

CHINA RECYCLING ENERGY CORP.

Raising Price Target Following Strong 2013 Results

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CHINA RECYCLING ENERGY CORP. (NASDAQ – CREG - \$3.63)

Price Target: \$7.90

Rating: Speculative Buy

COMPANY SNAPSHOT

China Recycling Energy Corp. provides environmentally friendly waste-to-energy technologies to recycle industrial by-products for steel mills, cement factories and coke plants in China. By-products include heat, steam, pressure, and exhaust gas to generate large amounts of lower-cost electricity and reduce the need for outside electrical sources. The Chinese government has adopted policies to encourage the use of recycling technologies to optimize resource allocation and reduce pollution.

KEY STATISTICS

| | |
|-------------------------|---------------|
| Price as of 4/4/14 | \$3.63 |
| 52 Wk High – Low | \$6.05 – 0.88 |
| Est. Shares Outstanding | 60.9M |
| Market Capitalization | \$197.5M |
| 3 Mo Avg Vol | 96,000 |
| Exchange | NASDAQ |

COMPANY INFORMATION

China Recycling Energy Corporation
12/F Tower A
Chang An International Building
No. 88 Nan Guang Zheng Jie
X'ian City Shaanxi Province
China
www.creg-cn.com

KEY TAKEAWAYS

Conclusion: On the heels of strong 2013 financial results and 2 new, major wins in the past two weeks alone, we are raising our price target and EPS estimate as well as reiterating our Speculative Buy rating on the solidly profitable China Recycling Energy Corp.

Strong 2013 Growth: Last year was a breakout year for CREG as *revenue jumped from \$1.2 million to \$63.2 million and EPS leaped from \$0.07 to \$0.29*, led by a series of large-scale system sales and two new projects coming on line. Plus, totally equity increased by 30% due to the rise in projects under construction and a big jump in retained earnings.

Work-in-Progress Projects and New Wins Provide Great Visibility: Three of the Company's projects should be completed later this year which will help drive revenue. As evidenced by 2 new deals totaling \$112 million for Coke Dry Quenching (CDQ) waste heat power generation projects, CREG the Company's business model is a very profitable one and has no significant competition. For example, *the smaller \$32.6M project could generate annual net income of \$7.6M alone.*

New, Higher Target and Estimates Could Be Conservative. With around 15 completed projects under its belt, 7 in progress, and others in the pipeline, CREG is clearly the best pure play renewable energy stock focused on China. We are raising our EPS estimate for 2014 from \$0.50 to \$0.59 based upon higher operating profitability. At current levels, CREG trades at a paltry 6.2x our FY14 EPS estimate. Meanwhile, our new target of \$7.90 reflects a reasonable 13x multiple on our projected EPS. Both our EPS forecast and target could prove to be conservative given the wind at the Company's back. We rate these shares Speculative Buy.

CHINA RECYCLING ENERGY (NASDAQ - CREG)

The View from 30,000 Feet

With a first-mover advantage, China Recycling Energy Corp. is poised to dominate the renewable energy industry in China. The Chinese government has adopted policies to encourage the use of recycling technologies and renewable energy resources which are viewed as critical growth market due to intensified environmental concerns and rising energy costs. CREG provides the initial capex investment for the customer in exchange for a long-term production agreement with attractive returns on investment in 3-5 years thereby enabling customers to improve energy efficiency and reduce emissions, resulting in long-term recurring revenue via a sales-type leasing model. The Company's systems recover energy in the form of pressure, heat and gas and convert it into electricity. CREG's power systems recover previously wasted, cost free byproducts such as heat, pressure, steam, and other residuals generated during industrial production processes.

Figures I and II, taken from the Company's recent financials press release, illustrate the Company's great future visibility from which we derive our financial projections.

| Figure I. CREG: Net Investment in Sales-Type Leases | | |
|--|-----------------|-----------------|
| | 2013 | 2012 |
| Total future min.lease payments receivables | \$560,187,391 | \$380,608,263 |
| Less: executory cost | (\$134,447,605) | (\$113,529,216) |
| Less: unearned int inc | (\$241,234,839) | (\$138,668,584) |
| Net inv.in sales - type leases | \$184,504,947 | \$128,410,463 |
| Current portion | \$9,063,386 | \$10,389,028 |
| Noncurrent portion | \$175,441,561 | \$118,021,435 |

Source: CREG 4Q13 Press Release

As of December 31, 2013, the future minimum rentals to be received on non-cancelable sales-type leases by years are as follows:

| Figure II. CREG: Future Minimum Rentals | |
|--|----------------------|
| 2014 | \$42,518,204 |
| 2015 | 39,462,788 |
| 2016 | 39,462,788 |
| 2017 | 39,462,788 |
| 2018 | 39,369,967 |
| Thereafter | 359,910,856 |
| Total | \$560,187,391 |

Source: CREG 4Q13 Press Release

CHINA RECYCLING ENERGY (NASDAQ - CREG)

Conclusion

CREG is very profitable with payback of its projects on average of 3-5 years. As noted in our projected income statement below, our FY14E forecasts assume \$151M in revenue and \$0.59 in EPS, up from an original \$0.50. A nearly \$5 million rise in our operating income estimate has driven the jump in our EPS projection. We plan to break out financial projections on a quarterly basis for 2014 and initiate a preliminary FY2015 annual forecast following the release of 1Q14 during the first half of this year. At current levels, CREG trades at a paltry 6.2x our FY14 EPS estimate. Meanwhile, our new target of \$7.90 reflects a reasonable 13x multiple on our projected EPS. Thus, we believe that this sleeper stock's current price is a great entry point for new investors as the stock has sold off since reaching a new 52-week high. We continue to rate these shares Speculative Buy.

Recent Trading History For CREG

(Source: Stockta.com)



CHINA RECYCLING ENERGY (NASDAQ - CREG)

China Recycling Corporation (NASDAQ - CREG)

Historical and Projected Income Statement

| | | FY | FY | FY | PREVIOUS |
|---------------------------------|--|---------------------|---------------------|----------------------|----------------------|
| | | 2012A | 2013A | 2014E | FY |
| | | | | | 2014E |
| Sales of Systems | | \$0 | \$62,013,135 | \$150,000,000 | \$150,000,000 |
| Rental Income | | \$1,245,805 | \$1,180,055 | \$1,000,000 | \$1,000,000 |
| Total Revenue | | \$1,245,805 | \$63,193,190 | \$151,000,000 | \$151,000,000 |
| Cost of Sales | | \$0 | \$47,847,313 | \$110,985,000 | \$117,780,000 |
| Gross Profit | | \$1,245,805 | \$15,345,877 | \$40,015,000 | \$33,220,000 |
| Int Inc. on Sales Type Leases | | \$18,234,020 | \$19,344,855 | \$21,000,000 | \$21,000,000 |
| Operating Income | | \$19,479,825 | \$34,690,732 | \$61,015,000 | \$54,220,000 |
| Operating Expenses | | \$5,662,212 | \$4,160,742 | \$5,400,000 | \$5,000,000 |
| Income from Operations | | \$13,817,613 | \$30,529,990 | \$55,615,000 | \$49,220,000 |
| Non-Oper Exp (Inc.) | | \$7,672,856 | \$7,827,583 | \$10,600,000 | \$11,000,000 |
| Income before Tax | | \$6,144,757 | \$22,702,407 | \$45,015,000 | \$38,220,000 |
| Taxes | | \$2,922,253 | \$6,886,601 | \$12,604,200 | \$9,555,000 |
| Less Non-Controlling Int | | \$174,134 | \$186,270 | \$150,000 | \$500,000 |
| Net Attributable to CREG | | \$3,406,995 | \$15,629,536 | \$32,260,800 | \$28,165,000 |
| Currency Gain (Loss) | | \$280,392 | \$4,658,770 | \$3,500,000 | \$3,000,000 |
| Comprehensive Income | | \$3,502,896 | \$20,284,714 | \$35,760,800 | \$31,165,000 |
| Weighted Shares Outstanding | | 51,037,255 | 54,383,418 | 61,000,000 | 62,000,000 |
| EPS (non-GAAP) | | \$0.07 | \$0.29 | \$0.59 | \$0.50 |

CHINA RECYCLING ENERGY (NASDAQ - CREG)

CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

| | FY13 | FY12 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash & equivalents | \$7,701,530 | \$45,004,304 |
| Restricted cash | \$2,296,249 | \$2,725,002 |
| Accounts receivable | \$71,573 | \$81,819 |
| Current portion of investment in sales type leases, net | \$9,063,386 | \$10,389,028 |
| Interest receivable on sales type leases | \$765,010 | \$912,467 |
| Prepaid expenses | \$1,045,802 | \$49,581 |
| Other receivables | \$1,813,220 | \$121,109 |
| Notes receivable | \$656,071 | - |
| Advance to related party | - | \$440,987 |
| Prepaid interest on trust loans | - | \$816,164 |
| Prepaid loan fees - current | \$83,649 | \$81,139 |
| Total current assets | \$23,496,490 | \$60,621,600 |
| NON-CURRENT ASSETS | | |
| Prepaid loan fees - noncurrent | \$125,474 | \$202,848 |
| Investment in sales type leases, net | \$175,441,561 | \$118,021,435 |
| Long term investment | \$738,513 | - |
| Long term deposit | \$385,073 | \$388,508 |
| Property and equipment, net | \$44,243 | \$68,305 |
| Construction in progress | \$83,719,596 | \$22,993,905 |
| Total non-current assets | \$260,454,459 | \$141,675,001 |
| TOTAL ASSETS | \$283,950,949 | \$202,296,601 |

CHINA RECYCLING ENERGY (NASDAQ - CREG)

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|--|--------------|--------------|
| Accounts payable | \$2,642,662 | \$239,722 |
| Notes payable - bank acceptances | \$5,740,622 | \$3,659,216 |
| Taxes payable | \$1,560,829 | \$1,372,535 |
| Accrued liabilities and other payables | \$1,517,191 | \$1,534,829 |
| Deferred tax liability | \$2,420,391 | \$2,471,925 |
| Due to related parties | \$1,442,318 | - |
| Bank loans payable - current | \$14,925,618 | \$13,523,188 |
| Trust loans payable | - | \$31,421,526 |
| Interest payable on trust loans | - | \$317,962 |
| Cinda note payable | - | \$3,766,694 |
| Accrued interest on Cinda note | - | \$383,929 |
| Interest payable on entrusted loans | \$287,887 | \$0 |
| Current portion of long term payable | \$1,441,051 | \$1,292,185 |

Total current liabilities

\$31,978,568 **\$59,983,711**

NONCURRENT LIABILITIES

| | | |
|---|--------------|--------------|
| Deferred tax liability, net | \$11,884,068 | \$6,565,618 |
| Refundable deposit from customers for systems leasing | \$1,164,526 | \$588,656 |
| Shares to be issued | - | - |
| Long term payable | \$2,385,422 | \$3,711,658 |
| Bank loans payable | \$18,862,045 | \$12,091,321 |
| Entrusted loan payable | \$62,654,792 | - |
| Total noncurrent liabilities | \$96,950,852 | \$22,957,253 |

Total liabilities

\$128,929,421 **\$82,940,964**

STOCKHOLDERS' EQUITY

Common stock, \$0.001 par value; 100,000,000 shares authorized, 60,910,058 and 50,224,350 shares issued and outstanding at 12/31/13 and 12/31/12.

| | | |
|--|--------------|--------------|
| | \$60,910 | \$50,225 |
| Additional paid in capital | \$78,130,053 | \$58,501,642 |
| Statutory reserve | \$9,672,754 | \$7,766,002 |
| Accumulated other comprehensive income | \$16,209,403 | \$11,554,225 |
| Retained earnings | \$50,603,291 | \$37,107,107 |

Total Company stockholders' equity

\$154,676,411 **\$114,979,201**

Noncontrolling interest

\$345,117 **\$4,376,436**

Total equity

\$155,021,528 **\$119,355,637**

TOTAL LIABILITIES AND EQUITY

\$283,950,949 **\$202,296,601**



CHINA RECYCLING ENERGY (NASDAQ - CREG)

Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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