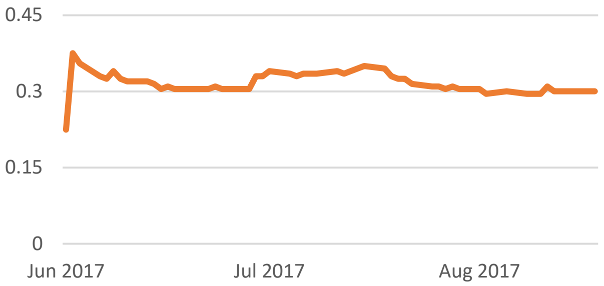
Sanli Environmental Limited

Date: 28 August 2017

BUY
(Initiating coverage)

Target Price: S$0.360 (+22%)

SANLI SP
Price: S$0.295 (as at 24 August 2017)



Price performance	1M	3M	6M	1Y
Sanli	-13.2%	-21.3%	N/A	N/A
Catalist Index	-8.3%	-10.6%	-14.4%	1.7%

Market capitalisation	$79.3 million
Current Price	S$0.295
Shares outstanding	268.7 million
Free Float	20.2%
Major shareholder	Management 75% Temasek Holdings 8%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

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Rising Tide

A water and waste specialist. Sanli Environmental Limited is an environmental engineering company with a niche in water and waste treatment infrastructure in Singapore and Malaysia. It has a L6 grading from the Building and Construction Authority, which qualifies them to tender for jobs of unlimited amount. The Public Utilities Board (PUB), Singapore's national water agency, is a key customer over the last 10 years.

Exposure to the fast growing water and wastewater treatment industry in Singapore. Investment in water infrastructure projects in Singapore and ASEAN is expected to rise as the region drive for greater water self-sufficiency. To this end, PUB intends to double the investment in water infrastructure from the current S$430 million a year to S$800 million, to cope with rising water demand, which is expected to more than double by 2060. Water tariff will rise progressively by 30% by July 2018.

Strong order book. Sanli has a strong order book of S$125.1 million (equivalent to 194% of FY17 revenue), of which management expects more than 50% to be booked in FY18 (YE March). We believe its cash hoard from the recent IPO and the listing status will lead to higher contract wins and help its push into the overseas markets.

Initiating coverage with a BUY with a target price of S$0.360. Our DCF-backed target price of S$0.360 represents 15.9x FY18E P/E which we think is fair given their resilient recession proof business model. Sanli is currently in a net cash position, with a forecasted three year net profit CAGR of 19.2%. We think Sanli's resilient business model and current valuation of 13.0x FY18E P/E and 8.7x FY18E EV/EBITDA is undemanding, we initiate with a Buy.

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*

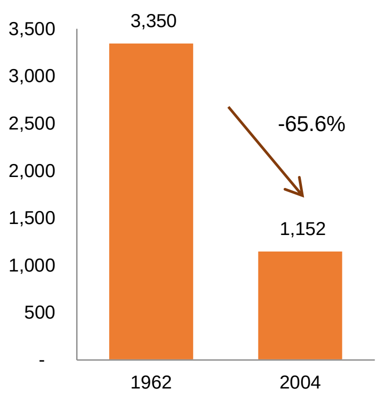
N/A: Not applicable

Investment Highlights

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 aprovides 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.

Renewable internal freshwater resources per capita (cubic meters) – South Asia



Source: The World Bank, SAC Advisors

Exposure to the fast growing water and wastewater treatment industry in Singapore. Government's spending in the water and wastewater treatment industry in Singapore and ASEAN is expected to increase over the years as countries look to increase self-sufficiency in water and reduce water stress. To that effect, the investment in water infrastructure projects is likely to be driven by the following factors: (i) further development of future water infrastructure in Singapore and (ii) the development of water treatment facilities in ASEAN. Singapore's water tariff will rise progressively by 30% by July 2018.

Further development of future water infrastructure in Singapore
Singapore's drive to achieve water self-sufficiency has taken greater precedence in recent years and has received considerable attention in recent times because of news of Linggiu Reservoir hitting record lows of 20% in October 2016. To this end, PUB intends to double the investment in water infrastructure from an average of about S$430 million every year from 2000 to 2015 to an average of S$800 million every year from 2017 to 2021. PUB will invest S$4 billion on additional water infrastructure in the next five years. The sewerage network will be improved as well. A deep tunnel sewerage system, costing more than S$4 billion, will be completed in 2025. In addition, another S$3 billion will be spent on other sewerage network projects, and to strengthen the resilience of the water supply in the next five years.

Development of water treatment facilities in ASEAN
The United Nations ("**UN**") estimates that Asia is already experiencing stress on water availability. This is due to the accelerated pace of population growth and an increase in the amount of water a single person uses, it is also expected that this situation will continue to deteriorate. According to data from The World Bank, the renewable internal freshwater resources per capita (cubic meters) – which is defined as internal renewable resources (internal river flows and groundwater from rainfall) in the country – for South Asia declined from 3,350 cubic metres in 1962 to 1,152 cubic metres in 2004.

In ASEAN, access to fresh water supply is affected by factors such as weather conditions and inadequate and inefficient water treatment and pipelines. At the same time, rapid industrialisation and urbanisation lead to more wastewater being discharged into water bodies (such as rivers, lakes and the sea) with little or no primary treatment. These present opportunities for the Group as it looks to expand its services in countries such as Malaysia, Myanmar, Vietnam and Indonesia.

Investment Highlights

Strong earnings growth expected. We believe Sanli's new listing status and L6 grading position them well in getting new contracts. Sanli has a historical win rate of 20%, which we believe will increase given its new listing status. We expect revenue and net profit to expand by a CAGR of 21.9% and 19.2% for the next three years respectively as it secures higher value projects. The company is in a net cash position and generates a high three year average ROE of 27.0% from FY18E – FY20E.

Healthy order book. The outstanding order book on hand is S$125.1 million (representing 194% of their FY17 revenue), compared to S$112.3 million as at end 2016. Management expects more than 50% to be fulfilled in FY18 (year-end March), barring any unforeseen circumstances.

Initiating coverage with a Buy with a target price of S$0.36. Our DCF-backed target price of S$0.36 represents 15.9x of normalised FY18E P/E which we believe is fair given its resilient recession proof business model. Sanli is currently in a net cash position, with a forecasted three year net profit CAGR of 19.2%. We see Sanli's resilient business model and current valuation of 13.0x normalised FY18E P/E and 8.7x FY18E EV/EBITDA as undemanding, we initiate with a Buy.

SAC Advisors Forecast Summary

Revenue by segment (S$'000)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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
Total Revenue	**19,407**	**37,345**	**57,264**	**64,314**	**80,000**	**99,200**	**122,016**

Revenue % (Y-Y)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Total Revenue	**N/A**	**92.4%**	**53.3%**	**12.3%**	**24.4%**	**24.0%**	**23.0%**

Revenue breakdown (%)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Gross profit	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Gross Profit (S$'000)	**4,004**	**6,385**	**11,248**	**10,399**	**12,800**	**15,872**	**19,523**

Operating profit**	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Operating Profit (S$'000)	**2,120**	**3,833**	**7,357**	**6,503**	**5,975**	**8,795**	**10,780**

Profit Growth (%) (Y-Y)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Profit before tax (S$'000)	**2,049**	**3,724**	**7,185**	**6,269**	**5,741**	**8,561**	**10,546**
Profit after tax (S$'000)	**1,748**	**3,211**	**5,898**	**5,214**	**4,765**	**7,106**	**8,754**

Profit margin (%)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
			Fiscal Year Ended				
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%
Profit after tax (excl. one off IPO expense) (S$'000)	**1,748**	**3,211**	**5,898**	**5,214**	**6,075**	**7,106**	**8,754**

Source: Company data, SAC Advisors

** Profit attributable to owners of the Company*

*** In-house estimate*

Company Background

- 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.

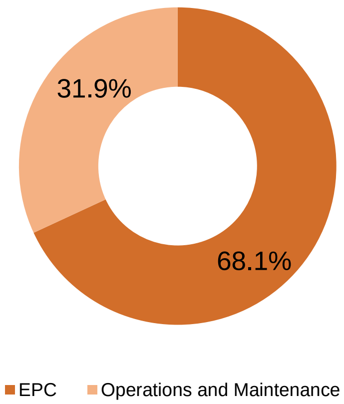
- Its expertise lies in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical equipment as well as instrumentation and control systems. The types of infrastructure include wastewater treatment plants, water reclamation plants, NEWater 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.

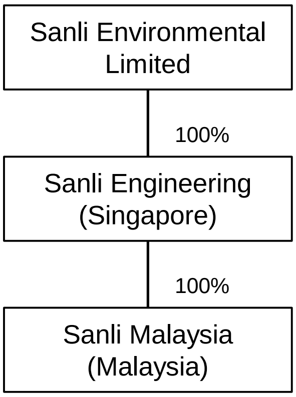
Revenue Breakdown (FY2017)



Source: Company data, SAC Advisors

Business Segment	Products / Services
Engineering, Procurement and Construction	• Water Management • Waste Management
Operations and Maintenance	• Corrective and preventive maintenance services

Corporate Structure



Source: Company data

Overview on Corporate Structure

Principal business activities:
(i) Sanli Engineering: Engineering, procurement and construction services in the field of water and waste management.

(ii) Sanli Malaysia: Project management contracting and M&E engineering services in the water treatment industry.

Corporate History

Sanli was founded in March 2006 by Sim Hock Heng, Kew Boon Kee and Pek Kian Boon. They were previously engineers involved in the project management and day-to-day operations of a Singapore-listed water and waste treatment company.

It commenced business providing maintenance, repair and overhaul services as well as engineering, procurement and construction services to customers in the water and wastewater treatment industry. Within three months of incorporation, it secured five contracts totalling S$1.0 million.

In the same year – 2006, it achieved a major breakthrough by securing its first contract from PUB as a main contractor, to refurbish the electrical system at the Kranji Water Reclamation Plant.

In 2008, it secured their first overseas contract where it was commissioned to fabricate submerged tanks, header pipes and air distribution pipes for a customer in Sri Lanka.

In 2011, it secured a contract from PUB with a contract value of S$3.7 million for the maintenance and servicing of a screening, sludge, grit and related equipment at all water reclamation plants in Singapore.

In 2012, it achieved another major breakthrough when it secured its first contract with a contract value of S$2.2 million from the National Environment Agency ("**NEA**") for the refurbishment of vibrating conveyor systems at the incineration plant in Tuas. This marked its first foray into the solid waste industry.

In 2013, it was awarded the first contract in Malaysia by PUB to carry out the replacement of switchboards, water and sludge treatment, process equipment and ancillaries at the Johor River Waterworks. After the completion of this contract, it secured subsequent contracts from PUB for works at the Johor River Waterworks.

In 2015, it obtained the L6 grading from the Building and Construction Authority ("**BCA**"). With this, it won the tender for a contract value of S$15.4 million from PUB for the replacement of ultrafiltration membranes at Chestnut Avenue Waterworks.

In 2016, it entered into a joint venture with Chye Joo Construction Pte Ltd to undertake a major contract worth S$114.8 million from PUB for process upgrading of Choa Chu Kang Waterworks. Also in 2016, it secured a contract from Tower Transit Singapore Pte Ltd for the maintenance of a wastewater treatment plant at the Bulim bus depot

Industry Overview

Access to safe potable water is fundamental to sustaining health and achieving economic development. With rapid population growth, border disputes, inadequate management of water resources, and the effects of climate change, economic water scarcity has emerged over the years as a key issue. The effects of this is far reaching, and can lead food vulnerabilities as well as conflicts over water resources. Looking ahead, as consumption patterns continue to grow, the demand for clean water and costs for controlling pollution and protecting natural ecosystems increase as well. Fortunately in Singapore, the government recognises this problem and have been taking steps to address this problem. PUB has identified major investments to upgrade their infrastructure up till 2030.

Significant investment in Water Infrastructure

	Now	2030
Demand	430 mgd*	+25%
NEWater	140 mgd	+100%
Desalination	100 mgd	+100%
Pipelines	6,100km	+200km
Sewers	3,400km	+400km

Source: PUB

**mgd: million gallons of water a day*

Water Management Services in Singapore

The drive to ensure self-sufficiency in water has long been the nation's priority since independence. To this end, Singapore has expanded water supply from local sources through (a) collecting water from local catchments; (b) recycling used water and (c) desalination of sea water. The following development plans have already been announced:

(i) Collecting water from local catchments

Two-thirds of Singapore's land area is used as water catchment. Rainwater that falls on these areas is collected through a network of drains, canals and rivers, and channelled to the 17 reservoirs as a source of water supply. To ensure a continuous supply of fresh water, there is an on-going need to maintain, upgrade and expand the existing water catchment network.

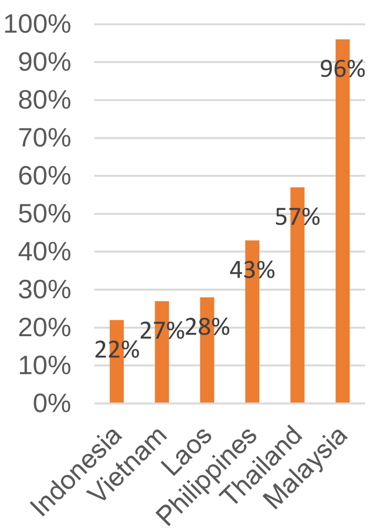
Current sources of water supply

Source: PUB

(ii) Recycling used water

Singapore is one of the world leaders in recycling used water with four NEWater plants meeting up to 30% of the nation's current water needs. By 2060, NEWater is expected to meet up to 55% of Singapore's future water demand. To facilitate such plan, a super highway for used water management, the Deep Tunnel Sewerage System ("**DTSS**") has been implemented to channel used water to water reclamation plants for treatment and further purification into reclaimed water called NEWater, or discharged into the sea. DTSS Phase 1 was completed in 2008 at the cost of $3.4 billion and DTSS Phase 2 is targeted for completion by 2025. The highlight of DTSS Phase 2 will be the new Tuas Water Reclamation Plant and an integrated NEWater factory. It also comprises deep tunnels and link sewers. The cost of DTSS Phase 2 is estimated to be S$6.5 billion. Upon the completion of DTSS Phase 2, PUB intends to redevelop the Kranji Water Reclamation Plant from 2030 onwards.

Access to piped water (population) – 2015



Source: World Health Organisation/ UNICEF Joint Monitoring Program, SAC Advisors

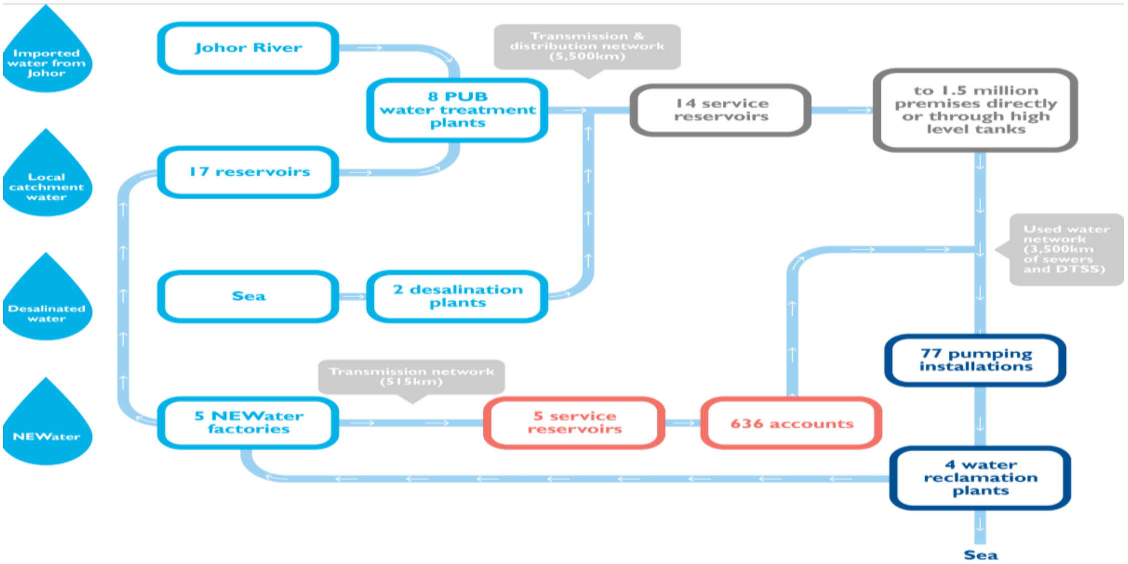
(iii) Desalination of sea water

By 2020, PUB will build another two more 30 mgd desalination plants at Tuas and Marina East to boost the country's water output. A fifth desalination plant will also be built on Jurong Island. PUB plans to double the nation's desalination capacity by 2030, and triple it by 2060 to meet up to 30% of its future water needs.

Industry Overview

Diversified Supply to meet Singapore's water needs

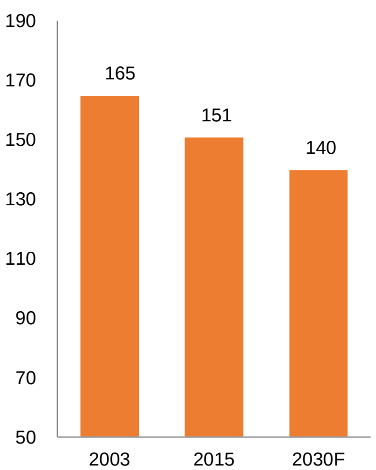
Over the last 50 years, Singapore has built a robust and diversified supply of water known as the "Four National Taps" (see image on side). The tap water is well within the World Health Organisation ("**WHO**") drinking water guidelines and is suitable for drinking without any further filtration.



Source: PUB

Singapore currently draws more than half of its water supply from Linggiu Reservoir which may run out in 2017 if it turns out to be a dry year. Water levels at the reservoir have dropped from 84% at the start of 2015, to 49% at the start of 2016 and the lowest recorded level of 20% in October 2016. As at 1 January 2017, the water level at the Linggiu Reservoir stood at 27%.

Per capita domestic water consumption (litres)



Source: PUB, SAC Advisors

Demand management policies to manage water usage

Adopting a multi-pronged approach, PUB has successfully reduced the per capita domestic water consumption to 151 litres in 2015 from 165 litres in 2003. The PUB has set a target to further reducing this to 140 litres by 2030. Notwithstanding this, water demand is still expected to increase 25% by 2030 and by 2060, Singapore's water use is expected to more than double from about 430 million gallons a day ("**mgd**") now. As demand for water continues to increase in tandem with population and economic growth, PUB will need to plan and implement water infrastructure well ahead to secure an adequate and affordable supply of water for future generations.

PUB needs to expand their capacities on water supply, used water management and drainage to meet the challenges of urbanisation and climate change. This includes the need for continual investment in R&D on water technology to seek more cost-effective ways of treating, recycling and supplying water.

Industry Overview

Active, Beautiful, Clean Waters

In 2006, PUB launched the Active, Beautiful, Clean Waters ("**ABC Waters**") Programme to revamp their blue spaces from just functional assets to also beautiful spots for people to bond and have fun.

More than 100 locations across Singapore have been identified as potential ABC Waters sites to be implemented by 2030, and 32 of them were completed by March 2016. The works were mostly at reservoirs and major waterways, including Bedok Reservoir, Alexandra Canal and Geylang River.

Most projects integrate ABC Waters design features such as rain gardens – to detain rainwater and treat it before it is discharged into their waterways. Examples include those at Rochor Canal, Yishun Pond, Sungei Tampines and Kallang River @ Bishan-Ang Mo Kio Park. Another 20 projects, which include Sungei Pandan Kechil, Kallang River (Bishan Road to Braddell Road), Sungei Pinang and Serangoon Reservoir, are in the works. They will also review the ABC Waters Master Plan periodically to identify other potential sites and take into consideration other agencies' development plans.

These bode well for PUB's future project pipeline. A list of the upcoming tenders from PUB from 1 March 2017 to 31 March 2018 can be found here: https://www.pub.gov.sg/tenders/upcomingtenders/construction

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.

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.

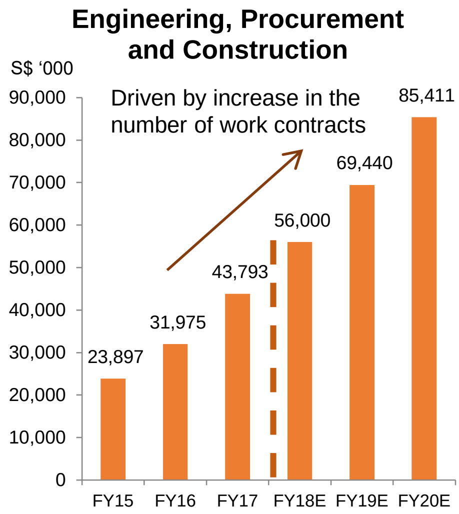
In the field of waste management, Sanli provides engineering solutions and services to their customer in the public sector for the treatment of refuse in incineration plants in Singapore.

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.

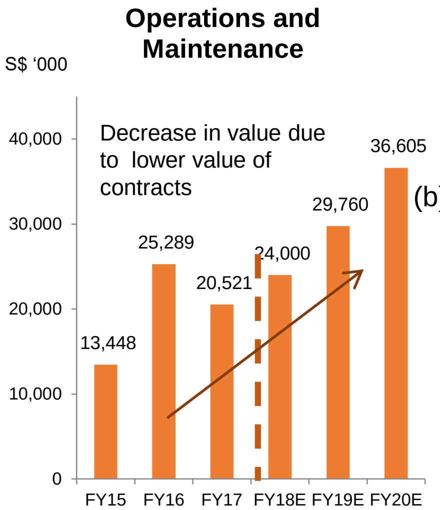
Revenue from this segment accounted for S$43.8 million or 68.1% of FY17 revenue.

(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.



Source: Company data, SAC Advisors



Source: Company data, SAC Advisors

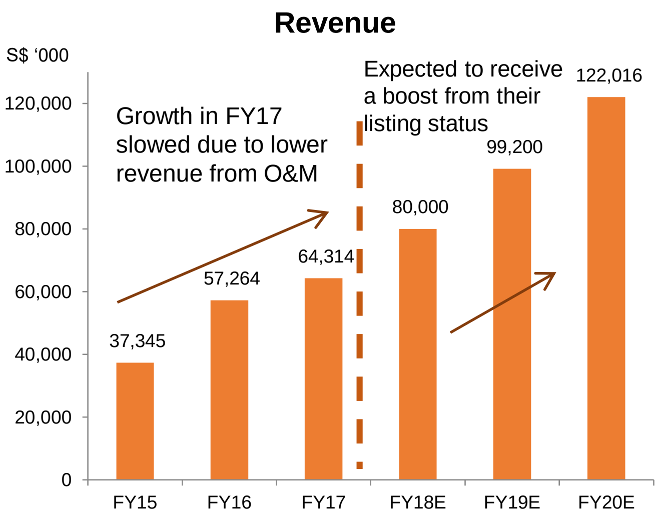
Revenue Breakdown (%)	FY16	FY17	FY18E	FY19E	FY20E
Engineering, Procurement and Construction	55.8%	68.1%	70.0%	70.0%	70.0%
Operations and Maintenance	44.2%	31.9%	30.0%	30.0%	30.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, SAC Advisors

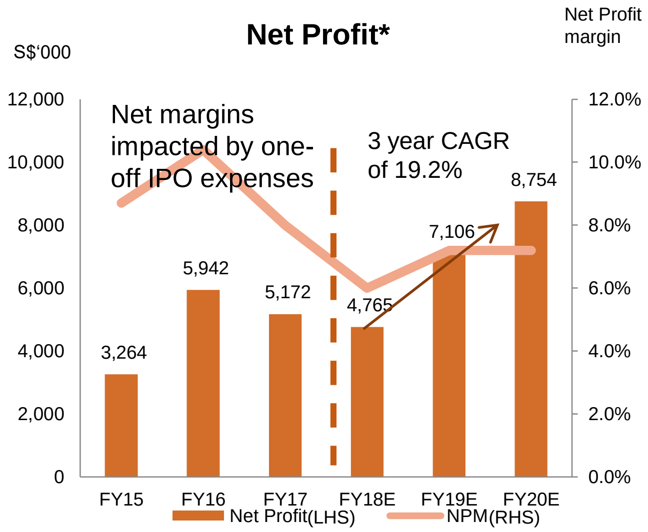
Financial Summary

Revenue expected to receive a boost from new listing status

Sanli's revenue increased by an 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.



Source: Company data, SAC Advisors



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.

Financial Summary

Sound working capital

As over 99% of Sanli's revenues – based on their FY17 results - are derived from PUB, Sanli receives payment promptly.

Cash Conversion Cycle	FY15	FY16	FY17	FY18E	FY19E	FY20E
Trade Receivable days	35	31	32	32	32	32
Trade Payable days	67	55	47	51	51	51
Cash Conversion Cycle days	-32	-24	-15	-19	-19	-19

Source: SAC Advisors

Sanli does not carry any inventory. Receivable days averaged about 32 days in FY17, and there is low risk of default given that its main customers are the government agencies. The suppliers are mainly equipment providers and sub-contractors, which extend a longer credit term of 30 to 60 days. The efficient working capital management alleviates cash flow needs even if they take on higher-value contracts.

However, the working capital needs will grow when Sanli ventures into the overseas markets.

Diverse range of projects undertaken

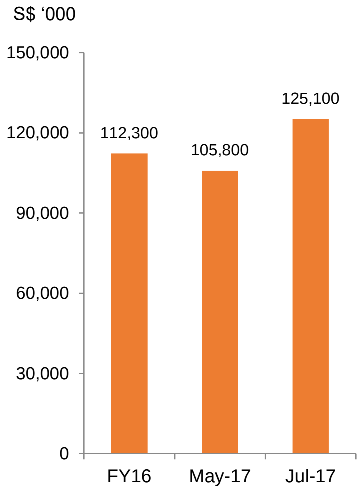
Engineering, Procurement and Construction	Operations and Maintenance
FY2015	
Replacement of M&E equipment and installation of additional centrifuge at Ulu Pandan water reclamation plant, which contributed S$5.4m to revenue.	Maintenance of headworks equipment at Changi water reclamation plant, which contributed S$3.0m to revenue.
Refurbishment of vibrating system at Tuas South Incineration Plant, which contributed S$4.8m.	Overhaul of centrifugal pumps, disintegrator and related equipment and maintenance works at various PUB installations, which contributed S$2.0m.
FY2016	
Construction of drains and supply of pumps at Lorong Halus, which contributed S$4.8m.	Servicing and maintenance of screening, sludge, grit and related equipment at various water reclamation plants, which contributed S$10.6m.
Renewal of equipment and upgrading of various used water pumping installations across 11 locations, which contributed S$3.6m.	Maintenance of M&E equipment at Changi water reclamation plant, which contributed S$2.7m.
FY2017	
Replacement of equipment at Choa Chu Kang Waterworks, which contributed S$8.3m.	Replacement of ultrafiltration membranes at the Chestnut Avenue Waterworks, which contributed S$5.3m.
Civil, mechanical and electrical works at Lower Seletar Waterworks, which contributed S$4.3m.	Servicing and support at Jurong industrial water supply system, which contributed S$1.3m.

Source: Company data, SAC Advisors

Only a selected number of projects are highlighted above

Strong Order book provides visibility

Historical order book



Source: Company data, SAC Advisors

The order book based on unfulfilled orders from signed contracts and confirmed variation orders as at 4 July 2017 amounted to approximately S$125.1 million (representing 194% of their FY17 revenue), as compared to S$112.3 million as at end 2016.

The majority of their contracts take about 18 months to turnaround, and we expect more than 50% of these orders to be fulfilled in FY2018. Moving forward, we expect that Sanli will continue to win more orders as their listing status and L6 grade license – the highest – means that they can start to bid for orders of a higher value.

Sanli has an average three year historical win rate of 20%, with the win rate for EPC at 20% and O&M at 10%. We expect the win rate to increase moving forward as their new listing status and L6 certification positions them well in winning new contracts.

Experienced management team

Sim Hock Heng is their Chief Executive Officer. He co-founded the Group with Executive Directors, Kew Boon Kee and Pek Kian Boon. He oversees the overall business operation and general management of their Group. Prior to co-founding their Group, he worked at Dayen until March 2006. He is a graduate from Singapore Polytechnic with a Diploma in Electrical Engineering in April 1991 and holds a Bachelor of Science degree from SIM University in September 2007.

Kew Boon Kee is an Executive Director is in charge of their Engineering, Procurement and Construction segment, Operations and Maintenance segment as well as their workplace, safety and health department. He started his career as an engineer with SKLA Engineering Sdn Bhd in February 1997 before he joined Dayen as a project engineer and was responsible for managing water and wastewater projects between 1999 and 2005. He is a graduate from the Federal Institute of Technology in February 1994 and a holds a Bachelor of Engineering degree with Second Class Honours (First Division) in Electrical and Electronic Engineering from University of Sunderland in June 1996.

Pek Kian Boon is an Executive Director. He is one of the co-founders of the group and heads their tender team, for both Engineering, Procurement and Construction segment, Operations and Maintenance segments and spearheads their business development activities. He started his career with the Singapore Armed Force in March 1992 as an infantry officer . Subsequently in 1994, his vocation was converted to army technical officer where he was responsible for managing research and development projects. Prior to founding their Group, he was a project manager at Dayen and was in charge of project management and internal audits for ISO system between September 1998 and March 2006. He graduated with a Diploma in Mechanical Engineering from Ngee Ann Polytechnic in August 1991.

Lee Tien Chiat is an Executive Director. He is in charge of their procurement function, workshop and fabrication team as well as their design team. He started his career with Feng Fu Enterprise co. in June 1995 as a design engineer. Prior to joining the Group in October 2007, he was a project manager at Dayen and was in charge of project management between September 1999 and September 2007. He graduated with a Bachelor of Science degree in Mechanical Engineering from National Taiwan University in June 1995 and a Masters of Science degree (Environmental Engineering) from Nanyang Technological University in February 2005.

Future Plans

Targeting higher-valued projects

Sanli intends to capitalise on their established track record of more than 10 years of experience in the field of water and waste management to secure more projects and projects of a larger scale so as to increase its market share in the industry. Sanli believes that the Singapore government's initiatives and the development plans for the water and wastewater industry as highlighted in the Industry Overview of this report, will present business opportunities for the Group.

A larger premises to house its operations

In line with its plans to undertake more projects and projects of a larger scale, Sanli has completed the purchase of a new factory premises at 28 Kian Teck Drive.

Extending to the industrial sector and overseas markets

Sanli intends to leverage their technical knowledge, industry experience and track record to secure more contracts in the industrial sector, to further strengthen its market position in Singapore.

In addition, it intends to provide their solutions and services to industrial and public sector customers in neighbouring ASEAN countries that are still developing their water and waste management infrastructure, such as Malaysia, Myanmar, Vietnam and Indonesia. Its established track record in Singapore will give it the competitive edge to secure a foothold in these markets, where the percentage of population with access to piped water are still relatively low.

Sanli has set up a business development unit to actively explore these opportunities in Singapore and in the Southeast Asian region. It may also seek tie-ups through acquisitions, joint ventures or strategic alliances.

Key Risks

Dependent on public sector
In FY2014, FY2015, FY2016 and 9M2017, the revenue from the largest customer, PUB, accounted for approximately 75.8, 78.2%, 85.7% and 99.0% of their Group's revenue. The Group's business is therefore, affected by the Singapore government's policies and budgets relating to expenditure on public infrastructure, especially that relating to water and waste management. However, this also implies minimum collection risks.

Exposure to risk of project cost overruns
Sanli's revenue is largely derived from project-based contracts. The contract value quoted in their tender submission is determined after evaluating the scope of work and carrying out internal costing, taking into account all related costs including the indicative prices of their sub-contractors and suppliers. Profitability is therefore dependent on their ability to manage costs.

Ability to tender for projects hinges on BCA registration grades
Contractors in Singapore are categorised by BCA into different registration grades and registration with the BCA is a pre-requisite for contractors to tender for government contracts in Singapore. Factors such as capital net worth, track record and minimum number of personnel with the relevant qualifications affect the workhead classification and grade granted by the BCA to their Group. Whilst there are no immediate risks or circumstances that may result in any downgrades, any downgrades would affect the Group's reputation and financial performance.

Relative Valuation

The sector average price to earnings multiple (“**P/E**”) for engineering contractors in Singapore is around 13.3x.

In the last three financial years, Sanli’s net margin averaged 9.3%, higher than water-related peers’ 8.2%.

Name	Ticker	Price (S$)	Mkt Cap (S$mn)	Revenue (S$mn)	Net Margin %	Hist P/E (x)	ROE %	Dividend yield %	Year-end
Contractors									
Hock Lian Seng Holdings Ltd	HLSH SP	0.460	306.0	118.1	30.0% (a)	5.3x	15.4%	4.2%	Dec 16
Tiong Seng Holdings Ltd	TSNG SP	0.300	118.0	774.3	3.0% (a)	6.7x	5.9%	3.1%	Dec 16
Koh Brothers Group Ltd	KOH SP	0.300	117.8	427.3	4.0%	8.5x	5.1%	1.2%	Dec 16
CSC Holdings Ltd	CSC SP	0.023	54.7	260.7	-9.0%	N/A	-13.9%	N/A	Mar 17
Average (contractors)			**149.1**	**427.3**	**7.0%**	**6.8x**	**3.1%**	**2.1%**	
(a) Also derive earnings from property development and property investments									
Water-related									
China Everbright Water Ltd	CEWL SP	0.460	1,318.0	498.8	14.0% (b)	20.0x	5.0%	0.7%	Dec 16
SIIC Environment Holdings Ltd	SIIC SP	0.460	1,241.1	529.6	11.9% (b)	13.9x	7.9%	N/A	Dec 16
Hyflux Ltd	HYF SP	0.480	443.6	975.7	0.5% (b)	N/A	-4.2%	0.9%	Dec 16
Moya Holdings	MHAL SP	0.104	224,1	19.0	15.0% (b)	77.2x	2.4%	N/A	Dec 16
Koh Brothers Eco Engineering	KBE SP	0.077	69.5	202.3	3.0%	4.1x	15.6%	0.6%	Dec 16
Darco Water Technologies	DRWT SP	0.590	24.6	60.6	4.9%	7.4x	11.8%	N/A	Dec 16
Average (water-related)			**553.5**	**379.5**	**8.2%**	**20.4x**	**6.4%**	**0.5%**	
(b) Engage in build, operate, transfer (BOT) or build, operate, own (BOO) water infrastructure projects									
Overall average			**351.3**	**403.4**	**7.6%**	**13.6x**	**4.8%**	**1.3%**	

Source: Bloomberg, extracted on 22nd August 2017

** LFY: Last Financial Year*

1 RMB: SGD 0.20

Dividend policy

Sanli intends to pay out 20% of FY18 earnings as dividends. We believe this payout ratio can be maintained moving forward.

Recommendation

DCF Assumptions	
Cost of Equity	7.3%
Adjusted beta	1.332
Terminal growth rate	2.00%
Target Price	**S$0.36**

Source: SAC Advisors

We initiate coverage on Sanli with a BUY with a DCF backed target price of S$0.360, translating into a conservative 15.9x normalised FY18E P/E. Sanli is currently in a net cash position, and has a resilient business model in an recession proof industry. We believe Sanli is well-positioned to further grow their earnings through new and bigger contract wins.

In arriving at our target price, we used the capital asset pricing model to derive a cost of equity of 7.3%, which is fair given the resilience of their business model. Applying a 2.0% terminal growth rate, we arrived at our target price of S$0.36, which represents a 22% upside to the last closing price.

We believe Sanli's resilient business model, and current valuation of 13.0x normalised FY18 P/E and 8.7x FY18E EV/EBITDA is undemanding, we initiate with a BUY.

Income Statement (S$'000)

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

Cash Flow Statement (S$'000)

FYE 31 Mar	2016	2017	2018F	2019F	2020F
Profit/(Loss) before tax	**7,185**	**6,269**	**5,741**	**8,561**	**10,546**
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)
Net Cash (used in)/ from operations	**3,121**	**14,393**	**4,080**	**6,783**	**8,218**
Purchase of PPE	(695)	(429)	(625)	(525)	(475)
Others	(483)	58	48	48	48
Net Cash (used in)/ from investing	**(1,178)**	**(371)**	**(577)**	**(477)**	**(427)**
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)
Net Cash (used in)/ from financing	**446**	**(9,162)**	**7,913**	**(1,655)**	**(1,985)**

Balance Sheet (S$'000)

FYE 31 Mar	2016	2017	2018F	2019F	2020F
As at 31 Mar					
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
Total current assets	**21 ,853**	**24,218**	**39,363**	**48,333**	**59,239**
Property, plant and equipment	5,747	5,648	5,781	5,844	5,887
Available for sale investments	524	267	267	267	267
Total non-current assets	**6,271**	**5,915**	**6,048**	**6,111**	**6,154**
Total assets	**28,124**	**30,133**	**44,671**	**52,064**	**62,279**
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
Total current liabilities	**12,724**	**18,473**	**19,260**	**21,508**	**24,181**
Borrowings	3,730	2,882	2,882	2,882	2,882
Finance leases	355	268	268	268	268
Total non-current liabilities	**4,085**	**3,150**	**3,150**	**3,150**	**3,150**
Total liabilities	**16,809**	**21,623**	**22,410**	**24,658**	**27,331**
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
Net equity	**11,357**	**8,510**	**22,261**	**27,946**	**34,949**
Total liabilities and equity	**28,124**	**30,133**	**44,671**	**52,064**	**62,279**

Ratios

FYE 31 Mar	2016	2017	2018F	2019F	2020F
Profitability (%)					
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%
Liquidity (x)					
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
Valuation (x)					
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
Cash Conversion Cycle					
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
Returns					
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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Nil	Nil

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Sanli Environmental Limited	Continuing Sponsor	Ongoing relations
Sanli Environmental Limited	Issue Manager and Placement Agent	June 8 2017

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