



## HONG KONG

682 HK Outperform  
Price 29 Sep 11 HK\$1.10

12-month target	HK\$	1.10
Upside/Downside	%	0.0
Valuation	HK\$	1.10
- PER		
GICS sector	Food, Beverage & Tobacco	
Market cap	HK\$m	3,620
30-day avg turnover	US\$m	3.6
Market cap	US\$m	465
Number shares on issue	m	3,291

### Investment fundamentals

Year end 30 Jun		2010A	2011E	2012E	2013E
Revenue	m	6,964	8,838	11,349	14,966
EBIT	m	3,409	3,817	4,781	6,386
EBIT growth	%	15.2	12.0	25.2	33.6
Reported profit	m	3,659	3,816	4,766	6,212
Adjusted profit	m	3,512	3,768	4,766	6,212
EPS rep	Rmb	1.16	1.09	1.35	1.73
EPS rep growth	%	-17.4	-6.1	24.1	28.5
EPS adj	Rmb	1.11	1.07	1.35	1.73
EPS adj growth	%	5.1	-3.4	25.9	28.5
PER rep	x	0.8	0.8	0.7	0.5
PER adj	x	0.8	0.8	0.7	0.5
Total DPS	Rmb	0.06	0.07	0.09	0.12
Total div yield	%	6.6	8.3	10.3	13.4
ROA	%	16.9	15.4	15.9	18.1
ROE	%	18.5	16.0	17.0	18.6
EV/EBITDA	x	-0.2	-0.2	-0.1	-0.1
Net debt/equity	%	-9.4	-13.6	-7.3	-3.8
P/BV	x	0.1	0.1	0.1	0.1

### 682 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, September 2011  
(all figures in Rmb unless noted)

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3 October 2011  
Macquarie Capital Securities Limited

# Chaoda Modern Agriculture Terminating Coverage

## Event

- Following Chaoda's delay in reporting FY11 earnings on Friday evening, we are dropping coverage of the stock. Given the tumultuous past few weeks, we wish to be crystal-clear on our reasons for terminating coverage.

## Impact

- We are not terminating coverage** due to the recent charges of market manipulation brought against the Chairman and CFO. We are not lawyers and will not comment on the seriousness of the case, but in any case, the case should not affect Chaoda's operations.
- We are not terminating coverage** due to any revelations raised by the 'Anonymous' report circulated last week. We regard the arguments covered in the report to be very weak and lacking in credibility in its charges of fraud. Specifically, the seemingly most credible charge was in relation to apparent overspending on capex, an issue we analysed in depth in our 31 March 2001 report *China on the Farm*.
- We are not terminating coverage** due to us finding any real signs of fraud or incorrect accounting on the part of Chaoda. To recap our past view, we think Chaoda has an unusually complex set of accounts, parts of which are intrinsically difficult to audit. Every attempt we have made to catch Chaoda exaggerating land or capex has resulted in our having to acknowledge that the land and the physical plant all appear to be correctly stated on the balance sheet. We have argued Chaoda is a real company, albeit one with weak corporate governance. We maintain that view today.
- We are terminating coverage because** the company seems to be incapable or unwilling to reassure investors of quality and integrity of its accounts. Friday night's delay of results (which puts Chaoda in violation of the requirement for companies to release their annual results within 90 days of closing of books) is the final straw. Previous disclosures simply do not begin to provide light on the complexity of the balance sheet and cash flows. Specifically, Chaoda clearly continues to invest heavily in forestry land and continues to be very slow in putting its land into cultivation. 68% of Chaoda's land is not being used for growing vegetables now, but there is simply no addressing of that fact by the company. As a result, investors are very confused and quite prepared to believe the worst speculation on the company.

## Earnings and target price revision

- We are terminating coverage with a HK\$1.10 target price (the current price) vs HK\$7.50 before.

## Price catalyst

- 12-month price target: HK\$1.10 based on a PER methodology.

## Action and recommendation

- Chaoda's market cap is now below the cash on its books as of Dec 2010 (not even including the Asia Citrus stake). All valuation floors have proven a mirage thus far; we terminate coverage with a HK\$1.10 TP (previously HK\$7.50). But with the Board of Directors unwilling to make any changes to address investor concerns, we can no longer recommend the shares.

## Chaoda Modern Agriculture (682 HK, Outperform, Target Price: HK\$1.10)

Interim Results					Profit & Loss						
	1H/11A	2H/11E	1H/12E	2H/12E		2010A	2011E	2012E	2013E		
<b>Revenue</b>	m	3,835	5,003	5,107	6,242	<b>Revenue</b>	m	6,964	8,838	11,349	14,966
<b>Gross Profit</b>	m	2,382	3,208	3,129	3,824	<b>Gross Profit</b>	m	4,577	5,591	6,953	9,111
Cost of Goods Sold	m	1,453	1,794	1,978	2,418	Cost of Goods Sold	m	2,386	3,247	4,396	5,856
<b>EBITDA</b>	m	1,905	2,783	2,653	3,242	<b>EBITDA</b>	m	4,195	4,688	5,895	7,775
Depreciation	m	256	387	371	453	Depreciation	m	522	643	824	1,037
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	89	140	131	160	Other Amortisation	m	264	229	290	352
<b>EBIT</b>	m	1,560	2,257	2,151	2,629	<b>EBIT</b>	m	3,409	3,817	4,781	6,386
Net Interest Income	m	-20	-30	-7	-8	Net Interest Income	m	-73	-50	-15	-48
Associates	m	-0	-0	-0	-0	Associates	m	175	-1	-1	-1
Exceptionals	m	6	43	-43	43	Exceptionals	m	147	48	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
<b>Pre-Tax Profit</b>	m	1,545	2,269	2,101	2,663	<b>Pre-Tax Profit</b>	m	3,657	3,814	4,764	6,337
Tax Expense	m	0	-0	0	0	Tax Expense	m	-0	0	0	-127
<b>Net Profit</b>	m	1,545	2,269	2,101	2,663	<b>Net Profit</b>	m	3,657	3,814	4,764	6,210
Minority Interests	m	2	0	1	1	Minority Interests	m	2	2	2	2
<b>Reported Earnings</b>	m	1,547	2,269	2,102	2,664	<b>Reported Earnings</b>	m	3,659	3,816	4,766	6,212
<b>Adjusted Earnings</b>	m	1,541	2,227	2,145	2,622	<b>Adjusted Earnings</b>	m	3,512	3,768	4,766	6,212
EPS (rep)		0.44	0.64	0.59	0.75	EPS (rep)		1.16	1.09	1.35	1.73
EPS (adj)		0.44	0.63	0.61	0.74	EPS (adj)		1.11	1.07	1.35	1.73
EPS Growth yoy (adj)	%	-11.6	3.3	37.4	17.7	EPS Growth (adj)	%	5.1	-3.4	25.9	28.5
						PE (rep)	x	0.8	0.8	0.7	0.5
						PE (adj)	x	0.8	0.8	0.7	0.5
EBITDA Margin	%	49.7	55.6	51.9	51.9	Total DPS		0.06	0.07	0.09	0.12
EBIT Margin	%	40.7	45.1	42.1	42.1	Total Div Yield	%	6.6	8.3	10.3	13.4
Earnings Split	%	40.9	59.1	45.0	55.0	Weighted Average Shares	m	3,161	3,512	3,534	3,583
Revenue Growth	%	18.5	34.2	33.2	24.8	Period End Shares	m	3,280	3,534	3,534	3,600
EBIT Growth	%	1.1	21.0	37.9	16.5						
Profit and Loss Ratios					Cashflow Analysis						
	2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E		
Revenue Growth	%	13.7	26.9	28.4	31.9	<b>EBITDA</b>	m	4,195	4,688	5,895	7,775
EBITDA Growth	%	19.3	11.8	25.7	31.9	Tax Paid	m	0	0	0	-127
EBIT Growth	%	15.2	12.0	25.2	33.6	Chgs in Working Cap	m	-718	-382	-823	-1,167
Gross Profit Margin	%	65.7	63.3	61.3	60.9	Net Interest Paid	m	-68	-50	-15	-48
EBITDA Margin	%	60.2	53.0	51.9	51.9	Other	m	-88	-344	-248	-310
EBIT Margin	%	49.0	43.2	42.1	42.7	<b>Operating Cashflow</b>	m	3,322	3,912	4,808	6,124
Net Profit Margin	%	52.5	43.2	42.0	41.5	Acquisitions	m	346	-101	-313	-329
Payout Ratio	%	5.4	7.0	6.9	7.0	Capex	m	-3,265	-4,394	-5,690	-6,344
EV/EBITDA	x	-0.2	-0.2	-0.1	-0.1	Asset Sales	m	91	36	36	36
EV/EBIT	x	-0.3	-0.2	-0.2	-0.1	Other	m	-343	0	0	0
						<b>Investing Cashflow</b>	m	-3,171	-4,459	-5,967	-6,637
<b>Balance Sheet Ratios</b>						Dividend (Ordinary)	m	0	-292	-149	-310
ROE	%	18.5	16.0	17.0	18.6	Equity Raised	m	341	997	0	0
ROA	%	16.9	15.4	15.9	18.1	Debt Movements	m	-1,554	1,342	0	0
ROIC	%	22.4	19.6	21.2	22.0	Other	m	1	0	0	0
Net Debt/Equity	%	-9.4	-13.6	-7.3	-3.8	<b>Financing Cashflow</b>	m	-1,212	2,047	-149	-310
Interest Cover	x	46.5	76.2	311.6	132.9	<b>Net Chg in Cash/Debt</b>	m	-1,062	1,500	-1,309	-823
Price/Book	x	0.1	0.1	0.1	0.1	<b>Free Cashflow</b>	m	57	-482	-882	-220
Book Value per Share		6.5	7.3	8.6	10.1						
					Balance Sheet						
		2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E	
Cash	m	2,044	3,545	2,237	1,414	Cash	m	2,044	3,545	2,237	1,414
Receivables	m	418	484	622	820	Receivables	m	418	484	622	820
Inventories	m	37	50	68	91	Inventories	m	37	50	68	91
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	7,370	9,733	11,873	14,914	Fixed Assets	m	7,370	9,733	11,873	14,914
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	11,889	13,905	17,573	21,086	Other Assets	m	11,889	13,905	17,573	21,086
<b>Total Assets</b>	m	21,758	27,718	32,372	38,325	<b>Total Assets</b>	m	21,758	27,718	32,372	38,325
Payables	m	28	102	132	174	Payables	m	28	102	132	174
Short Term Debt	m	15	0	0	0	Short Term Debt	m	15	0	0	0
Long Term Debt	m	0	15	15	15	Long Term Debt	m	0	15	15	15
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	208	1,570	1,578	1,585	Other Liabilities	m	208	1,570	1,578	1,585
<b>Total Liabilities</b>	m	250	1,687	1,724	1,773	<b>Total Liabilities</b>	m	250	1,687	1,724	1,773
Shareholders' Funds	m	21,245	25,767	30,385	36,288	Shareholders' Funds	m	21,245	25,767	30,385	36,288
Minority Interests	m	264	264	264	264	Minority Interests	m	264	264	264	264
Other	m	0	0	0	0	Other	m	0	0	0	0
<b>Total S/H Equity</b>	m	21,508	26,031	30,649	36,552	<b>Total S/H Equity</b>	m	21,508	26,031	30,649	36,552
<b>Total Liab &amp; S/H Funds</b>	m	21,758	27,718	32,372	38,325	<b>Total Liab &amp; S/H Funds</b>	m	21,758	27,718	32,372	38,325

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, September 2011

## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 30 June 2011**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.37%	64.60%	64.62%	45.63%	67.74%	48.02%	(for US coverage by MCUSA, 12.44% of stocks covered are investment banking clients)
Neutral	36.86%	21.22%	29.23%	51.30%	28.50%	38.42%	(for US coverage by MCUSA, 12.95% of stocks covered are investment banking clients)
Underperform	12.77%	14.18%	6.15%	3.07%	3.76%	13.56%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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