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Piper Jaffray Asia Securities Limited

Related Companies:  
546 HK

Share Price:  
HK\$5.6

### RISKS TO ACHIEVEMENT OF TARGET PRICE:

Major risks include: (1) a return of smaller competitors in the MSG market; (2) disappointing xanthan gum sales volumes; and (3) changing environmental and industry regulations that may affect corn or other costs.

## Fufeng Group

546 HK - HK\$5.64

阜丰集團

### Overweight

### Consumer

### CB Conversion Price 20% Above Current Level

#### CONCLUSION:

Fufeng has announced it will issue Rmb-dominated convertible bonds (CBs) to raise Rmb 820mil-1bil. As the initial conversion price (HK\$7.03) is below both of the current share price and our current PT of HK\$6.7, there is no dilution impact on our modeled numbers at present. Our initial take on the CB issue is that it is slightly positive to the company's financials as it can lock the company's interest costs in face of a potential interest rate hike. We leave our model, rating and PT unchanged.

**Share capital enlarged by 10% if fully issued and converted:** Details of the CB are shown in the exhibit below. We would like to highlight: (1) the conversion price of HK\$7.03 is ~20% above the current share price and 5% above our PT of HK\$6.7. (2) Fufeng will pay Rmb37mil-46mil of CB interest expense (settled in US\$ in cash semi-annually), but we believe that this will largely be offset by an interest saving from a lower bank borrowing. The CB coupon rate is 4.5%, lower than the company's current borrowing rate (~6%, according to management). We believe the CB can help fix the company's interest costs in face of a potential interest rate hike.

Gross Proceeds	Rmb 820mil - Rmb 1025mil (~US\$ 120mil - US\$ 150mil)
No. of new shares to be issued	132.6-165.7 mil
% Increase	8% - 10%
Annual Coupon rate (%)	4.5% (paid semi-annually)
Conversion Price (HK\$)	7.03
Maturity	Five years (Due Apr 2015)
CB Holder's Put Option	At year 3 (1st April 2013)
CB Listing	Singapore Stock Exchange
Use of Proceeds	Expansion capex, M&As, General working capital

Source: Company

For a better understanding, we have also calculated below the potential dilution impact on the company's EPS if the CB is fully converted now. However, as both the share price and PT is below the conversion price, there should not be any dilution due to the new shares to be issued from the CB conversion.

#### Potential Impact

Our current estimates	FY10	FY11
Net Profit (Rmb mil)	1049	1531
EPS (Rmb)	0.63	0.82
<b>Impact (if Optional bonds issued in full)</b>		
Net Profit (Rmb mil)	1,033	1,341
EPS	0.57	0.73
EPS dilution effect	-10.2	-10.5

Source: Piper Jaffray Asia Securities

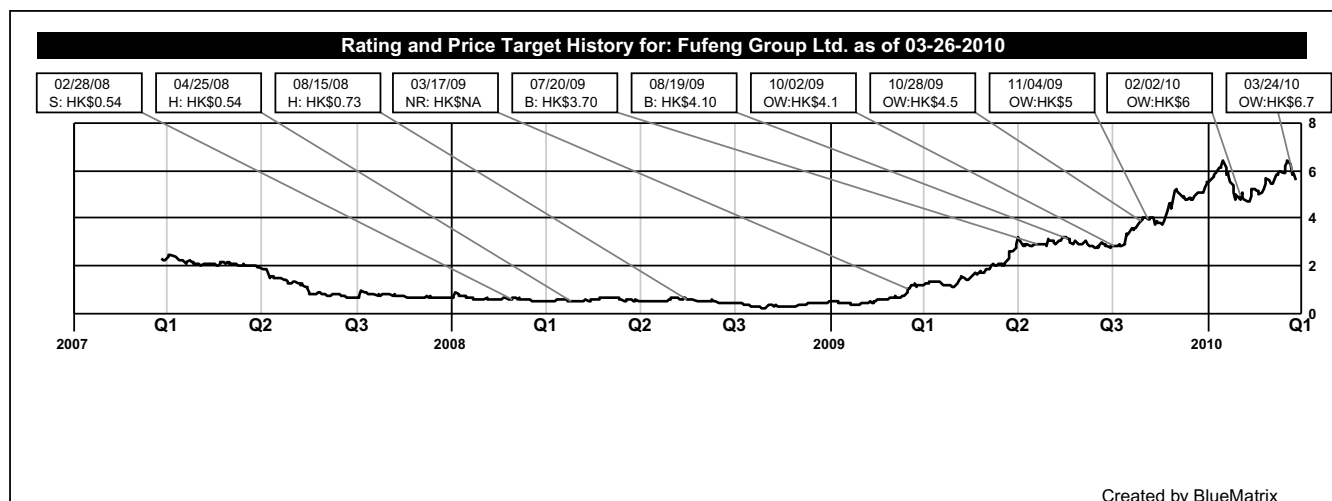
#### PRICE TARGET AND JUSTIFICATION:

We rate Fufeng Overweight with a PT of HK\$6.7 (9.4x FY10E EPS of HK\$0.72).

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			Count	Percent
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