

14 September 2010

Produced by: The Royal Bank of Scotland N.V., (Hong Kong) Branch

Fufeng Group

New plant construction on track

Buy

Target price
HK\$7.10

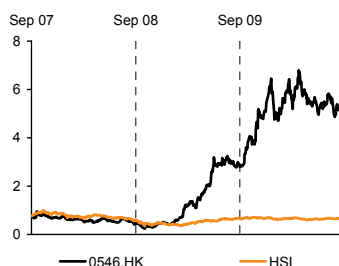
Price
HK\$5.29

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (HK\$)	5.70	5.38	2.83
Absolute (%)	-7.2	-1.7	86.9
Rel market (%)	-9.7	-9.8	82.6
Rel sector (%)	-13.2	-13.1	53.5



Market capitalisation
HK\$8.78bn (US\$1.13bn)

Average (12M) daily turnover
HK\$26.49m (US\$3.40m)

Sector: BBG AP Food Prod & Proc
RIC: 0546.HK, 546 HK
Priced HK\$5.29 at close 13 Sep 2010.
Source: Bloomberg

We visited Fufeng's Northeast China plant on 18 September 2010. Construction work is on track and management expects the new plant to begin operations in 2Q11, earlier than previously guided (June 2011). We maintain our Buy rating, and keep our earnings forecasts for FY10-12 and target price unchanged.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (Rmbm)	3,585	4,633	6,608	8,286	10,457
EBITDA (Rmbm)	520.7	1,241	1,450	1,701	2,259
Reported net profit (Rmbm)	294.7	928.3	1,030	1,141	1,499
Normalised net profit (Rmbm) ¹	294.7	928.3	1,030	1,141	1,499
Normalised EPS	0.18	0.56	0.56	0.63	0.82
Dividend per share	0.01	0.22	0.25	0.27	0.36
Dividend yield (%)	0.22	4.78	5.39	5.97	7.84
Normalised PE (x)	25.90	8.24	8.17	7.37	5.61
EV/EBITDA (x)	15.40	6.37	5.81	4.80	3.34
Price/book value (x)	4.39	3.19	2.75	2.22	1.74
ROIC (%)	14.80	37.30	33.60	26.60	32.70

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Dec, fully diluted

NE China plant may be completed ahead of schedule

Fufeng's NE China plant is located in the economic development zone of Zhalantun, a county-level city in Inner Mongolia and close to Heilongjiang. Management expects the new plant to bring cost advantages from: 1) lower corn prices, given plentiful supply of corn locally; 2) lower coal costs in a location close to the coal mines in Hulunbeier; and, 3) 100% self-supplied synthetic ammonia. The construction of the new plant, started in May 2010, is on track. Management believes Phase I of the new plant may be completed in 2Q11, earlier than its previous guidance of June 2011, if the cold weather in NE China does not stall construction progress.

Phase I to add 200,000t/year of MSG production capacity

Phase I of the plant includes production capacity of 200,000t for MSG, 160,000t for glutamic acid, 200,000t for fertilisers and 100,000t for synthetic ammonia, with capex of Rmb1bn. The plant is also equipped with thermal power generation and company-owned railway. After Phase I is completed, Fufeng's MSG production capacity will reach 740,000t (+37%). Management said it might add another 260,000t of MSG capacity in Phase II in 2012-13 (+35%), achieving total MSG production capacity of 1mt. We believe the new plant will further strengthen Fufeng's leading position in the MSG market.

Gross margin sustainable in 2H10

Management expects a good corn harvest this October and, thus, lower corn prices in 4Q10. Corn prices were stable in July-August at an average of Rmb1,686/t, rising 1.3% qoq and 13.6% yoy. In July-August, the market price of MSG increased 3.4% qoq and 17.9% yoy to about Rmb9,640/t. Management said it increased the ASP of MSG in August and that this is currently around 9,800/t. It may further raise MSG ASP in 4Q10 to meet higher demand in the traditional peak season. We expect Fufeng's gross margin to be stable at 25% in 2H10.

Analysts

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Important disclosures can be found in the Disclosures Appendix.

New plant construction on track

Figure 1 : Fufeng's Northeast China plant



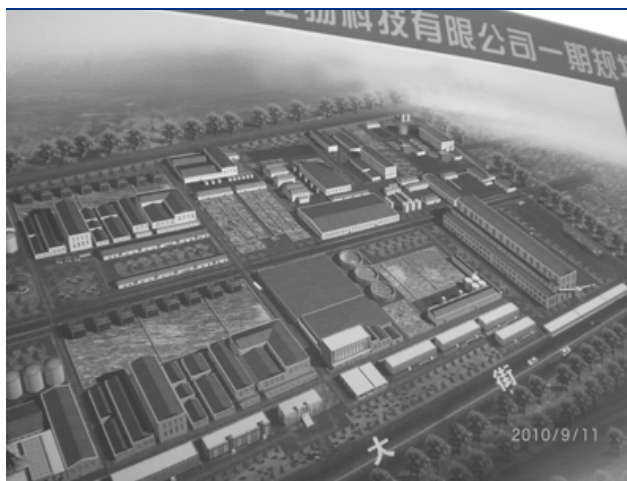
Source: Company data, RBS

Figure 2 : Fufeng's under-construction NE plant site



Source: RBS

Figure 3 : Fufeng's under-construction NE plant site



Source: RBS

We keep our earnings forecasts and target price unchanged

Fufeng is trading at 8.2x FY10F PE and 7.4x FY11F PE, which we think is inexpensive compared with corn-processing peers listed in Hong Kong, which are trading at an average of 13.6x FY10F PE and 11.6x FY11F PE, based on Bloomberg consensus and our estimates. Our DCF-based target price of HK\$7.10 implies 34% potential upside and a target FY11F PE of 9.9x. We reiterate our Buy recommendation.

Management said that Fufeng's major competitor, Meihua, recently announced it would add new MSG capacity of 70,000t in Inner Mongolia in 2H11, lower than previous guidance of 150,000t. Besides Meihua, new MSG capacities include 70,000t from Yi Ping in Ningxia (to be completed in 2H11) and 100,000t from Cofco Group in Northeast China (to be completed in 2H11-1H12). However, management expects MSG supply and demand in China to remain in balance in FY11, as in July 2010 the government announced a shutdown of 200,000t in inefficient MSG capacities.

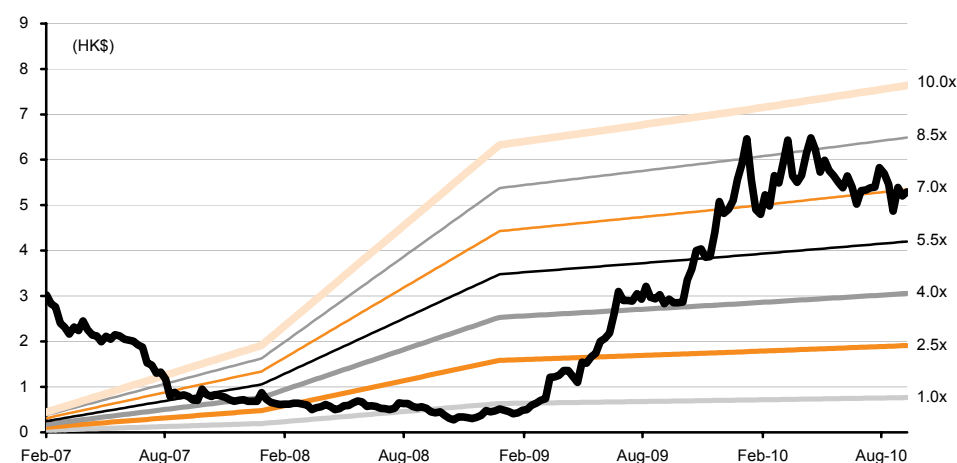
Key downside risks to our target price would be: 1) higher-than-expected corn and coal prices; 2) lower MSG ASP due to overcapacity in the market; 3) more stringent environmental controls and policies by the government; and 4) exercise of share options by senior management.

Table 1 : Fufeng valuation comparison

Company name	Bloomberg	13 Sep 10 Stock price	13 Sep 10 Mktcap (US\$m)	EPS growth (%)				PER (X)				2010-12F CAGR (%)	2010-12F PEG (X)	2010F P/B (X)	Dividend yield (%)			
				2009	2010F	2011F	2012F	2009	2010F	2011F	2012F				2009	2010F	2011F	2012F
Fufeng*	546 HK	5.29	1,131	230.6%	1.5%	11.3%	32.1%	8.2	8.2	7.4	5.6	21.2	0.4	2.7	4.8%	5.4%	6.0%	7.8%
Listed in Hong Kong market																		
Vedan	2317 HK	0.65	127	113.8%	n/a	n/a	n/a	7.1	n/a	n/a	n/a	n/a	n/a	n/a	7.0%	n/a	n/a	n/a
China Agri*	606 HK	10.20	5,303	-29.1%	35.3%	17.1%	15.9%	19.7	14.6	12.4	10.7	16.5	0.9	2.0	1.2%	1.7%	2.0%	2.4%
China Corn Oil	106 HK	5.13	348	30.3%	-25.0%	39.0%	6.8%	12.5	16.7	12.0	11.2	21.8	0.8	n/a	0.0%	n/a	n/a	n/a
Global Bio-chem	809 HK	1.28	535	-102.2%	n/m	4.5%	0.0%	-213.3	8.2	7.9	7.9	2.2	3.7	0.4	0.0%	0.7%	0.9%	1.4%
Xiwang Sugar	2088 HK	2.38	308	57.8%	99.7%	23.9%	19.9%	17.5	8.8	7.1	5.9	21.9	0.4	1.1	1.8%	3.7%	3.3%	5.9%
China Starch	3838 HK	0.84	625	30.3%	52.7%	7.1%	46.7%	30.5	20.0	18.7	12.7	n/a	n/a	n/a	0.7%	1.5%	1.5%	n/a
Average			7,246	16.8%	36.7%	21.1%	10.6%	-21.0	13.6	11.6	9.7	15.6	1.4	1.2	1.8%	1.9%	1.9%	3.2%
Listed in A shares markets																		
Lianhua	600186 CH	5.57	875	33.3%	n/a	n/a	n/a	348.1	n/a	n/a	n/a	n/a	n/a	n/a	0.0%	n/a	n/a	n/a
Star Lake Bios	600866 CH	13.21	1,018	673.6%	67.1%	31.9%	17.9%	30.7	18.3	13.9	11.8	24.7	0.7	5.2	0.0%	n/a	n/a	n/a
Angel Yeast	600298 CH	38.64	1,749	101.2%	36.3%	31.5%	30.2%	49.9	36.6	27.8	21.4	30.8	n/a	6.8	0.3%	n/a	n/a	n/a
Hengshun Vinegar	600305 CH	17.19	323	-162.0%	82.5%	33.1%	24.7%	71.6	39.2	29.5	23.6	28.8	1.4	4.4	0.4%	0.7%	n/a	n/a
Guitang Group	000833 CH	10.75	471	-54.0%	186.3%	22.4%	23.9%	106.1	37.1	30.3	24.4	n/a	n/a	n/a	0.9%	n/a	n/a	n/a
Nanning Sugar	000911 CH	19.39	822	377.8%	104.0%	-12.4%	-34.9%	45.1	22.1	25.2	38.8	n/a	n/a	3.1	1.5%	1.0%	n/a	n/a
Average			5,258	161.7%	95.2%	21.3%	12.4%	108.6	30.7	25.3	24.0	28.1	1.1	4.9	0.5%	0.8%	n/a	n/a
Global peers																		
Ajinomoto	2802 JP	825	6,902	-134.9%	n/m	27.2%	6.0%	-56.4	21.4	16.8	15.9	n/a	n/a	0.9	1.9%	2.0%	2.0%	2.0%
CJ Corp.	001040 KS	89400	2,233	-45.6%	5.3%	-14.9%	-6.1%	14.4	13.7	16.1	17.2	-10.6	-1.3	1.2	0.9%	1.3%	1.3%	1.3%
Wei Chuan Food	1201 TT	34.70	553	29.8%	41.7%	36.4%	n/a	25.7	18.1	13.3	n/a	n/a	n/a	2.7	0.0%	n/a	n/a	n/a
Average			9,689	-50.2%	23.5%	16.3%	-0.1%	-5.4	17.8	15.4	16.5	-10.6	-1.3	1.6	0.9%	1.6%	1.7%	1.7%

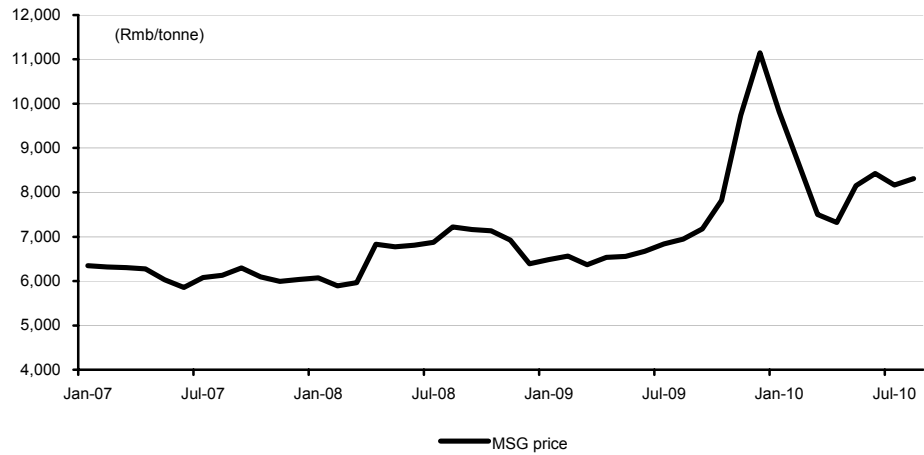
Source: Bloomberg consensus, *RBS forecasts

Chart 1 : Fufeng's prospective PE band



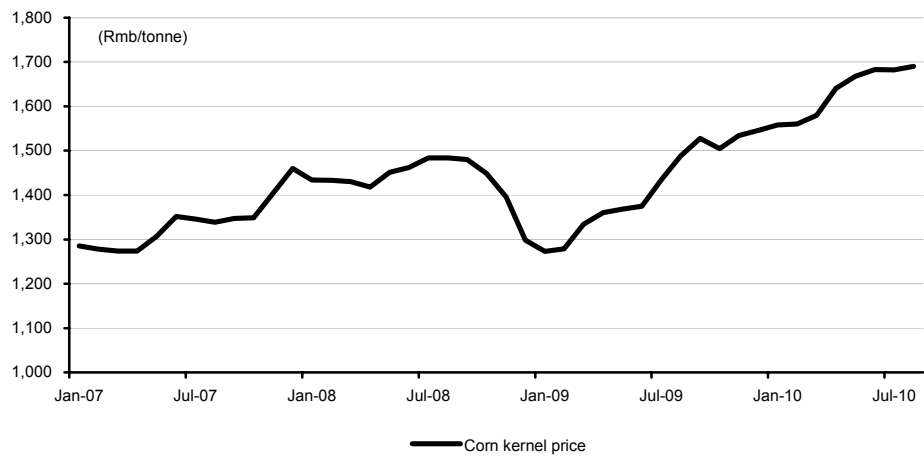
Source: Bloomberg, RBS forecasts

Chart 2 : China MSG market price



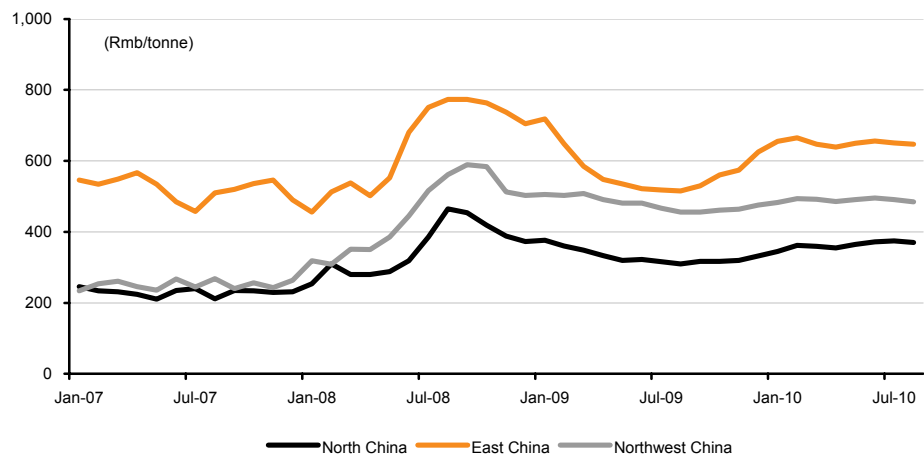
Source: China Fermentation Industry Association

Chart 3 : China corn market price



Source: China Corn Market Net

Chart 4 : China coal market prices



Source: SX Coal

Income statement

Rmbm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	3585	4633	6608	8286	10457
Cost of sales	-2941	-3233	-4961	-6413	-7964
Operating costs	-123.7	-159.0	-197.1	-172.6	-234.1
EBITDA	520.7	1241	1450	1701	2259
DDA & Impairment (ex gw)	-154.8	-193.3	-262.4	-337.8	-386.2
EBITA	365.9	1047	1187	1363	1873
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	365.9	1047	1187	1363	1873
Net interest	-40.5	-23.7	-43.3	-66.0	-67.2
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	325.4	1024	1144	1297	1806
Taxation	-30.7	-95.3	-114.4	-155.6	-307.0
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	294.7	928.3	1030	1141	1499
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	294.7	928.3	1030	1141	1499

Source: Company data, RBS forecasts

year to Dec

Balance sheet

Rmbm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	224.7	342.7	818.3	1141	1803
Other current assets	950.2	1265	1788	2211	2740
Tangible fixed assets	1955	2508	3449	3740	3932
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	132.8	145.3	152.1	158.8	165.2
Total assets	3262	4261	6207	7251	8641
Short term debt (2)	276.0	418.0	318.0	368.0	418.0
Trade & oth current liab	894.2	1154	1431	1696	1993
Long term debt (3)	312.0	180.0	260.0	260.0	260.0
Oth non-current liab	38.7	115.1	1140	1140	1140
Total liabilities	1521	1867	3149	3464	3811
Total equity (incl min)	1742	2394	3058	3787	4830
Total liab & sh equity	3262	4261	6207	7251	8641
Net debt	363.3	255.3	784.7	511.6	-100.1

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

Rmbm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	520.7	1241	1450	1701	2259
Change in working capital	-2.23	-590.7	-245.9	-159.0	-231.9
Net interest (pd) / rec	-42.7	-25.3	-47.3	-70.0	-72.2
Taxes paid	-18.2	-25.1	-114.4	-155.6	-307.0
Other oper cash items	-8.62	-13.5	0.00	0.00	0.00
Cash flow from ops (1)	448.9	586.2	1042	1316	1648
Capex (2)	-355.6	-217.8	-1200	-625.0	-575.0
Disposals/(acquisitions)	1.02	4.31	0.00	0.00	0.00
Other investing cash flow	-44.7	-9.30	-6.00	-6.00	-5.00
Cash flow from invest (3)	-399.3	-222.7	-1206	-631.0	-580.0
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-60.3	10.0	1005	50.0	50.0
Ordinary dividend paid	-13.5	-292.7	-365.7	-411.9	-456.5
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	20.1	37.2	0.00	0.00	0.00
Cash flow from fin (5)	-53.8	-245.5	639.4	-361.9	-406.5
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	-4.14	118.0	475.6	323.1	661.7
Equity FCF (1+2+4)	93.3	368.4	-157.8	691.0	1073

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, RBS forecasts

year to Dec

Standard ratios	Fufeng					China Agri-Industries			China Yurun Food Group		
Performance	FY08A	FY09A	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F
Sales growth (%)	46.6	29.2	42.6	25.4	26.2	17.0	28.0	25.1	40.4	35.2	20.3
EBITDA growth (%)	228.9	138.3	16.9	17.3	32.9	60.9	24.6	17.8	35.3	30.7	24.3
EBIT growth (%)	825.7	186.2	13.4	14.8	37.4	76.5	22.0	17.8	35.6	30.2	25.0
Normalised EPS growth (%)	12706	215.0	0.86	10.8	31.4	34.5	17.7	15.9	26.8	28.3	25.1
EBITDA margin (%)	14.5	26.8	21.9	20.5	21.6	8.96	8.72	8.21	10.8	10.5	10.8
EBIT margin (%)	10.2	22.6	18.0	16.4	17.9	7.49	7.14	6.72	9.80	9.44	9.80
Net profit margin (%)	8.22	20.0	15.6	13.8	14.3	5.36	4.93	4.57	8.39	8.13	8.46
Return on avg assets (%)	10.6	25.2	20.3	17.7	19.5	8.62	8.77	8.99	11.3	11.8	12.6
Return on avg equity (%)	18.5	44.9	37.8	33.3	34.8	15.2	14.9	15.3	15.7	15.8	16.9
ROIC (%)	14.8	37.3	33.6	26.6	32.7	12.6	11.6	11.6	19.3	19.5	20.4
ROIC - WACC (%)	2.55	25.0	21.3	14.3	20.4	4.29	3.23	3.22	8.49	8.69	9.55
	year to Dec					year to Dec			year to Dec		
Valuation	FY08A	FY09A	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F	FY10F	FY11F	FY12F
EV/sales (x)	2.23	1.71	1.28	0.98	0.72	1.01	0.83	0.70	2.18	1.62	1.31
EV/EBITDA (x)	15.4	6.37	5.81	4.80	3.34	11.2	9.55	8.51	20.2	15.4	12.1
EV/EBITDA @ tgt price (x)	20.4	8.48	7.62	6.34	4.50	12.4	10.5	9.28	21.9	16.8	13.2
EV/EBIT (x)	21.9	7.54	7.10	5.99	4.03	13.4	11.7	10.4	22.3	17.1	13.4
EV/invested capital (x)	3.81	2.98	2.19	1.90	1.60	1.50	1.36	1.25	3.61	3.06	2.69
Price/book value (x)	4.39	3.19	2.75	2.22	1.74	1.98	1.76	1.56	4.00	3.41	2.90
Equity FCF yield (%)	1.22	4.82	-1.88	8.22	12.8	-13.2	-3.83	-2.56	-0.18	1.29	3.75
Normalised PE (x)	25.9	8.24	8.17	7.37	5.61	14.7	12.5	10.7	29.9	23.3	18.6
Norm PE @tgt price (x)	34.8	11.1	11.0	9.89	7.53	16.6	14.1	12.1	32.5	25.3	20.2
Dividend yield (%)	0.22	4.78	5.39	5.97	7.84	1.70	2.00	2.32	1.44	1.64	1.95
	year to Dec					year to Dec			year to Dec		
Per share data	FY08A	FY09A	FY10F	FY11F	FY12F	Solvency					FY08A FY09A FY10F FY11F FY12F
Tot adj dil sh, ave (m)	1660	1660	1826	1826	1826	Net debt to equity (%)	20.9	10.7	25.7	13.5	-2.07
Reported EPS	0.18	0.56	0.56	0.63	0.82	Net debt to tot ass (%)	11.1	5.99	12.6	7.06	-1.16
Normalised EPS	0.18	0.56	0.56	0.63	0.82	Net debt to EBITDA	0.70	0.21	0.54	0.30	-0.04
Dividend per share	0.01	0.22	0.25	0.27	0.36	Current ratio (x)	1.00	1.02	1.49	1.62	1.88
Equity FCF per share	0.06	0.22	-0.09	0.38	0.59	Operating CF int cov (x)	12.0	25.2	25.4	22.0	28.1
Book value per sh	1.05	1.44	1.68	2.07	2.65	Dividend cover (x)	2.01	2.54	2.50	2.50	2.50
	year to Dec										year to Dec

Priced as follows: 0546.HK - HK\$5.29; 0606.HK - HK\$10.20; 1068.HK - HK\$28.25
Source: Company data, RBS forecasts

Valuation methodology

Economic Profit Valuation	HK\$ m	%	Discounted Cash Flow Valuation	HK\$ m	%
Adjusted Opening Invested Capital	4323.1	34	Value of Phase 1: Explicit (2010 to 2012)	1,674.1	13.3
NPV of Economic Profit During Explicit Period	1960.9	15	Value of Phase 2: Value Driver (2013 to 2020)	5,429.7	43.0
NPV of Econ Profit of Remaining Business (1, 2)	4140.4	33	Value of Phase 3: Fade (2021 to 2045)	5,098.2	40.4
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	2257.0	18	Terminal Value	413.0	3.3
Enterprise Value	12681.4	100	Enterprise Value	12,614.9	100.0
Plus: Other Assets	0.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		3.1
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		0.0
Less: Net Debt (as at 14 Sep 2010)	893.9	7			
Equity Value	11787.5	93			
No. Shares (millions)	1660.0				

Per Share Equity Value

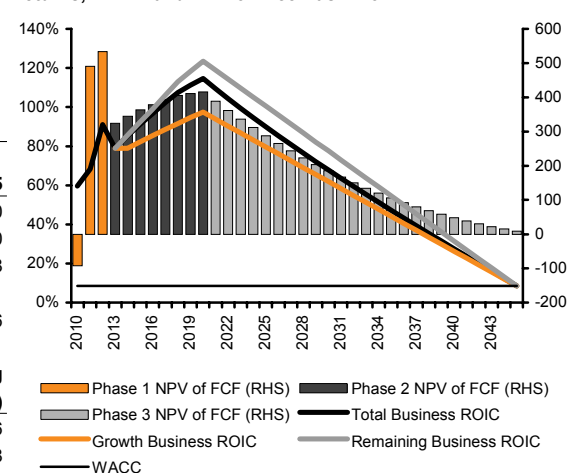
FX Rate	1.0
Per Share Equity Value (HK\$)	7.1
Current Share Price (HK\$)	5.29

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	8%	9.71	10.13	10.40	10.77	11.00
	9%	8.81	9.14	9.34	9.62	9.80
	10%	8.02	8.27	8.43	8.65	8.78
	11%	7.32	7.52	7.64	7.81	7.91
	12%	6.71	6.86	6.96	7.08	7.16

Performance Summary

	2010	2011	2012	Phase 2 Avg (2013 - 2020)
Invested Capital Growth (%)	44.2	12.0	12.0	6.6
Operating Margin (%)	18.0	16.4	16.4	13.8
Capital Turnover (x)	2.4	2.1	2.1	2.2

Returns, WACC and NPV of Free Cash Flow



Source: Company data, RBS forecasts

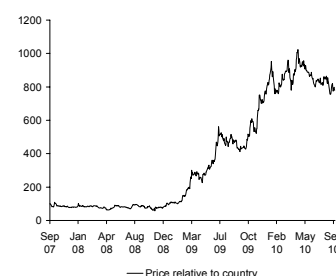
- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Company description

Buy

Price relative to country

Fufeng, founded in 1999, is one of the leading vertically integrated manufacturers of corn-based biochemical products. By utilising fermentation and corn-processing technologies, the company produces glutamic acid, xanthan gum, MSG, starch sweeteners and fertilisers. According to the China Fermentation Industry Association, Fufeng was the largest glutamic acid producer and second-largest MSG producer in the PRC in terms of production volume in 2009 and the largest xanthan gum producer in the world. Fufeng began to expand further into downstream MSG production in 2008. In 2009, MSG accounted for 48% of total revenue, significantly up from 16% in 2006, while glutamic acid's contribution in total revenue decreased from 59% in 2006 to 16% in 2009.



Strategic analysis

Average SWOT company score:

4

Revenue breakdown – FY09

Strengths

4

Fufeng's leading position in MSG and xanthan gum production will likely enhance its pricing power and will promote brand recognition. The company's vertically integrated business model helps to reduce production costs and increases productivity.

Weaknesses

3

Fufeng may be vulnerable to a surge in corn and coal prices, as it purchases corn kernel and coal locally in the spot market. It may be unable to fully pass on increasing costs to customers.

Opportunities

4

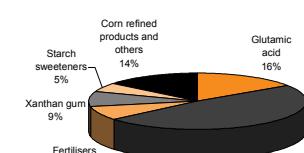
Demand for MSG should continue to grow, as China's expanding catering and food processing market benefits from strong growth in domestic consumption, rising disposable incomes and continuous urbanisation.

Threats

3

Capacity expansions by competitors and new entrants may take some of Fufeng's market share, resulting in a price war or loss of pricing power for Fufeng.

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

Suite 2207-9, Tower 2 Lippo Centre, 89 Queensway, Hong Kong.

Website

www.furugroup.com

Shares in issue

1660.0m

Free float

40%

Majority shareholders

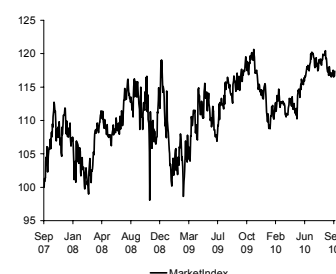
Li Xuechun, Chairman (47%)

Country view: China

Country rel to Asia Pacific

Recent PMI and auto sales data show China's economy is heading for a slowdown, driven both by external and domestic demand moderations. We fear this will accelerate as price cuts in the property sector become prevalent. The market remains over-valued, in our view, and earnings downgrades will likely follow the Street's gradual lowering of GDP growth forecasts.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score:

4+

Broker recommendations

Supplier power

4+

Fufeng has a vertically integrated business model. Its MSG production is secured by the in-house supply of glutamic acid.

Barriers to entry

4+

Entry barriers for glutamic production are relatively high, due to capital requirements and strict environmental controls by the local government.

Customer power

4+

Fufeng's leading market position should strengthen its pricing power and brand recognition.

Substitute products

3+

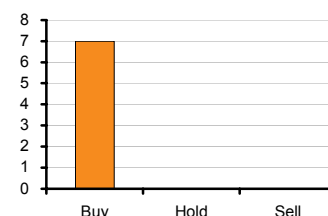
There are few perfect substitutes, and products that use other agricultural raw materials face similar supply issues (ie, scarcity, price increases).

Rivalry

4+

The market is relatively concentrated, with top three players - Meihua, Fufeng and Lianhua - having 35.6% of the MSG market and 51.2% of the glutamic acid market in China.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 14 Sep 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	683 (0)	404 (0)
Add	0 (0)	0 (0)
Hold	417 (0)	228 (0)
Reduce	0 (0)	0 (0)
Sell	98 (0)	60 (0)
Total (IB%)	1198 (0)	692 (0)

Source: RBS

Trading recommendations (as at 14 Sep 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Rec	00 (00)	00 (00)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (0)	1 (0)

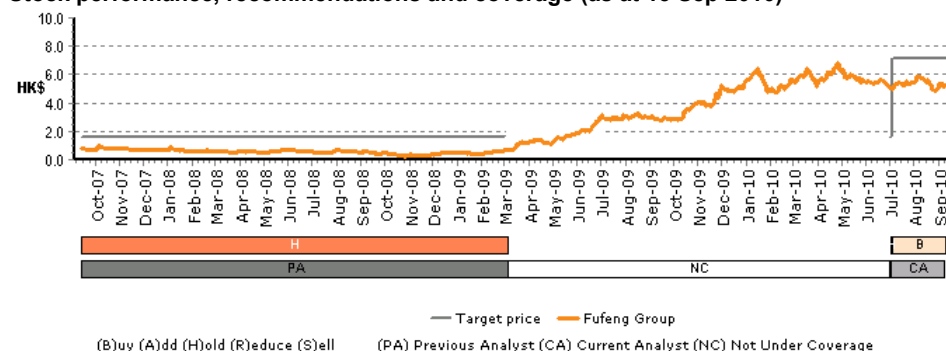
Source: RBS

Valuation and risks to target price

Fufeng Group (RIC: 0546.HK, Rec: Buy, CP: HK\$5.29, TP: HK\$7.10): Key risks to our DCF-based target are: 1) a sudden increase in corn and coal prices, which may add pressure on gross margin; 2) more stringent environmental controls by the Chinese government, resulting in suspension of production or significant costs; 3) capacity expansion by competitors, who may take market share, leading to a price war or some loss of Fufeng's pricing power; 4) EPS dilution from a share placement in the event of a big acquisition; and 5) exercise of share options by senior management.

Fufeng Group coverage data

Stock performance, recommendations and coverage (as at 13 Sep 2010)



Lei Yang, CFA started covering this stock on 2 Jul 10

Source: RBS

Trading recommendation history (as at 14 Sep 2010)

Date	Rec	Analyst
	n/a	

Source: RBS

Regulatory disclosures

RBS was a lead manager of a public offering of securities for this company in the previous 12 months.: **0546.HK**

RBS beneficially own 1% or more of a class of common equity securities of this company.: **0546.HK**

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