9 September 2014

800 Super Holdings Ltd

Uncovering Super-value from trash!

Your Partner In Finance

SINGAPORE | ENVIRONMENTAL SERVICES | TRADING NOTE

Rating: Trading Buy

- Double digit CAGR in Revenue (+13.4%) and PATMI (+14.6%) over the last four financial years, outpacing 5% CAGR for total waste generated.
- Three new contracts not fully booked into FY14 results; 1HFY15F and Full Year FY15F forecasted to see strong Revenue and PATMI y-y growth.
- Currently trading cheaply at estimated implied forward P/E of only 4.4x; in contrast to core business contracts at 6 or 7 year tenures.
- Issue "Trading Buy" rating on 800 Super with TP of S$0.670, based on 8.0x FY15F P/E.

Investment merits

- Two core business segments of waste management and public cleaning each operate in an oligopoly with high barriers to entry.
- Distinct advantage of already having two Material Recovery Facilities (MRFs) with a third in the pipe-line, to capitalise on the trend of the shift towards recycling.
- Recession-proof business model providing non-cyclical essential services.
- Deeply undervalued by the market due to information inefficiency and unglamorous business that is not well understood.
- Cash build-up raises the possibility of higher dividends being declared.

Re-rating catalyst

- Three new recent contracts that will commence during CY2014 did not fully contribute in FY14 (FYE Jun), but will contribute fully from 2HFY15F onwards. The **partial contribution** alone for FY14 already resulted in strong y-y growth for 800 Super.
- We opine that despite the recent run up in share price for 800 Super following its FY14 results announcement on 26 August 2014, the market still does not fully appreciate what the **full contribution** by the three new contracts will have on FY15F results, and the new elevated level of earnings in the FYs to follow. 800 Super has effectively expanded its market share for public cleaning services.
- The market is still ignorant of the full impact that the three new contracts will have on FY15F results and beyond due to the **absence of active analyst coverage**. We advocate that the impact still has not been fully priced-in yet, with about <u>**80%**</u> more upside to go!

Investment Actions

We rationalise that 8.0x P/E is a bargain price to pay for a **profitable**, **recession-proof** business model, with core business **revenue visibility** for the next 6 to 7 years and **track record of growth**. Accordingly, we issue a "Trading Buy" rating on 800 Super, with TP of $0.670, based on 8.0x FY15F P/E.

Key Financial Summary

FYE Jun	FY12	FY13	FY14	FY15F
Revenue (SGD mn)	88.7	97.5	115.0	149.7
NPAT, adj. (SGD mn)	5.9	5.7	9.0	15.0
EPS, adj. (S Cents)	3.35	3.21	5.01	8.38
P/E (X),adj.	5.5	6.9	5.2	4.4
BVPS (S Cents)	16.99	19.25	23.24	30.66
P/B (X)	1.1	1.2	1.1	1.2
DPS (S Cents)	1.00	1.00	1.00	2.00
Div. Yield (%)	5.4%	4.5%	3.8%	5.4%

Source: Bloomberg, PSR est.

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

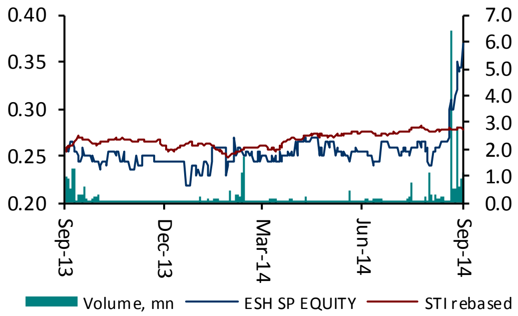
Target Price (SGD)	**0.670**
Forecast Dividend (SGD)	0.020
Closing Price (SGD)	0.370
Potential Upside	**81.1%**

Company Description

800 Super Holdings Ltd (800 Super) is an environmental services provider for the public and private sectors in Singapore. The Company's environmental services include waste management and recycling, cleaning & conservancy and horticultural services.

Company Data

Raw Beta (Past 2yrs weekly data)	0.29
Market Cap. (USD mn / SGD mn)	53 / 66
Ent. Value (USD mn / SGD mn)	65 / 82
3M Average Daily T/O (mn)	0.32
Closing Px in 52 wk range	0.22 – 0.37



Major Shareholders	**(%)**
1. Yeong Seong Investment Pte Ltd	66.0
2. Venstar Investments Ltd	4.9
3. Koh Yong LEE	2.8
4. Hock Seong LEE	2.8

Valuation Method

8.0x FY15F P/E

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Trading Buy Note

800 Super Holdings Ltd (800 Super) recently announced its Full Year FY14 (FYE Jun) financial results on 26 August. We issue a "Trading Buy" rating, and recommend a TP of $0.670 based on 8.0x FY15F P/E.

We demonstrate in our **Investment Thesis** and explanation to our **Valuation Model** on Page 3 of this report that the market still has not priced in the true value of 800 Super.

Results at a glance

(SGD mn)	FY14	FY13	y-y (%)	Comments
Revenue	**115.0**	**97.5**	**17.9%**	**Re-award of contracts at revised pricing and new contracts awarded.**
EBITDA	15.6	10.2	52.4%	
EBIT	11.1	7.0	58.4%	
Net Income	**9.0**	**5.7**	**56.3%**	**Improved pricing resulted in more Revenue flowing through to Net Income.**

Source: Company, PSR

Overview of FY14 results

- Revenue growth was due to re-award of contracts at revised pricing and new contracts awarded. Of particular significance was the re-award of the licence to provide waste collection services in the Ang Mo Kio – Toa Payoh sector, and the new contract to provide IPC in the North-West region of Singapore.
- Benefit of the re-award of the licence is the higher revenue for the project, while costs associated for the project held steady. This allows more of the revenue to flow through to the bottom line as compared to before.
- The additional contract for Integrated Public Cleaning services in North-West region boosted both revenue and PATMI for 800 Super.
- FY14 net margin improved to 7.8% (FY13: 5.9%), highlighting the impact of the re-award of project at higher project value but retaining the original costs, as well as additional new projects at better margins.
- Comparing on a half-yearly basis, 1HFY13, 2HFY13, 1HFY14 and 2HFY14 net margins were 5.4%, 6.3%, 4.4% and 10.6% respectively. This demonstrates the impact of the projects that began contributing in 2HFY14 to the bottom line.
- 1.0 Cent final dividend was declared for FY14. (FY13: 1.0 Cent)

Sector Acronyms

IPC	Integrated Public Cleaning
MEWR	Ministry of Environment and Water Resources
MRF	Material Recovery Facility
NEA	National Environmental Agency
PWC	Public Waste Collector
TMTS	Tuas Marine Transfer Station
WTE	Waste-To-Energy

Recent contract wins announced and completed contracts

800 Super recently announced three contract wins awarded by NEA. 800 Super renewed its contract for waste collection in the Ang Mo Kio – Toa Payoh sector, and added the public cleaning contracts for North-West and South-West regions of Singapore. The public cleaning contract for South-West region has not begun contribution yet and will be consolidated in the next reporting period (1HFY15). At the same time, 800 Super will complete some contracts within the next reporting period (1HFY15F).

Refer to Table 1 for recent contract wins.

Refer to Table 2 for recently completed contracts and soon-to-be-completed contracts.

In addition to award of new contracts at better pricing, 800 Super has in effect expanded its market share of Public cleaning by one additional region. (Previously North-East region, now North-West & South-West regions.)

Table 1. Recent contract wins by 800 Super

Start date	End date	Tenure	Value	Description	Contribution
1-Jan-14	30-Sep-21	7 yrs 9 mths	S$160.6 mn	Waste collection in Ang Mo Kio - Toa Payoh sector. (Contract renewal)	Full 2HFY14
1-Apr-14	31-Mar-20	6 (+1) yrs	S$97.3 mn	Public cleaning, North-West region.	Partial 2HFY14
1-Sep-14	31-Aug-21	7 (+1) yrs	S$204.9 mn	Public cleaning, South-West region.	1HFY15 onwards

Source: Company, PSR

Table 2. Recently completed/soon-to-be-completed contracts

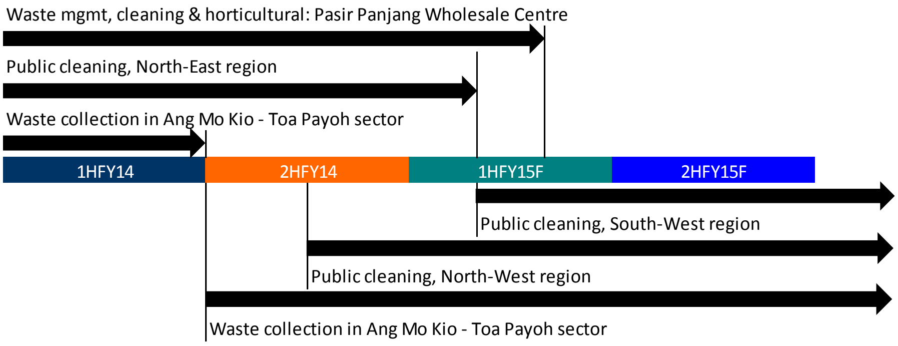
Start date	End date	Tenure	Value	Description	Contribution
1-Jul-06	31-Dec-13	7 yrs 6 mths	S$94.7 mn	Waste collection in Ang Mo Kio - Toa Payoh sector	Until 1HFY14
1-Sep-09	31-Aug-14	5 (+2) yrs	S$31 mn	Public cleaning, North-East region.	Partial 1HFY15
1-Nov-11	30-Oct-14	3 yrs	S$10.6 mn	Waste mgmt, cleaning & horticultural: Pasir Panjang Wholesale Centre	Partial 1HFY15

Source: Company, PSR

Investment Thesis: Market is ignorant of the full impact that the three new contracts will have on FY15F results and beyond, due to information inefficiency arising from absence of active analyst coverage.

As we show in the figure below, the reporting periods of 2HFY14 and 1HFY15F are when the contracts transition. Despite only partial contribution in 2HFY14 from the new higher-valued contracts, the impact was immediately seen in the FY14 results. We are forecasting strong y-y growth again for 1HFY15F and FY15F, as the new higher-valued contracts begin to contribute fully.

Fig 1. Time-line for completion and start of contracts



Source: Company, PSR

"Back-of-the-envelope" estimate for FY15F EPS

- 1HFY14 EPS was 1.28 Cents, while FY14 EPS was 5.01 Cents. This implies a 3.73 Cents EPS for 2HFY14.
- We annualise the 3.73 Cents to give a "back-of-the-envelope" estimate of 7.46 Cents FY15F EPS.
- But this estimate is still conservative as it does not include the new contract that begins contributing in 1HFY15F (Public cleaning, South-West region).
- At the same time, two of the other contracts that are completed will have to be adjusted out. But the increased contribution from the new contract will more than offset the decrease.
- Applying our 8.0x P/E valuation methodology would give a conservative "back-of-the-envelope" S$0.595 estimate.

Full Valuation Model: P/E multiple

We opine that the market has neglected 800 Super after its Initial Public Offering due to the unglamorous nature of its business. However, we highlight that 800 Super has a **resilient business model of providing essential services that are used by both the private and public sector**. Its range of services has been **diversified across three complementary segments**, and there is **forward integration from its recyclable material collection service to its MRFs**.

We modelled the transition of the contracts into our forecast and arrived at an **estimated 8.38 Cents EPS for FY15F**. We rationalise that 8.0x P/E is a bargain price to pay for a **profitable**, **recession-proof** business model, with core business **revenue visibility** for the next 6 to 7 years and **track record of growth**. **We recommend a TP of $0.670, based on 8.0x FY15F P/E.**

We argue that even after applying a punishing 25% margin of safety to our S$0.670 TP to discount for illiquidity concerns and any unforeseen excessive margins-compression, we still arrive at an attractive absolute worst-case of S$0.500 for 800 Super. **Hence, the previous closing price of S$0.370 (with estimated implied forward P/E of 4.4x) still presents a compelling opportunity to exploit the severe mispricing of 800 Super and buy it for a song, while the rest of the market is still blissfully unaware of its true value.**

Implied growth estimates due to contracts transition:

- 1HFY15F growth - Revenue about 40%y-y, EPS more than 200%y-y.
- FY15F growth - Revenue about 30%y-y, EPS about 67%y-y.

Now that the cat is out of the bag, a strong set of results being reported during the second week of February 2015 for 1HFY15 and late August 2015 for FY15 should not come as a "surprise" to anyone!

We also see cash building up, due to the higher operating cash flow in our forecast. We think that this raises the possibility that higher dividends will be declared in the following years.

Peer comparison

Table 3. Peer relative data

Company	Price (S$)	Mkt. Cap. (S$mn)	TTM P/E	P/B
COLEX HOLDINGS LTD	0.235	31.1	8.8x	1.5x
800 SUPER HOLDINGS LTD	0.370	66.2	7.4x	1.9x

Source: Bloomberg (updated: 8 September 2014)

Company Overview

800 Super Holdings Ltd (800 Super) is an environmental service provider with clients from both the public and private sector. The environmental services that the Group provides are waste management and recycling, cleaning and conservancy and horticultural services. The Group's range of competencies allows it to offer complete solutions to its customers. The Group's customers include residential, commercial, industrial, institutional entities, government departments and statutory bodies.

800 Super owns and operates two recycling sorting facilities in Singapore, known as Materials Recovery Facility (MRF), with a daily total capacity of more than 50 tonnes. 800 Super is one of four public waste collectors (PWCs) appointed by the National Environment Agency (NEA) to provide waste collection services to domestic and trade premises. It currently provides waste collection service in the Ang Mo Kio – Toa Payoh sector in Singapore. The Group recently acquired three land parcels in Tuas during FY2013, with the intention of using them for MRF, vehicle depot, material and equipment storage and vehicle maintenance; and acquired a property in Sungei Kadut to support operational needs for its Integrated Public Cleaning (IPC) services.

800 Super was listed on Catalist of the Singapore Exchange in April 1999 with an offer price of S$0.220 and first day closing price of S$0.315. 800 Super has a market capitalisation of about S$66 million and public float of about 20%.

Group Structure

800 Super has investments in various subsidiaries. The following table outlines the various activities that the subsidiaries are engaged in.

Three key continued growth drivers for the sector are evident:

1. **Population growth** – Clear trend of increasing waste generated in Singapore in tandem with population and economic growth.
2. **Economic growth** – Leading to a.) higher incomes, higher propensity for consumer discretionary spending (upgrading consumer goods to replace existing goods), resulting in more waste being generated; b.) increase in commercial and retail space, creating demand for cleaning services.
3. **Environmental initiatives** – Due to greater environmental-awareness, recycling initiatives are gaining traction. 800 Super is already positioned to tap on this area. It has two existing MRFs and a third is currently under construction.

Table 4. Subsidiaries of the 800 Super Group

Name of subsidiary	Principal activities	Country of business/ incorporation	Equity Holding (%)
800 Super Waste Management Pte Ltd	Waste disposal and general contractors providing cleaning services.	Singapore	100
YS Yong Services Pte Ltd	Supply of labour and general contractors providing cleaning services.	Singapore	100
Green Recycling Pte Ltd	Manufacturing, packaging and processing of plastics, woods materials and scrap metals, and providing cleaning services and waste disposal.	Singapore	100
800 Landscape Pte Ltd	Landscape care and maintenance services and other business support related services.	Singapore	100
800 Super Renewal Energy Pte Ltd	Investment holding and treatment and disposal of waste (including remediation activities).	Singapore	100
Focus Learning Centre Pte Ltd	Job training, corporate training, vocation rehabilitation services and motivational courses.	Singapore	70

Source: Company FY2013 Annual Report

Business Model

1. <u>Waste Management & Recycling</u>

   This business segment deals with public sector waste collection for domestic and trade premises. The waste management services include providing residential, commercial and industrial waste collection services, as well as recycling services.

   800 Super is one of four licensed PWCs appointed by NEA. Its wholly-owned subsidiary, 800 Super Waste Management Pte Ltd was recently re-appointed to provide waste collection services to the Ang Mo Kio – Toa Payoh sector in August 2013. The Group has been collecting waste in the sector for seven and a half years since July 2006. The new contract is valued at S$160.6 million and is for a period of seven years and nine months, which commenced from 1 January 2014 to 30 September 2021.

Source: Company

2. <u>Cleaning & Conservancy</u>

   800 Super is engaged in the street cleaning of public areas in Singapore. 800 Super also offers contract cleaning and conservancy services for residential, commercial, industrial and institutional clients.

   800 Super was awarded the contract by NEA to provide IPC services for the North-West and South-West regions of Singapore. The contract for the North-West region is valued at S$97.3 million and is for a period of six years, which commenced from 1 April 2014 to 31 March 2020. The contract carries the option to extend for a further period of one year.

   The contract for the South-West region is valued at S$204.9 million and is for a period of seven years, which commenced from 1 September 2014 to 31 August 2021. The contract carries the option to extend for a further period of one year.

Source: Company

3. <u>Horticultural Services</u>

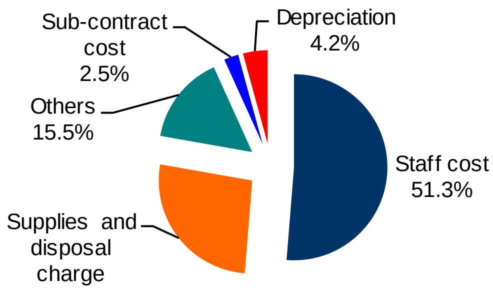
   This business segment covers arboriculture services, grass cutting, landscape planning and maintenance services to residential, industrial, commercial and institutional customers.

Source: Company

Operating cost structure

The largest component to operating expenses is "Staff cost", followed by "Supplies and disposal charge". Staff costs constitute slightly over half of the operating expenses, highlighting the human capital intensive nature of the industry. Supplies and disposal charge arises from the weight of waste that is brought to the WTE plants for incineration.

Fig 2. FY14 Operating expenses



Source: Company, PSR

INDUSTRY & COMPANY ANALYSIS

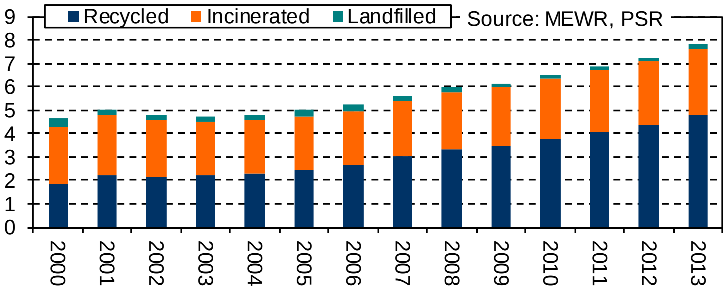
Industry trends

The following charts are of Ministry of Environment and Water Resources (MEWR) data and they reveal 3 industry trends:

1. Total waste generated grew at about 5% CAGR over the last 10 years from 4.73 million tonnes in 2003 to 7.85 million tonnes in 2013.
2. Recycled waste overtook Incinerated waste in 2004. Recycled waste grew about 8% CAGR while Incinerated waste grew about 2% CAGR over the last 10 years from 2003 to 2013.
3. Recycled waste as a percentage of Total waste generated has increased from 47% in 2003 to 61% in 2013.

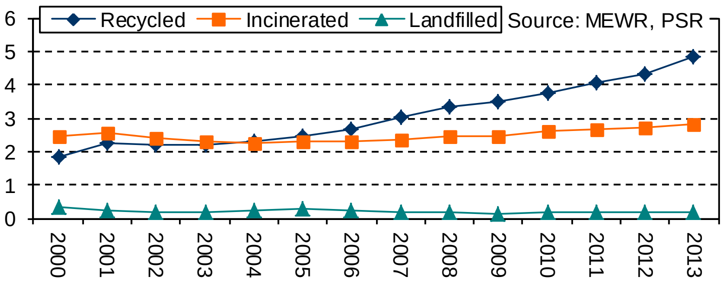
800 Super is a beneficiary of these trends through its waste management and recycling business segment. 800 Super currently has 2 MRFs and a third is under construction to increase capacity to cope with the shift in trend towards recycling. 800 Super earns revenue (through its contract with NEA) collecting the recyclables from domestic and trade premises, sorting the recyclables and then shipping the baled recyclables to the re-processing plants.

Fig 3. Waste generated (mn tonnes)



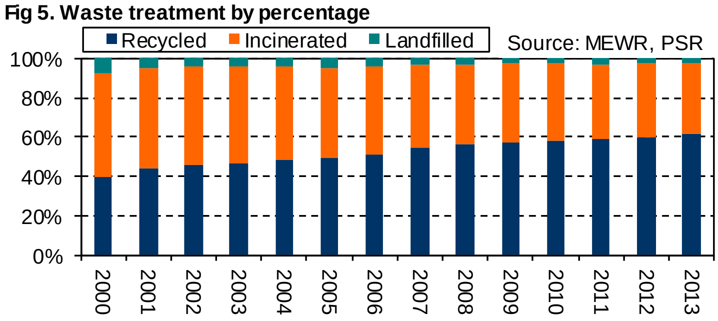
Remarks: Waste generated, 5% CAGR in 10 years between 2003 and 2013.

Fig 4. Waste treatment (mn tonnes)



Remarks: Recycled waste had overtaken Incinerated waste in 2004.

Fig 5. Waste treatment by percentage



Remarks: Recycled from 47% to 61% in 10 years between 2003 and 2013.

Waste management cycle in Singapore

Key processes

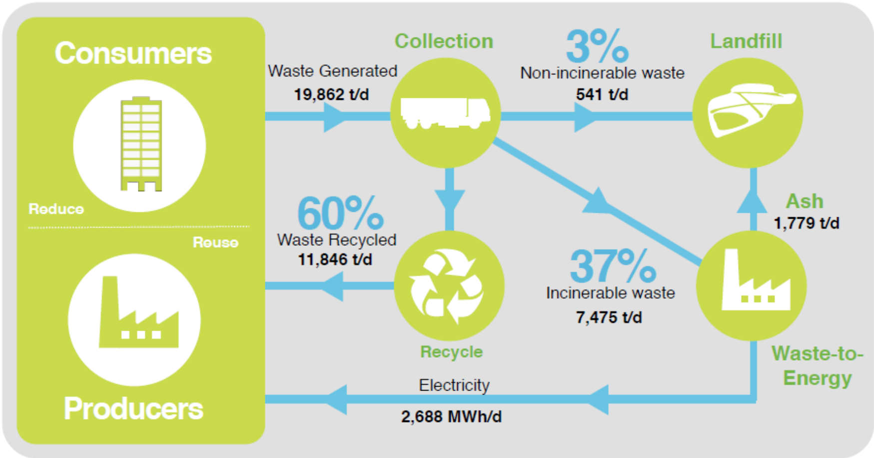
The NEA lists three key processes for solid waste management in Singapore.

1. **Collecting & Sorting** – This entails waste and recyclables collection from residential, commercial and industrial sources, followed by the sorting and recovery of recyclable material.
2. **Processing** – Non-incinerable waste such as construction debris is sent to the landfill. Recyclable waste is converted to secondary raw materials, such as plastics waste to pellets, horticulture waste to charcoal fuel, food waste to fertiliser and extraction of precious metals from electronic waste.
3. **Treatment & Disposal** – Incinerable waste gets sent to the WTE plants for incineration and the ash gets sent gets sent to the landfill with the rest of the solid waste that was not extracted for recycling.

Hence: **Total waste generated = Landfilled waste + Incinerated waste + Recycled waste**

The following figures illustrates the solid waste management cycle in Singapore and examples of the types of waste collected.

Fig 6. Overview of current system



Note: Average daily figures for 2012

Source: NEA presentation, "Solid Waste Management in Singapore", dated November 7, 2013

Fig 7. Examples of recyclables, incinerable and non-incinerable waste

Source: NEA presentation, "Upgrading Productivity for the Waste Management Sector", dated September 18, 2013

Solid Waste Management Infrastructure in Singapore

Recyclable waste is first sorted from the rest of the solid waste. Incinerable waste is then transported to one of the waste-to-energy plants for incineration. The incineration process reduces the volume of the solid waste to 10% of its original volume and steam is generated that is used to run turbine-generators which generate electricity. The incinerated ash is then sent to the Tuas Marine Transfer Station (TMTS) together with the non-incinerable waste where they will be weighed and loaded onto barges and then transported to and disposed at the Semakau Landfill.

Waste-To-Energy (WTE) Plants

There are four incineration plants in Singapore and they are known as waste-to-energy (WTE) plants. Waste is incinerated and the heat generated is used to produce steam in boilers, which is then used to drive turbines to produce electricity. Refuse collection vehicles arriving at the WTE plants are first weighed on a weighbridge. The vehicles are weighed again after they discharge the waste. The before-and-after weighing process allows the WTE plant to track the amount of waste being brought for incineration.

Table 5. WTE Plants

	Operated by	Refuse Disposal Fees (Per tonne)	Remarks
Tuas Incineration Plant (TIP)	NEA	$77	
Tuas South Incineration Plant (TSIP)	NEA	$77	
Senoko Waste-to-Energy Plant (SWTE)	Keppel Seghers	$81	Only plant located outside of Tuas; serving the eastern, northern and central areas of Singapore.
Keppel Seghers Waste-to-Energy Plant (KSTP)	Keppel Seghers	$77	

Source: Company, Keppel Seghers, NEA, PSR

Tuas Marine Transfer Station (TMTS)

TMTS is the collection point on mainland Singapore for ash from the WTE plants and the non-incinerable waste before they are transported to the Semakau Landfill. The TMTS is located next to the Tuas South Incineration Plant. Just like at the WTEs, vehicles are weighed upon entry to TMTS and the empty vehicles are weighed again when they leave. This is done to keep track of the amount of waste being collected at TMTS.

Fig 8. Vehicle entering TMTS being weighed

Source: NEA

Fig 9. Vehicles in reception hall discharging waste directly onto the barge

Source: NEA

Fig 10. Tugboat and barge

Source: NEA

Semakau Landfill

Semakau landfill is a man-made landfill located 8 km south of Singapore. Barges filled with waste from the TMTS are brought to Semakau Landfill by tugboat. The 30 km sea route from TMTS to Semakau Landfill takes 3 hours. Upon arrival, the tugboat will berth and disengage from the barge and return to TMTS with an emptied barge. Meanwhile, the waste in the barge will be removed by excavators and placed into dump trucks. The dump trucks will then bring the incinerated ash and non-incinerable waste to the landfill cell for disposal.

Fig 11. Aerial view of Semakau Landfill

Source: NEA

Fig 12. Excavators removing waste from barge

Source: NEA

Fig 13. Dump truck unloading incinerated ash at landfill cell

Source: NEA

Semakau Phase I and Phase II – The Semakau Landfill is operated in two phases. Based on current usage and projected growth in waste produced, NEA estimates that the Phase I landfill cells will be fully-utilised by 2016. Development of Phase II landfill had begun in January 2014 and is expected to be completed by 2015. While Phase II of the landfill is projected to serve Singapore's needs till 2035, <u>NEA has highlighted the need to further strengthen efforts to reduce and recycle as much waste as possible</u> so as to optimise the limited sea space available at Semakau

Fig 14. Aerial view of Phase I and Phase II

Source: NEA

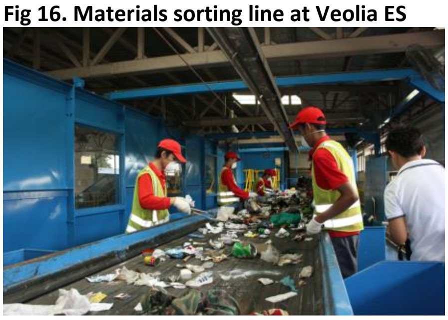
What happens at a Material Recovery Facility (MRF)?

The recyclable material that is collected is sorted in a sorting line according to the type of material such as paper, plastics, glass and metals. The recovered materials are then baled and sold to recycling plants where the materials are re-produced into secondary raw materials.

Fig 15. Veolia ES Materials Recovery Facility

Source: Veolia ES

Fig 16. Materials sorting line at Veolia ES



Source: NEA

Market structure and industry analysis

Sector classification – 800 Super belongs to the *Industrial* sector, providing commercial services, under the MSCI GICS classification. 800 Super provides refuse collection, waste management, contract cleaning and horticultural services. These services are not sensitive to economic cycles, and thus the business is non-cyclical. The nature of the services is much like the utilities sector – providing an essential service, therefore making 800 Super a defensive firm.

Market structure for public waste collection – Waste management market structure in Singapore is an **oligopoly between four Public Waste Collectors (PWCs)**. PWCs are appointed by NEA. The four players in the market are outlined in the following table. With the exception of Veolia ES Singapore Pte Ltd, the Parent Company of the other three players are listed on the Singapore Exchange.

Table 6. List of appointed PWCs in Singapore

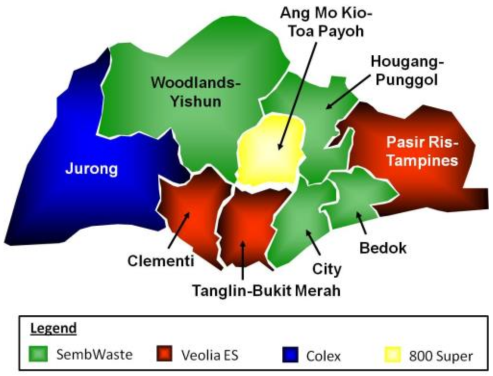
	Public Waste Collectors	Parent Company	Parent Company listed on SGX?
1.	Veolia ES Singapore Pte Ltd	Veolia Environment S.A.	No. Euronext Paris & NYSE.
2.	Colex Environmental Pte Ltd	wholly-owned subsidiary of Colex Holdings Ltd	Yes.
3.	SembWaste Pte Ltd	wholly-owned subsidiary of Sembcorp Industries Ltd	Yes.
4.	800 Super Waste Management Pte Ltd	wholly-owned subsidiary of 800 Super Holdings Ltd	Yes.

Source: NEA, PSR

After the privatisation of refuse collection in Singapore in 1999, the NEA has divided refuse collection into 9 sectors. PWCs are required to bid competitively for the contracts to collect refuse. Successful bidders are awarded seven-year contracts to collect waste in the respective sector. The NEA had deliberately created a limited number of 9 sectors to achieve operation scale and improve cost effectiveness.

Hence, the market is highly concentrated with only four players and nine sectors. The market is characterised by high barriers to entry, as contracts are awarded for a period of 7 years, and the PWCs have to bid competitively. While it provides an economic moat, the long tenure of 7 years could pose as a double-edged sword if any of the PWCs fail to win a contract. They would not be able to participate in the tender process again until the contract expires many years later.

Figure 17. Public waste collection divided into 9 sectors by NEA



Source: NEA

Market structure for Integrated Public Cleaning (IPC) – Just like public waste collection, IPC contracts are managed and tendered by NEA. The industry is also an **oligopoly between five service providers** listed below.

Table 7. List of public cleaning service providers

	Service Providers	Region	Cleaning Services
1.	Ramky Cleantech Service Pte Ltd	South-East	Roads, pedestrian thoroughfares, beaches, shorelines, community parks
2.	800 Super Waste Management Pte Ltd	North-West	Roads, pedestrian thoroughfares, beaches, shorelines, community parks
		South-West	Community parks
3.	Veolia ES Singapore Industrial Pte Ltd	Central-North	Roads, pedestrian thoroughfares, beaches, shorelines, community parks
		Central-South	Roads, pedestrian thoroughfares, beaches, shorelines, community parks
		South-West	Roads, pedestrian thoroughfares, beaches, shorelines
4.	Chye Thiam Maintenance Pte Ltd	North-East	Roads, pedestrian thoroughfares, beaches, shorelines, community parks
		Expressway	Expressway roads and drains
5.	Ho Eng Huat Construction Pte Ltd	Singapore	Vacant land

Source: NEA, PSR

Market structure for recycling – Collection of recyclable material from domestic and trade premises is handled by the PWCs as described earlier. In addition, there are numerous other collectors that collect a range of recyclable material from industrial premises.

There is a distinction between *collection* of recyclable material, and the *re-processing* of recyclable materials. The re-processing industry is highly fragmented with at least 49 players (based on NEA data as of 1 November 2013). The various players deal with all recyclables such as, steel scrap, spent copper slag, food waste, construction and demolition waste, scrap tyres, horticultural and wood waste, plastic scraps, electronic scraps and lighting waste, industrial and domestic waste.

Market structure for contract cleaning & conservancy – Highly fragmented with low barriers to entry. There is an estimated more than 1,000 cleaning companies in Singapore.

Industry life cycle – The public environmental services industry is at a mature stage. The market has largely evolved to an oligopoly between the major players, showing that consolidation of the market has taken place. There are high barriers to entry due to Regulatory requirements.

Porter's Five Forces Analysis for Environmental Services industry

Threat of new entrants – low

- **Government policy.** Public Waste Collectors are appointed by NEA, and contracts are typically for 7 years. This raises the barrier to entry, and at the same time makes it critical for incumbents to retain their market share. The same applies to the IPC contracts.
- **Learning curve.** Low learning curve with no proprietary knowledge required to enter the market.
- **Capital requirements.** High capital requirements in the form of specialised facilities, machines and vehicles.
- **Asset specificity.** Specific assets used in environmental services inhibit new entrants from other industries from entering.
- **Scale.** Requires scale and discourages small players from entering.

Threat of substitutes – low

- **Substitute products.** There are no substitutes for providing an essential public service and cleaning services.

Intensity of rivalry – low

- **Industry concentration.** The waste management business segment is concentrated with an oligopoly of four players in the market, and the contracts for waste management across Singapore are divided into 9 sectors. Public cleaning is also concentrated with an oligopoly of five players in the market. With only a few firms holding a high concentration of market share, the competitive landscape is less intense compared to a fragmented market with many competitors. However, the contract cleaning business segment operates in a highly fragmented industry, thus raising the intensity of competition.
- **Product differentiation.** There is little product differentiation, with players competing on quality, reliability and cost.
- **Exit barriers.** Specialised assets are used, exclusive to the environmental services industry. This places a high cost on abandoning the industry, thus

firms must compete.

Bargaining Power of suppliers – moderate

- **Staff costs.** Difficulty in hiring locals to join waste management industry. Slightly over half of 800 Super's operating cost arises from staff costs.
- **Supplies and disposal charges.** 800 Super has to pay $77 per tonne of waste that is brought to the WTE plant.
- **Supplier concentration.** High supplier concentration for the disposal of waste at the WTE plants. There are only four plants in Singapore and operated by two operators.
- **Threat of forward integration.** There is little threat of forward integration by suppliers.

Bargaining Power of customers – low to moderate

- **Customer concentration.** High customer concentration for Waste management & recycling segment because it is tendered by NEA (sole customer for waste collection). High customer concentration as well for the IPC contracts as it is tendered by NEA. Low customer concentration for Cleaning & conservancy and Horticultural services because there are many customers.
- **Threat of backward integration.** There is little threat of backward integration by customers as they come from diverse industries. The only customer that may have any incentive to backward integrate would be the re-processors of recyclable materials.
- **Switching costs.** There are low switching costs involved as other players within the industry generally offer the same suite of services with little product differentiation.

SWOT Analysis for 800 Super

Strengths

- Long-time player with over 20-years' experience in waste management.
- Diversified pool of customers from both private and public sector.
- Diversified range of services with forward integration to Material Recovery Facilities (MRF).
- Already have two MRFs in place, getting paid to collect recyclable material, and selling the material after sorting. A third MRF is under construction.

Weaknesses

- Opportunities are restricted as currently operating predominantly within Singapore.
- Difficulty in hiring manpower for waste management industry.

Opportunities

- Population growth leading to development of more residential and commercial areas, thus requiring refuse collection and cleaning services.
- Economic growth leading to higher disposable income and greater propensity for consumption, resulting in replacement of consumer goods and increased waste generation.
- Government initiatives raising environmental awareness, leading to more recycling of waste.

Threats

- Unsuccessful in renewing existing contracts or gaining new contracts.
- Shift in Government policy to allow more competition into the industry.
- Increase in labour cost, affecting profitability.

Half-Yearly Revenue and Profitability data

Fig 18. Revenue (S$ mn)

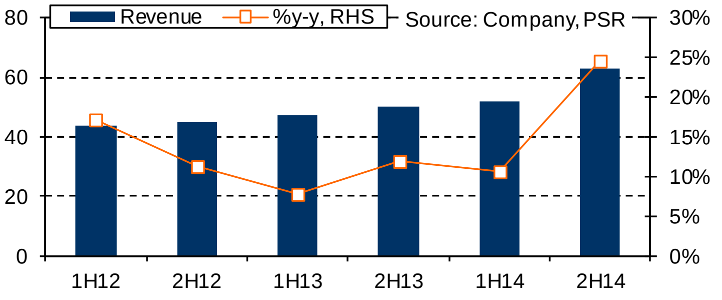


Fig 19. Operating profit (S$ mn)

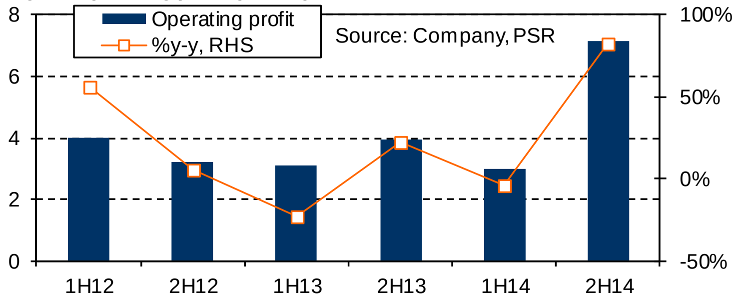


Fig 20. Net profit, adj. (S$ mn)

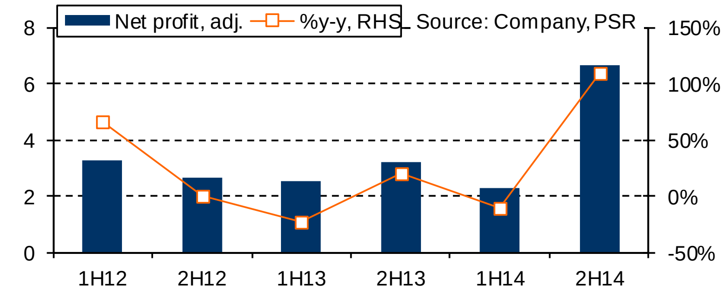
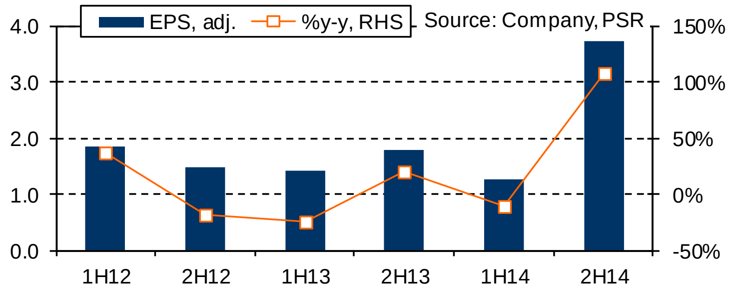
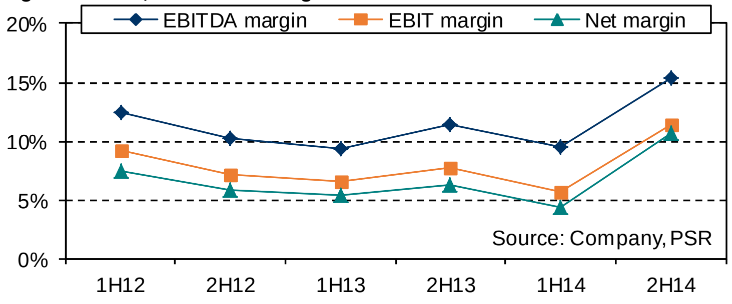


Fig 21. Earnings per share, adj. (S Cents)



Half-Yearly Financial Indicators

Fig 22. EBITDA, EBIT & Net margins



Remarks: 2H14 EBITDA, EBIT, Net margins, 15.3%, 11.4%, 10.6% respectively.

Full Year Revenue and Profitability data

Fig 23. Revenue (S$ mn)

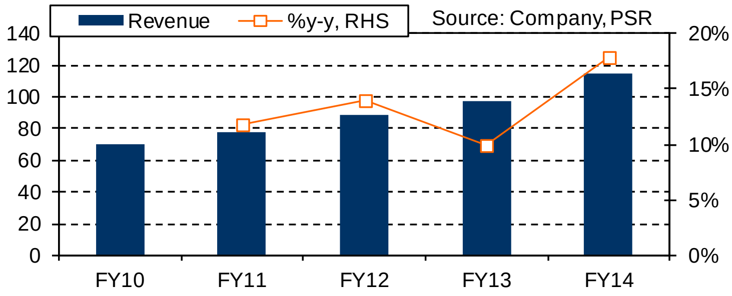


Fig 24. Operating profit (S$ mn)

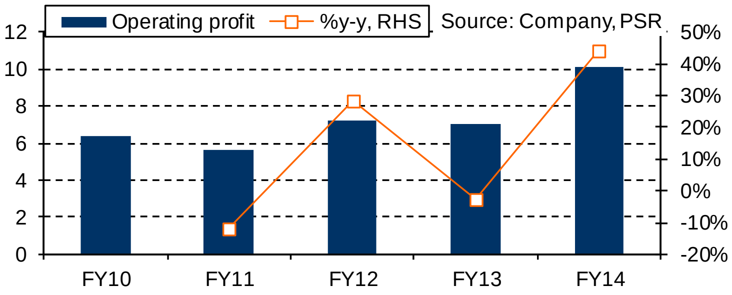


Fig 25. Net profit, adj (S$ mn)

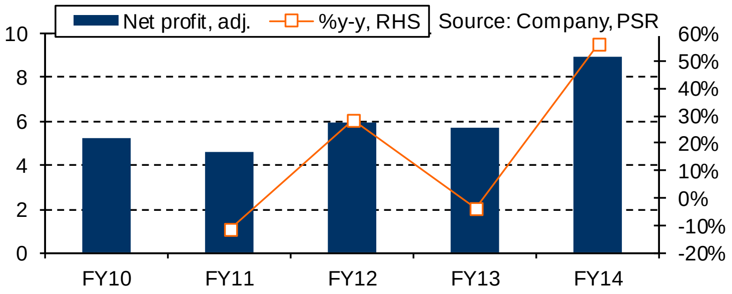
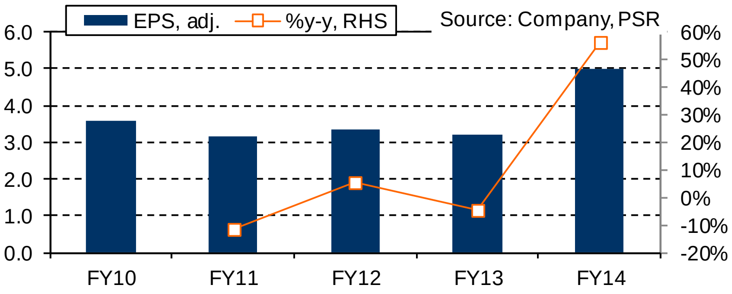
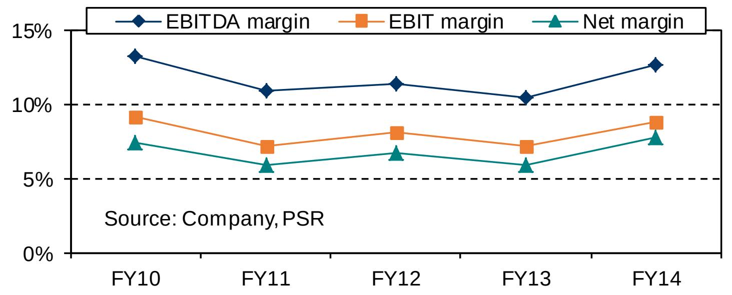


Fig 26. Earnings per share, adj. (S Cents)



Full Year Financial Indicators with Historical performance

Fig 27. EBITDA, EBIT & Net margins



Remarks: FY14 EBITDA, EBIT, Net margins, 12.7%, 8.8%, 7.8% respectively.

Fig 28. Cash Flows (S$ mn)

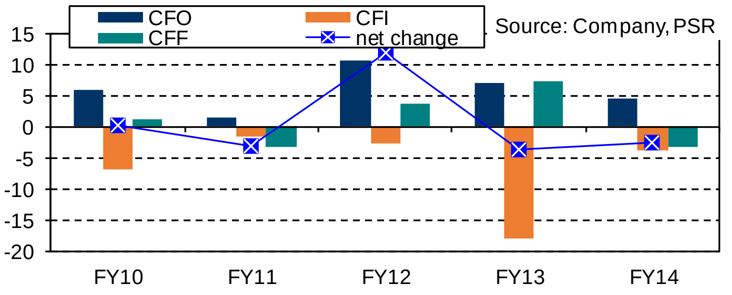
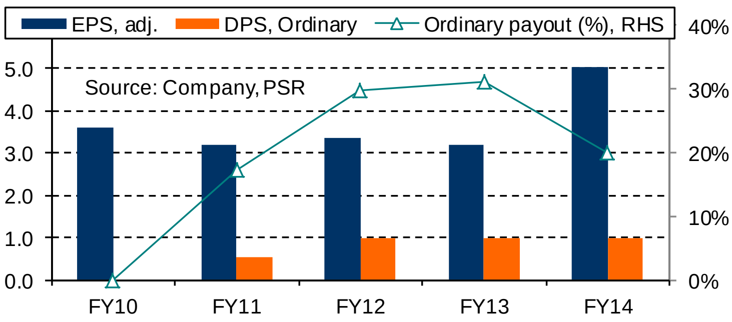
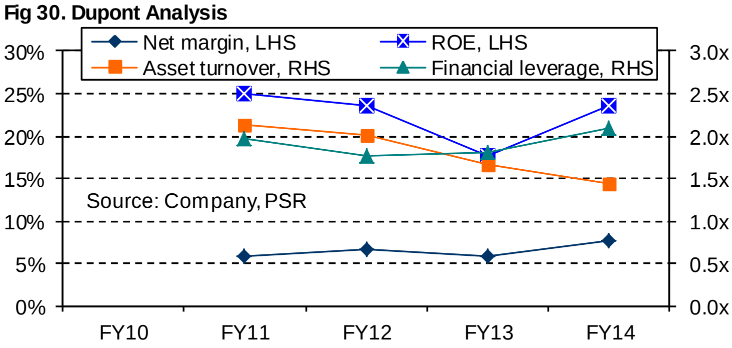


Fig 29. Shareholder Returns (S Cents)



Remarks: FY14 ordinary payout of 20.0%.

Fig 30. Dupont Analysis



Remarks: FY14 ROE increased to 23.6%.

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FYE Jun	FY12	FY13	FY14	FY15F
Income Statement (SGD mn)				
Revenue	**88.7**	**97.5**	**115.0**	**149.7**
Other income	0.79	0.34	0.46	0.60
EBITDA	**10.1**	**10.2**	**15.6**	**23.5**
Depreciation & Amortisation	(2.8)	(3.2)	(4.4)	(5.3)
EBIT	**7.2**	**7.0**	**11.1**	**18.2**
Net Finance (Expense)/Inc	(0.27)	(0.36)	(0.50)	(0.61)
Other items	(0.07)	0.05	(0.09)	(0.13)
Exceptional items	-	-	-	-
Profit Before Tax	**6.9**	**6.7**	**10.5**	**17.5**
Taxation	(0.9)	(0.9)	(1.5)	(2.4)
Profit After Tax	**5.9**	**5.8**	**9.1**	**15.1**
- Non-controlling interest	-	0.04	0.11	0.07
Net Income, reported	**5.9**	**5.7**	**9.0**	**15.0**
Net Income, adj.	**5.9**	**5.7**	**9.0**	**15.0**

FYE Jun	FY12	FY13	FY14	FY15F
Per share data (S Cents)				
EPS, reported	3.35	3.21	5.01	8.38
EPS, adj.	3.35	3.21	5.01	8.38
DPS	1.00	1.00	1.00	2.00
BVPS	16.99	19.25	23.24	30.66

FYE Jun	FY12	FY13	FY14	FY15F
Balance Sheet (SGD mn)				
PPE	19.0	35.9	51.8	51.8
Intangibles	-	-	-	-
Investments	-	-	-	-
Others	0.0	0.0	1.6	1.6
Total non-current assets	**19.0**	**35.9**	**53.5**	**53.5**
Inventories	-	-	-	-
Trade receivables	18.0	21.2	31.1	40.5
Cash	11.4	7.9	5.3	12.1
Others	2.2	2.0	1.7	2.3
Total current assets	**31.6**	**31.1**	**38.1**	**54.8**
Total Assets	**50.7**	**67.0**	**91.6**	**108.3**
Trade payables	9.2	10.6	12.1	15.9
Short term loans	1.1	2.3	6.8	6.8
Others	3.4	1.0	1.2	2.0
Total current liabilities	**13.8**	**13.8**	**20.1**	**24.6**
Long term loans	5.1	17.4	28.1	25.7
Others	1.5	1.4	1.9	3.2
Total non-current liabilities	**6.6**	**18.8**	**30.0**	**28.9**
Total Liabilities	**20.3**	**32.6**	**50.0**	**53.5**
Non-controlling interests	-	0.09	0.05	0.12
Shareholder Equity	**30.4**	**34.3**	**41.5**	**54.7**

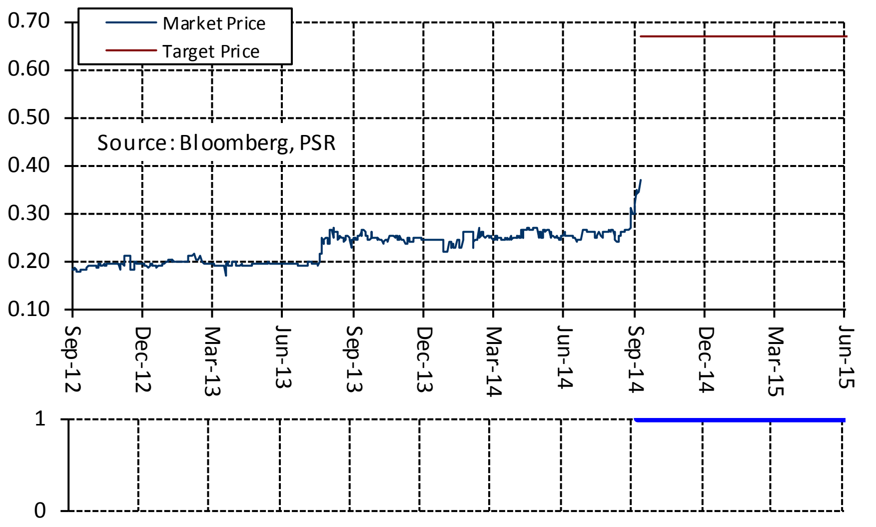
FYE Jun	FY12	FY13	FY14	FY15F
Cashflow Statements (SGD mn)				
CFO				
PBT	6.9	6.7	10.5	17.5
Adjustments	4.1	4.4	6.5	8.4
WC changes	0.8	(1.6)	(10.0)	(6.2)
Cash generated from ops	10.8	8.6	5.6	17.3
Others	(0.0)	(1.6)	(1.2)	(1.0)
Cashflow from ops	**10.8**	**7.0**	**4.4**	**16.3**
CFI				
CAPEX, net	(2.7)	(18.0)	(3.7)	(5.4)
Others	0.1	-	-	-
Cashflow from investments	**(2.6)**	**(18.0)**	**(3.7)**	**(5.4)**
CFF				
Share issuance, net	6.6	0.0	-	-
Loans, net of repayments	(1.5)	9.2	(1.5)	(2.4)
Dividends	(1.0)	(1.8)	(1.8)	(1.8)
Others	(0.4)	-	-	-
Cashflow from financing	**3.8**	**7.4**	**(3.3)**	**(4.2)**
Net change in cash	**11.9**	**(3.5)**	**(2.6)**	**6.8**
Effects of exchange rates	-	-	-	-
CCE, end	**11.4**	**7.9**	**5.3**	**12.1**

FYE Jun	FY12	FY13	FY14	FY15F
Valuation Ratios				
P/E (X), adj.	5.5	6.9	5.2	4.4
P/B (X)	1.1	1.2	1.1	1.2
EV/EBITDA (X), adj.	3.6	5.9	5.2	4.1
Dividend Yield (%)	5.4%	4.5%	3.8%	5.4%
Growth & Margins (%)				
Growth				
Revenue	14.0%	10.0%	17.9%	30.3%
EBITDA	18.6%	1.6%	52.4%	51.0%
EBIT	28.6%	-2.7%	58.4%	63.9%
Net Income, adj.	28.6%	-3.4%	56.3%	67.2%
Margins				
EBITDA margin	11.3%	10.5%	13.5%	15.7%
EBIT margin	8.1%	7.2%	9.7%	12.2%
Net Profit Margin	6.7%	5.9%	7.8%	10.0%
Key Ratios				
ROE (%)	23.7%	17.7%	23.6%	31.2%
ROA (%)	13.4%	9.7%	11.3%	15.0%
Net Debt/(Cash)	2.9	20.1	34.9	29.5
Net Gearing (X)	9.5%	58.4%	83.9%	53.8%

Source: Company Data, PSR est.

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +10%	Trading Buy	1
< -10%	Trading Sell	0

Remarks

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