

ASIA BIO-CHEM GROUP

ABC-TSX V: \$1.18 — BUY

TARGET PRICE: \$1.75; PROJECTED RETURN: 48%

JOHN CHU, CFA 416.860.8636

John.Chu@researchcapital.com

ELLE CHEN WANG, Associate 416.860.6325

Q3 CONFERENCE CALL HIGHLIGHTS

EVENT – ABC HOSTED ITS Q3 RESULTS CONFERENCE CALL

We summarize Asia Bio-Chem's quarterly results conference call.

IMPACT – POSITIVE

New plant update: Management indicated that the new plant has not experienced any equipment or operational issues since it began production a few weeks ago. It expects to be at 90% capacity utilization by the end of the year. Commissioning of the plant is ongoing, and the plant as well as the logistical aspect should be fully completed by early December.

Prices should be stabilizing: Management stated that starch prices for the quarter were the highest in the company's history. While prices will continue to fluctuate, the company does not expect starch prices to fall too far from current levels. An improving economy, rising sugar prices, a shortfall of sugar in China, and new sweetener plants opening up in Southern China (e.g. Guangdong) are expected to drive the demand for starch going forward, and help keep prices near current levels, if not push them higher. Prices for gluten, fiber, and germ are beginning to stabilize as well, according to management. Subsidies to the pork and poultry sectors have provided underlying support for feed demand, which is a key market for ABC's by-products.

Negotiating a new operating bank line: ABC announced that it was close to securing a new RMB200 million bank line which will help provide near-term financial support for working capital, etc. as the new plant ramps up. The deal is expected to be announced shortly and the terms should be pretty favourable to the company.

Forecast revised down modestly for 2010: With margins showing Q/Q improvement but at a more modest rate than we had forecasted for Q3, we have taken a more conservative stance with the rate at which we expect gross margins (incl. D&A) to return to historical levels of low 20%. Our 2010 gross margin forecast is now 20.2%, from 21.5%. As a result, our EPS forecast declines modestly to \$0.30, from \$0.33. Should margins improve at a faster rate, we will move our earnings higher.

VALUATION – STILL CHEAP DESPITE RECENT RUN-UP

The stock still remains cheap, trading at ~3.5x forward P/E, which is below its peer group of 8x-12x.

RECOMMENDATION – NEAR-TERM CATALYSTS TO DRIVE STOCK UP

While the quarter was inline, we are comforted by the fact that volumes remain solid, pricing has held in (especially starch prices), and margins continue to show Q/Q improvement. Despite the strong run-up recently, the stock remains cheap. With more key milestones and catalysts coming due over the next few months, we believe that good upside still remains. We remain a **BUY**. While our new forecast is modestly lower, our target remains unchanged at \$1.75 as we moved out our valuation period one quarter.

Financial Metrics (C\$)

Share Price	\$1.18	Market Cap (mm):	\$90.6
Target Price	\$1.75	Basic Sh O/S (mm)	76.8
Return	48.3%	FD shares (mm)	76.8
52 Wk. High:	\$1.30	52 Wk. Low:	\$0.38

FY December 31	2007A	2008A	2009E	2010E
Prod'n (000 tonnes)	273.7	279.0	337.0	801.0
Sales (mlns)	\$75.9	\$84.4	\$104.0	\$224.3
EPS		\$0.17	\$0.06	\$0.30
P/EPS	N/A	6.9x	19.7x	3.9x
CFPS		\$0.20	\$0.11	\$0.39
P/CFPS	N/A	5.9x	10.7x	3.0x

2009 Quarterly	Q1A	Q2A	Q3A	Q4E
EPS	-\$0.01	\$0.01	\$0.01	\$0.05
CFPS	\$0.01	\$0.00	\$0.01	\$0.07

Target Valuation Parameter

4.0x Forward EPS (Q2/10 - Q1/11)



Courtesy of BigCharts.com

Key Risks

Declining demand from a slowing economy could be a risk to the company's top line. A narrowing in the price gap between corn prices (input) and corn starch prices (output) would squeeze the company's margins. Finally, if the company is unable to secure funding for expansion plans going forward, its growth would be hindered.

Corporate Profile

Asia Bio-Chem Group is a China-based manufacturer and distributor of corn starch and related products (corn gluten, germ and fiber) to the domestic market.

Upcoming Events

December: Daqing plant to reach full production.



RELEVANT DISCLOSURES APPLICABLE TO: ASIA BIO-CHEM GROUP

LIST OF DISCLOSURE TERMS:

1. Within the last 3 years, Research Capital Corporation has managed or co-managed an offering of securities by the subject issuer.
2. Within the last 3 years, Research Capital Corporation has received compensation for investment banking and related services from the subject issuer.
3. Research Capital Corporation is a market maker in securities of the subject issuer.
4. Research Capital Corporation and/or its affiliates collectively beneficially own 1% or more of any class of the issuer's equity securities.
5. Over the last 3 years, the research analyst has received compensation based on a specific investment banking transaction relative to the subject issuer.

ANALYST CERTIFICATION

Each analyst of Research Capital Corporation whose name appears in this report hereby certifies that (i) the recommendations and opinions expressed in this research report accurately reflect the analyst's personal views and (ii) no part of the research analyst's compensation was or will be directly or indirectly related to the specific conclusions or recommendations expressed in this research report.

Information about Research Capital Corporation's [Rating System](#), the distribution of our research to clients and the percentage of recommendations which are in each of our rating categories is available on our web site at www.researchcapital.com.

The information contained in this report has been drawn from sources believed to be reliable but its accuracy or completeness is not guaranteed, nor in providing it does Research Capital Corporation assume any responsibility or liability. Research Capital Corporation, its directors, officers and other employees may, from time to time, have positions in the securities mentioned herein. Contents of this report cannot be reproduced in whole or in part without the expressed permission of Research Capital Corporation. (U.S. Institutional Clients — Research Capital U.S.A. Inc. (a wholly owned subsidiary of Research Capital Corporation) accepts responsibility for the contents of this report subject to the terms & limitations set out above. Firms or institutions receiving this report should effect transactions in securities discussed in the report through Research Capital U.S.A. Inc., a Broker-Dealer Registered with the United States Securities and Exchange Commission).

Toronto 416.860.7600

Montreal 514.399.1500

Vancouver 604.662.1800

Calgary 403.265.7400

Regina 306.566.7550