

China Agri-Industries Holdings

At the halfway point of an asset swap

Results Preview

FY17 earnings guided at about HK\$3bn

In early January, the company issued a positive earnings alert, estimating that FY17 accounting profit would be around HK\$3bn, or HK\$2.1bn net of a HK\$900mn one-off gain from a corn asset disposal conducted in 4Q17. This exceeded our expectation and – since one of its two major earnings contributors, the corn processing business, is likely to be muted in 2H17 due to lower government subsidies – we attribute this positive surprise to the better-than-expected performance of its oil seeds business. We also expect the final dividend will comprise of 20% of recurring earnings (HK\$2.1bn) and a special dividend from the proceeds of its corn asset disposal. If we assume an average of guided special dividend range of HK\$1bn–1.6bn, FY17's total dividend yield based on its current share price will be about 10%.

Trends to watch

1) Expect crushing/refining spread of about HK\$270/t to drive up oil seeds GP margin to >5% in 2H17 and sector GP margin could be further lifted by combining CP oil business if the soft commodity price move remains positive in FY18. **2)** Waiting to see the other side of the coin in an asset SWOP. And, **3)** rice, wheat and barley businesses all have steady growth outlooks.

Valuation and recommendation

We revise up our FY17 earnings forecast based on the company's announcement (+67.6% to HK\$0.59), but trim that of FY18e by 12.1% to HK\$0.28 as the oil seeds consolidation has not been done yet to offset the disposal of its corn business' earnings. Thus, we tentatively cut our end-2018 target price by 24.1% to HK\$3.84 (from HK\$5.06) as we wait for more information about the consolidation of its oil seeds business before we can reflect the full picture of this asset swap and reach our new target price. Our TP is based on 0.7x the company's 2018e BPS, which is derived from global peers' internal rate of return defined as their ROE divided by P/B on average. Since our TP still indicates 16% upside from the current share price level and it's highly likely that the asset SWOP can be completed within this year to enhance earnings outlook, we maintain our BUY recommendation for the company.

Risks

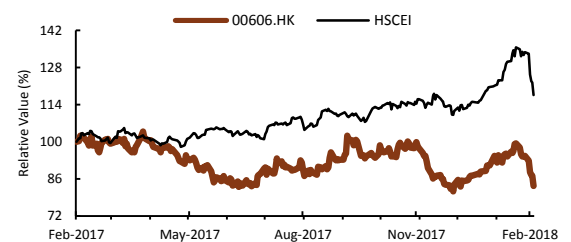
Unfavorable soft commodity prices; restructuring falls even further below our expectation.

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Maintain BUY

Ticker	00606.HK
CICC investment rating	BUY
Last close	HK\$3.21
CICC target	HK\$3.84
52wk price range	HK\$4.08~3.07
Market cap (bn)	HK\$17
Daily value (mn)	HK\$38.33
Shares outstanding (mn)	5,250
Free float (%)	100
Daily volume (mn sh)	10.63
Business sector	Agriculture



(HK\$ mn)	2016A	2017E	2018E	2019E
Revenue	89,163	99,853	96,783	101,501
(+/-)	8.0%	12.0%	-3.1%	4.9%
Net profit	1,419	3,093	1,444	1,472
(+/-)	N.M.	118.0%	-53.3%	1.9%
EPS	0.27	0.59	0.28	0.28
BPS	5.00	5.54	5.48	5.70
DPS	0.05	0.33	0.06	0.06
CPS	0.30	0.13	0.52	0.13
P/E	11.9	5.4	11.7	11.5
P/B	0.6	0.6	0.6	0.6
EV/EBITDA	9.8	6.4	9.1	9.0
Dividend yield	1.7%	10.3%	1.7%	1.7%
ROAA	2.0%	4.0%	1.7%	1.8%
ROAE	5.4%	11.2%	5.0%	5.0%

Source: Wind, Bloomberg, company data, CICC Research



Financial summary

Financial statement (HKD mn)	2016A	2017E	2018E	2019E	Financial ratios	2016A	2017E	2018E	2019E
Income statement					Growth ability				
Revenue	89,163	99,853	96,783	101,501	Revenue	8.0%	12.0%	-3.1%	4.9%
COGS	-82,919	-92,058	-89,808	-94,226	Operating profit	370.2%	89.6%	-43.7%	1.5%
Selling expenses	3,107	3,200	3,367	3,510	EBITDA	77.4%	54.1%	-30.9%	2.5%
Administrative expenses	2,115	2,288	2,327	2,424	Net profit	N.M.	118.0%	-53.3%	1.9%
Other ops income (expense)	341	599	581	609	Profitability				
Operating profit	2,210	4,191	2,359	2,394	Gross margin	7.0%	7.8%	7.2%	7.2%
Finance costs	721	684	772	772	Operating margin	2.5%	4.2%	2.4%	2.4%
Other income (expense)	0	0	0	0	EBITDA margin	4.2%	5.8%	4.1%	4.0%
Profit before income tax	1,785	3,727	1,827	1,862	Net margin	1.6%	3.1%	1.5%	1.4%
Income tax	253	401	274	279	Liquidity				
Minority interest	113	233	109	111	Current ratio	1.11	1.17	1.16	1.19
Net profit	1,419	3,093	1,444	1,472	Quick ratio	0.65	0.74	0.74	0.75
EBITDA	3,732	5,752	3,977	4,076	Cash ratio	0.20	0.31	0.32	0.32
Recurrent net income	1,419	3,093	1,444	1,472	Liabilities / assets	58.0%	59.8%	59.9%	59.2%
Balance sheet					Net debt / equity	51.2%	46.8%	45.5%	44.1%
Cash and bank balances	7,659	14,379	14,918	14,817	Return				
Trade and bill receivables	2,903	3,251	3,151	3,304	RoA	2.0%	4.0%	1.7%	1.8%
Inventories	17,887	19,858	19,373	20,326	RoE	5.4%	11.2%	5.0%	5.0%
Other current assets	15,101	16,874	16,365	17,145	Per-share data				
Total current assets	43,550	54,362	53,806	55,593	EPS (HKD)	0.27	0.59	0.28	0.28
Fixed assets and CIP	24,335	24,372	24,357	24,277	BPS (HKD)	5.00	5.54	5.48	5.70
Intangible assets and others	4,242	4,340	4,456	4,572	DPS (HKD)	0.05	0.33	0.06	0.06
Total non-current assets	28,576	28,712	28,812	28,849	Cash flow per share (HKD)	0.30	0.13	0.52	0.13
Total assets	72,126	83,074	82,618	84,442	Valuation				
Short-term borrowings	21,594	27,935	27,935	27,935	P/E	11.9	5.4	11.7	11.5
Trade and bill payables	3,308	3,672	3,582	3,759	P/B	0.6	0.6	0.6	0.6
Other current liabilities	14,291	15,022	14,842	15,195	EV/EBITDA	9.8	6.4	9.1	9.0
Total current liabilities	39,192	46,629	46,359	46,889	Dividend yield	1.7%	10.3%	1.7%	1.7%
Long-term borrowings	1,596	2,065	2,065	2,065					
Total non-current liabilities	2,621	3,090	3,090	3,090					
Total liabilities	41,814	49,719	49,449	49,979					
Share capital	525	525	525	525					
Retained profit	25,724	28,534	28,240	29,423					
Equity	26,249	29,059	28,765	29,948					
Total liabilities & equity	72,126	83,074	82,618	84,442					
Cash flow statement									
Pretax profit	1,785	3,727	1,827	1,862					
Depreciation & amortization	-1,515	-1,502	-1,561	-1,626					
Change in working capital	-2,296	-2,996	824	-1,359					
Others	3,611	1,441	1,663	1,787					
Cash flow from operations	1,585	670	2,754	664					
Capital expenditure	-1,424	-1,500	-1,500	-1,500					
Others	150	1,022	1,024	1,024					
Cash flow from investing	-1,275	-478	-476	-476					
Equity financing	-2	0	0	0					
Bank borrowings	64,800	6,810	0	0					
Others	-62,715	-281	-1,739	-289					
Cash flow from financing	2,083	6,529	-1,739	-289					
Foreign exchange gain (loss)	-246	0	0	0					
Net changes in cash	2,147	6,720	539	-101					

Source: Company data, CICC Research

Company description

China Agri-Industries Holdings Ltd. is a leading agricultural products and food processing company, registered in Hong Kong. Its major businesses include oilseed processing and selling, biochemical and biofuel, rice, wheat and brewing materials; most of its products are sold through an extensive domestic sales network in China. China Agri is aspired to become a leading processor of agricultural products, biochemicals and biofuels, and a comprehensive supplier of raw materials for the fast-growing food industry. The company's largest shareholder is COFCO.



Expect crushing/refining spread of about HK\$270/t to drive up oil seeds GP margin to >5% in 2H17 and sector GP margin could be further lifted by combining CP oil business if the soft commodity price move remains positive in FY18.

We expect oil seeds' GP margin may reach >5% in 2H17 vs. 4.5% in 1H due to a more favorable spread from resilient soybean meal and soybean oil prices against the soybean price drop in 2H17. The fall in the soybean price approaching the year-end may also suggest a likely hedging gain booked in 2H17 oil seeds' gross profit. 2H17 GP margin could be also helped by combining CP oil business in the last quarter, which will usually generate >10% GP margin vs. only 4–5% from soybean meal and bulk oil. **We thus expect full year EBIT of about HK\$1.68bn from oil seeds, representing about 40% of our estimated total operating profit, or >50% net of one-off corn asset disposal gain.**

Soybean price may edge up slightly in FY18 while soybean meal prices could have more upside than soybean oil prices, based on our soft commodity team's forecasts. However, if the soybean price move follows a slight inflationary pattern, we may expect some year-end hedging loss to offset the upside from the spread. Currently, we assume a flat meal and bulk oil spread in FY18, while the overall oilseeds GP margin can be inflated by combining CP oil business with higher GP margin than meal and bulk oil. As a result, FY18 sector profit may rally by about 20% again following a peak year in FY17.

Waiting to see other side of the coin in an asset swap

The company sold its corn business at 20x 2016e EPS or 1.3x 2016e BPS for cash proceeds of about HK\$8.5bn, of which company guided a special dividend range of HK\$1bn–1.6bn. We believe that this is part of the asset swap as the company restructures its business to become more focused on oil seeds, rice and wheat processing. Under this framework, the company may consider consolidating with Nobel and China Textile Group on their oil seeds business this year. Currently, Nobel has six plants with a total processing capacity of 4mn tonnes and China Textile Group has 13 plants with a total capacity of 6mn tonnes. We expect that the consolidation may be completed this year but the company may adopt a selective approach and pick only high performing plants. We are thus waiting for more details before we can reflect a full picture of this asset swap (to sell corn and buy oil seeds) in our financial model.

As we mentioned before, **after the completion of this asset swap and phase one of the company's business restructuring program, we will see if COFCO consolidates all of its agriculture-related businesses into one listco, and whether the company would be selected as listing vehicle in Hong Kong to fulfill this job.**

Rice, wheat and barley businesses all have steady growth outlook

Compared with corn and oil seeds, the remaining three business units have less volatile margin outlooks. Surging rice export volume pushed up sector profit in FY17 but could be a one-off as we expect export volume to fall from about 900kt in FY17 to about 600kt in FY18. Both wheat and barley processing business are expected to deliver steady growth YoY in FY17–18. In FY17 we expect rice, wheat and barley to contribute 24% of total EBIT, or 31% net of the one-off asset disposal gain. **In FY18, we expect the three business units to jointly contribute >50% of total EBIT since the corn business has been sold while our forecasts do not yet reflect the consolidation of its oil seeds business.**



Figure 1: Historical financials

(HK\$ mn)	YoY						Annual								Historical data			
	2017E			2016			Annual				Semi-annual							
	2H17E	2H16	YoY	2017E	2016	YoY	FY16	FY17E	FY18E	1H15	2H15	1H16	2H16	1H17	2H17E			
Sales revenue	55,422	48,398	14.5%	99,853	89,163	12.0%	89,163	99,853	96,783	39,208	43,340	40,764	48,398	44,431	55,422			
Oilseeds processing	33,270	28,554	16.5%	57,883	50,434	14.8%	50,434	57,883	66,466	19,064	21,989	21,880	28,554	24,613	33,270			
Rice trading and processing	5,353	4,672	14.6%	11,637	9,196	26.5%	9,196	11,637	10,211	4,545	5,441	4,524	4,672	6,283	5,353			
Wheat processing	5,211	4,898	6.4%	9,351	8,946	4.5%	8,946	9,351	10,263	4,018	4,510	4,047	4,898	4,140	5,211			
Brewing materials	832	1,034	-19.5%	2,064	2,685	-23.1%	2,685	2,064	2,129	1,456	1,161	1,651	1,034	1,232	832			
Bio-fuel and bio-chem	6,315	5,906	6.9%	11,905	11,526	3.3%	11,526	11,905	0	8,154	6,468	5,620	5,906	5,590	6,315			
Gross profit	4,159	4,481	-7.2%	7,795	6,243	24.9%	6,243	7,795	6,976	2,256	2,030	1,762	4,481	3,636	4,159			
Oil seeds processing	1,671	2,125	-21.4%	2,778	2,169	28.1%	2,169	2,778	4,174	648	871	44	2,125	1,108	1,671			
Rice trading and processing	749	1,095	-31.6%	1,629	1,113	46.4%	1,113	1,629	1,430	345	533	534	1,095	880	749			
Wheat processing	488	453	7.9%	795	760	4.5%	760	795	872	189	383	308	453	306	488			
Brewing materials	195	273	-28.3%	485	545	-11.0%	545	485	500	323	174	272	273	289	195			
Bio-fuel and bio-chem	1,146	923	24.1%	2,107	1,418	48.6%	1,418	2,107	0	669	-55	495	923	962	1,146			
S&D expense	-1,511	-1,653	-8.6%	-3,200	-3,107	3.0%	-3,107	-3,200	-3,367	-1,397	-1,484	-1,454	-1,653	-1,689	-1,511			
G&A expense	-1,167	-1,190	-1.9%	-2,288	-2,115	8.2%	-2,115	-2,288	-2,327	-942	-1,021	-925	-1,190	-1,121	-1,167			
Other gains, net	966	570	69.4%	1,884	1,189	58.5%	1,189	1,884	1,076	225	803	619	570	919	966			
EBIT	2,446	2,208	10.8%	4,191	2,210	89.6%	2,210	4,191	2,359	142	328	2	2,208	1,745	2,446			
Oilseeds processing	1,253	250	400.4%	1,679	1,046	60.4%	1,046	1,679	2,003	-1,008	-302	796	250	426	1,253			
Rice trading and processing	270	83	225.9%	547	191	186.8%	191	547	490	24	99	108	83	277	270			
Wheat processing	113	110	3.2%	177	150	17.6%	150	177	194	-34	97	41	110	63	113			
Brewing materials	113	143	-20.8%	293	296	-1.1%	296	293	302	187	24	153	143	180	113			
Bio-fuel and bio-chem	514	453	13.5%	1,268	607	109.0%	607	1,268	0	179	-16	154	453	754	514			
Finance costs-net	-354	-357	-0.9%	-684	-721	-5.2%	-721	-684	-772	-337	-349	-364	-357	-330	-354			
Return from associates	101	223	-54.7%	220	296	-25.7%	296	220	240	46	116	73	223	119	101			
PBT	2,193	2,074	5.7%	3,727	1,785	108.8%	1,785	3,727	1,827	-149	95	-289	2,074	1,534	2,193			
Income tax	-74	-249	-70.4%	-401	-253	58.4%	-253	-401	-274	-73	-250	-3	-249	-327	-74			
Minority interest	-85	-182	-53.4%	-233	-113	106.6%	-113	-233	-109	-47	91	69	-182	-148	-85			
Net profit	2,034	1,642	23.9%	3,093	1,419	118.0%	1,419	3,093	1,444	-269	-63	-223	1,642	1,059	2,034			
Gross margin	7.5%	9.3%	-1.8%	7.8%	7.0%	0.8%	7.0%	7.8%	7.2%	5.8%	4.7%	4.3%	9.3%	8.2%	7.5%			
S&D/sales	2.7%	3.4%	-0.7%	3.2%	3.5%	-0.3%	3.5%	3.2%	3.5%	3.6%	3.4%	3.6%	3.4%	3.8%	2.7%			
G&A/sales	2.1%	2.5%	-0.4%	2.3%	2.4%	-0.1%	2.4%	2.3%	2.4%	2.4%	2.4%	2.3%	2.5%	2.5%	2.1%			
EBIT margin	4.4%	4.6%	-0.1%	4.2%	2.5%	1.7%	2.5%	4.2%	2.4%	0.4%	0.8%	0.0%	4.6%	3.9%	4.4%			
Oilseeds processing	3.8%	0.9%	2.9%	2.9%	2.1%	0.8%	2.1%	2.9%	3.0%	-5.3%	-1.4%	3.6%	0.9%	1.7%	3.8%			
Rice trading and processing	5.0%	1.8%	3.3%	4.7%	2.1%	2.6%	2.1%	4.7%	4.8%	0.5%	1.8%	2.4%	1.8%	4.4%	5.0%			
Wheat processing	2.2%	2.2%	-0.1%	1.9%	1.7%	0.2%	1.7%	1.9%	1.9%	-0.9%	2.2%	1.0%	2.2%	1.5%	2.2%			
Brewing materials	13.6%	13.8%	-0.2%	14.2%	11.0%	3.2%	11.0%	14.2%	14.2%	12.8%	2.1%	9.3%	13.8%	14.6%	13.6%			
Bio-fuel and bio-chem	8.1%	7.7%	0.5%	10.7%	5.3%	5.4%	5.3%	10.7%	-	2.2%	-0.2%	2.7%	7.7%	13.5%	8.1%			
PBT margin	4.0%	4.3%	-0.3%	3.7%	2.0%	1.7%	2.0%	3.7%	1.9%	-0.4%	0.2%	-0.7%	4.3%	3.5%	4.0%			
Tax rate	3.4%	-0.9%	n.m	10.7%	-0.5%	n.m	14.2%	10.7%	15.0%	n.m	n.m	-1.2%	12.0%	21.3%	3.4%			
Net profit margin	3.7%	3.4%	0.3%	3.1%	1.6%	1.5%	1.6%	3.1%	1.5%	-0.7%	-0.1%	-0.5%	3.4%	2.4%	3.7%			

Source: Company data, CICC Research;

Figure 2: China Agri - Oilseed processing

(HK\$ mn)	2014	2015	2016E	2017E	2018E	2019E
Sales	53,714	41,053	50,434	57,883	66,466	69,448
YoY Growth	-6.6%	-23.6%	22.9%	14.8%	14.8%	4.5%
Gross profit	-876	1,519	2,169	2,778	4,174	4,368
Gross margin	-1.6%	3.7%	4.3%	4.8%	6.3%	6.3%
EBIT	-1,519	-108	1,046	1,679	2,003	2,100
EBIT Margin	-2.8%	-0.3%	2.1%	2.9%	3.0%	3.0%

Source: Company data, CICC Research

Figure 4: China Agri - Wheat processing

(HK\$ mn)	2014	2015	2016E	2017E	2018E	2019E
Sales	9,002	8,528	8,946	9,351	10,263	10,930
YoY Growth	5.2%	-5.3%	4.9%	4.5%	9.8%	6.5%
Gross profit	522	571	760	795	872	929
Gross margin	5.8%	6.7%	8.5%	8.5%	8.5%	8.5%
EBIT	82	63	150	177	194	207
EBIT Margin	0.9%	0.7%	1.7%	1.9%	1.9%	1.9%

Source: Company data, CICC Research

Figure 3: China Agri - Rice trading & processing

(HK\$ mn)	2014	2015	2016E	2017E	2018E	2019E
Sales	7,746	9,986	9,196	11,637	10,211	10,439
YoY Growth	0.0%	28.9%	-7.9%	26.5%	-12.3%	2.2%
Gross profit	751	879	1,113	1,629	1,430	1,462
Gross margin	9.7%	8.8%	12.1%	14.0%	14.0%	14.0%
EBIT	-17	124	191	547	490	501
EBIT Margin	-0.2%	1.2%	2.1%	4.7%	4.8%	4.8%

Source: Company data, CICC Research

Figure 5: China Agri - Brewing materials

(HK\$ mn)	2014	2015	2016E	2017E	2018E	2019E
Sales	2,739	2,617	2,685	2,064	2,129	2,196
YoY Growth	26.2%	-4.4%	2.6%	-23.1%	3.2%	3.2%
Gross profit	575	497	545	485	500	516
Gross margin	21.0%	19.0%	20.3%	23.5%	23.5%	23.5%
EBIT	325	211	296	293	302	312
EBIT Margin	11.9%	8.1%	11.0%	14.2%	14.2%	14.2%

Source: Company data, CICC Research

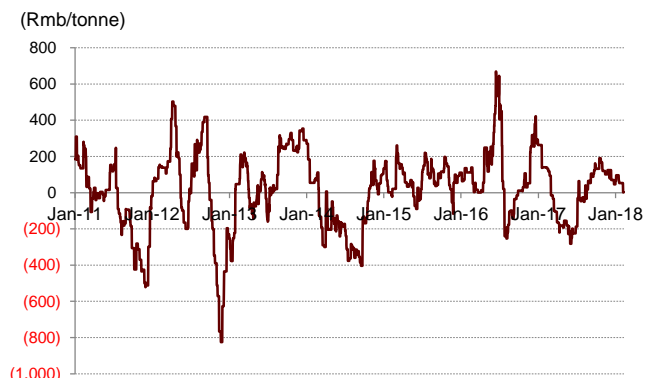


Figure 6: Earnings forecasts revisions

(HKD mn)	2017E			2018E			2019E
	Before	After	Chg.	Before	After	Chg.	After
Sales Revenue	92,563	99,853	7.9%	97,289	96,783	-0.5%	101,501
Oil seeds processing	52,918	57,883	9.4%	55,525	66,466	19.7%	69,448
Rice trading and processing	9,319	11,637	24.9%	9,455	10,211	8.0%	10,439
Wheat processing	8,431	9,351	10.9%	9,505	10,263	8.0%	10,930
Brewing materials	2,978	2,064	-30.7%	2,978	2,129	-28.5%	2,196
Bio-fuel and bio-chem	11,905	11,905	0.0%	12,112	-	n.m	-
Gross Profit	6,859	7,795	13.6%	6,850	6,976	1.8%	7,274
Oil seeds processing	2,275	2,778	22.1%	2,388	4,174	74.8%	4,368
Rice trading and processing	1,156	1,629	41.0%	1,172	1,430	21.9%	1,462
Wheat processing	717	795	10.9%	808	872	8.0%	929
Brewing materials	604	485	-19.8%	604	500	-17.2%	516
Bio-fuel and bio-chem	2,107	2,107	0.0%	1,877	-	n.m	-
S&D costs	-2,968	-3,200	7.8%	-3,079	-3,367	9.3%	-3,510
G&A expenses	-2,109	-2,288	8.5%	-2,197	-2,327	5.9%	-2,424
EBIT	2,808	4,191	49.2%	2,626	2,359	-10.2%	2,394
Oil seeds processing	1,270	1,679	32.2%	1,333	2,003	50.3%	2,100
Rice trading and processing	289	547	89.3%	303	490	62.0%	501
Wheat processing	159	177	10.9%	180	194	8.0%	207
Brewing materials	328	293	-10.5%	328	302	-7.7%	312
Bio-fuel and bio-chem	1,268	1,268	0.0%	1,023	0	n.m	0
PBT	2,312	3,727	61.2%	2,058	1,827	-11.2%	1,862
Income tax	-328	-401	22.3%	-292	-274	-6.0%	-279
Minority interest	-139	-233	67.6%	-124	-109	-12.1%	-111
Net profit	1,846	3,093	67.6%	1,643	1,444	-12.1%	1,472
EPS (HKD)	0.35	0.59	67.6%	0.31	0.28	-12.1%	0.28
Gross Margin	7.4%	7.8%	0.4%	7.0%	7.2%	0.2%	7.2%
Oil seeds processing	4.3%	4.8%	0.5%	4.3%	6.3%	2.0%	6.3%
Rice trading and processing	12.4%	14.0%	1.6%	12.4%	14.0%	1.6%	14.0%
Wheat processing	8.5%	8.5%	0.0%	8.5%	8.5%	0.0%	8.5%
Brewing materials	20.3%	23.5%	3.2%	20.3%	23.5%	3.2%	23.5%
Bio-fuel and bio-chem	17.7%	17.7%	0.0%	15.5%	0.0%	-15.5%	0.0%
S&D/sales	3.2%	3.2%	0.0%	3.2%	3.5%	0.3%	3.5%
G&A/sales	2.3%	2.3%	0.0%	2.3%	2.4%	0.1%	2.4%
EBIT margin	3.0%	4.2%	1.2%	2.7%	2.4%	-0.3%	2.4%
Oil seeds processing	2.4%	2.9%	0.5%	2.4%	3.0%	0.6%	3.0%
Rice trading and processing	3.1%	4.7%	1.6%	3.2%	4.8%	1.6%	4.8%
Wheat processing	1.9%	1.9%	0.0%	1.9%	1.9%	0.0%	1.9%
Brewing materials	11.0%	14.2%	3.2%	11.0%	14.2%	3.2%	14.2%
Bio-fuel and bio-chem	10.7%	10.7%	0.0%	8.5%	n.m	n.m	n.m
tax rate	14.2%	10.7%	-3.4%	14.2%	15.0%	0.8%	15.0%
Net profit Margin	2.0%	3.1%	1.1%	1.7%	1.5%	-0.2%	1.4%

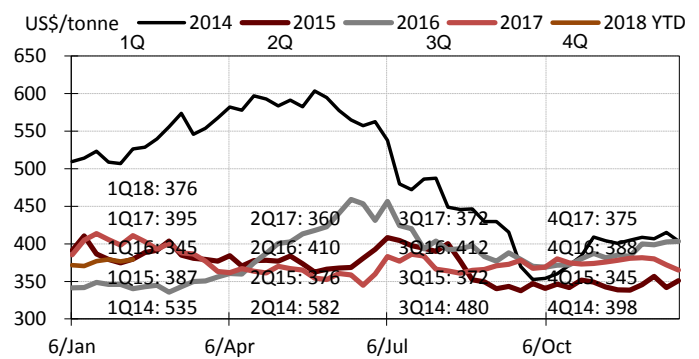
Source: Company data, CICC Research

Figure 7: Soybean crushing profit



Source: Wind Info, CICC Research

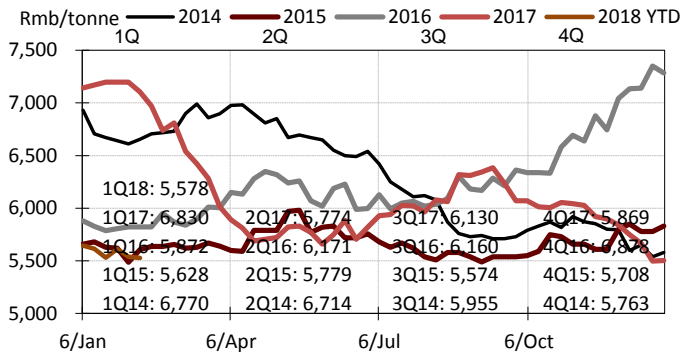
Figure 8: US soybean prices (Iowa)



Source: Bloomberg, CICC Research

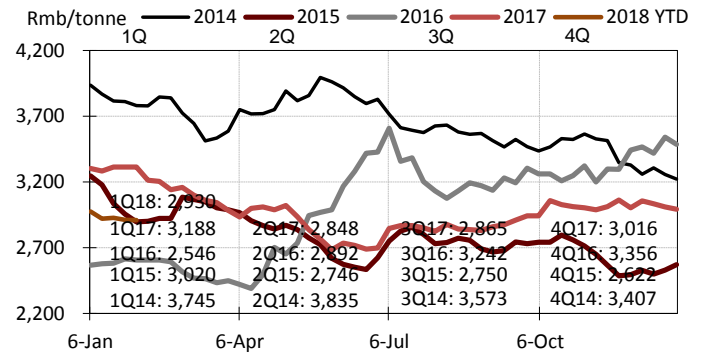


Figure 9: China's average soybean-oil prices



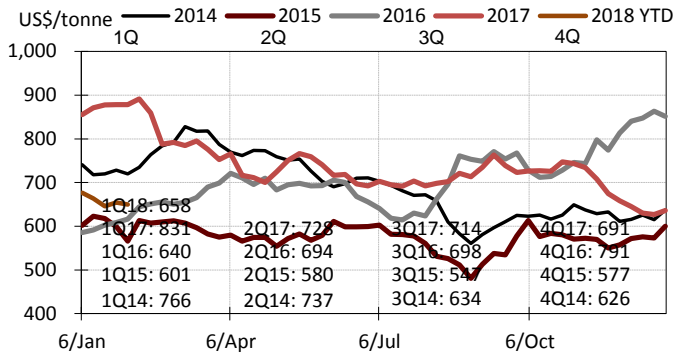
Source: Bloomberg, CICC Research

Figure 10: China's average soybean-meal prices



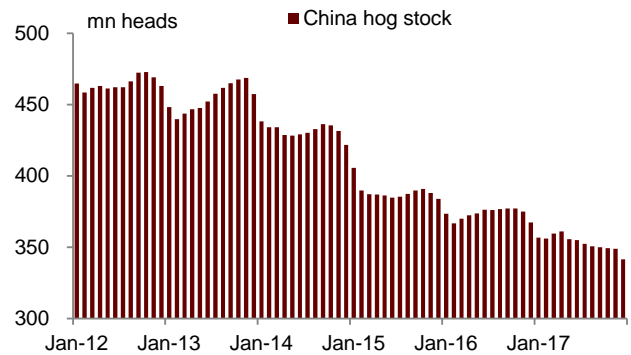
Source: Bloomberg, CICC Research

Figure 11: Malaysia's palm-oil prices



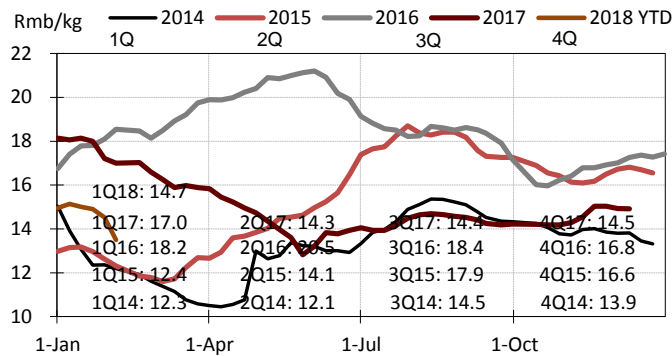
Source: Bloomberg, CICC Research

Figure 12: China's hog stocks



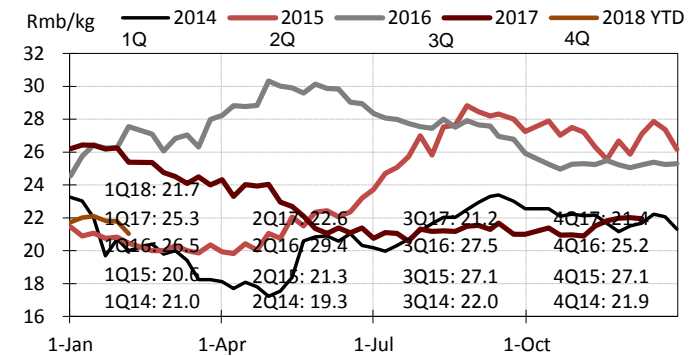
Source: Wind Info, CICC Research

Figure 13: China's hog prices



Source: Wind Info, CICC Research

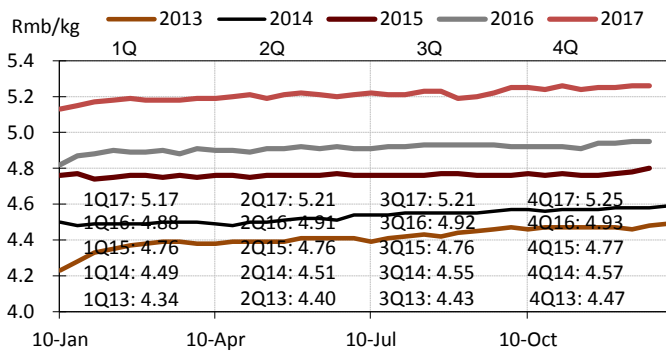
Figure 14: China's pork prices



Source: Wind Info, CICC Research

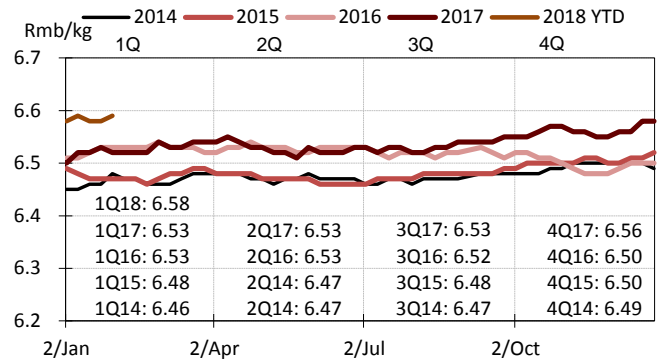


Figure 15: China's flour prices



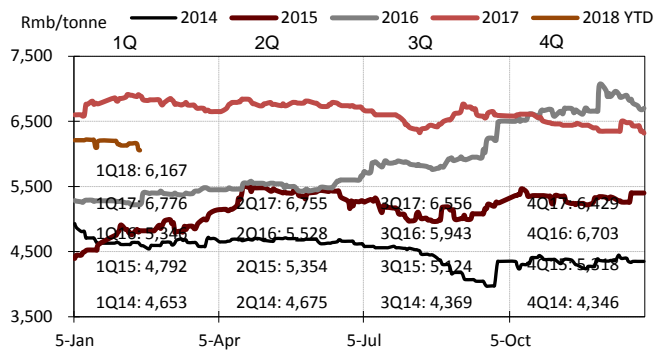
Source: Wind Info, CICC Research

Figure 16: China's rice prices



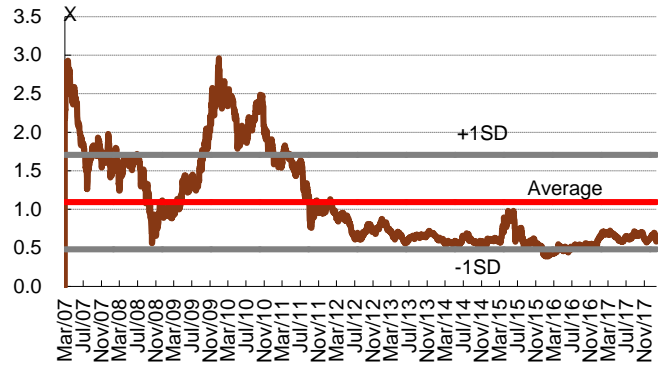
Source: Wind Info, CICC Research

Figure 17: China's sugar prices (Nanning)



Source: Bloomberg, CICC Research

Figure 18: Forward P/B



Source: Bloomberg, company data, CICC Research



Figure 19: Valuations of comparable companies in the global agricultural sector

Company	Ticker	Market cap (US\$ mn)	P/E Ratio			P/B Ratio			ROE (%)			Dividend Yield (%)			EV/EBITDA		
			2016A	2017A	2018E	2016A	2017A	2018E	2016A	2017A	2018E	2016A	2017A	2018E	2016A	2017A	2018E
Aquaculture & Fishing																	
SANFORD LTD	SAN NZ EQUITY	520	19.1	14.9	13.7	1.2	1.2	1.1	6.5	8.0	8.4	3.0	3.4	3.7	11.5	9.3	8.8
Marine Harvest	MHG NO EQUITY	9,031	12.5	12.1	12.9	2.9	2.9	2.8	23.3	24.3	22.0	6.5	8.4	6.5	7.5	8.6	8.5
NIPPON SUISAN	1332 JP EQUITY	1,502	10.9	8.4	9.5	1.2	1.2	1.1	10.7	13.9	11.2	1.1	1.5	1.8	9.4	9.1	9.2
Average			14.2	11.8	12.0	1.8	1.8	1.7	13.5	15.4	13.8	3.5	4.5	4.0	9.5	9.0	8.8
Cattle and Poultry Breeding																	
AUSTRALIAN AGRIC	AAC AU EQUITY	551	8.9	27.9	15.4	0.7	0.7	0.6	7.7	2.4	4.1	0.0	n.a.	n.a.	7.9	18.6	12.3
ASTRAL FOODS LTD	ARLSJ EQUITY	890	12.8	9.2	9.7	3.2	2.8	2.4	25.0	30.0	25.0	4.2	5.6	5.9	8.2	6.4	6.7
Average			10.8	18.5	12.5	1.9	1.7	1.5	16.3	16.2	14.5	2.1	5.6	5.9	8.1	12.5	9.5
Meat Processing																	
Tyson Food	TSN US EQUITY	29,904	15.4	11.4	11.1	2.3	2.2	2.1	14.9	19.2	18.6	2.5	1.6	1.8	10.6	8.9	8.8
HORMEL FOODS CRP	HRL EQUITY	17,376	20.5	19.4	18.2	3.5	3.5	3.3	17.1	18.1	18.1	2.1	2.3	2.5	12.2	11.7	11.1
CONAGRA FOODS	CAG US EQUITY	14,247	24.0	18.5	16.9	3.9	3.9	3.8	16.0	21.2	22.7	2.5	2.4	2.6	14.9	11.7	11.4
NIPPON MEAT PACK	2282 JP EQUITY	4,730	14.0	14.0	13.4	1.2	1.2	1.1	8.4	8.5	8.3	2.2	2.2	2.3	7.9	7.8	7.3
ATRIA GROUP PLC	ATRAV FH EQUITY	408	18.1	12.8	11.2	0.8	0.8	0.7	4.4	6.0	6.7	3.9	4.5	5.3	7.5	6.6	6.1
HKScan oyj	HKSAV FH EQUITY	200	n.m.	98.8	19.8	0.5	0.5	0.5	n.m.	0.5	2.4	3.0	3.5	4.2	13.3	5.7	4.9
Average			18.4	29.2	15.1	2.0	2.0	1.9	12.2	12.3	12.8	2.7	2.7	3.1	11.1	8.7	8.3
Seed																	
MONSANTO CO	MON US EQUITY	52,297	23.0	20.8	19.1	7.9	6.8	6.2	34.4	32.8	32.3	1.8	2.0	2.1	14.5	12.8	11.8
KWS SAAT AG	KWS GR EQUITY	2,612	21.9	21.1	20.0	2.7	2.4	2.2	12.5	11.2	10.8	1.0	1.0	1.1	12.2	12.3	11.4
Average			22.4	21.0	19.5	5.3	4.6	4.2	23.5	22.0	21.6	1.4	1.5	1.6	13.4	12.5	11.6
Feed Manufacturing																	
CHAROEN POK FOOD	CPF TB EQUITY	6,186	11.5	18.8	15.8	1.0	1.2	1.1	8.4	6.1	7.0	4.2	3.7	3.5	11.6	14.9	12.7
RIDLEY CORP	RIC AU EQUITY	329	16.3	16.5	14.9	1.6	1.5	1.5	10.0	9.4	10.0	2.9	3.4	3.6	8.7	8.4	7.7
Average			13.9	17.6	15.3	1.3	1.3	1.3	9.2	7.8	8.5	3.5	3.6	3.6	10.1	11.7	10.2
Corn Processing																	
TATE & LYLE	TATE LN EQUITY	3,748	10.5	11.8	11.8	2.1	1.9	1.8	19.9	16.4	15.5	4.8	4.9	5.1	8.0	7.0	7.1
CORN PRODUCTS	INGR US EQUITY	9,198	17.8	15.4	14.4	3.2	3.0	2.6	17.8	19.2	17.8	1.7	1.9	2.0	10.0	9.1	8.7
BASF AG	BAS GR EQUITY	96,237	19.3	13.2	13.1	2.4	2.3	2.2	12.5	17.5	16.5	3.5	3.7	3.9	8.6	7.4	7.2
Average			15.9	13.5	13.1	2.6	2.4	2.2	16.7	17.7	16.6	3.3	3.5	3.7	8.8	7.8	7.7
Agriculture Conglomerate																	
ARCHER-DANIELS	ADM US EQUITY	23,203	14.9	14.9	13.7	1.3	1.3	1.3	8.5	8.9	9.6	3.1	3.2	3.2	13.2	9.5	9.1
BUNGE LIMITED	BG US EQUITY	11,355	15.9	30.1	17.3	1.7	1.5	1.4	10.4	5.1	8.3	2.0	2.1	2.3	10.0	13.4	10.1
Average			15.4	22.5	15.5	1.5	1.4	1.4	9.4	7.0	8.9	2.5	2.7	2.7	11.6	11.5	9.6
Total average			16.2	20.5	14.6	2.3	2.1	2.0	14.1	13.9	13.8	2.8	3.2	3.3	10.4	10.0	9.1
CICC coverage																	
CPP	0043.HK	1,847	7.1	n.m.	9.3	1.6	1.9	1.6	23.2	-0.1	16.8	7.1	0.0	5.4	5.4	23.6	7.3
China Agri-Industries	0606.HK	2,155	11.9	5.4	11.7	0.6	0.6	0.6	5.4	11.2	5.0	1.7	10.3	1.7	9.8	6.4	9.1
H share coverage average			9.5	5.4	10.5	1.1	1.2	1.1	14.3	5.5	10.9	4.4	5.2	3.6	7.6	15.0	8.2

Source: Company data, Bloomberg, CICC Research



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