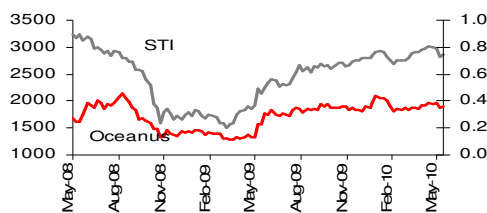


21 May 2010

Maintain

**HOLD**

Previous Rating: HOLD

**Current Price: S\$0.335**  
**Fair Value: S\$0.365**


Reuters Code	OCGL.SI
ISIN Code	579
Bloomberg Code	OCNUS SP
Issued Capital (m)	1,979
Mkt Cap (S\$/US\$m)	663 / 471
Major Shareholders	
Bestglobal Enterprises Corp	16.31%
Free Float (%)	55.3%
Daily Vol 3-mth ('000)	11,063
52 Wk Range	0.265 -0.470

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	319.0	362.2	380.4	830.1
EBIT	369.6	442.0	447.8	413.6
P/NAV (x)	3.2	2.1	2.0	1.7
EPS (cts)	11.9	19.3	13.6	14.9
PER (x)	13.6	8.4	11.9	10.9

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## Oceanus Group Ltd

### Reassessing the Ah Yat Tian Xia blueprint

**High operating costs mar sales growth.** Oceanus Group (Oceanus) hosted its 1Q10 results briefing yesterday. The group reported a 63.8% YoY growth in sales to RMB106.5m, driven by its restaurant expansion which now boasts 20 outlets as compared to just one in 1Q09. Gains from fair value changes, which are reported as the group's key top line contributor, increased marginally by 2.5% YoY to RMB177.3m. Net profit, however, fell 9.7% YoY to RMB97.4m due to high operating expenses associated with its ongoing expansion as well as high finance costs. Excluding a one-off RMB2.4m exchange gain and non-cash interest charge of RMB9.8m, we estimate that core net profit would have fallen by a smaller 2.8% YoY to RMB104.9m. Finance costs surged to RMB16.0m from none a year ago, partly due to the RMB9.8m non-cash charge on fair value losses from its warrant conversion. Oceanus has 300m warrants outstanding and we have raised our finance cost assumptions to allow for more of such losses in FY10.

**Restaurants performing below expectations.** Although its restaurant expansion helped to boost F&B sales to RMB18.0m from just RMB1.0m a year ago, this segment incurred a RMB9.6m net loss in 1Q10 due to high rental and operating costs. Management concedes that it could have miscalculated its costing in its haste to expand the Ah Yat Tian Xia network. It will spend FY10 addressing these losses and is putting on hold its previous plan of opening 50 new restaurants in 2010 and a further 100 in 2011. On the contrary, it expects a net reduction of restaurants in 2010 as the group closes its unprofitable units. In addition to the planned closures, management will revamp the restaurants' menu and alter Ah Yat Tian Xia's positioning to cater to higher-end consumers in an attempt to raise its profit margins.

**Resumption of tank expansion plan to support growth from FY11 onwards.** Oceanus is restarting its tank expansion plan in FY10 following its stalled efforts in FY09. The group will build 10,000 additional tanks this year, bringing total capacity to 35,000 tanks by the end of the year. We expect the expansion to support Oceanus' growing abalone population, which should in turn boost sales and biological asset valuations from FY11 onwards. We have lowered our forecasts following management's muted outlook, and rollover our valuations to blended FY10/11F NAV. Our fair value estimate remains at S\$0.365. Maintain **HOLD**.

**Oceanus' Key Financial Data**

<b>Oceanus Results</b> Year Ended 31 Dec (RMB m)	<b>1Q09</b> (RMB m)	<b>1Q10</b> (RMB m)	<b>% Chg</b> (YoY)	<b>4Q09</b> (RMB m)	<b>% Chg</b> (QoQ)
Sales of aquaculture products	65.0	106.5	63.8%	125.0	-14.8%
Fair value changes less costs	173.1	177.3	2.5%	170.4	4.0%
Sales of canned products, food & beverage	2.7	20.8	677.4%	31.6	-34.3%
Other operating income	0.0	2.4	N.M.	0.8	200.5%
	175.7	200.5	14.1%	202.8	-1.2%
Operating expenses	-54.6	-87.9	61.0%	-103.8	-15.3%
EBIT	121.1	112.6	-7.1%	99.0	13.7%
Finance costs	0.0	-16.0	N.M.	-21.4	-25.1%
Profit before tax and one-off expenses	121.1	96.5	-20.3%	77.6	24.4%
RTO expenses, goodwill on RTO written off	0.0	0.0	N.M.	0.0	N.M.
Profit before tax	121.1	96.5	-20.3%	77.6	24.4%
Income tax expense	-13.5	0.9	N.M.	-18.5	N.M.
Profit from continuing operations	107.6	97.4	-9.5%	59.1	64.8%
Profit from discontinued operations	0.0	0.0	N.M.	0.0	N.M.
Profit for the year	107.6	97.4	-9.5%	59.1	64.8%
Minority interests	-0.3	0.0	N.M.	-4.7	N.M.
Profit attributable to shareholders	107.9	97.4	-9.7%	63.8	52.7%

## Oceanus' Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F
Sales of aquaculture products	319.0	362.2	380.4	830.1	Cash and cash equivalents	40.7	561.1	456.8	340.2
Fair value changes less costs	518.2	651.4	760.2	1,028.1	Biological assets	445.0	831.0	1,210.8	1,408.8
Sales of canned products, F&B	-	66.2	72.9	78.5	Property, plant, and equipment	448.2	690.8	859.2	1,010.8
Other operating income	4.7	1.6	2.4	0.0	Total assets	949.4	2,140.0	2,581.7	2,874.9
Total operating income	523.0	719.3	835.4	1,106.6	Debt	0.0	0.0	0.0	0.0
Operating expenses	-153.4	-277.2	-387.7	-693.0	Current liabilities excluding debt	21.0	264.6	239.7	244.2
EBIT	369.6	442.0	447.8	413.6	Total liabilities	68.1	604.2	579.3	583.8
Profit before tax	219.3	412.3	380.5	413.6	Shareholders equity	879.4	1,535.8	2,004.3	2,297.1
Profit for the year	193.1	339.3	333.0	361.9	Total equity	881.3	1,535.8	2,002.4	2,291.1
Profit attributable to shareholders	193.5	343.2	334.9	366.1	Total equity and liabilities	949.4	2,140.0	2,581.7	2,874.9

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chang	137.7	-162.1	149.6	314.0	EPS (RMB cents)	11.9	19.3	13.6	14.9
Working cap, taxes and int	0.8	234.0	-137.5	-107.4	NAV per share (RMB cents)	49.8	78.6	81.6	93.6
Net cash from operations	138.5	71.9	12.1	206.6	EBIT margin (%)	70.7	61.5	53.6	37.4
Purchase of PP&E	-422.0	-285.8	-250.0	-250.0	Net profit margin (%)	37.0	47.7	40.1	33.1
Other investing flows	37.1	-2.3	0.0	0.0	PER (x)	13.6	8.4	11.9	10.9
Investing cash flow	-384.9	-288.1	-250.0	-250.0	Price/NAV (x)	3.2	2.1	2.0	1.7
Financing cash flow	284.2	736.7	133.6	-73.2	EV/EBITDA (x)	8.1	5.3	5.1	5.5
Net cash flow	37.8	520.4	-104.3	-116.6	Dividend yield (%)	0.0	0.0	1.7	1.8
Cash at beginning of year	2.9	40.7	561.1	456.8	ROE (%)	22.0	22.3	16.7	15.9
Cash at end of year	40.7	561.1	456.8	340.2	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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For OCBC Investment Research Pte Ltd



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