

**China: Consumer**
**Shiner International, Inc. | BEST - \$1.69 - NASDAQ | Buy**

Estimates Changed, Target Price Changed

Stock Data	
52 Week Low - High	\$0.47 - \$2.25
Shares Out. (mil)	24.61
Mkt. Cap.(mil)	\$41.6
3-Mo. Avg. Vol.	176,730
12-Mo.Price Target	\$2.00
Cash (mil)	\$2.5
Tot. Debt (mil)	\$4.3
Est. 3Yr. EPS Growth	70%

EPS (\$)					
Yr Dec	2008	—2009E—		—2010E—	
	Actual	Curr	Prev	Curr	Prev
1Q	0.06A	(0.01)A	(0.01)A	0.03E	0.02E
2Q	0.07A	(0.01)A	(0.01)A	0.03E	0.03E
3Q	0.08A	0.01E	0.03E	0.04E	0.05E
4Q	(0.02)A	0.02E	0.04E	0.06E	0.07E
YEAR	0.20A	0.01E	0.05E	0.17E	0.17E
P/E	8.4x	NM	33.8x	9.9x	9.9x

Revenue (\$ millions)					
Yr Dec	2008	—2009E—		—2010E—	
	Actual	Curr	Prev	Curr	Prev
1Q	11.3A	7.1A	7.1A	11.7E	10.4E
2Q	14.2A	8.0A	8.0A	12.4E	10.7E
3Q	15.2A	8.6E	11.7E	13.9E	13.9E
4Q	11.0A	10.4E	13.4E	16.2E	15.6E
YEAR	51.6A	34.0E	40.2E	54.2E	50.7E


**Expanding to Meat Processing Market; Raising PT**

- Breaking into new market.** BEST announced yesterday that it has signed a sales contract with Shineway Group, the largest meat product manufacturer in China. The company expects the potential revenue contribution will be approximately \$7.0MM on a full year basis. In our opinion, this new contract represents a significant breakthrough for the company, which will likely lead to other meaningful contracts in the meat processing market as well as other consumer sectors.
- Improving operating environment.** China exports fell in September by only 15% yoy, well below 21% consensus, suggesting an improving global demand. With China's economy regaining footing, we expect domestic demand will expand as well. Furthermore, the new PRC Food Safety Law which became effective on June 1, 2009 has driven many food processing companies to look for quality food-safe packaging material.
- Committed to long-term growth.** The company previously announced its 5-year financial outlook for 2009-2013 with estimated revenue/net income of \$34.0MM/\$0.1MM in 2009, \$53.0MM/\$4.0MM in 2010, \$82.4MM/7.1MM in 2011, \$120.0MM/\$12.0MM in 2012, and \$180.0MM/\$20.5MM in 2013. Management plans to achieve the stated growth target through continued investment in R&D, expansion of production capacity, and more effective marketing. We believe the company has a competitive edge in terms of cost, scale, and quality.
- Changing estimates.** We are realigning our expectation with the company's 2009 guided outlook by reducing revenue/eps estimates to \$34.0MM/\$0.01 (previously \$40.2MM/\$0.05). We are increasing our 2010 revenue estimate to \$54.2MM (previously \$50.7MM). We expect the company may offer more competitive pricing to attract big direct customers and therefore trim our gross margin to 17.6% (previously 20.0%). Consequently, we keep our 2010 EPS estimate at \$0.17 which also factors in a lower tax rate.
- We are raising our price target to \$2.00** from \$1.35, reflecting improved visibility on growth and an expanding industry multiple. Our 12-month price target is based on 12.0x 2010 EPS estimate, compared with 14.0x for peer group. We maintain BUY rating.

Refer to important disclosure information and rating System Definition on pages 4 - 5 of this report. Regulation Analyst Certification ("Reg AC"): The research analyst primarily responsible for the content of this report certifies the following under Reg AC: I hereby certify that all views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## VALUATION

Our \$2.00 price target is based on a multiple of approximately 12.0x our 2010 EPS estimate of \$0.17, compared with 14.0x for peer group. We view our valuation as conservative and will revisit our price target should we see additional signs of an improving outlook for the company.

Factors that may impede share price from achieving our price target include: prolonged economic slowdown, loss of key customer or margin erosion resulting from intensified competition, significant increase in oil price, and failure to keep up with evolving market needs.

## RISKS

- Each of the company's product lines has a large amount of sales concentrated in a small number of customers. Any loss of such a customer could significantly impact the company's performance.
- Rising oil price could adversely affect the operating results. Petroleum-based resin such as polypropylene is the main feedstock of the company's products.
- The company operates in a very competitive environment. It may not be able to effectively compete with larger companies in the industry.
- If the company fails to keep up with evolving technological, regulatory, and customer requirements, its business results will be adversely affected.
- Slower than expected customer adoption of its anti-counterfeit and coated films will severely harm the company's performance.
- Some of the general risks related to doing business in China include governmental interference with the economy, foreign currency control, international trade restrictions, co-existence of state-owned and private companies, and governmental control of important natural resources. From time to time, the government may enact laws or issue administrative regulations to encourage or discourage the development of a particular sector or industry.

## COMPANY DESCRIPTION

Shiner International is a U.S. corporation that has its primary operations in China. Headquartered in the city of Haikou -- China's "Hawaii" -- Shiner's products include coated packaging film, shrink-wrap film, common packaging film, anti-counterfeit laser holographic film and color-printed packaging materials. Approximately 60 percent of Shiner's current customers are located in China, with the remainder spanning Southeast Asia, Europe, the Middle East and North America. Shiner holds 14 patents on products and production equipment, and has additional patent applications pending. The Company's coated films meet the approval of U.S. FDA requirements, as well as those required for food packaging sold in the EU. Shiner's product manufacturing process is certified under ISO 9001:2000.

## MENTIONED COMPANIES

Shiner International (BEST)														
Income Statement														
(\$000s)														
	FY '05(A)	FY '06(A)	FY '07(A)	FY '08(A)	Q1 - Mar(A)	Q2 - Jun(A)	Q3 - Sep(E)	Q4 - Dec(E)	FY '09(E)	Q1 - Mar(E)	Q2 - Jun(E)	Q3 - Sep(E)	Q4 - Dec(E)	FY '10(E)
<b>Net sales</b>	27,855	33,952	42,763	51,595	7,070	8,006	8,600	10,363	34,040	11,650	12,413	13,920	16,200	54,183
<i>YoY growth</i>	NA	21.9%	26.0%	20.7%	-37.3%	-43.5%	-43.3%	-5.8%	-34.0%	64.8%	55.0%	61.9%	56.3%	59.2%
Cost of sales	21,986	27,329	34,226	42,026	6,599	6,901	7,279	8,494	29,272	9,731	10,283	11,430	13,191	44,635
<b>Gross profit</b>	5,869	6,623	8,537	9,569	471	1,105	1,321	1,869	4,767	1,919	2,130	2,490	3,008	9,548
<i>Gross margin</i>	21.1%	19.5%	20.0%	18.5%	6.7%	13.8%	15.4%	18.0%	14.0%	16.5%	17.2%	17.9%	18.6%	17.6%
Selling expenses	1,460	1,579	1,332	1,840	278	497	450	500	1,725	400	450	500	550	1,900
<i>% of Sales</i>	5.2%	4.6%	3.1%	3.6%	3.9%	6.2%	5.2%	4.8%	5.1%	3.4%	3.6%	3.6%	3.4%	3.5%
General & administrative expenses	1,003	1,195	2,044	2,585	524	817	700	730	2,771	730	750	770	800	3,050
<i>% of Sales</i>	3.6%	3.5%	4.8%	5.0%	7.4%	10.2%	8.1%	7.0%	8.1%	6.3%	6.0%	5.5%	4.9%	5.6%
Total operating expense	2,463	2,774	3,376	4,425	802	1,314	1,150	1,230	4,496	1,130	1,200	1,270	1,350	4,950
<b>Operating income</b>	3,406	3,850	5,161	5,144	(330)	(208)	171	639	272	789	930	1,220	1,658	4,597
<i>Operating margin</i>	12.2%	11.3%	12.1%	10.0%	-4.7%	-2.6%	2.0%	6.2%	0.8%	6.8%	7.5%	8.8%	10.2%	8.5%
<i>YoY growth</i>	NA	13.0%	34.1%	-0.3%	-119.4%	-111.4%	-89.6%	-1578.4%	-94.7%	-338.7%	-546.6%	612.1%	159.7%	1591.9%
Other expense(income), net	407	329	31	87	39	35	20	20	114	30	30	30	30	120
Finance expenses	(107)	(255)	181	(369)	(12)	(11)	(11)	(11)	(46)	(11)	(11)	(11)	(11)	(44)
<b>Income before provision for income tax</b>	3,105	3,776	4,949	5,426	(357)	(232)	162	630	203	770	911	1,201	1,639	4,521
Provision for income tax	--	215	409	547	(82)	44	23	88	73	77	91	120	164	452
<i>Tax rate</i>	0.0%	5.7%	8.3%	10.1%	22.9%	-19.0%	14.0%	14.0%	36.1%	10.0%	10.0%	10.0%	10.0%	10.0%
<b>Net income</b>	3,105	3,561	4,540	4,879.2	(275)	(276)	140	542	130	693	820	1,081	1,475	4,069
<i>Net profit margin</i>	11.1%	10.5%	10.6%	9.5%	-3.9%	-3.4%	1.6%	5.2%	0.4%	5.9%	6.6%	7.8%	9.1%	7.5%
<i>YoY growth</i>	NA	14.7%	27.5%	7.5%	-117.6%	-115.1%	-92.5%	-244.7%	-97.3%	-351.8%	-397.5%	674.4%	172.5%	3035.4%
<b>EPS</b>	0.19	0.22	0.24	0.20	(0.01)	(0.01)	0.01	0.02	0.01	0.03	0.03	0.04	0.06	0.17
<i>YoY growth</i>	NA	14.7%	9.4%	-16.2%	-117.6%	-115.1%	-92.5%	-244.7%	-97.3%	-351.8%	-397.4%	674.4%	172.5%	3034.9%
Basic shares outstanding	16,500	16,500	19,222	24,650	24,650	24,636	24,650	24,650	24,646	24,650	24,650	24,650	24,650	24,650
Diluted shares outstanding	16,500	16,500	19,230	24,650	24,650	24,636	24,650	24,650	24,646	24,650	24,650	24,650	24,650	24,650
Depreciation and amortization	NA	500	662	1,308	414	479	519	559	1,972	599	639	679	719	2,638
<b>EBITDA</b>	NA	4,350	5,824	6,452	83	271	691	1,198	2,243	1,388	1,569	1,900	2,378	7,235

Source: Company reports and Roth Capital Partners  
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## Disclosures:

ROTH makes a market in shares of Shiner International, Inc. and as such, buys and sells from customers on a principal basis.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

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Rating	Count	Percent	IB Serv./Past 12 Mos. as of 10/20/09	
			Count	Percent
BUY [B]	152	71.4	16	10.5
HOLD [H]	57	26.8	0	0
SELL [S]	4	1.9	0	0
NOT RATED [NR]	0	0.0	0	0

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