

**GICS:** Industrials/Construction & Engineering

**Business Summary:** Established since 1990, and listed recently on the SGX in January 2010, Ryobi Kiso Holdings (Ryobi) is a leading ground engineering solutions provider specializing in bored piling and eco-friendly piling and geoservices.

**Country of Incorporation:** Singapore

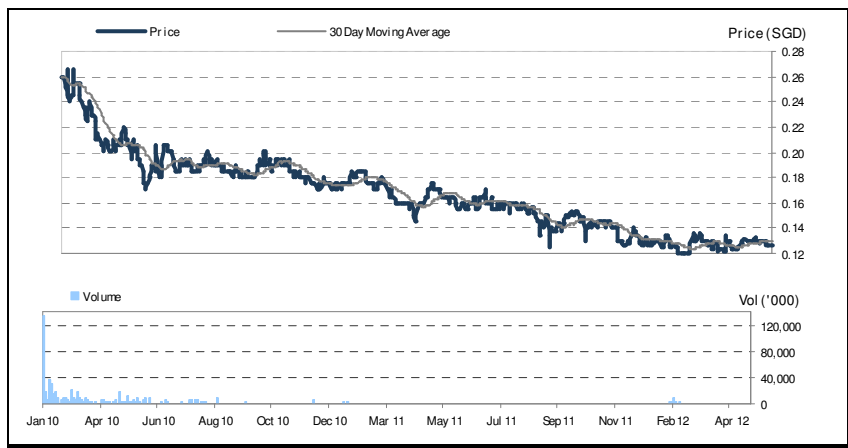
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**Place of Operations:** Singapore

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## Results Review

- Ryobi reported a net profit of SGD0.7 mln (+3.9% YoY) for 3QFY12 (Jun). Cumulative 9MFY12 was ahead of our expectations, making up about 98% of our original full-year net profit forecast. The better performance was due to stronger-than-expected revenue recognition and a positive tax credit due to over provision in prior years and tax savings from the PIC scheme. These were partially offset by weaker gross profit margin of 12.3% (FY12E:13.5%).
- 9MFY12 revenue increased by 19% YoY to SGD109.6 mln due to higher contribution from bored piling operations (+36% YoY to SGD92.7 mln) as higher value projects were carried out coupled with contribution from its larger Vietnam projects. This was partially offset by lower contribution from its eco-friendly and geo-service operations (-29% YoY to SGD16.9 mln) due to undertaking of smaller scale projects. Ryobi, however, reported weaker 9MFY12 gross profit margin of 12.3% (-11.5%-pts YoY) due to intense competition, higher material prices and depreciation costs from purchase of more machinery. This was partially offset by increases in gain from machinery disposal of SGD0.6 mln and exchange gain of SGD1.9 mln. The group also reported an income tax credit of SGD0.7 mln (vs. tax expense of SGD1.5 mln in 9MFY11). The above net effect was a YoY decline in net profit of about 64% in 9MFY12.
- The group recently secured key contracts in Vietnam worth VND448.8 bln (SGD27.3 mln) and VND170.2 bln (SGD10.3 mln) respectively. Its net orderbook presently stands at SGD102.4 mln.

## Earnings Outlook / Estimates Revision

- After fine-tuning our projections, we have increased our FY12 and FY13 net profit forecasts by 6% and 1% respectively after incorporating higher revenue recognition and lower taxation, partially offset by lower gross margin. We understand that while management intends to expand its geographical footprint further in the region and capture growth opportunities, it will continue to improve productivity and keep a tight rein on its costs to preserve its profitability.
- Ryobi recently announced its direct foray into Western Australia by acquiring a 70% stake in two piling companies. Upon completion, the acquisitions will allow the group to participate in the Western Australia market where a dynamic mining sector underpins the demand for construction services. Meanwhile, locally it is expected to continue to benefit from the sustained construction demand in Singapore and the HDB's move to continue to roll out another 25,000 new flats this year.

## Investment Risks

- A sharp rise in labor or material costs, shortage of skilled labor or increase in project execution costs can adversely affect project viability and profitability. Similarly, a slower-than-expected economic recovery and weak property demand is likely to reduce construction demand and erode profit margins due to keener competition. Overseas risk venture for its Vietnam projects such as execution risk, start-up costs and possible delays could give rise to higher operating costs, affecting its earnings.

### Key Stock Statistics

52-week Share Price Range (SGD)	0.12 - 0.17
Avg Vol - 12 months ('000 shares)	201.8
Price Performance (%)	
- 1 month	-3.8
- 3 month	-2.3
- 12 month	-18.7
No. of Outstanding Shares (mln)	757.5
Free Float (%)	25.3
Market Cap (SGD mln)	95.5
Enterprise Value (SGD mln)	110.8
Major Shareholders (%)	
Tanglin Capital Pte Ltd	63.3
Ong Tiong Siew	4.9

### Per Share Data

FY Jun.	2010	2011	2012E	2013E
Book Value (SG cents)	14.73	15.26	15.11	15.10
Cash Flow (SG cents)	5.2	2.5	2.0	2.2
Reported Earnings (SG cents)	4.2	1.0	0.4	0.4
Dividend (SG cents)	1.0	0.6	0.4	0.4
Payout Ratio (%)	28.0	58.5	105.6	104.3
PER (x)	3.0	12.3	33.3	32.9
P/Cash Flow (x)	2.4	5.1	6.2	5.7
P/Book Value (x)	0.9	0.8	0.8	0.8
Dividend Yield (%)	7.9	4.8	3.2	3.2
ROE (%)	35.5	6.8	2.5	2.5
Net Gearing (%)	0.0	1.4	12.0	9.7

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**Earnings Performance**

FY Jun. / SGD mln	3Q12	3Q11	% Change
Reported Revenue	40.9	29.7	37.7
Reported Operating Profit	0.6	1.3	-52.0
Depreciation & Amortization	-3.2	-2.9	12.6
Net Interest Income / (Expense)	-0.1	-0.1	-17.8
Reported Pre-tax Profit	0.5	1.1	-52.3
Reported Net Profit	0.7	0.7	3.9
Reported Operating Margin (%)	1.5	4.2	-
Reported Pre-tax Margin (%)	1.3	3.7	-
Reported Net Margin (%)	1.7	2.3	-

Source: Company data

**Profit & Loss**

FY Jun. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	120.8	123.3	145.6	156.1
Reported Operating Profit	32.6	11.1	4.0	4.4
Depreciation & Amortization	-6.9	-10.9	-12.6	-13.8
Net Interest Income / (Expense)	0.5	-0.2	-0.3	-0.3
Reported Pre-tax Profit	33.0	10.6	3.7	4.1
Effective Tax Rate (%)	16.3	16.4	5.0	12.0
Reported Net Profit	27.4	7.8	2.9	2.9
Reported Operating Margin (%)	27.0	9.0	2.7	2.8
Reported Pre-tax Margin (%)	27.3	8.6	2.5	2.6
Reported Net Margin (%)	22.6	6.3	2.0	1.9

Source: Company data, S&amp;P Equity Research

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