

# Sanli Environmental Limited

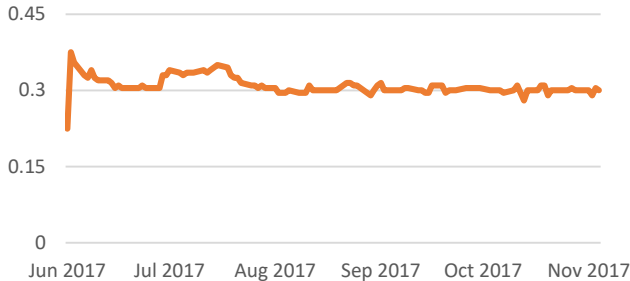
Date: 14 November 2017

**BUY**  
(Maintained)

**Target Price: S\$0.360**  
(+20%)

**SANLI SP**

**Price: S\$0.300** (as at 13 November 2017)



Price performance	1M	3M	6M	1Y
Sanli	0.0%	0.0%	N/A	N/A
Catalist Index	-8.3%	-10.6%	-14.4%	1.7%

Market capitalization	\$80.6 million		
Current Price	S\$0.300		
Shares outstanding	268.7 million		
Free Float	20.2%		
Major shareholder	Management Temasek Holdings	75% 8%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Advisors

## Analyst

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## 1HFY18 results impacted by O&M

Sanli Environmental reported 1HFY18 results that saw revenue come in softer than expected. The Group registered a revenue of S\$30.8 million for 1HFY18, a decrease of 8.9% on a year-on-year ("y-y") basis. The decrease in the Group's turnover follows management's prior guidance of weakness seen in its Operations and Maintenance segment ("O&M"), arising primarily from keen competition during the period. This however, was mitigated by a sharper decrease in cost of contract works which turned in a higher gross profit margin of 15.8% this HY18 vs. the 14.4% in HY17 last year.

**Profit before tax declined by 13.4% when we strip out one-off expenses.** The weaker top-line also translated into a weaker profit before tax of 13.4% when we strip out one-off IPO expenses of S\$1.2 million. The decrease was contributed mainly by increase in employees' remuneration of S\$0.3 million as a result of an increase in headcount and salaries. Depreciation of property, plant and equipment ("PPE") also increased by 14.9% due to depreciation of the Group's new leasehold property at 28 Kian Teck Drive.

**Sanli added new contracts worth S\$8.1 million to its order book.** Sanli announced earlier this month that it has secured four new contracts worth a total of S\$8.1 million, from both the public and private sector, bringing the Group's order book to S\$112.3 million. The contracts comprise projects in both Engineering, Procurement and Construction ("EPC") and O&M segments. The new contracts are expected to contribute to the Group's revenue from the financial year ending 31 March 2018.

**Maintain BUY with an unchanged target price of S\$0.360.** We are keeping our rating and target price unchanged pending our meeting with management.

Key risks: Reliant on Singapore public sector projects.

## Key Financials

Year ended March (S\$'mn)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	37.3	57.3	64.3	80.0	99.2	122.0
% Growth	92.4%	53.3%	12.3%	24.4%	24.0%	23.0%
Gross profit	6.4	11.2	10.4	12.8	15.9	19.5
Gross profit margin (%)	17.1%	19.6%	16.2%	16.0%	16.0%	16.0%
Profit attributable to owners (before IPO expenses)	3.2	5.9	5.2	6.1	7.1	8.8
Profit attributable to owners	3.2	5.9	5.2	4.8	7.1	8.8
% Growth	84.6%	82.0%	(13.0%)	(7.9%)	49.1%	23.2%
Profit after tax margin (%)	8.7%	10.4%	8.0%	6.0%	7.2%	7.2%
EPS (S\$ cents)*	1.5	2.7	2.4	1.8	2.6	3.3
P/E (x)	19.5	10.8	12.3	13.4	9.3	7.6
EV/EBITDA (x)	13.4	7.3	8.1	8.7	6.1	5.0
Net Debt/Equity			Net cash	Net cash	Net cash	Net cash
Dividend yield	N/A	N/A	N/A	1.2%	1.8%	2.2%

\*EPS for FY15, FY16 and FY17 were calculated based on the pre-Invitation share capital of 216,657,813 shares

N/A: Not applicable

## 1HFY18 results dragged by O&M segment

**Sanli Environmental reported 1HFY18 results that saw revenue come in softer than expected.** The Group registered a revenue of S\$30.8 million for 1HFY18, a decrease of 8.9% on a y-y basis. The decrease in the Group's turnover follows management's prior guidance of weakness seen in its Operations and Maintenance segment, arising primarily from keen competition during the period. Competition in this space have heated up recently as players that traditionally operate in the oil and gas sector have entered into this space in a bid to find work. In a bid to win projects in this space, the new players are competing more aggressively on price, and this has taken a toll on Sanli.

During the half-year however, the gross profit was mitigated by a sharper decrease in cost of contract works which turned in a higher gross profit margin of 15.8% this HY18 vs. the 14.4% in HY17 last year.

**Profit before tax declined by 13.4% when we strip out one-off expenses.** The weaker top-line also translated into a weaker profit before tax of 13.4% when we strip out one-off IPO expenses of S\$1.2 million. The decrease was contributed mainly by increase in employees' remuneration of S\$0.3 million as a result of an increase in headcount and salaries. Depreciation of PPE also increased by 14.9% due to depreciation of the Group's new leasehold property at 28 Kian Teck Drive.

**Sanli added new contracts worth S\$8.1 million to its order book.** Sanli announced earlier this month that it has secured four new contracts worth a total of S\$8.1 million, from both the public and private sector, bringing the Group's order book to S\$112.3 million. The contracts comprise projects in both EPC and O&M segments. Under the EPC contracts, Sanli will supply, install, commission and test, equipment at a water reclamation plant as well as a hydrated lime storage facility, and replace treatment process equipment at a salinity plant. Under the O&M contract, Sanli will provide maintenance services for sewerage pumping and treatment system.

The new contracts are expected to contribute to the Group's revenue from the financial year ending 31 March 2018.

**Maintain BUY with an unchanged target price of S\$0.360.** We are keeping our rating and target price unchanged pending our meeting with management.

### Business Overview:

Sanli is an environmental engineering company with more than 10 years of track record in water and waste management. Leveraging its technical know-how and industry knowledge, it provides total solutions and services to customers in an efficient and cost-effective manner. Its expertise is in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical 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.

## SAC Advisors Forecast Summary

Revenue by segment (S\$'000)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Engineering, Procurement and Construction	12,305	23,897	31,975	43,793	56,000	69,440	85,411
Operations and maintenance	7,102	13,448	25,289	20,521	24,000	29,760	36,605
<b>Total Revenue</b>	<b>19,407</b>	<b>37,345</b>	<b>57,264</b>	<b>64,314</b>	<b>80,000</b>	<b>99,200</b>	<b>122,016</b>

Revenue % (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Engineering, Procurement and Construction	N/A	94.2%	33.8%	37.0%	27.9%	24.0%	23.0%
Operations and maintenance	N/A	89.4%	88.1%	-18.9%	17.0%	24.0%	23.0%
<b>Total Revenue</b>	<b>N/A</b>	<b>92.4%</b>	<b>53.3%</b>	<b>12.3%</b>	<b>24.4%</b>	<b>24.0%</b>	<b>23.0%</b>

Revenue breakdown (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Engineering, Procurement and Construction	63.4%	64.0%	55.8%	68.1%	70.0%	70.0%	70.0%
Operations and maintenance	36.6%	36.0%	44.2%	31.9%	30.0%	30.0%	30.0%
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Gross profit	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Gross profit growth	N/A	59.5%	76.2%	-7.5%	35.7%	24.0%	23.0%
Gross profit margin	20.6%	17.1%	19.6%	16.2%	16.0%	16.0%	16.0%
<b>Gross Profit (S\$'000)</b>	<b>4,004</b>	<b>6,385</b>	<b>11,248</b>	<b>10,399</b>	<b>12,800</b>	<b>15,872</b>	<b>19,523</b>

Operating profit**	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Operating Profit margin	10.9%	10.3%	12.8%	10.1%	7.5%	8.9%	8.8%
Operating Profit growth y-y	N/A	80.8%	91.9%	-11.6%	-8.1%	47.2%	22.6%
<b>Operating Profit (S\$'000)</b>	<b>2,120</b>	<b>3,833</b>	<b>7,357</b>	<b>6,503</b>	<b>5,975</b>	<b>8,795</b>	<b>10,780</b>

Profit Growth (%) (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	N/A	81.7%	92.9%	-12.7%	-8.4%	49.1%	23.2%
Profit after tax*	N/A	84.6%	82.0%	-13.0%	-7.9%	49.1%	23.2%
<b>Profit before tax (S\$'000)</b>	<b>2,049</b>	<b>3,724</b>	<b>7,185</b>	<b>6,269</b>	<b>5,741</b>	<b>8,561</b>	<b>10,546</b>
<b>Profit after tax (S\$'000)</b>	<b>1,748</b>	<b>3,211</b>	<b>5,898</b>	<b>5,214</b>	<b>4,765</b>	<b>7,106</b>	<b>8,754</b>

Profit margin (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	10.6%	10.0%	12.5%	9.7%	7.2%	8.6%	8.6%
Profit after tax*	9.1%	8.7%	10.4%	8.0%	6.0%	7.2%	7.2%
<b>Profit after tax (excl. one off IPO expense) (S\$'000)</b>	<b>1,748</b>	<b>3,211</b>	<b>5,898</b>	<b>5,214</b>	<b>6,075</b>	<b>7,106</b>	<b>8,754</b>

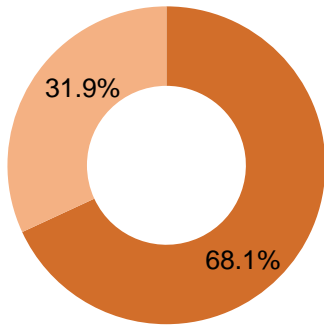
Source: Company data, SAC Advisors

\* Profit attributable to owners of the Company

\*\* In-house estimate

## Company Background

Revenue Breakdown (FY2017)



■ EPC ■ Operations and Maintenance

Source: Company data, SAC Advisors

- Sanli is an environmental engineering company with more than ten years of experience in the field of water and waste management. Leveraging on its technical know-how and industry knowledge, it provides total solutions and services to customers in an efficient and cost-effective manner.
- Its expertise lies in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical equipment as well as instrumentation and control systems. The types of infrastructure include wastewater treatment plants, water reclamation plants, NEWater plants, waterworks, service reservoirs, pumping stations and incineration plants.
- Sanli has two main business segments:
  - (a) Engineering, Procurement and Construction (“EPC”): Sanli undertakes EPC work for water and waste management. Its services include process upgrading of water treatment plants, upgrading of pumping station capacities, replacement of aged M&E equipment, and design and build of various treatment process systems. These turnkey contracts are higher in value due to equipment procurement, but margins are lower compared with maintenance business.
  - (b) Operations and Maintenance: Sanli provides operation and maintenance services for the equipment used in water and waste management infrastructure. It maintains a workshop to undertake major repair and overhaul of the equipment. It provides round the clock corrective maintenance services to the customers when the facility encounters equipment problems.

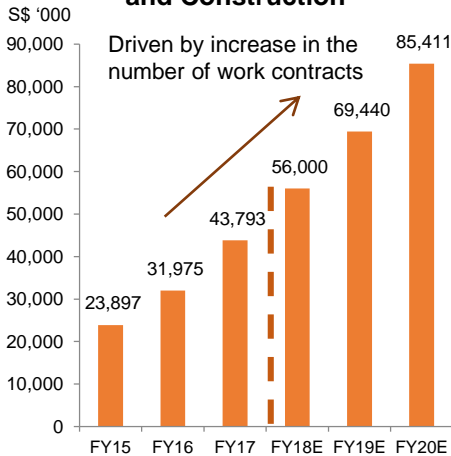
Business Segment	Products / Services
Engineering, Procurement and Construction	<ul style="list-style-type: none"> <li>• Water Management</li> <li>• Waste Management</li> </ul>
Operations and Maintenance	<ul style="list-style-type: none"> <li>• Corrective and preventive maintenance services</li> </ul>

## Financial Summary

### Revenue model

- The core business can be categorised into two business segments:
  - (a) Engineering, Procurement and Construction: Sanli provides EPC within the field of water and waste management. Its services include process upgrading of existing water treatment plants, upgrading of existing water treatment plants, upgrading of pumping station capacities, replacement of aged M&E equipment, and design and build of various treatment process systems.

#### Engineering, Procurement and Construction



Source: Company data, SAC Advisors

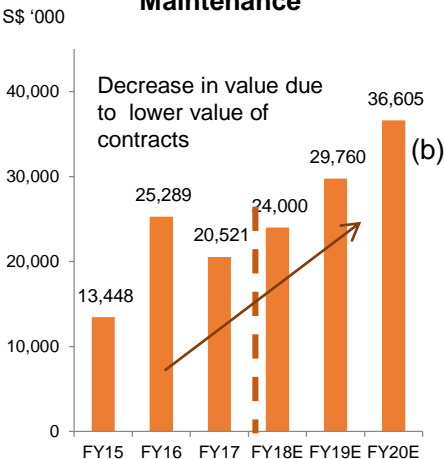
In the field of water management, Sanli provides engineering solutions and services to customers for the treatment of raw water before it is channelled to residences, businesses and industries. It also provides engineering solutions and services to customers for the treatment of used water released from residences, businesses and industries where pollutants and toxins in wastewater are eliminated or reduced to an acceptable level before it is safely discharged into the environment or used by industrial users.

In the field of waste management, Sanli provides engineering solutions and services to their customer in the public sector for the treatment of refuse in incineration plants in Singapore.

Revenue in this segment is recognised based on the stage of completion of the contract activity at the end of the reporting period. The duration of each contract is between one and three years.

Revenue from this segment accounted for S\$43.8 million or 68.1% of FY17 revenue.

#### Operations and Maintenance



Source: Company data, SAC Advisors

- (b) Operations and Maintenance: It provides operation and maintenance services for installed equipment in water and waste management infrastructure. It maintains a workshop to perform major repair and overhaul of these equipment. These corrective maintenance services are available 24 hours a day and seven days a week, to their customers when their facility experiences equipment problems.

Revenue in this segment is recognised when the service is delivered. In FY17, this segment accounted for S\$20.5 million or 31.9% of total revenue.

Revenue Breakdown (%)	FY16	FY17	FY18E	FY19E	FY20E
Engineering, Procurement and Construction	55.8%	68.1%	70.0%	70.0%	70.0%
Operations and Maintenance	44.2%	31.9%	30.0%	30.0%	30.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

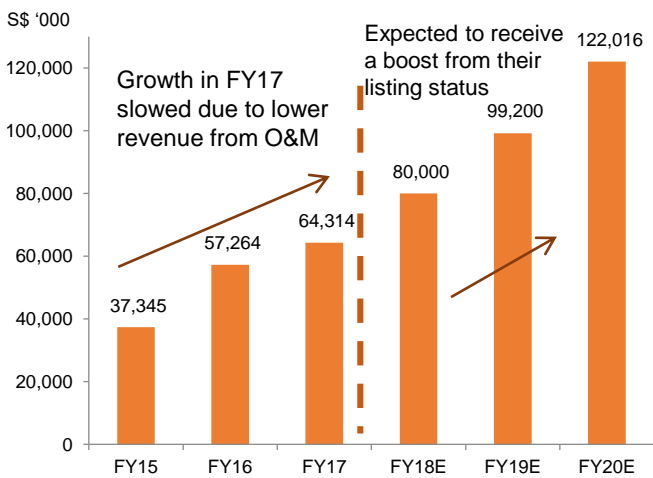
Source: Company data, SAC Advisors

## Financial Summary

### Revenue expected to receive a boost from new listing status

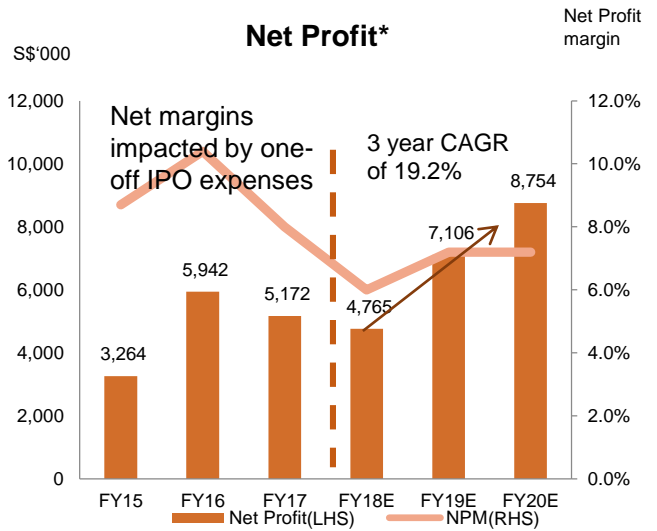
Sanli’s revenue increased by a compounded annual growth rate (“CAGR”) of 31.2% from FY15 to FY17, due to increases in revenue for both EPC and their operations and maintenance (“O&M”) segment. The increase over the years is mainly due to an increase in the number of contracts secured and the recognition of revenue for work done in relation to contracts secured in prior years.

Revenue



Source: Company data, SAC Advisors

Net Profit\*



Source: Company data, SAC Advisors

\*Profit after tax attributable to owners of the Company

The slow down in revenue growth in FY17 was attributed to a decline in the O&M segment due to the lower value of contracts recognised during this period, though this was mitigated by an increase in revenue from the EPC segment. We think investors should not be unduly worried about the decline in the O&M segment as the execution of service and maintenance contracts actually increased in the last financial year. Moreover, we expect that Sanli will be better able to secure new and larger contracts moving forward due to their listing status and L6 certification.

Moving forward, we expect that net margins for Sanli will dip in FY18E due to one-off IPO expenses of about S\$1.3 million. However, this is expected to remain stable at about 7.2% moving forward, and we expect net profit to increase by a three year CAGR of 19.2% driven by new contract wins from a higher imputed win rate.

## Income Statement (S\$'000)

FYE 31 Mar	2016	2017	2018F	2019F	2020F
<b>Revenue</b>	<b>57,264</b>	<b>64,314</b>	<b>80,000</b>	<b>99,200</b>	<b>122,016</b>
Cost of contracted works	(46,016)	(53,915)	(67,200)	(83,328)	(102,493)
<b>Gross Profit</b>	<b>11,248</b>	<b>10,399</b>	<b>12,800</b>	<b>15,872</b>	<b>19,523</b>
Other income	172	164	165	165	165
Administrative expenses	(3,512)	(3,437)	(6,190)	(6,250)	(7,687)
Other operating expenses	(551)	(623)	(800)	(992)	(1,220)
Finance	(172)	(234)	(234)	(234)	(234)
<b>Profit/(Loss) before tax</b>	<b>7,185</b>	<b>6,269</b>	<b>5,741</b>	<b>8,561</b>	<b>10,546</b>
Income tax	(1,287)	(1,055)	(976)	(1,455)	(1,793)
<b>Profit/(Loss) for the year/period</b>	<b>5,898</b>	<b>5,214</b>	<b>4,765</b>	<b>7,106</b>	<b>8,754</b>
<b>Profit/(Loss) attributable to owners of company</b>	<b>5,942</b>	<b>5,172</b>	<b>4,765</b>	<b>7,106</b>	<b>8,754</b>
<b>Earnings/(Loss) per share:</b>					
-Basic (cents)	<b>2.24</b>	<b>1.93</b>	<b>1.77</b>	<b>2.64</b>	<b>3.26</b>
-Diluted (cents)	<b>2.24</b>	<b>1.93</b>	<b>1.77</b>	<b>2.64</b>	<b>3.26</b>

## Balance Sheet (S\$'000)

FYE 31 Mar	2016	2017	2018F	2019F	2020F
<b>As at 31 Mar</b>					
Cash and bank balances	6,624	11,484	22,900	27,551	33,358
Trade, other receivables and others	7,011	6,665	9,066	10,749	12,749
Contract work-in-progress in excess of billings	8,218	5,812	6,400	7,936	9,761
Available for sale investments	257	257	257	257	257
<b>Total current assets</b>	<b>21,853</b>	<b>24,218</b>	<b>39,363</b>	<b>48,333</b>	<b>59,239</b>
Property, plant and equipment	5,747	5,648	5,781	5,844	5,887
Available for sale investments	524	267	267	267	267
<b>Total non-current assets</b>	<b>6,271</b>	<b>5,915</b>	<b>6,048</b>	<b>6,111</b>	<b>6,154</b>
<b>Total assets</b>	<b>28,124</b>	<b>30,133</b>	<b>44,671</b>	<b>52,064</b>	<b>62,279</b>
Trade and other payables	8,020	12,556	14,182	16,430	19,103
Borrowings	2,847	854	854	854	854
Other current liabilities	1,857	5,063	4,224	4,224	4,224
<b>Total current liabilities</b>	<b>12,724</b>	<b>18,473</b>	<b>19,260</b>	<b>21,508</b>	<b>24,181</b>
Borrowings	3,730	2,882	2,882	2,882	2,882
Finance leases	355	268	268	268	268
<b>Total non-current liabilities</b>	<b>4,085</b>	<b>3,150</b>	<b>3,150</b>	<b>3,150</b>	<b>3,150</b>
<b>Total liabilities</b>	<b>16,809</b>	<b>21,623</b>	<b>22,410</b>	<b>24,658</b>	<b>27,331</b>
Share Capital	1,500	1,500	13,270	13,270	13,270
Translation reserves	(16)	(35)	(35)	(35)	(35)
Retained earnings	9,873	7,045	9,026	14,711	21,714
<b>Net equity</b>	<b>11,357</b>	<b>8,510</b>	<b>22,261</b>	<b>27,946</b>	<b>34,949</b>
<b>Total liabilities and equity</b>	<b>28,124</b>	<b>30,133</b>	<b>44,671</b>	<b>52,064</b>	<b>62,279</b>

## Cash Flow Statement (S\$'000)

FYE 31 Mar	2016	2017	2018F	2019F	2020F
<b>Profit/(Loss) before tax</b>	<b>7,185</b>	<b>6,269</b>	<b>5,741</b>	<b>8,561</b>	<b>10,546</b>
Depreciation & amortisation	414	492	492	462	432
Change in working capital	(4,336)	8,029	(1,363)	(971)	(1,153)
Others	(142)	(397)	(790)	(1,269)	(1,607)
<b>Net Cash (used in)/ from operations</b>	<b>3,121</b>	<b>14,393</b>	<b>4,080</b>	<b>6,783</b>	<b>8,218</b>
Purchase of PPE	(695)	(429)	(625)	(525)	(475)
Others	(483)	58	48	48	48
<b>Net Cash (used in)/ from investing</b>	<b>(1,178)</b>	<b>(371)</b>	<b>(577)</b>	<b>(477)</b>	<b>(427)</b>
Net change in debt	1,518	(928)	(2000)	0	0
Net change in equity	0	0	11,100	0	0
Dividends	(900)	(8,000)	(1,184)	(1,707)	(2,082)
Others	(172)	(234)	(234)	(234)	(234)
<b>Net Cash (used in)/ from financing</b>	<b>446</b>	<b>(9,162)</b>	<b>7,913</b>	<b>(1,655)</b>	<b>(1,985)</b>

## Ratios

FYE 31 Mar	2016	2017	2018F	2019F	2020F
<b>Profitability (%)</b>					
Gross margin	19.6%	16.2%	16.0%	16.0%	16.0%
Operating margin	12.8%	10.1%	7.5%	8.9%	8.8%
Pretax margin	12.5%	9.7%	7.2%	8.6%	8.6%
<b>Liquidity (x)</b>					
Current ratio	1.7	1.3	2.0	2.2	2.3
Quick ratio	1.7	1.3	2.0	2.2	2.3
Interest coverage ratio	42.8	27.8	25.5	37.6	46.1
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	10.8	12.3	16.6	11.2	9.1
Core P/E	13.2	15.3	13.0	11.2	9.1
Core P/E at target price	16.4	18.6	15.9	13.6	11.1
P/B	7.0	9.3	3.6	2.8	2.3
EV/EBITDA	7.3	8.1	8.7	6.1	5.0
<b>Cash Conversion Cycle</b>					
Trade receivable days	31	32	32	32	32
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	55	47	51	51	51
CCC days	-24	-15	-19	-19	-19
<b>Returns</b>					
Return on equity	52.3%	60.8%	21.4%	25.4%	25.0%
Return on capital employed	33.1%	42.2%	18.3%	22.4%	22.6%
Dividend payout ratio			20.0%	20.0%	20.0%
Dividend yield	N/A	N/A	1.2%	1.8%	2.2%

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