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INTERVIEW – China Green Agriculture seeking organic growth for now  
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China Green Agriculture (Bulletin Board: CGAG), one of the country's largest non-traditional organic-based fertilizer firms, is planning to expand organically prior to reaching a critical mass.

In an interview with XFN-Asia, CEO Li Tao said its domestic market expansion strategy as well as its decision to list shares in the US are both part of its long-term strategic growth plan.

"We want to base our current growth on gradual market share expansion and output increases, especially of our liquid organic fertilizer lines. Looking ahead, after we reach a certain scale, then we will begin shifting toward growth through M&As.

"But for the near term, we don't want to acquire other liquid organic fertilizer companies, as we want to rely on our own organic growth as we can better control quality as well as control our market share expansion. After we reach a critical mass, we will turn to M&A-based growth," Li said.

He said the northern China-based firm's decision last year to list in New York was a platform from which to seek future investment, or pick up attractive acquisitions.

"We chose to list there as the capital market is quite advanced, and the opportunity to move onto the NYSE or Nasdaq is relatively fast from the Bulletin Board. Also, the M&A process in China for domestically-listed firms is much slower and regulation-heavy than for US-listed firms. So being listed there allows us to seek M&As if we so choose, and it's much easier than if we listed at home."

Li said China Green Agriculture was "quite keen" to grow its various product divisions through M&As and strategic investment, "but only after we reach a critical mass in terms of our market size. This is much easier as a US-listed firm."

He added that the company had no current plans to list elsewhere.

China Green was looking for organic growth to bring it to a certain level of development before it began looking to buy up competitors.

"We are not now looking for spectacular growth, but instead are hoping that the quality and reliability of our products wins us a steadily increasing customer base. This is the best sort of marketing. It also allows us to better control our distribution when sales don't exhibit an over-rapid expansion," Li said.

He said he has seen "many examples" in China of peer companies targeting over-rapid sales growth or market expansion.

"In the end they almost invariably lose control of distribution, as well as lose touch with what the target customers want. We want to avoid these problems, and are targeting gradual market share expansion. We also want to be able to adjust existing capacity to meet demand growth without having to rush to blindly add new and possibly substandard or redundant capacity."

This organic growth strategy also allows a company to refurbish and upgrade existing capacity rather than opting for more expensive and risky greenfield expansion.

"This strategy of ours also allows us to focus on our fastest-moving products for establishing a solid growth foundation moving forward. Our leading-edge production technology and high-quality finished products affords us this luxury, and will guarantee us a steadily increasing domestic market share, and at a sustainable rate."

He said this didn't tie the company's hands in terms of expensive expansion costs.

"We are therefore not forced to base our future growth solely on an expensive combination of advertising and marketing budget outlays as well as vast price adjustments for finished products."

He said the company was targeting 40,000 tons of output in the year-to-June 2009.

"And we hope that we will have enough capacity in place by 2010 to meet demand at that point. That is our goal, and we feel it is one of our cost advantages. We can't simply expand capacity haphazardly each year. This will bring serious pressure to our margins and never allow us a truly bumper year."

Upstream costs more than doubled earlier this year for traditional chemical fertilizer firms due to higher prices for key precursors, but China Green's liquid organic costs were largely unhit.

"It gives us a lot more breathing room on costs compared with our rivals in the traditional sector. But we have no plans to match their price rises yuan-for-yuan at this time," Li said.

China Green Agriculture's net profit for the year ended June stood at 7.8 mln usd, up 12.4 pct from the previous fiscal year due to strong sales of organic liquid fertilizer.

Revenue rose 48.9 pct to 22.6 mln usd, it said.

For the current fiscal year to June 2009, the company expects to achieve over 40 pct increase in revenue.

"We were not surprised by our year-to-June results. However, I still wasn't satisfied and expect us to do even better next reporting season. After all, the earthquake and other natural disasters earlier this year of course had a negative impact on us to some extent. And of course, last year we had a lot of one-time expenses related to our back-door listing," he said.

The company also incurred an over 500,000 usd fine in May for late documentation submissions related to the listing.

"So we fully expect to do better next time around, absent these one-off charges. Next year, we also expect to benefit from our unofficial status as an industry leader in the organic fertilizer industry in China.

"In addition, we are rapidly automating much of our capacity and cutting down on expenses in this way. This will be accretive to earnings, perhaps next year."

He said the company mainly sells to the domestic market, with only a tiny proportion of output being sold overseas.

"However, we are actively working to tap into foreign markets. We are especially keen on selling to the EU and North America, as these two markets are very big on the use of organic fertilizers, and their standards are the highest in the world. We are planning to put some of our products through a

raft of inspections and tests to come closer to meeting standards there for future export."

He said the Chinese government over the past several years been "aggressively pushing" for the development of "green" agricultural practices, and organic fertilizer has been aided.

"Our company has certainly benefited. But we also realize that we have to work for it, and can't simply expect the government to support a certain industry, and less so a particular company, without that beneficiary having a reasonable and sustainable business development plan."

He said the government has already implemented several green agricultural policies.

"But we must remember that the government does not offer direct support. Instead, we have to use the advantageous policies to effect growth on our own merits."