

Valuation Case Study on China Minzhong



Since 1971

**CHINA MINZHONG FOOD
CORPORATION LIMITED**

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The company and presenters may have personal interest in the particular shares presented.

Agenda



Company Background



Industry Analysis



Valuation

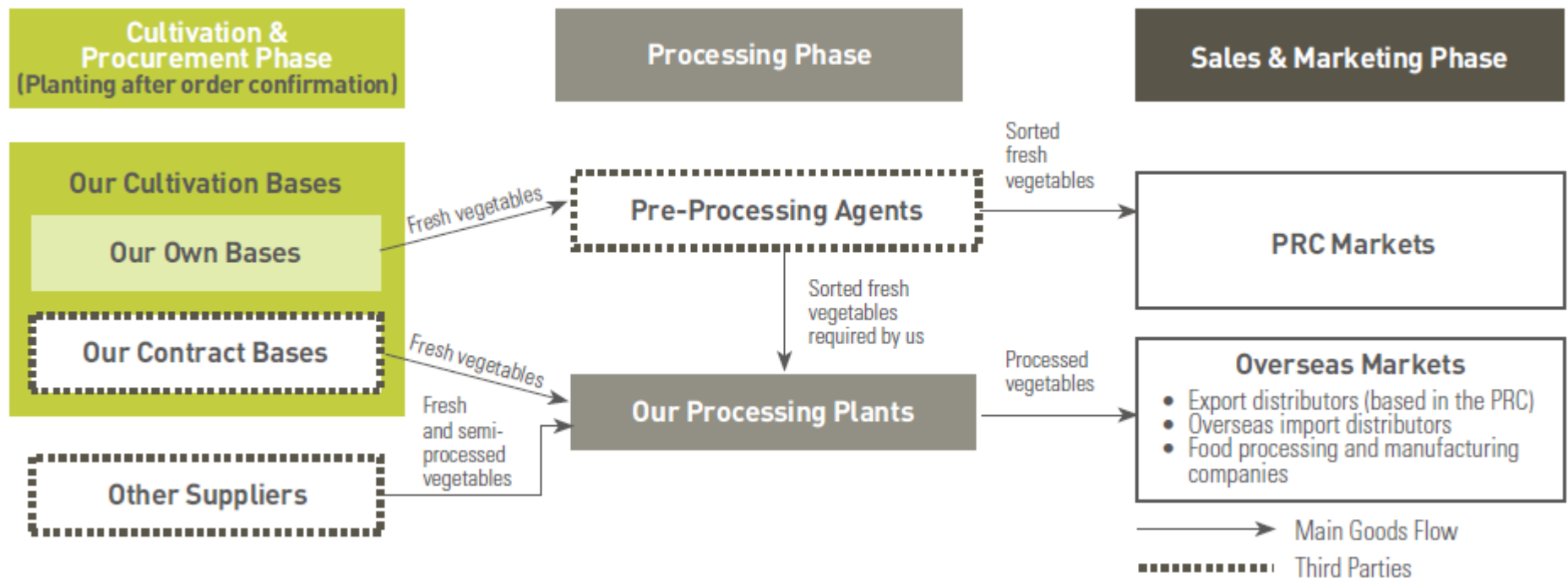


Risk

Company Background

China Minzhong is an
integrated vegetable processor
(farm and process vegetables)

Company Background



Value Chain

Company Background



Flexibility to meet customer demand

Source: Company's Website

Company Background

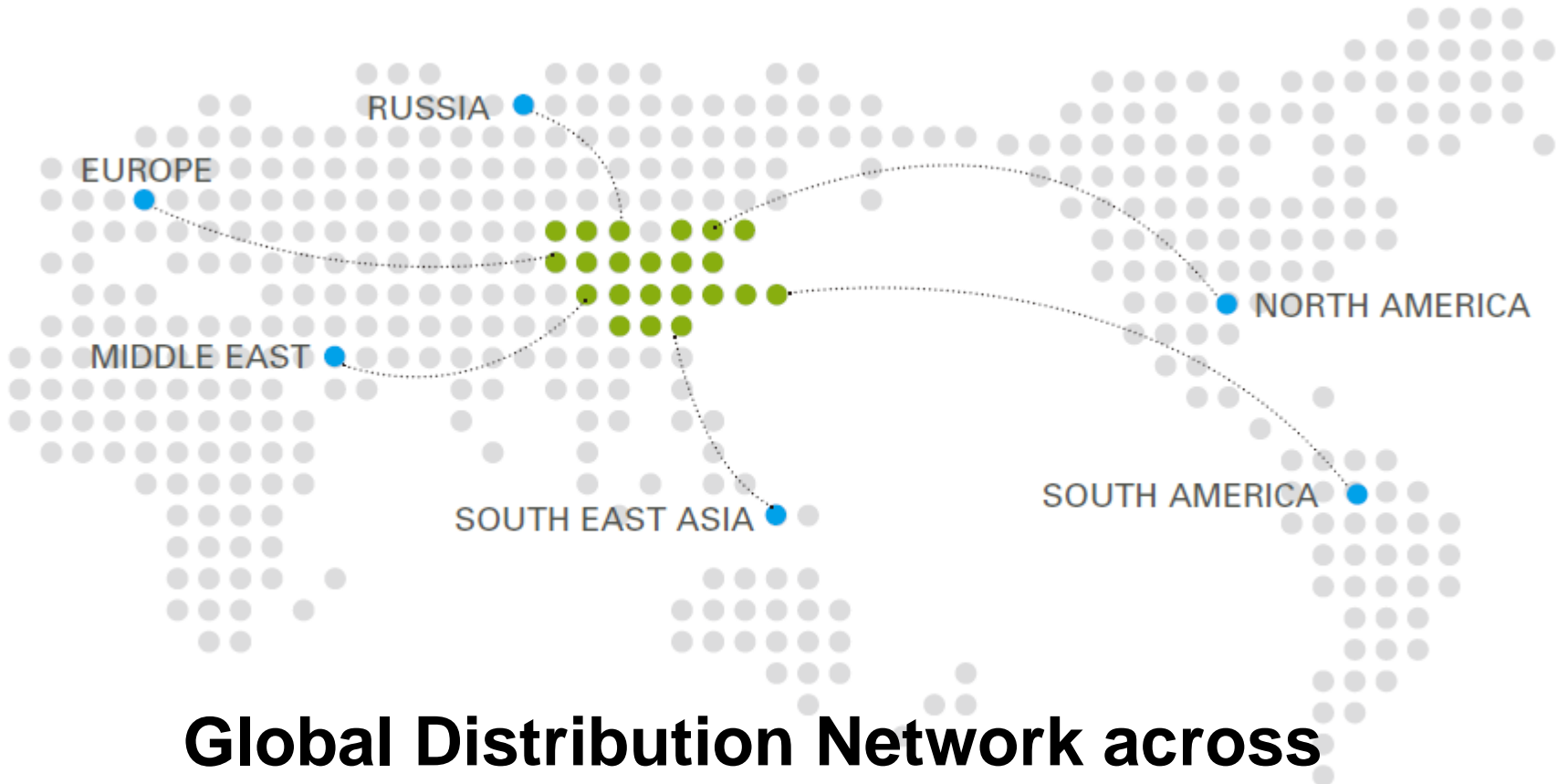
- Owned processing facilities
- Contract Farmers
- Owned Open-field Farming Bases
- Industrialized Farming Bases
- Other suppliers



**Owned Bases in 7 Provinces
Suppliers across 14 Provinces**

Source: Company's Annual Report 2012

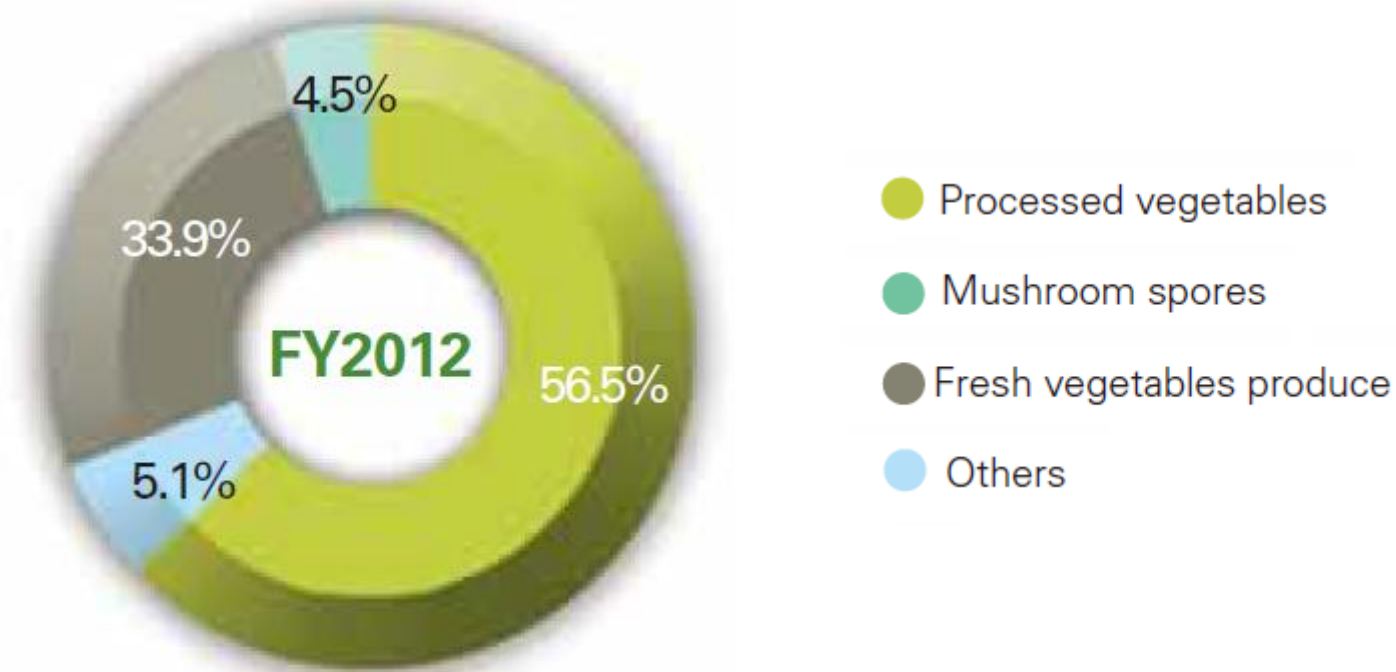
Company Background



**Global Distribution Network across
4 Continents and 26 Countries**

Company Background

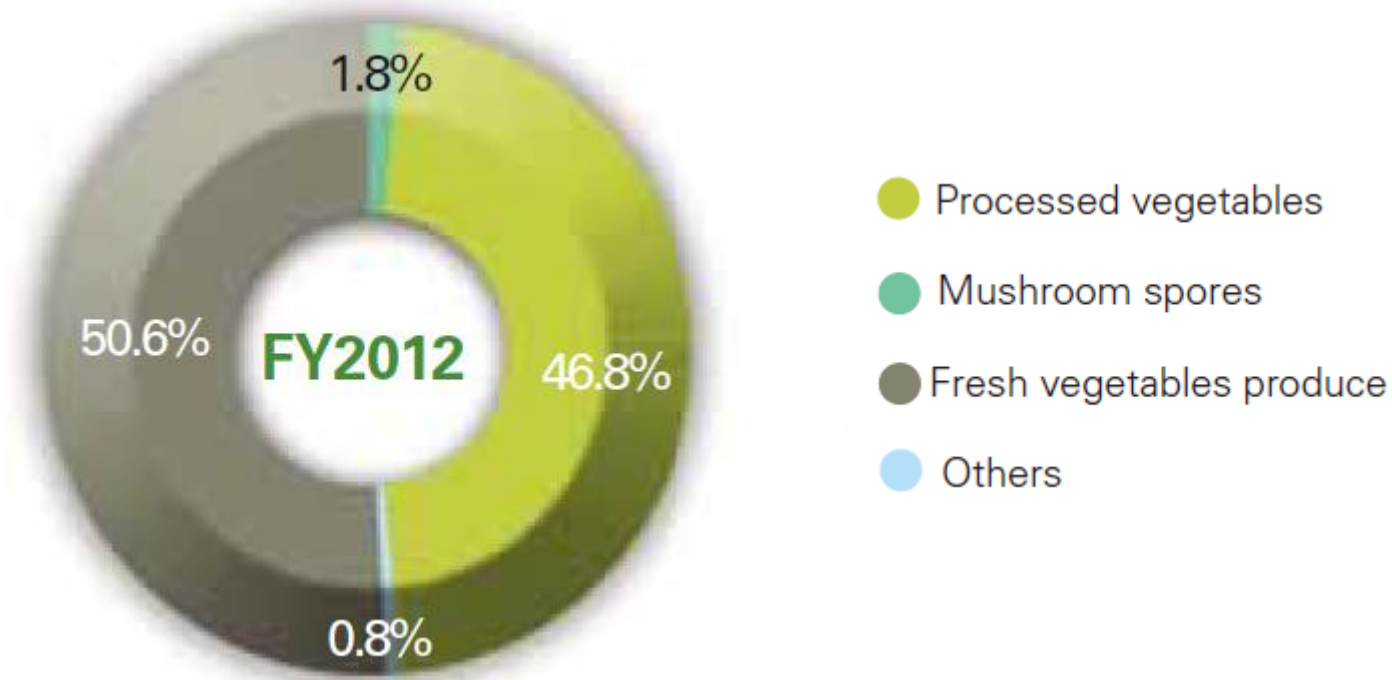
❖ Revenue by Segment (FY 2012)



Export made up 56.5%

Company Background

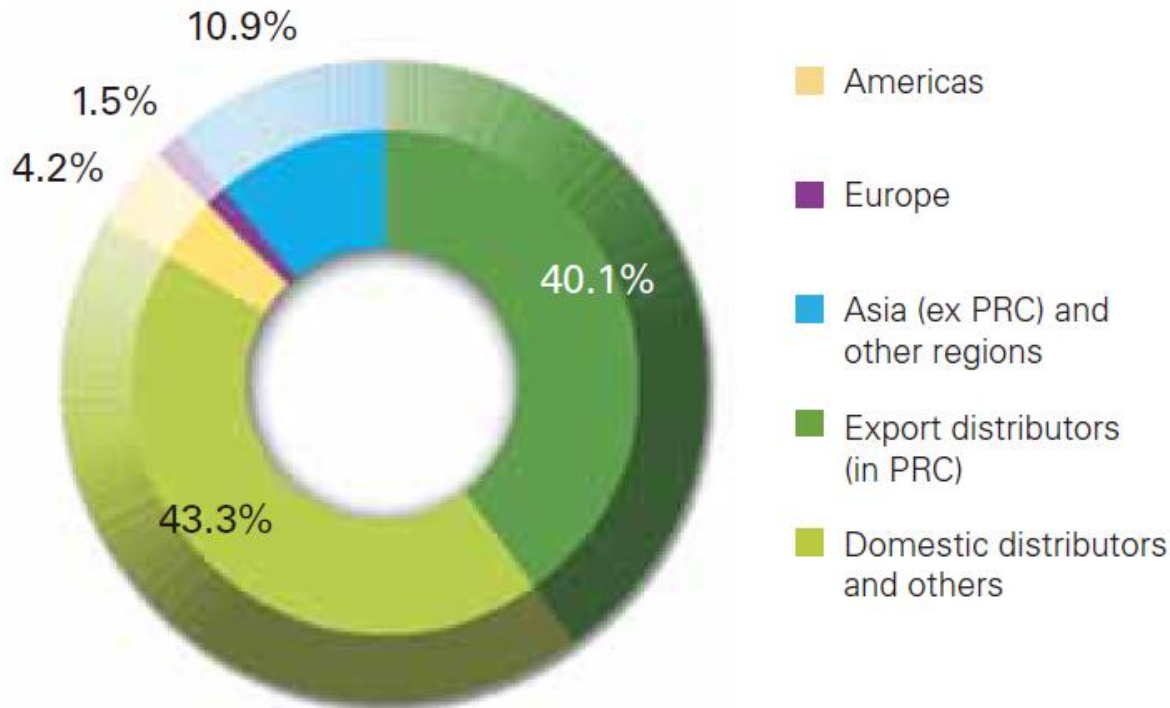
❖ Gross Profit by Segment (FY 2012)



Fresh produce give better margins

Company Background

❖ Revenue by Geography (FY 2012)



Local Distributors made up 83.4%
Minimized Currency Risk

Source: Company's Annual Report 2012

Company Background

- Moving Forward into FY2013
 - New Farmland (37% of Total) will contribute 100%
 - Expansion of Industrialized farming footprint (Currently at 0.47% of Total Farmland)



King Oyster Mushroom

- >10% of Total Fresh Vegetable Sales in FY2012
- Average Revenue Yield of RMB400k/mu/year vs RMB15.3k on Open-field
- Experimenting on high-yield crop

Innovative, Flexible and Progressive Strategy

Source: Company's Annual Report 2012

Industry Analysis

❖ **China 12th 5 year Plan (2011 – 2015)**

■ **Food Security and ensuring ample supply**

- Secure good agricultural farmland with ease and receive government subsidies for projects*
- > 2% PRC's total vegetable production is contributed by large-scale corporations
- Higher cultivation yield vs Individual farmers

■ **Improve farmers' living standards**

- Strong financial capabilities to lease land from farmers and employ farmers

*National Leading Dragon Head Enterprise

Source: Company 2QFY13 Result Presentation

Industry Analysis

- **Food Safety**
 - ISO 9001:2000: Quality Management System,
 - HACCP-EC-01: Food Safety Management System
 - GB/T:28000 Occupational Health & Safety Mgmt
 - ISO14000: Environment Management System
 - Organic Certification by BCS Oko-Garantie GmbH
- **Development of modern agricultural**

Capitalizing on positive industry fundamentals

Valuation

❖ Methodology

- Discounted Free Cashflow to Firm (FCFF)*
- Price to Earnings Ratio (PE)



* Project the future FCFF from business and discount to present value

Valuation

❖ Assumption

- High Growth @12% (2013 – 2015)
- Steady State @2%

❖ CFO / FCFF projection

RMB mil	2011	2012	2013F	2014F	2015F
Revenue	1929	2569	2870	3230	3597
CFO + INT(1-Tax)			673	821	951
Less: Δ FC			-400	-400	-400
FCFF*			274	422	551

*FCFF = CFO + Interest(1-Tax) – Δ Fixed Capital

Valuation

Risk Free Rate	2.5%
Market Required Return*	10.0%
Risk Premium	2.0%
Beta	1.2
Cost of Equity (CAPM)	13.5%
Cost of Debt	5.9%
WACC**	12.3%

*STI

**Debt/Equity = 0.1942

Valuation

			2013F	2014F	2015F
FCFF			274	422	551
Terminal Value (FCFF2015/r)					4178
FCFF			274	422	4729
NPV	3918				
Minus Debt	649				
Add Cash	492				
Less Minorities	0				
FCFF due to share holders	3761				
no. of shares (mil)	557				
RMB/SGD	5.04				
Fair Value per Share	\$1.34				

Valuation

❖ FCFF Valuation

Fair Value per share (est. at 1 Jan 2013)	\$1.34
Current market value per share (as at 15 Feb 2013)	\$1.03

Valuation (P/E Comparison)

Company	P/E
Sino Grandness (SGFI)	7.38 x
Yamada Green (YGR)	1.90 x
China MinZhong (MINZ)	4.08 x
Average P/E	4.45 x
Est. Forward EPS for MINZ	\$0.266
Fair Value of China MinZhong using P/E	\$1.18

P/E is fair compared with other industry

Trading Data

52 Weeks Trading Range	\$0.53 - \$1.175
Avg Volume (3 mths)	2,246,000
Market Cap	\$571 mil

Main Risks

- ❖ Increase in raw material cost<
- ❖ Inability to source for sufficient labor<
- ❖ Default Risk – Low
 - Current ratio = 1.77x
 - Interest coverage = 21x
 - D/E ratio = 0.18
 - Loans maturing this year = RMB649
 - Cash = RMB492