-
Investments	-	-	-	-
Others	2	2	2	2
Total non-current assets	434	516	588	617
Inventories	36	47	51	52
Accounts Receivables	298	349	380	383
Investments	-	-	-	-
Cash	82	85	199	287
Others	12	0	0	0
Total current assets	427	481	630	722
Total Assets	861	997	1219	1339
Short term loans	76	76	76	76
Accounts Payables	52	47	51	52
Others	36	43	49	50
Total current liabilities	163	166	176	177
Long term loans	0	0	0	0
Others	138	99	99	0
Total non-current liabilities	138	99	99	0
Non-controlling interest	5	7	9	11
Shareholder Equity	555	726	935	1151
Cashflow Statements (RMB mn)				
CFO				
PBT	210	230	282	290
Adjustments	15	24	32	35
Cash from ops before WC changes	226	255	314	325
WC changes	(73)	(59)	(31)	(3)
Cash generated from ops	153	196	283	323
Taxes paid, net	(59)	(50)	(65)	(72)
Interest paid	(5)	(2)	(2)	(2)
Cashflow from ops	89	143	216	249
CFI				
CAPEX, net	(154)	(104)	(102)	(63)
Dividends from associates & JVs	-	-	-	-
Dividends/Interest from Investments	0	0	0	1
Purchase/sale of investments	0	0	0	0
Investments in subs & associates	-	-	-	-
Others	0	0	0	1
Cashflow from investments	(153)	(104)	(101)	(61)
CFF				
Share issuance	0	0	0	0
Purchase of treasury shares	-	-	-	-
Loans, net of repayments	40	0	0	0
Dividends to shareholders & capital reduction	(12)	0	0	0
Others	76	(36)	0	(99)
Cashflow from financing	104	(36)	0	(99)
Net change in cash	40	4	115	89
Others	12	12	12	12
CCE, end	73	77	191	280

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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