

Chemicals

August 17, 2010

Fufeng Group (0546.HK)

— GPM dropped due to rising costs of raw materials, 2010TP cut to HK\$8.48, maintain BUY rating

BUY

Unchanged

| Market Data: | Aug 16 |
|-------------------------|-----------|
| Closing Price (HKD) | 5.48 |
| Price Target (HKD) | 8.48 |
| HSCEI | 11727 |
| 52-week High/Low (HKD) | 6.88/2.72 |
| Market Cap (HKD Mn) | 9097 |
| Shares Outstanding (Mn) | 1660 |
| Exchange Rate (CNY/HKD) | 0.88 |

Price Performance Chart:



Source: Bloomberg

Related Research:

"Fufeng Group (0546.HK)- RMB 1025Mn CB issuance completed, stock still undervalued, 2010 TP raised to HKD 9.03" April 23, 2010

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Financial summary and valuation:

| | 2008 | 2009 | 2010E | 2011E | 2012E |
|---------------------|---------|---------|---------|---------|----------|
| Revenue (RMB Mn) | 3585.34 | 4632.88 | 6362.47 | 7806.33 | 10078.28 |
| YOY (%) | 46.60 | 29.22 | 37.33 | 22.69 | 29.10 |
| Net income (RMB Mn) | 294.71 | 928.29 | 1037.12 | 1438.63 | 1696.98 |
| YOY (%) | 553.89 | 214.98 | 11.72 | 38.71 | 17.96 |
| EPS (RMB) | 0.18 | 0.56 | 0.62 | 0.87 | 1.02 |
| Diluted EPS (RMB) | 0.18 | 0.56 | 0.59 | 0.82 | 0.97 |
| ROE (%) | 16.92 | 38.78 | 32.90 | 35.28 | 32.63 |
| Debt/asset (%) | 18.02 | 14.03 | 35.20 | 29.34 | 20.37 |
| Dividend Yield (%) | 1.83 | 2.75 | 3.90 | 5.41 | 6.38 |
| P/E (x) | 27.08 | 8.6 | 7.69 | 5.55 | 4.70 |
| P/B (x) | 4.58 | 3.33 | 2.53 | 1.96 | 1.53 |
| EV/EBITDA (x) | 22.38 | 7.85 | 6.70 | 4.88 | 4.14 |

Note: Diluted EPS is calculated if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS

Interim result comment:

- Fufeng Group announced its 1H10 results yesterday, and they came in slightly below our expectation. The revenue was RMB2.99B (45.4% YoY growth) which is slightly higher than our forecast of RMB2.98B. The basic EPS was RMB0.277 (30.0% YoY growth) which is slightly lower than our forecast of RMB0.287. The GPM was 24.8% (1H09: 28.1%) which is lower than our forecast of 28%. The significant drop of GPM was due to the significant price increase of raw materials, particularly corn kernels
- MSG revenue increased to RMB1.76B from RMB0.91B, representing a 94.7% YoY growth. This is due to the price hike of MSG from RMB6886/ton to RMB7489/ton (8.8% increase) and significant sales volume increase from 131,500 tons to 235,405 tons (79.1% increase) driven by strong demand for MSG in China. However, glutamic acid revenue decreased from RMB423.17M to RMB96.69M, representing a 77.2% YoY drop. This is due to the company's change of business strategy by converting most glutamic acid into MSG instead of selling to external manufacturers. We believe this new strategy has shown that the company is transforming into a consumer goods producer from an industrial goods producer. We believe the company's valuation should improve during the process. Corn refined products, starch sweeteners, corn oil and other products enjoyed fast growth, showing the strong demand for corn-processed products. Revenue from fertilized products dropped 18.5% due to weak demand in 1H10. Revenue from xanthan gum increased from RMB185.94M to RMB381.47M (105.2% YoY growth) due to an increase of sales volume from 8400 tons to 19086 tons. The strong demand from the oil industry has contributed to the increase of xanthan gum sales volume.
- In view of rising costs of raw materials and strong demand for MSG and xanthan gum, we have changed certain assumptions on prices and utilization rates. As a result, our revenue forecast for 2010/11/12 is changed to RMB6.36B, 7.81B and 10.08B respectively (previously RMB6.13B, 8.12B and 10.49B) and basic EPS forecast for 2010/11/12 is changed to RMB0.62, 0.87 and 1.02 respectively (previously RMB0.66, 0.84 and 1.06). We also revise the 2010TP to HK\$8.48 (previously HK\$9.03), representing 54.77% upside potential from current price of HK\$5.48. The stock is currently trading at 7.75X 2010PE which we believe is undervalued, we maintain BUY rating.

中报点评:

- 昨天阜丰集团公布了上半年业绩，略低于我们的预期。销售收入为人民币 29.9 亿（同比增长 45.4%），略高于我们的预期人民币 29.8 亿。基本 EPS 为人民币 0.277（同比增长 30.0%），略低于我们的预期人民币 0.287。毛利率为 24.8%（09 年同期：28.1%），低于我们的预期 28%。毛利率大幅下滑主要是由于原材料特别是玉米价格快速上升所致。
- 味精业务收入从 9.1 亿增加到 17.6 亿，同比增长 94.7%。主要原因是味精价格由每吨 6886 元涨到每吨 7489 元（增长 8.8%）以及销量由 131500 吨大幅增加至 235405 吨（增加 79.1%），销量增加是由于国内对味精需求旺盛所致。但是谷氨酸收入却从 423.17 百万下滑到 96.69 百万，同比下降 77.2%。主要原因是公司改变商业战略，将大部分谷氨酸自用转化为味精而不是外售。我们认为此战略显示了公司正由工业品生产商转型为消费品生产商。我们认为公司估值在此过程中应会上升。玉米提炼产品、淀粉甜味剂、玉米油和其它产品销售增加快速，显示出对玉米深加工产品的旺盛需求。肥料收入因为上半年需求低迷同比下降 18.5%。黄原胶收入从 185.94 百万增加到 381.47 百万（同比增长 105.2%），主要是因为销量从 8400 吨大幅上升至 19086 吨。来自石油行业的强劲需求是主要因素。
- 考虑到原材料价格上涨以及对味精和黄原胶的需求旺盛，我们修改了对价格和产能利用率的部分假设。我们对 2010/11/12 年的收入预测修改为 63.6 亿，78.1 亿和 100.8 亿（之前为 61.3 亿，81.2 亿和 104.9 亿），基本 EPS 预测修改为 0.62，0.87 和 1.02 元（之前为 0.66，0.84 和 1.06 元）。我们也将 2010 年目标价调整为港币 8.48（之前为港币 9.03），距离目前股价港币 5.48 有 54.77% 的上涨空间。股价目前对应 7.75 倍 2010 年市盈率，我们认为被低估，维持买入评级。

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