

Sanli Environmental Ltd

28 July 2021

BUY

BBG	SANLI SP
Market cap	S\$40.6m
Price (27 July 2021)	S\$0.151
52-week range	S\$0.05 – S\$0.21
Target Price	S\$0.249
Shares Outstanding	268.7m
Free Float	31%
Major Shareholder	Typha Holdings 41.0% Heliconia Capital Mgmt 8.0% ICH Gemini Asia Growth 5.1%
P/BV (03/21)	1.5x
Net Debt to EBITDA (03/21)	Zero debt

Source: Company data, Bloomberg, SAC Capital

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Recovering from the trough

Better than expected. FY21 revenue declined 9.8% to S\$60.5m, better than expected if taking into consideration the 2-month lockdown in Apr-May 2020 when all construction work were halted. Labour shortage and additional COVID preventive measures added to costs and construction delay. Work has stopped in Myanmar (10% of revenue) since the political upheaval in Feb 2021.

Higher O&M offset lower EPC. The fall in EPC revenue (-20.5%) was partly compensated by more higher-margined operations and maintenance works (+33.9%). Share of O&M has risen to 29.1% of revenue (FY20: 19.6%) and 56.8% of gross profit (FY20: 40.5%). Still, margins for both segments were dragged down by the higher costs. Overall gross margin fell 3.7 ppt to 7.3%. Net profit was 5.1% higher at S\$0.3m, helped by a S\$3.1m government grant.

FY21 is likely to be the trough for earnings. Singapore is heading towards a vaccination rate of 80% by Sep 2021 that enable further relaxation of movement restrictions and borders to re-open. This would allow more foreign workers to return, and construction projects to be ramped up. We expect revenue to grow by 10% and 15% in the next two years, and gross margins to return to FY19's level of ~14%.

Demand intact. Singapore's public sector still make up the bulk of its projects. Sanli's recent S\$73m contract win from PUB brings orderbook to S\$330m to be completed by early 2026. Public construction demand is likely to pick up and more infrastructure contracts would be dished out. This would reduce competitive pressure, bring about more sensible tender bids and firmer margins. However, COVID remains the greatest risk.

BUY. Our estimated EV is S\$49.6m, derived from DCF at WACC of 15.6%. With net cash of S\$17.3m, equity value is S\$66.9m translating into target price of S\$0.249. Sanli has an asset-light balance sheet, as its work are high in engineering content. Our target price translates into EV/EBITDA of 14.3x and 10.8x for FY22E and FY23E, respectively.

YE 31 Mar (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	71.4	67.1	60.5	66.5	76.5
EBIT	2.9	0.7	0.5	2.1	3.2
Net profit	2.2	0.3	0.3	1.7	2.7
EPS (S cents)	0.8	0.1	0.1	0.6	1.0
DPS (S cents)	0.1	0.1	0.2	0.3	0.4
Net cash / (debt)	6.2	15.8	17.3	19.2	23.1
Valuation					
EBIT margin (%)	4.1	1.0	0.9	3.1	4.2
ROIC (%)	11.3	3.7	3.9	18.6	35.6
EV/EBITDA (x)	11.7	50.2	-9.0	10.3	5.4
P/E (x)	18.3	128.8	122.6	23.4	15.2
Dividend yield (%)	1.7	0.4	0.5	1.3	2.0

Income Statement

FYE 31 Mar (\$\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	67.1	60.5	66.5	76.5
Cost of sales	(59.7)	(56.1)	(57.2)	(65.8)
Gross profit	7.4	4.4	9.4	10.7
Other income	0.1	0.3	0.2	0.2
Operating expenses	(7.0)	(7.3)	(7.5)	(7.7)
OPERATING PROFIT	0.5	(2.6)	2.1	3.2
Government grant	0.2	3.1	-	-
Exceptional items	-	-	-	-
EBIT	0.7	0.5	2.1	3.2
Finance costs	-	0.1	-	-
Pretax profit	0.7	0.6	2.1	3.2
Tax expense	(0.2)	(0.0)	(0.4)	(0.5)
Minority interests	(0.1)	(0.2)	-	-
Net profit	0.3	0.3	1.7	2.7

Cash Flow

FYE 31 Mar (\$\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	0.7	0.6	2.1	3.2
Depreciation & amortisation	1.2	1.4	1.4	1.4
Associates & JV	-	-	-	-
Net finance expense	-	-	-	-
Non-fund items	(0.1)	(0.3)	-	-
Working capital changes	8.9	0.1	(0.5)	0.8
Interest paid	-	-	-	-
Dividend from associates	-	-	-	-
Tax paid	(0.5)	(0.2)	(0.2)	(0.4)
Operating cash flow	10.3	1.6	2.8	5.1
Capex	(0.2)	(0.4)	(0.4)	(0.4)
Net investments	-	-	-	-
Fixed assets disposal	0.1	0.8	-	-
Others	0.3	-	-	-
Free cash flow	10.4	2.0	2.4	4.7
Dividend paid	(0.7)	(0.2)	(0.5)	(0.8)
Borrowings	(0.4)	(1.0)	-	-
Equity	-	-	-	-
Net change	9.3	0.9	1.9	3.9

Balance Sheet

FYE 31 Mar (\$\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
Fixed assets	9.2	8.9	7.9	6.9
Right of use assets	2.1	1.6	1.6	1.6
Deferred tax	-	0.0	-	-
Others	-	-	-	-
Non-current assets	11.4	10.5	9.5	8.5
Inventories	-	-	-	-
Trade receivables	11.5	9.4	10.0	11.5
Contract assets	10.0	12.5	12.5	12.5
Cash	18.2	19.1	21.0	24.9
Others	-	-	-	-
Current assets	39.6	41.0	43.5	48.9
Total assets	51.0	51.5	53.0	57.4
Liabilities				
Bank loans	0.2	0.2	0.2	0.2
Contract liabilities	3.1	5.8	5.8	5.8
Trade payables	17.4	15.4	15.5	17.8
Lease liabilities	0.1	0.4	0.4	0.4
Tax provisions	0.1	0.4	0.4	0.5
Others	-	-	-	-
Current liabilities	21.0	22.0	22.3	24.8
Bank loans	2.1	1.5	1.5	1.5
Deferred tax	0.3	-	-	-
Lease liabilities	1.1	1.2	1.2	1.2
Non-current liabilities	3.5	2.7	2.7	2.7
Net assets	26.5	26.8	28.0	29.9
Equity				
Share capital	21.3	21.3	21.3	21.3
Other reserves	(6.3)	(6.3)	(6.3)	(6.3)
Retained earnings	11.3	11.5	12.7	14.6
	26.4	26.5	27.7	29.6
Minority interests	0.1	0.3	0.3	0.3
Total equity	26.5	26.8	28.0	29.9

Ratios

FYE 31 Mar (\$\$m)	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	11.0	7.3	14.1	14.0
EBIT margin	1.0	0.9	3.1	4.2
Liquidity (x)				
Current ratio	1.9	1.9	2.0	2.0
Net Debt/EBITDA	-	-	-	-
Interest coverage ratio	-	-	-	-
Net Debt to Equity (%)	-	-	-	-
Valuation (x)				
P/E	128.8	122.6	23.4	15.2
P/BV	1.5	1.5	1.5	1.4
EV/EBITDA	50.2	-9.0	10.3	5.4
Cash Conversion Cycle				
Trade receivable days	62.4	56.6	55.0	55.0
Inventory days	-	-	-	-
Trade payable days	106.4	99.9	99.0	99.0

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