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Issuer: SIIC Environment Holdings Ltd.

Stock code: BHK

Meeting details:

Date: 28 April 2023

Time: 10.00 a.m.

Venue: North Pavilion, The Ritz-Carlton, Millenia Singapore, 7 Raffles Avenue Singapore 039799 (for Singapore shareholders)

Q1. As shown in Note 34 (pages 226 – Bank and other borrowings), the group’s borrowings have increased to RMB19.15 billion as at 31 December 2022, up from RMB16.63 billion a year ago. The amount repayable within one year or on demand is lower at RMB3.77 billion.

For FY2022, the group’s cash flow from operations was negative RMB(1.39) billion. Trade and other receivables increased from RMB3.40 billion as at 31 December 2021 to RMB4.52 billion as at 31 December 2022. This was primarily due to the expansion in operation scale in 2022 and the impact of longer collection period affected by the strict COVID restriction measures in 2022. Average trade receivable turnover days increased by more than 21 days, increasing from 108 days to 129 days.

- (i) **Can management provide an update on the current challenges the group faces in collecting its debt? Has the situation improved since the lifting of COVID-19 restrictions? Are there indications of increased difficulties in collecting receivables given the macroeconomic challenges in China?**
- (ii) The loss allowance of trade receivables for the year increased from RMB7.3 million to RMB31.8 million. **What are the reasons for the significant increase in loss allowance?**
- (iii) The group received RMB7.08 billion in FY2022 from the “PRC government”. **What is the group’s largest exposure to a single local government unit?**
- (iv) **Following the white paper titled “China’s Green Development in the New Era” (《新時代的中國綠色發展》白皮書) released in early 2023, what specific opportunities has management identified?**
- (v) **Given that interest rates have increased significantly and remained elevated, what is the impact on the carrying value of the service concession arrangements?**
- (vi) **Could management help shareholders better understand how the company factors in interest rate trends before entering into long-term (20 years, 30 years) service concession arrangements?**

RMB15.3 billion of its borrowings, or 80.1%, are variable-rate borrowings, with repricing done at intervals ranging from monthly to annually. Interest paid was RMB793 million in FY2022 (2021: RMB648 million).

- (vii) **What steps is management taking to actively manage and optimise the company's financing costs?**

Q2. For the financial year ended 31 December 2022 (FY2022), revenue increased by 14.3% to RMB8.3 billion. Operating and maintenance income and financial income from service concession arrangements amounted to RMB4.7 billion, an increase of 9.7%. This was mainly due to an increase in wastewater treatment and water supply volumes, as well as the higher average wastewater treatment tariffs.

Revenue from the water supply segment increased by 27.4%, from RMB1.05 billion in FY2021 to RMB1.34 billion in FY2022. The group's net profit attributable to shareholders for the period amounted to RMB780.2 million, an increase of 10.5% year-on-year.

As of the end of FY2022, the group boasted an overall portfolio of nearly 250 wastewater treatment and water supply projects, with a total production capacity of 13,040,000 tonnes per day.

- (i) **Wastewater treatment tariff:** The average wastewater treatment tariff increased by 9.5% YOY to RMB1.86 per tonne. **Given the cost pressure from a high inflation environment, what is the group's strategy to be more agile in passing on the cost increases and getting faster and larger tariff revision? Is the group able to adjust the service concessions based on changes in interest rates, particularly in a high-inflation environment?**
- (ii) **Shanghai Baoshan Renewable Energy Utilization Center ("Baoshan project"):** Has the Baoshan project reached the maximum capacity or optimum utilisation rate? If not, how much time is needed to reach that mature stage?

Q3. The gearing ratio, defined as net debt as a percentage of total equity, has been stable in recent years. The trend in the group's gearing is shown below:

2018 – 1.01 times
 2019 – 1.01 times
 2020 – 0.97 times
 2021 – 0.99 times
 2022 – 1.13 times

(i) Has the board established a specific limit for the gearing ratio?

The directors have proposed a final dividend of \$0.01 per share to be paid to shareholders. The total estimated dividend to be paid is \$25.8 million, approximately RMB128.8 million. An interim one-tier tax exempt dividend of \$0.005 per ordinary share, totalling S\$12.8 million (RMB70.7 million), was paid out to shareholders in 2022.

(ii) How does the high-interest-rate, high-inflation environment affect the board's decision-making process regarding declaring and paying dividends to shareholders?

(iii) What specific financial or operational targets must be achieved for the company to be in a strong position to increase its dividend? In fact, will the higher-than-usual leverage level and net cash outflows from operating activities (2022: RMB1.39 billion) and investing activities (2022: RMB658 million) pose constraints on the company's ability to declare higher dividends in the future?

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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