Harbinger Research
Independent Investment Analysis

Coverage Initiation Report

People's Republic of China
Basic Materials - Cement

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China Shuangji Cement (CSGJ – OTC:BB)

Growth Has Been Hampered by Inadequate Financing During 2010. However, New $3.7M Loan Now Allows Company to Build New Facility, Expanding 2011 Sales by Nearly 50%.

Buy

Recent Price: US$0.41

Market Data (closing prices as of Sept 14, 2010)

Market Capitalization (mln)	11.8
Enterprise Value (mln)	15.6
Basic Shares Outstanding (mln)	28.3
Fully Diluted Shares (mln)	28.8
Avg. Volume (90 day, approx.)	27,000
Institutional Ownership (approx.)	0%
Insider Ownership	42.8%
Exchange	OTC:BB

Balance Sheet Data (as of July 31, 2010)

Shareholders' Equity (mln)	29,985
Price/Book Value	0.39x
Cash (000s)	20.5
Net Working Capital (000s)	12,630
Long-Term Debt (000s)	2,937
Total Debt to Equity Capital	.287

Company Overview

China Shuangji Cement owns and operates four high-grade bulk cement manufacturing facilities in southern and eastern China, and is one of the largest cement manufacturers in the Shandong and Hainan Provinces, which lies just to the south of Beijing. The Company's facilities are running at full capacity and the Company is pursuing an aggressive expansion plan to meet additional demand. China Shuangji Cement is based the People's Republic of China and trades on the over-the-counter bulletin board under the symbol CSGJ.

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Summary and Investment Opportunity

- **Strong and Improving Fundamentals; Low Valuation**

Without a doubt, CSGJ is doing a lot of things right. It operates in an industry with solid fundamental drivers and in favorable locations within China. It is selling 100% of its production and should continue to do so for the foreseeable future. And perhaps most importantly, it has recently announced the closing of a US$3.75M loan at 10% annual simple interest and the near-completion of its new production facility, which will allow it to increase capacity by well over 50% beginning in Q4 of this year. This should lead to 2011 revenue and earnings growth of nearly 50%, driving our CY2011 sales and earnings estimates of US$96M and $US7.18M, respectively. We believe a higher valuation is clearly warranted.

- **2010 Revenues Flat Due Only to Factory Relocation and New Construction Delays**

In late 2009, due to influence of the Chinese government, CSGJ chose to close its 500,000 ton manufacturing facility in Zhaoyuan, and relocate it to a nearby site. In addition to causing a temporary contraction of the Company's revenues, this also required the Company to raise US$3.75M in fresh construction capital, which it accomplished earlier this year. This new state-of-the-art cement plant will have a 1,000,000 metric ton annual capacity and should be fully operational and producing by October 2010. We view this as a very positive development, and one that the market has as of yet failed to price in to the Company's stock.

- **Company Location Optimal to Take Advantage of Strong Construction in the PRC**

The Company operates in Shandong (south of Bejing) and Hainan (near Macao) – two of the most robust cement markets in China. This is especially true of the island of Hainan, where cement prices are as much as 30% higher than they are on the mainland. These regions have strong construction industries and are experiencing consolidation and a supply shortfall in the cement industry. However, the Company's 500,000 metric ton Hainan plant was recently listed on a government list of planned future closings due to modernization concerns. Although this is a potential short-term negative, the Company believes it will be able to either keep or modernize its Hainan operations, rather than be forced to close them down. We believe tight markets for cement in Hainan make this outcome likely.

- **Fundamental Risks Now Appear Relatively Minimal. Shares Undervalued.**

With its new 1,000,000 metric ton capacity Zhaoyuan plant nearly complete, risks to the Company's business plan seem relatively minimal and very manageable. We therefore believe the Company is very likely to hit our 2011 revenue and EPS forecasts. **Assuming we are correct, CSGJ shares should trade at a minimum of 4x our 2011 EPS estimate of 0.248, or $1.00 per share. We therefore rate the shares of CSGJ a Buy at current levels.**

P&L (000s)	FY'08A	FY'09E	Q1 '10A	Q2 '10E	Q3 '10E	Q4 '10E	FY'10E	FY'11E
Revenues	**56,413**	**53,307**	**11,951**	**15,253**	**15,335**	**23,000**	**65,559**	**96,000**
Rev CAGR	*10.8%*	*-5.5%*	*4.1%*	*11.8%*	*8.4%*	*56.5%*	*21.4%*	*46.4%*
Gr. Margin	*15.4%*	*12.1%*	*15.5%*	*15.8%*	*13.7%*	*13.9%*	*14.6%*	*13.6%*
Op. Income	7,268	4,953	1,458	1,581	1,677	2,534	7,323	10,766
Op. Margin	*12.9%*	*9.3%*	*12.2%*	*10.3%*	*10.9%*	*11.0%*	*11.2%*	*11.2%*
Net Income	**26,119**	**2,419**	**1,015**	**1,690**	**1,091**	**1,851**	**4,818**	**7,181**
Net Margin	46.3%	4.5%	8.5%	6.5%	7.1%	7.6%	7.3%	7.5%
Diluted EPS	**3.88**	**0.09**	**0.036**	**0.035**	**0.038**	**0.060**	**0.166**	**0.248**
Diluted Shrs.	6,733	26,983	28,017	28,819	29,000	29,000	29,000	29,000

Please see analyst certification and required disclosures on page 7 of this report.

Industry Background

Economy and the Construction Industry in the PRC

The People's Republic of China is by far the largest developing nation in the world, and as such is the largest consumer of cement on the planet. The PRC has had average economic growth in the 8%+ range for the last 30 years, and given its large budget and trade surpluses, it is currently making massive investments in national and local infrastructure. Its national infrastructure investments include large expansions in the nation's road and rail networks, and associated buildings and terminals, as well as in the country's large international airports. The PRC is also building out large public works projects, such as arts centers, stadiums, and recreational areas such as swimming centers. Local infrastructure investment is also strong, and is funded by both the private and public sectors. The net effect of all this has been a veritable boom in the construction industry, which has grown at 25% for the past 10 years and is expected to grow at this rate or more for at least the next several years. This strong construction industry is of course creating a strong environment for all basic materials businesses in China, including the cement business.

Environment

Unfortunately, this boom in construction has not come without a cost. Traditionally, construction projects have been quite challenging for the environment, as the processes of demolition and construction tend to be highly pollutive. This has been even truer in the PRC than in the developed world, because historically China has been inefficient and pollutive in its construction techniques, and especially in its production of construction materials such as concrete. However, in the last couple of years the PRC has evidenced a strong focus on cleaning up the environment, which among other things has included a mandate to use more environmentally-friendly construction techniques and processes and the creation of strong financial and tax incentives for those companies that lead the way.

Concrete and Cement

The concrete and cement industry is characterized by high numbers of smaller providers and only a few larger, more developed companies; in an effort to clean up its cement industry, China has mandated the closing of many smaller and less eco-friendly plants. The Company believes this will mean the closing of some 300 smaller cement plants (mostly under 200,000 metric tons of capacity) in Shandong Province alone during 2010, creating additional demand for cement from those larger Companies that provide eco-friendly, high quality product.

Note that the overall cement industry in China has been and is expected to continue growing at a compound annual rate of approximately 6%. As a result of the planned plant closings in 2010 and beyond, this should lead to a higher growth rate for the industry consolidators.

Conclusion

Due to the strong economic and regulatory tailwind currently being experienced by the construction industry in general and the concrete industry in particular, we believe that China Shuangji Cement and other companies like it are likely to experience a long-term cycle of growth and prosperity. Without a doubt, the strong economic environment in China will continue for at least the next few years, and the PRC's increasing focus on environmentally sound technologies is likely to persist and/or strengthen ad infinitum. These factors can only bode well for those larger, more eco-friendly cement companies such as China Shuangji Cement.

Company Analysis

Corporate Overview

China Shuangji Cement owns and operates four cement plants in the People's Republic of China. Two of its facilities are located on the southerly island of Hainan, which has an exceptionally strong market and pricing environment for cement, and the other two are located in the eastern province of Shandong. However, one of its Shandong factories was forced to close down for relocation last year, leaving the Company with three currently active factories and a current annual production capacity of 1,500,000 metric tons. The Company plans to reopen its newly relocated facility by October of 2010 (Construction is almost complete), while also expanding capacity at other facilities, bringing its total annual capacity to nearly 3,000,000 metric tons per year.

China Shuangji is headquartered in the People's Republic of China, and trades on the over-the-counter bulletin board under the symbol CSGJ.

Plant Operating Locations

Plant Locations - Shandong

Products and Services

As its name implies, China Shuangji Cement is in the cement business. Quite simply, it manufactures and sells high-grade (Portland) cement, which is mostly used in domestic construction projects located close to the Company's manufacturing facilities. Because the Company is considered a large and environmentally-friendly producer of cement, it is one of the clear beneficiaries of the government plan to shut down smaller producers and move to "dry" processes that create far less environmentally-damaging waste product. This should put CSGJ in good stead from an industry perspective for many years to come.

Growth Plan

The Company has a well-defined growth plan based on a combination of organic growth at its current facilities, and additional growth through acquisition.

1. **Grow Capacity at Existing Facilities.** The largest organic growth in managements' plan is to come from the re-opening of its Zhaoyuan facility in October of 2010. This facility will re-open with an initial annual capacity of 1,000,000 metric tons, although its initial run-rate will be lower than this through early 2011. It also plans to double the capacity of its Longkou facility to 1,000,000 tons per year in 2011.

2. **Grow Through Acquisition.** The Company's longer-term plans involve acquiring low-cost and high return interests in other producers of high-grade bulk cement. The Company will pursue acquisitions of this nature based on its financial wherewithal and its ability to make acquisitions under attractive terms.

Given the Company's primary competitive advantages of high-quality product and physical proximity to large and ongoing construction projects, we believe its two-pronged growth plan is rational and its goals achievable. And from an investment point of view, we will view even modest success here as justification for our investment thesis, since the shares of China Shuangji trade at such a low multiple of our forecast revenues and earnings.

Target Markets

The Company targets contractors and other consumers of high-grade cement in the Shandong and Hainan provinces. Especially in Hainan Province, the market for cement is extremely robust and the supply of cement somewhat limited, suggesting the Company will experience an industry tailwind for some time to come. In more specific terms, this means that CSGJ should be able to operate at full capacity while maintaining or increasing its average selling prices, thus strengthening its financial results and increasing the fair value of the Company and its shares.

Key Management

Wenji Song, Chairman and President

Mr. Song graduated from the Shandong Building Materials Institute and obtained the certificate of advanced economy. In 1974, he began working with the Zhaoyuan cement factory, and by 1978 he held the position of plant factory manager. In 1991, he became a Director of Zhaoyuan Shuangji and has been the major driving force in its success. He has been awarded the outstanding entrepreneur title many times for his prominent achievements in building Zhaoyuan Shuangji.

Jun Song, Director and CEO

Jun Song, graduated from Qingdao University and has been the CEO and a Director of the Company since 2004. Mr. Song has extensive practical experience in corporate management, human resource management, finance, logistics, production, supply chain management, marketing and economic system restructuring.

Michele Zhu, CFO

Ms. Zhu has an MBA from the University of California, Irvine and is a licensed CPA with experience auditing publicly traded companies. During her tenure as an auditing manager for Kabani & Co., a licensed PCAOB accounting firm with many US-listed Chinese client companies, she performed SEC audits and reviews of many of the firm's public company clients, assigned staff and supervised field work, reviewed clients registration statements as well as 10K and 10Q filings and addressed technical accounting issues related to various clients in different industries. Ms. Zhu is fluent in Mandarin and English.

Competition

The market for bulk cement is highly commoditized, although advantages pertaining to quality, reliability of supply, and logistics costs do allow vendors to differentiate their products to some degree. In the PRC, the cement industry is currently in a state of consolidation, but due to high investment in fixed assets, overall cement product capacity has been growing. Therefore, the Company operates in a robust competitive environment, but one in which overall supply does not outstrip overall demand. We believe that the Company faces only a modest competitive threat, and this should remain the case as long as it continues to reliably provide top-quality bulk cement to the strong Hainan and Shandong local markets.

Other Risks

The Company currently faces some construction-related risk, but given the near-complete status of its new plant, we view this as quite minimal. Another risk facing the Company pertains to the possible closing of its Hainan plant, which was recently slated for closure by the PRC government. Although the Company believes that it will be successful in working with the PRC government to either keep this plant in operation, or secure favorable terms under which it can close this plant and build a more modern facility, there can be no assurance that it will be successful in doing so. We view this as a moderate risk to the Company's valuation, as an outright closing of this plant would reduce the Company's 2011 capacity by approximately 17%. However, given the shares' low current valuation, we do not see this risk as being significant enough to invalidate our investment thesis, even if the risk even were to occur.

The most significant risk facing the Company is operational in nature, and has to do with supply of limestone and coal, two of the major inputs in the cement manufacturing process. The Company believes that adequate supply of limestone should not be a problem in either Hainan or Shandong, and it has plans on the drawing board to acquire and develop a major coal deposit as well. Although coal supply is something investors should monitor over time, we do not see it as a major near-term risk to the Company and its operations.

Lastly, we believe there are some risks inherent in the Company's legal structure, which is common for PRC companies that trade on U.S. Exchanges. For more detailed information on this structure and an explanation of the risks it entails, investors should review the Company's most recent 10-K filing, which is available at http://sec.gov/edgar/searchedgar/webusers.htm.

Financial Statement and Capital Structure Analysis

The Company's financial structure is extremely clean and straightforward, as it currently consists only of common stock, which has been the case since the 20,250,000 preferred shares were converted to common in June of 2009, plus a 10-year, 10% annual simple interest note in the amount of US$3.75M. The Company currently has 28.82 million shares of common stock issued and outstanding, giving it a total market capitalization of just US$11.8M at this time.

In terms of its P&L, there is a salient adjustment of which investors should be aware. In 2008 the Company recognized some extreme one-time gains and adjustments, inflating its earnings before taxes to US$26.1M with underlying operating income of just US$7.3M.

Valuation and Investment Opinion

China Shuangji Cement is an undervalued Company in our view, even considering the lack of growth during 2009 and most of 2010. Given that we believe it will have another 1,000,000 metric tons of capacity online by early 2011, there is simply no rational reason that the Company's shares should be trading at current levels. Assuming that our forecasts are correct, the Company should earn nearly 0.17 per share in 2010 on sales of US$65.6M, and 0.248 per share in 2011 on sales of US$96.0M. Even given a conservative P/E estimate of just 4x 2011 earnings, the Company shares should still trade at $1.00, representing a 144% gain from the current share price of $0.41. We therefore rate the shares of CSGJ a Buy at these levels, and see upside to our rating possible during the coming months.

Peer Group Analysis – China Shuangji Cement (CSGJ – OTC:BB)

Company Name and Symbol	Price per Share	Market-Capitalization*	P/E Trailing 12-months	Est. Revenue Growth	Price/Sales Estimate (2011)*
China Shuangji Cem. (CSGJ – OTC:BB)	**0.41**	**11.8M**	**3.1**	**45%**	**.122**
China Runji Cement (CRJI – OTC:BB)	0.11	8.7M	8.4	Unknown	N/A
China Ad. Constr. Mat (CADC – OTC:BB)	3.26	53.5M	5.2	34%	.45
Monarch Cement (MCEM – OTC:BB)	23.80	95.7M	43.8	Unknown	N/A
Eagle Materials (EXP – NYSE)	24.16	1,070M	38.8	12%	1.88

*Market Data as of market close 9/13/2010; Per-share data for CSGJ shares computed from fully diluted common shares outstanding

Conclusion

China Shuangji Cement is a growing, high-quality provider of Portland cement that has experienced flat sales recently due only to an extraordinary event: the forced relocation of one of its major production facilities. However, this does not affect our belief that the Company has high-quality products that are and will continue to be in high demand in the markets in which it operates. Furthermore, we believe that the "clean up" policies of the PRC government strongly favor the Company, apart from its one older Hainan facility, given its status as one of the larger and more technologically advanced producers that is likely to benefit from industry consolidation. **Quite simply, we find the combination of CSGJ's strong results, low valuation, and favorable industry fundamentals to be very compelling. We therefore rate the shares of CSGJ a Buy, and set our 12-month price target at US$1.00 per share, representing just 4x our 2011 EPS estimate of 0.248.**

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

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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.

Mr. Connell is also associated with StreetCapital, an Atlanta-based broker-dealer. By written policy, Harbinger Research does not work with StreetCapital clients in any capacity, and StreetCapital does not work with Harbinger Research clients in any capacity.

China Shuangji Cement (OTC:BB) Profit and Loss Model

(In thousands, United States Dollars)	2007A	2008A	Mar '09A	Jun '09A	Sep '09A	Dec '09A	FY 2009A	Mar '10A	Jun '10A	Sep '10E	Dec '10E	FY 2010E	FY 2011E
Revenues													
Total Revenues	**50,902**	**56,413**	**11,482**	**13,647**	**14,160**	**14,694**	**53,983**	**11,951**	**15,253**	**15,355**	**23,000**	**65,559**	**96,000**
Year-over-year growth rate									*11.8%*	*8.4%*	*56.5%*	***21.4%***	***46.4%***
Gross Costs	**42,510**	**48,746**	**9,846**	**11,849**	**12,525**	**12,446**	**46,666**	**10,103**	**12,847**	**13,250**	**19,800**	**56,000**	**82,944**
Gross Profit	**8,392**	**7,667**	**1,636**	**1,798**	**1,635**	**2,248**	**7,317**	**1,848**	**2,406**	**2,105**	**3,200**	**9,559**	**13,056**
Gross Margin	*16.5%*	*13.6%*	*14.2%*	*13.2%*	*11.5%*	*11.5%*	*13.6%*	*15.5%*	*15.8%*	*13.7%*	*13.9%*	*14.6%*	*13.6%*
Selling expenses	**1,513**	251	59	68	71	86	283	66	88	88	116	358	390
Selling expenses % of revenues	*2.97%*	*0.45%*	*0.51%*	*0.50%*	*0.50%*	*0.58%*	*0.52%*	*0.55%*	*0.58%*	*0.57%*	*0.50%*	*0.55%*	*0.41%*
General and administrative expenses		1,042	351	97	302	241	991	360	628	340	550	1,878	1,900
General and administrative expenses	*0.00%*	*1.85%*	*3.06%*	*0.71%*	*2.13%*	*1.64%*	*1.84%*	*3.01%*	*4.11%*	*2.21%*	*2.39%*	*2.86%*	*1.98%*
Total operating expenses	**1,513**	**1,293**	**410**	**165**	**373**	**327**	**1,275**	**426**	**716**	**428**	**666**	**2,236**	**2,290**
Operating Income	**6,879**	**6,374**	**1,226**	**1,633**	**1,262**	**1,921**	**6,042**	**1,422**	**1,690**	**1,677**	**2,534**	**7,323**	**10,766**
Operating Margin	*13.5%*	*11.3%*	*10.7%*	*12.0%*	*8.9%*	*13.1%*	*11.2%*	*11.9%*	*11.1%*	*10.9%*	*11.0%*	*11.2%*	*11.2%*
Other income (expense), net													
Income from involuntary conversion		**5,027**										**0**	**0**
Income from debt forgiveness		**13,395**										**0**	**0**
Subsidy income	476	295										**0**	0
Interest income (expense), net	(1,264)	(589)	(52)	(23)	(22)	(30)	(126)	(31)	(23)	(26)	(26)	(107)	(554)
Other income	0	0	436	0	(0)	(423)	**13**					**0**	0
Other expense	(80)	(15)											
Total other income (expense)	**(867)**	**18,114**	**385**	**(22)**	**(22)**	(453)	**(113)**	**(31)**	**(23)**	**(26)**	**(26)**	**(107)**	**(554)**
Income before income taxes	6,012	24,487	1,611	1,611	1,240	1,468	5,929	1,391	1,667	1,651	2,508	7,217	10,212
Provision for income taxes	1,860	6,142	404	459	313	411	1,552	383	524	440	657	2,004	2,665
Implied Tax Rate	*31%*	*25%*	*25%*	*28%*	*25%*	*28%*	*26%*	*28%*	*31%*	*27%*	*26%*	*28%*	*26%*
Net income	4,152	18,346	1,206	1,152	927	1,057	4,377	1,008	1,143	1,211	1,851	5,213	7,547
Non-controlling interest				**(25)**	**(119)**		**(258)**	**(29)**	**(149)**	**(120)**	**(97)**	**(395)**	**(366)**
Net income available to common	**4,152**	**18,346**	**1,206**	**1,127**	**808**	**1,057**	**4,119**	**979**	**994**	**1,091**	**1,754**	**4,818**	**7,181**
Net margin (based on common share net)	***8.2%***	***32.5%***	***10.5%***	***8.3%***	***5.7%***	***7.2%***	***7.6%***	***8.2%***	***6.5%***	***7.1%***	***7.6%***	***7.3%***	***7.5%***
Net income year-over-year growth rate													
Other comprehensive Income (loss)	(484)	675	30	95	1,512	(1,576)	60	4	120				
Total comprehensive income	3,668	19,021	1,236	1,222	2,320	(520)	4,179	984	1,114	1,091	1,754	4,818	7,181
Net income per common share, basic	0.617	2.725	0.179	0.167	0.030	0.039	0.23	0.035	0.035	0.038	0.061	0.167	0.249
Net income per common share, diluted	0.617	1.246	0.045	0.167	0.030	0.039	0.15	0.035	0.035	0.038	0.060	0.166	0.248
Weighted average basic shares outstanding	6,733	6,733	6,733	6,733	26,983	26,983	18,042	27,995	28,254	28,800	28,800	28,800	28,800
Weighted average diluted shares outstanding	6,733	14,722	26,983	6,733	26,983	26,983	27,570	28,017	28,819	29,000	29,000	29,000	29,000

Note: Q2 2010 operating expenses included large a non-cash expense