



Feb 17, 2015
Company Report
Rating: UNRATED
TP: NA

Share price (HK\$) 2.1
Est. share price return NA
Est. dividend yield NA
Est. total return NA

Previous Rating & TP NA
Previous Report Date NA

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Key Data

52Wk H/L(HK\$) 2.55/1.61
Issued shares (mn) 491
Market cap (HK\$m) 1,031
3-mth avg daily turnover (HK\$m) 0.8
Major shareholder(s) (%):

Yang Yirong 40.43
Source(s): Company, Bloomberg, ABCI Securities

Key operating data in 1H14 (%)

Fine Chemicals – Manufacturing & Selling 74
Fine Chemicals & Natural Materials - Trading 26
Total 100
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	0.00	(2.58)
3-mth	(5.41)	(9.31)
6-mth	(9.48)	(8.57)

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

EcoGreen (2341 HK)
Site Visit Key Takeaways

- EcoGreen Fine Chemicals is one of China's leading manufacturers and distributors of fragrance aroma chemicals and natural extracts. We have provided here the key notes concerning our visit to its Haicang Plant at Xiamen City
- Aside from its solid technology background, the Group's ability to secure projects will be strengthened based on cooperation established with major clients and expansion of product variety
- Positive catalysts include potential expansion of production capacities in the coming years and more stable supplies of raw materials at lower prices
- The Group is expediting strategic cooperation with its business partners. The management believes these cooperation will significantly enhance its competitiveness in the global market

Significantly expand production capacity in the next 5 years. As China's leading manufacturer and distributor of fragrance aroma chemicals and natural extracts, the Group has been actively developing new product series with petroleum-based resources in recent years. In 2015, the Group starts to construct a new plant in Gulei, a major petroleum-chemical industry center that reportedly have attracted 6 largest petroleum-chemical producers from China and Taiwan. The Group will utilize the by-products from the petroleum producers to manufacture its products. The management expects the new plant to gradually increase its production capacity by ~200% from the present level in the next 5 years. At the same time, they will increase utilization in the Haicang and Changtai Plants in a progressive manner.

Major strides made in expanding its raw material procurement network and logistic system in China. By constructing a commodity exchange platform for the turpentine spot market in 2014, the Group will be participating more actively in the market supply and demand of the exchange platform, and therefore enhancing its decision efficiency and bargaining power.

The Group may extend its business into upstream industries. It has been pursuing to globalize the procurement of natural raw materials, mainly turpentine, with the support of its business partners. The management will continue to tighten relationships with major international suppliers to stabilize supply of natural raw materials and enhance cost control.

Edges in processing techniques and product quality. The Group's controlling system is highly praised by clients in the U.S. and Europe. With its reputation and emphasis on R&D, the Group has successfully achieved solid cooperation and expanded product lines with prestigious international clients. Management is confident about expanding their product series in the following years.

Fulfill all environmental requirements. Even though its Haicang plant has been operating for over 10 years, the management reassures its facilities have fulfilled all current environmental standards, including those pertaining to waste air and waste water emissions.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013A	1H14A
Turnover (RMB'000)	1,074,688	1,057,371	1,227,295	689,064
Chg (%.yoy)	18.33	(1.61)	16.07	-
Net Income (RMB'000)	118,735	127,822	149,448	80,163
Chg (%.YoY)	(8.71)	7.65	16.92	-
EPS (RMB)	0.25	0.26	0.31	0.16
Chg (%.YoY)	0.82	7.32	16.67	-
BVPS (RMB)	2.19	2.41	2.67	2.80
Chg (%.yoy)	12.45	10.17	10.76	4.78
DPS, HK\$	0.05	0.05	0.09	0.02
P/E (x)	-	6.41	5.49	-
P/B (x)	-	0.70	0.63	-
Yield (%)	-	2.43	4.09	-
ROE (%)	11.7%	11.3%	12.0%	6.0%
ROA (%)	7.1%	6.7%	7.1%	3.4%

Source(s): Bloomberg, the company



Risk factors: 1) Fluctuating prices of raw material; 2) Currency fluctuation; 3) Increasing domestic competition; 4) Failure to form strategic partnership; 5) Reducing demand from downstream industries; 6) Environmental policy changes; 7) Low share turnover.

Consolidated income statement (2011A-1H14)

FY ended Dec 31 (RMB'000)	2011A	2012A	2013A	1H14A
Revenues	1,074,688	1,057,371	1,227,295	689,064
Cost of revenues	(837,734)	(798,290)	(923,636)	(526,628)
Gross profit	236,954	259,081	303,659	162,436
SG&A	(29,093)	(27,455)	(27,352)	(14,367)
Other income and gains	(66,042)	(67,890)	(78,143)	(41,921)
Pre-tax profit	141,819	163,736	198,164	106,148
Income tax	(23,084)	(35,914)	(48,716)	(25,985)
Net profit	118,735	127,822	149,448	80,163
Profit attributable to:				
Minority interests	(323)	(120)	23	36
Equity holders of the Company	119,058	127,942	149,425	80,127
EPS (Basic), RMB	0.246	0.265	0.309	0.165
EPS, Diluted, RMB	0.244	0.264	0.308	0.164
DPS, HK\$	0.047	0.051	0.086	0.020

Source(s): Company, ABCI Securities

Consolidated balance sheet (2011A-1H14)

FY ended Dec 31 (RMB'000)	2011A	2012A	2013A	1H14A
Fixed assets	387,922	384,008	354,841	338,462
Intangible assets	44,795	50,081	48,216	45,393
Interests in associates	6,691	8,924	7,112	7,014
Other non-current assets	14,725	11,902	55,893	72,793
Total non-current assets	454,133	454,915	466,062	463,662
Inventories	151,306	114,683	149,093	162,571
Accounts receivable	362,122	377,348	525,190	554,289
Prepayments, deposits and other assets	128,436	131,743	151,486	193,877
Cash and cash equivalents	581,724	833,919	901,307	1,019,635
Other current assets	113,826	98,422	34,531	99,225
Current Assets	1,337,414	1,556,115	1,761,607	2,029,597
Total assets	1,791,547	2,011,030	2,227,669	2,493,259
Accounts payable	241,784	267,408	104,999	36,746
Other payables and accruals	29,322	30,337	29,125	46,062
Borrowings	299,297	494,308	435,502	784,304
Current income tax liabilities	5,281	7,976	14,653	14,592
Other short-term liabilities	6,359	1,334	791	784
Total current liabilities	582,043	801,363	585,070	882,488
Borrowings	114,696	2,300	300,744	203,302
Long-term notes payable	-	-	-	-
Deferred income tax liabilities	14,000-	18,200-	23,200-	26,200
Other Long-term payables	973	-	1,840	1,590
Total non-current liabilities	129,669	20,500	325,784	231,092
Total liabilities	711,712	821,863	910,854	1,113,580
Total equity	1,079,835	1,189,167	1,316,815	1,379,679
Non-controlling interests	3,145	3,025	3,048	3,084
Equity of the firm	1,076,690	1,186,142	1,313,767	1,376,595
BVPS, RMB	2.19	2.41	2.67	2.80

Source(s): Company, ABCI Securities



Consolidated cash flow statement (2011A-1H14)

FY ended Dec 31 (RMB'000)	2011A	2012A	2013A	1H14A
Profit for the year	118,735	127,822	149,448	
Adjustments for:				
Income tax expense	23,084	35,914	48,716	
Dividend income				
Depreciation (fixed assets and invested properties)	31,814	34,750	38,555	
Amortisation of intangible assets	9,732	9,320	7,905	
Interest income	(4,607)	(6,761)	(6,947)	
Equity-settled share-based compensation expenses				
Changes in working capital:				
Accounts receivable	(71,809)	(15,226)	(147,842)	
Inventories	(35,817)	36,623	(34,410)	
Prepayments, deposits and other receivables	(28,838)	(3,307)	(22,143)	
Accounts payable	84,677	25,624	(162,409)	
Other adjusted items	(15,002)	43,790	102,676	
Net Cash generated from operating activities	111,969	288,549	(26,451)	55,531
Income tax/Interest paid	(50,092)	(56,800)	(73,985)	(41,156)
Net cash flows generated from operating activities	61,877	231,749	(100,436)	14,375
Cash flows from investing activities				
Payments for business combinations, net of \$ acquired				
Purchase fixed assets, construction in progress & properties	(22,420)	(30,954)	(40,909)	(3,106)
Purchase/prepayment of intangible assets	(5,339)	(16,959)	(6,040)	0
Payments for interests in associates	(5,000)	(2,500)	0	0
Term deposits with initial term of over 3ms				
Interest received				
Dividends received				
Other adjusted items	0	117	(10,033)	(16,767)
Net cash flows used in investing activities	(32,759)	(50,296)	(56,982)	(19,873)
Cash flows from financing activities				
Interest received	4,607	6,761	6,947	7,742
Proceeds from issuance of ordinary shares	25,460	0	0	8,758
Shares Repurchase	(5,079)	(913)	0	0
Proceeds from short-term borrowings				
Proceed from long-term borrowings	351,737	468,608	723,463	449,532
Net proceed from issuance of long-term notes				
Other borrowings	(48)	(144)	21	(7)
Repayments of borrowings	(328,225)	(385,993)	(483,825)	(280,113)
Dividends paid to the Company's shareholders	(20,194)	(17,586)	(21,742)	(72)
Other adjusted items	0	0	0	(62,012)
Net cash flows generated (used) from financing	28,258	70,733	224,864	123,828
Net increase in cash and cash equivalents	57,376	252,186	67,446	118,330
Cash & cash equivalents at beginning of the year	524,409	581,724	833,919	901,307
Exchange losses on cash and cash equivalents	(61)	9	(58)	(2)
Cash and cash equivalents at end of the year	581,724	833,919	901,307	1,019,635

Source(s): Company, ABCI Securities

Exhibit 1: Haicang Plant (Feb 2015)

Exhibit 1.1: The plant is surrounded by green belt



Exhibit 1.2: Waste water treatment plant



Exhibit 1.3: Strict safety measures have been adopted to prevent accidents



Exhibit 1.4: Outdoor storage of finished products



Exhibit 1.5: Material storage area



Exhibit 1.6: The Group's various product samples



Sources: Photo taken by Mark CHEN of ABCI

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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