

# Mossberg's Investor Digest

## Best Idea Profile

## Duoyuan Printing, Inc. (NASDAQ:DYP)

### DESCRIPTION:

Headquartered in Beijing; Duoyuan Printing, Inc. is a leading Chinese offset printing equipment supplier. DYP manufactures one product under the pre-press product category (a computer-to-plate system, or CTP system) and fifteen products across four product lines under the press product category (single color small format presses, single color large format presses, multicolor small format presses and multicolor large format presses). The company plans to begin commercial production and sale of certain post-press products, including a cold-set corrugated paper machine, which makes corrugated cardboard paper, by the end of 2010. DYP also plans to begin commercial production and sale of two other post-press products, namely an automatic booklet maker and an automatic paper cutter in 2011. Duoyuan seeks to combine a robust research and development program with low-cost Chinese manufacturing operations for a distinct competitive advantage in international markets in addition to its domestic market position. Currently all of the company's revenues are generated from customers headquartered in the PRC.

### KEY INVESTMENT CONSIDERATIONS:

**Rapidly Expanding Market** – China currently has the fastest growing printing industry in the world. The demand for publication printing needs including newspapers, magazines and books, commercial printing and corporate brochures have increased dramatically. Pira International reports that China is the 3rd largest printing market in the world behind the US and Japan. China's printing equipment market grew from approximately \$0.9 billion in 2002 to approximately \$2.5 billion in 2007, according to the Printing and Printing Equipment Industries Association of China. This growth represents a CAGR of 23%. DYP's target domestic market includes nearly 100,000 licensed printing companies and institutions which are seeking to upgrade to multicolor printing and meeting rising demand. Additionally, DYP feels that it is well positioned to compete in emerging markets.

**Leading Market Franchise** – Duoyuan is a top three printing equipment manufacturer in the Chinese market. DYP has a large product portfolio and is a turnkey provider for printing equipment needs in its niche. DYP also has built a large and effective distribution network that includes over 85 distributors located in over 65 cities and 28 provinces in China. 75% of the DYP's distributors have been with the company for more than 5 years.

**New Market Segment Coming Online** – DYP is expanding into the fast growing packaging market segment. DYP is launching a corrugated paper machine using cold set glueing technology. This is a potentially disruptive product due the inherent production efficiencies that this product represents. Packaging represents the fastest growing segment of China's printing industry with \$20 billion in output (2007) representing 32% of the country's print output. With a CAGR of 14% a year from 2003 through 2007, this segment should continue to expand with China's overall economic growth. The rollout of the new product is expected to begin in the latter half of CY10.

**Proven Results** – DYP has had dynamic growth and strong results in recent years. From FY05 to FY09 the revenue grew from \$26MM to \$107MM for a CAGR of over 41%. DYP grew EPS over the same period from \$0.21 to \$1.30. Cash also expanded during this period from \$294,000 to \$31MM. These results are particularly of note for a company that works in a capital intensive business with an active R&D program.

### VALUATION:

DYP has an English speaking CEO and CFO, an unusual investor relations plus for a Chinese company. Analysts estimates for FY11 call for an 18% increase in revenues, \$62MM in cash flow, and \$1.32 EPS. For a company with \$5 per share in working capital and no long-term debt, a forward P/E of just over 6x FY11 EPS represents an unusually compelling value.

### (NYSE:DYP)

Investment Data (as of 7/27/10)

<b>Recent Price</b>	<b>\$8.14</b>
52-Week Range	6.61 - 11.23
Fiscal Year End	June
Shares Outstanding	30.6MM
Average Trading Volume (3 mos)	125,000
Market Capitalization	249MM
Cash	91MM
Long Term Debt	0
Enterprise Value (EV)	158MM
LT Debt/ Equity	NA
BV/ Share	\$6.32
TTM Revenue	\$125MM
P/ Revenue	2x
TTM EPS	\$0.93
P/ EPS	8.8x
TTM EBITDA	46MM
EV/ EBITDA	3.4x

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