

## Contact Info:

Ph: (250) 376-8989  
Fax: (250) 376-7858  
info@qiscapital.com  
www.qiscapital.com

Research  
Doren Quinton

Research Assistants  
Josh Kier

# INDEPENDENT RESEARCH



## Asia Bio-Chem Group Corp. (ABC: TSX-V)

Date: January 12, 2009  
Price: \$0.56



### KEY INFORMATION

Fiscal Year-end	December 31
52-Week High/Low	\$1.50 - \$0.38
3-Month Avg. Daily Trading Volume	48,588 shares
Market Capitalization	\$43.0 million
Enterprise Value	\$26.2 million
Book Value per Share (Sep. 30)	\$0.91
Current Ratio	5.4
Gross Margin	23%
LT Debt to f2008e CF	0.5
LT Debt to Equity	0.1
Price to f2007 Earnings	n/a
Price to f2008e Earnings	2.9

### FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Sep 30		9 Months Sep 30	
	2008	2007	2008	2007
Revenues	21,516	17,670	62,808	56,617
Net Income	1,946	4,945	8,008	13,255
per share	0.025	nm	0.184	nm
Cash Flow	3,250	3,557	10,467	12,355
per share	0.042	nm	0.241	nm

### BALANCE SHEET (as at September 30, 2008)

Current Assets	\$ 36,898,877
Total Assets	85,721,997
Current Liabilities	6,864,669
Long-Term Debt	6,656,269
Shareholders' Equity	69,530,019

### SHARES OUTSTANDING (as at November 27, 2008)

Basic	76,777,025
Fully-Diluted	88,672,948

\* management and insiders own approximately 15% of the company's issued and outstanding common shares

## Highlights:

- strong growth prospects for Chinese starch market
- recent acquisition to triple production capacity by Q3/09
- positive working capital of \$30 million (\$0.39 per share) and no bank debt
- trading at only 2.9X 2008e earnings and at 0.6 times book value

## COMPANY OVERVIEW

Asia Bio-Chem Group Corp. completed its qualifying transaction on June 19, 2008, through the reverse takeover of Asia Bio-Chem Group Company Ltd. Concurrent with this acquisition, the company completed a \$30 million private placement through the issuance of 25 million shares at \$1.20. Asia Bio-Chem has been operating since 2003 in the manufacturing, packaging, and sale of corn starch, germ, fibre, and gluten sourced from raw corn using various chemical processes. The company has 333 employees and produces approximately 270,000 tonnes per year of corn starch and related by-products from its facility located in Liaoning Province, China.

Effective September 13, 2008, Asia Bio-Chem acquired a 100% interest in Daqing Biochemical Company Ltd., a development stage corporation in the process of constructing a 600,000 tonne per year corn processing plant in Zhaoyuan County of Heilongjiang, China. Total consideration for the acquisition was \$24.7 million comprised of \$17.3 million in cash and a non-interest bearing promissory note of \$7.4 million. The Daqing plant is expected to be completed by mid-2009, tripling Asia Bio-Chem's processing capacity to 900,000 tonnes per year and making the company one of the largest producers of corn starch in China.

The Chinese domestic market is experiencing robust demand for agricultural products. Between 2003 and 2006, the Chinese starch market grew by 20% per year and is forecast to increase by about 10% per annum for the next 5 years. Growing demand for corn starch is

driven by China's growing population and changing diet as a result of the emerging middle class. The global corn starch industry is expected to be over 60 million tonnes per year representing over \$36 billion in revenues. The U.S. is the largest producer at 25 million tonnes per year followed by China at 11.4 million tonnes per year. Despite an abundant supply of raw corn, China is presently a net importer of starch due to increasing demand and limited processing facilities.

Corn starch is used in the manufacturing of hundreds of food products including MSG, fructose, maltose, glucose, dextrin, citric acid and lysine. Corn starch is also used to produce sugar alcohols such as sorbitol and mannitol and is used to produce a wide variety of modified starch products for the pharmaceutical and chemical industries. The corn starch manufacturing process also produces by-products such as corn germ, gluten and fiber. Corn germ is used to produce corn oil used for cooking or in producing margarine. The gluten and fiber products are used mainly by livestock farmers as animal feed.

Asia Bio-Chem enjoys several competitive advantages including raw material supply, proximity to transportation and infrastructure, and lower labour and capital costs. The company sources corn kernels from farmers, graineries and government owned distributors located around its manufacturing facility. The Daqing processing plant is also located in one of the most prolific corn growing regions in China.

Corporate production has increased by over 30% during the past 3 years to the current level of 270,000 tonnes of starch and related by-products. During the 9 months ended September 30, 2008, Asia Bio-Chem produced 153,817 tonnes of starch, 13,602 tonnes of gluten, 15,963 tonnes of germ, and 29,253 tonnes of fiber. The company has a good diversification of more than 30 major customers with none representing more than 10% of the total revenue base.

## FINANCIAL SUMMARY

For the 9 months ended September 30, 2008, revenues grew by 11% to \$62.8 million. Net income declined to \$8.0 million which includes \$1.4 million in stock based compensation expense. Margins stayed within the historical average of 22-25%.

It should be noted that upon expiration of tax holidays, the effective tax rate for the company's China operations will increase to 25%. Asia Bio-Chem currently pays 50% of this rate (12.5%) and will enjoy this reduced rate until the end of 2010.

## SUMMARY

Asia Bio-Chem has several key competitive advantages and supplies a growing and "recession resistant" industry. Management has successful operating experience with extensive industry and government relationships.

Upon completion of the Daqing facility in late Q2/09 or early Q3/09, the company is expected to triple its production capacity which should boost revenues by over 50% in 2009 and 75% in 2010. Earnings per share for 2009 should be close to expected 2008 results of \$0.19 due to share dilution; however, in 2010, the company should enjoy a full year of higher production with earnings per share improving to \$0.30 to \$0.35 based on a constant gross margin of 22%.

Asia Bio-Chem has a strong balance sheet with \$23.4 million in cash and positive working capital of approximately \$30 million. This cash is expected to be used to finance the completion of the Daqing facility with an additional \$15 to \$20 million required through bank arrangement. The company is presently trading at less than 3 times expected earnings for 2009 and at only 0.6 times book value. Asia Bio-Chem appears poised for significant growth over the next 2 years and has a stable financial foundation to weather the current economic turmoil.

### Asia Bio-Chem Group Corp.

130 Adelaide street West, Suite 2105

Toronto, ON M5H 3P5

Contact: Robert Wilson, Executive VP

Phone: (416) 603-7500

Email: [info@asiabiochem.com](mailto:info@asiabiochem.com)

Website: [www.asiabiochem.com](http://www.asiabiochem.com)

The corporate information provided in this report is for informational purposes only. While every effort has been taken to provide accurate information, the completeness or accuracy of such information is not guaranteed. Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The company profiled assumes no liability for the information presented. The information contained in this report should not be construed as offering investment advice. Those seeking direct investment advice should consult a qualified, registered, investment professional. This is not a direct or implied solicitation to buy or sell securities. Readers are advised to conduct their own due diligence prior to considering buying or selling any stock. Trading accounts, including personal, family and corporate accounts, under the control of QIS Capital management and employees currently hold 23,000 shares in the company profiled. QIS Capital does not have any financial agreement with the company mentioned in this report but reserves the right to trade in the securities listed. No stock exchange has approved or disapproved of the information contained herein. Copyright ©2009, QIS Capital Corporation.