

GICS: Industrials/Industrial Machinery

Business Summary: Incorporated in 1988, and listed on the SGX in 2005, Sarin Technologies (Sarin) is a leading developer and manufacturer of precision technology products for diamond and gemstone evaluation, grading, planning and production.

Country of Incorporation: Israel

Head Office Location: 7 Atir Yeda, Kfar Saba 44643, Israel

Place of Operations: Israel

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Results Review

- Sarin's 2009 results exceeded our expectations with a net profit of USD1.5 mln vs. our net loss forecast of USD1.5 mln. The deviation was due to significantly better-than-expected margin as well as a stronger-than-expected pick-up in business in 4Q09.
- Excluding one-off items, we estimate that 2009 recurring net profit declined by about 70% due to a 35.5% contraction in revenue amid the global economic downturn. Nonetheless, Sarin has seen an impressive sequential improvement in its business over the last two quarters, with revenue rising to USD16.6 mln in 2H09 from USD4.7 mln in 1H09. The improvement came largely from India, while North America and Russia continue to lag in the recovery.
- 4Q09 gross margin was exceptionally strong at 74.4% vs. 47.6% in 3Q09 and 40.3% in 4Q08. The quarterly margins are, however, not directly comparable as included in the 4Q09 results is the sale of inventory that had been written-off in previous quarters. For the full year, gross margin was down by 5.4 %-points to 58.4% due to the amortization of the Galatea know-how and capitalized R&D costs.
- 4Q09 marked a major milestone for Sarin with its first commercial sale of Galaxy 1000 to a leading diamond manufacturer in India. Galaxy continued to gain momentum in 4Q09 and Galaxy-related revenue accounted for just over 10% of 4Q09 revenue (or > USD1 mln).

Earnings Outlook / Estimates Revision

- Management expects the industry recovery seen in the previous two quarters to continue in 1Q10, with demand coming from India, China, Africa and Israel. There, however, remains uncertainty as to the sustainability of the recovery beyond early 2010 given that demand from the key North American market has not improved significantly.
- Nonetheless, we believe that the worse is over for Sarin. Our 2010 net profit forecast is largely unchanged with net profit projected to rebound to USD8.7 mln from USD1.5 mln in 2009. We expect 2010 earnings to be supported by a gradual recovery in the industry and rising contribution from Galaxy 1000. We also introduce our 2011 forecast. We project a 25% growth in 2011 net profit driven by steady demand for its traditional products and rising contribution from new products.
- Continued refinement of the Galaxy 1000 system will lead to better throughput and greater customer acceptance. Sarin will be expanding capacity at its Galaxy service centers in Israel, India and Belgium (opened in Jan. 2010) and additional service centers may be opened later in other markets (e.g. U.S., Africa, China).

Investment Risks

- Investment risks include competition from emergence of new technology, a sluggish global economic recovery, market acceptance for Galaxy 1000 and foreign exchange fluctuations.

Key Stock Statistics

52-week Share Price Range (SGD)	0.11 - 0.42
Avg Vol - 12 months ('000 shares)	215.7
Price Performance (%)	
- 1 month	0.0
- 3 month	11.9
- 12 month	214.3
No. of Outstanding Shares (mln)	264.3
Free Float (%)	38.1
Market Cap (SGD mln)	87.2
Enterprise Value (SGD mln)	70.1
Major Shareholders (%)	
Sarin Research & Development	38.3
Interhightech (1982)	17.6
Chartered Asset Management	6.0

Per Share Data

	2008	2009	2010E	2011E
FY Dec.				
Book Value (US cents)	11.68	12.29	14.29	17.12
Cash Flow (US cents)	1.1	1.7	4.6	5.4
Reported Earnings (US cents)	0.6	0.6	3.3	4.1
Dividend (US cents)	0.8	0.8	1.3	1.3
Payout Ratio (%)	51.7	172.1	39.3	31.5
PER (x)	37.7	40.3	7.1	5.7
P/Cash Flow (x)	21.0	14.1	5.1	4.3
P/Book Value (x)	2.0	1.9	1.6	1.4
Dividend Yield (%)	3.4	3.4	5.6	5.6
ROE (%)	13.6	3.9	24.9	26.3
Net Gearing (%)	0.0	0.0	0.0	0.0

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Page 1 of 3

Quarterly Performance

FY Dec. / USD mln	4Q09	4Q08	% Change
Reported Revenue	10.4	2.5	>100
Reported Operating Profit	4.9	-2.4	NM
Depreciation & Amortization	-0.9	-0.1	>100
Net Interest Income / (Expense)	-0.1	0.7	NM
Reported Pre-tax Profit	4.3	-3.6	NM
Reported Net Profit	4.5	-4.6	NM
Reported Operating Margin (%)	46.9	-94.5	-
Reported Pre-tax Margin (%)	41.6	>-100	-
Reported Net Margin (%)	43.7	>-100	-

Source: Company data

Profit & Loss

FY Dec. / USD mln	2008	2009	2010E	2011E
Reported Revenue	33.1	21.4	38.8	47.2
Reported Operating Profit	4.4	2.2	10.9	13.5
Depreciation & Amortization	-1.3	-2.8	-3.5	-3.5
Net Interest Income / (Expense)	1.1	0.2	0.4	0.4
Reported Pre-tax Profit	3.3	1.6	10.9	13.6
Effective Tax Rate (%)	51.4	4.7	20.0	20.0
Reported Net Profit	1.6	1.5	8.7	10.9
Reported Operating Margin (%)	13.2	10.1	28.0	28.6
Reported Pre-tax Margin (%)	9.9	7.5	28.1	28.9
Reported Net Margin (%)	4.8	7.1	22.5	23.1

Source: Company data, S&P Equity Research

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