KELIVE
RESEARCH

SINGAPORE	EQUITIES	ENGINEERING	29 MAY 2007

Advanced Holdings
Turnaround play

TRADING BUY

Price	**$0.39**
Target	**$0.49**
ST Index	**3,513**

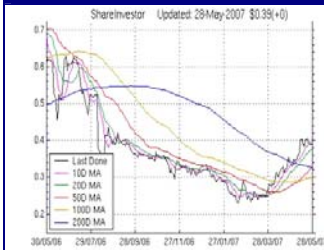
♦ Earnings on the recovery track
Following a disappointing FY06, we believe earnings are finally on the mend in FY07. Orderbook has been expanding over the past six months and at more than S$80m, secured contracts are 3x more than FY06 sales. Most of the orderbook will be booked within the current FY. The backdrop underpins our optimistic FY07-08 net profit forecast growth of 233% and 17%, respectively.

♦ Moving up the value chain and clinching high-margin work
Advanced has clinched increasingly more contract wins in the clean fuels and O&G sectors in the PRC. These contracts utilise Advanced's proprietary process technologies and engineering skillset, offering significantly better yields compared to conventional systems orders (with mid single-digit margins) . We estimate 70% of existing orders are currently high-margin business with net margins of 18-20%. Based on our projection of 15% net margin on estimated FY07 sale of S$80m, we forecast net profits of $12m for FY07, implying attractive stock valuations of 8x FY07 P/E. Comparatively, sector peers such as Ausgroup, CSE Global and KS Energy are trading in the mid to high teens.

♦ Strong demand for clean fuel solutions
The PRC government is keen to tackle pollution issues and has adopted emission standards such as Euro IV which will take effect from 2008. Automobile producers are forced to upgrade their technologies to produce and utilize cleaner fuels. This spells potential opportunities for Advanced with its clean fuel technologies and the company expects to clinch more clean fuel contracts going forward. Rising investment in the downstream petrochem sector also raises demand for Advanced's process equipment packages.

♦ Follow the smart money
Insiders are also bullish on the company. Since May, major shareholder Dr Kar Wong has bought more than 2m shares at prices ranging from 35-38 cents. While the company has disappointed investors in FY06, this was largely due to delays in securing some large scale orders. Earning risks for FY07 are minimal in our view given the status of the orderbook and prospects for FY08 are firming up. With 2-year earning CAGR of 98% and the stock trading at undemanding single-digit P/E, risk-rewards is attractive. We recommend a trading buy with a target of 49 cents, based on 10x FY07 EPS.

Historical Chart



Stock Information

Bloomberg code	ADV.SI
Reuters code	ADV SP
Market Cap (S$m)	100
52-week high ($)	0.70
52-week low ($)	0.23
Shares issued (m)	258
6m avg daily vol (US$m)	
Free float	
Major Shareholders	%
	Dr Kar Wong (52)

Key Indicators (FY07F)

Net cash/share	10 cts
ROE	36%
Dividend yield (06)	1%
BVPS	S$0.12
P/BV	3x

Year End Dec	2004	2005	2006	2007E	2008E
Sales (S$m)	17.1	38.9	24.0	80.0	96.0
Pre-tax (S$m)	3.3	8.4	3.6	14.7	17.1
Net profit (S$m)	2.6	6.9	3.6	12.1	14.0
EPS (cts)	1.0	2.7	1.4	4.7	5.4
EPS growth (%)	35%	169%	-48%	233%	16%
PER (x)	38.7	14.4	27.5	8.3	7.1
EV/EBITDA (x)	27.0	10.3	19.9	4.7	3.6
Yield (%)	0.0	1.4	0.7	2.4	3.0

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