

**Neutral**

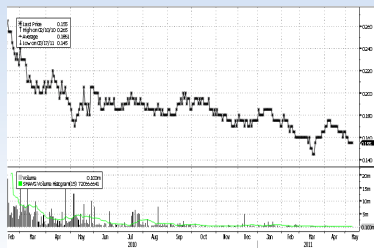
**Current Price** S\$0.16

12 May 2011

**Fair Value** S\$0.155

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**Historical Chart**



Source : Bloomberg

**Stock Statistics**

<b>Market Cap</b>	S\$122.3m
<b>52-HI</b>	S\$0.21
<b>52-LOW</b>	S\$0.145
<b>Avg Vol</b>	763,543
<b>Shares Outstanding</b>	764.4m
<b>Free Float</b>	208.7m

**Key Indicators**

<b>ROE</b>	35.5%
<b>ROA</b>	18.6%
<b>P/BK</b>	1.0x*
<b>Gearing</b>	Net cash

\*As at 31 Mar 2011

**Major Shareholders**

<b>Tanglin Capital</b>	62.76%
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**Trade-offs between maintaining order book and margins**

- 3QFY11 PATMI of \$0.7m fell 91.6% YoY** and 76.8% QoQ. The steep decline in profit was largely due to a 34.6% YoY and 0.1% QoQ increase in costs of sales to \$23.6m ensuing from higher costs of material, in particular, concrete and steel bar, subcontractors, diesel, transportation and depreciation of machinery and equipment. As a result, gross profit margin (GPM) fell 23.1 percentage points YoY and 4.6 percentage points QoQ to 20.5% (3QFY11). Further contributing to the bottomline decline is falling revenue which dipped 4.5% YoY and 5.6% QoQ dip in revenue to \$29.7m due to lower value of work done for on-going piling projects. These include Lanai, Factory at Yishun Avenue 6, Hundred Trees and Downtown Line Stage 2 Contract 912. Higher administrative costs which rose 44.0% YoY and 23.0% QoQ to \$4.5m also ate into profitability.
- Results are below our expectations.** Despite a 13.3% YoY increase in revenue, 9MFY11 PATMI of \$7.3m fell 67.4% YoY as costs of sales surged 51.3% YoY to S\$70.2m, again due to rising costs of materials, particularly concrete and steel bar, subcontractors, diesel, transportation and depreciation of machinery and equipment. Higher depreciation costs arose due to increase in purchase of machinery and equipment for the operation. The higher 9MFY11 revenue arose from higher value work done on on-going and completed projects including Marina Coastal Expressway, The Laurels, as well as the commencement of new piling projects such as Flamingo Valley and The Scala. 9MFY11 PATMI of \$7.3m amounted to about 50.8% of our FY11 estimate of S\$14.4m largely due to higher than expected rise in costs of sales.
- HDB and infrastructure projects to keep order book healthy.** Order book remains healthy at S\$75.1m as at 31 March 2011, contributing from both public and private sectors, but declined 4.8% QoQ from \$78.9m as at 31 Dec 2010. Going forward, we expect the order book to remain stable but the public sector is likely to contribute a larger portion to revenue ensuing from plans from HDB to launch up to 22,000 new Build-to-Order (BTO) flats as well as infrastructure projects. Private sector contracts from the development of en-block sites will provide another source of revenue.
- GPM to come under pressure.** However, Ryobi Kiso's (RK) margin is likely to come under pressure as industry competition remains keen with smaller piling companies willing to compromise on GPMs to pursue contracts. Further, there is a short time lag on certain projects between an award of a contract and the actual commencement of a project which could also lead to further margin erosion when raw material prices edge higher during the lag period.
- Valuation and Recommendation.** RK's balance sheet is relatively strong with net cash of \$7.4m as at 31 Mar 2011. Although this is a decline from net cash of \$15.2m as at 31 Dec 2010 due to loan repayment and purchase of more machinery and equipments for operation, RK is still under-leveraged, compared to industry peers. We lower our forecast and expect earnings decline of 68% (FY11F) (previously -47%) and 27% (FY12F) (previously -8%). At 16cts, excluding cash per share of 2Scts (FY11F), the core piling business is trading at a fair valuation of about 12x PER (FY11), compared to industry average of 13.2x (FY11). The share price is also supported by RK's current price-book-ratio (PBR) of 1.0x which is relatively low compared to industry PBR of about 1.4x. **Neutral.**

## Key Financial Data

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S\$m					
YE 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Sales	160.3	120.8	122.6	124.6	126.9
Gross Profit	52.4	46.7	27.7	26.2	27.3
Net Profit	34.3	27.4	8.6	6.3	7.2
EPS (S cents)	6.0	4.2	1.1	0.8	0.9
EPS growth (%)	13.4	-30.2	-73.1	-27.1	15.2
PER (x)	2.7	3.8	14.2	19.5	16.9
DPS (S cents)	0.0	1.0	0.75	0.75	0.75
Div Yield (%)	0.0	6.3	4.7	4.7	4.7

## FY6/2011 Results

### Profit & Loss (S\$m)

Year end: 30 Jun	3QFY11			2QFY11		
	3QFY11	3QFY10	% Change	3QFY11	2QFY11	% Change
Revenue	29.7	31.1	-4.5%	29.7	31.5	-5.6%
Cost of Sales	(23.6)	(17.5)	34.6%	(23.6)	(23.6)	0.1%
Gross Profit	6.1	13.6	-55.1%	6.1	7.9	-22.9%
Operating income	0.1	0.2	-44.6%	0.1	0.1	-9.2%
Operating Expenses	(4.8)	(3.9)	24.8%	(4.8)	(4.2)	16.7%
Administrative expenses	(4.5)	(3.2)	39.8%	(4.5)	(3.6)	23.0%
Other operating expenses	(0.4)	(0.7)	-44.4%	(0.4)	(0.5)	-26.9%
Operating Profit	1.3	9.9	-86.3%	1.3	3.9	-65.0%
Finance Costs	(0.2)	(0.0)	3216.7%	(0.2)	(0.1)	99.0%
Associates	(0.1)	(0.0)	312.5%	(0.1)	(0.1)	-1.5%
Pre-tax Profit	1.1	9.8	-89.0%	1.1	3.7	-70.6%
Income tax	(0.1)	(2.0)	-97.2%	(0.1)	(0.7)	-92.0%
Minority interest	(0.4)	0.1	nm	(0.4)	(0.1)	235.5%
Net Profit	0.7	7.9	-91.6%	0.7	2.9	-76.8%
EPS - fully diluted (Scts)	0.09	1.12	-92.0%	0.09	0.38	-76.3%

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<b>Profit &amp; Loss</b>					
<b>YE 30 June (\$m)</b>					
	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
<b>Revenue</b>	160.3	120.8	122.6	124.6	126.9
<b>Cost of Sales</b>	(107.9)	(74.1)	(94.9)	(98.4)	(99.6)
<b>Gross Profit</b>	52.4	46.7	27.7	26.2	27.3
<b>Operating Income</b>	0.6	0.6	0.6	0.6	0.6
Administrative expenses	(11.6)	(11.5)	(15.1)	(14.4)	(14.7)
Other operating expenses	(0.5)	(2.7)	(1.8)	(2.8)	(2.8)
<b>Operating Profit</b>	40.9	33.0	11.4	9.6	10.5
Net interest	(0.1)	0.0	(0.7)	(1.7)	(1.4)
Profits from Associated Co.	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Pre-tax Profit</b>	40.7	33.0	10.7	7.9	9.1
Income tax	(6.1)	(5.4)	(1.8)	(1.3)	(1.5)
Minority Interests	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
<b>Net Profit</b>	34.3	27.4	8.6	6.3	7.2

<b>Balance Sheet</b>					
<b>YE 30 June (\$m)</b>					
	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Cash & Fixed Deposit	40.5	56.4	45.8	56.6	62.5
Trade Receivables	23.4	50.6	45.3	47.8	48.7
Construction contract WIP	1.4	3.1	11.3	9.1	7.3
Other current assets	0.1	0.3	0.5	0.5	0.5
<b>Current Assets</b>	<b>65.5</b>	<b>110.5</b>	<b>103.0</b>	<b>114.0</b>	<b>119.0</b>
Property, Plant and Equipment	42.6	70.2	88.4	83.7	75.0
Others	2.8	2.3	2.5	2.6	2.8
<b>Non-current Assets</b>	<b>45.4</b>	<b>72.5</b>	<b>90.9</b>	<b>86.4</b>	<b>77.8</b>
Bank Borrowings	6.5	7.4	13.3	12.0	10.8
Trade Payable	40.0	38.4	31.2	40.5	38.2
Others	5.9	4.5	3.0	2.7	2.4
<b>Current Liabilities</b>	<b>52.4</b>	<b>50.2</b>	<b>47.5</b>	<b>55.1</b>	<b>51.4</b>
Bank Borrowings	12.2	10.6	17.9	16.1	14.5
Others	3.0	7.3	8.4	8.3	8.2
<b>Non-current Liabilities</b>	<b>15.2</b>	<b>17.9</b>	<b>26.4</b>	<b>24.5</b>	<b>22.7</b>
<b>Shareholder's Equity</b>	<b>43.4</b>	<b>114.9</b>	<b>120.0</b>	<b>120.8</b>	<b>122.7</b>

<b>Cash Flow</b>					
<b>YE 30 June (S\$m)</b>					
	<b>2009A</b>	<b>2010A</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
<b>Cash flow from Operating activities</b>					
Pre-tax profits	40.7	33.0	10.7	7.9	9.1
Adjustments	15.4	(2.1)	18.9	9.5	8.8
Operating cash flow before working capital	56.1	30.9	29.6	17.4	17.9
Changes in working capital	5.4	(10.8)	(10.3)	9.1	(1.3)
Tax paid & others	(7.2)	(3.5)	(0.7)	(1.4)	(1.6)
Net cash generated from operations	54.3	16.6	18.5	25.1	15.0
<b>Cash flow from investing activities</b>					
Capex	(5.2)	(29.5)	(29.2)	(6.5)	(2.0)
Others	0.1	1.6	1.7	1.1	1.2
Net cash from investing activities	(5.1)	(27.9)	(27.5)	(5.4)	(0.8)
<b>Cash flow from financing activities</b>					
Loans, net	(3.3)	(0.7)	13.3	(3.1)	(2.8)
Dividend	(30.4)	(13.8)	(3.8)	(5.7)	(5.7)
Others	(3.5)	41.8	(11.0)	(0.1)	(0.2)
Net cash from financing activities	(37.1)	27.2	(1.6)	(9.0)	(8.7)
<b>Net change in cash</b>	<b>12.1</b>	<b>15.9</b>	<b>(10.5)</b>	<b>10.7</b>	<b>5.4</b>
<b>Cash balance at beginning of year</b>	<b>27.6</b>	<b>39.7</b>	<b>56.4</b>	<b>45.8</b>	<b>56.6</b>
Other adjustments	0.8	0.8	(0.1)	0.2	0.5
<b>Cash balance at end of year</b>	<b>39.7</b>	<b>56.4</b>	<b>45.8</b>	<b>56.6</b>	<b>62.5</b>

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