Sanli Environmental Ltd

8 Nov 2021

BUY (Maintained)

BBG	SANLI SP
Market cap	S$30.4m
Price (5 Nov 2021)	S$0.114
52-week range	S$0.05 – S$0.21
Target Price	S$0.249
Shares Outstanding	266.4m
Free Float	31%
Major Shareholder	Typha Holdings 41.0% Pek Kian Boon 9.0% Heliconia Capital Mgmt 8.0%

P/BV (09/21)	1.1x
Net Debt to EBITDA (09/21)	Zero debt

Source: Company data, Bloomberg, SAC Capital

Analyst

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Reopening to accelerate work progress

1H22 results in line. Net profit of S$0.9m was 54% of our FY22 earnings projection of S$1.7m. Revenue growth (+8.3%) stemmed from a 29% yoy gain in higher-margined operations and maintenance work booked in 1H22, which drove gross margin to 13.5% (1H21: 7.7%). Net profit gained 568% yoy due to exceptionally low base in 1H21 that was hurt by a 2-month lockdown when construction work were halted. It received S$1.1m in government grant (1H21: S$1.7m).

No change to profit projections. We expect a stronger 38% revenue increase in 2H22 over 1H22. Contract assets of S$15.4m as at Sep 21 (Mar 2021: S$12.5m) will be billed in 2H22. We expect construction sector to rebound with greater availability of workers from Dec 2021. The authority has stipulated that the workforce will return to office from Jan 2022, and is gradually opening up borders to tourists and foreign labour. Net profit, however, is likely to be lower in 2H22 due to cut in government grant.

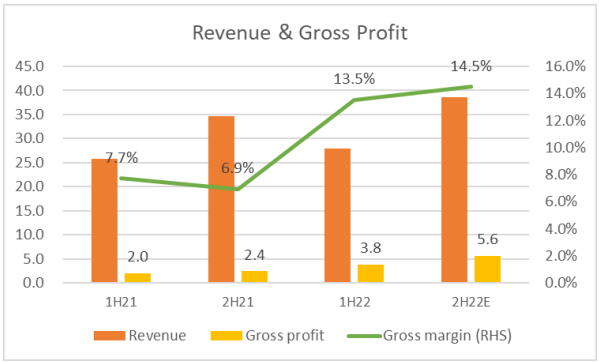
Maintain BUY and TP of S$0.249. Current valuation is undemanding at FY22E and FY23E EV/EBITDA of 3.2x and 1.6x respectively. Our buy call is built on the followings: 1) strong orders on hand, which rose by 2.1% to S$336m, that lasts till year 2026; 2) net cash holdings of S$10.7m, or 4cts/sh; and 3) potential operating leverage that will bring about a recovery in gross margin to pre-COVID's level of above 14%. Unlike other construction peers, Sanli faces lower risks of collection, as its contracts are secured with the Public Utilities Board. Competition in the specialized water treatment sector is also less intense compared with building and civil construction work.

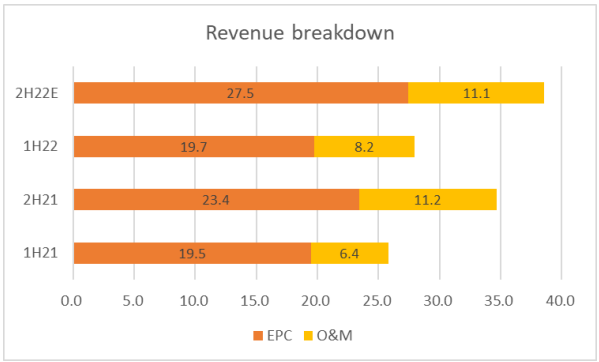
PUB's DTSS2 project pipeline. In Oct 21, PUB awarded a S$200.7m contract to Koh Brothers Building and Civil Engineering Contractor (Pte) Ltd to install a ceramic membrane bioreactor facility at Tuas Water Reclamation Plant to treat industrial used water. This is the first of 2 Industrial Liquids Modules (ILMs) to be installed, the tender for the second ILM is expected to be called soon. The Tuas Plant is part of PUB's S$6.5bn DTSS2 project to reclaim and recycle water scheduled for completion in 2025.

Year End 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	0.1	1.0
DPS (S cents)	0.1	0.1	0.1	0.2	0.3
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)	6.1	8.9	-11.3	3.2	1.6
P/E (x)	13.8	97.2	92.5	17.5	11.4
Dividend yield (%)	2.2	0.5	0.6	1.7	2.6

1H22 Financial Performance

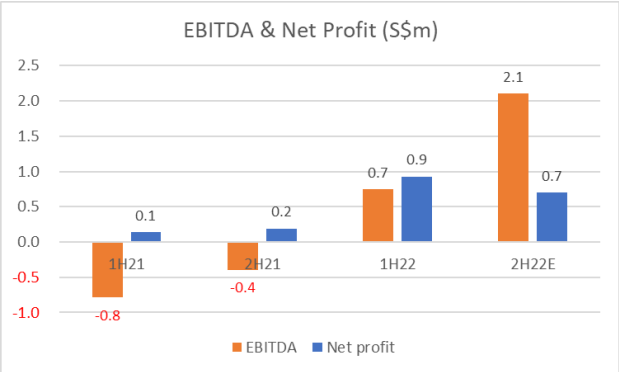
Results in line. Revenue rose 8.3% due to more operations and maintenance work secured and booked. These are higher-margined jobs compared with EPC with lower equipment content. Gross margin therefore improved from 7.7% in 1H21 to 13.5% in 1H22. EPC turnover was flat at S$19.7m, as construction progress was still constrained by manpower and stringent work processes to contain virus spread. 60%-owned Myanmar operations accounted for 3.1% of revenue, with little progress on work done due to the military coup.





EBITDA has turned positive, but bottomline was in the red if we exclude government grant of S$1.1m. As at end Sep, it has contract assets of S$15.4m, which will be billed in 2H22. We also expect more order completion with gradual lifting of restrictions on work processes and more migrant workers are expected to join the pool.

While we expect stronger EBITDA in 2H, we also think the government grant might not recur.



Free cash flow was negative S$6.3m due to unbilled revenue, and net cash on hand fell to S$10.7m (Mar 21: S$17.3m) or 4 cents/share. ROIC has improved to 11.0% (FY21: 3.9%).

Our earnings projections are unchanged. We are building in higher revenue as work gathers pace with the economy reopen. Operating leverage will bring gross margin back to pre-COVID level of above 14%. Sanli has an order backlog of S$336m that can sustain work through year 2026.

We expect PUB to call for tenders for the projects that were put on hold due to the pandemic and manpower crunch. There are 51 potential construction and 46 maintenance contracts listed on its website. Amongst them is the installation of the second Industrial Liquids Module (ILM) for the bioreactor facility at Tuas Water Reclamation Plant. The first was awarded to Koh Brothers for S$200.7m in Oct 2021. We think Sanli is a strong contender for the second ILM installation work.

Income Statement

FYE 31 Mar (S$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
Operating expenses	(7.0)	(7.3)	(8.3)	(7.7)
OPERATING PROFIT	**0.5**	**(2.6)**	**1.1**	**3.2**
Government grant	0.2	3.1	1.1	-
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 (S$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 (S$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 (S$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	97.2	92.5	17.5	11.4
P/BV	1.2	1.2	1.1	1.0
EV/EBITDA	8.9	-11.3	3.2	1.6
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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