

Sanli Environmental Limited

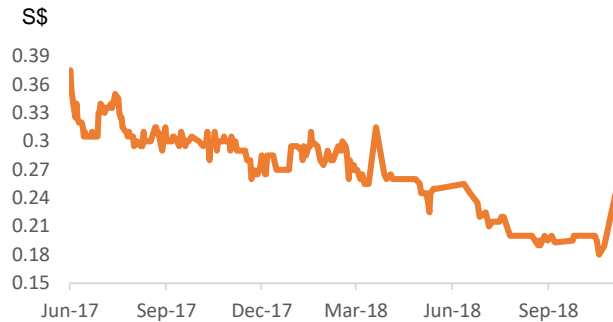
Date: 19 November 2018

BUY
(Maintained)

Target Price: S\$0.360
(+44%)

SANLI SP

Price: S\$0.250 (as at 16 November 2018)



Price performance	1M	3M	6M	1Y
Sanli	25.0%	25.0%	6.4%	-13.8%
Catalist Index	-5.0%	-11.7%	-23.8%	-32.9%

Market capitalisation	\$67.2 million		
Current Price	S\$0.250		
Shares outstanding	268.7 million		
Free Float	20.2%		
Major shareholder	Management	75%	
	Heliconia Capital Management	8%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Advisors

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1H19 revenue grew 12.9%

1H19 revenue increased by 12.9% to S\$37.4 million. Sanli Environmental Limited ("Sanli Environmental", the "Group", and the "Company") reported 1H19 results that saw revenue grow by 12.9% year-on-year to S\$37.4 million. The increase in revenue was mainly due to higher contribution from its Engineering, Procurement and Construction ("EPC") segment of 31.9% or S\$6.9 million, which was partially offset by lower revenue from the Operations and Maintenance ("O&M") segment of 33.5% or S\$3.0 million.

Group's order book boosted by S\$54.3 million with new contracts. The new EPC and O&M contracts worth a total of S\$54.3 million bolstered the Group's order book to S\$134.4 million. The most significant win was a sub-contract from the landmark S\$985 million polder development project by the Boskalis and Penta-Ocean Joint Venture. This sub-contract is expected to contribute to the Group revenue for the next four years from the FY19.

Gearing up for future development. Sanli Environmental is adopting the "stabilise then grow" strategy. The Group is focusing on securing water projects that it can handle at its current capabilities. In the meantime, the Group is also gearing up for the future. Administrative expenses increased by 36.6% or S\$0.8 million to S\$2.9 million in 1H19. The Group said the increase in cost was due to the hiring of more project management team and engineers in preparation for future projects.

Maintain BUY with an unchanged target price of S\$0.360. We are keeping our rating and target price unchanged. Sanli has achieved its objective in securing a contract for the landmark land reclamation project, which will put the Group in a favorable position in securing similar projects in the future. The Group is also sticking to its strategy and steadily growing to become a top water player.

Key risks: Reliant on Singapore public sector projects.

Key Financials

Year ended March (S\$'mn)	FY2015A	FY2016A	FY2017A	FY2018A	FY2019E	FY2020E
Revenue	37.3	57.3	64.3	75.6	99.2	122.0
% Growth	92.4%	53.3%	12.3%	17.6%	24.0%	23.0%
Gross profit	6.4	11.2	10.4	10.9	15.9	19.5
Gross profit margin (%)	17.1%	19.6%	16.2%	14.4%	16.0%	16.0%
Profit attributable to owners (before IPO expenses)	3.2	5.9	5.2	3.1	7.1	8.8
Profit attributable to owners	3.2	5.9	5.2	4.3	7.1	8.8
% Growth	84.6%	82.0%	(13.0%)	(17.3%)	49.1%	23.2%
Profit after tax margin (%)	8.7%	10.4%	8.0%	4.0%	7.2%	7.2%
EPS (S\$ cents)*	1.5	2.7	2.4	1.2	2.6	3.3
P/E (x)	19.5	10.8	12.3	20.0	9.2	7.5
EV/EBITDA (x)	13.4	7.3	8.1	8.7	6.0	4.9
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

1H19 results review

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.

1H19 revenue increased by 12.9%. Sanli Environmental reported 1H19 results that saw revenue grow by 12.9% year-on-year to S\$37.4 million. The increase in revenue was mainly due to higher contribution from its Engineering, Procurement and Construction segment of 31.9% or S\$6.9 million, which was partially offset by lower revenue from the Operations and Maintenance segment of 33.5% or S\$3.0 million. Gross profit margin held steady at 15.7% in 1H19 as compared to 15.8% in 1H18. Overall, the Group recorded a profit before tax of S\$2.1 million in 1H19, a 91.8% increase as compared to the 1H18 results that included one-off IPO expenses of S\$1.2 million.

Sanli Environmental's order book boosted by S\$54.3 million with new contracts. Sanli Environmental announced that it has secured new EPC and O&M contracts worth a total of S\$54.3 million which bolstered the Group's order book to S\$134.4 million. The most significant win was a sub-contract from the landmark S\$985 million polder development project at Pulau Tekong by the Boskalis and Penta-Ocean Joint Venture. The Group will supply and install mechanical (water management) package works. This sub-contract is expected to contribute to Sanli's revenue for the next four years from the FY19. As Singapore plans to expand the city's land area by an additional 7-8% of reclaimed land by 2030, the Group hopes that being the pioneer in the reclamation project will put it in good stead in securing similar projects in the future. This is also in line with the Group's plan to diversify into other water-related projects that are not managed by the Public Utilities Board ("PUB").

Revenue (S\$'000)	1H19	1H18
Total	34,728	30,754

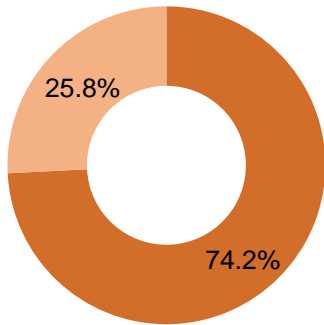
Source: SAC Advisors, Company data

Gearing up for future development. Sanli Environmental is adopting the "stabilise then grow" strategy, in which the primary focus of the Group now is to build up for the future. The Group is focusing on securing water projects that it can handle at its current capabilities, which is in the region of S\$200 – S\$300 million. For larger contracts, the Group will look for suitable partners to jointly bid for bigger projects. In the meantime, the Group is also gearing up for the future. Administrative expenses increased by 36.6% or S\$0.8 million to S\$2.9 million in 1H19. The Group said the increase in cost was due to the hiring of more project management team and engineers in preparation for future projects. The Group expects order books to pick up in the 2nd half based on historical trend. It is also expecting more jobs to be available as economy enters a downturn.

Maintain BUY with an unchanged target price of S\$0.360. We are keeping our rating and target price unchanged. Sanli has achieved its objective in securing a contract for the landmark land reclamation project, which will put the Group in a favorable position in securing future similar projects and maintain a healthy order book. The Group is also sticking its growth plan and steadily strengthening its position as a top water player in Singapore.

Company Background

Revenue Breakdown (FY2018)



■ 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"> • Water Management • Waste Management
Operations and Maintenance	<ul style="list-style-type: none"> • Corrective and preventive maintenance services

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