AgriNurture (ANI) **Accumulate**

Bountiful Harvest

A. The Sector

The Philippines has always been known for its Agricultural Sector. But with the development and boom of the world economy, demand for products has shifted to services instead. The Agri-Sector can be considered as the one that was left unnoticed.

With the current global conditions, an opportunity has risen for the sector to flourish again. Known to be recession-proof, the Agri-Sector may be among those that will manage to record at least a modest growth despite the economic slowdown.

Growth of Sector

The Agri-Sector has shown slight growth during the previous years. However, the rate of growth has varied significantly due to weather disturbances and production disparity. Despite potential growth seen in this sector, historical figures show that Agri's pace remains below the country's GDP. This only indicates that Philippine Agri has yet to again find its niche in the economy and spur ways of bringing life back into the sector for it to thrive despite the adverse economic conditions.

Summary

This industry is characterized by the intense competition among local companies. More than that, there is much to do to truly push the sector to flourish especially with the economy's focus on other service-oriented industries. The entry and operations of AgriNurture Inc. (ANI), a fully-integrated agricultural company, is unique in the country. This advantage secures its revenue generation and other company operations.

B. Business Plan

Brand Identity

ANI is becoming a trusted brand in the agricultural produce sector. It supplies fruits and vegetables to the Supermarkets and Hypermarkets of retail giant SM. Most of the fruits and vegetables sold in SM's grocery stores are products of ANI. Though they were able to capture this part of the market of one of the largest retail establishments in the country, there are other large industry players that are widely known for their fruit products as well. In this case, ANI's brand name must be aggressively pushed and established.

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Other Barriers to Entry

The country is very much acquainted with agricultural production and management. Despite the fact that ANI is a well-integrated company, the fast development of technology and different farming methods may soon allow other groups to catch up.

Distribution Model

First Class Agriculture, a subsidiary of ANI, supplies fruits and vegetables daily to 16 SM Supermarket stores and 11 Makro branches. Fresh and Green, on the other hand, is the subsidiary that supplies produce to SM Hypermarkets. These two companies under ANI cover both the NCR and other parts of Luzon.

Product

Except for processed and other dried goods, ANI's products are naturally perishable and must be purchased and consumed at once. Since its goods are basic necessities for living, its products are purchased frequently despite changes in price.

Supply

ANI will have a secure supply of its goods due to the growing number of contract growers. Having numerous farms located all over the country also helps keep a steady supply of goods despite varying weather conditions per area. Weather disturbances and its adverse effects to the supply and distribution in an area are addressed as other farm locations may provide the product and the supply needed.

Market Strategy and Customers

ANI supplies fruits, vegetables, juices, and other processed products to SM Supermarkets and Hypermarkets, hotels and restaurants, and through kiosks in different malls and establishments. It also exports its goods to the markets in Middle East, North America, and other parts of Asia.

Revenue Stream

Being a supplier of SM Supermarket and Hypermarket assures a steady revenue stream. However, revenues may be largely affected by varying operation outcomes. Overseas sales and volume production are other factors that carry a huge chunk in total sales and operations of the company. The firm's expansion in all sub-groups of the local markets will also hold significant shares in the future overall revenue of the company.

Product Cycle

Produce depends on weather conditions and on what crops are in season. Despite differences in the topography of its farming areas, this still works to the advantage of ANI. Crops are produced in areas which suites them best, addressing the demand in all other markets. The locations of farms also help in the production of goods, serving as supply buffer in case of bad weather conditions in other areas.

Product and Market Diversification

Mango contributes heavily to ANI's total sales and it generates the highest revenues in exports. Aside from other fruits and vegetables, the firm also processes a variety of dried goods, beverages, and processed foods. These products are distributed to grocery stores, hotels, and other establishments.

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Growth Driver: Acquisitions

ANI acquired 100% of its current subsidiaries in the previous years. Growth was primarily driven by the incorporation of subsidiaries, which are essential in its operations. Expenditures are mostly for facilities and plans of market expansion.

On a long term perspective, ANI will be rapidly expanding not just in the Philippines but in other countries as well. The sustainability of its supply chain will impact earnings positively.

Summary

ANI has an assured supply chain distributing to establishments and other areas, both of which have high demand for its products. The company is currently in the process of building a strong brand name as it partners with other large fruit and vegetable distributors or sellers. Other than that, a strong demand for its products will always secure revenues for the firm. The company's market ranges from large grocery stores, to wet markets, to kiosks, and even other countries. Though its acquisition of other subsidiaries is what initially propels its growth, ANI is expected to perform better and deliver robust earnings in the future.

C. Management

Key Executive and Board

The firm is headed by those with strong backgrounds and expertise in their respective fields. Majority of the company is owned by CEO Antonio Tiu, followed by other Chinese and Filipino shareholders. Other members of the Tiu family likewise own a part of the company although their stakes are not very substantial.

Growth Stability of Earnings

Revenues are steadily growing at an average of 30% per year. Net Income, similar to its historical results, is expected to also attain growth every year albeit at a slower pace. Earnings per share are also seen to jump impressively in the future as profit margins improve.

Stock Ownership

Share ownership may be affected and vary after the company has undergone its follow-on offering. Since it was listed by means of introduction, the firm is required to conduct a follow-on offering within a year.

Summary

The AgriNurture board is led by officers who are truly known and are experts in their own areas. Margins are also seen to be maintained with growth averaging at 20% to 30% per year.

D. Financial Health

Quick Test: A Look in the Past Years

Profitability. The company was able to maintain positive earnings over the past two years. However, Operating Cash was negative in 2008 while ROA, though it was somehow maintained at a certain margin, showed a slight deceleration. Looking more closely then, growth in Total Assets was seen to be faster than the growth of Net Income. This was primarily due to the jump in Trade Receivables. This goes to show that though assets increased for the following year, it did not exactly translate to an improved return or better earnings for the investor and for the company. One cause for this is could be the varying demand per season and the consumption pattern of consumers. The quality of earnings thereby is affected.

Debt and Capital Status. Certain Balance Sheet items for the past year pointed to increasing debt load for the company. Total Liabilities outpaced the growth of the firm's Total Assets for 2008. Shrinking current ratio signals the need to acquire more capital for the firm to run its business in the future and to support its expansion.

Efficiency in Operations. Gross Margins of the company vary from year to year but averages at around 17% for the past three years. Despite a few low points in the company's past financial condition, it was able to manage and keep its Gross Profit Margins in check. On the other hand, asset growth outpaced sales growth mostly due to increasing receivables. Such case may post a concern on the company's earnings.

E. Profitability

Sales Growth

Sales grew impressively for the company mostly due to the recognition of revenues from its acquisitions. For the next years we expect sales to stabilize and achieve normal levels unless aggressive expansion and investments are undertaken. During the first half period, ANI showed its strong potential in the agri-business when it grew by more than 10 percent. Since peak season is fast approaching, consumer demand and consumption will pick up and bring sales higher. So far, the company seems on track with achieving remarkable growth.

Period	Dec-06	Dec-07	Dec-08	H1 2008	H1 2009
Sales	106,887,850	623,874,393	777,964,692	405,712,102	449,656,429
Sales Growth (%)		483.67%	24.70%		10.83%

Margin Analysis

As mentioned earlier, the company was able to sustain its Gross Margins at an average of about 17% each year. Its Operating Margins improved through the past three years and increased significantly. This indicates well-kept levels of costs and other expenses on the company's operations. Meanwhile, gross profit for the first half declined to 16% compared to the same period last year on account of inflation and consumer consumption. On a better note, Operating Margin improved for the said period.

Period	Dec-06	Dec-07	Dec-08	H1 2008	H1 2009
Gross Margin	16.87%	18.21%	17.23%	22.65%	16.04%
Operating Margin	1.05%	2.05%	3.07%	6.24%	5.88%

Return on Assets

The company's ROA slightly deteriorated for the past year. This was because of the rise in Receivables, which outgrew the pace of Sales. However, company performance during the first half, which showed better profit and well-managed receivables level, signaled an improved ROA.

Period	Dec-07	Dec-08	Jun-09
ROA	1.99%	1.67%	2.79%

Cash Flows

Operating activities and increasing costs for expansion and other operations, led cash flow to end negatively.

F. Forecast Earnings

ANI is expected to arrive at healthier financial positions due to its improving operations and growing market. Revenue growth is pegged at 20% to 30% per year due to its budding potential while profit margins improve over a five year period. Return on Equity is also expected to rise significantly due to the remarkable jump in profits.

Growth: Aggressive Expansion

In the Philippines, ANI is the sole fully-integrated agricultural business with a guaranteed domestic market hold and expanding export market. Its growth potential on the revenue side is to be accomplished through continuous widening of its product distribution and market. The firm is confident that with its aggressive expansion and expertise in all aspects of the business, it will be able to attain a stunning increase in revenues.

Sustainable Supply

The firm recognizes the need to always have an assured amount of supply. Prospective suppliers are tapped by training contract growers located in different regions in the country. With an agreed share and division in sales and production, ANI earns not just in the sale of the produce but also in providing training to the contract growers.

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As the company utilizes all its potential through investments and expansion, revenues, net income and other financial ratios are expected to improve drastically. All other factors that may skew company operations especially for a firm that is aiming for rapid expansion may have already stabilized and fully accounted into the company after a few years.

Forward Estimates *(in millions)*

	2008	2009F	2010F	2011F
Revenues	778	1,167	4,500	5,625
EBITDA	14	109	508	628
Net Income	9	76	356	440
EPS	0.06	0.43	1.99	2.46
BVS		4.30	6.29	8.75
ROE	4.58%	9.95%	31.67%	28.15%

The table shows estimates of ANI's future earnings. Growth on the average was kept at 20% to 30% per year. However, the widening export market, increase in customers, expanding domestic market and contributions from the wet market will cause a huge jump in ANI's sales next year. Its aggressive expansion activities could push 2010 revenues to four times the company's expected sales this year. The company's efforts to widen its market base and its vast growth potential will eventually drive its attractiveness to investors. Meanwhile, profit margins will be maintained at around 8% for the forecast period. ROE would likewise pick up after such aggressive expansion.

G. Valuation

The valuation method discussed below was used as a way to evaluate the company's future operations and to determine its fair value. Based on a Relative Valuation standpoint with comparables of other similar companies in the Asia-Pacific region, the target price for a twelve-month period is P26 per share. This translates to a 2010 P/E of 13.21x and a P/B of 4.18x. The high growth potential is reflected on the company's valuation.

The promising growth potential of the company will be a jewel in investors' eyes. The confidence in ANI's future performance could bring in more investments, more projects, and therefore a robust and solid growth.

Other Interests

ANI is constantly on the look out for other prospective investments, expansion opportunities and possible partnerships. After the slump in most economies, the turn may soon be seen. Agriculture, though past growth rates were quite small, could see a brighter outlook especially with better players in the field. ANI may benefit from this in the sense that it is no ordinary agri-business. It has capabilities and expertise in its chosen field and assesses its strengths and opportunities well. It is the sole Philippine company which operates at a very substantial scale. The firm continues to evaluate its conditions and future prospects.

H. Big Basket

We are seeing a bright future for AgriNurture due to the following reasons:

- It is the only fully-integrated agri-business in the Philippines
- It is rapidly expanding both in the domestic and external markets.
- The company has sustainability of supply due to the increasing contract growers.
- Revenue contribution from the domestic market (groceries, wet markets, establishments, etc.) and export markets will remain strong.
- ANI has a very big potential to be one of the largest agribusiness that will drive growth to the country.

Given these reasons, AgriNurture is promising a large and bountiful harvest in the future. Factoring in the mentioned areas of growth, we reiterate that the twelve months target price for the stock is P26 at a P/E of 13.21x and a P/B of 4.18x. We encourage investors to take this opportunity to be a part of ANI's success.