

MITA No. 018/06/2007

13 August 2007

Pine Agritech Ltd

Downgrade to

HOLD

Previous Rating: BUY

S\$0.415

Fair Value: S\$0.44

Stock Code:

PINE.SI

Reuters:

PAG.SP

Bloomberg:

Event:

Results

General Data

Issued Capital (m)	3000
Mkt Cap (S\$m/US\$m)	1,245/ 819
Major Shareholder	People's Food Holdings (36.75%)
Free Float (%)	34.0
NTA per share (RMB)	0.504
Daily Vol 3-mth ('000)	4,508
52Wk High (\$)	0.750
52Wk Low (\$)	0.395

SOS rescues but macro environment will stall growth

Mixed performance. Pine Agritech Limited (PAG) reported a good set of 1H07 results with revenue growing 35.4% YoY to RMB799m and net profit surging 61.4% YoY to RMB290.3m. PAG's SOS product saves the day as it continued its stellar gross profit growth of 101% YoY to RMB130m. However, the SPI product segment presented a dismal performance with gross profit diving 32.5% YoY to RMB52.1m.

Raw material concerns. In 2Q07, the supply of pork was disrupted in China and these shortages caused many meat producers to temporarily suspend production. PAG's main shareholder and SPI buyer, People's Food Holdings, was similarly affected, resulting in reduced SPI purchases from PAG. Although PAG's production efficiency continues to be top notch, other uncontrollable macro environment factors like rising soybean costs and eroding ASPs are expected to negatively impact soy-based manufacturers like PAG in the next 6 months.

Currently in limbo. We now see PAG being in a similar phase as with its peptide product in 2005, where its current star SOS product was being tested in the market. During that year, PAG was profitable but top and bottomline only grew marginally. With the new peptide product still undergoing trial runs and verification by a reputed Chinese university for its health benefits, we forecast that 2H07 will now be slower than 1H06 and this means that FY07 is likely to turn in a flat performance.

No good news ahead. We anticipate that the next positive point of inflexion for earnings will only come in from mid FY08 onwards as PAG's TV advertising, retail supermarket sales and peptide product gains traction in the market. As such, we amend our FY07 and FY08 net profit to RMB551m (prev: RMB578m) and RMB553m (prev: RMB605m), respectively. This also accounts for the non-cash CB that will start impacting the financials from 2H07 onwards.

Downgrade to HOLD. In the current volatile environment, risk premiums for China-based companies have hiked up. With our new forecasted flat performance for FY08, we reduce our valuation target to its current trading valuation of 12x FY07/08 EPS (prev: 19x FY07 PER). Fair value is now S\$0.44 (prev: S\$0.76). Downgrade to **HOLD**.

Kelly Chia

(65) 6531 9817

e-mail: kelly@ocbc-research.com

Year to 31 Dec	Turnover (RMB m)	Gross Profit (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 05	797.0	270.8	234.6	7.8	28.6	26.8	1.9
FY 06	1,577.7	699.4	538.0	17.9	129.3	11.7	2.6
FY 07F	1,621.9	776.4	551.9	18.4	2.6	11.4	2.6
FY 08F	1,908.2	885.7	553.6	18.5	0.3	11.4	2.6

Please refer to the important disclosures at the back of this document.

Table 1: Peer comparison table

	Px	Mkt Cap	Gross Margin	Ebit Margin	Pe Ratio	Est FY08 P/E	P/B	P/S	Div Yield	Prof Margin
	(\$)	(\$m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
Calpis Co	17.51	1,379	47.1	4.1	42.2	NA	1.8	1.0	1.0	2.6
Fuji Oil	10.99	963	20.8	5.1	56.3	24.4	0.9	0.7	1.5	1.2
American Oriental Bioengineering	14.19	1,038	65.2	33.0	17.4	NA	3.4	4.7	0.0	26.5
Olam International	2.89	4,495	22.7	4.8	51.5	31.4	9.2	1.0	1.0	2.0
Celestial Nutrifoods	1.32	840	44.3	32.9	10.8	NA	3.0	3.4	1.3	32.0
People's Foods Holdings	1.54	1,741	13.2	10.4	9.5	NA	2.0	1.0	NA	9.8
Petra Foods	1.45	772	19.9	8.0	17.3	12.7	3.0	1.0	1.7	5.6
Super Coffee	0.84	456	35.9	11.4	16.9	NA	2.2	2.0	2.2	11.7
China Dairy	0.44	191	28.6	7.7	14.4	10.4	2.0	1.0	1.2	6.7
Food Empire	0.88	384	NA	13.4	13.2	NA	2.7	1.5	3.2	11.5
Singapore Food Industries	0.85	436	26.3	7.4	14.6	11.4	2.9	0.7	NA	4.7
China Essence	0.99	382	48.3	38.5	12.9	NA	3.1	3.6	1.0	28.2
United Food Holdings	0.18	195	10.2	5.7	12.4	NA	0.4	0.3	NA	4.7
Pine Agritech	0.415	1,245	44.3	40.6	11.5	NA	4.5	3.9	4.0	34.1
Average (ALL)		1037	32.8	15.9	21.5	18.1	2.9	1.8	1.6	12.9
Average (ALL) ex PAG		1021	31.9	14.0	22.3	18.1	2.8	1.7	1.4	11.3
Average SP listed ex PAG		989	27.7	14.0	17.4	16.5	3.1	1.5	1.7	11.7
Average China related peers		708	29.0	20.2	11.8	NA	2.3	2.0	1.8	17.2

Source: Bloomberg

Table 2: Comparative info table

	FY06	FY07	FY08
Previous revenue	1,578	1,855	2,111
Revised revenue	1,578	1,622	1,908
Previous net profit (with non-cash CB impact)	538	579	605
Revised net profit (with non-cash CB impact)	538	552	554
Previous net profit (core earnings)	538	611	670
Revised net profit (core earnings)	538	590	592
		18%	14%
		3%	18%
		8%	5%
		3%	0%
		14%	10%
		10%	0%

Source: OIR estimates

Pine Agritech's Key Financial Data

Pine Agritech Results Year Ended 31 Dec (RMB m)	2Q06 (RMB m)	2Q07 (RMB m)	% Chg (YoY)	1Q07 (RMB m)	% Chg (QoQ)
Total Revenue (RMBm)	366.3	393.3	7.4%	405.4	-3.0%
SPI Revenues	221.2	153.4	-30.7%	154.9	-1.0%
SOS Revenues	102.2	193.4	89.3%	196.5	-1.6%
Soybean Oil Revenues	27.1	37.3	37.6%	43.8	-14.8%
By products Revenues	15.4	9.2	-40.2%	10.2	-9.8%
Gross Profit by product					
SPI	77.3	52.1	-32.6%	52.2	-0.2%
SOS	64.5	130.0	101.6%	135.0	-3.7%
Soybean Oil	1.1	5.2	372.7%	4.6	13.0%
By products	2.1	1.7	-20.6%	1.7	0.0%
Cost of Sales	-221.2	-204.3	-7.6%	-211.9	-3.6%
Total Gross Profit	145.0	189.0	30.3%	193.5	-2.3%
Other revenues	2.0	2.7	35.0%	2.2	21.7%
Selling and Distribution costs	-9.9	-15.4	55.2%	-15.6	-1.3%
Administrative Expenses	-3.4	-3.7	9.4%	-4.2	-11.9%
Other Operating Expenses	-0.6	-1.6	176.2%	-1.2	28.1%
Profit from operations	133.1	171.0	28.4%	174.7	-2.1%
Finance Costs	-1.5	0.0	-100.0%	0.0	NM
Profit Before Income Tax	131.7	171.0	29.8%	174.7	-2.1%
Income Tax	-19.9	-27.2	36.8%	-28.2	-3.6%
Profit After Tax	111.8	143.8	28.6%	146.5	-1.8%
Minority Interests	0.0	0.0	NM	0.0	NM
Net Profit After Tax	111.8	143.8	28.6%	146.5	-1.8%

EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY05	FY06	FY07F	FY08F
Revenue	797.0	1,577.7	1,621.9	1,908.2
Gross profit	270.8	699.4	776.4	885.7
Operating expenses	-32.7	-57.4	-77.2	-141.2
Operating profit	238.1	642.0	699.2	744.5
Net interest	-3.5	-5.3	-42.1	-85.5
Pre-tax profit	234.6	636.7	657.1	659.0
Tax	0.0	-98.6	-105.2	-105.4
Minority interests	0.0	0.0	0.0	0.0
Net profit	234.6	538.0	551.9	553.6
Dividend	117.0	162.0	165.6	166.1
Earnings per share (RMB cents)	7.8	17.9	18.4	18.5
Fully diluted earnings per share (RMB cents)	7.8	17.9	18.4	18.5
EPS growth	28.6%	129.3%	2.6%	0.3%

BALANCE SHEET

As at 31 Dec (RMB m)	FY05	FY06	FY07F	FY08F
Cash	451.6	334.6	2,781.6	3,134.9
Other current assets	192.4	471.7	405.5	477.1
Fixed assets	482.2	726.1	699.8	666.3
Other long term assets	44.8	86.0	61.7	61.7
Total assets	1,171.1	1,618.4	3,948.6	4,339.9
Current liabilities less debt	62.4	247.3	146.0	171.7
Debt	100.0	0.0	2,042.0	2,020.0
Other long term liabilities	9.2	4.6	4.1	3.7
Total liabilities	171.6	251.9	2,192.1	2,195.5
Shareholders equity	999.5	1,366.5	1,756.4	2,144.4
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	1,171.1	1,618.4	3,948.6	4,339.9
NTA per share (RMB cents)	33.3	45.6	58.5	71.5

CASH FLOW

Year Ended 31 Dec (RMB m)	FY05	FY06	FY07F	FY08F
Operating profit before working cap. changes	257.5	675.8	757.1	799.6
Working capital changes	1.8	-135.7	1.7	-45.8
Interest and tax	-3.5	-67.2	-147.3	-191.0
Net cash from operations	255.8	472.9	611.4	562.9
Capex	-238.1	-270.2	-30.0	-20.0
Other investing flows	-7.1	-48.7	0.0	0.0
Investing cash flow	-245.2	-318.9	-30.0	-20.0
Change in equity	403.2	0.0	2,000.0	0.0
Net change in debt	0.0	-100.0	27.6	-24.0
Dividends paid	0.0	-171.0	-162.0	-165.6
Financing cash flow	403.2	-271.0	1,865.6	-189.6
Net cash flow	413.8	-117.0	2,447.0	353.3
Cash at beginning of year	37.8	451.6	334.6	2,781.6
Add bank overdraft	0.0	0.0	0.0	0.0
Cash at end of year	451.6	334.6	2,781.6	3,134.9

Key Ratios

PER (x)	26.8	11.7	11.4	11.4
Price/NTA (x)	6.3	4.6	3.6	2.9
Gross profit margin (%)	34.0	44.3	47.9	46.4
Net profit margin (%)	29.4	34.1	34.0	29.0
Dividend yield (%)	1.9	2.6	2.6	2.6
ROA (%)	20.0	33.2	14.0	12.8
ROE (%)	23.5	39.4	31.4	25.8
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE growth (x)	0.9	0.1	4.4	37.3

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented. However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective related and affiliated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research