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6 March 2009

Sino-Environment Tech

Suspending Coverage

S\$0.295

Stock Code: SOET.SI
 Reuters: Y62
 ISIN Code: SINE SP
 Bloomberg: Update
 Event: Update

General Data

Issued Capital (m)	346
Mkt Cap (S\$m/US\$m)	102/66
Major Shareholder	Sun Jiangrong (56.2%)
Free Float (%)	50.3%
NTA per share (RMB)	2.46
Daily Vol 3-mth ('000)	809
52Wk High (S\$)	2.120
52Wk Low (S\$)	0.295

Major shareholder in default

Controlling shareholder in default. Sino-Environment Technology Group (SINE) has announced last night that its controlling shareholder - Thumb (China) Holdings (TCH) which is wholly and beneficially owned by SINE chairman and CEO Sun Jiangrong - is in default of certain financing obligations owing to hedge funds. It appears that TCH has pledged 190.8m shares (56.29% of SINE) as collateral for notes amounting to S\$120m; although TCH has repaid some S\$55m well before maturity, the S\$65m has come due on 16 Feb 2009. But due to the current global financial crisis, TCH has not been able to raise sufficient cash to repay the hedge funds. And to make matters worse, talks between the parties have failed as they were unable to reach an agreement on the hedge funds' demands for additional collateral.

Possible forced sale of SINE shares. As such, the hedge funds have given notice to TCH that they intend to enforce their security interests - including the possible forced sale of part or all of the 190.8m shares. While the forced share sale will have an immediate adverse impact on the share price, there are other more serious implications. Besides the possibility of losing the services of Sun, the current business contracts may also be adversely affected - the company warns that it cannot rule out the possibility that these uncertainties could lead to the cancellation of contracts by its customers.

Doesn't rain but pours. And importantly, the possible change in control could also put the company's ability to continue to operate as a going concern into doubt - such action is likely to trigger the convertible bond (CB) holders' rights to ask for conversion or redemption of the outstanding S\$149m debt as well as crystallize the default on the corresponding swap arrangement with the CB holders (SINE already booked RMB226m (S\$49m) of MTM losses). As of end-Dec, the company's encashable assets (cash + receivables - S/T debt) stand at RMB1108m (S\$240m).

Suspending coverage. Although the board is assured by TCH that Sun will use his best endeavours to protect shareholders' interest, it warns that there is no certainty that such efforts will be successful given the current credit crunch. In light of the above adverse developments, we are suspending our coverage on the company until we get more information.

Carey Wong
 (65) 6531 9808
 e-mail: carey@ocbc-research.com

Year to 31 Dec	Turnover (RMB m)	EBITDA (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 06	175.5	87.4	89.6	31.8	307.4	4.6	-
FY 07	463.8	170.6	147.2	43.0	34.9	3.3	-
FY 08	775.8	229.2	-45.0	-13.3	-130.9	2.5	-

Please refer to the important disclosures at the back of this document.

Sino-Environment's Key Financial Data
EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY06	FY07	FY08
EBITDA	175.5	463.8	775.8
Depreciation & amortisation	87.4	170.6	229.2
Operating Profit	-2.8	-14.8	-9.3
Net interest	84.6	155.8	219.9
Associates	2.3	8.6	-24.5
Exceptionals	0.0	0.0	0.0
Pre-tax profit	6.5	8.2	-226.4
Tax	91.1	171.9	-28.6
Minority interests	0.1	-0.7	-16.4
Net profit	-1.6	-24.1	0.0
Earnings per share (cents)	89.6	147.2	-45.0
	31.8	43.0	-13.3
Underlying profit			
Underlying earnings per share (cents)	83.1	139.0	181.4

BALANCE SHEET

As at 31 Dec (RMB m)	FY06	FY07	FY08
Cash	249.8	689.2	727.9
Other current assets	82.4	218.6	394.9
Fixed assets	11.8	104.2	154.3
Other long term assets	7.8	224.2	362.8
Total assets	351.8	1,236.2	1,639.9
Current liabilities less debt	14.2	77.6	122.4
Debt	0.0	12.0	9.2
Convertible Bond	0.0	0.0	622.6
Other long term liabilities	0.0	11.5	134.5
Total liabilities	14.2	101.2	888.8
Shareholders equity	334.3	1,052.1	751.1
Minority interests	3.3	82.9	0.0
Total equity and liabilities	351.8	1,236.2	1,639.9
NTA per share (cents)	96.3	245.7	154.2

CASH FLOW

Year Ended 31 Dec (RMB m)	FY06	FY07	FY08
Operating profit before working cap. changes	91.6	172.3	221.4
Working capital changes	-13.1	-21.4	-32.8
Interest and tax	1.2	8.6	1.8
Net cash from operations	79.7	159.4	190.4
Capex	-5.0	-85.9	-179.2
Other investing flows	0.0	-69.0	-315.4
Investing cash flow	-5.0	-154.9	-494.6
Change in equity	112.5	432.4	-50.7
Net change in debt	-3.4	-0.5	746.3
Dividends paid	0.0	0.0	0.0
Others	0.0	0.0	-378.4
Financing cash flow	109.0	431.9	317.2
Forex adjustments	0.0	0.1	0.0
Net cash flow	183.7	436.5	13.0
Cash at beginning of year	66.0	249.8	686.3
Add: Bank overdraft and fixed deposit pledged to banks	0.0	2.9	39.7
Cash at end of year	249.8	689.2	739.0

Key Ratios

Underlying PER (x)	4.6	3.3	2.5
Price/NTA (x)	1.4	0.6	0.9
EV/EBITDA (x)	2.4	-1.3	-1.1
Dividend yield (%)	0.0	0.0	0.0
ROIC (%)	24.9	13.1	23.9
ROE (%)	24.9	13.2	24.2
Net gearing (%)	Net Cash	Net Cash	-0.1
PE to growth (x)	0.0	0.1	0.0

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds 2,000 shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

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Carmen Lee
Head of Research

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