

Enviro-Hub Holdings Ltd

8 September 2022

Non-rated

BBG	ENVH
Market cap	S\$76.6m
Price (8 Sep 2022)	S\$0.05
52-week range	S\$0.041 - 0.082
Target Price	Non-rated
Shares Outstanding	1,533m
Free Float	43.7%
Major Shareholder	Raymond Ng 28.2% Law Siau Woei 18.5% Seow Bao Shuen 9.6%
P/BV (06/22)	0.9x
Net Debt to EBITDA (06/22)	4.9x

Source: Company data, Bloomberg, SAC Capital

Analyst

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E-waste recycling buttressed by legislations, hybrid work

EVH is an e-waste recycler and metal refiner focusing on info-comm technology (ICT) products in Singapore. It collects end-of-life electronic products, equipment and scraps from OEM/EMS manufacturers, testing and assembly houses, stockists and distributors. These devices are taken apart to extract the base metal and precious metals such as gold, silver, palladium and platinum, which are then refined and sold.

E-waste recycling contributes 81% of FY21 revenue and 54% of profit, and commands pretax margin of about 18.8%. Revenue and profit grew at 3-year CAGR of 35.3% and 31.4% respectively, thanks to legislations passed in 2019 to effectuate e-waste management in Singapore, and higher prices for precious metals.

EVH's other businesses are 1) the legacy piling contractors and construction equipment rental (9.1% of revenue); 2) a 51%-share in rental income from industrial property assets (6%); and 3) rubber glove manufacturing (4%) and 40%-owned retail pharmacy chain in Malaysia, both added in 2021.

Fair value change and disposal gain/loss on investment properties have swung net earnings in the last few years. Since FY20, EVH has disposed strata units in the investment properties. The disposals and equity raising of S\$8.5m in FY20 (206.7m new shares at S\$0.042 each) strengthened its balance sheet and lowered interest expense. Net gearing at Jun 2022 was 0.45x.

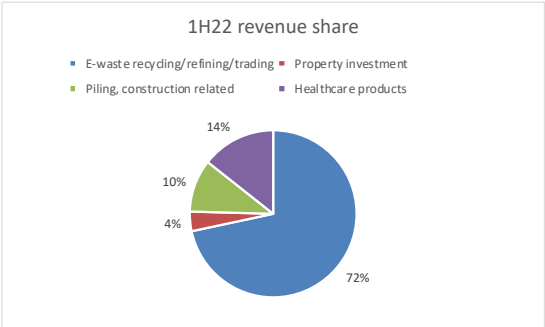
The catalysts for growth are: 1) higher recycling and refining volume with the 40% increase in processing capacity to 5,100 ton/year in 2Q2022; 2) hybrid working environment fuels higher usage and replacement of electronic devices; and 3) roll out of retail pharmacy outlets in Malaysia. The outlook for glove manufacturing is uncertain given excess channel inventory and continued price pressure, but the impact on EVH is mitigated by its small capacity of 1bn/year, and focus on niche products.

EVH trades at 0.9x P/B and 1H22 annualized EV/EBITDA of 15.3x.

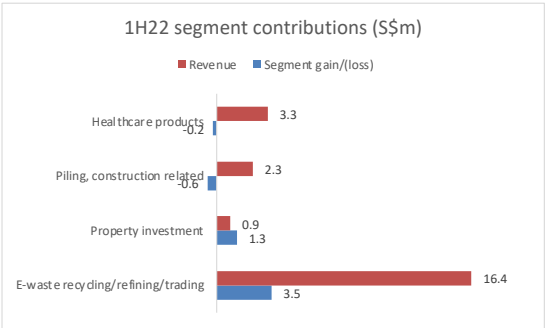
Year End 31 Dec (\$m)	FY18A	FY19A	FY20A	FY21A	1H22A
Revenue	26.2	34.2	30.8	40.4	22.8
EBIT	6.6	4.2	2.8	7.9	2.5
Net profit	0.5	0.3	(1.0)	2.7	0.8
EPS (\$ cents)	0.1	0.0	(0.1)	0.2	0.1
DPS (\$ cents)	-	-	-	-	-
Net cash / (debt)	(92.7)	(101.0)	(81.1)	(38.0)	(36.3)
Valuation					
EBIT margin (%)	25.1	12.3	9.0	19.6	11.1
ROIC (%)	2.0	1.9	1.3	5.1	2.6
EV/EBITDA (x)	61.5	45.9	45.1	22.7	15.3
P/E (x)	99.2	154.8	-	28.5	47.2
Dividend yield (%)	-	-	-	-	-

Investment Highlights

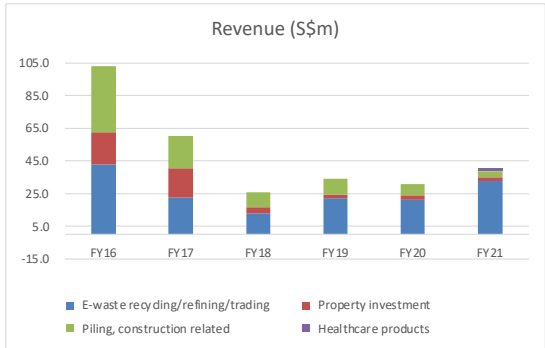
Enviro-Hub has 4 core businesses: 1) e-waste recycling and metal refining; 2) piling contracts, construction and rental of equipment; 3) property investment; and 4) healthcare, which comprises glove manufacturing and a 40% stake in a start-up to build a chain of retail pharmacies in Malaysia.



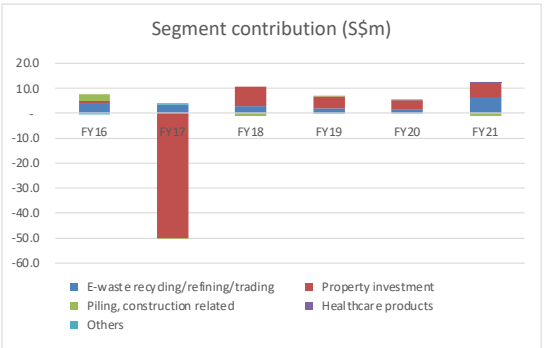
E-waste recycling takes 72% of revenue and 87% of profit in 1H22.



Glove manufacturing contributed maiden revenue of S\$3.3m and loss of S\$0.2m in 1H22.

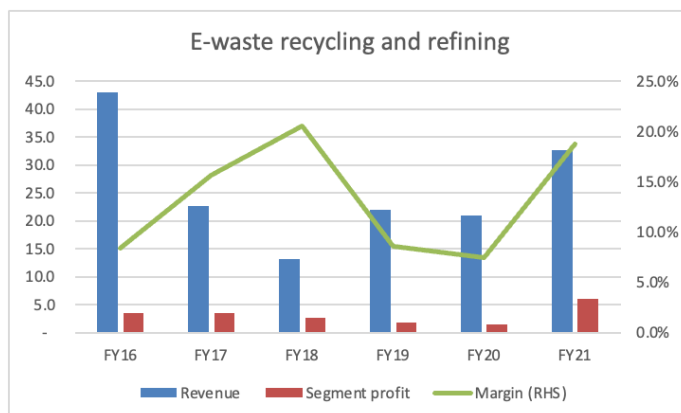


Piling construction and property assets were sold down in FY16 and FY17.



E-waste recycling and metal refining

EVH collects end-of-life electronic products, equipment and scraps from OEM/EMS manufacturers, testing and assembly houses, stockists and distributors. These devices are taken apart to extract the base metal and precious metals in them such as gold, silver, palladium and platinum, which are then refined and sold.



Sale of the extracted precious metals accounts for 97% of the segment's revenue. For some customers, EVH also earns a processing fee, which contributes the remaining 3%. FY21 revenue and earnings were lifted by new customers and higher prices of precious metals.

Revenue is dependent on the volume of end-of-life products processed and the quantity and price of the precious metals extracted and refined. The costs of production include the costs to acquire the end-of-life products and the chemicals for processing and refining, manpower and rental.

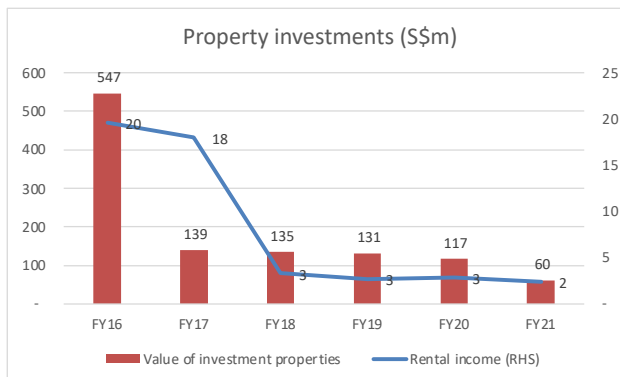
EVH recycles mainly infocomm technology (ICT) products such as mobile phones and laptops. Its two plants in Singapore have a combined processing capacity of 3,600 ton/year as at end 2021, which was raised by 40% to 5,100 ton/year in 2Q2022, to position for potential increase in demand. Singapore generates about 60,000 tons of e-waste annually.

Since 2019, Singapore has tightened on the management of e-waste with the Resource Sustainability Act, 2019 (Singapore), which legislates on e-waste management in Singapore. The Act provides for an extended producer responsibility system, where producers bear the responsibility for the collection and treatment of their products when they reach end-of-life. To this end, the National Environment Agency has introduced a regulated e-waste management system in July 2021 that ensures the proper collection and handling of e-waste and the extraction of valuable resources from e-waste.

Besides regulatory requirements, demand for e-waste recycling also rises along with product innovation and replacement cycle, and consumption spending on tech products.

Property investments

EVH owns several industrial properties which are leased out for rental income. Over the last few years, it has been disposing strata units in these properties to pare down debt. The properties are revalued annually. The value of these assets as at end 2021 was S\$59.7m, at an estimated cap rate of about 3.0%.



Piling contracts, construction and rental of equipment

EVH provides piling services, and is involved in the rental and sale of cranes and heavy machinery for the construction industry. This is a legacy business that generates a marginal loss, and which EVH is looking to downsize and exit.

Healthcare

EVH acquired a 25% stake in Pastel Glove in Feb 2021, and raised its stake to 100% in late Oct 2021. The acquisition is valued at S\$28.7m, with an earn-out bonus of S\$17.6m for profit from FY22-FY24. The founder Law Siau Woei had provided a profit guarantee of S\$23.4m over these 3 years. The acquisition was partly funded by 292.5m new EVH shares at S\$0.076. Law now holds 18.5% of EVH.

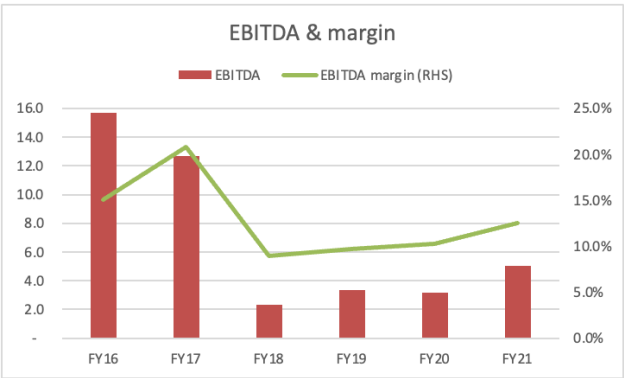
Pastel began the production of rubber gloves in March 2021 in Malaysia, with an installed capacity of 1bn gloves/year as at end 2021. The product mix is 70% latex and 30% specialty gloves currently. It plans to increase the share of the latter.

Glove makers are facing headwinds from excess channel inventory and cheaper products out of China. Nitrile gloves are harder hit, due to overbuild of capacity during COVID. Still the price pressure on nitrile gloves would flow through to latex gloves if the price gap widens. On a positive note, latex prices are easing, which allow latex glove makers to pass on cheaper raw material costs to the customers.

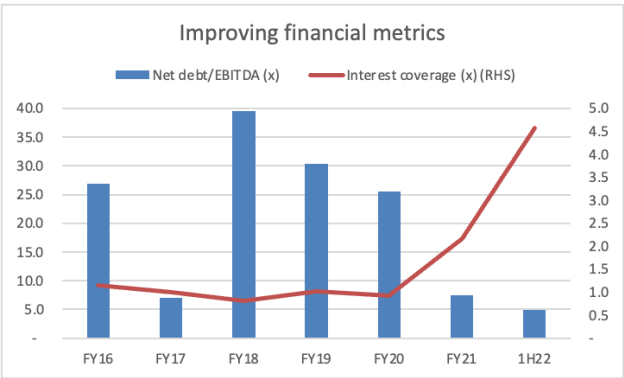
Pastel Gloves took a 40% stake in Pastel Care, a start-up to build pharmaceutical retail outlets in Malaysia under the brand name R Pharmacy. The remaining 60% is also held by Law Siau Woei. Three retail pharmacy outlets have been set up in Klang Valley, Malaysia. It targets to roll out 25 outlets in FY2022.

The segment contributed S\$3.3m revenue and a loss of S\$0.2m in 1H22.

Financials



EBITDA fell in FY18 after the disposal of some construction and property holding companies. Since then, EBITDA had grown at 3Y CAGR of 29%.



Financial strength has improved with 1H22 net debt/EBITDA lowered to 4.9x and interest coverage raised to 4.6x.

Income Statement

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Revenue	26.2	34.2	30.8	40.4
Cost of sales	(18.0)	(24.6)	(22.5)	(28.0)
Gross profit	8.2	9.6	8.3	12.4
Other income	0.3	0.6	1.3	0.9
Operating expenses	(6.2)	(6.9)	(6.4)	(8.2)
EBITDA	2.3	3.3	3.2	5.0
Depreciation	(2.1)	(2.7)	(3.1)	(3.2)
Associates & JV	-	-	-	0.5
Exceptional items	6.3	3.6	2.6	5.5
EBIT	6.6	4.2	2.8	7.9
Finance costs	(2.9)	(3.3)	(3.4)	(2.3)
Pretax profit	3.7	0.9	(0.6)	5.6
Tax expense	-	-	-	-
Minority interests	(3.2)	(0.5)	(0.4)	(2.9)
Net profit	0.5	0.3	(1.0)	2.7

Balance Sheet

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Assets				
Fixed assets	15.8	31.0	29.0	35.8
Investment properties	134.7	131.3	116.5	59.7
Intangible assets				26.9
Trade & other receivables		0.2		
Non-current assets	150.5	162.5	145.5	122.4
Inventories	2.1	2.4	3.2	6.9
Trade receivables	9.1	7.7	4.5	6.1
Assets held for sale	1.4	3.4	7.3	6.7
Cash	5.4	5.0	17.3	15.3
Current assets	17.9	18.5	32.2	35.0
Total assets	168.4	181.0	177.8	157.4
Liabilities				
Bank loans	4.1	6.7	9.6	32.6
Trade payables	10.5	10.2	10.2	19.5
Tax provisions	-	-	-	-
Current liabilities	14.7	16.9	19.8	52.1
Bank loans	94.0	99.3	88.8	20.6
Trade & other payables	16.2	20.3	17.3	4.4
Deferred tax				0.4
Non-current liabilities	110.2	119.6	106.0	25.4
Net assets	43.6	44.6	52.0	79.8
Equity				
Share capital	96.2	96.2	104.6	126.8
Reserves	(6.5)	(6.5)	(6.6)	(6.7)
Retained earnings	(41.4)	(41.1)	(42.1)	(39.4)
	48.2	48.6	55.9	80.6
Minority interests	(4.7)	(4.0)	(3.9)	(0.8)
Total equity	43.6	44.6	52.0	79.8

Cash Flow

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Pretax profit	3.7	0.9	(0.6)	5.6
Depreciation	2.1	2.7	3.1	3.2
Associates & JV	-	-	-	(0.5)
Net finance expense	2.9	3.3	3.4	2.3
Non-fund items	(6.1)	(3.4)	(2.0)	(5.4)
Working capital changes	(5.4)	0.4	0.2	(1.7)
Interest paid	(2.6)	(3.1)	(3.2)	(2.2)
Dividend from associates	-	-	-	-
Tax paid	-	-	-	-
Operating cash flow	(5.4)	0.9	0.8	1.3
Capex	(1.1)	(3.1)	(0.6)	(1.3)
Net investments				(5.0)
Fixed assets disposal	9.8	5.0	13.2	62.6
Others				(6.5)
Investing cash flow	8.7	1.9	12.6	49.8
Free cash flow	3.2	2.8	13.4	51.0
Dividend paid	(3.3)	-	-	-
Borrowings	(15.7)	(3.3)	(9.6)	(53.1)
Equity	-	-	8.5	-
Financing cash flow	(19.0)	(3.3)	(1.1)	(53.1)
Net change	(15.8)	(0.5)	12.3	(2.1)

Ratios

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Profitability (%)				
Gross margin	31.3	28.1	27.0	30.7
EBIT margin	25.1	12.3	9.0	19.6
Liquidity (x)				
Current ratio	1.2	1.1	1.6	0.7
Net Debt/EBITDA	39.5	30.3	25.6	7.5
Interest coverage ratio	0.8	1.0	0.9	2.2
Net Debt to Equity	2.1	2.3	1.6	0.5
Valuation (x)				
P/E	99.2	154.8	-	28.5
P/B	1.2	1.2	1.2	1.0
EV/EBITDA	61.5	45.9	45.1	22.7
Cash Conversion Cycle				
Trade receivable days	126	82	53	55
Inventory days	42	35	52	90
Trade payable days	213	151	165	253

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