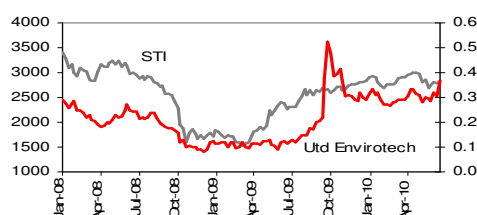


30 June 2010

Initiating Coverage

BUY
Current Price: S\$0.38
Fair Value: S\$0.52


Reuters Code	UNIT.SI
ISIN Code	U19
Bloomberg Code	UENV SP
Issued Capital (m)	437
Mkt Cap (S\$m / US\$m)	166 / 118
Major Shareholders	
Lin Yucheng	16.4%
Goh Ching Wah	16.2%
Free Float (%)	54.2%
Daily Vol 3-mth ('000)	6,841
52 Wk Range	0.115 - 0.545

(S\$m)	FY09	FY10	FY11F	FY12F
Revenue	42.9	69.1	100.6	121.8
EBITDA	5.8	19.5	23.2	25.3
PER (x)	41.2	11.2	9.3	8.5
P/NTA (x)	2.0	1.5	1.3	1.1
EV/EBITDA (x)	29.5	7.7	6.6	5.8

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 e-mail: carey@ocbc-research.com

United Envirotech Ltd

Surfing on China's Growing Water Needs

Leading MBR specialist. United Envirotech Limited (UEL) is a comprehensive environmental solutions provider, providing both environmental engineering and environmental consultancy solutions. UEL provides engineering services which involve the design, fabrication, installation and commissioning of membrane based water and wastewater treatment systems using its advanced membrane technology namely membrane bioreactor (MBR) and continuous membrane filtration (CMF) processes in micro-filtration, ultra-filtration and reverse osmosis.

Balance of industrial and municipal projects. UEL has an established track record in MBR, especially in the chemical, petrochemical and industrial park sectors. Some of its clients include petrochemical giants such as Sinopec, CNPC, CNOOC. Besides industrial projects, UEL has also ventured into the municipal sector with the building of one of China's largest MBR plants in Guangzhou City. It is also actively investing and operating several BOT/TOT municipal waste-water treatment projects in China.

Helping to solve China's water woes. China currently faces a severe strain on its water resources, depleted by more than a decade of rapid industrial growth. With water pollution fast becoming a concern as well, UEL believes it is well placed to ride on the government's growing emphasis on environmental responsibility and stricter rules on discharge limits. It notes that its membrane-based water treatment systems have gained recognition as a more cost-effective and efficient solution for large-scale projects and difficult to treat wastewater. Its advanced MBR technology also allows wastewater to be more efficiently treated to a higher degree before it is discharged or recycled.

Opportunities to expand into overseas markets. Besides China, management is also keen to venture overseas. UEL believes it could start by building the water treatment facilities for its existing Chinese petrochemical customers as they expand overseas. Separately, UEL is exploring a potential TDR listing in Taiwan to gain exposure to more foreign investors and also enter the waste-water treatment market there.

Initiate coverage with BUY and S\$0.52 fair value. Buoyed by the optimistic outlook for China's water and waste-water industry, UEL believes that there are opportunities to secure both new and upgrading projects in the industrial and municipal sectors. Funding is unlikely to be an issue as it had recently secured a RMB3b credit facility. Assuming a long-term growth rate of 2%, a required return on equity of 7.6%, we derive a FCFE fair value of S\$0.52 per share. Given the 36.8% upside from the current stock price, we initiate coverage on UEL with a **BUY** rating.

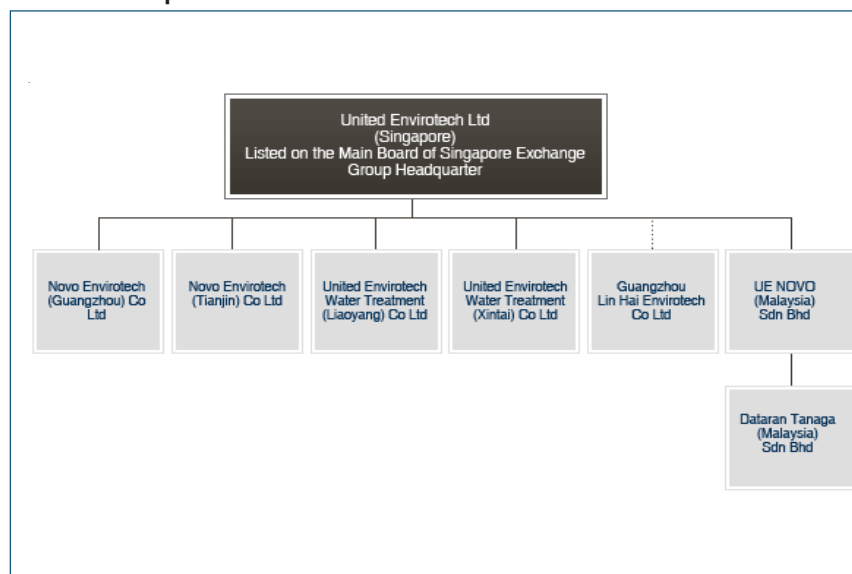
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Section A. Leading MBR Specialist

Leading MBR water treatment specialist. United Envirotech Limited (UEL) is a comprehensive environmental solutions provider, providing both environmental engineering and environmental consultancy solutions to a wide range of customers in the chemical, petrochemical, pharmaceutical, wastewater treatment, food & beverage and textile & dyestuff industries.

Exhibit 1: Corporate Structure



Source: Company

Listed on the main board of the Singapore Stock Exchange (SGX) since Apr 2004, UEL provides engineering services which involve the design, fabrication, installation and commissioning of membrane based water and wastewater treatment systems using its advanced membrane technology namely membrane bioreactor (MBR) and continuous membrane filtration (CMF) processes in micro-filtration, ultra-filtration and reverse osmosis.

EPC and membrane system specialist. UEL also undertakes turn-key projects in the capacity of an Engineering, Procurement and Construction (EPC) contractor or as a membrane system specialist. As an EPC contractor, UEL served clients such as petrochemical giants like China Petrochemical Corporation ("Sinopec"), China National Petroleum Corporation ("CNPC"), China National Offshore Oil Corporation ("CNOOC") as well as large industrial parks such as those in the fast developing Daya Bay Hui Zhou, Guangzhou Nansha and Tianjin Economic Development Zone.

Investments in TOT/BOT projects. UEL further invests in wastewater treatment plants under Build-Operate-Transfer (BOT), and Transfer-Operate-Transfer (TOT) agreements. These projects are typically municipal plants backed by off-take agreements from Chinese Government. Its investments in China's Liaoyang and Shandong are examples of such projects. In addition, it also invests in industrial park wastewater projects. One such example is the MBR wastewater treatment plant in Xiao Hu Dao, Nansha.

UEL has an established track record in MBR, especially in the chemical, petrochemical and industrial park sectors. In the chemical and petrochemical sector, its largest MBR in terms of capacity completed to date is the 11,000 m³/day oil refinery wastewater treatment system for Sinopec Hainan Branch. Besides oil refining wastewater, its MBR technology has been used by other companies under the Sinopec Group to treat waste water from different processing plants like Caprolactam, PTA, polyethylene etc. Its MBR plants in industrial parks typically receive mixed industrial water from various tenants located in the industrial parks. Examples are the 25000m³/day plant at Huizhou Daya Bay Petrochemical Hub and the 10000m³/day plant at Guangzhou Nansha Chemical Industrial Park.

Its CMF and RO systems are used mainly in wastewater recycling (NEWater application), especially in the area of industrial wastewater recycling. For example, two projects for Sembcorp Utilities on Jurong Island (at 5000m³/day each) purify treated industrial effluent from different sources to various degrees of purity.

UEL's CMF+RO project in Sinopec Guangzhou Branch, at a capacity of 7200m³/day, was the first large scale membrane wastewater reclamation plant in Sinopec China to recycle wastewater from refinery.

Last but not least, UEL has secured an EPC contract to build one of China's largest municipal MBR plants in Guangzhou City. The contract, which is worth a total of RMB264 million, is expected to be completed by June 2010 and includes a 1-year operation and maintenance contract for the plant.

UEL had previously secured several other municipal contracts, including a RMB245 million BOT project in Liaoyang city and a RMB145 million BOT project in Hegang city. These two BOT projects will also utilize the MBR technology.

Section B: China's Water Woes

Severe strain on China's water resources. After more than a decade of rapid industrial growth, China now faces a severe strain on its water supply, as the nation has only about 7% of the world's total water resources, but more than 20% of the global population.

Exhibit 2: China's 10 Major Rivers



Source: www.chinatouristmaps.com

According to the Ministry of Water Resources (MWR), more than 400 cities out of a total of 663 cities in China suffer from water shortage problems, with over 110 cities facing severe water shortage. It also estimates that the daily water shortage of all cities is about 16m m3 and affects about 40m of its urban population.

Besides affecting the general population, MWR estimates that the water shortage will also have an impact on the country's industrial production value to the tune of RMB200b annually.

And more recently in Apr, the once-in-a-century drought in south-west China has worsened the situation further. According to a IPS report¹, the drought has caused an estimated US\$3.5b in agricultural losses, fuelled price rises and further aggravated China's chronic water problems; about 24m people in Yunnan, Sichuan, Guizhou and Guangxi provinces - totaling some 48,300 km² of farmland - are now short of water.

¹ <http://ipsnews.net/news.asp?idnews=50996>

Water pollution is another major concern. In addition to water shortages, pollution of China's scarce water resources has also been an issue. According to a World Bank report², water pollution in China is a cause for serious concern, as it found that between 2001 and 2005, 54% of the country's seven main rivers contained water deemed unsafe for human consumption. It also found that the health costs of air and water pollution in China amounted to about 4.3% of its GDP, while the non-health impacts are estimated to be about 1.5% of GDP, making for a total cost of 5.8% of GDP.

In another recent report³, the World Bank noted that China's leadership is aware of the worsening water situation, and is committed to transforming China into a water-saving society. However, the World Bank believes that the increasing scarcity of water has not been effectively managed to date. In addition, many national and local water resource management and water pollution control plans have not been fully implemented and many targets, including water pollution investment targets, have not been achieved.

Nevertheless, the growing emphasis on environmental responsibility and stricter rules on discharge limits continue to highlight the PRC as a key market for UEL's business of industrial wastewater treatment and recycling. The Group's membrane-based water treatment systems have gained recognition as a more cost-effective and efficient solution for large-scale projects and difficult to treat wastewater. Its advanced MBR technology also allows wastewater to be more efficiently treated to a higher degree before it is discharged or recycled.

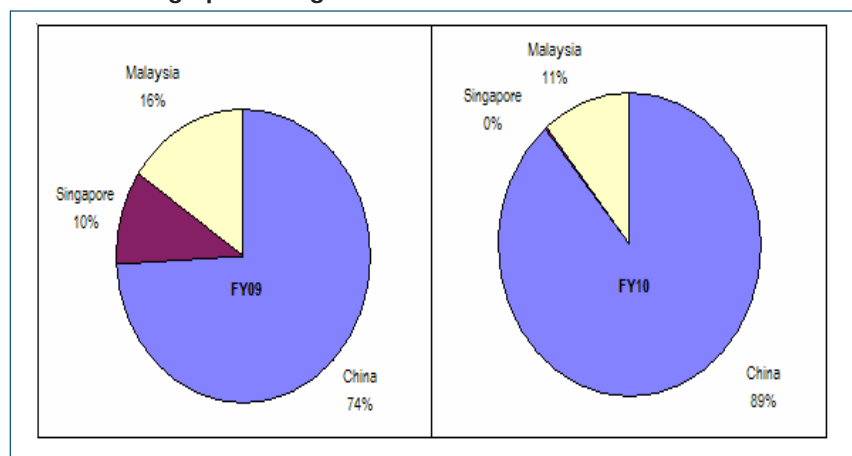
² World Bank Report "China - Cost of Pollution" dated Feb 2007

³ World Bank Report "Addressing China's Water Scarcity" dated Jan 2009

Section C: Financial Highlights

Strong China contribution. Indeed, UEL has already made its presence felt in China. In FY10 ended 31 Mar 2010, contributions from the PRC jumped 94% to S\$61.5m, making up 74% of its overall sales

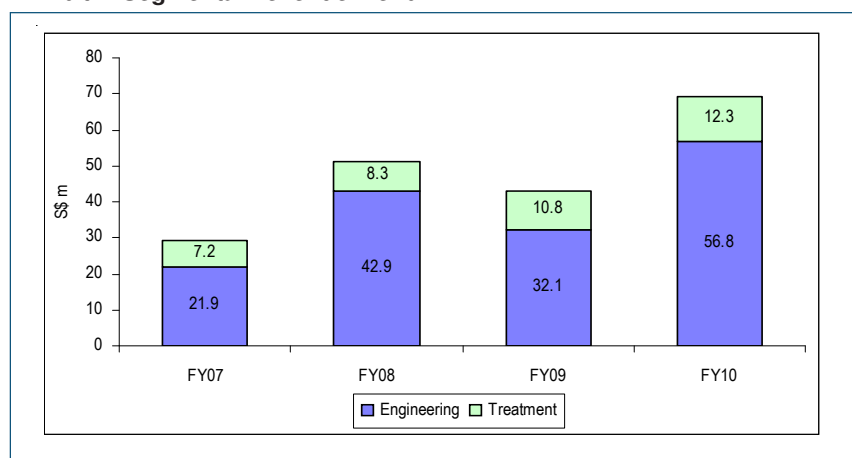
Exhibit 3: Geographical Segments



Source: Company

Besides the larger market, management revealed that the increase was also driven by a higher demand for its advanced membrane technology for the treatment and recycling of wastewater.

Exhibit 4: Segmental Revenue Trend



Source: Company, OIR

In FY10, its revenue jumped 61.3%, mainly driven by EPC revenue, which rose 76.9% to S\$56.8m, aided by milestone revenue recognition from the Guangzhou EPC project (worth RMB264m) and several other smaller projects. As for its treatment business, revenue grew by another 13.9% to S\$12.3m, thanks to the higher treatment capacity of its existing operational plants.

Exhibit 5: FY10 Earnings Highlight

Year to 31 Mar (In S\$ m)	FY09	FY10	% Change
Revenue	42.9	69.1	61.3%
Gross Profit	16.8	30.7	82.6%
EBITDA	5.8	19.5	237.2%
Depreciation & Amortisation	-1.0	-0.9	-1.7%
Operating Profit	4.8	18.5	284.4%
Net Interest	-0.7	-0.3	-54.0%
Associates	-0.4	-0.2	-51.7%
Exceptionals	0.0	-0.1	nm
Pre-tax Profit	4.4	18.9	332.4%
Tax	-0.7	-4.0	472.4%
Net Profit	3.7	14.9	305.4%

Source: Company, OIR

While treatment revenue growth has not been as spectacular, the lack of overheads allows the contributions to flow down to the bottom line quite rapidly. As a result, net profit shot up by 305.4% to S\$14.9m.

Opportunities for new and project upgrades. Buoyed by the optimistic outlook for China's water and waste-water industry, UEL believes that there are opportunities to secure both new and upgrading projects in the industrial and municipal sectors.

Besides trying to secure more engineering projects, management will continue to build or acquire more BOT or TOT plants and operate these as a long-term strategy to improve its recurring income base and earnings visibility; the total treatment capacity is already expected to double in two years' time with the completion of two BOT projects in Heilongjiang and Liaoning.

Section D: SWOT Analysis

Exhibit 6: SWOT Table

<p>Strengths</p> <ol style="list-style-type: none"> 1. Leading MBR solutions provider 2. Strong customer base 3. Experience in municipal and industrial sectors 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1. Lumpy project-based earnings 2. Dependent on a few major customers
<p>Opportunities</p> <ol style="list-style-type: none"> 1. Expanding overseas with customers 2. Expanding into new industries 3. Investing in more TOT/BOT projects 	<p>Threats</p> <ol style="list-style-type: none"> 1. Competition from local Chinese players 2. Competition from international players 3. Access to credit

Source: OIR

Top-notch customer base. As mentioned earlier, UEL counts several top-notch Chinese petrochemical companies - China Petrochemical Corporate (Sinopec), China National Petroleum Corporation (CNPC) and CNOOC (China National Offshore Oil Corporation) - among its top customers in the industrial space. However, as UEL typically provides engineering services to these customers, the project-based nature of the business can make its earnings a little lumpy.

On the other hand, the long-term relationship that UEL has established with these companies has resulted in several repeat projects. And such is the stickiness of the relationships, we understand from management that it has already received requests from its customers to follow them abroad to set up their water treatment facilities.

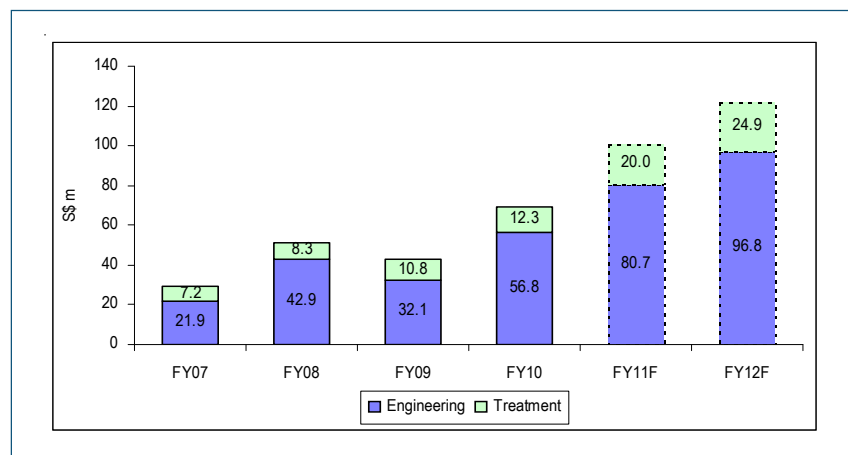
Potential TDR listing in the works. And on the topic of venturing overseas, we understand that UEL is in the process of exploring listing Taiwan Depositary Receipts (TDR) in Taiwan to provide itself with an additional platform for fund raising and pursuing projects in Taiwan. According to management, UEL is looking to issue an additional 10% of its existing share capital as TDRs to further diversify its shareholders' base as well.

Secured RMB3b of project financing. While funding for its engineering projects is not an issue, as UEL typically gets around 30% of the total contract value as a deposit upfront, trying to expand its investments in TOT/BOT waste-water treatment plants is likely to be quite capital intensive. Fortunately, UEL was recently able to secure project-financing facilities of up to RMB3b (S\$600m) for three years from China Merchants Bank (CMB). We understand from management that it is looking to add another 2-3 TOT projects to increase its total waste-water treatment capacity by 200k m3. Currently, UEL has secured a portfolio of TOT and BOT projects with a total designed capacity of 665k m3 per day, of which, 305k m3 per day designed capacity is already up and running.

Last but not least, the buoyant water treatment market in China will attract more entrants, both local Chinese and international, and result in more competition. However, management remains confident of its superior membrane technology and its ability to stay ahead of its competitors.

Section E: Valuation and Recommendation

Exhibit 7: Revenue Growth Trend



Source: Company, OIR

Good revenue growth potential. With an estimated order book of ~S\$70-80m (as of end-Mar) worth of engineering projects to be delivered over the next 18 months and recurring annual revenue of no less than S\$20m from the portfolio of TOT and BOT projects, we believe that UEL should be able to achieve a revenue of S\$100m for FY11 (ending 31 Mar 2011). And as UEL is still in the process of bidding for more engineering projects, we believe that it should be able to achieve a 20% revenue growth for its engineering segment in FY12. UEL will also be able to add to its recurring waste-water treatment revenue with the commission of more water treatment plants currently under construction.

Exhibit 8: Peer Comparison Table

Peer Comparison	Currency	Price (S\$)	Mkt Cap (S\$m)	2010 PER	2011 PER	P/NAV (x)	Gross Margin (%)	ROE (%)
Asia Environment Holdings	SGD	0.165	70.7	7.7	9.9	0.4	26.7%	1.8%
Asia Water Technology	SGD	0.07	154.2	na	na	0.5	17.0%	-63.3%
Bio-Treat Technologies	SGD	0.085	79.0	na	na	0.4	-19.0%	-58.1%
Darco Water	SGD	0.07	19.4	na	na	0.5	23.7%	-15.5%
Hyflux Ltd	SGD	3.28	1872.8	19.6	18.4	4.8	41.3%	22.6%
Memstar Technology	SGD	0.055	146.1	na	na	1.9	71.7%	3.0%
Moya Dayen	SGD	0.1	62.8	na	na	1.7	5.2%	-28.4%
Pan Asia Water	SGD	0.095	11.9	4.8	4.8	0.6	19.6%	14.1%
Sinomem	SGD	0.525	268.7	7.8	6.9	1.1	32.4%	9.9%
Sound Global	SGD	0.785	1012.7	13.7	11.4	3.0	29.0%	19.6%
Simple Average				10.7	10.3	1.5	24.7%	-9.4%
United Envirotech	SGD	0.39	170.7	9.5	8.7	1.5	33.0%	13.2%

Prices as of 28 Jun 2010

Source: Bloomberg, OIR

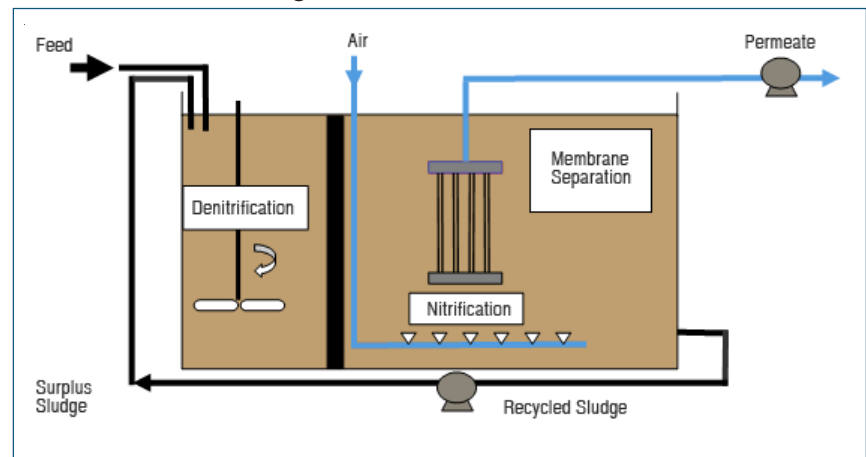
Initiate with BUY and S\$0.52 fair value. Assuming a long-term growth rate of 2%, a required return on equity of 7.6%, we derive a FCFE fair value of S\$0.52 per share. We further note that it translates into a PER of 12.7x FY11F EPS and 11.6x FY12F EPS. While the valuations look slightly higher than the sector average of 10.7x 2010F EPS and 10.3x 2011F EPS, they are still at a sharp discount to market leader Hyflux Ltd [**BUY**, S\$4.29 fair value]; they are also lower than UEL's historical average of 15.3x (high was 36.3x). Given the still buoyant outlook for China's water industry and the 36.8% upside from the current stock price, we initiate coverage on UEL with a **BUY** rating.

Appendix 1 : What is MBR?

MBR is an advanced wastewater treatment technology which combines membrane separation with biological wastewater treatment. A typical MBR treatment system is made up of three parts, an anoxic zone (where there is no or a very low concentration of oxygen), aerobic zone (where oxygen is present) and membrane separation. Wastewater is pumped into the anoxic tank and is recirculated between the anoxic and aerobic tanks. Different types of microbes grow under the anoxic and aerobic conditions and are responsible for breaking down various contaminants present in the wastewater.

Treated wastewater is drawn from the membrane module, which is made up of sheets of hollow fibre microfiltration PVDF membranes submerged in the aerobic tank. With the pore size of 0.1 micron, the PVDF membrane completely filters out the activated sludge, containing bacteria and other microbes from the treated water. The treated water is virtually free of bacteria, microbes and other suspended solids and can be directly reused or further purified using the reverse osmosis, without requiring further pre-treatment.

Exhibit 9: Schematic Diagram of the MBR Process



Source: Company

Key advantages of MBR

- Good treated water quality, meeting more stringent discharge limits, fit for direct reuse
- Small space, approximately 20-30% of the traditional treatment plant
- Generate much less sludge, saves sludge treatment and disposal cost
- Easy conversion for existing plant upgrading and expansion

Application of MBR

- Biological wastewater treatment
- Wastewater recycling
- Wastewater treatment plant upgrade: expand capacity, upgrade facilities within existing plant area to meet more stringent discharge limits

United Envirotech's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Mar (\$\$ m)	FY09	FY10	FY11F	FY12F	As at 31 Mar (\$\$ m)	FY09	FY10	FY11F	FY12F
Revenue	42.9	69.1	100.6	121.8	Cash	20.4	37.3	31.8	38.4
EBITDA	5.8	19.5	23.2	25.3	Other Current Assets	27.6	43.9	69.1	82.4
Depreciation+Amortization	-1.0	-0.9	-1.0	-1.0	Fixed Assets	1.9	2.1	2.0	1.1
Operating Profit	4.8	18.5	22.1	24.4	Other Long Term Assets	71.1	85.9	95.6	105.4
Net Interest	-0.7	-0.3	-0.3	-0.4	Total Assets	121.0	169.1	198.5	227.2
Associates	-0.4	-0.2	0.0	0.0	Current Liabilities less Debt	9.4	33.5	49.5	58.3
Exceptionals	0.0	-0.1	0.0	0.0	Debt	24.2	21.0	18.8	19.1
Pre-tax profit	4.4	18.9	21.9	24.0	Other Long Term Liabilities	1.3	2.1	2.1	2.1
Tax	-0.7	-4.0	-3.9	-4.3	Shareholders Equity	86.1	112.4	128.1	147.8
Net Profit	3.7	14.9	17.9	19.7	Total Equity and Liabilities	121.0	169.1	198.5	227.2

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Mar (\$\$ m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Operating Profit	11.1	15.0	23.4	25.6	EPS (S cents)	0.9	3.4	4.1	4.5
Working Capital Changes	-5.6	5.4	-10.0	-4.9	Diluted EPS (S cents)	0.9	3.4	4.1	4.5
Net Cash from Operations	4.0	18.1	10.0	16.3	PER (x)	41.2	11.2	9.3	8.5
Capex	-0.7	-0.6	-1.0	-1.0	Price/NTA (x)	2.0	1.5	1.3	1.1
Investing Cash flow	-18.7	-14.0	-10.9	-7.8	EV/EBITDA (x)	29.5	7.7	6.6	5.8
Change in Equity	13.9	16.4	0.0	0.0	Dividend Yield (%)	0.0	1.3	1.3	1.6
Net Debt Change	1.2	-3.3	-2.3	0.3	ROIC (%)	3.3	11.2	12.2	11.8
Financing Cash Flow	14.9	13.1	-4.4	-1.9	ROE (%)	4.2	13.3	14.0	13.3
Net Cash flow	1.5	16.9	-5.3	6.6	Net Gearing (%)	0.0	Net Cash	Net Cash	Net Cash
Ending Cash Balance	20.4	37.3	31.8	38.4	PE to Growth (x)	na	0.0	0.4	0.9

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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Carmen Lee
Head of Research

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