

Ryobi Kiso Holdings Ltd

Results Report

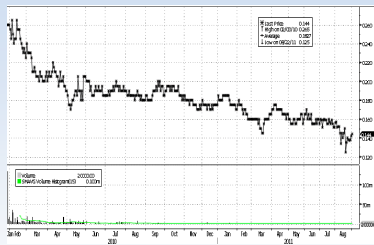
Neutral

Current Price **S\$0.144**
2 September 2011

Fair Value **S\$0.147**

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Historical Chart



Source : Bloomberg

Stock Statistics

Market Cap	S\$109.6m
52-HI	S\$0.200
52-LOW	S\$0.105
Avg Vol	240,964
Shares Outstanding	761.3m
Free Float	202.5m

Key Indicators

ROE	6.8%
ROA	4.1%
P/BK	0.9x
Gearing	0.01x

Major Shareholders

Tanglin Capital	63.02%
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Focusing overseas as domestic operating environment becomes tougher

- 4QFY11 PATMI fell sharply by 89.4% YoY** to \$0.5m due to a 21.1% YoY decline in revenue to \$31.2m arising from an absence of revenue contribution from Vietnam projects which were substantially completed in June 2010. The steep fall was despite a modest 3.3% YoY rise in costs of sales to S\$28.6m due to higher depreciation from a larger fleet of plant & equipment and resulted in a 78.3% YoY decline in gross profit (GP) to \$2.6m and a 21.7% points fall in gross profit margin (GPM) to 8.2% (4QFY11). On QoQ basis, despite growth of 4.9% in revenue, GP fell 57.9% and GPM declined by 12.3% points largely the result of higher labour cost, alongside rising depreciation and raw material costs, which was not priced in some projects due to a short lag period between the award of a project and actual commencement of a project. PATMI suffered a less severe decline of 20.3% due to costs containment which resulted in an 80.1% QoQ savings in administrative costs.
- Results are below our expectations.** Despite a 2% YoY increase in revenue, FY11 PATMI fell sharply by 71.4% as costs of sales surged 33.4% YoY to S\$98.8m, due to rising costs of materials, particularly concrete and steel bar, subcontractors, diesel and depreciation of machinery and equipment. Higher depreciation costs arose due to increase in purchase of machinery and equipment for the bored piling operation. The higher revenue arose from a 26.3% rise in bored piling works from ongoing and completed projects such as Edusports, HDB Bukit Panjang N4 C14, the Scala, Flamingo Valley, and Downtown Line Stage 2. The results were below our expectations due to higher than expected costs of sales and losses from associates.
- Stable order book from strong construction pipeline but competition for resources will intensify costs pressures.** The Building and Construction Authority (BCA) recently revised upwards the projected construction demand for Singapore from \$22-\$28mil previously to \$24-\$30mil, of which about 55% is derived from the public sector, led by LTA's Downtown Line Stage 3 and HDB public housing projects. Going forward, the strong pipeline of public sector projects will ensure Ryobi Kiso's (RK) Singapore order book remains healthy. To a lesser extent, private sector projects will also contribute to revenue. However, robust building demand from the HDB and infrastructure works, coupled with a reduction in the number of foreign workers and expectations of higher material costs, are expected to add to existing cost pressures and further erosion of GPM.
- Expanding focus in Vietnam for longer term growth.** With increasing competition on the domestic construction scene, RK will increasingly focus overseas, particularly in Vietnam where management is seeing renewed construction activities. In July 2011, RK, together with its joint venture partner, clinched an S\$11.3m piling contract with a listed Vietnamese real estate company. With a foothold in the Vietnam, management is optimistic of securing more projects from both local and foreign players in the Vietnamese real estate market.
- Risks.** RK is experiencing slower payments from debtors which will negatively impact working capital needs. Also, intense competition for contracts from both large and smaller players will adversely impact RK's pricing power.
- Valuation and Recommendation.** RK's balance sheet remains healthy with net gearing of 0.01x, from a net cash position previously, due to additional borrowings incurred for plant and equipment purchases. Nonetheless, RK is still under-leveraged, compared to industry peers. Going forward we expect the order book to remain healthy. The low 4QFY11 GPM of 8.2% is not expected to recur as RK has factored in rising labour and raw material costs in its pricing structure. Notwithstanding that, domestic competition remains intense and costs pressures prevail. We lower our forecast and expect earnings decline of 30% YoY (FY12) (previously -27%) and 6% YoY (FY13F). We value RK at 14.7 cts (previously 15.5 cts), based on PER 20x (FY12), which is more conservative than the industry PER (FY12) of 26x. The share price is also supported by RK's price-book-ratio (PBR) of 0.9x which is relatively low compared to industry PBR of about 1.5x. Maintain **Neutral**.

Key Financial Data

S\$m					
YE 30 Jun	FY09	FY10	FY11	FY12F	FY13F
Sales	160.3	120.8	123.3	136.3	137.5
Gross Profit	52.4	46.7	24.4	22.7	22.0
Net Profit	34.3	27.4	7.8	5.5	5.1
EPS (S cents)	6.0	4.2	1.0	0.7	0.7
EPS growth (%)	13.4	-30.2	-75.5	-29.8	-6.7
PER (x)	2.4	3.4	14.1	20.1	21.5
DPS (S cents)	0.0	1.0	0.6	0.5	0.5
Div Yield (%)	0.0	6.9	4.2	3.5	3.5

FY6/2011 Results						
Profit & Loss (S\$m)			YoY %			QoQ %
Year end: 30 Jun	4QFY11	4QFY10	Change	4QFY11	3QFY11	Change
Revenue	31.2	39.5	-21.1%	31.2	29.7	4.9%
Cost of Sales	(28.6)	(27.7)	3.3%	(28.6)	(23.6)	21.2%
Gross Profit	2.6	11.8	-78.3%	2.6	6.1	-57.9%
Operating income	0.2	0.1	60.7%	0.2	0.1	66.7%
Operating Expenses	(1.0)	(5.4)	-82.2%	(1.0)	(4.8)	-80.1%
Administrative expenses	(1.0)	(3.7)	-74.4%	(1.0)	(4.5)	-78.7%
Other operating expenses	(0.0)	(1.7)	-99.2%	(0.0)	(0.4)	-96.6%
Operating Profit	1.8	6.5	-72.7%	1.8	1.3	31.8%
Finance Costs	(0.2)	(0.1)	144.9%	(0.2)	(0.2)	9.5%
Associates	(0.2)	0.0	nm	(0.2)	(0.1)	174.2%
Pre-tax Profit	1.4	6.4	-78.6%	1.4	1.1	27.2%
Income tax	(0.3)	(1.3)	-79.4%	(0.3)	(0.1)	371.4%
Minority interest	(0.6)	(0.1)	321.7%	(0.6)	(0.4)	62.1%
Net Profit	0.5	5.0	-89.4%	0.5	0.7	-20.3%
EPS - fully diluted (Scts)	0.07	0.77	-90.9%	0.07	0.09	-22.2%

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Profit & Loss					
YE 30 June (S\$m)					
	2009A	2010A	2011A	2012F	2013F
Revenue	160.3	120.8	123.3	136.3	137.5
Cost of Sales	(107.9)	(74.1)	(98.8)	(113.6)	(115.6)
Gross Profit	52.4	46.7	24.4	22.7	22.0
Operating Income	0.6	0.6	0.6	0.6	0.6
Administrative expenses	(11.6)	(11.5)	(12.2)	(12.7)	(12.8)
Other operating expenses	(0.5)	(2.7)	(1.3)	(1.3)	(1.3)
Operating Profit	40.9	33.0	11.5	9.3	8.6
Net interest	(0.1)	0.0	(0.6)	(1.1)	(0.7)
Profits from Associated Co.	(0.0)	(0.0)	(0.3)	(0.3)	(0.3)
Pre-tax Profit	40.7	33.0	10.6	7.9	7.5
Income tax	(6.1)	(5.4)	(1.7)	(1.3)	(1.2)
Minority Interests	(0.3)	(0.3)	(1.1)	(1.1)	(1.2)
Net Profit	34.3	27.4	7.8	5.5	5.1

Balance Sheet					
YE 30 June (\$m)					
	2009A	2010A	2011A	2012F	2013F
Cash & Fixed Deposit	40.5	56.4	41.3	56.4	62.4
Trade Receivables	23.4	50.6	55.0	55.3	56.1
Construction contract WIP	1.4	3.1	10.4	8.3	6.7
Other current assets	0.1	0.3	0.8	0.6	0.6
Current Assets	65.5	110.5	107.5	120.6	125.9
Property, Plant and Equipment	42.6	70.2	89.5	88.0	85.8
Others	2.8	2.3	2.1	2.2	2.4
Non-current Assets	45.4	72.5	91.5	90.2	88.2
Bank Borrowings	6.5	7.4	20.0	18.0	16.2
Trade Payable	40.0	38.4	27.8	38.3	39.6
Others	5.9	4.5	0.1	0.1	0.1
Current Liabilities	52.4	50.2	48.0	56.4	55.9
Bank Borrowings	12.2	10.6	22.9	20.6	18.5
Others	3.0	7.3	9.0	8.9	8.7
Non-current Liabilities	15.2	17.9	31.9	29.5	27.3
Shareholder's Equity	43.4	114.9	119.2	125.0	130.9

Cash Flow					
YE 30 June (\$m)					
	2009A	2010A	2011A	2012F	2013F
Cash flow from Operating activities					
Pre-tax profits	40.7	33.0	10.6	7.9	7.5
Adjustments	15.4	(2.1)	10.7	13.0	13.2
Operating cash flow before working capital	56.1	30.9	21.3	20.9	20.7
Changes in working capital	5.4	(10.8)	(20.9)	12.4	2.1
Tax paid & others	(7.2)	(3.5)	(4.8)	(0.8)	(0.7)
Net cash generated from operations	54.3	16.6	(4.3)	32.5	22.1
Cash flow from investing activities					
Capex	(5.2)	(29.5)	(21.8)	(10.0)	(10.0)
Others	0.1	1.6	1.3	1.1	1.4
Net cash from investing activities	(5.1)	(27.9)	(20.6)	(8.9)	(8.6)
Cash flow from financing activities					
Loans, net	(3.3)	(0.7)	19.5	(4.3)	(3.9)
Dividend	(30.4)	(13.8)	(4.0)	(4.6)	(3.8)
Others	(3.5)	41.8	(5.1)	0.1	0.1
Net cash from financing activities	(37.1)	27.2	10.5	(8.7)	(7.6)
Net change in cash	12.1	15.9	(14.5)	14.9	5.8
Cash balance at beginning of year	27.6	39.7	55.6	41.3	56.4
Other adjustments	0.8	0.8	0.2	0.2	0.2
Cash balance at end of year	39.7	56.4	41.3	56.4	62.4

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