

Enviro-Hub Holdings Ltd

13 October 2022

Site Visit

BBG	ENVH
Market cap	S\$78.2m
Price (13 October 2022)	S\$0.051
52-week range	S\$0.041 – S\$0.078
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/E (06/22)	53.9x
P/BV (06/22)	1.0x
Net Debt to EBITDA (06/22)	5.1x

Source: Company data, Bloomberg, SAC Capital

Enviro-Hub Site Visit to Pharmacy and Glove Factory

Embarking on a new venture. The rationale is to diversify from its mainstay, e-waste recycling and metal refining. Following up on our [initiation report](#), we made a site visit on 5-7th Oct 22 to understand more about the new healthcare business segment: gloves manufacturing and retail pharmacy. This new business segment accounted for 14% of 1H22 revenue.

R Pharmacy targets to have 25 and 90 stores in the heartlands of Malaysia by Apr 23 and FY24E respectively. Currently, there are 7 operating stores. The management is scaling up their distribution centre to extract higher economies of scale as more stores start to operate.

Half of the procurement team are pharmacists, hence able to identify more efficacious products, thereby lifting sales.

Pastel Glove is working on several initiatives to lift sales and margins: (i) Relevant certification to attract higher-tier customers; (ii) secure long-term contracts (6-12mths) for visibility; (iii) Gloniks, Pastel Gloves' in-house brand, will be launched soon.

EVH trades at 1.0x P/B and 1H22 annualized EV/EBITDA of 16.2x.

Analyst

Yeo Peng Joon
yeopj@saccapital.com.sg

FYE 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 (loss)	0.5	0.3	(1.0)	2.7	0.8
EPS (S cents)	0.1	0.0	(0.1)	0.2	0.1
DPS (S cents)	-	-	-	-	-
Net cash (Net 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 (%)	4.3	2.5	1.3	8.4	4.3
EV/EBITDA (x)	68.8	41.4	82.6	33.9	16.2
P/E (x)	95.4	83.3	-	40.5	53.9
Dividend yield (%)	-	-	-	-	-

Enviro-Hub Site Visit Notes

To recap, ENVH acquired 25% in Pastel Glove on Feb 21, and the rest of 75% on Oct 21. With Pastel Glove having a 40% stake in Pastel Care and the remaining held by Law Siau Woei, they opened their first retail pharmacy, R pharmacy, on 16th April 22 in Klang, Malaysia, targeting to be the leading healthcare supplier in the region. The healthcare segment contributes to 14% (S\$3.3m) of total revenue in 1H22 but operating loss of S\$0.2m.

R Pharmacy



The Group aims to open a total of 25 and 90 stores in the heartlands of Malaysia by Apr 23 and FY24E respectively. The criteria to set up a new store are (i) more than 6000 residents in the vicinity, and (ii) no other pharmaceutical competitors nearby.

Currently, there are 7 operating stores, with one projected to open on Nov 22 and 7 more expected to open on Jan 23. At the same time, the management is building up their distribution centre which will lower delivery costs from the economies of scale as more stores start to operate.



In-house pharmacists are present at every retail store to attend to customers' enquiries, give customized advice and tailored recommendations. Half of the procurement team are pharmacists, hence able to identify more efficacious products for sales.

Glove



Revenue is derived from the manufacturing and trading of gloves. Pastel Glove currently has 4 plants with an annual production capacity of 1bn gloves. The plants are currently operating at 84% capacity utilization.



Pastel Glove has shifted its strategy from product mix (20% specialty & 80% latex in 1H22) to only latex gloves on the back of:

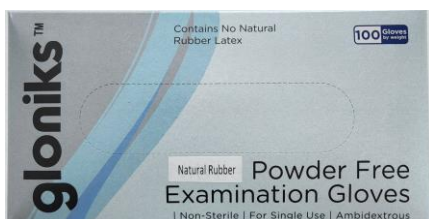
- i. rising demand for natural rubber (NR) gloves.
- ii. improving price and margins.
- iii. shortage of supply as the industry moves away to focus on nitrile healthcare gloves during the pandemic.
- iv. oversupply of nitrile gloves in China.

However, the management team conveyed that they might be focusing back on specialty gloves in 4Q22 which command 10-15% higher margins than latex gloves.

Clients are mainly from China and US. According to Statista, Thailand and Malaysia is the largest and seventh-largest natural-producing rubber countries in 2021. The combined labour and energy are also substantially lower in Malaysia than in Thailand and China according to ASEAN Briefing. The US does not manufacture rubber gloves due to the limited supply of raw materials and overall higher cost.

Several initiatives are in the works to lift sales and margins.

1. Certification such as ISO and SMETA is in process, and once attained, the Group can attract higher-tier customers
2. Management is looking to secure long-term contracts (6-12mths) to provide visibility.
3. Gloniks, Pastel Gloves' in-house brand, will be launched soon.



Founders of Pastel Gloves, Law Siau Woei and Choo Kuan Ping, have more than 20 years of industry experience. Mr Law created Black Dragon in Medtexx Partners, a high-quality examination glove, which was sold to Microflex in 2010 with a non-compete period of 2 years. Law Siau Woei now holds 18.5% of ENVH.

Income Statement

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Revenue	26.2	34.2	30.8	40.4
Cost of sales	(20.1)	(27.3)	(25.5)	(31.2)
Gross profit (loss)	6.1	6.9	5.2	9.2
Selling & Distribution	(2.1)	(2.8)	(2.7)	(3.0)
General & Admin	(4.0)	(3.7)	(3.7)	(5.0)
Other operating expenses	2.0	2.7	3.2	3.1
EBITDA	2.1	3.0	2.0	4.3
D&A	(2.1)	(2.7)	(3.2)	(3.2)
Associates & JV	-	-	-	-
Exceptional Items	6.6	3.9	3.9	6.7
EBIT	6.6	4.2	2.8	7.9
Finance costs	(2.9)	(3.3)	(3.4)	(2.3)
Pretax profit (loss)	3.7	0.9	(0.6)	5.6
Tax credit (expense)	(0.0)	(0.0)	0.0	(0.0)
Non-controlling interest	(3.2)	(0.5)	(0.4)	(2.9)
Net profit (loss)	0.5	0.3	(1.0)	2.7

Balance Sheet

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Assets				
PPE	15.8	31.0	29.0	35.8
Intangible assets	0.0	0.0	0.0	26.9
Investment properties	134.7	131.3	116.5	59.7
Subsidiaries	0.0	0.0	0.0	0.0
Investment in associate	0.0	0.0	0.0	0.0
Trade and other receivables	0.0	0.2	0.0	0.0
Total non-current assets	150.5	162.5	145.5	122.4
Assets held for sale	1.4	3.4	7.3	6.7
Inventories	2.1	2.4	3.2	6.9
Trade and other receivables	9.1	7.7	4.5	6.1
Cash and cash equivalents	5.4	5.0	17.3	15.3
Total current assets	17.9	18.5	32.2	35.0
Total Assets	168.4	181.0	177.8	157.4
Liabilities				
Loans and borrowings	94.0	99.3	88.8	20.6
Trade and other payables	16.2	20.3	17.3	4.4
Deferred tax liabilities	0.0	0.0	0.0	0.4
Total non-current liabilities	110.2	119.6	106.0	25.4
Loans and borrowings	4.1	6.7	9.6	32.6
Trade and other payables	10.5	10.2	10.2	19.5
Current tax payable	0.0	0.0	0.0	0.0
Total current liabilities	14.7	16.9	19.8	52.1
Total Liabilities	124.9	136.5	125.8	77.5
Net Assets	43.6	44.6	52.0	79.8
Equity				
Share capital	96.2	96.2	104.6	126.8
Foreign currency translation reserve	0.4	0.4	0.2	0.1
Other reserve	(6.9)	(6.9)	(6.9)	(6.9)
Accumulated losses	(41.4)	(41.1)	(42.1)	(39.4)
Non controlling interests	(4.7)	(4.0)	(3.9)	(0.8)
Total Equity	43.6	44.6	52.0	79.8

Cash Flow Statement

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Pretax profit (loss)	3.7	0.8	(0.6)	5.6
Depreciation	2.1	2.7	3.1	3.2
Associates & JV	0.0	0.0	0.0	(0.5)
Finance costs	2.9	3.3	3.4	2.3
Finance income	(0.0)	(0.0)	(0.0)	(0.0)
Non-fund items	(6.0)	(3.3)	(2.0)	(5.4)
Changes in working capital	(5.4)	0.4	0.2	(1.7)
Income tax paid	(0.0)	(0.1)	(0.0)	(0.0)
Operating cash flow	(2.8)	3.9	4.0	3.5
Capex	(1.1)	(3.1)	(0.6)	(1.3)
Others	9.8	5.0	13.2	51.1
Investing cash flow	8.6	1.9	12.6	49.8
Free cash flow	5.9	5.8	16.7	53.3
Dividends paid	(3.3)	0.0	0.0	0.0
Net borrowings	(11.3)	(6.6)	(7.7)	(45.5)
Others	(7.1)	0.3	3.3	(9.9)
Financing cash flow	(21.7)	(6.3)	(4.4)	(55.4)
Net change in cash & equivalents	(15.9)	(0.5)	12.3	(2.1)

Ratios

FYE 31 Dec (\$\$m)	FY18A	FY19A	FY20A	FY21A
Profitability (%)				
Gross margin	23.3	20.1	17.0	22.8
EBIT margin	25.1	12.2	9.0	19.6
Liquidity (x)				
Current ratio	1.2	1.1	1.6	0.7
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	95.4	83.3	-	40.5
P/B	1.1	0.6	1.7	1.4
EV/EBITDA	68.8	41.4	82.6	33.9
Cash Conversion Cycle (CCC)				
Trade receivable days	126	82	53	55
Inventory days	38	32	46	81
Trade payable days	191	136	145	228

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