

05 September 2005

Advanced Holdings

BUY

Maintain

Energy

Clinches exclusive agreements; visibility enhanced

Price **\$0.92**
Target **\$1.08**
ADV .SI
ADV SP

- ◆ **Another milestone.** Advanced has clinched exclusive agreements with Dupont and Monosanto Enviro-Chem Systems (MECS) to supply clean fuels process technologies and equipments to refineries in the PRC.
- ◆ **Expanding product range.** The agreements will initially cover the PRC, with the possibility of extension to other Asian countries at a later stage. With this deal, Advanced will now have a total of nine exclusive agreements with suppliers and process licensors, allowing it to offer a wide range of products and services to customers.
- ◆ **Rising environmental concerns.** Worldwide concerns on global warming have led to the formation of the Kyoto Protocol. The PRC government has also committed to this agreement, and will enforce regulations to regulate fuel emission and adoption of strict emission standards. Dupont's clean fuels processes, which addresses this space, is ensured of a high adoption rate.
- ◆ **A clear endorsement.** This deal also nominates Advanced as a preferred distributor of high technology solutions in the PRC petrochemicals market and is viewed by us as a clear endorsement of Advanced's engineering capabilities by Dupont and MECS.
- ◆ **Upgrade price target, maintain Buy.** Valuations remain undemanding. Based on a conservative PEG of 0.2x, our target price is now raised to \$1.08. This will place the stock at a prospective valuation of 9x FY06. Maintain BUY.

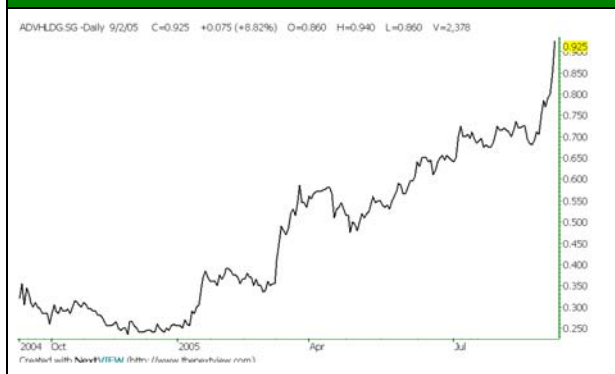
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Year End 31 st Dec	Sales (\$ m)	Pre-tax (\$ m)	Net Profit (\$ m)	EPS (cts)	EPS growth (%YoY)	PER (x)	P/CF (x)	Yield (%)	Net Margin (%)	ROE (%)	ROA (%)
2003	11.2	2.4	1.9	2.2	226%	41.5	40.3	0.0%	17.0%	54.8%	-
2004	17.1	3.3	2.6	3.0	35%	30.9	29.9	0.0%	15.1%	43.3%	26.4%
2005F	40.4	8.3	6.6	7.7	157%	12.0	11.6	1.7%	16.4%	59.9%	38.6%
2006F	68.5	13.0	10.4	12.0	57%	7.7	7.4	2.6%	15.2%	58.0%	36.3%
2007F	90.9	17.6	14.1	16.3	36%	5.7	5.5	3.5%	15.5%	50.9%	32.0%

Key Statistics

Market capitalization (\$ m):	79
Outstanding shares (m):	86.5
52-week range (\$):	0.23-0.94
Free float (%):	Est. 20
Average volume (m):	
NTA per share (\$):	0.1
P/B (x)	9.4x
Net debt to equity (x):	Cash
Major shareholders (%):	Dr Wong (67)

Historical Chart



Advanced inks exclusive agreement with Dupont and Monsanto

- Advanced has entered into exclusive agreements with Dupont and Monsanto Enviro-Chem Systems (MECS) to introduce major process technologies and proprietary equipments in the area of clean fuels to PRC refineries.
- Under the agreements, Dupont and MECS will work exclusively with Advanced to market Dupont's STRATCO proprietary alkylation equipment to produce alkylate, a cleaner form of motor fuel to meet the increasingly stringent criteria in pollution controls.
- The agreements will cover the whole of the PRC, and may be further extended to other countries at a later stage.
- The new addition of process technologies and equipments is expected to contribute to revenue growth in 2006 and beyond.

Orderbook update

- As of May 2005, Advanced's orderbook stands at \$38m. \$12.3m was booked in 1H05, while an additional \$7.6m has been invoiced since 1st July. The current order backlog stands at \$20.6m, most of which will be delivered in 2H05.
- We understand Advanced has plans to pursuing bigger contracts - in the multi-million range. Any contract wins will alter its orderbook profile significantly.

Comments

- With the agreement with Dupont and MECS, Advanced now counts a total of nine exclusive agreements with suppliers, major equipment manufacturers and process licensors.
- The agreement will also help to boost recurring income in the form of maintenance and technical support fees. Currently, most of Advanced's revenue sales are orderbook driven. A higher proportion of recurring income would help smooth out top line volatility.
- By virtue of this deal partnership, we believe it is strong testament of Advanced's engineering capabilities and its breadth of client networking in the PRC.
- Global warming is a major impetus for governments to define enviro-friendly policies. Advanced's process technologies now allow refineries to produce alkylate, a much cleaner form of motor fuel which will reduce pollution emissions. The PRC government's explicit support of the Kyoto Protocol will translate into new sales opportunities for Advanced.

Valuations

- Advanced's orderbook visibility remains high through 2007. Although the company did not provide any sales forecast with the Dupont and MECS tie-up, we believe there is strong upside prospect for accelerated orderbook growth.
- New contract wins and corporate M&A continue to be mid-term price catalysts for the stock. With earnings CAGR of 46% over 2006-07, Advanced's current valuations remains undemanding. We believe growth prospects are not fully priced into the stock and based on a conservative PEG of 0.2x, our target price is now raised to \$1.08. This places Advanced at a prospective valuation of 9x FY06. Maintain BUY.

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Stock rating by 12M returns:

+15% or more	Buy
+5% to 15%	Trading Buy
-5% to +5%	Neutral
-5% to -15%	Trading Sell
-15% or more	Sell



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