

Sanli Environmental Limited

Unrated

Current Price	S\$0.305
Fair Value	n.a.
Up / (downside)	n.a.

Stock Statistics

Market cap	S\$87.4m
52-low	S\$0.300
52-high	S\$0.405
Avg daily vol	3,035,361
No of share	286.7m
Free float	12.3%

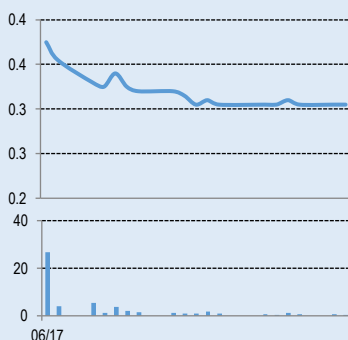
Key Indicators

ROE 17F	59.0%
ROA 17F	2.0%
P/BK 18F	3.36x
Net gearing 17F	94.9%

Major Shareholders

Typha Holdings	54.5%
Fullerton Fund	8.0%
Investments	

Historical Chart



Source: Bloomberg

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New Contracts Provide FY2018 Visibility

- **S\$26m of contracts boost order book to S\$125.1m.** Sanli Environmental Limited announced on 4 July 2017 four new contracts with a combined value of S\$26.0m. Sanli's order book is now equivalent to close to two years of revenue. We estimate that approximately S\$60m of its existing order book will be recognized in FY18 ending March 2018, with future contracts contributing another S\$5m of revenue also in FY18. What's notable is that the four contracts included at least one private sector project of S\$3m to S\$4m in value. We traced from GeBiz three PUB projects awarded in June 2017 with total estimated value of S\$22.4m.
- **Focus on high technical content projects.** We noted that Sanli's historical gross margins have been around 18% to 20%. Coupled with cost control at the corporate level, net margin has ranged from 9% to 11%. Public sector water projects often include civil engineering works, e.g. sewerage construction and pipe laying. In Sanli's case, it has been securing contracts with higher engineering and technical content, such as the supply membrane and ozone filtration systems, which may explain for its margins.
- **Top of its class – highest tender win rate.** Tracking PUB tenders on GeBiz over the last four months, we noted that Sanli has achieved a relatively high win rate of 30.8% or four out of 13 participated tenders. Among competing bidders with the same BCA registered workheads as Sanli, Sanli's track record is impressive as most other bidders have won at most one or two contracts during the same period. In terms of total value of contracts secured, Sanli also stands out as the winner. To further improve its competitiveness, Sanli is expanding its workshop to raise the proportion of internally produced content in its products and services. Thus far, PUB has provided a list of upcoming tenders that we estimate to be potentially worth S\$100m or more.
- **Strong pipeline of water projects to provide longer term opportunities.** Spending on water infrastructure is expected to nearly double to S\$800m per annum during 2017 to 2021. Pipeline projects include a new water reclamation cum NEWater plant in Tuas as part of the Deep Tunnel Sewerage System Phase 2 (construction to commence in 2H 2018), the redevelopment of the Kranji Water Reclamation Plant (from 2030 onwards) and the construction of the fourth and fifth water desalination plants in Singapore, to be ready by 2020. To better capitalise on these opportunities, Sanli can aim to take on larger projects with its stronger balance sheet today.
- **Competition poses key risk.** One potential risk is that competitors may slash prices, leading to either margin compression or lost contracts for Sanli, especially when Sanli's margin is now more transparent. FY18 profitability may also be affected by IPO expenses. As this is a preliminary look at Sanli, we do not provide a rating and valuation at this juncture, but note that Sanli's peers trade at P/E multiples of up to more than 20 times.

Key Financial Data (S\$ m, FYE Mar)	2014	2015	2016	2017F	2018F
Sales	19.41	37.35	57.26	65.07	68.32
Gross Profit	4.0	6.4	11.2	11.7	12.3
Net Profit	1.8	3.3	5.9	6.2	4.0
EPS (cents)*	0.66	1.21	2.21	2.29	1.49
EPS growth (%)	NA	84.6	82.0	3.5	(34.7)
PER (x)	46.3	25.1	13.8	13.3	20.4
NTA/share (cents)*	1.45	2.24	3.96	3.32	9.08
DPS (cents)*	0.1	0.3	0.3	2.8	0.4
Div Yield (%)	0.5	1.1	1.1	9.2	1.5

*Adjusted for 286.7m shares outstanding. Source: Company, NRA Capital forecasts

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Company Background

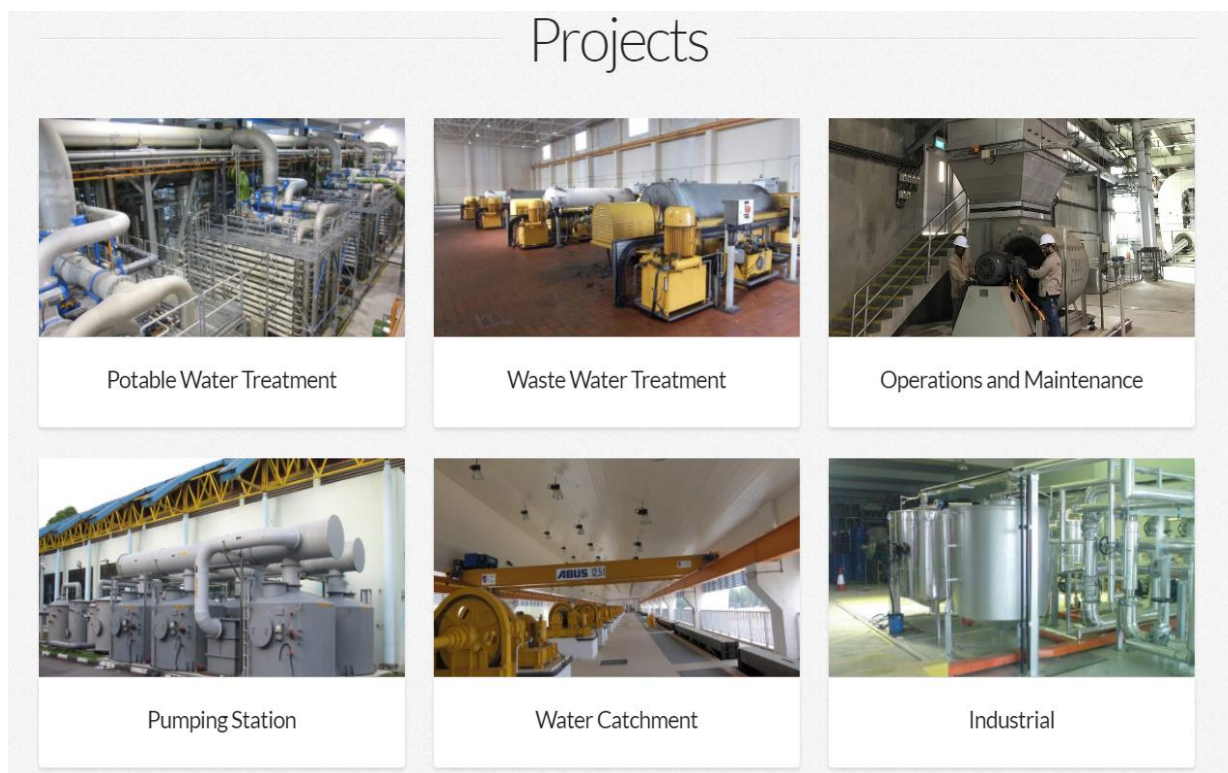
An environmental engineering company. Sanli Environmental Limited's expertise is in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical (M&E) equipment as well as instrumentation and control systems in wastewater treatment plants, water reclamation plants, NEWater plants, waterworks, service reservoirs, pumping stations and incineration plants.

Design and build, operation and maintenance of treatment process systems. Sanli's business can be segmented into two segments – Engineering, Procurement and Construction (EPC), and Operations and Maintenance (O&M). Under the EPC segment, Sanli's solutions include the design and build of various treatment process systems for raw water or wastewater treatment. The O&M segment is where Sanli provides both corrective and preventive maintenance services for clients. The EPC and O&M segments accounted for 65.7% and 34.3% of revenue of S\$50.4m for 9M2017 ended December 2016.

Figure 2 will show that Sanli's projects include the installation and maintenance of filtration systems, membrane trains and M&E equipment. Sanli also provides solutions for the treatment of refuse in incineration plants.

Major customers include the Public Utilities Board (PUB) and National Environment Agency (NEA). The PUB accounted for 85.7% and 99% of revenue for FY2016 ended March 2016 and 9M2017.

Figure 1: Pictorial Representation of Sanli's Projects



Source: Extract of company website

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Figure 2: Key Projects and Milestones

Award Date or Contract Period	Description	Client	Contract Value	Remarks
29-March-2006	Incorporation of Sanli M&E Engineering Pte. Ltd.	NA	NA	Secured five contracts with aggregate value of S\$1.0m within three months of incorporation.
2006	Refurbish electrical system at Kranji Water Reclamation Plant (WRP)	PUB	NA	First PUB contract as main contractor.
2007	Subcontractor for EPC services at Serangoon Reservoir	NA	S\$3.5m	
2008	Supply, delivery, testing and commissioning of seawater pumps	AVA	NA	First contract from Agri-Food & Veterinary Authority
2009	Enhance and upgrade of a used water pumping installation	PUB	NA	
2009	Fabricate submerged tanks, header pipes and air distribution pipes in Sri Lanka.	NA	NA	First overseas contract. Secured total new contracts worth more than S\$10.0m in 2009.
2010	Overhaul of centrifugal pumps, disintegrators and related equipment, and maintenance works.	PUB	S\$1.6m	Breakthrough into operations and maintenance.
2010	Design and construction of an airlift membrane bioreactor system at the Nestle milk processing factory in the Philippines	NA	NA	
2011	Maintenance and servicing of screening, sludge, grit and related equipment at all PUB WRPs in Singapore	PUB	S\$3.7m	Started stationing staff at customer premises to carry out operation and maintenance works
2012	Refurbishment of vibrating conveyor systems at Tuas incineration plant.	NEA	S\$2.2m	First contract from NEA and foray into solid waste
Dec 2013 - Dec 2015	Replacement of switchboards, water and sludge treatment, process equipment and ancillaries works at the Johor River Waterworks (JRW)	PUB	NA	First contract in Malaysia
April 2014 - June 2016	Design, supply, installation, testing and commissioning of wastewater treatment plant	KTC	NA	KTC = KTC Civil Engineering & Construction Pte Ltd
June 2014 - October 2016	Renewal of equipment and upgrading of various used water pumping installation	PUB	NA	
October 2014 - October 2017	Refurbishment of vibrating conveyor systems at Tuas South incineration plant.	NEA	S\$11.5m	NEA = National Environment Agency
Nov 2014 – Oct 2016	Replacement of ozonation systems at Bedok Waterworks	PUB	NA	
Jan 2015 – Jan 2018	Servicing and maintenance of screening, sludge, grit and related equipment at various WRPs	PUB	S\$19.5m	Obtained L6 grading from BCA in 2015
May 2015 – November 2017	Replacement of ultrafiltration membranes at Chestnut Avenue Waterworks.	PUB	S\$15.4m	
June 2015 – June 2017	Replacement of pump sets, associated auxiliary equipment and pipelines at Jalan Eunus Booster Station	PUB	S\$10.7m	
12-August-2015	Equipment Replacement at Choa Chu Kang Waterworks	PUB	S\$11.2m	
28-September-2015	Replacement of Phase 1 and 2 M&E Equipment at Jurong WRP	PUB	S\$9.8m	
28-March-2016	Civil, Mechanical and Electrical Works at Lower Seletar Waterworks	PUB	S\$5.7m	
Mar 16 – Feb 17	Maintenance of ozone generators for ozone plant at JRW	PUB	NA	
April 2016 – April 2018	Supply, delivery, installation and commissioning of membrane trains at Chestnut Waterworks	PUB	NA	
June 2016 – December 2018	Process upgrading at Choa Chu Kang Waterworks	PUB	S\$114.8m	Joint venture with Chye Joo Construction Pte Ltd. Sanli's share is about 40% or S\$40m
August 2016 – July 2017	Maintenance of wastewater treatment plant at Bulim bus depot	Tower	NA	Tower = Tower Transit Singapore Pte. Ltd.
01-September-2016	Proposed Electrical, Instrumentation, Control and Automation Works for Murnane Pipeline Project	PUB	S\$2.5m	
17-October-2016	Replacement of 2 Nos. of Pumpsets at Kranji I and 6 Nos. of Pumpsets at Tengah Pumping Stations	PUB	S\$4.5m	
Dec 16 – Dec 20	Maintenance of ultraviolet and ozone disinfection system at JRW	PUB		
13-February-2017	Replacement of M&E Equipment at Ulu Pandan WRP	PUB	S\$14.8m	
16-March-2017	Supply, Delivery, Installation and Commissioning of Membrane Train at Lower Seletar Waterworks	PUB	S\$2.0m	
02-June-2017	Replacement of 6.6kV and 400V Diesel Generators at 9 Catchment and Waterways Installations	PUB	S\$7.9m	As of 1 May 2017, Sanli has an order book of S\$105.8m. These contracts with a total value of S\$22.4m were awarded after 1 May 2017. As of 4 July, Sanli's order book stands at S\$125.1m, including S\$3m-4m of private secotr orders
15-June-2017	Maintenance of M&E Equipment at Changi WRP	PUB	S\$7.9m	
29-June-2017	Replacement of Ultrafiltration Membranes and Addition of Membrane Cassettes at Choa Chu Kang Waterworks	PUB	S\$6.7m	

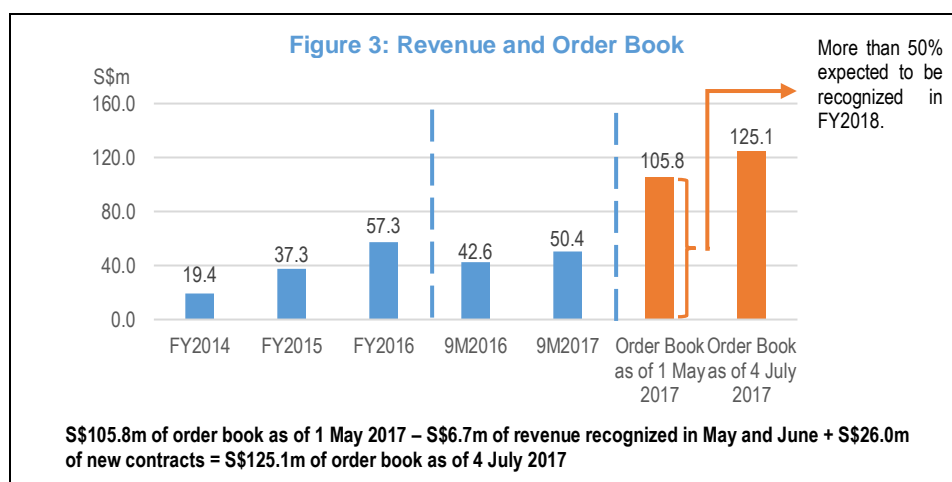
Source: GeBiz, PUB, Company Prospectus

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Recent Order Wins Indicate Forward Visibility into FY18.

Order book of S\$125.1m as of 4 July 2017. Due to Sanli's rapid pace of contract wins during the last few years, it has successfully grown annual revenue from S\$19.4m in FY14 to S\$57.3m in FY16, at a CAGR of 71.8%. For 9M2017 ended 31 December 2016, revenue grew by 18.3% year-on-year to S\$50.4m. Based on unfulfilled orders as of 31 December 2016 and new orders obtained up to 1 May 2017, Sanli has an order book of S\$105.8m as of 1 May 2017, of which more than 50% or more than S\$52.9m is expected to be fulfilled in FY2018. Following the addition of S\$26.0m of new contracts, Sanli's order book has expanded to S\$125.1m as of 4 July 2017.

S\$26.0m of new orders secure revenue base for FY2018. Sanli's contracts usually take about one to three years to fulfil. Assuming a revenue split of 27%/63%/10% across three years, we can expect the new contracts to add S\$7.0m of revenue to that of FY18 (ending March 2018). All in, Sanli's order book means that the company has already secured approximately S\$60.0m of revenue for FY2018.



Source: GeBiz, Company Prospectus, NRA Capital

One of leading firms in its class with the highest recent win rate. Sanli is registered with the Building and Construction Authority for the provision of construction related goods and services under the ME02, ME05, ME11 and SY08 workheads. We filtered the GeBiz database for PUB contracts under these workheads and derived a list of 41 contracts that were either awarded in the last one month or whose tenders were closed in the last six months. Of the 21 contracts awarded for a total value of S\$72.2m, Sanli has the highest win rate, winning four projects with a total contract value of S\$24.4m, including one contract awarded in 16 March 2017. If we take into consideration only tenders that Sanli has participated in, the win rate rises to 30.8% or 4 out of 13 participated tenders.

Figure 4: Registered Workheads

Workhead	Description	Grade	Tender Capacity
ME02	Building automation, industrial and process control systems	L4	S\$6.5m
ME05	Electrical engineering	L5	S\$13.0m
ME11	Mechanical engineering	L6	Unlimited
SY08	Mechanical equipment, plant and machinery	L3	S\$4.0m

Source: Company prospectus

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Figure 5: Tenders Won by Sanli (16 March – 29 June)

Award Date	Reference	Description	Contract Value	No of Bids	Lowest Bid?	Min Bid	Max Bid	Scheduled Rate
29-Jun-17	PUB000ETT17000072 / WSP-PW/33170069	Replacement of Ultrafiltration Membranes and Addition of Membrane Cassettes at CCK Waterworks	S\$6.69m	8	Yes	S\$6.69m	S\$8.07m	NA
15-Jun-17	PUB000ETT17000016 / WRP/33170005	Maintenance of M&E Equipment at Changi Water Reclamation Plant	-17%	10	4th	-23.93%	5%	S\$9.5m
2-Jun-17	PUB000ETT16000313 / PUB000/CW-RC/33160286	Replacement of 6.6kV and 400V Diesel Generators at 9 Catchment and Waterways Installations	7.87	6	2nd	S\$5.3m	S\$11.68m	NA
16-Mar-17	PUB000ETT16000305 / WSP-PW/33160310	Supply, Delivery, Installation and Commissioning of Membrane Train at Lower Seletar Waterworks	S\$1.99m	9	Yes	S\$1.99m	S\$2.99m	NA
Total			S\$24.4m					

Bids may either be a quantum value or a percentage adjustment from scheduled rates provided by tender.

Source: GeBiz

Figure 6: Tenders Participated by, But NOT Awarded to Sanli (16 March – 29 June)

Award Date	Reference	Abbreviated Description	Winner	No of Bids	Winning Bid	Min Bid	Sanli's Bid	Max Bid	Scheduled Rate
29-Jun-17	PUB000ETT17000051 / WSP-PW/33170039	Electro-Chlorination Facility	Ace Water	11	S\$5.96m	S\$5.96m	S\$8.79m	S\$11.95m	
22-Jun-17	PUB000ETT17000015 / PUB000/WSP-PW/33170006	Supply, Delivery, Installation and Commissioning of MEICA Equipment ...	M-Stars	7	S\$0.60m	S\$0.57m	S\$0.63m	S\$0.99m	
15-Jun-17	PUB000ETT17000058 / WSP-PW/33170037	Term Maintenance of Ozone Plant and Equipment at	Pro-Ace Power	8	-40.8%	-45.2%	-32.8%	-4%	S\$0.7m
24-May-17	PUB000ETT16000298 / WSP-NW/33160297	Maintenance of Plant and Equipment at Kranji NEWater F..	JEL Maint.	13	-42%/-42%	-42%/-42%	-30.5%/-20.5%	0%/-3%	S\$3.2m / S\$4.1m
4-May-17	PUB000ETT17000029 / WSP-NW/33170017	Supply ... Filtrate Pump and ... Backwash Pumps, Caustic...	Ace Water	10	S\$0.22m	S\$0.218m	S\$0.327m	S\$0.57m	
4-May-17	PUB000ETT16000309 / WSP-PW/33160318	Supply...Chemical Dosing Systems at Woodleigh...	Flotech Controls	8	S\$0.84m	S\$0.84m	S\$1.25m	S\$2.34m	
20-Apr-17	PUB000ETT16000316 / WSP-PW/33160322	Supply, Delivery, Installation and Commissioning of M&E...	Indat Engineering	8	S\$0.66m	S\$0.24m	S\$0.74m	S\$1.33m	
12-Apr-17	PUB000ETT17000009 / CW-RC/33160331	Maintenance Services of Active, Beautiful and Clean Waters...	Digo Corp	8	-40.1%	-40.1%	-6%	-6%	S\$5.0m
17-Mar-17	PUB000ETT17000011 / PUB000/WSP-PW/33160320	Supply... Ammonium Sulphate Dosing System at Pulau Tekong Waterworks	Hyrax	3	S\$0.5m	S\$0.5m	S\$1.02m	S\$1.02m	
Total					S\$16.4m				

Source: GeBiz

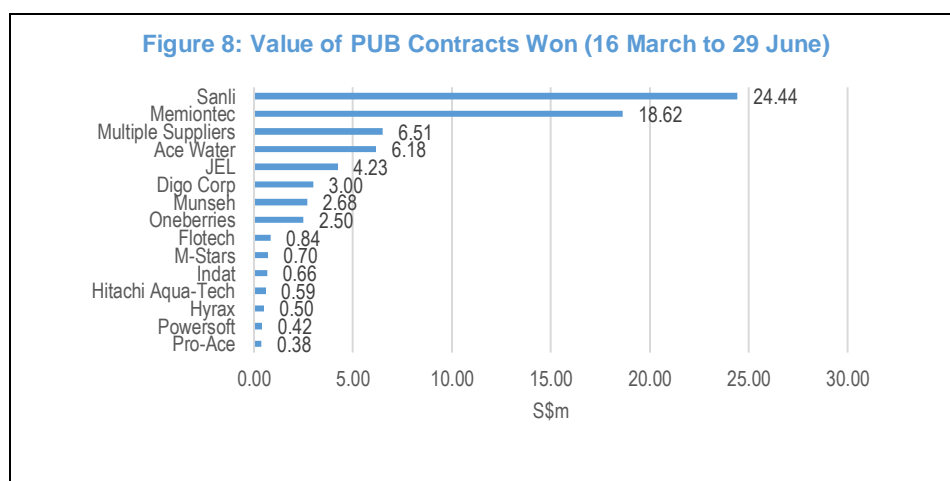
Figure 7: Tenders NOT Participated by and NOT Awarded to Sanli (16 March – 29 June)

Award Date	Reference	Description	Winner	Awarded Value
23-Jun-17	PUB000ETT16000304 / PUB000/WSP-PW/33160316	Construction of Chlorine Contact Tank and Diversion of Residual Streams to Sewers at Bedok Waterworks	Memiontec	S\$18.62m
22-Jun-17	PUB000ETT17000018 / PUB000/WSN-PW/33170013	Supply and Delivery of Large Water Meters for Year 2017 to Year 2018	Multiple Suppliers	S\$5.3m
12-Jun-17	PUB000ETT16000274 / CW-RC/33160285	Maintenance and Repair of Water Features at Marina Barrage	Hitachi Aqua-Tech	S\$0.59m
24-May-17	PUB000ETT16000310 / PUB000/CW-DD/33160317	Supply of Services for Real-Time Monitoring of Storm Water Flow in Box Culverts / Closed Drains	Oneberries Technologies	S\$2.5m
22-May-17	PUB000ETT16000302 / WSP-PW/33160214	Maintenance of Instrument and Control Equipment at Johor Plants	Munseh Engineering	S\$2.7m

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12-May-17	PUB000ETT1700002 3 / WSP- PW/33170012	Reconditioning of Filters at Woodleigh Waterworks	M-Stars Engineering & Construction	S\$0.1m
28-Apr-17	PUB000ETT1600030 7 / PUB000/WSP- PW/33160311	Maintenance and Servicing of Supervisory Control and Data Acquisition (SCADA) and Programmable Logic Controllers (PLC) at various Waterworks, NEWater Factories and Outstations	Multiple Suppliers	S\$1.23m
21-Mar-17	PUB000ETT1600029 7 / PUB000/CW- RC/33160307	Enhancement of Lighting System at Pandan Dyke	Powersoft Engineering	S\$0.42m
			Total	S\$31.4m

Source: GeBiz



Sanli won four contracts during the last four months while Ace Water and M-Stars won two contracts. The other winners won one contract each on average.

Source: GeBiz, NRA Capital

Active tender participation to help fuel growth. Among the 19 unawarded tenders that have closed, Sanli has submitted bids for 13 of them. These 13 contracts have cumulative minimum bids of S\$37.8m. Sanli has the lowest bid for two of them, bidding a total of S\$3.25m for them. Sanli may secure more contracts as PUB awards contracts based on multiple factors such as track record and quality, and not necessarily always to the lowest bidder. There is probably a scoring system in place. We estimate that Sanli is also close to the lowest bidder in another nine to ten projects. All in, Sanli participated in 26 out of 41 or 63% of tenders.

Increasing insourcing to improve tender competitiveness. Sanli's office and workshop is currently located at 15 Kian Teck Drive, occupying land area of 1,297.4 sqm. The company bought the property in 2014, which has a lease of 30 years commencing from 16 March 1995.

In February 2017, Sanli exercised an option to purchase 28 Kian Teck Drive for S\$4.0m, of which S\$0.4m has been paid. The property has a 30-year lease commencing from 1 February 2012 and land area of 2,266.7 sqm. The company plans to use S\$2.92m out of S\$9.72m to partially fund the acquisition and renovation of the property, with the balance to be financed via bank loans.

The management has clarified at a recent briefing that Sanli will continue to use both 15 and 28 Kian Teck Drive with the new property being used as a workshop so that more parts can be fabricated in-house, thus leading to cost savings and higher competitiveness in future tenders.

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Figure 9: Tenders Participated by Sanli and Pending Award (16 March to 29 June)

Tender Reference	Abbreviated Description	Closing Date	Lowest Bidder	Lowest Bid	Sanli's Bid	No of bidders	Scheduled Rate
PUB000ETT17000137 / WSP-PW/33170091	Disposal of Dewatered Sludge Cakes and Minor Works at Johor River Waterworks	8-Jun-17	Wah Song	S\$3.2m	S\$3.9m	2	
PUB000ETT17000117 / WSP-PW/33170103	Maintenance of Plant and Equipment at Choa Chu Kang Waterworks Membrane Plant...	18-May-17	Ace Water	-45%	-25%	13	S\$1.8m
PUB000ETT17000092 / WSP-NW/33170080	Replacement of Aged Treatment Process Equipment at Variable Salinity Plant	18-May-17	Sanli	S\$0.56m	S\$0.56m	8	
PUB000ETT17000107 / PUB000/WSN-PW/33170089	Supply, Installation and Commissioning of Switchboards, Generators and Ancillaries at Water Supply (Network) Installations	18-May-17	Cytech	S\$0.77m	S\$0.87m	6	
PUB000ETT17000093 / PUB000/WSP-PW/33170076	Replacement of Low Lift Pumpsets, Bandscreens, Barscreens and Auxiliary Systems at Johor River Waterworks	4-May-17	Electromech	S\$8.5m	S\$8.51m	7	
PUB000ETT17000074 / PUB000/WRP/33170002	Supply and Delivery of Screw Pump Spare Parts to Kranji Water Reclamation Plant	6-Apr-17	Effektiv	-38.5%	-27%	6	S\$0.8m
P+B9:Q12UB000ETT17000075 / WRP/33170050	Replacement of Sedimentation Tank Scrapers, Washwater Systems, Electrical Switchboards and other Ancillary M&E Equipment at Jurong....	25-May-17	SEC(S)	S\$6.33m	S\$10.9m	12	
PUB000ETT17000057 / WRP/33170046	Jurong WRP Phase 4 Expansion (Contract 3 - In-Plant Power Supply)	13-Apr-17	Sanli	S\$2.69m	S\$2.69m	8	
PUB000ETT17000030 / WSP-PW/33170023	Replacement of Chemical Dosing System, Air Compressor System and Other Auxiliaries at..	16-Mar-17	Yamato	S\$3.0m	S\$3.67m	10	
PUB000ETT17000031 / WSP-PW/33170020	Transfer of Powdered Activated Carbon to Lower Peirce Reservoir Pumping Station & Operation and Maintenance of Powdered Activated Carbon Dosing Facilities	23-Feb-17	Mei De	-46%	-43%	11	S\$0.96m
PUB000ETT17000033 / PUB000/WSP-PW/33170024	Term Maintenance of Ozone Plant and Equipment at Bedok Waterworks	2-Mar-17	Ace Water	-38%	-27%	5	S\$0.152m
PUB000ETT17000021 / WSP-PW/33170019	Provision of High Tension Gas Insulated Switchgears and Power Cables	16-Feb-17	Cyclect	S\$0.93m	S\$0.99m	10	
PUB000ETT17000019 / PUB000/WRP/33170007	Maintenance of Influent and Effluent Pumping Systems at Changi Water Reclamation Plant	23-Feb-17	Marketech	-19.8%	-13%	10	S\$4.5m
			Total	S\$31.7m			

Source: GeBiz

Figure 10: Tenders NOT Participated by Sanli and Pending Award (16 March to 29 June)

Tender Reference	Abbreviated Description	Closing Date	Lowest Bid	Scheduled Rate
PUB000ETT17000153 / WSN-PW/33170135	Supply and Delivery of Brass Ball Valves and Brass Tailpieces for Year 2017	29-Jun-17	S\$0.44m	
PUB000ETT17000134 / WRP/33170113	Supply and Delivery of Bearings to various Installations of the Public Utilities Board	8-Jun-17	-28%	S\$1.2m
PUB000ETT17000135 / WSN-PW/33170008	Water Mains Flushing Services for Network Services Division for Year 2017 to 2020	8-Jun-17	-39.8%	S\$4m
PUB000ETT17000122 / PUB000/WSP-PW/33170092	Supply, Delivery, Installation and Commissioning of Online Analysers at Pulau Tekong Waterworks	25-May-17	S\$0.2m	
PUB000ETT17000112 / WSN-PW/33170098	Supply and Delivery of 15mm Inductive Water Meters with Sensing Elements	18-May-17	S\$0.255m	
PUB000ETT17000049 / WRP/33170036	Improvement Works on Knife Gate Valves at Influent Pumping Station of Changi Water Reclamation Plant	30-Mar-17	S\$1.94m	
		Total	S\$6.1m	

Source: GeBiz

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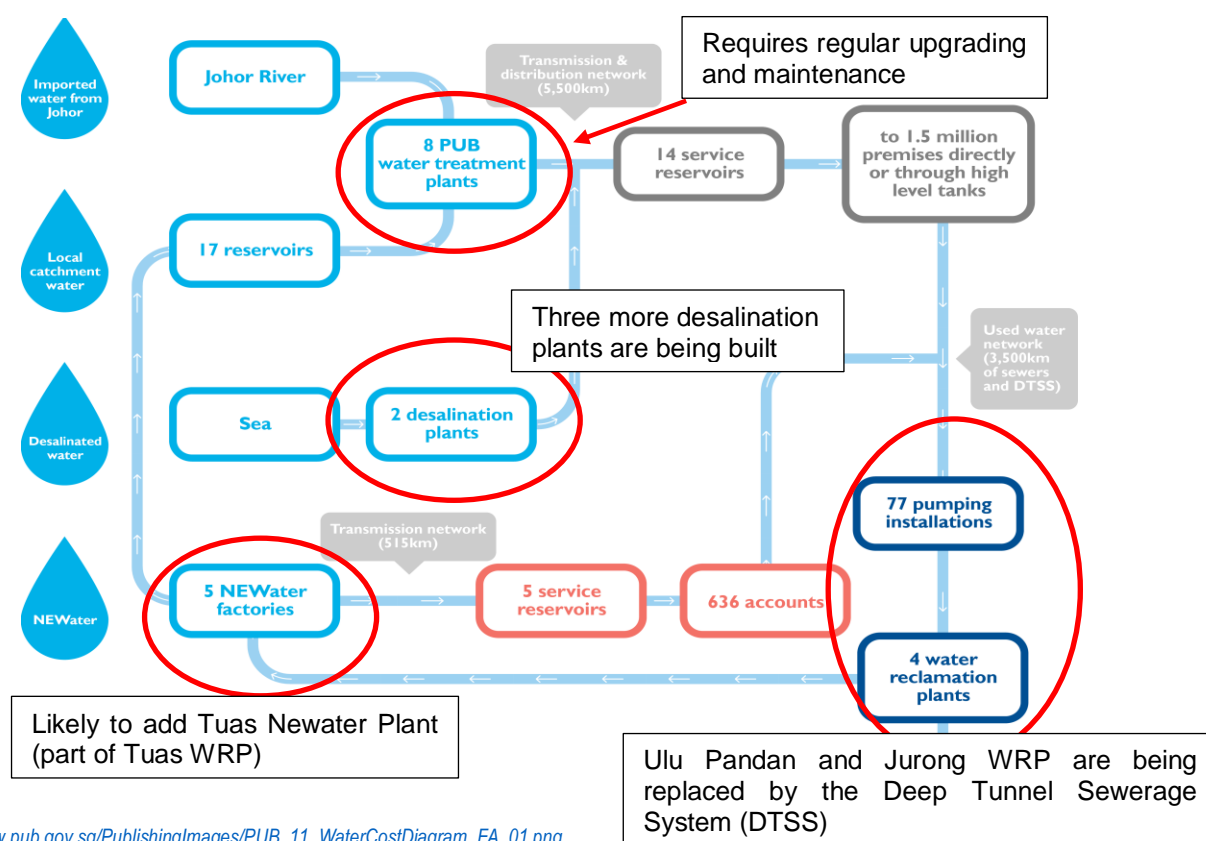
Increased Spending on Water Infrastructure as Growth Driver

Spending on water infrastructure to nearly double. Longer term, we reckon that Sanli will benefit from increased water infrastructure spending by the Singapore government. Singapore spent about S\$7 billion or about S\$430m every year in water infrastructure from 2000 to 2015. Spending is expected to increase to S\$800m every year between 2017 and 2021 to fund major investments in water plants, pipes and pumps.¹

The accelerated spending will allow Singapore to cater to rising demand for water while raising water self-sufficiency at the same time. Currently, water demand in Singapore is about 430 million gallons a day (mgd). Demand is expected to almost double by 2060 with NEWater and desalinated water targeted to make up for 85% of supply, up from 65% today.²

Pipeline projects include the construction of the Tuas Water Reclamation Plant, which will also house a NEWater factory, as part of the Deep Tunnel Sewerage System (DTSS), the construction of three desalination plants and the redevelopment of the Kranji Water Reclamation Plant. Finally, contract opportunities will also come from the regular upgrading and maintenance of the existing infrastructure, such as the eight water treatment plants, Changi Water Reclamation Plant, and five NEWater plants.

Figure 11: Singapore Water Infrastructure



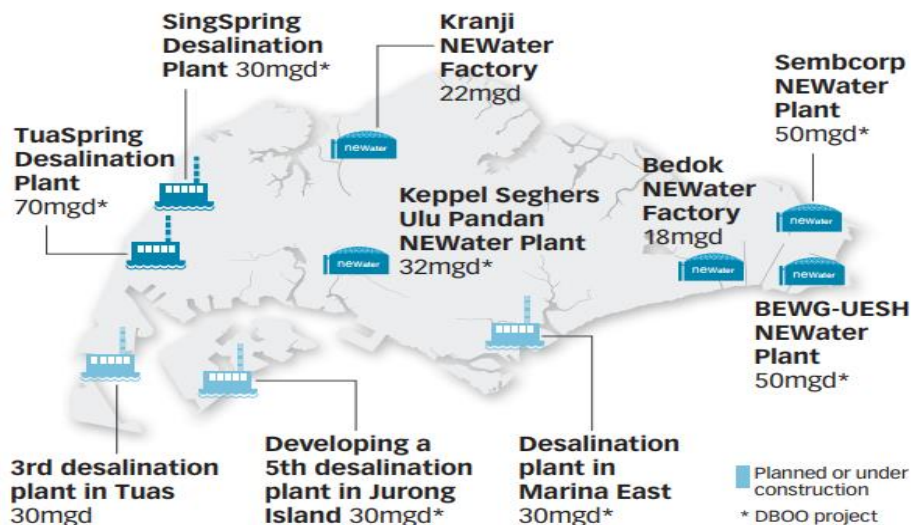
Source: https://www.pub.gov.sg/PublishingImages/PUB_11_WaterCostDiagram_FA_01.png

¹ <http://www.straitstimes.com/singapore/water-is-critical-to-nations-survival-says-dpm-teo-in-outlining-singapores-strategic>

² <https://www.pub.gov.sg/watersupply/singaporewaterstory>

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Figure 12: Singapore's NEWater and Desalination Infrastructure



Water Reclamation Plants are not shown in this graphic.

Source: Business Times, February 2017

Figure 13: DTSS Phases 1 and 2



Source: PUB

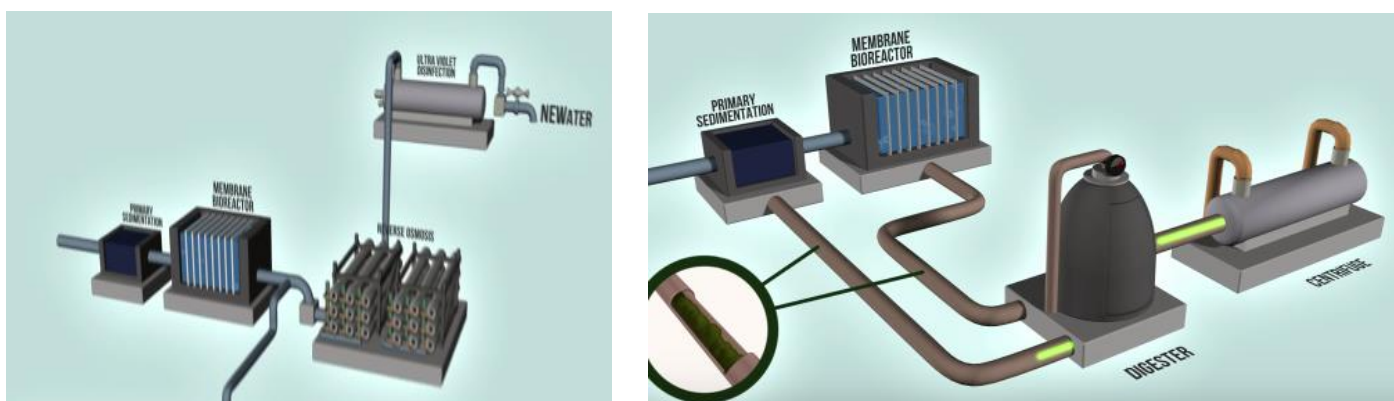
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DTSS Phase 2 to provide significant opportunities. The DTSS is an overhaul of the entire sewerage system in Singapore, where used water from across Singapore is collected and treated at three centralised water reclamation plants. Benefits include integrated water and solid waste treatment to facilitate energy and resource recovery, 50% reduction in land use and increased overall water recycling rate from 30% to 55% of total water use.

Phase 1 was implemented from 2000 to 2008 at a cost of S\$3.4 billion and included the Changi Water Reclamation Plant (WRP) which cost S\$2.2 billion or 65% of total costs. Phase 2 is expected to cost S\$6.5 billion, of which we estimate the Tuas Plant to cost about S\$3 billion and replace the current Ulu Pandan and Jurong WRPs.

PUB has awarded the detailed design and construction supervision of the Tuas Plant to CH2M HILL Singapore Pte Ltd at a cost of S\$163m in February. Construction of the Tuas WRP is expected to commence in the second half of 2018³ and we can expect multiple construction tenders for civil, mechanical and electrical engineering works over the next 12 to 24 months. Works that Sanli can bid for may range from the M&E equipment to process equipment, e.g. tanks, membrane, filters, and even the sludge processing equipment. Given that Sanli has previously worked on contracts with the NEA, it can even take in the tender for components of the integrated waste incineration plant.

Figure 14: Contract Opportunities at the Tuas WRP



Source: PUB

Desalination plants may provide some private sector opportunities. Singapore's third desalination plant is being constructed by HSL Constructor at a cost of S\$217m and completion is expected within this year. Keppel Infrastructure Holdings will build, own and operate the Marina East desalination plant. Construction started on 29 June and will be completed by end January 2020.⁴

PUB has called for proposals for the development of a fifth plant to be located on Jurong Island, to be ready by 2020. Competing bidders for the fifth plant include Keppel Infrastructure Holdings Pte Ltd, Sembcorp Utilities Pte Ltd, Tuas Power Pte Ltd and YTL Power International Berhad. We reckon that the four and fifth desalination plants may provide business development opportunities for Sanli, given that the company has been reliant on mainly public sector contracts for revenue.⁵

³ <https://www.pub.gov.sg/news/pressreleases/CH2MHillSingaporetodesignandsuperviseconstructionofTuasWaterReclamationPlant>

⁴ <http://www.channelnewsasia.com/news/singapore/construction-of-singapore-s-4th-desalination-plant-begins-in-8988618>

⁵ <http://www.eco-business.com/news/singapore-build-fifth-water-recycling-plant/>

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Maintenance Contracts to Provide Recurring Income

Approximately S\$100m of tenders from July to June 2018. We further extracted a list of open tenders from GeBiz and upcoming tenders from PUB based on the registered workheads of Sanli. The list of upcoming tenders on the PUB website includes purchases that were supposed to be made in June 2017 or earlier. To avoid double counting with tenders that are already on GeBiz, we only take into consideration upcoming tenders whose purchases are supposed to be made after June 2017. Using the tender limits as a proxy, we estimate that current announced upcoming and open tenders have a combined value of up to S\$100m. These are mainly tenders in relation to existing infrastructure such as the Changi WRP and exclude upcoming tenders from other projects such as the Tuas WRP.

Figure 15: List of Open Tenders and Upcoming Tenders as of end June 2017

As Extracted from GeBiz			
Closing Date	Description	Financial Category	Tender Limit
6-Jul-17	Process Upgrading at Choa Chu Kang Waterworks - Contract 3 - Electro-Chlorination System	L5	Up to S\$13.0m
13-Jul-17	Replacement of SCADA and Instrumentation Systems at Changi Water Reclamation Plant	L6	Unlimited
As Extracted from PUB Website			
Likely Month of Purchase	Project	Financial Category	Tender Limit
July 2017	Maintenance of Odour Control Facilities at PUB Installations (Schedule A & B)	L3	Up to S\$4.0m
August 2017	Servicing and maintenance of Main Drive Motor Systems at WRP (Schedule A & B)	L1	Up to S\$0.65m
September 2017	Servicing and Maintenance of Gas Purifiers at Changi Water Reclamation Plant	L3	Up to S\$4.0m
October 2017	Comprehensive Maintenance of Bar Screens and Ancillaries at Ulu Pandan WRP	L3	Up to S\$4.0m
October 2017	Supply and Installation of Electrical Materials to various Installations of Public Utilities Board	L4	Up to S\$6.5m
December 2017	Maintenance of Aeration Blowers for Water Reclamation Plants (Schedules A, B, C, D & E)	L4	Up to S\$6.5m
December 2017	Servicing and Maintenance of Screening, Sludge, Grit and Related Equipment at various WRP	L5	Up to S\$13.0m
December 2017	Replacement of M&E Equipment at Jurong Island Sewage Treatment Plant No. 1 and No.2	L5	Up to S\$13.0m
January 2018	Overhaul and Maintenance of Dual Fuel Engines at Kranji Water Reclamation Plant	L1	Up to S\$0.65m
January 2018	Servicing and Maintenance of Turbine Generators at Changi Water Reclamation Plant	L2	Up to S\$1.3m
February 2018	Membrane Replacement of 15MGD MBR Plant at JWPR (Jurong Water Reclamation Plant)	L5	Up to S\$13m
April 2018	Maintenance of Gas Engines at Jurong Water Reclamation Plant	L2	Up to S\$1.3m
April 2018	Servicing and Maintenance of Greasy Waste Treatment Plant at Jurong WRP	L3	Up to S\$4.0m
May 2018	Operation and Maintenance of Plant and Equipment at Choa Chu Kang Waterworks Treatment Plant	L3	Up to S\$4.0m
	Total		Up to S\$102m

13 July 2017 closing tender has no tender limit. Hence, we assume a value of S\$13.0m or equivalent to the L5 tender limit. Source: GeBiz, PUB

Longer Term Catalysts

BCA grading upgrades and larger projects. In 2015, Sanli formed a joint venture with Chye Joo Construction Pte Ltd to undertake a PUB project worth S\$114.8m. We envisage that Sanli will utilize its financial strength post listing to raise its tender capacity for government projects – due for renewal on 1 April 2018. Currently, Sanli is not subjected to any tender limit only for mechanical engineering projects. For other work categories, such as electrical engineering, building automation, industrial and process control systems, mechanical equipment, plant and machinery, Sanli is still subjected to tender size limits. Secondly, Sanli can get itself registered for more types of jobs and thus expand its addressable market. We also do not rule out further joint ventures to take part in larger projects. Sanli has set aside S\$5.74m as working capital to take on more and larger projects.

Overseas projects. In addition, Sanli has budgeted S\$1.06m to set up a business development department to penetrate and expand in overseas markets such as Myanmar, Indonesia and Malaysia. Sanli has a track record in executing projects in developing countries such as Sri Lanka and the Philippines.

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Key Risks

Revenue and growth is dependent on the winning of contracts in tenders.

While Sanli can maximise its chances of securing new contracts by participating in as many tenders as possible, tenders are competitive. In some tenders, there are easily more than ten bidders. As such, the failure of Sanli to secure projects for several quarters can lead to short term fluctuations in revenue and profitability.

Failure to replace S\$114.8m Chy Joo-Sanli JV contract may affect growth in FY19.

This contract is being executed from June 2016 to December 2018, translating to revenue of approximately S\$16m to S\$20m per annum. If Sanli fails to find the contracts to replace this project when it winds down in 2018, revenue for the financial year 2019 ending March 2019 may be affected.

Margins may be affected as competition stiffens.

As a public listed company, Sanli's margins become visible to its competitors. There is the risk that competitors may decide to slash margins to secure more contracts. During periods of stiff competition, margins can be depressed for several years especially if planned public investments are deferred by the government. Gross margin in FY16 was 19.6%. However, it dropped to 17.9% for the nine months ended December 2016.

Execution risk. Revenue and profitability may also be affected by unforeseeable circumstances such as project delays and rework.

IPO and business development expenses can be a drag on FY18 profitability.

IPO expenses amounted to S\$1.98m. In addition, the company intends to spend S\$1.06 on business development. As such, FY18 profitability will likely be affected by one-off items.

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Recommendation and Forecasts

Assumptions and forecasts. For the financial year ended March 2017, we expect full year revenue of S\$65.0m, gross profit of S\$11.7m and PATMI of S\$6.15m. For 9M2017, Sanli reported revenue of S\$50.4m or approximately S\$16.8m per quarter. Therefore, our projection of S\$14.7m (similar to that of 4Q FY16) for 4Q FY17 can be seen as reasonable. Gross margin is assumed to be 18%, similar to the 17.9% for 9M2017.

More than 50% of Sanli's order book of S\$105.8m as of 1 May 2017 will be recognized in FY18. Including recently awarded contracts, we estimate that Sanli has already secured around S\$60m of revenue for FY18. Hence, we decided to assume 5% revenue growth in FY18 to S\$68.3m, which can be achieved by securing and starting work on another S\$20m to S\$30m of projects over the next nine months. However, PATMI may fall to S\$4.0m owing to S\$3.0m of assumed one-off expenses from e.g. IPO and business development costs. Growth may be higher if larger and more projects are secured. For now, we maintain a prudent stance.

Peer comparison. Sanli closed at S\$0.305 on 4 July. Based on our forecast PATMI for FY17, Sanli trades at 13.3x P/E. In contrast, peers such as SIIC Environment and Moya Holdings Asia trade at 11.9x to 46.99x P/E.

Recommendation. In this report, we take a preliminary look at Sanli. However, we refrain from providing a valuation and rating, but highlight that Sanli's peers trade at a wide range of P/E multiples averaging at more than 20x P/E. Catalysts that can attract a rating include the win of larger contracts that will enhance forward visibility beyond FY18.

Figure 16: Simple Peer Comparison

	Mkt Cap (S\$m)	P/E	P/Sales	P/BV
SIIC Environment Holdings Ltd	1,355	11.89	1.87	0.94
China Everbright Water Ltd	1,313	20.51	2.82	1.00
Hyflux Ltd	428	NA	0.52	0.55
Moya Holdings Asia Limited	280.1	46.99	10.73	2.30
Average	844.0	26.46	3.99	1.20
Sanli	87.4	13.32*	1.34*	3.36**

*Based on FY17 forecast earnings and sales. **Based on FY18 forecast common equity.

Source: Bloomberg, NRA Capital

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Profit & Loss (\$\$ m, FYE Mar)	2014	2015	2016	2017F	2018F
Revenue	19.41	37.35	57.26	65.07	68.32
Operating expenses	(16.7)	(32.9)	(49.1)	(56.4)	(59.1)
EBITDA	2.67	4.50	8.15	8.65	9.17
Depreciation & amortisation	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
EBIT	2.4	4.1	7.7	8.2	8.7
Net interest & invt income	(0.3)	(0.4)	(0.6)	(0.8)	(0.9)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	(3.0)
Pretax profit	2.05	3.72	7.19	7.36	4.79
Tax	(0.3)	(0.5)	(1.3)	(1.3)	(0.8)
Minority interests	0.0	0.1	0.0	0.0	0.0
Net profit	1.77	3.26	5.94	6.15	4.02
Shares at year-end (m)	286.7	286.7	286.7	286.7	286.7
Balance Sheet (\$\$ m, as at Mar)	2014	2015	2016	2017F	2018F
Fixed assets	5.2	5.1	5.7	5.8	12.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.5	0.5	0.5
Total non-current assets	5.2	5.1	6.3	6.3	13.3
Cash and equivalents	3.3	4.2	6.6	6.8	12.6
Stocks	0.0	0.0	0.0	0.0	0.0
Trade debtors	4.2	3.4	7.0	8.0	8.4
Other current assets	2.4	8.4	8.2	9.3	9.8
Total current assets	9.9	16.0	21.9	24.1	30.8
Trade creditors	4.0	8.7	8.0	10.2	9.2
Short-term borrowings	1.7	1.5	2.8	2.8	2.8
Other current liabilities	1.1	0.8	1.9	1.9	0.1
Total current liabilities	6.8	11.1	12.7	14.9	12.1
Long-term borrowings	4.1	3.5	3.7	5.7	5.7
Other long-term liabilities	0.0	0.0	0.4	0.4	0.4
Total long-term liabilities	4.1	3.5	4.1	6.1	6.1
Shareholders' funds	4.2	6.4	11.4	9.5	26.0
Minority interests	0.1	0.0	(0.0)	(0.1)	(0.1)
NTA/share (\$\$)	0.01	0.02	0.04	0.03	0.09
Total Assets	15.1	21.0	28.1	30.4	44.1
Total Liabilities + S'holders' funds	15.1	21.0	28.1	30.4	44.1
Cash Flow (\$\$ m, FYE Mar)	2014	2015	2016	2017F	2018F
Pretax profit	2.0	3.7	7.2	7.4	4.8
Depreciation & non-cash adjustments	0.4	0.5	0.6	0.7	0.8
Working capital changes	0.9	(1.4)	(4.3)	0.1	(1.9)
Cash tax paid	(0.0)	(0.0)	(0.3)	(1.3)	(2.6)
Cash flow from operations	3.3	2.8	3.1	7.0	1.1
Capex	(1.2)	(0.2)	(0.7)	(0.5)	(7.5)
Net investments & sale of FA	0.1	0.0	(0.5)	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(1.1)	(0.2)	(1.2)	(0.5)	(7.5)
Debt raised/(repaid)	0.6	(0.8)	1.5	2.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	13.7
Dividends paid	(0.4)	(0.8)	(0.9)	(8.0)	(1.2)
Others	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)
Cash flow from financing	0.1	(1.7)	0.4	(6.3)	12.2
Change in cash	2.3	0.9	2.4	0.2	5.8
Change in net cash/(debt)	NA	1.7	0.4	(1.8)	5.8
Ending net cash/(debt)	(2.5)	(0.8)	(0.4)	(2.2)	3.6
KEY RATIOS (FYE Mar)	2014	2015	2016	2017F	2018F
Revenue growth (%)	NA	92.4	53.3	13.6	5.0
EBITDA growth (%)	NA	68.1	81.3	6.2	6.0
Pretax margins (%)	10.6	10.0	12.5	11.3	7.0
Net profit margins (%)	9.1	8.7	10.4	9.5	5.9
Effective tax rates (%)	14.7	13.8	17.9	17.0	17.0
Net dividend payout (%)	22.6	30.6	16.8	130.1	30.0
ROE (%)	NA	61.6%	66.8%	59.0%	22.6%
Free cash flow yield (%)	2.5	2.9	2.2	7.4	(7.4)

Source: Company, NRA Capital forecasts

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