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CORPORATE UPDATE

5 Dec 2011

Sozo Global Ltd 		Market Price:	RM0.605
		Market Capitalisation:	RM283.14m
		Board:	Main
Stock Code/Name:	5187/SOZO	Sector:	Food & Beverage (Manufacturing)
Recommendation:	Buy	Target Price:	RM0.80 (32.23% upside)

Analysts: Ken Lai & Edmund Tham

3Q11 Results & Corporate Updates 30/9/2011

Latest Financial Results (Unaudited Consolidated Results)

RM (m)	3Q11	3Q10	Change	9M11	9M10	Change
Revenue	110.5	110.9	-0.36%	313.0	306.8	+2.02%
Pre-Tax Profit	37.9	37.8	+0.26%	118.9	99.8	+19.14%
Net Profit	29.1	28.2	+3.19%	89.8	74.5	+20.54%
Basic EPS (Sen)	6.22	8.64	-28.01%	19.19	22.79	-15.80%

*Source: Company

*Weighted average number of share for 2011 and 2010 are 468mil and 300mil respectively

SOZO GLOBAL LIMITED (SOZO) 3Q11's revenue was slightly lower (-0.36%) compared to the corresponding period in year 2010. Nevertheless, the Pre-Tax Profit and Net Profit were slightly improved by 0.26% and 3.19% respectively. The higher profit despite of the deteriorated revenues is mainly due to the increase in sales of higher-margin products (Gross Profit improved to 36% from 34%), and lower other operating expenses (Reduction of foreign exchange losses). Nevertheless, the nine-month figures were improved in general on y-o-y basis. The revenue increased by 2.02% whereas the Pre-Tax Profit and Net Profit surged by 19% and 20% respectively. The lower EPS is due to difference in share-base between the 2 reporting periods.

9 Months Ended 30th Sep 2011

RM (m)	RTS Food	Frozen Food	Others	Total
Revenue (RM)	261.5	48.7	2.8	313.0
Percentage of Revenue (%)	83%	16%	1%	100%
Segment Gross Profit (RM)	99.1	23.2	1.0	123.3
Gross Margin (%)	38%	48%	36%	39%

Source: Company, Bursa

In terms of product segmentation, the Ready-To-Serve food products (RTS) remained as SOZO's key market, with reported sales of RM261.2 mil from the RTS products segment, or 83% of its total revenue generated in 9M11 while revenue from frozen-food products constituted about 16% (RM48.7mil) of total revenue. In terms of profit margins, the frozen-food segment outperformed the RTS segment, with higher Gross Margin (48%) compared to RTS segment's (38%). Besides its largest direct revenue contributor i.e. China, their products are also exported to Japan, Korean, and European countries.

Issue Data

Last Price (RM)	0.605
52wk High (4/11/2011) (RM)	0.925
52wk Low (10/15/2010) (RM)	0.47
P/E (Trailing 12m) (x)	2.42
Gross Dividend Yield (%)	2.98
Price to Book Ratio (x)	0.71
Price to Sales Ratio (x)	0.69
Shares Outstanding (RM'Mil)	468.00
Market Cap (RM'Mil)	283.14
Free Float (%)	32.47
Adjusted Beta	1.172
Financial Year End	31st Dec

*Source: Bloomberg, Company

*Data based on 5/12/2011

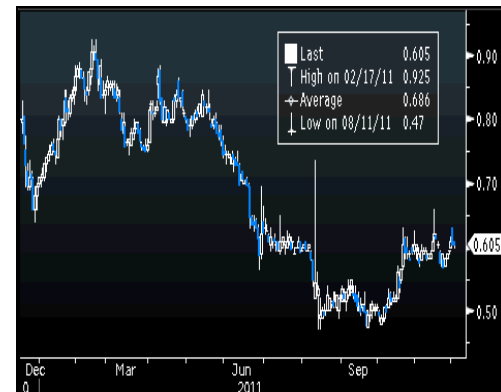
Per Share Data

EPS (Trailing 12m) (RM)	0.25
Gross Dividend per Share (RM)	0.018
Book Value / Share (RM)	0.85
Sales / Share (Trailing 12m) (RM)	0.88
Cash Flow / Basic Share (Trail.12M)	0.06

*Source: Bloomberg, Company, Mercury Securities

*Data based on 5/12/2011

Price Chart



Date: 5/12/2011

*Source: Bloomberg



Venturing Into Halal Food Market. Earlier on, in October 2011, SOZO announced that the group planned to invest RM15mil to set up a Halal processing plant in Malaysia. SOZO is in the midst of looking for suitable land/partner and the ideal location would include proximity to the port and workforce. Besides this, currently the group is also setting up a third processing plant in Shandong China, specifically for Halal-certified products. We remain positive on SOZO for this new business development as the Halal food products is a huge market and one of the fastest growing F&B industries across the world. According to the Malaysia government's source (HIDC), the global value for trade of Halal foods and non-food products is estimated at USD2.1 trillion annually. With Malaysia's aspiration to become a global leading hub for the production and trade of Halal products and services, SOZO will gain full support from Malaysia's local government in its Halal product's business development. The Malaysia government, through its agency Halal Industry Development Corporation (HIDC), had taken initiatives to assist Halal-related business owners in Malaysia by providing training and guidance, a friendly operating environment, and other business support to them in order to foster the growth of local Halal industry.

In addition, according to HIDC, all the Halal-related business owners will enjoy easier trade and market access to member countries of the Organization of Islamic Countries (OIC). With SOZO's expertise and experiences in food product's market, strong presence in Asian countries, and strong support from the government, we see this definitely a very positive development for SOZO, and we expect this will be a main catalyst in stirring SOZO's growth in coming years as the establishment of the Halal food production line in Malaysia will enable SOZO to access and penetrate into Malaysia and Middle East markets, where a large majority of the populations are Muslims.

Upstream Business Expansion. SOZO has completed a feasibility study on duck farming in late 2008, and they will be moving upstream to establish a poultry, farming, and breeding facilities in China. This will effectively enhance SOZO overall competitiveness, ensure long-term supply of raw materials, improve control of in-house production chain, and cost cutting. Hence, we expect this will effectively improve SOZO's bottom-line. The management team has a wealth of experiences in poultry farming and breeding business. They also revealed that they are recruiting a new experienced manager to be in-charge of duck farming and processing business. Hence, this will effectively minimize its operational risk.

Expanding Its Global Footprints. The management will continue focus on the development in the RTS food market. Besides of its existing long term clientele from China (93% of total sales in 2010) and Japan (7% of total sales in 2010), SOZO is also aggressively expanding its business in US, Europe, and ASEAN markets. Most of its China buyers are actually wholesalers and distributors that would re-export the food items to Japan and Korea. Recently, SOZO's management revealed that their group is expected to receive the necessary export approvals to Singapore by the end of year 2011. In addition, they also will set up a marketing office and production plant in Malaysia and Singapore to cater for the demand from ASEAN markets. RTS foods are increasingly popular and widely accepted by the consumer, especially in developed markets like Japan, Korea, US, and Europe. According to the independent market research done by Protégé Associates, the global RTS food market has experienced rapid growth in past few years. The China's market size has grown from RMB13.54 billion in year 2008 to RMB17.82 billion in 2011. This is mainly attributed to the change in eating habits due to fundamental society lifestyle changes. SOZO is one of only 10 China manufacturers approved for the export of processed meats to Japan, and one of only 3 China manufacturers approved for the export of cooked poultry and meat products to Japan. As such, SOZO is planning to increase its production capacity by establishing a third production factory in Shandong, China in order to satisfy the increasing demand from its clientele. The new factory which is expected to be completed by year 2012 will boost up SOZO's capacity by approximately 38% per annum. Currently, SOZO has two existing production plants, both located at Shandong China with total production capacity of 38,880 tons annually. Meanwhile, the plants are well utilized with high utilization rates since year 2006, except in year 2008 and 2009, when the world was experiencing a recession and SOZO suffered due to the weak market demand and weak consumer sentiment during the years.

Production Capacities							
(Unit: MetricTonne)	2006	2007	2008	2009	2010	2011	2012E
Quick Freeze Line	14400	21600	27360	38880	38880	38880	56160
Canned Food Line	7200	7200	7200	7200	7200	7200	7200
% Utilisation	73.40%	91.40%	54.00%	66.88%	86.21%	90%	-

*Source: Company

*The capacities are measured by quick freeze line and canned food line as the output is via by these packing methods.

* 2012E reflect expected figures.



Khazanah Is Long-Term Strategic Investor. To set up its Halal production plant in Malaysia, SOZO has paired up with a Malaysian investor known as Agro Treasures Sdn Bhd, a special purpose vehicle (SPV) set up by Malaysia state-owned investment arm Khazanah Nasional Bhd and private equity fund Vida Incorporated Sdn Bhd to undertake investments in agricultural and foods industry. Khazanah holds 15% stake in the SPV while Vida Incorporated Sdn Bhd owns the remaining 85%. Currently, Agro Treasures Sdn Bhd holds approximately 10% of SOZO's equity stake.

Valuation. We value SOZO share's price at RM0.80 and set a **BUY CALL** for the counter, with 32% potential upside from the current market price. Our target price is pegged to 2.5x and 0.92x of our forecasted EPS and book value per share of RM0.32 and RM0.87 respectively, for year 2012. We like SOZO's low gearing, cash rich situation (with RM280 mil cash and bank deposit according to its latest quarterly financial report), and its new-business model. Its plan in venturing into the Halal food market will allow SOZO to access a fast-growing industry and foster its business growth in Asia's Islamic food market (Middle East, Malaysia and Indonesia). Hence, this will effectively reduce its reliance on the China, Japan, and Korea markets. With Khazanah as its strategic investor, and supportive policy and assistance for Halal business development from Malaysia's government authority (HIDC), the operational risk is minimal. The Group has been continuously exploring various Halal-complied food producers and lands for its set-up in Malaysia. To-date, SOZO has identified a Halal food producer and land in Malaysia, and has entered negotiation prior to signing a contract. In addition, the upstream expansion of setting up a poultry and breeding facilities (specifically duck) in its home country will help SOZO to cut down its cost and ensure a stable long-term supply of raw materials once it's started operations. The poultry and breeding facilities are expected to begin commercial production by 1H2012. Overall, it would indeed be a sweet harvest for SOZO once all of its plans are materialised and started contributing to its bottom-line.

As SOZO is based in China, we compare its fundamentals with similar China-based frozen and packaged foods companies. Generally, investors in China are more bullish and this can be seen via its high valuation ratio compared to SOZO, despite SOZO's stronger fundamentals.

Peer Comparisons (China)	RM	Trailing 12 months (Times)			Trailing 12 Months % (Current.)				
Company Name	Mcap (M)	P/E	P/B	P/S	Net Margin	ROE	ROA	Div Yield	Debt/Equity
Average (Excluded Sozo)	4928	66.48	5.79	3.53	6.92	9.75	5.43	0.48	27.07
Average (Excluded Sozo & Outliers)	1852	56.14	4.39	2.23	3.26	8.23	5.43	0.48	27.07
Sozo Global Ltd	285	2.05	0.89	0.50	24.64	43.27	35.26	3.00	2.26
Henan Shuanghui Investment & D	23384	79.01	14.18	1.33	1.86	18.85	8.91	0.63	18.78
Shanghai Dajiang Group	1397	128.49	8.41	2.32	1.80	6.75	1.87	0.00	1.79
Jinzi Ham Co Ltd	1174	39.42	3.06	11.36	28.90	9.98	8.64	0.61	6.10
Henan Huaying Agricultural Dev	1230	26.85	2.51	1.49	7.03	9.66	4.17	1.19	90.48
Shandong Minhe animal Husbandry	2238	71.78	5.13	3.15	4.43	7.47	4.14	0.34	63.54
Shandong Delisi Food Co Ltd	1621	75.81	2.69	2.34	3.08	3.61	2.88	0.00	0.63
Zhengzhou Sanquan Foods Co Ltd	3449	43.97	4.53	2.72	1.34	11.93	7.36	0.57	8.15

*Source: Bloomberg

*Price is based on 5/12/2011

*The China's peers are listed on ShenZhen and ShangHai stock exchange.

*Sozo's Dividend yield is based on Gross Dividend of RM0.018 declared on 2/6/2011.

The list below is Malaysia's domestic food and beverage companies listed on Bursa.

Peer Comparisons (Malaysia)	RM	Trailing 12 months (Times)			Trailing 12 Months % (Current.)				
Company Name	Mcap (M)	P/E	P/B	P/S	Net Margin	ROE	ROA	Div Yield	Debt/Equity
Average (Excluded Sozo)	169	18.31	0.96	0.55	-2.88	-2.92	1.49	1.37	77.34
Average (Excluded Sozo & Outliers)	169	14.21	0.66	0.55	-2.88	5.52	1.49	1.37	30.58
Sozo Global Ltd	285	2.05	0.89	0.50	24.64	43.27	35.26	3.00	2.26
Sinaria Corp Bhd	22	9.92	0.40	0.18	1.84	4.13	2.16	4.17	66.10
Rex Industry Bhd	27	N/A	0.22	0.20	-3.93	-2.64	-1.91	0.00	29.92
Kawan Food Bhd	112	8.98	1.09	1.14	11.97	12.91	10.32	1.51	4.95
KBB Resources Bhd	32	N/A	0.78	0.31	-30.98	-42.20	-11.33	0.00	306.17
Silver Bird Group Bhd	169	30.62	0.79	0.27	1.07	2.76	1.56	0.00	49.09
Mamee Double Decker Bhd	654	23.72	2.45	1.22	2.74	10.46	8.12	2.55	7.80

*Source: Bloomberg

*Price is based on 5/12/2011

*Sozo's Dividend yield is based on Gross Dividend of RM0.018 declared on 2/6/2011.



We compared the share performance for all the China-based companies on Bursa since they listed. All the counters have underperformed and are currently trading below their IPO price. Besides the volatile financial markets and the world's slowing economic growth, other possible causes could be the lack of liquidity, investors' negative perception and lack of confidence on the Chinese companies, and weak investors' sentiment in IPO market in year 2011. Nevertheless, we opine that with concerted efforts from various parties, the investing public's perception on China-based companies listed here can be improved. This would include efforts such as – addressing corporate governance issues, appointing global auditing firms, hiring top PR/IR agencies, arranging site visits and conducting investor road-shows.

Peer Comparisons (China Companies Listed in Malaysia)				RM Trailing 12 months (Times)				Trailing 12 Months % (Current.)				
	Company Name	IPO Price(RM)	Cur. Price(RM)	Change	Mcap (M)	P/E	P/B	P/S	Net Margin	ROE	ROA	Div Yield
Average (Excluded Sozo)	1.07	0.42	-53%	168.50	1.91	0.57	0.37	18.71	26.00	20.21	5.99	4.21
Average (Excluded Sozo & Outliers)	1.07	0.42	-53%	187.20	1.91	0.57	0.37	18.71	26.00	20.21	5.99	4.59
Sozo Global Ltd	0.80	0.61	-24%	285	2.05	0.89	0.50	24.64	43.27	35.26	3.00	2.26
China Ouhua Wine	0.60	0.30	-50%	197	2.80	0.73	0.71	25.39	17.36	14.70	9.22	0.00
Xingquan International	1.71	0.86	-50%	264	2.13	0.55	0.36	16.84	29.62	24.15	2.91	5.99
Multi Sports Holdings	0.85	0.41	-52%	189	2.44	0.63	0.41	20.74	27.83	22.07	5.95	4.48
Xidelang Holdings	0.58	0.31	-47%	136	1.59	0.55	0.27	16.75	39.19	25.70	3.23	8.87
K-Star Sports Ltd	2.15	0.28	-87%	75	0.57	0.36	0.08	13.15	16.74	14.76	5.71	3.64
Maxwell International	0.54	0.37	-31%	150	1.94	0.62	0.38	19.39	25.24	19.91	8.93	2.28

*Source: Bloomberg

*Price is based on 5/12/2011

*Sozo's Dividend yield is based on Gross Dividend of RM0.018 declared on 2/6/2011.

SOZO

Valuation Ratio (x)

	12/07	12/08	12/09	12/10	12/11E	12/12E
P/E	N/A	N/A	N/A	2.1	2.3	1.9
EV/EBIT	N/A	N/A	N/A	0.6	0.4	0.2
EV/EBITDA	N/A	N/A	N/A	0.6	0.5	0.3
P/S	N/A	N/A	N/A	0.7	0.7	0.6
P/B	N/A	N/A	N/A	1.0	0.7	0.7
Div Yield (%)	N/A	N/A	N/A	N/A	3.4	4.2

*Source: Bloomberg, Mercury estimates

*Calculation is based on market price of RM0.605 per share on 2/12/2011

*Earnings are based on diluted EPS

*The company is listed since December 2010.

SOZO

Leverage and Coverage Ratios

	12/07	12/08	12/09	12/10	12/11E	12/12E
Current Ratio (x)	1.1	1.8	2.9	10.1	6.1	5.8
EBIT/Interest (x)	138.7	227.7	794.0	406.5	452.1	463.7
Tot Debt/Capital	0.23	0.14	0.23	0.02	0.04	0.04
Tot Debt/Equity	0.30	0.17	0.30	0.02	0.04	0.04
Eff Tax Rate %	35.6	25.0	25.5	25.8	25.2	25.1

*Source: Bloomberg, Mercury estimates

*High interest coverage ratio is partly due to its low borrowing.

**SOZO****Dupont Analysis**

	12/07	12/08	12/09	12/10	12/11E	12/12E
Profit Margin (%)	19.20	22.90	25.20	24.60	29.00	29.80
Asset Turnover (x)	2.03	2.10	1.80	1.43	1.08	1.11
Financial Leverage (x)	2.41	1.86	1.53	1.23	1.15	1.15
ROE (%)	94.10	89.50	69.40	43.40	36.00	37.80
Earning Retention Ratio (%)	100.00	100.00	100.00	100.00	92.00	92.00
Growth Rate (%)	94.10	89.50	69.40	43.40	33.10	34.79

*Source: Bloomberg, Mercury Securities estimates

*Lower Asset Turnover in year 2011 onwards is due to higher long-term assets reported (Intangible assets and factory construction in progress)

*Growth Rate = ROE x Earning Retention Rate

SOZO**P&L Analysis**

RM'Mil	12/07	12/08	12/09	12/10	12/11E	12/12E
Revenue	98.8	200.1	313.9	387.8	419.0	503.0
Operating Profit	29.8	61.3	106.4	128.9	162.9	200.6
Depreciation	1.2	1.3	2.0	2.2	2.3	2.5
Interest Expenses	0.2	0.3	0.1	0.3	0.4	0.4
Pre-Tax Profit	29.5	61.0	106.3	128.8	162.5	200.2
Effective Tax Rate %	35.6	25.0	25.5	25.8	25.2	25.1
Net Profit	19.0	45.7	79.2	95.5	121.7	149.9
Operating Margin %	30.2	30.6	33.9	33.2	38.9	39.9
EBITDA Margin %	31.4	31.3	34.5	33.8	33.0	34.0
Net Margin %	19.2	22.9	25.2	24.6	29.0	29.8
Adjusted EPS (RM)	N/A	N/A	N/A	0.21	0.26	0.32
Diluted EPS (RM)	N/A	N/A	N/A	0.21	0.26	0.32
Sales Per Share	N/A	N/A	N/A	0.83	0.90	1.07
DPS (RM)	N/A	N/A	N/A	0.00	0.01	0.03

*Source: Bloomberg, Mercury Securities estimates

*The company is listed since December 2010.

*Adjusted EPS excludes extraordinary gains and losses and one-time charges.

*Diluted Weighted Average Share for year 2011-2012 is assumed to be 468mil.

*Cash gross dividend of RM0.018 was declared on 2/6/2011, paid on 26/9/2011.

SOZO**Balance Sheet Analysis**

RM'Mil	12/07	12/08	12/09	12/10	12/11E	12/12E
Total Current Assets	35.47	91.45	173.76	296.81	297.00	302.00
Total Long Term Assets	26.38	36.81	39.80	35.50	146.00	163.00
Total Asset	61.85	128.25	213.56	332.30	443.00	465.00
Total Current Liabilities	33.52	51.56	60.08	29.40	49.00	52.00
Total Long-Term Liabilities	2.97	0.00	6.94	6.70	8.00	7.00
Total Liabilities	36.49	51.56	67.01	36.11	57.00	59.00
Total Shareholders Equity	25.36	76.69	146.55	296.19	386.00	406.00
Book Value/Share (RM)	0.06	0.19	0.49	0.63	0.82	0.87
Tangible Book Value/Share (RM)	0.05	0.17	0.48	0.62	0.64	0.68

*Source: Bloomberg, Mercury Securities estimates.

*Share outstanding currently is 468mil.

*Long term assets increase significantly is due to increased in intangible assets and factory construction in progress.



VISIT TO SOZO – SHANDONG, CHINA

(photos courtesy of Sozo)

“Sozo group’s 2nd factory”



“Cleanliness essential in food processing area”



“Construction site for Sozo’s new 3rd factory”



“Delicious-looking duck meat for RTS segment”



“Plenty of land available for factory expansion”



“Vegetables being processed”





“Under construction – affordable duck housing!”
(incubation area for duck farm)



“Under construction – exterior of duck housing”



“Under construction – interior of duck housing”

