

**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 specialising in bored piling and eco-friendly piling and geoservices.

**Country of Incorporation:** Singapore

**Head Office Location:** 58A Sungei Kadut Loop, Ryobi Industrial Building, Singapore 729505

**Place of Operations:** Singapore

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## Results Review

- Ryobi reported a net profit of SGD1.42 mln (-50.8% YoY) for 2QFY12 (Jun.). Cumulative 1HFY12 were ahead of our expectations, making up about 66% of our original full-year net profit forecast. The better performance was due to stronger-than-expected revenue recognition, higher gains from foreign exchange/asset disposal and a positive tax credit due to over provision in prior years. These were partially offset by a weaker gross profit margin of 11.8% (vs. FY12E:14%).
- 1HFY12 revenue increased by 10% YoY to SGD68.7 mln due to higher contribution from bored piling operations (+23% YoY to SGD56.7 mln) as higher value projects were carried out. This was partially offset by lower contribution from its eco-friendly and geo-service operations (-27% YoY to SGD12.0 mln) due to undertaking of smaller scale projects. Ryobi reported weaker 1HFY12 gross profit margin of 11.8% (-13.5%-pts YoY) due to intense competition, higher material prices such as concrete and rebar and higher depreciation costs from purchase of more machinery. This was partially offset by increase in gain from machinery disposal of SGD0.6 mln and exchange gain of SGD1.7 mln. The group also reported an income tax credit of SGD0.4 mln (vs. tax expense of SGD1.4 mln in 1HFY11). Overall, the net effect was a decline in 1HFY12 net profit by 71% to SGD1.9 mln.
- The group's net order book stands at SGD76.1 mln. Going forward, Ryobi intends to increase its presence in Vietnam and capitalize on the country's growing demand in the property and construction sectors as the population becomes more affluent and urbanized.

## Earnings Outlook / Estimates Revision

- After fine-tuning our projections, we have increased both our FY12 and FY13 net profit forecasts by 2% after incorporating higher revenue recognition and gains from asset disposal offset by a lower gross margin of 13.5% (vs. 14% previously). We understand that management is mindful of the intense competition and higher project costs and is keeping a tight rein on its costs by improving productivity and actively investing in new technologies.
- With the group's track record and purchase of new machineries and introduction of sub-terrain pre-cast technology it is poised to benefit from sustained spending in the public sector. According to BCA, construction demand is expected to reach between SGD21 bln to SGD27 bln this year. HDB's move to continue to roll-out another 25,000 new flats this year also augurs well for the group.

## 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 - 0.18
Avg Vol - 12 months ('000 shares)	159.8
Price Performance (%)	
- 1 month	-4.4
- 3 month	-7.9
- 12 month	-26.3
No. of Outstanding Shares (mln)	757.5
Free Float (%)	25.8
Market Cap (SGD mln)	97.7
Enterprise Value (SGD mln)	108.4
Major Shareholders (%)	
Tanglin Capital Pte Ltd	63.1
Ong Tiong Siew	4.9

### Per Share Data

	2010	2011	2012E	2013E
FY Jun.				
Book Value (SG cents)	14.73	15.26	15.09	15.07
Cash Flow (SG cents)	5.2	2.5	1.9	2.1
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	141.6	105.6
PER (x)	3.1	12.6	36.3	34.1
P/Cash Flow (x)	2.5	5.2	6.9	6.1
P/Book Value (x)	0.9	0.8	0.9	0.9
Dividend Yield (%)	7.8	4.7	3.1	3.1
ROE (%)	35.5	6.8	1.9	2.5
Net Gearing (%)	0.0	1.4	10.2	9.1

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**Earnings Performance**

FY Jun. / SGD mln	2Q12	2Q11	% Change
Reported Revenue	40.3	31.5	28.1
Reported Operating Profit	1.3	3.8	-66.7
Depreciation & Amortization	-3.2	-2.6	22.7
Net Interest Income / (Expense)	-0.1	0.0	>100
Reported Pre-tax Profit	1.2	3.7	-67.5
Reported Net Profit	1.4	2.9	-50.8
Reported Operating Margin (%)	3.1	12.0	-
Reported Pre-tax Margin (%)	3.0	11.7	-
Reported Net Margin (%)	3.5	9.2	-

Source: Company data

**Profit & Loss**

FY Jun. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	120.8	123.3	135.9	147.8
Reported Operating Profit	32.6	11.1	4.1	4.9
Depreciation & Amortization	-6.9	-10.9	-12.0	-13.2
Net Interest Income / (Expense)	0.5	-0.2	-0.4	-0.4
Reported Pre-tax Profit	33.0	10.6	4.3	4.5
Effective Tax Rate (%)	16.3	16.4	20.0	20.0
Reported Net Profit	27.4	7.8	2.7	2.9
Reported Operating Margin (%)	27.0	9.0	3.0	3.3
Reported Pre-tax Margin (%)	27.3	8.6	3.2	3.1
Reported Net Margin (%)	22.6	6.3	2.0	1.9

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

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