



Sanli Environmental Limited

Overweight

Current Price	S\$0.180
Fair Value	S\$0.235
Up / (downside)	30.5%

Stock Statistics

Market cap	S\$48.35m
52-low	S\$0.160
52-high	S\$0.260
Avg daily vol	14,448
No of share	268.7m
Free float	22.57%

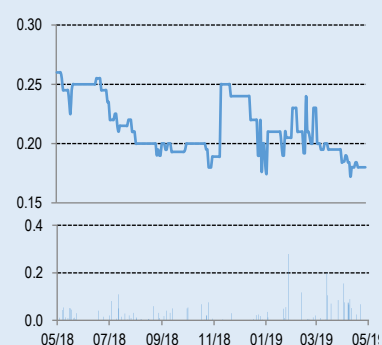
Key Indicators

ROE 19F	14.2%
ROA 19F	8.7%
P/BK	1.85x
Net gearing	-21.7%

Major Shareholders

Typha Holdings	54.7%
Vanda 1 Investments	8.0%
ICH Gemini	5.1%

Historical Chart



Source: Bloomberg

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Growth To Accelerate With Record Order Book

- **S\$198m order book (2.6x FY18 revenue).** Sanli Environmental Limited has secured approximately S\$118m of new contracts from Nov 2018 to 2 Apr 2019. These wins have in turned raised Sanli's order book to a record high. We like the forward visibility that these contracts provide – suggesting positive revenue and earnings for FY20 and FY21. Other than these contracts, we also estimate that there are more than S\$100m of contracts that will be made available for bidding from now to June 2020. Hence, there will also be opportunities for order book renewal over the next one year.
- **Billion-dollar water reclamation plant provides additional contract opportunities.** The Public Utilities Board has split the construction of the Tuas Water Reclamation Plant into 11 contracts. These contracts are significant as the plant has been estimated to cost more than S\$2 billion. The first contract worth S\$216m was awarded only in January 2019 and was for the performance of site development works. We reckon that there is scope for Sanli to participate in subsequent tenders, especially for the construction of water treatment and related facilities. Participation may be in the form of a joint-venture or as a subcontractor. Winning a single high value contract will potentially elevate Sanli's growth trajectory beyond our forecasts.
- **Strong balance sheet.** As at end of 1H FY19, Sanli's balance sheet strong with S\$5.67m of net cash (2.1 cents per share). Trade and other payables amounted to S\$15.8m against trade and other receivables and contract work-in-progress in excess of billings of S\$26m. Net operating cash flow turned positive since 2H FY18 with S\$3.7m of positive cash flow on a trailing 12-month basis. If the group maintains its dividend pay-out at 22% for FY19, dividend per share may rise from 0.25 cents to 0.35 cents based on our estimated profit attributable to shareholders of S\$4.27m.
- **Key risks.** While the group's order book gives us visibility over the outlook for FY20 and FY21, we have limited certainty over the group's 2H FY19 performance as the group recognized only S\$34.7m of revenue for 1H FY19 as opposed to S\$44.9m for 2H FY18.
- **Valuation of S\$0.235 excludes upside from Tuas Water Reclamation Plant.** Based on peer average P/E and EV/EBITDA multiples and the group's FY20F earnings, we derived a fair value of S\$0.193 to S\$0.275 per share for Sanli (Midpoint of S\$0.235, 30.5% upside). Our forecasts for FY20 are based solely on Sanli's order book. Should the group secure contracts for the Tuas Water Reclamation Plant, the potential could be significantly higher. As such, we rate Sanli **Overweight** in this report.

Key Financial Data (S\$ m, FYE Mar)	2017	2018	2019F	2020F	2021F
Sales	64.31	75.61	77.06	87.51	91.89
Gross Profit	10.40	10.87	12.06	13.13	13.78
Net Profit	5.17	3.07	4.27	4.97	5.34
EPS (cents)	1.93	1.14	1.59	1.85	1.99
EPS growth (%)	-12.96	-40.66	38.99	16.55	7.32
PER (x)	9.35	15.76	11.34	9.73	9.06
NAV/share (cents)	3.17	9.26	10.50	11.94	13.49
DPS (cents)	NA	0.25	0.35	0.41	0.44
Div Yield (%)	NA	1.4%	1.9%	2.3%	2.4%

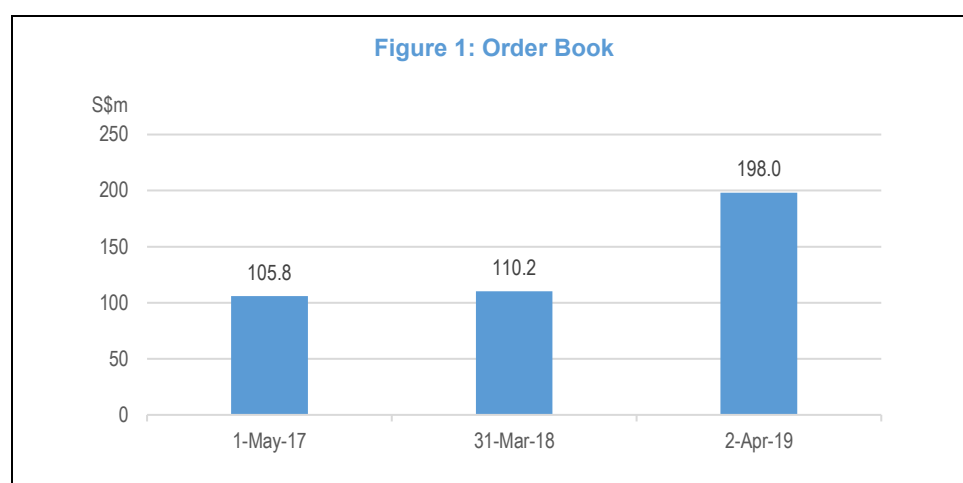
*Adjusted for 268.7m shares outstanding. Source: Company, Tayrona Financial

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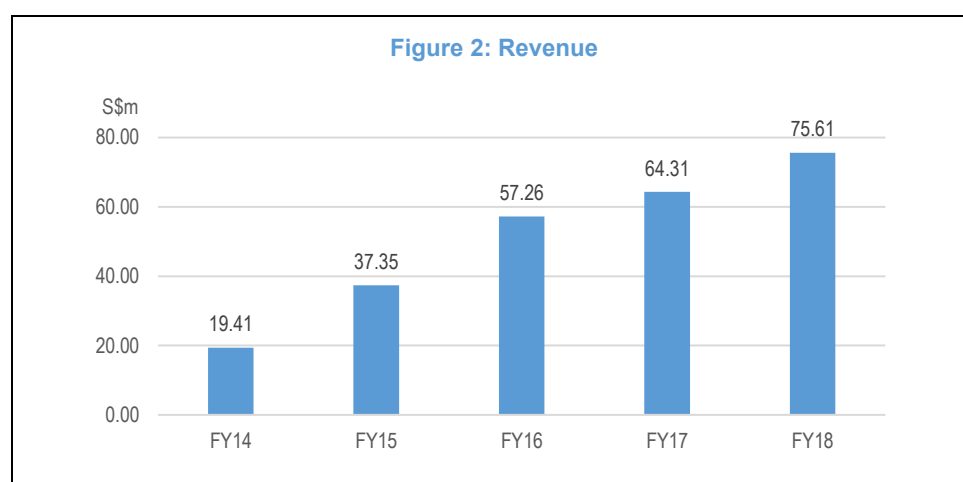
Spate of contract wins bolsters outlook

Strong order book of S\$198m (2.6x FY18 revenue). Sanli Environmental Limited announced on 2 April 2019 that it has secured S\$12.1m of new contracts since late January. These contracts add on to S\$51.5m of PUB contracts announced on 22 January 2019 and S\$54.3m of new contracts announced on 15 November 2019. All in, Sanli's order book has ballooned from S\$110.2m as at 31 March 2018 to S\$198.0m as at 2 April 2019.

We are encouraged by the high order book growth. Most of the contracts will be completed within or before 31 March 2021 or FY21. Only one S\$54.3m contract and one S\$1.66m contract will stretch to FY22. Hence, we can expect the strong order book today to translate into higher revenue for FY20 and FY21. The group reported revenue of S\$75.6m for FY18. We estimate that the group is likely achieve revenue of around S\$87.5m and S\$91.9M for FY20 and FY21 respectively.



Source: Tayrona Financial, Company



Source: Tayrona Financial, Company

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Figure 3: List of New Contracts Won

No	Award Date/ announcement Date	Description	Contract Size (S\$m)	Revenue Recognition Period
M1	2-Apr-19	Supply of water meters of various sizes to local government	1.8	FY2020
M2	2-Apr-19	Supply of pipes and accessories	2.5	FY2020
PUB1	15-Mar-19	Maintenance of electrical equipment at Johor plants	1.66	FY2020 - FY2022
PUB2	22-Feb-19	Refurbishment of centrifugal pumps in NEWater factories and waterworks	3.74	
PUB3	13-Feb-19	Overhaul of centrifugal pumps, disintegrators and related equipment and maintenance works at PUB installations	2.4	
PUB4	18-Jan-19	Replacement of mechanical and electrical equipment at Kranji Water Reclamation Plant	51.5	FY2020 - FY2021
PUB5	19-Dec-18	Supply and delivery centrifugal pumps to Johor River Waterworks	0.03	FY2019
PS1	15-Nov-18	Supply and installation of mechanical (water management) package works at Pulau Tekong and other contracts	54.3	FY2019 - FY2022

Contracts M1 and M2 are from Myanmar. The contract size of PUB1, PUB2 and PUB3 are based on published percentages from scheduled rates as provided by PUB. PS1 is a private sector project and was disclosed on 15 November 2018 with other contracts for a total quantum of S\$54.3m. All other projects were awarded by the Public Utilities Board.

Source: Company, GeBiz

Diversifying customer base. Of the eight new contracts that we obtained from both GeBiz and company announcements, most of them are from the Public Utilities Board. The S\$54.3m of contracts announced by the company on 15 November 2018 mainly referred to a sub-contract from Boskalis / Penta-Ocean Joint Venture for the supply and installation of mechanical (water management) package works at Pulau Tekong from FY19 to FY22 (four years). In addition, the group also secured two new Myanmar contracts worth S\$1.8m and S\$2.5m in 2019. Hence, the new contract wins not only raised the group's outlook but also show that the group is successfully diversifying its revenue base to include private sector and foreign government projects.

Figure 4: Artist Impression of Pulau Tekong Polder Project



Source: Surbana Jurong website

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Maintains leadership position in public tenders

Maintains high 30% contract win rate. We counted the tenders that Sanli participated in, based on award dates from 4 December 2018 to 27 March 2019. Of these 15 tenders, Sanli emerged as a market leader, winning five out of 15 contracts. Of these five projects, Sanli won four of them as the lowest bidder. For one project (Overhaul of centrifugal pumps, disintegrators and related equipment and maintenance works at PUB installations), Sanli won the contract even though its bid was 11% higher than the lowest bid.

The remaining projects were won by at least eight other vendors with Memiontec securing two membrane related contracts of a total value of S\$13.98m.¹ In fact, Sanli's bids were very close to that of Memiontec, losing out by only 3.7% and 8.3% respectively from the lowest bids. As for the other contracts, Sanli typically lost out to the lowest bidder by an average of 33%.

Sanli's bidding behaviour shows that the group focuses on niches where it has cost and operating advantages and does not slash prices to compete for projects. The group has an average gross margin of about 15% since FY17.

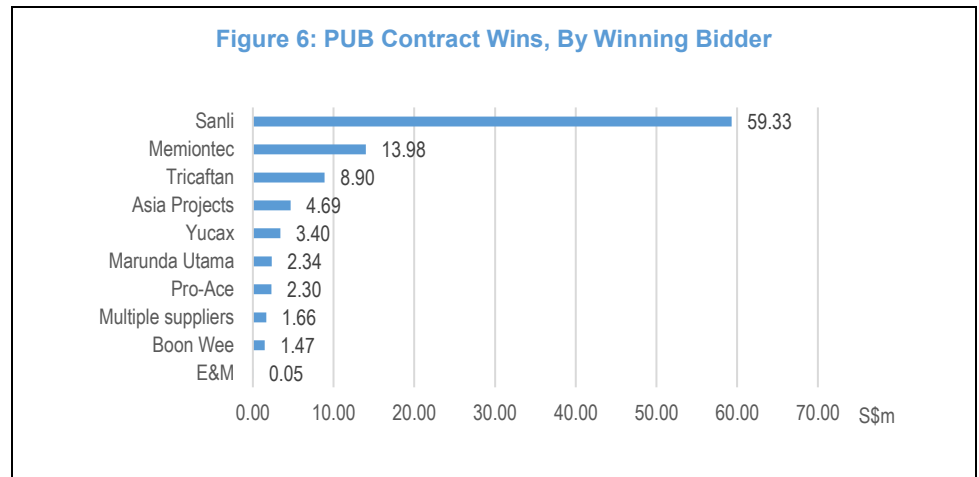
Figure 5: Tenders Participated by, but NOT Awarded to Sanli (4 December to 27 March)

Date awarded	Tender Reference	Abbreviated Description	Winner	No. of Bids	Winning Bid (\$m)	Lowest Bid (\$m)	Sanli's Bid (\$m)	Max Bid (\$m)	Scheduled Rate
1-Mar-19	PUB000ETT18300098 / WRP/33180016	Supply and installation of biogas generator system at Changi Water Reclamation Plant	Tricaftan	9	8.9	7.9	9.89	14.0	NA
11-Feb-19	PUB000ETQ18300345 / 44180483	Installation of automatic sample dispensing system in Ulu Pandan Water Reclamation Plant	E&M	4	0.0528	0.0528	0.06	0.06	NA
17-Jan-19	PUB000ETT18300255 / WRP/33180220	Replacement of minor components in Ulu Pandan Water Reclamation Plant	Pro-Ace	3	2.30	2.3	3.28	3.88	NA
15-Jan-19	PUB000ETT18300224 / CW-RC/33180195	Maintenance of Crest Gate System at Marina Barrage	Asia Projects	4	4.69	4.69	7.97	7.97	NA
26-Dec-18	PUB000ETT18300164 / WRP/33180152	Replacement of membranes and SCADA for membrane bioreactor at Jurong Water Reclamation Plant	Memiontec	8	9.60	9.10	10.4	11.5	NA
24-Dec-18	PUB000ETT18300195 / WSP-PW/33180154	Replacement of chlorine and ammonia dosing & neutralising systems at Johor River Waterworks	Yucax	5	RM10.2m	2.97	4.42	4.42	NA
14-Dec-18	PUB000ETT18300193 / WSP-NW/33180171	Supply and installation of LED lightings in PUB Waterworks and NEWater plants	Multiple suppliers	30	-33.8% / -33.9%	-49.8% / -49.1%	-20% / -26%	+5% / +5%	S\$0.9m / S\$1.3m / S\$0.3m
13-Dec-18	PUB000ETT18300198 / WRN/33180179	Maintenance and repair of on-site sewerage facilities in mainland Singapore	Boon Wee	9	-51.00%	-51.00%	-16.00%	80.00%	S\$3.0m
7-Dec-18	PUB000ETT18300201 / PUB000/WSP-NW/33180186	Replacement... further extension microfiltration membranes at Kranji NEWater Factory	Memiontec	8	4.38	4.38	4.54	7.0	NA
4-Dec-18	PUB000ETT18300200 / WRP/33180184	Servicing and maintenance of plant compressed air systems at Changi Water Reclamation Plant	Marunda Utama	6	-22.00%	-22.00%	-5.00%	-5.00%	S\$3.0m
				Total	S\$38.8m		S\$47.9m		

Source: GeBiz

¹ There is one contract with an estimated total value of S\$1.66m that was won by multiple vendors.

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Data from Figures 3 and 5, excluding foreign and private sector projects.

Source: Tayrona Financial, GeBiz

Expect one more contract win. As at 27 March, Sanli has further participated in six unawarded GeBiz tenders of which it is the lowest bidder for a S\$5.19m contract to service, maintain and repair the chemical dosing system and other minor works at Johor River Waterworks.

Figure 7: Tenders Participated by Sanli and Pending Award (4 December to 27 March)

Tender Reference	Abbreviated Description	Closing Date	Lowest Bidder	Lowest Bid	Sanli's Bid	No. of Bids	Scheduled Rate
PUB000ETT1930023 / PUB000/WSP-NW/33190028	Maintenance of plant and equipment at Kranji NEWater factory, Bedok NEWater factory and Variable Salinity Plant	7-Mar-19	DSL Metal / Ace Water	-48% / -48%	-30% / -30%	9	S\$3.65m / S\$4.23m
PUB000ETT1930016 / WSP-PW/33190011	Servicing, maintenance and repair of chemical dosing system and other minor works at Johor River Waterworks	28-Feb-19	Sanli	S\$5.19m	S\$5.19m	6	NA
PUB000ETT1930011 / WRP/33180291	Servicing and maintenance of aeration system at Kranji Water Reclamation Plant	14-Feb-19	DSL Metal	-40.5%	-26.0%	6	S\$0.75m
PUB000ETT18300304 / PUB000/CW-RC/33180278	Provision, servicing and maintenance of conductivity monitoring system at tidal gates and Marina Barrage	14-Feb-19	Winsys	-57%	-41.0%	8	S\$1.82m
PUB000ETT18300305 / WSN-PW/33180290	Supply, installation and commissioning of butterfly valves and ancillaries at various locations in the water supply network	31-Jan-19	Indat	S\$0.459m	S\$0.664m	12	NA
PUB000ETT18300271 / CW-RC/33180238	Replacement of pumpsets at Upper Seletar pumping station and various pond and stream stations	24-Jan-19	Altus	S\$3.60m	S\$3.67m	6	NA
			Total	S\$14.6m			

Source: GeBiz

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More than S\$160m of contracts available for bidding

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 March 2019 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 March 2019. Using the tender limits as a proxy, we estimate that current announced upcoming and open tenders have a combined value of at least S\$160m.

Sanli is graded C1 with a tender limit of up to S\$4.0m for CW02 civil engineering, L5 with a tender limit of up to S\$13.0m for ME02 building automation, industrial and process control systems, L6 with unlimited tender capacity for ME05 electrical engineering and ME11 mechanical engineering and L3 with a tender limit of up to S\$4.0m for SY08 mechanical equipment, plant and machinery.

Figure 8: List of Open Tenders and Upcoming Tenders as of 20 March 2019

Closing date	Description	Financial Category	Tender Limit
	As extracted from GeBiz		
4 Apr 19	Supply, installation, testing & commissioning and maintenance of a monitoring system at Kranji NEWater Factory	L1	Up to S\$0.65m
18 Apr 19	Supply and delivery of large water meters for Year 2019 to Year 2020	L5	Up to S\$13.0m
25 Apr 19	Maintenance of membrane plant and other general works at Choa Chu Kang Waterworks	L3	Up to S\$4.0m
25 Apr 19	Enhancement of compressed air and dewatered sludge conveyance systems at Changi WRP	L4	Up to S\$6.5m
16 May 19	Tuas Water Reclamation Plant contract 3A - industrial liquids modules	L6	Unlimited
	Likely Month of Purchase		
	As extracted from PUB website		
Apr 2019	Supply, commission and maintenance of mobile analysers	L2	Up to S\$1.3m
Apr 2019	Servicing and maintenance of control and monitoring systems at WRPs (Schedules A,B,C & D)	L3	Up to S\$4.0m
Apr 2019	Servicing and maintenance of sludge drying systems at Changi WRP	L5	Up to S\$13.0m
Apr 2019	Tuas WRP biosolids and digesters	L6	Unlimited
Apr 2019	Renewal of equipment and upgrading of used water pumping installations - contract 2	L5	Up to S\$13.0m
Apr 2019	Supply, install, commissioning of flowmeters at various WSN installations	L3	Up to S\$4.0m
May 2019	Overhaul and maintenance of dual fuel engines at Kranji WRP	L2	Up to S\$1.3m
May 2019	Servicing, maintenance and installation works of low voltage electrical equipment at various installations of PUB	L5	Up to S\$13.0m
May 2019	Provision of tunnel integrity monitoring system for the Deep Tunnel Sewerage System Phase 2 Project	L5	Up to S\$13.0m
Jul 2019	Servicing and maintenance of biogas burner systems at installations of WRPs	L2	Up to S\$1.3m
Sep 2019	Tuas WRP C3C - domestic liquid modules and NEWater plant	L6	Unlimited
Oct 2019	Servicing and maintenance of turbine generators at Changi WRP	L2	Up to S\$1.3m
Dec 2019	Maintenance of sludge digesters / storage tanks and general sludge dewatering work	L4	Up to S\$6.5m
Dec 2019	Servicing and support for Jurong industrial water supply system	L3	Up to S\$4.0m
Mar 2020	Kranji WRP SCADA replacement project	L3	Up to S\$4.0m
Apr 2020	Replacement of control and monitoring system at Ulu Pandan WRP including 3-year maintenance	L4	Up to S\$6.5m
Jun 2020	Servicing and maintenance of main drive motor systems at WRPs (Schedules A,B)	L1	Up to S\$0.65m
		Total	Up to S\$161m

For tenders of L6 financial category, there is no tender limit. Hence, we assume a value of S\$19.0m for the limit.

Source: GeBiz, PUB

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Tenders for billion-dollar TWRP will also be ramped up

Sanli will also benefit from the slew of contracts to be awarded for the Tuas Water Reclamation Plant (TWRP). The TWRP has been estimated to cost more than S\$2 billion and its construction will be split among 11 construction tender packages.² The first contract (TWRP Contract 1A) was awarded to McConnell Dowell in January 2019 with a winning bid of S\$215.9m to carry out site development works for the TWRP, including construction of sewer connections, as well as provision and maintenance of services such as security, utilities, telecommunications and traffic management.

The tender for the second contract (TWRP Contract 2A) was closed on 14 February 2019 and is currently pending award. Contract 2A entails the construction of the influent pumping stations - three pumping stations and two 66kV substations among other works. Sanli did not participate in the tender for Contract 2A directly but may be involved as a subcontractor. Bids submitted by the nine suppliers ranged from S\$668.2m to S\$1.2 billion. The third contract (TWRP Contract 3A) is open for bidding until 16 May 2019 and pertains to the construction of the industrial liquids modules – primary treatment and secondary treatment facilities, including the membrane bioreactors (Figure 8).

Another five contracts related to the construction of Domestic Liquids Modules, NEWater, Biosolids and Digesters etc, are expected to be available for bidding within 2019. The final three contracts – administration and operations buildings, site completion and wet weather treatment facility will be open for tender from 2020 to 2023, for full completion, testing and commissioning of the TWRP by 2025.

Figure 9: Overview of Tuas Water Reclamation Plant Project

- To be constructed under Contract 2A → 1. Influent Pumping Stations
 - Covered under Contracts 3A, 3B, 3C → 2. Liquids (Domestic and Industrial Used Water) Treatment Facilities
 - To be constructed under Contract 4A → 3. Biosolids Treatment Facility
 - To be constructed under Contract 3D → 4. NW and IW Storage & Pumping
 - To be constructed under Contract 6C → 5. Wet Weather Treatment
 - To be constructed under Contract 6A → 6. Admin/O&M with Visitor Gallery
-  Future Expansions



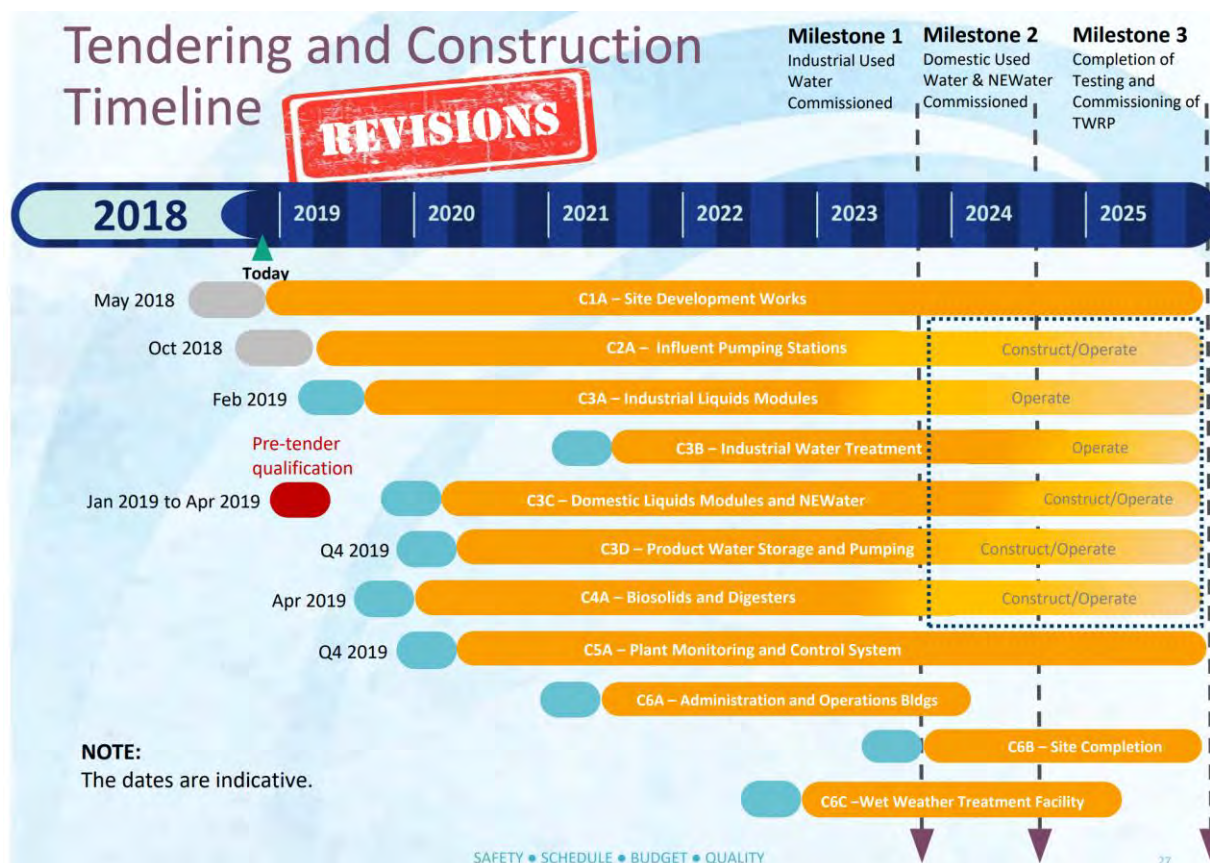
Not shown: Contract 1A – Site Development Works, Contract 5A – Plant Monitoring and Control System, Contract 6B – Site Completion

Source: <https://www.pub.gov.sg/dtss/Documents/Tuas-Water-Reclamation-Plant-Industry-Briefing-2.0-28Nov2018.pdf>

² <https://www.pub.gov.sg/news/pressreleases/pubandneatocallover5billionintendersfortuasnexus>

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Figure 10: Tuas Water Reclamation Plant – Tender and Construction Timeline, as at 28 November 2018



Source: <https://www.pub.gov.sg/dtss/Documents/Tuas-Water-Reclamation-Plant-Industry-Briefing-2.0-28Nov2018.pdf>

Financial Review and Forecasts

Profitability rebounded in 1H19. Sanli reports its results on a semi-annual basis. For the first half FY19 ended 30 September 2018, group revenue grew by 13% to S\$34.7m. Profit attributable to shareholders grew by 168.8% from S\$0.66m in 1H18 to S\$1.77m in 1H19 mainly due to the absence of one-off IPO expenses of S\$1.2m.

Expect stable growth for FY19. Sanli is due to report its full year results at the end of May 2019. We expect group revenue to grow modestly or by 2% to S\$75.61m for the full year. Many of the contracts were only awarded in 2019 and will contribute more significantly from FY20 onwards. We expect gross margin to remain stable at about 15%. In all, we expect Sanli to report full year profit attributable to shareholders of S\$4.25m, implying profit attributable to shareholders of S\$2.5m for 2H FY19 (2H FY18: S\$2.4m). We expect higher administrative expenses (S\$6.0m on a trailing 12-month basis vs S\$5.25m for FY18) to partially offset savings from the absence of IPO expenses in FY19.

Growth to kick in FY20. Sanli's order book leads us to expect the group to clock revenue of S\$87.5m for FY20. In addition, existing projects will account for S\$44.64m and S\$18.9m of projected revenue for FY21 and FY22. We forecast revenue of S\$91.9m and S\$96.5m (5% growth per annum) for FY21 and FY22. Sanli essentially has one to two years to win another S\$125m of contracts to meet our forecasts for FY21 and FY22.

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Figure 11: Forecasting Assumptions

	2018	Total	2019F	2020F	2021F	2022F
Order book as at 31 March 2018		110.2	71.63	38.57		
Supply and installation of mechanical (water management) package works at Pulau Tekong and other contracts		54.3	5.43	16.29	16.29	16.29
Replacement of mechanical and electrical equipment at Kranji Water Reclamation Plant		51.5		25.75	25.75	
Overhaul of centrifugal pumps, disintegrators and related equipment and maintenance works at PUB installations		2.4		0.8	0.8	0.8
Refurbishment of centrifugal pumps in NEWater factories and waterworks		3.74		1.25	1.25	1.25
Maintenance of electrical equipment at Johor plants		1.66		0.55	0.55	0.55
Supply of pipes and accessories		2.5		2.5		
Supply of water meters of various sizes to local government		1.8		1.8		
Revenue, based on order book		228.1	77.06	87.51	44.64	18.89
Revenue, from future projects, assumed					47.25	77.59
Group Revenue	75.61		77.06	87.51	91.89	96.48
Gross margin	14.38%		15.66%	15.00%	15.00%	15.00%
Gross profit	10.87		12.06	13.13	13.78	14.47
Other income	0.32		0.30	0.30	0.30	0.30
Administrative expenses	(5.25)		(6.02)	(6.20)	(6.39)	(6.58)
Other operating expenses	(1.87)		(1.02)	(1.05)	(1.08)	(1.12)
Finance costs	(0.24)		(0.21)	(0.21)	(0.21)	(0.21)
Profit before tax	3.84		5.12	5.97	6.40	6.87
Income tax	(0.79)		(0.87)	(1.01)	(1.09)	(1.17)
Profit attributable to shareholders	3.07		4.27	4.97	5.34	5.72

Assumed gross margin of 15.66% for FY19 is based on 1H19 reported gross margin. Other income and administrative expenses for FY19F are based on trailing 12-month reported figures, i.e. sum of 2H18 and 1H19. Operating expenses is based on the annualised quantum of 1H19. Finance cost is based on 7.2% of bank borrowings at beginning of period. We assume constant bank borrowings of S\$2.88m. Administrative and operating expenses are assumed to grow at 3% per annum. We also assume an effective tax rate of 17% across our forecast horizon.

Source: Tayrona Financial

Valuation and Recommendation

We benchmark Sanli against other SGX listed environment companies. Peers trade at an average P/E of 10.41x and EV/EBITDA of 9.56x. Based on Sanli's FY20F earnings, we estimate that the group may be worth S\$0.193 per share using the peer average P/E or S\$0.275 per share using the peer average EV/EBITDA. We see upside in Sanli from the following factors

- 1) The group is focused on technically complex projects, such as membrane and filtration processes, that command higher margin than plain vanilla engineering, procurement and construction (EPC) projects.
- 2) Our forecasts do not include upside from potential contract wins from the Tuas Water Reclamation Plant.
- 3) The group enjoys lower gearing than its peers due to its focus on higher margin and shorter gestation contracts, of the overall EPC project.

Taking the average of S\$0.193 and S\$0.275, we peg Sanli fair value at S\$0.234 (rounded to S\$0.235) with potential upside of 30.5% from the current share price of S\$0.180. In view of the upside, we rate Sanli Overweight.

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Figure 12: Peer Comparison

	Mkt Cap (S\$m)	Sales (S\$m)	P/E	P/B	EV/ EBITDA	D/E
China Everbright Water Ltd	1,177.47	820.8	9.93	0.85	9.18	95.2%
Citic Envirotech Ltd.	968.5	663.1	13.88	1.02	10.08	146.2%
China Jinjiang Environment Holding Company Limited	851.5	612.3	7.03	0.77	6.07	97.9%
SIIC Environment Holdings Ltd	834.11	1,105.4	7.01	0.53	10.94	167.9%
Moya Holdings Asia Limited	340.49	190.6	14.21	1.27	6.78	97.9%
Darco Water Technologies Limited	38.47	83.8	NA	0.79	14.28	18.8%
Average	701.77	579.3	10.41	0.87	9.56	104.0%
Sanli Environmental Limited	48.36	79.6	11.57	1.85	7.49	11.4%

Sales, P/E and EBITDA are based on trailing 12-month values. D/E = Total debt to common equity

Source: Bloomberg, Tayrona Financial

Figure 13: Fair Value Estimates

Valuation Multiple	P/E	EV/EBITDA
Est. FY20 earnings / EBITDA	4.97	7.14
Multiplied by	10.41x	9.56x
Estimated enterprise value		68.20
Add back net cash as end 1H FY19		5.65
Estimated market cap	51.77	73.85
Divided by number of shares	268.36m	268.36m
Fair value per share	S\$0.193	S\$0.275
- Midpoint of estimates	S\$0.234 (rounded to S\$0.235)	

Source: Tayrona Financial

Key Risks

Potential revenue lumpiness. The large size of Sanli's order book today is due to the S\$54.3m and S\$51.5m contracts to supply and install works at Pulau Tekong and to replace equipment at the Kranji Water Reclamation Plant. These large contracts may result in lumpiness in the group's future revenue. While the Tuas Water Reclamation Plant may provide large-contract opportunities, there is the risk that the group may not be able to replace these large contracts and hence recognize lower revenue in subsequent years.

Margin may fluctuate. We generally assume gross margin of 15% across our forecast horizon. However, there is the risk that larger projects command lower gross margin which may affect our forecasts. The group's gross margin fell from 15.8% in 1H FY18 to 13.4% in 2H FY18 due to revenue recognition from a large but lower gross margin project.

Limited visibility over FY19F performance. The group is due to announce its full year FY19 results by the end of May 2019. As many of the newer contracts were awarded only recently and the group recognized only S\$34.7m of revenue for 1H FY19 as opposed to S\$44.9m for 2H FY18, there is the risk that the group's FY19 revenue and profit after tax may be lower than projected.

Sanli Environmental Limited

Profit & Loss (\$\$m, FYE Mar)	2016	2017	2018	2019F	2020F	2021F	2022F
Revenue	57.26	64.31	75.61	77.06	87.51	91.89	96.48
Operating expenses	(49.11)	(56.86)	(69.41)	(69.95)	(79.62)	(83.63)	(87.81)
EBITDA	8.15	7.45	6.20	7.11	7.89	8.26	8.67
Depreciation & amortisation	(0.41)	(0.49)	(0.58)	(1.07)	(0.96)	(0.86)	(0.78)
EBIT	7.74	6.96	5.62	6.04	6.92	7.40	7.89
Net interest & invt income	(0.55)	(0.69)	(1.79)	(0.93)	(0.96)	(0.99)	(1.02)
Associates' contribution	-	-	-	-	-	-	-
Exceptional items	-	-	-	-	-	-	-
Pretax profit	7.19	6.27	3.84	5.12	5.97	6.40	6.87
Tax	(1.29)	(1.06)	(0.79)	(0.87)	(1.01)	(1.09)	(1.17)
Minority interests	0.04	(0.04)	0.01	0.02	0.02	0.02	0.02
Net profit	5.94	5.17	3.07	4.27	4.97	5.34	5.72
Shares at year-end (m)	268.7	268.7	268.7	268.7	268.7	268.7	268.7
Balance Sheet (\$\$m, as at Mar)	2016	2017	2018	2019F	2020F	2021F	2022F
Fixed assets	5.75	5.65	10.50	9.43	8.47	7.60	6.83
Intangible assets	-	-	-	-	-	-	-
Other long-term assets	0.52	0.27	0.27	0.27	0.27	0.27	0.27
Total non-current assets	6.27	5.92	10.77	9.70	8.73	7.87	7.10
Cash and equivalents	6.62	11.48	9.35	13.22	16.90	21.32	26.01
Stocks	-	-	-	-	-	-	-
Trade debtors	7.01	6.67	15.69	11.39	12.93	13.58	14.26
Other current assets	8.22	6.07	13.48	13.74	15.60	16.38	17.20
Total current assets	21.85	24.22	38.52	38.35	45.43	51.28	57.47
Trade creditors	8.02	12.56	19.82	16.25	18.60	19.53	20.51
Short-term borrowings	2.85	0.85	0.27	0.27	0.27	0.27	0.27
Other current liabilities	1.86	5.06	1.50	0.60	0.60	0.52	0.52
Total current liabilities	12.72	18.47	21.59	17.13	19.47	20.32	21.29
Long-term borrowings	3.73	2.88	2.61	2.61	2.61	2.61	2.61
Other long-term liabilities	0.36	0.27	0.18	0.09	0.01	-	-
Total long-term liabilities	4.09	3.15	2.79	2.70	2.62	2.61	2.61
Shareholders' funds	11.36	8.51	24.87	28.20	32.07	36.24	40.70
Minority interests	(0.04)	-	0.04	0.02	(0.00)	(0.02)	(0.04)
NTA/share (\$\$)	0.04	0.03	0.09	0.11	0.12	0.13	0.15
Total Assets	28.12	30.13	49.28	48.04	54.16	59.15	64.56
Total Liabilities + Shareholders' funds	28.12	30.13	49.28	48.04	54.16	59.15	64.56
Cash Flow (\$\$m, FYE Mar)	2016	2017	2018	2019F	2020F	2021F	2022F
Pretax profit	7.19	6.27	3.84	5.12	5.97	6.40	6.87
Depreciation & non-cash adjustments	0.59	0.70	0.97	1.17	1.06	0.97	0.88
Working capital changes	(4.34)	8.03	(9.73)	0.53	(1.06)	(0.50)	(0.52)
Cash tax paid	(0.32)	(0.61)	(2.04)	(1.83)	(1.01)	(1.09)	(1.17)
Cash flow from operations	3.12	14.39	(6.97)	4.99	4.96	5.79	6.06
Capex	(0.70)	(0.43)	(5.43)	-	-	-	-
Net investments & sale of FA	(0.52)	-	0.25	-	-	-	-
Others	0.04	0.06	0.11	0.11	0.11	0.11	0.11
Cash flow from investing	(1.18)	(0.37)	(5.08)	0.11	0.11	0.11	0.11
Debt raised/(repaid)	1.54	(0.84)	(0.85)	-	-	-	-
Equity raised/(repaid)	-	-	11.04	-	-	-	-
Dividends paid	(0.90)	(8.00)	-	(0.94)	(1.09)	(1.17)	(1.26)
Others	(0.19)	(0.32)	(0.27)	(0.30)	(0.30)	(0.30)	(0.21)
Cash flow from financing	0.45	(9.16)	9.91	(1.23)	(1.39)	(1.47)	(1.47)
Change in cash	2.39	4.86	(2.13)	3.87	3.67	4.42	4.69
Change in net cash/(debt)	0.85	7.70	(1.28)	3.87	3.67	4.42	4.69
Ending net cash/(debt)	0.05	7.75	6.47	10.34	14.01	18.44	23.13
KEY RATIOS (FYE Mar)	2016	2017	2018	2019F	2020F	2021F	2022F
Revenue growth (%)	53.3	12.3	17.6	1.9	13.6	5.0	5.0
EBITDA growth (%)	81.3	(8.5)	(16.8)	14.7	10.9	4.7	5.0
Pretax margins (%)	12.5	9.7	5.1	6.6	6.8	7.0	7.1
Net profit margins (%)	10.4	8.0	4.1	5.5	5.7	5.8	5.9
Effective tax rates (%)	17.9	16.8	20.4	17.0	17.0	17.0	17.0
Net dividend payout (%)	15.1	154.7	21.9	21.9	22.0	22.0	22.0
ROE (%)	59.8	31.0	11.6	14.2	14.6	13.9	14.1
Free cash flow yield (%)	4.0	29.0	(24.9)	10.5	10.5	12.2	12.7

Source: Company, Tayrona Financial

Sanli Environmental Limited

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