



January 10, 2014
Equity Focus
Rating: Unrated

Share price (SG\$) 0.186

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Key Data

52Wk H/L(SG\$)	0.205/0.06
Issued shares (mn)	8,589.3
Market cap (SG\$ mn)	1,606.2
3-mth avg daily turnover (SG\$ mn)	5.04
Major shareholder(s) (%):	
Shanghai Industrial Hldgs	46.71
China Energy Conservation	13.02

Source(s): Company, Bloomberg

FY12 Revenue breakdown (%)

Waste water treatment	40.7
Water purification treatment	25.6
Construction and others	33.7

Source(s): Company, ABCI Securities

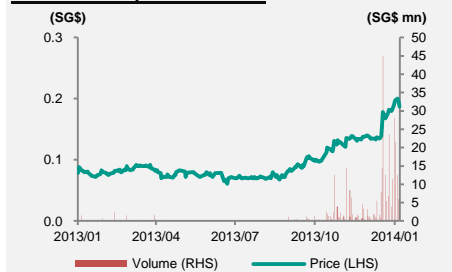
Share performance (%)

	Absolute	Relative*
1-mth	37.78	43.56
3-mth	89.80	93.39
6-mth	165.71	149.97

*Relative to HSI

Source(s): Bloomberg

1-Year stock performance



Source(s): Bloomberg

SIIC Environment (SIIC SP)

Key takeaways from management meeting

- SIIC Environment (SIIC) is mainly engaged in the operation of waste water treatment, water purification treatment and construction businesses (including power plant EPC and municipal EPC). We have summarized some key points after meeting the CFO of SIIC, Raymond Tan
- With its solid shareholder background, SIIC's ability to secure projects has been much strengthened since its restructuring in 2010. Business growth will be driven both organically and by M&A
- Positive catalysts in 2014 include potential asset injection from parent and listing on HKEx.

Strong shareholder background helps secure projects. As the water treatment industry is capital intensive, competitiveness of its industry players rely heavily on their ability to win projects and obtain sufficient funding to develop the awarded projects. After SIIC's share restructuring in 2010, Shanghai Industrial Holdings (SIHL) has become the largest shareholder with a 46.7% stake at present. Backed by a strong shareholder background, SIIC's funding cost was as low as 4.7% compared to the industry average at 5%-7%, which is a major competitive advantage for the Group in project bids. Since its restructuring, SIIC's water treatment capacity has increased 290% to 3.9mn tons/day. Currently, the Group's projects are covering 12 provinces in China.

Growth drivers in 2014: SIIC's operation will continue to expand through organic growth and M&A. Organic growth will be achieved through securing more BOT projects and upgrading its existing plants that would allow SIIC to raise the water tariff. Returns of projects acquired through M&A are evaluated through the NPV method and management expects IRR on BOT projects to be at least 8%. SIIC plans to increase its water treatment capacity by 1mn ton/day each year for the next few years (representing a capacity growth of 25% YoY for 2014) with an annual CAPEX of RMB 2bn. Recent placement of 3.1bn shares with total proceeds of S\$ 263.5 in Dec 2013 has helped enhance capital and allow the Group to secure more funding through leveraging. Management targets to maintain the FY14E EPS at levels similar to FY13E. To achieve that, FY14E net profit would have to increase by more than 50% YoY considering the earnings dilution to be resulted from the share placement in Dec 2013.

Asset injection as potential catalyst. As SIHL also holds a 47.5% stake in General Water, a private company with a water treatment capacity of 5.5 mn tons/day in China, potential asset injection from the parent is possible in the future. No defined schedule, however, has been disclosed by the Group yet.

Dual listing may drive up valuation: Based on the data from Bloomberg, the Group's comparable peers BEWG (371 HK) and CEB (257 HK) are trading at 4.2x and 3.1x FY13E P/B while SIIC is trading at 3.0x FY13E P/B. Management is pursuing listing on HKEx by mid-2014. Given SIIC's higher ROE than BEWG (11.1% vs 9.7%), its share valuation in SGX could be driven up by the HK-listed peers.

Results and Valuation

FY ended Dec 31	2009A	2010A	2011A	2012A	9M13
Revenue (RMB mn)	319.3	282.4	519.5	804.5	1,059.70
Chg (% YoY)	(17.4)	(11.6)	84.0	54.9	28.9
*Net Income (RMB mn)	(179.5)	22.1	110.1	130.5	176.0
Chg (% YoY)	N/A	N/A	398.10%	18.50%	15.30%
*EPS (RMB)	-0.9114	0.0114	0.0321	0.0258	0.0321
BVPS (RMB)	0.9871	0.1781	0.2088	0.959	0.0631*
Chg (% YoY)	15.4	32.9	39.6	0.2596	9.1
P/E (x)	N/A	N/A	N/A	26.76	N/A
P/B (x)	N/A	N/A	N/A	0.94	2.94*
ROA(%)	(12.2)	1.6	4.5	3.1	14.5
ROE (%)	(63.3)	7.4	15.2	11.1	N/A
DPS(RMB)	0	0	0	0	0
Net gearing (%)	306.5	101.5	59.3	91.1	29.8

* 9M13 BVPS and PB were annualized based on 1H13 financials and incorporated impact of the placement completed in Dec 2013

Source(s): Bloomberg, SIIC, ABCI Securities estimates



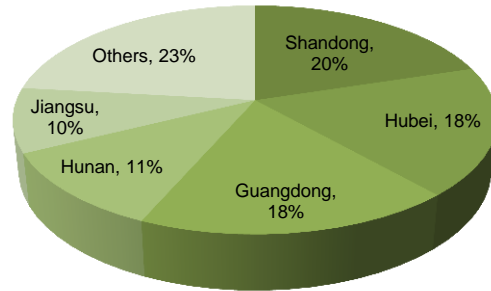
Risk factors: 1) Failure in asset injection and/or listing on HKEx; 2) Execution risks in M&A; 3) Aggressive project bidding may lower returns; 4) Competition with controlling shareholder in water treatment business; 5) New business risks of non-water treatment projects; 6) No dividend record

Exhibit 1: Business breakdown by project quantity



Source(s): SIIC, ABCI Securities

Exhibit 2: Capacity breakdown by project location (total 3.9mn tons/day)



Source(s): SIIC, ABCI Securities

Exhibit 3: Project quantity by province

Province	Wastewater Treatment/Reclaimed Water Treatment	Water Supply	Waste incineration	Total
Shandong	7	2	-	9
Guangdong	8	-	-	8
Hubei	5	3	-	8
Hunan	5	-	-	5
Jiangsu	4	-	-	4
Fujian	1	-	-	1
Guangxi	1	-	-	1
Henan	1	-	-	1
Liaoning	1	-	-	1
Shanxi	-	1	-	1
Yunnan	1	-	-	1
Zhejiang	1	-	1	2
Shanghai	1	-	1	2
Total	36	6	2	44

Source(s): SIIC

Exhibit 4: Sector Valuation Summary (Data as of Jan 9, 2014)

Company	Ticker	Curr	Price	FY12 P/E(x)	FY13E P/E(x)	FY14E P/E(x)	FY13E P/B(x)	FY12 ROAA	FY12 ROAE	FY13E Yield (%)
SIIC Environment	SIIC SP	SG\$	0.186	26.76	-	-	2.94	3.69	13.45	0.00
China Everbright	275 HK	HK\$	10.44	35.44	33.25	27.19	4.20	7.11	14.96	0.62
BEWG	371 HK	HK\$	4.50	37.01	32.37	24.86	3.09	2.72	9.44	1.00

Source(s): Bloomberg, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5(year average market return rate from 2007(2011

Time horizon of share price target: 12(month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180(day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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