CATALYST
FINANCIAL RESOURCES LLC

SEPTEMBER 1, 2009

MORNING NOTE

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NF ENERGY SAVINGS CORP.
(OTC BB: NFEC: $5.50, STRONG BUY)
INDUSTRY: HEAVY INDUSTRY

Disclosures: 1, 5, 10

FY: Dec	2008A	2009E	2010E
EPS	$0.30	$0.65	$0.90

Hoping to be Kicked Upstairs

NF Energy has released a number of news announcements during the last couple of weeks that should lead the savvy and vigilant reader of news to conclude that better things are to come. The appointment of two more board members (Hmmm!), a reverse share stock split (a financial maneuver with the shares while they are experiencing a price trajectory somewhat reminiscent of the Atlas Space program of the 1960's), and now one of the most meaningful contract announcements since we've been following the Company's operating performance…it all points to a dénouement indicative of some sort of graduation.

From our standpoint as an outside analyst-observer looking-in, that is all well and fine. NFEC appears to be facing a long, prosperous horizon given China's boundless demand for power. Management is readying the Company for larger venues. Given its rising prominence, the measures to raise NFEC's market presence and standing are appropriate.

Taking the two most recent announcements, let's perform a little more insightful analysis.

The additional board members and reverse split are reminiscent of the actions taken by our other, fast-growing Company, ZAGG, Inc. (OTC-BB) as it prepares for the NASDAQ. This makes a lot of sense for NFEC, given its recent growth. Since NFEC too needs to graduate onto a proper exchange where institutional investors can participate and brokers can solicit orders, a step-up here makes tremendous sense. Also when you understand that so many investors are eliminated from participating in owning any shares (just by their share price, not any other standard), it represents a tremendous barrier to the capital markets.

When I ran the Red Chip Review and gave presentations, one of my favorite pitches was how ***"We lose the gainers and gain the losers!"*** Those successful companies are removed from the small-cap universe and managers and analysts, like myself, are penalized for their success. But conversely, we are punished by the big-cap failures (like GM, AIG, etc) that fall from grace and end up in our "dung heap." Is it any wonder dollar stocks get a bad rap.

So I digress! There are many other Chinese companies (China Digital Communications-CMTP; Gulf Resources, Inc.-GFRE; and China Agritech, Inc.-CAGC) that have successfully performed reverse splits ranging from 4 to 1 all the way to 13 to 1 to get themselves out of the single dollar doldrums. And, all of the reverse splits have been "in the name of listing on more senior exchanges." The incredible fact about these share maneuvers is that they have ended up with the shares rising in value after the fact.

Quick on the Draw

Just as we released our comments on NFEC's Quarterly figures, the Company announced another exciting contract. This $3.29 million project concerns energy-efficient flow control systems for water supply project in

Shanghai. This "Rush Order" is to be delivered during Q42009 and should add nearly 3¢ (Oh, I mean @10¢ on the post split shares) to the period's bottom line.

Whoopee!!! Energy Management Contract!!!

Whatever you think of the reverse split and the other machinations and manipulations, this contract for the 15-year EMC for the Shenyang Shengjing Hospital is huge news. Until this time, we have been somewhat hesitant about placing too great a multiple on NFEC since the operation was a very good casting operation, but really a glorified, "job shop."

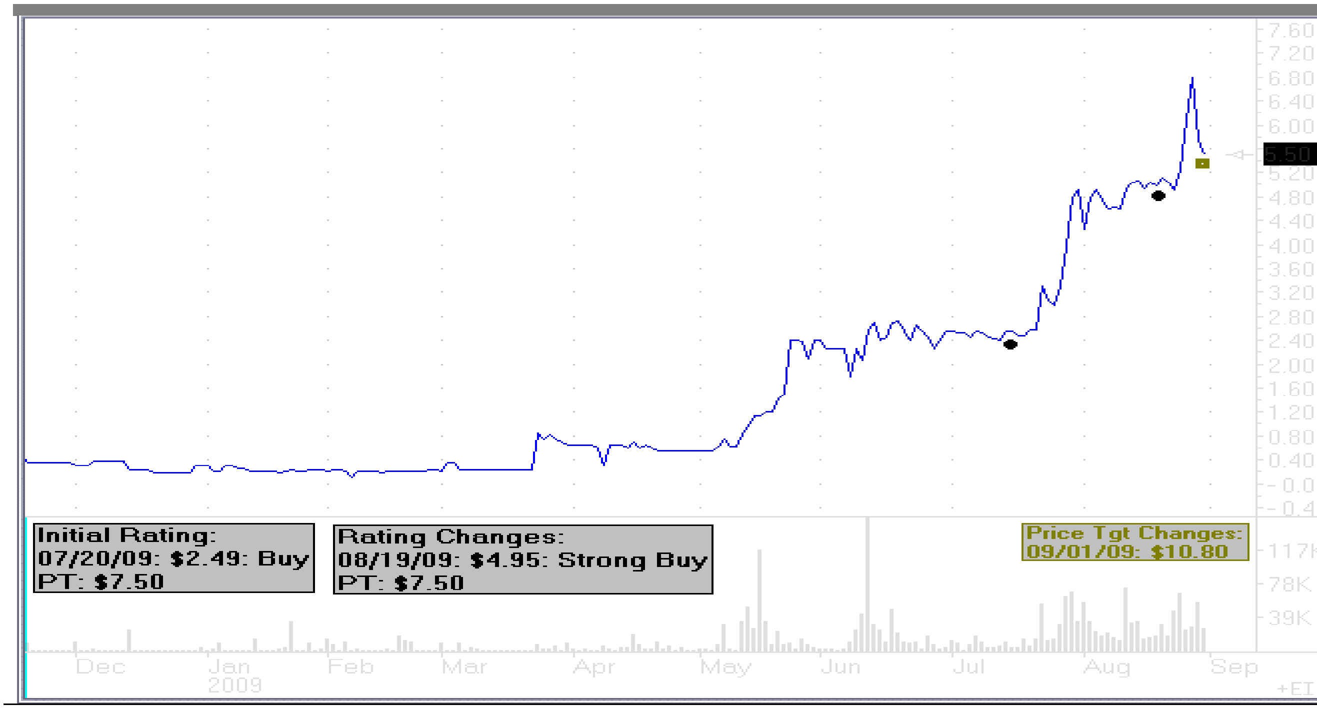
Now that's a terribly degrading description of a Company that is growing at such a rapid pace. But, our angst rises out of the late 1980's when the great and historically significant E&C operations (Morrison-Knudson, to name one) vanished because they depended too much on single jobs and long-term contracts disappeared. This 15-year energy management contract is where NFEC will provide management and technological expertise in the reconstruction of the hospital's lighting, elevator, air-conditioner, boiler, and hot water systems, providing long-term operating security as well.

Although the press release did not outline the margins that NFEC will realize, as we understand the new arrangement, the returns to NFEC are just a little lower than their normal casting business. Here's our take on the contract details…it is actually a 15-year EMC contract signed by the hospital with two companies, NF Energy and Beijing Zhongzhou Jiuneng, an investment company engaged in energy-saving projects. What is happening is the hospital gains a contractually reduced energy payment over the next 15-years and between the two new partners; they are going to work together to incorporate substantial power savings throughout the facility and through this coordination, profit from the savings.

NFEC has been involved in this kind of EMC before where facility savings are the ultimate goal. This is one of the first ones tied to a long-term commitment. It is the long duration of the contract that helps to lower the overall risk rating of the Company's work portfolio and adds some balance to our thoughts about the Company's top-line. Instead of just working from short-term order to order, this means the Company has a multiple-year effort to be focused on. Hence, it should not only add a couple of penny's to EPS but help to boost the P/E multiple of the shares as the shift continues. As mentioned in the release, management is expected to add more contracts with longer tails into the mix.

Investment conclusion

We are taking two steps with this report: A) Boosting our earnings estimates for 2009 to ***$0.65*** on a post-split basis ($0.22, pre-split) for 2009 and ***$0.90*** post-split ($0.30, pre-split) for 2010; B) We also feel it appropriate that the shares should start to better reflect the growth that the Company is experiencing and hence the P/E multiple may actually expand next year to 12-times current earnings. With these changes, we believe NFEC may actually rise to $10.80 per share…our new target price….based on a new revenue base of $53.5 million.


7.60
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3.20
2.80
2.40
2.00
1.60
1.20
0.80
0.40
0.0
0.4
Initial Rating:
07/20/09: $2.49: Buy
PT: $7.50
Rating Changes:
08/19/09: $4.95: Strong Buy
PT: $7.50
Price Tgt Changes:
09/01/09: $10.80
117K
78K
39K
Dec
Jan
2009
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep

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Sell The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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