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UEL stock soars on US\$113.8m boost

Convertible bond investment from KKR

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WATER treatment firm United Envirotech Limited's (UEL's) share price soared more than 12 per cent in trading yesterday on news of its US\$113.8 million convertible bond investment from United States fund, Kohlberg Kravis Roberts & Co LP (KKR).

The firm's counter closed 4.5 cents higher at 39.5 cents.

"KKR's investment will allow us to achieve further growth at a crucial time in the development of the China waste water treatment industry," said Lin Yucheng, chairman and

chief executive officer of UEL in a statement yesterday.

The deal is expected to be concluded before year-end and is subject to approval from UEL's shareholders. At least 90 per cent of the proceeds will fund UEL's transfer-operate-transfer, build-operate-transfer and build, own and operate projects. The remaining up to 10 per cent will be kept as working capital.

The convertible bonds carry a five-year tenure and bear interest at the rate of 2.5 per cent per year.

The conversion price of 45 cents per conversion share represents a premium of about 37.3 per cent to the average closing price for trades done in the last 30 days before UEL's announcement.

When fully converted, there will be 305 million conversion shares – which represent about 38.4 per cent of all the shares on a fully diluted basis.

"We are extremely impressed with the company's strong track record, outstanding management team and deep industry knowledge. We look forward to fully utilising our global network and industry expertise to support UEL in its future growth. Equally, we look forward to working together with UEL on its environmental initiatives in China," said David Liu, member of KKR and chief executive officer of KKR Greater China.

In a report that rated UEL a "buy", OCBC Investment Research's Carey Wong said: "We view the investment positively, as it suggests that

KKR China Water Investment Holdings is cognitive of the potential of China's water industry, and more importantly, of UEL's technology and execution track record."

Last Friday, UEL posted a 16.3 per cent drop in net profit to \$3.5 million for the first quarter ended June 30. Revenue for the same period fell 7 per cent to \$20.8 million on lower engineering revenue.

OCBC's Mr Wong noted that despite the drop in net profit year on year, the bottom line showed a 114.7 per cent increase quarter on quarter, "meeting 20.4 per cent of full-year forecast".

"We...believe that the latest investment by KKR will be very well received by the market and the enlarged warchest will allow UEL to compete more

favourably against the bigger players," added Mr Wong, who has given UEL stock a fair value of 53 cents.

Stirling Coleman Capital Limited is the arranger of the deal and Credit Suisse (Singapore) Limited is the financial adviser of KKR.

KKR (www.kkr.com) is a highly-respected American-based global private equity firm, specializing in leveraged buyouts, based in New York. The firm sponsors and manages private equity investment funds. Since its inception, the firm has completed over \$400 billion of private equity transactions and was a pioneer in the leveraged buyout industry. Since its founding, KKR has completed a number of landmark transactions including the 1989 leveraged buyout of RJR Nabisco, which was the largest buyout in history to that point, as well as the 2007 buyout of TXU, which is currently the largest buyout completed to date. KKR has completed investments in over 160 companies since 1977, completing at least one investment in every year except 1982 and 1990.