Dongjiang Environmental

3Q results comment

BUY

11 November 2005

Strong growth momentum continues

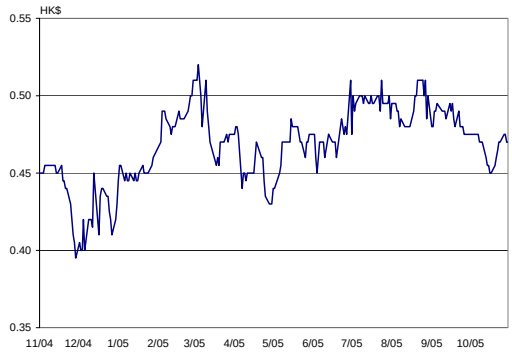
- **33.9% top-line growth meets expectation:** DJ's encouraging gain during the first nine months of FY05 was underpinned by the strong momentum in several new businesses namely, solid waste treatment as well as nickel salt products. Sale of recycled products and waste treatment grew 32.4% and contributed to about 86% of the total turnover during the period. In particular, solid waste treatment reported a sales increase of 132% yoy.
- **GP margin improved thanks to new products:** 9M GP margin was 45.4%, 1.7 percentage points better than the same period last year. The improvement was largely attributable to the trading business and EP projects. On a quarterly basis, 3Q05 reported a GP margin of 49.1%, the highest quarterly GP margin in two years.
- **Successfully landed in Shaoguan (韶關):** To cope with the PCB manufactures that are actively moving towards the northern part of Guangdong seeking lower cost, DJ is planning to build a new treatment plant in Shaoguan. A cooperation agreement has already been signed with one of the largest PCB plants in the area. We believe Shaoguan will soon become a new electronic manufacturing hub for the Guangdong province.
- **Target price HK$0.82 for 78% upside potential:** DJ is currently trading at an undemanding 5.8x FY05 PER. Our target price represents only 9x FY06 EPS which offers an upside potential of 78% from the current price. Maintain **BUY**.

**HK$ = RMB1.04*

KEY DATA

Sector	Environmental protection
Share price	HK$0.46
Stock code	8230
Shares O/S (Total) (H-shr)	627.38mn 177.90mn
Mkt. Cap (H-shr)	HK$81.8mn
52wks High-Low	HK$0.39-0.53
NAV per share	RMB 0.24
Major Shareholders	Zhang Wei Yang (66.1%) Shanghai New Margin VC (13.7%)

Price Performance



Source: Bloomberg

Earnings Summary

Year-end 31 Dec	FY03A	FY04A	FY05F	FY06F	FY07F
Turnover (RMB mn)	99	214	274	310	445
Net profit (RMB mn)	23.7	38.3	51.7	58.7	71.8
Growth (%)	n.a.	61.4	35.0	13.6	22.3
EPS (RMB fen)	3.9	6.1	8.2	9.4	11.4
Growth (%)	n.a.	58.2	35.0	13.6	22.3
PER (x)	12.4	7.8	5.8	5.1	4.2
DPS (RMB fen)	0.8	2.0	2.7	3.1	3.8
Yield (%)	1.7	4.2	5.7	6.5	7.9

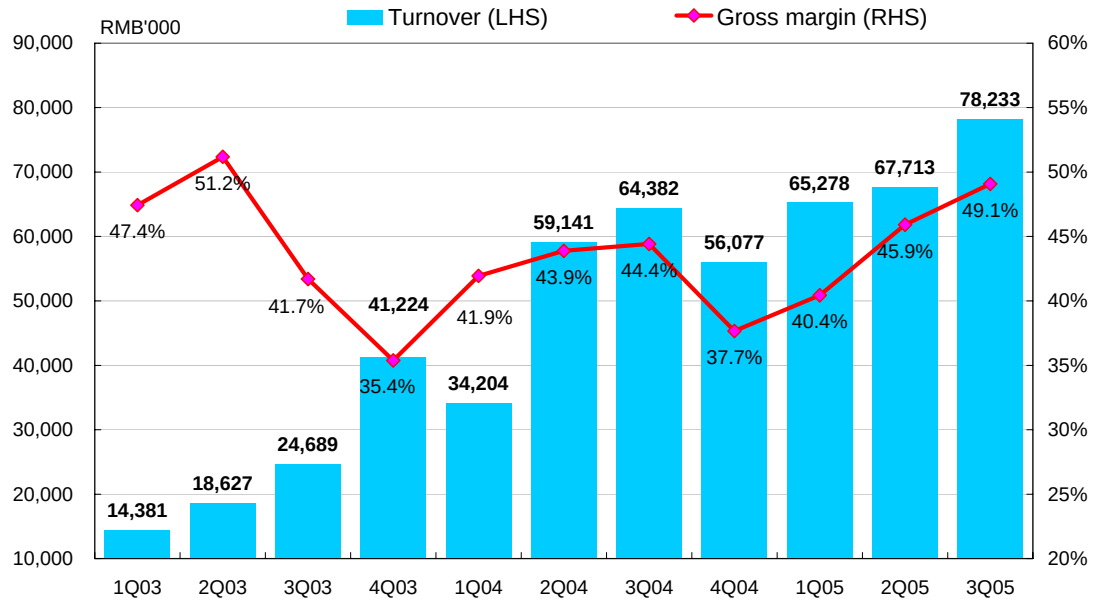
Source: company information, FSSL

Results comment

RMB'000	1-3Q04	vs. 1-3Q05	Comments
Turnover	157,727	211,224	34% top-line growth mainly due to larger operating scale and product range
Cost of sales	(88,830)	(115,348)	
Gross profit	**68,897**	**95,876**	GP margin improved to 45.4% largely attributable to the higher margins from chemical trading and EP projects
Other revenue	895	13,043	
Selling & distribution costs	(6,149)	(15,842)	Sharp increase due to more operating subsidiaries and export shippment
Administrative expenses	(20,886)	(35,094)	Again, more subsidiaries came into operation
Other expenses	(3,992)	(6,726)	About RMB4.1mn went to provisioin on certain assets and R&D accounted for RMB1.6mn
Operating profit	**38,765**	**51,257**	
Finance costs	(714)	(713)	
Associates	(666)	(34)	
Profit before tax	37,385	50,510	
Tax	(3,461)	(9,173)	Effective rate = 18.2%
Profit before M.I.	33,924	41,337	
Minority Interests	(1,635)	(1,830)	
Net profit	**32,289**	**39,507**	22% growth in net profit, in-line with expectation
EPS (RMB)	0.0515	0.0630	
DPS (RMB)	-	-	
GP margin (%)	43.7	45.4	
Net margin (%)	20.5	18.7	

Source: Company information, FSSL

QoQ turnover and GP margin analysis



Source: Company information, FSSL

Disclosure: First Shanghai Capital Limited, an associate of FSSL is currently acting as the continuing sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules.

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