

EcoGreen Fine Chemicals

Aroma chemicals continue to drive sales

to summarize...

- Revenue increased 32% YoY to RMB562m for 1H FY12/11A. In addition to volume growth, ASP of company's wide range of products increased 10% to 15% YoY in 1H FY12/11A, which partly absorbed cost increment of turpentine oil during the period.
- Gross profit increased 26.7% YoY to RMB139.5m at 24.8% overall gross margin. Net profit increased 25.0% YoY to RMB80.3m, which achieved 48.9% of our previous full-year forecast for 2011.
- Gross profit margin increased 0.1ppt to 24.8% and net profit margin maintains at 14.3% compare to FY 2010 year end, however it's down from 15.1% compare to FY 1H2010.
- Aroma chemicals continue to be the main contributor to sales, accounted for 72% with RMB407m, compare to 1H FY2010 with RMB295m accounted for 70%. The overseas market contributed 44% with RMB247m compare to 35% with RMB146m in 1H FY2010.
- The counter is currently trading at 5.1x and 4.2x forward P/E for FY12/11F and FY12/12F on consensus.

1H FY12/11A results: Revenue increased 32% YoY to RMB562m for 1H FY12/11A. In addition to volume growth, ASP of company's wide range of products increased 10% to 15% YoY in 1H FY12/11A, which partly absorbed cost increment of turpentine oil during the period. That said, gross profit increased 26.7% YoY to RMB139.5m at 24.8% overall gross margin. Net profit increased 25.0% YoY to RMB80.3m, which achieved 48.9% of our previous full-year forecast for 2011.

Table 1. 1H FY12/11A results

6 months to June	Turnover (RMBm)	Gross Profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Tax rate (%)	Net profit (RMBm)
1H FY11	561.9	139.5	24.8	95.0	15.4	80.3
1H FY10	425.3	110.2	25.9	75.5	15.0	64.2
HoH(%)	32.1	26.6		25.8		25.1

Source: Company data

Sales compositions: Aroma chemicals continue to be the main contributor to sales, accounted for 72% with RMB407m, compare to 1H FY2010 with RMB295m accounted for 70%. Natural extract accounted for 13% with RMB74m and Intermediates accounted for 6% with RMB32m. In terms of geographic region breakdown, the overseas market contributed 44% with RMB247m compare to 35% with RMB146m in 1H FY2010.

Margin analysis: Gross profit margin increased 0.1ppt to 24.8% and net profit margin maintains at 14.3% compare to FY2010 year end, however it's down from 15.1% compare to 1H FY2010. The group has implemented a new pricing model that will minimize margin risk. Since they used to expose to turpentine price fluctuation as most contracts are negotiated and fixed at year beginning. This explains the margin decline from 2007 to 2009, when price of gum turpentine oil hiked continuously. Last year, the company managed to revise its pricing mechanism and, now, contracts are reviewed on a quarterly basis, which, together with ~3 month inventory in hand, may largely stabilize its gross margin.

Facilities upgrades: For the existing Haichang plant, first set of production facilities upgrade at phase 1 and 2 underwent trial run in Q2 and the management indicated

Please refer to important disclosures at the end of this report

Ticker	2341 HK
Rating	Not Rated
Price (HK\$)	2.10
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	2.04-3.40
Market cap. (US\$m)	130.7
Daily t/o (US\$m)	0.1
Free float (%)	54.6

Financial summary

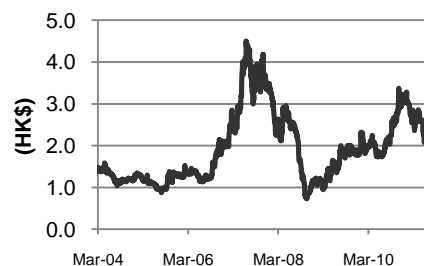
Year to Dec	08A	09A	10A
Turnover (RMBm)	740.0	728.5	908.3
Net Profit (RMBm)	114.5	107.7	130.1
EPS (RMB)	0.239	0.229	0.273
P/E (x)	7.1	7.6	7.5
P/B (x)	1.10	0.98	0.84
EV/EBITDA (x)	4.9	2.4	3.5
Yield (%)	1.7	1.6	1.9
ROE (%)	15.3	13.6	14.5
ROCE (%)	35.2	30.9	31.1
N. Gear. (%)	cash	cash	cash

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (RMB)	0.34	0.41	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(11.1)	4.3	(3.5)
Actual price changes (%)	(19.2)	(9.1)	(3.7)



Source: Bloomberg

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that major products are of optimal production efficiency. While for new Changtai plant, phase 1 has completed trail run as previously scheduled and trial operation has been carried out since Jul for producing intermediates, which was all outsourced presently. We expect gradual release of new capacity would support growth in 2H and afterwards.

Long-term opportunity: Global flavors & fragrances market grew at 6% CAGR in 2005-09, which is slightly lower than 7% nominal GDP growth rate during the same period. The market is highly concentrated. Top 10 vendors, all from developed countries, controlled 72.5% market share in 2009 (2008:70.7%). These leading players are gradually moving towards downstream and drifting away from cost-conscious upstream operation, which leaves business opportunity to emerging names which can commit quality supply. We expect Ecogreen to be one of such names given the company's technical advantage.

Valuation and our view: The company's top line has been growing at 22% CAGR since its listing in 2004 while net profit 13% CAGR and EPS 10% CAGR. The slower bottom line growth can be largely attributed to the gum turpentine oil price hike. According to Bloomberg consensus, the counter is trading at 5.1x and 4.2x P/E for FY12/11F and FY12/12F. For 2H 2011, as there is price adjustment of turpentine oil, we believe pressure on profit margin would be less intense compared to 1H and instead there is room for slight improvement. With continuous technology innovation and new product introduction yet at attractive valuation, the counter is defensive enough even during poor marco environment, in our view.

Risks: Any major change in gum turpentine oil supply might impact both the company's output (i.e. revenue) and profit margin.

Company Background

Description: Ecogreen is the leading supplier of turpentine aroma chemicals. Headquartered in Xiamen, Ecogreen is a leading fine chemical company in China, producing aroma chemicals, natural extracts and intermediates, which all are raw materials widely applied in industries such as healthcare & personal care, food & beverage and pharmaceutical. Core products are natural turpentine aroma chemicals, making up ~40% of the company's total sales in FY12/10A. Core single product is dihydromyrcenol (27% of the total revenue), for which Ecogreen has ~25% share around the world.

Capacity expansion: 72% of gum turpentine oil in the world comes from China, which gives local producers a natural edge over dominance in the turpentine and related market. Ecogreen outran its peers for its innovated technology. A good example is its synthesis technology, heterogeneous Catalytic Reaction via Fixed Bed Process, which allows high production efficiency at relatively low cost. According to the management, an upgraded synthesis technology has been developed. It, after adoption, can accelerate reaction process, resulting in output increase (50-100%), while further reduce solvent and utilities consumption, enhancing gross margin by 3-4 pcps. Although re-engineering (1-2 months time lead) of existing facilities (3,500 mt) will wait until year end or even the next Chinese New Year due to already stretched production schedule.

Other products: For other aroma products (30% of total revenue), natural extracts (14% of total revenue) and intermediates (7% of total revenue), production is sub-contracted or conducted within Xiamen plant phase III. Design capacity of the phase III plant is RMB300-350m. Current utilization rate is ~50%, which, however, may improve to ~80% in 2011 with more orders secured. The new Changtai plant, designed for intermediates (all outsourced presently) and material chemicals (capacity: RMB300m), completed construction and started testing in April and trial in May. By shifting production back from external manufacturers, intermediate products may entitle some margin improvement (external manufacturers' gross margin: ~10%), although the actual figure is still subject to utilization rate as well as product mix.

Table 2. Key financials

Year to Dec (Rmbm)	08A	09A	10A
Revenue	740.0	728.5	908.3
Gross profit	210.5	187.1	224.8
Operating profit	140.7	137.0	164.1
Net profit	114.2	107.5	130.1
EBITDA	167.2	172.0	206.7
Fixed assets	8.6	9.9	9.5
Inventories	76.1	72.2	115.5
Receivables	273.5	248.7	389.9
Payables	101.6	101.2	179.9
Cash	424.0	541.9	582.4
Short-term debt	224.5	100.1	184.8
Long-term debt	224.5	100.1	184.8
Shareholders' fund	745.7	840.5	957.5
Total equity	749.0	844.0	961.0
Net cash from operating activities	67.4	179.3	n.a.
Net cash used in investing activities	(88.1)	(43.5)	n.a.
Net cash from financing activities	132.0	(7.7)	n.a.
Net change in cash and cash equivalents	111.3	128.1	n.a.

Source: Company data

Table 3. P&L

Year to Dec (Rmbm)	08A	09A	10A
Revenue	740.0	728.5	908.3
Cost of goods sold	(529.5)	(541.4)	(683.5)
Gross profit	210.5	187.1	224.8
Other gains and losses	(0.3)	0.3	(0.4)
Selling and marketing costs	(28.4)	(20.0)	(23.7)
Administrative expenses	(41.1)	(30.3)	(36.6)
Profit from operations	140.7	137.0	164.1
Finance costs	(6.8)	(16.0)	(11.9)
Profit before taxation	134.0	121.0	152.2
Income tax expenses	(19.5)	(13.3)	(22.1)
Profit for the period	114.5	107.7	130.1
Attributable to:			
Owners of the Company	114.2	107.5	130.1
Minority interest	0.2	0.2	(0.0)
EPS - Basic (Rmb)	0.244	0.231	0.280
EPS - Diluted (Rmb)	0.239	0.229	0.273
Proposed DPS (HK\$)	0.041	0.038	0.047
Proposed dividend	16.8	15.6	19.0

Source: Company data

Table 4. Shareholding structure

Shareholders	Interest
Yang Yirong	40.5%
Keywise	10.9%
Fedility	9.2%
Platinum Investment Management	5.8%
Others	33.6%
Total	100.0%

Source: HKEx

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