

SMALL/MID CAP HIGHLIGHTS

Sarine Technologies (SARINE SP)

Diamond Industry Leaders Optimistic On Recovery

The return of end-consumer demand for polished diamonds in 2H20 is driving investment and spending across the entire diamond industry value chain. The recovery could not have come at a more opportune time for Sarine Technologies (Sarine), which is seeing increasing acceptance and adoption for its patented systems and technologies. Sarine has market domination (>90%) of inclusion scanning and mapping, rough planning and related manufacturing products and services.

- Industry leaders across entire value chain expecting bumper sales.** Optimism is buoyant across the whole diamond industry value chain from upstream miners such as De Beers Sa, PJSC ALROSA (Alrosa) and Lucara Diamond Corp (Lucara), to downstream retailers including Signet Jewelers and Chow Tai Fook Jewellery. End-consumer demand for polished diamonds returned in 2H20 and the demand remained strong and stable at year-end. On 22 Jan 21, Alrosa reported that rough diamond sales in 4Q20 grew 29% yoy, owing to recovery in key sales markets of the US and China. Alrosa sees a positive outlook in the near-term as midstream cutters and polishers are increasing diamond production to 100% capacity (2Q20: 70%) to meet 1Q21 orders as jewellery businesses and dealers seek to replenish inventories. The resurgent in spending across the diamond industry could cast a shine onto Sarine, a US\$131m market cap company which serves the midstream portion of the diamond industry worth US\$35b (in 2018).
- Seeing light after six years.** Established in 1988 and listed on the SGX in 2005, market cap for Sarine over the past six years ranged between S\$84m and S\$1,124m, excluding the post COVID-19 shock in Mar 20 (S\$61m). The 94% drop in market value between Nov 14 and Aug 20 was in tandem with the significant drop in earnings per share of US cent 7.7 in 2014 to a loss per share of US cent 0.39 in 2019. The depressed earnings came as a result of several factors including a) excess inventories in the midstream market; b) reduced quantities of rough stones entering the pipeline; c) lower sales of capital equipment; and d) the more recent civil unrest in Hong Kong which impaired luxury retail sales. Today, Sarine's Galaxy-family inclusion mapping system has gained significant ground since its introduction in 2010. As of end-3Q20, the total installed base stands over 600 systems worldwide; sales are derived on a price per carat model with 80% gross margin, and recurring revenue drives 50% of Sarine's top line.
- Revolutionising the diamond industry step-by-step.** The diamond industry remains traditional, where practices resemble those dating back to the 1800s. This presents an opportunity for Sarine, which was initially started by a group of 11 industry professionals with the main objective of making the industry more efficient and transparent. Today, the revolution continues to be ongoing and green shoots have emerged; a) Sarine's extensive range of patented technologies across the midstream have been well-received and is ready to move towards the next phase of further monetization; and b) seeing greater adoption for emerging technologies Sarine Profile, Sarine Diamond Journey, light performance grading and AI-derived 4Cs e-Grading, which could potentially lift 2022 earnings.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2016	2017	2018	2019	1H20
Net turnover	72.5	58.6	58.5	51.3	22.4
EBITDA	25.1	12.9	13.7	5.5	4.2
Operating profit	21.2	9.4	10.0	1.1	2.1
Net profit (rep./act.)	18.0	5.8	7.6	(1.4)	1.2
Net profit (adj.)	18.0	5.8	7.6	(1.4)	1.2
EPS	5.1	1.6	2.2	(0.4)	0.3
PE (x)	8.4	26.2	19.8	n.a.	64.3
P/B (x)	1.9	2.1	2.3	2.5	2.5
EV/EBITDA (x)	5.2	10.0	9.5	23.5	15.3
Dividend yield (%)	7.9	6.1	5.3	1.4	0.0
Net margin (%)	24.8	9.8	13.0	(2.7)	5.2
Net debt/(cash) to equity (%)	(24.5)	(23.7)	(25.6)	(18.9)	(36.1)
Interest cover (x)	(33.2)	(760.6)	(95.5)	8.3	(114.4)

Source: Bloomberg UOB Kay Hian

NOT RATED

Share Price	S\$0.625
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Sarine develops, manufactures, and sells planning, evaluation, and measurement systems for diamond grading and gemstone production. The Company's products include diamond cut grading tools, rough diamond optimization systems, gemology tools, diamond color grading, and laser marking machines.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SARINE SP
Shares issued (m):	349.8
Market cap (S\$ m):	233.4
Market cap (US\$ m):	176.4
3-mth avg t'over (US\$ m):	0.3

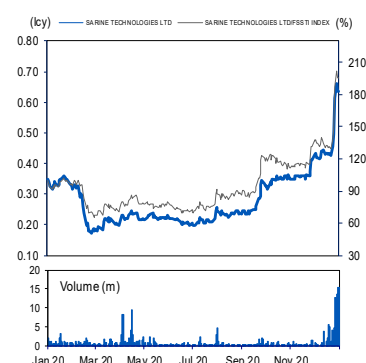
Price Performance (%)

52-week high/low			S\$0.70/S\$0.162	
1mth	3mth	6mth	1yr	YTD
37.5	67.8	135.7	30.3	17.9

Major Shareholders

	%
Axxion S.A.	9.18
Ehud Harel	7.36
NAV/Share (US\$)	0.17
Net Cash/(Debt)/Share (US\$)	0.06

PRICE CHART



Source: Bloomberg

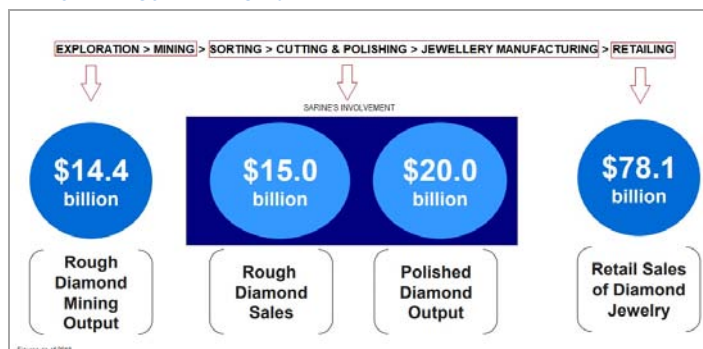
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Near-term key catalysts include:

- **Sales and earnings recovery in 4Q20.** Taking cue from the sales recovery and optimistic outlook from industry peers and customers including Alrosa, Lucara and Star Diamond, Sarine's upcoming 4Q20 could sing a similar tune. Furthermore, Sarine's latest corporate slides, presented during the 23rd Annual Needham Virtual Growth Conference in New York, highlighted the significant recovery of the midstream manufacturing sector in 4Q20, evidenced by scanning of diamonds through Sarine's systems on a pay-per-carat basis. Company highlighted that if scans continued into 2021, it would represent a 50% growth over 2019.
- **Continued acceptance of Sarine's patented products and technology.** The ongoing spread of Sarine's products and technologies across the diamond industry, through the company's solid reputation, would drive overall scalability for the group. Apart from higher sales of capital equipment, Sarine would stand to benefit from high-margin recurring income on a per-use basis.
- **Emerging technologies take off.** Uptake of products and technologies implemented by Sarine over the past decade has turned out well, lending good credibility to Sarine's management team. Following Phase 1 - the market penetration for Sarine's hardware equipment across 2010-2020, Phase 2 would now tap on a) cross-selling opportunities; b) the utilisation of real-time market data through system scans and c) spread of emerging technologies such as Sarine Profile, Sarine Diamond Journey, light performance grading and AI-derived 4Cs e-Grading.

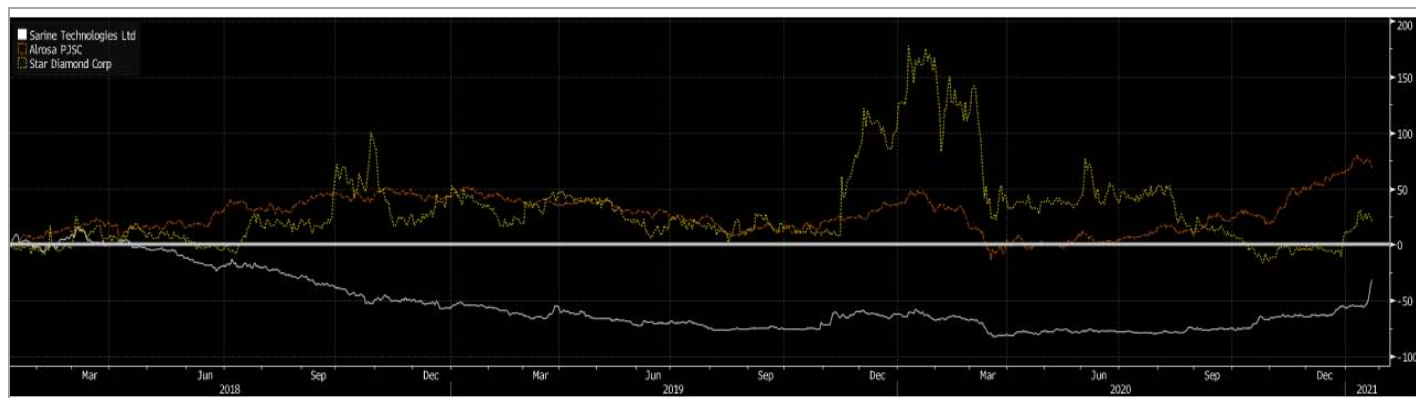
DIAMOND INDUSTRY VALUE CHAIN



SUITE OF PATENTED SOLUTIONS USED THROUGHOUT VALUE CHAIN



SHARE PRICE CHART COMPARISON WITH CLIENTS ALROSA AND STARGEMS



PROFIT & LOSS

Year to 31 Dec (US\$m)	2017	2018	2019	1H20
Net turnover	58.6	58.5	51.3	22.4
EBITDA	12.9	13.7	5.5	4.2
Deprec. & amort.	3.5	3.7	4.4	2.1
EBIT	9.4	10.0	1.1	2.1
Total other non-operating income	(0.0)	0.0	0.0	(0.0)
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.1	(0.7)	0.0
Pre-tax profit	9.4	10.1	0.4	2.2
Tax	(3.7)	(2.5)	(1.8)	(1.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	5.8	7.6	(1.4)	1.2
Net profit (adj.)	5.8	7.6	(1.4)	1.2

BALANCE SHEET

Year to 31 Dec (US\$m)	2017	2018	2019	1H20
Fixed assets	15.6	14.6	19.6	18.3
Other LT assets	8.2	5.9	6.2	6.5
Cash/ST investment	16.7	16.8	18.3	21.3
Other current assets	39.7	38.5	33.0	28.3
Total assets	80.4	75.9	77.1	74.4
ST debt	0.0	0.0	1.3	0.0
Other current liabilities	9.4	10.1	10.5	9.8
LT debt	0.0	0.0	5.7	0.0
Other LT liabilities	0.2	0.2	0.2	5.5
Shareholders' equity	70.7	65.7	59.4	59.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	80.4	75.9	77.1	74.4

CASH FLOW

Year to 31 Dec (US\$m)	2017	2018	2019	1H20
Operating	10.8	13.9	7.9	(7.0)
Profit to the year	5.8	7.6	(1.4)	1.2
Tax	(3.7)	(2.5)	(1.8)	(1.0)
Deprec. & amort.	3.5	3.7	4.4	2.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(2.9)	(0.7)	1.9	(11.4)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	8.1	5.8	4.8	2.2
Investing	2.2	(0.9)	0.5	4.8
Capex (growth)	(3.3)	(1.8)	(0.8)	(0.5)
Investment	6.1	0.4	0.8	5.1
Others	(0.6)	0.6	0.5	0.2
Financing	(15.6)	(12.7)	(7.0)	(1.0)
Dividend payments	(15.8)	(12.3)	(5.3)	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	(0.6)
Others/interest paid	0.2	(0.4)	(1.8)	(0.3)
Net cash inflow (outflow)	(2.6)	0.3	1.4	(3.2)
Beginning cash & cash equivalent	19.5	16.7	16.8	18.3
Changes due to forex impact	(0.1)	(0.2)	0.1	0.1
Ending cash & cash equivalent	16.7	16.8	18.3	15.2

KEY METRICS

Year to 31 Dec (%)	2017	2018	2019	1H20
Profitability				
EBITDA margin	22.0	23.4	10.7	18.9
Pre-tax margin	16.1	17.3	0.9	9.7
Net margin	9.8	13.0	(2.7)	5.2
ROA	6.7	9.7	(1.8)	2.1
ROE	7.7	11.1	(2.2)	2.6
Growth				
Turnover	(19.1)	(0.2)	(12.3)	(0.5)
EBITDA	(48.4)	5.6	(59.8)	692.5
Pre-tax profit	(57.1)	7.6	(95.7)	n.a.
Net profit	(67.9)	31.9	n.a.	n.a.
Net profit (adj.)	(67.9)	31.9	n.a.	n.a.
EPS	(68.0)	32.0	n.a.	n.a.
Leverage				
Debt to total capital	0.0	0.0	9.1	0.0
Debt to equity	0.0	0.0	11.8	0.0
Net debt/(cash) to equity	(23.7)	(25.6)	(18.9)	(36.1)

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