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Industry: Processed Food

Phillip Securities Research Pte Ltd

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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.

- Revenue growth led by higher beverage sales
- Beverage on track to achieve profit targets
- Maintain accumulate with unchanged target price of S\$0.49

What is the news?

Sino Grandness reported headline grabbing 2QFY12 results. Revenue grew 66% compared to a year ago to RMB470.7 million. Net profit improved correspondingly by 53% to RMB83.1 million. Revenue growth is mainly driven by the beverage segment which is higher by 140%. The export canned products also grew by 7%, easing initial fears of recession effect in Europe affecting the export sales, although we see a deceleration in growth rate. Domestic canned products performed satisfactory with good sales take-up.

	2QFY11	2QFY12	y-y (%)
RMB mn			
Revenue	283.9	470.7	65.8
EBITDA	73.8	114.2	54.7
EBIT	72.2	113.9	57.8
Net Income	54.1	83.1	53.4

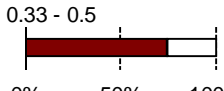
How do we view this?

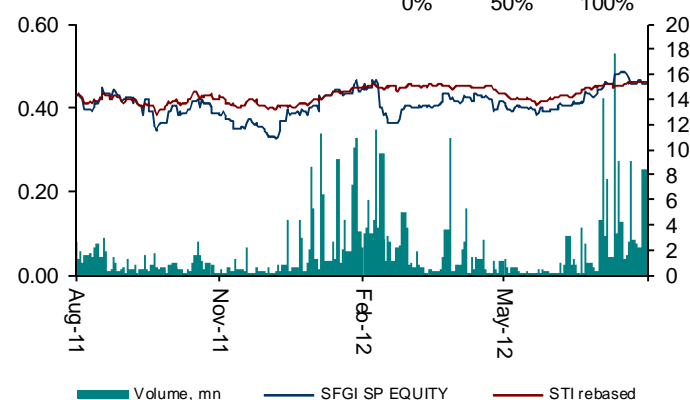
2QFY12 came in better than our expectations. We believe the beverage segment will be able to achieve the profit targets through introduction to more cities and provinces. We are still cautious on the export canned products segments as we feel the Europe recession effects have not fully being felt yet.

Investment Actions?

We reiterate our investment thesis is premised on the eventual listing of the beverage subsidiary with a holding period of approximately one year. Conservative investors should note that this assumption is not guarantee to materialize In which case our valuation will not hold. We utilized a discount valuation to the sum of PE peg canned products segment and value accretion of the subsidiary to the holding company. We maintain our Accumulate rating with target price of \$0.49.

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)	0.455	
Expected Capital Gains (%)	7.7%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	7.7%	
Raw Beta (Past 2yrs weekly data)	1.33	
Market Cap. (USD mn / SGD mn)	97 / 121	
Enterprise Value (USD mn / SGD mn)	116 / 122	
3M Average Daily T/O (mn)	1.9	
52 week range (SGD)	0.33 - 0.5	
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	1523	2350	2115
Net Profit, adj. (RMB mn)	152	194	331	309
EPS, adj. (RMB)	0.57	0.73	1.25	1.17
P/E (X),adj.	4.0	3.1	1.8	1.9
BVPS (RMB)	2.09	2.83	4.07	5.24
P/B (X)	1.1	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

sum of parts

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Beverage sales on track

Beverage sales achieved RMB233 million which led growth in the company. 1HFY12 total sales amount to RMB392.4 million. On a net profit basis, beverage most likely achieved RMB63 million in net profits based on our lower end assumption between 16-18% margin guided by management. We remind our readers that profit target for this year is RMB140 million which means the company has to achieve approximately RMB70-80 million in the next half year.

Canned products still growing, deceleration observed

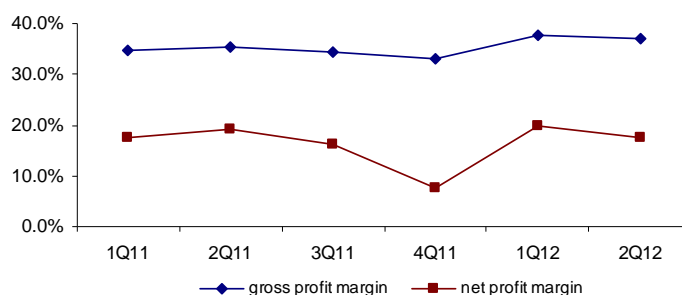
The canned products also achieved respectable results. Export sales grew 7.4%, following the 16.5% growth in 1QFY12. The slowdown in growth may be attributed to the recession in Europe. As a consumer food product, we believe demand and sales are relatively resilient. However it still remains to be seen if the recession in Europe will continue to cause sales growth to decelerate or even decline. On the other hand, sales of domestic canned products grew strongly (2QFY11: RMB1.3m, 1QFY12: RMB15.3m, 2QFY12: RMB38.2m). The domestic canned products rode on the success of the beverage segment. Sales strategy and the sales growth trend are similar to the beverage segment.

	2QFY11	2QFY12	y-y (%)
<i>Revenue (RMB mn)</i>			
Canned products for export	185.2	199.0	7.4
Canned fruits for China market	1.3	38.2	n.m
Beverage	97.3	233.5	140.0
GPM (%)	35.5	37.0	1.5ppt
NPM (%)	19.1	17.7	(1.4)ppt

Higher cost and expenses

Gross profit margin improves from a year ago, but decline slightly compared to the previous quarter. GPM for 2QFY12 was 37% (2QFY11: 35.5%, 1QFY12: 37.5%). The higher percentage contribution from beverage and domestic canned products lifted the GPM, however we believe higher cost of materials eroded the GP from a quarter ago. Distribution expenses also rose significantly due to A&P of the beverage segment. Net profit margin fell to 17.7% (2QFY11: 19.1%, 1QFY12: 19.9%).

Fig 2. Profit margin



Source: Company data

2nd tranche of CB completed

The company issued the 2nd tranche of zero coupon CB in July with principal value of RMB270m. Terms of the bonds are essentially similar to the 1st tranche. Both tranches are convertible into 49.9% into shares of Garden Fresh (HK). Proceeds from the CBs will provide fund expansion of the production facilities to support growth of the beverage segment.

No problem achieving profit targets

It looks likely that the profit target of RMB140m for this year will be achieved. Profit target for 2013 is RMB250m. We feel that initial sales growth will be strong when a new consumer product is launched into new markets which we are now seeing with the beverage sales. The company is introducing the beverage products into untapped cities and provinces which will ensure growth to meet the profit targets. As such we believe the milestone profit targets can be met.

Valuation

However we wish to reiterate that our investment thesis is on the eventual listing of Garden Fresh (HK) with a one year holding period. Take note that this assumption is not guarantee to materialize in which case our valuation will then not hold. We are taking into assumption of the profit targets and the accretion in value of the listing. We assume that listing of Garden fresh (HK) is at 9x earnings. Valuation of the canned products is peg at 5x earnings, which is indifferent to the listing PE of Sino Grandness in 2009. Further, we are adding a 50% discount to the total value per share base on the binary outcome of our thesis i.e listing or no listing of Garden Fresh (HK). Our discount valuation serves as a reference to readers holding various level of confidence in the investment thesis. Readers who are confident a positive outcome may choose to apply a smaller discount or even no discount.

Sino Grandness % holding	50.1%
Accretion value per share of Sino Grandness after holding company discount of 20%	\$0.68
Accretion value of canned products at 5x PE	\$0.31
Total value per share	\$0.99
Applying 50% discount for uncertainty	\$0.49

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	4.8	4.0	3.1	1.8	1.9
P/B (X)	1.4	1.1	0.8	0.6	0.4
EV/EBITDA (X), adj.	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	1.9%	0.0%	0.0%	0.0%	0.0%
Per share data (RMB)					
EPS, reported	0.47	0.57	0.73	1.25	1.17
EPS, adj.	0.47	0.57	0.73	1.25	1.17
DPS	0.04	0.00	0.00	0.00	0.00
BVPS	1.59	2.09	2.83	4.07	5.24
Growth & Margins (%)					
Growth					
Revenue	43.2%	58.1%	49.3%	54.3%	-10.0%
EBITDA	74.2%	36.4%	26.2%	67.8%	-5.2%
EBIT	76.1%	36.6%	22.2%	69.2%	-6.5%
Net Income, adj.	77.2%	29.3%	28.2%	70.3%	-6.5%
Margins					
EBITDA margin	25.8%	22.2%	18.8%	20.4%	21.5%
EBIT margin	24.5%	21.2%	17.3%	19.0%	19.7%
Net Profit Margin	18.1%	14.8%	12.9%	14.2%	14.8%
Key Ratios					
ROE (%)	56.5%	31.3%	29.8%	36.2%	25.0%
ROA (%)	41.5%	21.3%	18.2%	22.4%	17.4%
Net Debt/(Cash)	3	(6)	(193)	(204)	(458)
Net Gearing (X)	0.8%	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (RMB mn)					
Revenue	645	1020	1523	2350	2115
EBITDA	166	227	286	480	455
Depreciation & Amortisation	(8)	(11)	(22)	(34)	(38)
EBIT	158	216	264	446	417
Net Finance (Expense)/Income	(3)	(11)	(2)	(0)	(0)
Other items	-	-	-	-	-
Associates & JVs	-	-	-	-	-
Profit Before Tax	156	210	262	446	417
Taxation	(39)	(60)	(65)	(111)	(104)
Profit After Tax	117	151	196	334	312
Non-controlling Interest	(0)	(1)	2	3	3
Net Income, reported	117	152	194	331	309
Net Income, adj.	117	152	194	331	309

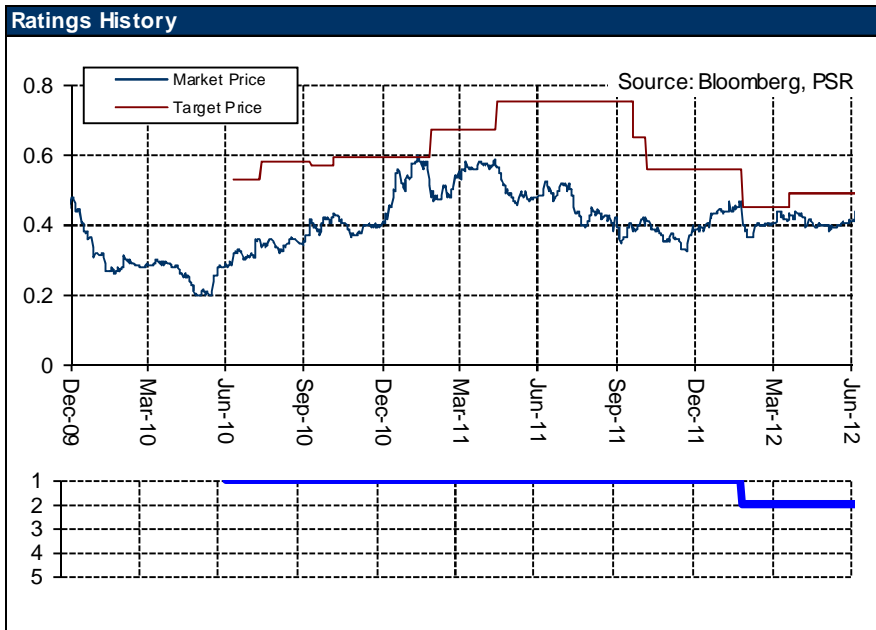
Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (RMB mn)					
PPE	228	371	455	573	607
Intangibles	16	61	60	58	57
Associates & JVs	-	-	-	-	-
Investments	-	-	-	-	-
Others	1	2	2	2	2
Total non-current assets	244	434	516	634	666
Inventories	30	36	99	151	137
Accounts Receivables	212	298	421	650	585
Investments	-	-	-	-	-
Cash	33	82	233	244	498
Others	46	12	0	0	0
Total current assets	321	427	754	1045	1220
Total Assets	565	861	1270	1678	1885
Short term loans	8	76	40	40	40
Accounts Payables	39	52	85	130	117
Others	21	36	47	68	64
Total current liabilities	67	163	172	237	221
Long term loans	28	0	0	0	0
Others	49	138	342	351	261
Total non-current liabilities	77	138	342	351	261
Non-controlling interest	6	5	7	10	13
Shareholder Equity	415	555	749	1080	1390

Cashflow Statements (RMB mn)

CFO					
PBT	156	210	262	446	417
Adjustments	10	15	24	34	39
Cash from ops before WC changes	166	226	286	480	455
WC changes	(53)	(73)	(145)	(236)	67
Cash generated from ops	113	153	141	244	522
Taxes paid, net	(32)	(59)	(54)	(91)	(107)
Interest paid	(3)	(5)	(2)	(1)	(1)
Cashflow from ops	78	89	85	161	423
CFI					
CAPEX, net	(90)	(154)	(104)	(151)	(70)
Dividends from associates & JVs	-	-	-	-	-
Dividends/Interest from Investments	0	0	0	1	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	-	-	-	-	-
Others	(46)	0	0	1	1
Cashflow from investments	(136)	(153)	(104)	(150)	(70)
CFF					
Share issuance	34	0	0	0	0
Purchase of treasury shares	-	-	-	-	-
Loans, net of repayments	(39)	40	(36)	0	0
Dividends to shareholders & capital reduction	(13)	(12)	0	0	0
Others	1	76	207	0	(99)
Cashflow from financing	(17)	104	171	0	(99)
Net change in cash	(75)	40	152	11	254
Others	3	12	12	12	12
CCE, end	33	82	233	244	498

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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