

## Booming demand

## China Chemicals

**EcoGreen (2341 HK, HK\$1.57)**

**BUY (unchanged)**

### Target price: HK\$2.0 (+27.4%)

Key takeaways from Hong Kong roadshow:

**Major product market share expansion.** Given the strong global market demand for fast moving consumer goods (FMCG), EcoGreen expects its current 20% global market share in Dihydromyrecenol (DIHMOL) will further increase to 40% in the medium term. IFF (IFF US, US\$40.57, NR), the world's leading flavour and fragrance company and one of the major clients of EcoGreen currently captures around 30% market share DIHMOL. Major final downstream product applications of DIHMOL include personal care products, F&B products and other FMCGs.

**Strong clientele.** Yesterday, share price of IFF recorded a 52 week new high of US\$40.57 after management announced a US\$300m share repurchase program and increased regular quarterly cash dividend by 14%. In addition, IFF also indicated its strong confidence on the growth prospects. Like other major clients of EcoGreen, IFF is reducing the production of some products and will source directly from EcoGreen, which enjoys lower production costs while the high technological standard maintains.

**Production efficiency.** Production yield (the measurement for raw material used for output) for Dihydromyrecenol increased by 18% while production capacity increased to 16,000 tonnes from the previous 11,000 tonnes. We expect EcoGreen to achieve higher production yield when its production capacity increases to 20,000 tonnes by 2008.

**New clients.** China currently produces 77% of the global gum turpentine oil (the major raw material for EcoGreen). With EcoGreen's competitive pricing and technological innovations (the only enterprise uses fixed-bed catalytic technology in the world to produce terpene aroma chemicals), EcoGreen has recently acquired a new client from Indonesia (WINGS) in addition to its current major European and US clientele.

**Valuation.** The counter is trading at 8x FY12/06F P/E and 6x FY12/07F P/E while other international peers are trading at around 17x and 15x respectively. With surging global demand for FMCG, we expect upstream producers like EcoGreen will benefit from the strong growth momentum of the industry. We retain our BUY call with a target price of HK\$2.0. (6-month target).

**Table 1: Financial summary**

Year to Dec	Net profit RMBm	EPS RMB	EPS Δ %	P/E X	P/B X	EV/EBITDA X	Yield %	ROE %	ROCE %	N. Gearing %
04A	61.4	0.156	(14.5)	10.3	2.2	6.8	1.2	30.2	25.9	Cash
05A	71.1	0.167	7.4	9.6	1.6	5.7	1.4	18.6	16.7	Cash
06F	90.9	0.197	17.7	8.1	1.2	4.3	2.1	17.6	16.8	Cash
07F	115.1	0.250	26.9	6.4	1.0	3.3	2.8	17.7	17.8	Cash
08F	154.7	0.336	34.4	4.8	0.8	2.3	3.6	19.9	10.9	Cash

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. If you would like to access our research reports and know more about our services, please contact Raymond Jook, Head of Research, on (852) 2533 3715 or [raymondjook@softbank.com.hk](mailto:raymondjook@softbank.com.hk). Find our research on: [sbie2capital.com](http://sbie2capital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com) and [multex.com](http://multex.com)

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other primary businesses with the companies in this report.

**Analyst certification:** the views expressed in this report accurately reflects the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

**Disclaimer:** the information and opinions in this report were prepared by SBI E2-Capital Securities Limited. SBI E2-Capital Securities Limited does not undertake to advise you of changes in its opinion or information. SBI E2-Capital Securities Limited and others associated with it may have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies. This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell the securities mentioned.