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Nutrastar International Inc. (NUIN – OTCQB)

Company continues to exceed estimates and has recently announced a US\$5 million share buyback program. Given current valuation of US\$2.01 vs. net cash of US\$2.60/share we reiterate Strong Buy rating.

**Strong
Buy**

Recent Price: US\$2.01

Market Data (closing prices, September 20, 2011)

Market Capitalization (mln)	29.93
Enterprise Value (mln)	(16.76)
Issued and Outstanding Shares, Diluted (mln)	16,274
Basic Shares (mln)	14,513
Avg. Volume (90 day, approx.)	6,582
Float (approx. estimate)	4,600
Insider Ownership	54%
Exchange	OTCQB

Balance Sheet Data (as of June 30, 2011)

Shareholders' Equity (mln)	60,196
Price/Book Value	0.50
Cash (000s)	45,817
Net Working Capital (000s)	45,854
Long-Term Debt (000s)*	0
Total LT Debt to Equity Capital	N/A

Company Overview

Nutrastar is one of China's largest producers and distributors of Cordyceps Militaris, a difficult-to-cultivate fungus, which has historically been considered a premium remedy within the discipline of Traditional Chinese Medicine (TCM). The Company's patented production process is allowing it to bring the benefits of its product to the masses for the first time, thus generating rapidly-growing, high-margin sales for the Company. According to the China Market Monitoring Center, the Company's sales now account for 19% of all Cordyceps sales in the PRC. The Company also recently introduced a beverage line based on this fungus, which has shown very strong initial market acceptance. The shares of Nutrastar trade on the over-the-counter market (OTCQB) under the symbol NUIN.

Company Contact Information

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Summary and Investment Opportunity

- Net Sales for the Second Quarter Well Above Expectations, at \$7.7M vs. \$6.7M est.**

During the second quarter of 2011, the Company reported total revenues of US\$7.7 million versus our estimate of US\$6.7 million, significantly outperforming our expectations, especially in the beverage segment. This segment generated US\$1.13 million in sales, growing approximately 390% over Q1'11 sales of US\$0.23 million. While this performance is not completely surprising, we believe this is a strong indication of the success and likely future results of this segment of the Company's business. Additionally, the Company announced the addition of one major new distributor and the ongoing negotiation of several more, further buttressing our investment case for the Company and its shares' investment merit. We believe that future beverage sales growth will become the primary driver of valuation over the coming quarters; however, even core Cordyceps sales warrant a significantly higher P/E and/or P/S multiple. At \$2.01 per share, the Company is currently trading at just 2.2x our 2011 EPS estimate of US\$0.92; this is in addition to the Company's net cash position of US\$2.60 per share. The market is effectively completely discounting the Company's sales and earnings results and valuing the shares at US\$0.59 below cash value, which we view as completely unreasonable.

- Share Buyback Program at Long Last Puts Extra Cash to Work for Shareholders**

On August 25th of this year, the Company announced a long-awaited share buyback program, providing for up to US\$5 million in funds to repurchase shares on the open market. While the Company's agreement does not stipulate the timing or terms of the planned buyback, management assures us that the Company's intent is to deploy the entire US\$5 million in capital towards share repurchases over the next twelve months. Since the Company's shares are currently trading for slightly less than net cash value, this program should amount to a significant increase in shareholder value over the next 12 months.

- Overall, Company Has Exceed Our Expectations; Low Valuation Unwarranted.**

As in our previous Coverage Initiation Report, we can surmise that the Company's low valuation can only be attributed to the general malaise that is currently affecting the entire Chinese sector, which as previously stated is (we believe) due only to the presence of several atypical but high-profile cases of fraud in U.S.-traded Chinese equities. Over time, the Company's actual results and potential should and will overcome this psychological barrier.

- Share Repurchase, Strong Results, and Valuation Equal to Net Cash Only**

The Company continues to grow at a CAGR of 40%, and is trading for net cash only. We therefore reiterate our rating of Strong Buy and our price target of US\$8.00 per share. We believe that significant upside to this target exists over the next few calendar quarters.

P&L (000s)	FY'09A	FY'10A	Q1 '11A	Q2 '11A	Q3 '11E	Q4 '11E	FY'11E	FY'12E
Revenues	15,332	24,242	5,796	7,683	8,800	10,750	33,030	46,241
<i>Rev. Growth</i>		58.1%	21.6%	40.8%	35.0%	35.0%	36.3%	40.0%
<i>Gr. Margin</i>	70.2%	80.9%	76.4%	77.4%	78.0%	79.0%	77.9%	80.5%
Op. Income	8,904	15,788	3,495	4,669	4,928	6,171	19,264	26,831
<i>Op. Margin</i>	58.1%	65.1%	60.3%	60.8%	56.0%	57.4%	58.3%	58.0%
Net Income	7,742	13,444	3,008	3,902	3,746	4,697	15,256	20,297
Net Margin	50.5%	55.5%	51.9%	50.8%	42.6%	43.7%	46.2%	43.9%
Dil. EPS	0.58	0.93	0.18	0.24	0.23	0.28	0.92	1.18
Dil. Shares	13,342	14,476	16,274	16,395	16,600	16,800	16,600	17,200

Please see analyst certification and required disclosures on page 2 of this report.

Industry Analysis

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

Explanation of Ratings Issued by Harbinger Research

STRONG BUY	We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

Analyst Certification

I, Brian R. Connell, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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Analyst Highlight

Brian R. Connell, CFA

Senior Research Analyst

Mr. Connell has over 15 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.

Nutrastar International (NUIN - OTCQB) Profit and Loss Model

(In thousands, United States Dollars)	2008A	FY 2009A	Mar '10A	Jun '10A	Sep '10A	Dec '10A	FY 2010A	Mar '11A	Jun '11A	Sep '11E	Dec '11E	FY 2011E	FY 2012E
Revenues	12,990	15,332	4,768	5,458	6,462	7,554	24,242	5,796	7,683	8,800	10,750	33,030	46,241
<i>Year-over-year growth rate</i>		18.0%	2.7%	63.4%	81.2%	99.6%	58.1%	21.6%	40.8%	35.0%	35.0%	36.3%	40.0%
Total cost of sales	4,605	4,564	1,057	888	1,178	1,515	4,638	1,370	1,736	1,936	2,258	7,299	9,017
Gross profit	8,385	10,768	3,712	4,570	5,284	6,038	19,604	4,426	5,947	6,864	8,493	25,730	37,224
Gross margin	64.5%	70.2%	77.8%	83.7%	81.8%	79.9%	80.9%	76.4%	77.4%	78.0%	79.0%	77.9%	80.5%
Operating expenses													
Selling expenses	196	508	172	233	305	382	1,093	410	464	1,100	1,300	3,274	6,000
General and administrative expenses	1,416	1,356	430	547	546	1,200	2,723	521	814	836	1,021	3,193	4,393
Total operating expenses	1,612	1,864	602	781	851	1,583	3,816	931	1,278	1,936	2,321	6,466	10,393
<i>% of Sales</i>	12.4%	12.2%	12.6%	14.3%	13.2%	21.0%	15.7%	16.1%	16.6%	22.0%	21.6%	19.6%	22.5%
Operating income	6,772	8,904	3,110	3,789	4,433	4,456	15,788	3,495	4,669	4,928	6,171	19,264	26,831
<i>Operating margin</i>	52.1%	58.1%	65.2%	69.4%	68.6%	59.0%	65.1%	60.3%	60.8%	56.0%	57.4%	58.3%	58.0%
Other income (expense), net													
Interest income (expense), net	30	82	33	34	25	32	124	40	67	65	85	165	225
Gain (loss) due to foreign exchange	(20)	(15)	0	(16)		(116)	(131)	23	29			52	
Loss on disposal of fixed assets	31					(103)	(103)						
Other income (expense), net	12	6			(88)	88	0					0	
Change in fair value of warrants				131	302	(449)	(15)	392	437			829	
Merger-related costs	(2,068)						0					0	
Total other income (expense)	(2,016)	73	34	149	239	(547)	(125)	455	533	65	90	1,046	225
Income before income taxes	4,756	8,977	3,144	3,938	4,672	3,909	15,663	3,950	5,202	4,993	6,261	20,310	27,056
Provision for income taxes	975	1,235	423	523	606	668	2,219	942	1,300	1,247	1,564	5,054	6,760
<i>Implied Tax Rate</i>	20%	14%	13%	13%	13%	13%	14%	24%	25%	25%	25%	25%	25%
Net income	3,781	7,742	2,721	3,416	4,066	3,241	13,444	3,008	3,902	3,746	4,697	15,256	20,297
Net margin	29.1%	50.5%	57.1%	62.6%	62.9%	42.9%	55.5%	51.9%	50.8%	42.6%	43.7%	46.2%	43.9%
Foreign currency translation adjustment	24	24	9	169	542	567	1,287	512	715				
Comprehensive income	3,805	7,766	2,730	3,585	4,608	3,808	14,731	3,520	4,617	3,746	4,697	15,256	20,297
Net income per common share, basic	0.31	0.59	0.19	0.24	0.28	0.23	0.94	0.21	0.26	0.25	0.31	1.00	1.30
Net income per common share, diluted	0.31	0.58	0.19	0.24	0.25	0.20	0.93	0.18	0.24	0.23	0.28	0.92	1.18
Wtd. Av. shares outstanding, basic	12,199	13,132	14,313	14,333	14,333	14,333	14,328	14,513	14,794	15,000	15,200	15,200	15,600
Wtd. Av. shares outstanding, diluted	12,199	13,342	14,402	14,342	16,435	16,435	14,476	16,274	16,395	16,600	16,800	16,600	17,200

Nutrastar International (NUIN - OTCQB) Balance Sheet

(Audited on 12-31-10)

	<u>6/30/2011</u>
Assets	
Current assets	
Cash and cash equivalents	45,817
Restricted cash	100
Accounts receivable	242
Inventories	2,050
Prepayments and other receivables	1,110
Total current assets	49,319
Intangible assets, net	2,203
Property, plant, and equipment, net	12,139
Total assets	63,662
Liabilities and shareholders' equity	
Current liabilities	
Accounts payable	15
Other payables and accruals	807
Income tax payable	1,899
Due to related parties	53
Preferred stock dividend payable	323
Warrant-related liabilities	369
Total liabilities	3,465
Shareholders equity	
Preferred stock, 197,706 issued, see notes	3,445
Common stock, 14,332,731 issued and outst.	15
Additional paid-in capital	16,867
Statutory reserves	1,352
Retained earnings	35,032
Accumulated other comprehensive income	3,486
Total shareholders' equity	60,196
Total liabilities and equity	63,662