

China Food (CFC.L) - better than expected maiden results

Food processing

COMMENT ON RECENT EVENT

China Food, an established manufacturer of branded consumer condiment products and animal feeds based in the Shandong province of the People's Republic of China (the "PRC"), announced its unaudited Preliminary Results for the year ended 31 December 2007.

Revenue climbed 31% to £25.3m (£19.3m), EBITDA 24.6% to £8.1m (£6.5m), Profit before tax 23.7% to £7.5m (£6.1m) and Net profit 20.2% to £5.3m (£4.4m). Revenues from animal feeds totaled £13.4 million and condiments £11.9 million.

OUR VIEW

These maiden results as an AIM listed company were between 5% and 10% ahead of our forecasts across the board which should be encouraging for investors. The group continues to register steady growth and has clearly managed costs well despite reports of rising costs in China. The animal feeds business grew faster than we anticipated but there is growing demand in China for more dairy and meat product which will have boosted feed sales and should continue to do so. By contrast condiments sales were slightly lower than our estimate.

There has been a fall in the EBITDA margin during 2007 from 33.7% to 32.0%, however this has proved less than we anticipated in our forecasts. China Food has been through a year of change in 2007: in its status, through at reverse takeover of Vestpa plc and subsequent listing on AIM; in its management with the appointment of a new CEO and CFO; and in its markets. Grain prices rose sharply in 2007 affecting both animal feed and condiments raw materials, and these may not have been fully passed on in the period. We believe that the fact that EBITDA margin fell less than anticipated is encouraging.

China Food also confirmed that its new factory is scheduled to open towards the end of 2008. When completed it will increase capacity for soy sauce but more importantly allow a longer fermentation period for a higher grade of product. That in turn should allow China Food to move some sales upmarket to a higher, less price-sensitive, price point in step with the population's increasing affluence.

Pending the release of full audited accounts and hopefully an analysts meeting in the near future these results are helpful in underpinning our forecasts and valuation.

Analysts

Andy Hartwill
Research Director
andy@objectivecapital.co.uk
0870 080 2965

Analysts:
Simon Miller
simon.miller@objectivecapital.co.uk

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