

Sanli Environmental Ltd

23 January 2024

Non-Rated

BBG	SANLI SP
Market cap	S\$28.2m
Share price	S\$0.11
52-week range	S\$0.083 – S\$0.119
Shares Outstanding	266.4m
Free Float	28.2%
Major Shareholder	Typha Holdings 41.4% Pek Kian Boon 9.0% Sim Heng Hock 8.2%

P/BV (1H24)	1.0x
Net gearing (1H24)	0.7x

Source: Company data, Bloomberg, SAC Capital

Analyst

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Not Just An East Coast Plan

S\$100bn Coastal Protection Plan – oligopolistic opportunity. The existential problem can be summed up by Professor Koh Chan Ghee from the NUS College of Design and Engineering: "For a small island state with no place to retreat to, the survivability of Singapore is at stake which we CANNOT EVEN TAG A COST TO (CNA, 2 Dec 2023). This ambitious plan will start off at the South-East of Singapore, dubbed the "Long Island". But this just marks Singapore's first. As a low-lying country, Singapore's 300km-long coastlines are vulnerable to rising sea levels.

Based on similar past projects, it is evident that very niche technical expertise is necessary to fulfill the criteria needed to execute the coastal protection plan. From our observations, typically only three service providers vie for such projects including Sanli Environmental.

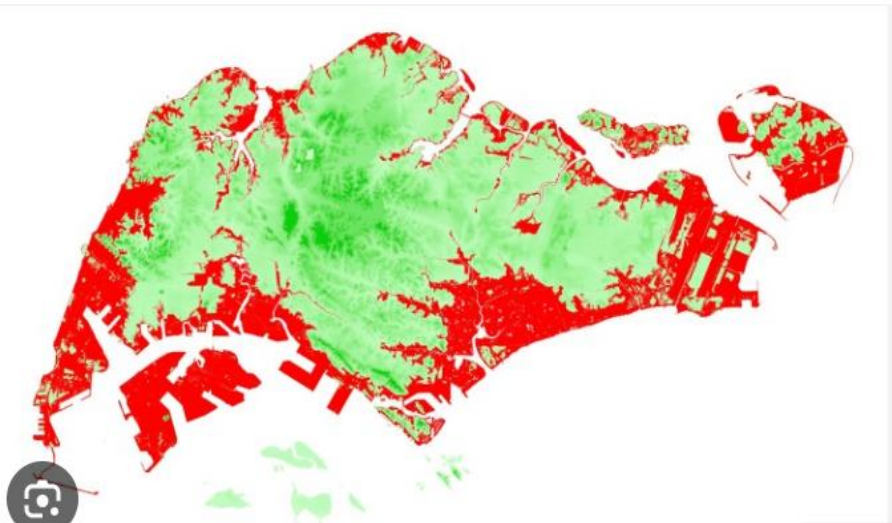
First among equals - Pulau Tekong pilot project. Singapore has been exploring alternative land reclamation practices over the past few years like polders at Pulau Tekong. Polder development is a breakthrough in how Singapore reclaims its land in the future. And Sanli was the SOLE engineering company involved in the engineering, procurement and construction (EPC) of the network of water pumping systems. This bodes well for Sanli as Singapore embarks on the coastal protection plan on a country-wide scale based on the polder method.

Fortuitous goldmine or should we say "magnesium-mine". While working on a water-treatment project with PUB, Sanli discovered the invaluable benefits of magnesium hydroxide slurry to environmental protection, especially the effort to reduce sulfur emissions from ships. Sanli is devoting resources to this new niche business engine and we will not be surprised if contracts are forthcoming.

Doubling of profitability in 2-3 years? Just on the trajectory of contracts awarded for coastal protection and water/wastewater projects relative to Sanli's FY23 revenue of circa \$100m, it is very possible for its revenue and net profit to double within 3 years. Ignoring economies of scale and conservatively ascribing FY23 net margin of 4% to the next few years, Sanli's FY25/26 net profit could be closer to S\$9m, for an undemanding forward PER of 3x.

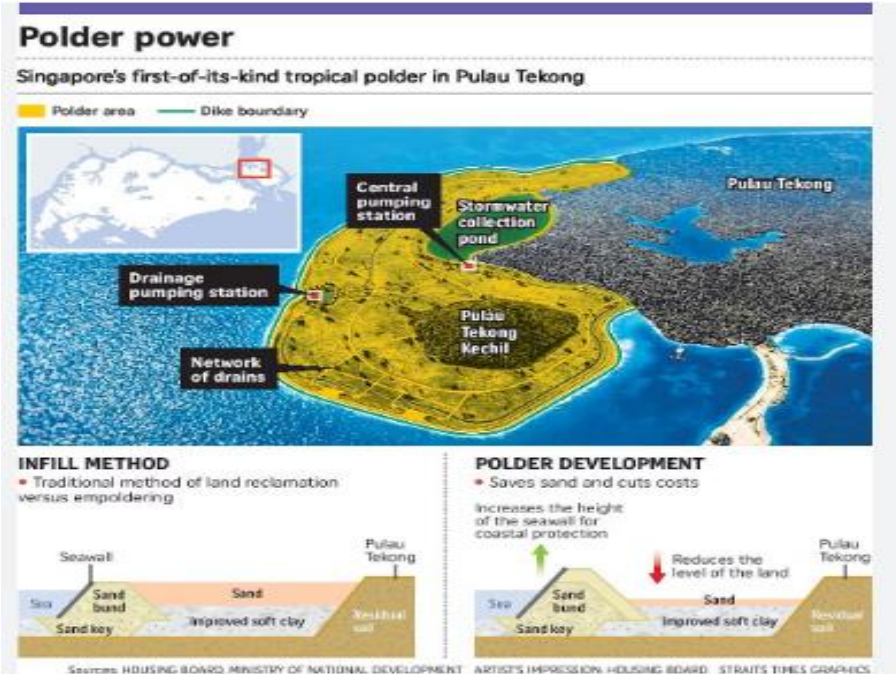
Year End 31 Mar (\$m)	FY20A	FY21A	FY22A	FY23A	1H24A
Revenue	67.1	60.5	64.7	106.4	50.7
EBIT	0.6	0.3	2.1	5.5	2.5
Net profit	0.3	0.3	1.8	4.3	1.6
EPS (S cents)	0.12	0.12	0.67	1.63	0.61
Dividend per share (S cents)	0.06	0.07	0.38	0.77	-
Net cash / (debt)	15.8	17.3	7.1	5.6	(22.0)
Valuation					
Gross profit margin (%)	11.0	7.3	12.0	13.4	14.2
Net profit margin (%)	0.5	0.5	2.7	4.1	3.2
EV/EBITDA (x)	7.6	6.9	6.1	3.3	7.8 (annualised) 9.0
P/E (x)	93.8	89.3	16.5	6.7	(annualized) 1.0
P/B (x)	1.1	1.1	1.0	0.9	(annualized)
Dividend yield (%)	0.5	0.6	3.4	7.0	-

Low-lying areas at risk if sea rises in Singapore



Source: Roots.sg

Sanli was the sole EPC service provider at the Pulau Tekong pilot project



Source: Straits Times

Income Statement

YE 31 Mar (\$\$m)	FY20A	FY21A	FY22A	FY23A	1H24A
Revenue	67.1	60.5	64.7	106.4	50.7
Total gross profit	7.4	4.4	7.8	14.2	7.2
Other income	0.4	3.6	2.2	0.8	0.2
Administrative expenses	(5.8)	(5.8)	(6.2)	(7.8)	(4.0)
Other operating expenses	(1.2)	(1.5)	(1.7)	(1.8)	(0.9)
Finance costs	(0.1)	(0.1)	(0.1)	(0.4)	(0.6)
Profit before tax	0.7	0.6	2.0	5.0	2.0
Income tax	(0.2)	(0.0)	(0.2)	(0.8)	(0.4)
Net profit	0.3	0.3	1.8	4.3	1.6

Balance Sheet

YE 31 Mar (\$\$m)	FY20A	FY21A	FY22A	FY23A	1H24A
Current assets					
Cash and cash equivalents	18.2	19.1	11.5	19.8	12.1
Trade and other receivables	11.5	9.4	7.9	19.0	13.2
Contract assets	10.0	12.5	24.5	46.5	42.4
Total current assets	39.6	41.0	43.9	85.3	67.7
Property, plant and equipment	9.2	8.9	8.4	8.3	22.3
Right-of-use assets	2.1	1.6	1.2	1.3	2.6
Investment in subsidiaries	-	-	-	-	-
Deferred tax assets	-	0.0	0.1	0.1	0.1
Total non-current assets	11.4	10.5	9.7	9.6	25.0
Total assets	51.0	51.5	53.6	95.0	92.7
Borrowings	0.3	0.2	0.8	11.4	21.8
Trade and other payables	17.4	15.4	12.9	41.9	23.6
Contract liabilities	3.1	5.8	6.8	5.6	1.2
Lease liabilities	0.1	0.4	0.2	0.3	0.2
Income tax payable	0.1	0.2	0.2	0.7	0.5
Total current liabilities	21.0	22.0	20.9	59.9	47.3
Borrowings	2.1	1.5	3.6	2.8	12.2
Lease liabilities	1.1	1.2	1.0	1.1	0.2
Deferred tax liabilities	0.3	0.0	0.0	0.1	0.1
Total non-current liabilities	3.5	2.7	4.7	3.9	14.7
Share capital	21.3	21.3	21.3	21.3	21.3
Treasury shares	0.0	-	(0.2)	(0.2)	(0.2)
Translation reserves	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)
Merger reserve	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
Capital reserve	0.5	0.5	0.5	0.5	0.5
Retained earnings	11.3	11.5	13.1	16.4	16.0
Non-controlling interests	0.1	0.3	0.2	0.0	0.0
Total equity	26.5	26.8	28.0	31.1	30.7
Total liabilities and equity	51.0	51.5	53.6	95.0	92.7

Cash Flow

YE 31 Mar (\$\$m)	FY20A	FY21A	FY22A	FY23A	1H24A
Profit before tax	0.7	0.6	2.0	5.0	2.0
Adjustments for:					
Depreciation of property, plant and equipment	1.0	1.0	1.1	1.3	0.7
Depreciation of right-of-use assets	0.2	0.4	0.4	0.4	0.1
Gain on disposal of PPE	(0.0)	(0.3)	(0.0)	-	-
Loss on disposal of financial assets at fair value through P&L	0.0	-	-	-	0.2
Share-based payments expenses	-	-	-	-	0.0
Finance costs	0.1	0.1	0.1	0.4	0.6
Interest income	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)
Exchange differences	0.0	(0.0)	(0.1)	(0.1)	(0.0)
Op CF bef WC moves	1.9	1.6	3.5	7.0	3.5
Trade and other receivables	4.8	2.0	1.5	(11.1)	5.8
Trade and other payables	(4.2)	(1.9)	(2.4)	29.0	(18.3)
Contract assets	5.5	(2.6)	(12.0)	(22.0)	4.1
Contract liabilities	2.9	2.7	1.0	(1.2)	(4.5)
Cash from (used in) operations	10.9	1.8	(8.4)	1.6	(9.4)
Income tax paid	(0.5)	(0.2)	(0.3)	(0.3)	(0.6)
Net cash from (used in) op activities	10.3	1.6	(8.7)	1.3	(10.0)
Purchases of property, plant and equipment	(0.2)	(0.4)	(0.7)	(1.2)	(14.7)
Proceeds from disposal of property, plant and equipment	0.1	0.0	0.0	-	-
Proceeds from disposal of right-of-use assets	-	0.8	0.0	0.0	0.0
Proceeds from disposal of financial assets at fair value through P&L	0.3	-	-	-	-
Interest received	0.1	0.1	0.0	0.1	0.1
Net cash used in investing activities	0.3	0.6	(0.6)	(1.1)	(14.6)
Dividends paid	(0.7)	(0.2)	(0.2)	(1.0)	(2.0)
Proceeds from borrowings	0.0	-	3.0	17.9	20.2
Repayment of borrowings	(0.3)	(0.6)	(0.4)	(8.0)	(0.4)
Repayment of lease liabilities	0.0	(0.4)	(0.4)	(0.3)	(0.3)
Purchase of treasury shares	(0.1)	-	(0.2)	-	0.0
Interest paid	(0.1)	(0.1)	(0.1)	(0.4)	(0.6)
Net cash from financing activities	(1.2)	(1.2)	1.8	8.1	16.9
Net increase (decrease) in cash and cash equivalents	9.3	0.9	(7.5)	8.3	(7.8)
Beginning cash	8.8	18.2	19.1	11.5	19.8
End Cash	18.2	19.1	11.5	19.8	12.1

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