

GICS: Industrials/Industrial Machinery

Business Summary: Incorporated in 1979, Pan Asian Water Solutions Limited (PAWS) provides piping system solutions primarily to the water purification and wastewater treatment industry.

Country of Incorporation: Singapore

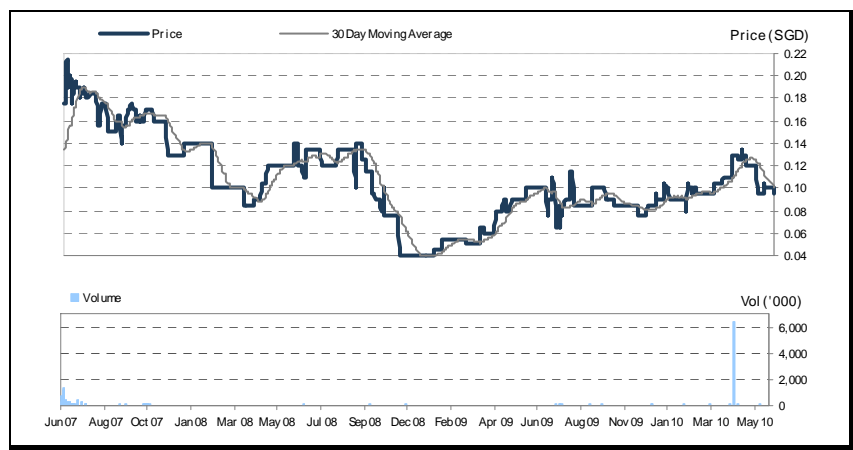
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Recent Developments

- PAWS has entered into a sale and purchase agreement to acquire a 60% stake in PVT Engineering Sdn Bhd (PVT) for MYR6.0 mln. The deal comes with a cumulative pre-tax profit target of MYR5.0 mln for FY11 (Jun) and FY12. The consideration will be adjusted accordingly if PVT is unable to meet the profit target, subject to a minimum of MYR1.2 mln.
- Based in Malaysia, PVT is mainly involved in the trading of engineering products as well as the design, supply and installation of pumping plants and storage water tanks for water works applications.
- The acquisition values PVT at a prospective FY11 PER of 5.3x (based on estimated net profit of MYR1.9 mln), which is fair, in our view. In addition, it allows PAWS to build its sales network in Malaysia, and offer a wider product range through cross-selling activities. PAWS had established a wholly-owned subsidiary, PA Corporation (M) Sdn Bhd in Malaysia in May 2010 to manufacture and trade piping systems, valves and related accessories.
- Meanwhile, PAWS' plan to expand its manufacturing and logistics base in China is progressing well. The group has entered into a Land Use Rights Transfer Agreement in June to acquire a plot of land (site area of 29,700 sq m) located at Tianjin Eco-City for SGD2.8 mln to set up its headquarters. The acquisition will be satisfied through internal cash reserves and is expected to be completed within six months.

Earnings Outlook / Estimates Revision

- We have increased our 2010 and 2011 earnings forecasts by 11.2% and 20.9% to SGD2.4 mln and SGD2.8 mln, respectively, taking into account the contribution from PVT.
- PAWS has been active in exploring new markets through the establishment of new representative offices in UAE, India and Holland. In our view, PAWS' business expansion efforts should bear fruit in the mid to long term.

Investment Risks

- There are risks of PAWS losing its distribution rights from its principals, which could hurt sales. PAWS is also exposed to volatile iron prices. The inability to pass on any cost increase and/or any delay in passing on the cost increase to its customers will hurt margins and depress earnings.
- The dependence on water infrastructure spending makes PAWS more vulnerable to industry cycles and economic downturns. A prolonged global economic downturn will affect demand for piping systems and negatively impact PAWS' earnings.

Key Stock Statistics

52-week Share Price Range (SGD)	0.07 - 0.14
Avg Vol - 12 months ('000 shares)	154.7
Price Performance (%)	
- 1 month	-20.8
- 3 month	-9.5
- 12 month	-5.0
No. of Outstanding Shares (mln)	125.0
Free Float (%)	20.0
Market Cap (SGD mln)	11.9
Enterprise Value (SGD mln)	1.7
Major Shareholders (%)	
Xu Jia Zu Holdings Pte Ltd	80.0

Per Share Data

FY Dec.	2008	2009	2010E	2011E
Book Value (SG cents)	13.52	14.83	15.73	16.94
Cash Flow (SG cents)	6.9	2.3	2.1	2.7
Reported Earnings (SG cents)	2.1	2.0	1.9	2.2
Dividend (SG cents)	0.5	1.0	1.0	1.0
Payout Ratio (%)	23.5	50.0	52.7	45.2
PER (x)	4.5	4.8	5.0	4.3
P/Cash Flow (x)	1.4	4.1	4.6	3.6
P/Book Value (x)	0.7	0.6	0.6	0.6
Dividend Yield (%)	5.3	10.5	10.5	10.5
ROE (%)	16.9	14.1	12.4	13.6
Net Gearing (%)	28.3	0.0	0.0	0.0

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Profit & Loss

FY Dec. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	122.3	52.5	52.9	59.0
Reported Operating Profit	3.9	3.4	3.0	3.9
Depreciation & Amortization	-6.0	0.6	1.8	2.5
Net Interest Income / (Expense)	-0.4	-0.3	0.2	0.1
Reported Pre-tax Profit	3.6	3.1	3.2	3.9
Effective Tax Rate (%)	18.6	18.2	19.3	20.0
Reported Net Profit	2.7	2.5	2.4	2.8
Reported Operating Margin (%)	3.2	6.4	5.7	6.5
Reported Pre-tax Margin (%)	2.9	5.9	6.1	6.7
Reported Net Margin (%)	2.2	4.8	4.5	4.7

Source: Company data, S&P Equity Research

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