

22 February 2021

Aobo Environmental Technology Ltd

Delivering battery storage solutions

Aobo Environmental Technology Ltd listed on the NSX on 2nd December raising \$5m. The Australian domiciled company acquired the established Chinese operation for shares resulting in a transfer of domicile with major shareholders unchanged. Aobo has two business divisions – Air Treatment Solutions (ATS) and Energy Storage Systems (ESS). Air treatment is Aobo’s established business with a focus in providing dehumidification and emissions treatment for food, pharmaceutical, electronics and lithium-ion battery production. Aobo’s move to an Australian listing has been prompted by the company’s strategy to manufacture battery storage systems (ESS) aimed at the growing demand for residential solar power units in Australia. Installing battery storage is a clear value add for users of small-scale solar power generation. Aobo expects significant retrofitting of existing solar power units (over 2m installed household in Australia) will drive battery uptake as well as continuing expansion of solar cell installations.

Business model

Aobo sells custom ATS solutions and equipment direct to manufacturers for dehumidification and air purification during the manufacturing process. Emissions treatment in battery manufacture has more recently become a key product area. ATS revenue from both dehumidification and abatement of volatile organic compounds in Lithium-Ion battery manufacture now provides 65% of revenue. The company was founded in Wuxi City, China in 1999 with the first ATS sale to Johnson & Johnson (Shanghai) followed by sales to Chinese and Internationally owned manufacturing operations. Aobo developed and patented a range of ATS devices and processes and has achieved relevant international manufacturing quality certifications. First ATS sales outside China were in 2010-11. Product R&D in ESS commencing in 2017. ESS products were launched for sale in Australia in 2018 with the company becoming a member of the Australian Clean Energy Council in 2019 and Australian and International product approvals were also awarded in 2019. Aobo has appointed Australian distributors for both ATS and ESS systems.

Recent News

Aobo listed on the NSX on 2nd Dec 2020 following a lengthy capital-raising process in 2020, complicated by the COVID pandemic. Aobo was forced to reduce promotional efforts while travel was restricted in China and internationally from December quarter 2019. The year to Dec 2019 saw a profit slump followed by a recovery “to a more normal status” in the half year to June 2020 as restrictions were eased in China. Aobo’s new manufacturing facility will allow production of ESS to be moved in-house and at the end of November was nearing completion. Funds raised will not be used to finance this facility. Bank debt levels have declined from RMB 33m to RMB 28m at November 2020.

Pro-forma earnings history AUD

Y/E	Revenue	EBITDA	PBT	NPAT	EPS (c)*	OCF
Dec 2016	7.3	1.0	1.0	0.9	0.46	0
Dec 2017	16.1	4.3	4.3	3.6	1.88	1.5
Dec 2018	19.6	5.7	5.3	4.7	2.42	(2.9)
Dec 2019	13.9	1.1	0.3	0.5	0.24	(0.6)
Half Year						
Jun 2019	6.2	0.7	0.1	0.2	0.11	(2.0)
Jun 2020	4.5	1.5	1.0	0.8	0.39	(0.1)

Source: Prospectus, Company data *Based on shares on listing and pro-forma financials at Oct 20

Shares Summary

Share Code	AB9
Share price at 29 Dec 20	\$0.39
Market Capitalisation	\$75.4M
Number of Shares	193.2M
Pro-forma Net Debt	~\$5.8M
Share Registry	Registry Direct Ltd

RaaS 5-Point Score* = 0/5 on COVID impact

Revenue increasing (0); EPS increasing (0), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (0) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- Continued expansion of lithium-ion battery manufacturing worldwide.
- Growing demand for lithium-ion battery solutions for energy storage in Australia and internationally
- Further international expansion of ATS in food and pharmaceutical applications, and ESS into UK, Europe as well as Australia

Downside Case

- Larger producers drive down prices of power storage faster than AB9 can manage
- Regulatory issues associated with Chinese manufacturing base
- Product design or quality issues reduce sales momentum

Board of Directors

Chairman	Andrew Smith
CEO	Zhang Jiangang
Director	Andrew Thomson
Director	Brendan Connell

Catalysts

- Changes to renewables legislation in Australia
- More Australian distributorships signed.

Comparable Companies

Energy Technologies EGY.ASX, Redflex RDF.ASX, Redflow RFX.ASX

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* The RaaS 5-Point score is based on the company’s performance in its last reported full year. Past performance is not a reflection of future performance.

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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