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Industry: Processed Food

Phillip Securities Research Pte Ltd

30 April 2012

Report type: 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.

- Record revenue and profit
- Pleasant surprise from canned products segment
- Maintain accumulate with target price of S\$0.49

What is the news?

Revenue surged in 1Q12 on strong growth in beverage and a surprise growth in canned fruits for the domestic China market. We also do not see weakness in the export market, thus alleviating some fears of export sales suffering due to the recession in Europe.

(Extract)	1QFY11	1QFY12	y-y (%)
RMB mn			
Revenue	177.6	285.5	60.7
EBITDA	44.8	84.5	88.6
EBIT	43.4	81.1	86.9
Net Income	31.3	56.7	81.1

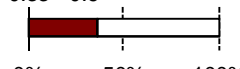
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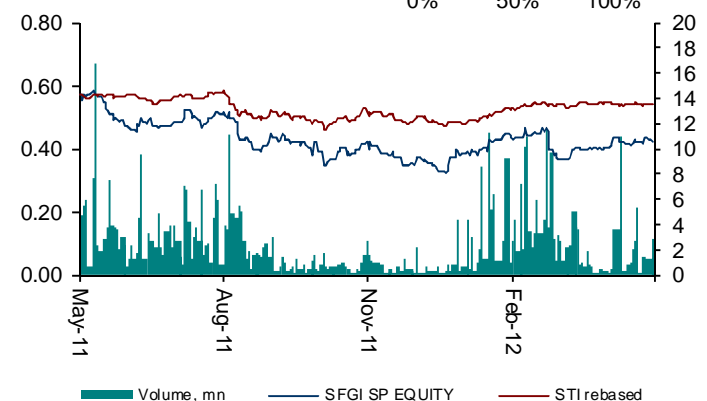
Results came in above our expectations. Sino Grandness achieved record revenue and net profit in 1Q12. We had already expected beverage sales to lead growth; however we had been less sanguine on the export sales. The export figures in fact grew, unfazed by the European recession. We were also surprised by the strong sales of the canned fruits for the domestic China market.

Investment Actions?

The 1Q12 result is a testament to the strong retail consumption in China. Although actual results are ahead of our estimates, we are maintaining our forecasts. We are thus maintaining our target price of \$0.49 and Accumulate rating. Investment expectation is on the eventual listing of the beverage subsidiary in 2 years time.

Sino Grandness Food Industry Group Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	0.49	
- Previous Target Price (SGD)	0.49	
Closing Price (SGD)	0.425	
Expected Capital Gains (%)	15.3%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	15.3%	
Raw Beta (Past 2yrs weekly data)	1.50	
Market Cap. (USD mn / SGD mn)	91 / 113	
Enterprise Value (USD mn / SGD mn)	109 / 122	
3M Average Daily T/O (mn)	2.8	
52 w week range (SGD)	0.33 - 0.6	
Closing Price in 52 w 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	1394	1631	1642
Net Profit, adj. (RMB mn)	152	186	247	261
EPS, adj. (RMB)	0.57	0.70	0.93	0.98
P/E (X), adj.	3.7	3.0	2.3	2.2
BVPS (RMB)	2.09	2.79	3.72	4.71
P/B (X)	1.0	0.8	0.6	0.4
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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High expectations on beverage segment

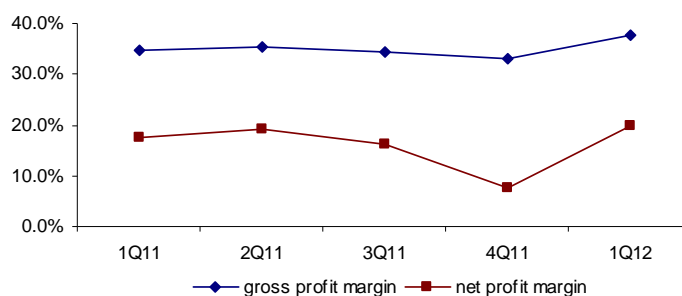
Beverage segment sales continue to grow at a blistering pace. This had been within our expectations and growth came from expansion into more provinces. We estimate beverage segment net profit to be around the region of RMB30 million, based on a net profit margin of 19%, which is inline with the assumption of RMB70million net profit in FY11. This still leaves a gap of RMB110 which the company has to achieve in the next three quarters to hit the profit target of RMB140.

Pleasant surprise from canned products

Rather, one of our earlier concerns was whether the canned products for the export market will suffer due to the recession in Europe, as Europe is one of the main export markets. On y-y basis, we do not see weakness in the export sales, in fact overseas sales increased 16.5% and Europe sales grew 13.2%. Seasonally, export sale is stronger in the second and third quarters, we thus now need another quarter of affirmation to verify that the Europe recession has minimal impact on the company's canned products. One other surprise came from the strong sales of canned fruits in China. In tandem with the introduction of the beverage products, Sino Grandness had started a line of premier canned fruits under the "Grandness" label targeted at the first- and second-tier cities in China. Surprisingly without much fanfare, this segment chalked up RMB15.3 million of sales by our estimation.

Gross profit margin improves to 37.5% due to a higher sales mix of beverage and domestic canned fruits. The beverage segment carries the highest gross profit margin. Going forward, we expect the margin to improve or at least sustain as the company's Sichuan plan will begin production of its own beverage products in addition to the OEM suppliers.

Fig 2. Profit margin



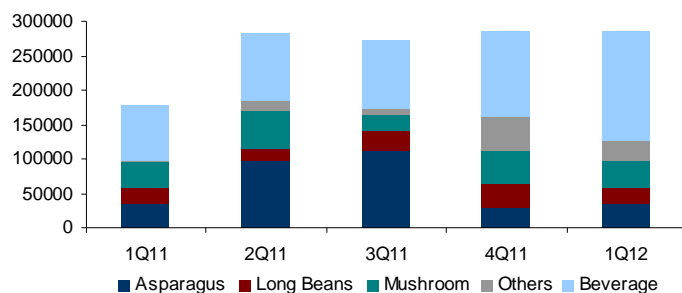
Source: Company data

Beverage result is on track

In our last report, we had mentioned the likelihood of an outperformance for 1Q12 results and had adjusted up our estimates then. We are forecasting FY12 net profit of RMB 185 million. Although actual results came out ahead of our expectations, we are maintaining our forecasts for now. We are thus maintaining our target price of \$0.49 and Accumulate rating. Investment expectation is on the eventual listing of the beverage subsidiary in 2 years time.

	1QFY11	1QFY12	y-y (%)
<i>Revenue (RMB mn)</i>			
Canned products for export	95.5	111.3	16.5
Canned fruits for China market	1.7	15.3	n.m
Beverage	80.4	158.9	97.6
GPM (%)	34.8	37.5	2.7ppt
NPM (%)	17.6	19.9	2.3ppt

Fig 1. Revenue (RMB'000) trend



Source: Company data

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	4.5	3.7	3.0	2.3	2.2
P/B (X)	1.3	1.0	0.8	0.6	0.4
EV/EBITDA (X), adj.	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	2.1%	0.0%	0.0%	0.0%	0.0%
Per share data (RMB)					
EPS, reported	0.47	0.57	0.70	0.93	0.98
EPS, adj.	0.47	0.57	0.70	0.93	0.98
DPS	0.04	0.00	0.00	0.00	0.00
BVPS	1.59	2.09	2.79	3.72	4.71
Growth & Margins (%)					
Growth					
Revenue	43.2%	58.1%	36.7%	17.0%	0.6%
EBITDA	74.2%	36.4%	20.9%	32.9%	6.0%
EBIT	76.1%	36.6%	16.6%	32.9%	5.4%
Net Income, adj.	77.2%	29.3%	22.3%	33.2%	5.6%
Margins					
EBITDA margin	25.8%	22.2%	19.7%	22.4%	23.5%
EBIT margin	24.5%	21.2%	18.1%	20.5%	21.5%
Net Profit Margin	18.1%	14.8%	13.4%	15.3%	16.0%
Key Ratios					
ROE (%)	56.5%	31.3%	28.6%	28.6%	23.3%
ROA (%)	41.5%	21.3%	19.7%	21.4%	19.0%
Net Debt/(Cash)	3	(6)	10	(111)	(246)
Net Gearing (X)	0.8%	Net Cash	1.4%	Net Cash	Net Cash
Income Statement (RMB mn)					
Revenue	645	1020	1394	1631	1642
EBITDA	166	227	274	365	387
Depreciation & Amortisation	(8)	(11)	(22)	(30)	(33)
EBIT	158	216	252	335	353
Net Finance (Expense)/Income	(3)	(11)	(2)	(2)	(2)
Other items	-	-	-	-	-
Associates & JVs	-	-	-	-	-
Profit Before Tax	156	210	250	333	351
Taxation	(39)	(60)	(62)	(83)	(88)
Profit After Tax	117	151	187	250	263
Non-controlling Interest	(0)	(1)	2	2	3
Net Income, reported	117	152	186	247	261
Net Income, adj.	117	152	186	247	261

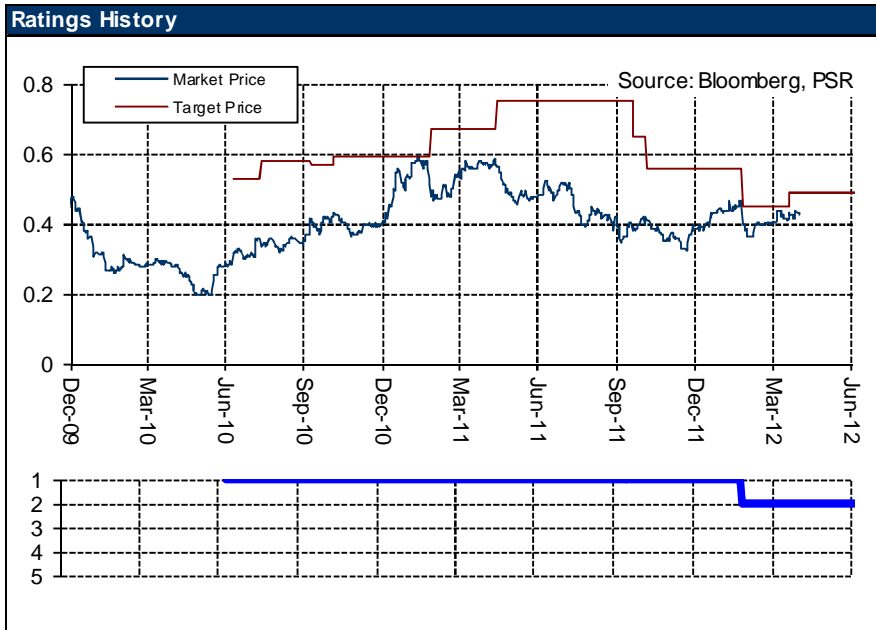
Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (RMB mn)					
PPE	228	371	455	528	558
Intangibles	16	61	60	58	57
Associates & JVs	-	-	-	-	-
Investments	-	-	-	-	-
Others	1	2	2	2	2
Total non-current assets	244	434	516	588	617
Inventories	30	36	52	60	61
Accounts Receivables	212	298	386	451	454
Investments	-	-	-	-	-
Cash	33	82	65	187	322
Others	46	12	0	0	0
Total current assets	321	427	503	699	837
Total Assets	565	861	1020	1287	1454
Short term loans	8	76	76	76	76
Accounts Payables	39	52	52	60	61
Others	21	36	46	55	57
Total current liabilities	67	163	173	191	194
Long term loans	28	0	0	0	0
Others	49	138	99	99	0
Total non-current liabilities	77	138	99	99	0
Non-controlling interest	6	5	7	9	12
Shareholder Equity	415	555	740	988	1248

Cashflow Statements (RMB mn)

CFO					
PBT	156	210	250	333	351
Adjustments	10	15	24	32	35
Cash from ops before WC changes	166	226	274	365	387
WC changes	(53)	(73)	(95)	(66)	(3)
Cash generated from ops	113	153	179	299	384
Taxes paid, net	(32)	(59)	(53)	(74)	(86)
Interest paid	(3)	(5)	(2)	(2)	(2)
Cashflow from ops	78	89	124	223	296
CFI					
CAPEX, net	(90)	(154)	(104)	(102)	(63)
Dividends from associates & JVs	-	-	-	-	-
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	-	-	-	-	-
Others	(46)	0	0	0	1
Cashflow from investments	(136)	(153)	(104)	(101)	(62)
CFF					
Share issuance	34	0	0	0	0
Purchase of treasury shares	-	-	-	-	-
Loans, net of repayments	(39)	40	0	0	0
Dividends to shareholders & capital reduction	(13)	(12)	0	0	0
Others	1	76	(36)	0	(99)
Cashflow from financing	(17)	104	(36)	0	(99)
Net change in cash	(75)	40	(16)	121	135
Others	3	12	12	12	12
CCE, end	33	82	65	187	322

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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