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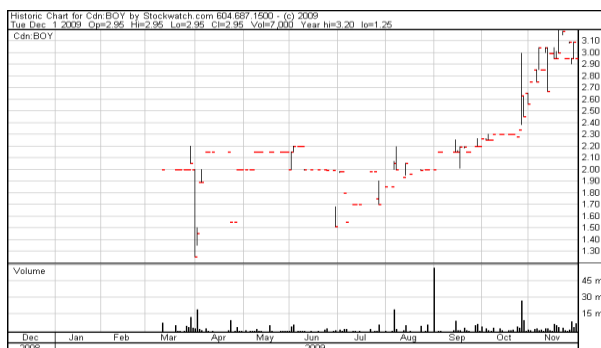
# INDEPENDENT RESEARCH



## Boyuan Construction Group Inc. (BOY : TSX-V)

Date: December 1, 2009

Price: \$2.95



### KEY INFORMATION

Fiscal Year-end	June 30
52-Week High/Low	\$3.20 - \$1.25
3-Month Avg. Daily Trading Volume	2,316 shares
Market Capitalization	\$75.9 million
Enterprise Value	\$88.8 million
Book Value per Share (Sep 30)	\$1.20
Current Ratio	1.9
Gross Margin	16%
LT Debt to f2009 CF	0.5
LT Debt to Equity	0.2
Price to f2009 Earnings	7.2
Price to f2010e Earnings	5.9

### FINANCIAL DATA (000's of US Dollars)

	3 Months Sep 30		Yr Ended June 30	
	2009	2008	2009	2008
Revenues	35,004	21,271	101,664	56,175
Net Income*	3,037	2,043	9,611	6,180
per share*	0.12	0.08	0.39	0.25
Cash Flow	3,600	2,107	10,557	6,670

\* normalized earnings (ignores make-good provision expense)

### BALANCE SHEET (as at September 30, 2009)

Current Assets	\$ 64,527,669
Total Assets	71,797,169
Current Liabilities	34,584,967
Conv. Debentures	5,518,910
Shareholders' Equity	30,807,322

### SHARES OUTSTANDING (as at November 30, 2009)

Basic	*13,749,178
Preferred	11,990,072
Fully-Diluted	33,016,700

\* management and insiders own approximately 72% of the company's basic and preferred shares outstanding.

## Highlights:

- "make good" provision in place for projected f2010 net income of US\$12.4 million
- 51% YoY earnings growth in f2009 with 29% growth targeted in f2010
- significantly exceeded f2009 net income forecast
- clean balance sheet and trading at only 6 times forward earnings

## COMPANY OVERVIEW

Boyuan Construction was formed in February 2004 and listed in Canada in March 2009 after completing a reverse takeover. The company is in the business of residential and commercial building construction, municipal infrastructure and engineering projects in China. Boyuan is based in Jiaying City and focuses on construction projects in China's fast-growing regions of the Yangtze River Delta and the city of Sanya on south China's Hainan Island. With a national class I construction qualification, the company is qualified to participate in construction projects up to 40 storeys with a gross construction area of 200,000 sq. meters.

Over the last 3 years Boyuan has completed more than 125 projects in both the private and public sectors including projects with Cargill and Dalian Shide Group, a billion dollar conglomerate whose partners include Dupont, Mitsubishi, and GE. Currently Boyuan has a significant number of projects in its backlog including residential, commercial, industrial, and hotels. The company's average project length ranges from 1 to 3 years.

We believe that Boyuan is the first Canadian-listed company to promise investors additional shares if it fails to meet earnings targets. These "make-good" provisions are designed to gain credibility in North American markets and have been used regularly by Chinese companies trading in the U.S. This strategy enabled Boyuan to complete a successful financing during a very difficult time to raise money.

Due to several regulatory changes in China,

the company is benefiting from reduced corporate tax rates as well as a US\$586 billion stimulus plan initiated by the government with a focus on construction projects. Other opportunities for growth in China include urban migration, a movement from multi-generation to single-generation housing, and the rise of the middle class. Most of Boyuan's projects are completed on a cost plus basis which largely protects the company from any significant increase in its raw material costs. It is also important to note that Boyuan's sales and margins benefit from a falling US dollar while a rising US dollar has an inverse impact.

## FINANCIAL SUMMARY

Boyuan generated record sales in fiscal 2009 of US\$101.6 million along with adjusted net earnings of US\$9.6 million or US\$0.39 per share (basic + preferred). Adjusted net income, which consists of net income plus a non-cash US\$1.7 million stock based compensation expense charge, significantly exceeded management's previous net income forecast of US\$8.5 million or US\$0.31 per share.

Year-over-year growth continued during Q1/10 with revenue growth of 65% to US\$35 million and adjusted net earnings of US\$3.0 million or US\$0.12 per share compared to US\$2.1 million or US\$0.08 per share during the same period of fiscal 2009.

## RECENT DEVELOPMENTS

On June 17, 2009, Boyuan announced the signing of 3 new commercial construction project agreements with a total value of US\$33.6 million.

On July 6, 2009, the company completed a private placement that consisted of 6,474 units at \$1,000 per unit for gross proceeds of \$6,474,000. Each unit consisted of one secured convertible debenture, 125 shares, 250 warrants to purchase shares at \$2.00 for

up to 4 years, as well as 250 non-transferable rights each entitling the holder to receive one share upon exercise of a make-good provision. Each debenture is convertible at \$2.00 per share, bears an annual interest rate of 11.75% and matures on Feb. 28, 2013. Under the make-good provision for f2010, members of Boyuan's management have deposited 1.6 million shares into escrow which will be released to rights holders in the event that after tax net income for f2010 is less than US\$12.4 million.

In early August 2009, the company announced two new agreements for construction projects with an aggregate value of US\$21.8 million. These projects include a 120,000 sq meter residential development project in Jiangxi and a new school facility in Zhejiang. In mid-September 2009, Boyuan signed two further agreements to construct a 23-storey hotel in Sanya, and a commercial building in Shandong for a combined total of US\$26.3 million.

## SUMMARY

Boyuan remains on track for another record year in fiscal 2010. The company currently has a total order book exceeding US\$200 million representing over US\$18 million in projected net income. Revenues for fiscal 2010 are expected to be comprised of 55% commercial projects, 27% industrial projects, 13% residential projects, and 5% government projects.

As at September 30, 2009, Boyuan had positive working capital of US\$29.9 million or US\$1.16 per share. The company has no long-term debt but does have convertible debentures of \$5.5 million. Adjusted net earnings for fiscal 2010 are forecast to be US\$12.4 million which we calculate to be about US\$0.48 per share on a basic plus preferred basis. Boyuan is presently trading at 7 times trailing earnings and below 6 times projected fiscal 2010 net earnings (3.6 times after deducting working capital).

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