



Sarine Technologies

(SARINE SP/SARI.SI)

Good start to 2021

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- **Sarine's 1Q21 results came in strong**, with sales around 34% our full-year estimate and net profit exceeding our full-year estimate.
- **Traction across most fronts.** While Galaxy-family sales were fairly low, system sales were in the higher end of the Average Sale Price. The return of diamond processing activity in 1Q21 is also encouraging, while Sarine saw developments for Diamond Journey, e-Grading and the synthetic diamond space as well.
- **Maintain OUTPERFORM with higher TP of S\$0.82.** With a worsening COVID-19 situation in India, it may be difficult to read the tea leaves on how business activity will be like for the rest of 2021. We model our expectations on the basis of a normalization of business activity in 2022.

1Q21 sales of US\$17.3mn is the highest since 2Q18, while net profit of US\$6.7mn is the highest since 2Q14. Although sales are up around 5% YoY, profits are almost double YoY and surprised to the upside from the sale of equipment that was previously written down, as well as lower than usual marketing expenses from the absence of regular travel and trade shows, resulting in EBIT margin of 42.2% and net profit margin of 38.7%. Sarine's effective tax rate for 1Q21 is also likely below 10% as it was able to use its deferred tax assets.

Despite the low sale count of Galaxy systems in 1Q21, Average sale prices of the machines are towards the higher end, as a total of 7 Galaxy/Solaris models were sold. For reference, Sarine sold 11 of these models in 2020, 0 in 2019 and 14 in 2018. While Sarine did not provide recurring and non-recurring revenue breakdown, we expect recurring revenues to have driven the bulk of 1Q21 sales, as Sarine's machines map an average of close to 95k stones/day.

Sarine also made progress with Diamond Journey and e-Grading, after announcing partnerships with the likes of HB Antwerp, QVC, and some early tests with Indian manufacturers. Sarine has also made inroads in the lab-grown diamond (LGD) space with a partnership that will allow the company to better understand their tools' value-add to the LGD space and fine tune their business model to suit the economics of LGD.

Outperform - Maintain		Performance (Absolute)	
Price as of 12 May 21 (SGD)	0.57	1 Month (%)	-6.3
12M TP (\$)	0.82	3 Month (%)	-9.2
Previous TP (\$)	0.65	12 Month (%)	150.1
Upside, incl div (%)	45.9		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	199		
Issued Shares (mn)	350		
Vol - 3M Daily avg (mn)	2.3		
Val - 3M Daily avg (\$mn)	1.4		
Free Float (%)	77.2%		
Major Shareholders		Previous Recommendations	
Axxion SA	9.2%	7-May-21	OP S\$0.65
Harel Ehud	7.4%		
FIL Ltd	5.0%		

Financials & Key Operating Statistics					
YE Dec (US\$ m)	2019	2020	2021F	2022F	2023F
Revenue	51,323	40,968	51,695	61,523	68,035
Gross Profit	29,584	27,070	36,187	40,605	44,903
PATMI	(1,372)	2,365	11,266	8,548	9,539
EPS (US cents)	(0.39)	0.68	3.22	2.44	2.73
EPS growth (%)	(118.1%)	(272.8%)	376.4%	(24.1%)	11.6%
DPS (US cents)	0.80	0.50	1.00	1.00	1.00
Div Yield (Y%)	1.9%	1.2%	2.3%	2.3%	2.3%
Net Profit Margin (%)	(2.7%)	5.8%	21.8%	13.9%	14.0%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price / Earnings (x)	(108.0)	63.5	13.3	17.6	15.7
Price / Book (x)	3.39	3.31	2.90	2.67	2.45
ROE (%)	-4.6%	3.9%	17.3%	11.8%	12.1%

Source: Company data, KGI Research

Forecasts: We raise Galaxy ASP estimates to account for the one-off sales business model, and trim COGS% to account for the improved gross margins in 1Q21. We take Galaxy sales to account for around 35% of product sales now, instead of 20% prior, and reduce Meteor/Meteorite sales estimates across the board, leading to 100/125/140 Galaxy system sales for FY21F/22F/23F respectively. We trim marketing expenses to be in line with 2020, and admin expenses to be more in line with 2019, while reducing tax estimates. Our net profit margins are now 21.8%/13.9%/14.0% for FY21F/22F/23F respectively after the adjustments.

Valuation & Action: Maintain OUTPERFORM, with increased Target Price to S\$0.82. We note that while 1Q21 results has displayed potential for a return to strong double digit profit margins, our valuation of Sarine in 2022 assumes a normalisation of business activity and thus, an increase in expenses to match.

Risks: Worsening of COVID-19, which will disrupt working conditions within the industry. Growing synthetic diamond industry. Forex risks.

Figure 1: 1Q21 results vs prior FY21F estimate

Values in USD '000	Old FY21F	1Q21	% of estimate	Variance
Revenue	51,353	17,300	33.7%	
Cost of sales	-17,460	-3,996	22.9%	
Gross Profit	33,893	13,304	39.3%	
Operating expenses	-25,420	-6,004	23.6%	
Profit from Operations	8,473	7,300	86.2%	
Finance income/(expenses)	-752	NA	NA	
Profit before Tax	7,722	NA	NA	
Net profit	5,946	6,700	112.7%	
<i>Gross Margin</i>	<i>66.0%</i>	<i>76.9%</i>		<i>10.9%</i>
<i>EBIT Margin</i>	<i>16.5%</i>	<i>42.2%</i>		<i>25.7%</i>
<i>Net Profit Margin</i>	<i>11.6%</i>	<i>38.7%</i>		<i>27.2%</i>
EPS (in USD cents)	1.70	1.92	112.7%	

Source: Company, KGI Research.

Figure 2: New estimates vs prior estimates

Values in USD '000	New FY21F	Old FY21F	Variance	New FY22F	Old FY22F	Variance
Revenue	51,695	51,353	0.7%	61,523	57,199	7.6%
Cost of sales	-15,509	-17,460	-11.2%	-20,918	-19,448	7.6%
Gross Profit	36,187	33,893	6.8%	40,605	37,752	7.6%
Operating expenses	-22,488	-25,420	-11.5%	-29,224	-28,200	3.6%
Profit from Operations	13,699	8,473	61.7%	11,382	9,552	19.2%
Finance income/(expenses)	-750	-752	-0.2%	-697	-720	-3.1%
Profit before Tax	12,949	7,722	67.7%	10,684	8,832	21.0%
Net profit	11,266	5,946	89.5%	8,548	6,800	25.7%
<i>Gross Margin</i>	<i>70.0%</i>	<i>66.0%</i>	<i>4.0%</i>	<i>66.0%</i>	<i>66.0%</i>	<i>0.0%</i>
<i>EBIT Margin</i>	<i>26.5%</i>	<i>16.5%</i>	<i>10.0%</i>	<i>18.5%</i>	<i>16.7%</i>	<i>1.8%</i>
<i>Net Profit Margin</i>	<i>21.8%</i>	<i>11.6%</i>	<i>10.2%</i>	<i>13.9%</i>	<i>11.9%</i>	<i>2.0%</i>
EPS (in USD cents)	3.22	1.70	89.5%	2.44	1.94	25.7%

Source: Company, KGI Research.

Financial Forecasts

FYE 31 December					
INCOME STATEMENT (USD '000)	2019	2020	2021F	2022F	2023F
Revenues	51,323	40,968	51,695	61,523	68,035
Cost of sales	(21,739)	(13,898)	(15,509)	(20,918)	(23,132)
Gross profit	29,584	27,070	36,187	40,605	44,903
Research & Development expenses	(8,184)	(6,796)	(7,754)	(9,844)	(10,886)
Sales & Marketing expenses	(13,535)	(9,773)	(9,047)	(12,612)	(13,947)
General & Admin expenses	(6,764)	(5,738)	(5,687)	(6,768)	(7,484)
Other operating income	422	219	276	329	364
Other operating expenses	–	–	–	–	–
Finance costs	(1,084)	(974)	(1,026)	(1,026)	(1,026)
Share of (loss) / profit of associates, net	–	–	–	–	–
Profit before income tax	439	4,008	12,949	10,684	11,924
Income tax	(1,811)	(1,643)	(1,683)	(2,137)	(2,385)
Profit for the year	(1,372)	2,365	11,266	8,548	9,539
Non-controlling interests	–	–	–	–	–
PATMI	(1,372)	2,365	11,266	8,548	9,539
BALANCE SHEET (USD '000)	2019	2020	2021F	2022F	2023F
Cash and cash equivalents	18,284	21,081	32,279	40,365	49,117
Other current assets	33,036	36,278	36,278	36,278	36,278
Total current assets	51,320	57,359	68,557	76,643	85,395
Property, plant and equipment	13,474	12,279	11,365	10,575	9,896
Intangible assets	3,625	2,563	1,922	1,442	1,081
Other non-current assets	8,716	7,665	6,677	5,798	5,014
Total non-current assets	25,815	22,507	19,964	17,815	15,991
Total assets	77,135	79,866	88,521	94,458	101,386
Trade and other payables	3,907	1,868	1,868	1,868	1,868
Loans and contract liabilities	1,311	1,303	1,303	1,303	1,303
Other current liabilities	6,547	7,276	7,276	7,276	7,276
Total current liabilities	11,765	10,447	10,447	10,447	10,447
Borrowings	–	3,141	3,141	3,141	3,141
Other non-current liabilities	5,950	5,587	5,587	5,587	5,587
Total non-current liabilities	5,950	8,728	8,728	8,728	8,728
Total liabilities	17,715	19,175	19,175	19,175	19,175
Total equity	59,420	60,691	69,346	75,283	82,211
Total liabilities and equity	77,135	79,866	88,521	94,458	101,386
CASH FLOW STATEMENT (USD '000)	2019	2020	2021F	2022F	2023F
Profit before tax	(1,372)	2,365	11,266	8,548	9,539
Adjustments	7,390	6,865	3,240	2,795	2,424
Operating cash flows before WC changes	6,018	9,230	14,506	11,342	11,963
Change in working capital	1,903	(11,198)	–	–	–
Income tax paid	(2,080)	(645)	–	–	–
Other adjustments	2,080	645	–	–	–
Cash flows from operations	7,921	(1,968)	14,506	11,342	11,963
Capital expenditure	(834)	(765)	(697)	(645)	(600)
Short-term investments, net	831	4,887	–	–	–
Others	485	321	–	–	–
Cash flows from investing	482	4,443	(697)	(645)	(600)
Lease payments	(1,264)	(1,266)	–	–	–
Dividends paid	(5,259)	(1,049)	(2,611)	(2,611)	(2,611)
Interest paid	(497)	(399)	–	–	–
Other financing cashflow	–	3,107	–	–	–
Cash flows from financing	(7,020)	393	(2,611)	(2,611)	(2,611)
FX Effects, Others	69	(71)	–	–	–
Net increase in cash	1,383	2,868	11,198	8,086	8,752
Beginning Cash	16,832	18,284	21,081	32,279	40,365
Ending cash	18,284	21,081	32,279	40,365	49,117
KEY RATIOS	2019	2020	2021F	2022F	2023F
EPS (USD cents)	(0.39)	0.68	3.22	2.44	2.73
DPS (USD cents)	0.80	0.50	1.00	1.00	1.00
Dividend yield (%)	1.9%	1.2%	2.3%	2.3%	2.3%
NAV per share (USD)	0.2	0.2	0.2	0.2	0.2
Price/NAV (x)	3.4	3.3	2.9	2.7	2.4
Profitability					
EBITDA Margin (%)	11.5%	22.0%	33.3%	23.6%	22.6%
Net Margin (%)	(2.7%)	5.8%	21.8%	13.9%	14.0%
ROE (ex. Property FV gain) (%)	(4.6%)	3.9%	17.3%	11.8%	12.1%
ROA (ex. Property FV gain) (%)	(2.8%)	3.0%	13.4%	9.3%	9.7%
Financial Structure					
Interest Coverage Ratio (x)	1.4	5.1	13.6	11.4	12.6
Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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