

## Ryobi Kiso Holdings Ltd.

### Rising Up From the Ground

We initiate coverage on Ryobi Kiso Holdings Ltd. (Ryobi) with an **Increase Exposure rating based on an intrinsic value of S\$0.260**. We believe that Ryobi shows upside potential with a) multiple public sector projects propelling a recovery in the piling industry in 2011 (and also providing ample new contract opportunities), b) growth opportunities in Vietnam and c) a packed order book lasting over at least the next two quarters.

#### Fundamental Developments:

- We expect demand for piling services in Singapore to recover in 2011 based on the pipeline of public sector projects that will be awarded next year. Construction of the Singapore Sports Hub, Jurong Hospital, Downtown Line 3 and HDB public housing developments will soak up capacity for piling services in the industry and drive piling rates up.
- Ryobi has a net order book of S\$81.3m as of end Sep 2010, the bulk of which will be recognized over the next two to three quarters. The company has to garner only another S\$16.7m of contracts to beat FY10F's revenue, which we believe to be a highly achievable outcome. As such, Ryobi's top-line growth prospects are strong. With a recovery in piling rates, we should also see margins widen in the quarters to come.
- Ryobi has also been making inroads into the Vietnam market, having secured one piling contract for a significant residential development from a local customer in March this year. This implies that Ryobi's presence in Vietnam is gaining recognition from the locals.

#### Valuation:

Ryobi currently has 4.1 S cents of cash per share, which will provide financial headroom for growth. Currently trading at 5.78x FY11F PER, we believe that Ryobi shows value. Our intrinsic value of S\$0.260 translates to a FY11F PER of 8.85x.

## Increase Exposure

- Intrinsic Value S\$0.260
- Prev Close S\$0.170

#### Main Activities

Ryobi Kiso Holdings Ltd. provides piling services and ground engineering solutions. Its projects include both public and private sectors' infrastructure and building developments. Ryobi's customers include government bodies, statutory boards, property owners, developers and main contractors.

#### Financial Highlights

(Y/E Jun) S\$ m	FY09	FY10	FY11F
Revenue	160.3	120.8	132.9
Gross Profit	52.4	46.7	39.9
Operating Profit	40.7	33.0	27.3
Earnings	34.3	27.4	22.5
EPS^ (S cts)	4.48	3.57	2.94

^EPS is based on post IPO no of shares outstanding.

Source: Company, SIAS Research

#### Key ratios (FY11F)

PER	5.8
P/BV	1.0
Return on Common Equity	18.5%
Return on Assets	12.1%
Gross Debt to Common Equity	20.1%
Current ratio	3.0

Source: SIAS Research

#### Indexed Price Chart

Green (FSSTI)

White (RYOBI)



Source: Bloomberg

52wks High-Low S\$0.295 / S\$0.165

Number of Shares 765.3m

Market Capitalization S\$130.1m

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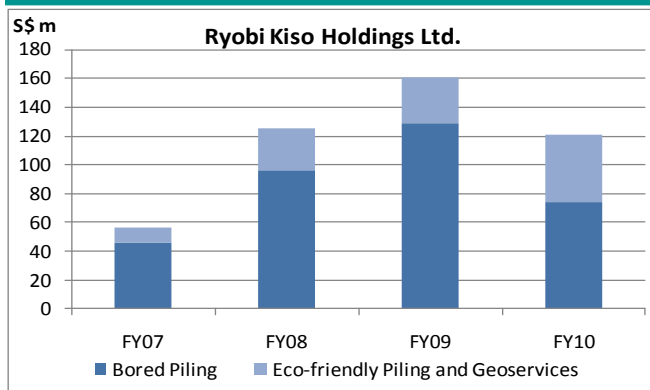
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## Piling Industry Dynamics

Listed in Jan 2010, Ryobi Kiso Holdings Ltd. (Ryobi) is a leading piling specialist with over 20 years of track record and more than 330 projects under its belt. By the end of June 2009, the company achieved record revenue of S\$160.3m for FY09 – almost triple that of S\$56.6m in FY07. This strong growth can be attributed to both positive industry dynamics and a number of major contracts.

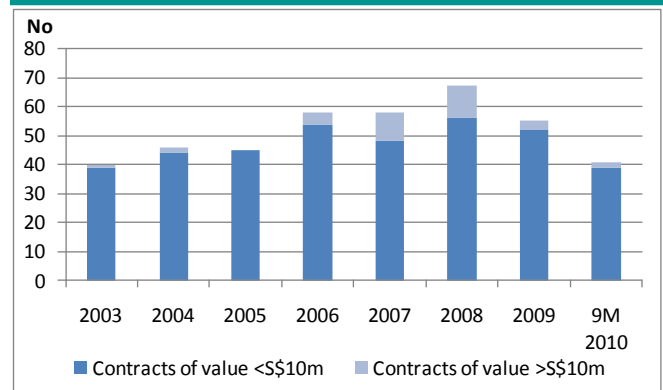
**Huge demand for piling services in 2007 - 2008.** From 2007 to 2008, industry participants saw a sudden jump in the number of high value piling contracts. There were at least four Marina Bay Sands IR-related contracts of value >S\$100m, four other contracts associated with the Marina Bay Financial Centre and its vicinity, as well as other piling projects worth between S\$30m to S\$50m. This kept utilization, and hence piling rates, high.

**Figure 1: Annual Revenue (FY ends in June)**



Source: Company, SIAS Research

**Figure 2: No of Piling Projects (Industry Total)**



Data is compiled from BCA database, which may not include sub-contracted works.

Source: Building and Construction Authority, SIAS Research

**Figure 3: Some of Ryobi's major contracts in FY08 and FY09**

Contract Description	Value S\$ m	Term
Piling works for flats at Queenstown, Jurong West, Ang Mo Kio, Bishan and Kallang	32	FY08
Pollution control at Sungei Serangoon	17	FY09
Piling works for University Town Development	36	Mainly FY09

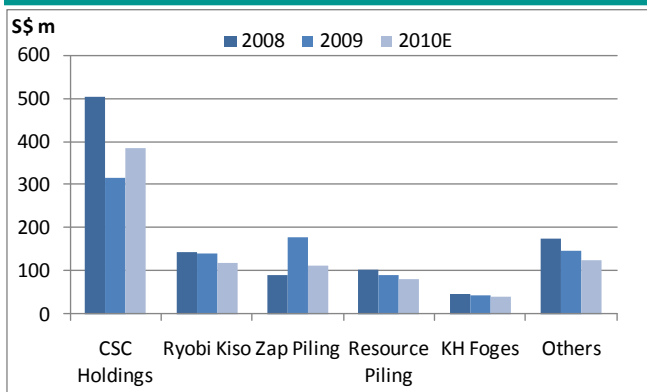
Source: Company, SIAS Research

**Showing its resilience.** However, the absence of similar mega developments in Singapore over the last 24 months placed downward pressure on piling rates. Ryobi was relatively insulated against the slowdown as it had managed to clinch several major contracts, which partially led to the strong performance over FY08 and FY09. Ryobi's financial year ends in June. Its top customers in each of FY08 and FY09 had accounted for about 25% of annual revenue.

Among piling companies in Singapore, Ryobi was among the least affected, with revenue falling by an estimated 8.6% annually over the calendar years 2009 and 2010E. Most of its peers saw revenue decline by about 12% to 15% each year over the same period.

Moreover, Ryobi's net margin has been consistently higher than some of its competitors. For the quarter ended Sep 2010, Ryobi's net margin was 12.1%. CSC Holdings Limited had a net margin of 4.1% for the same period.

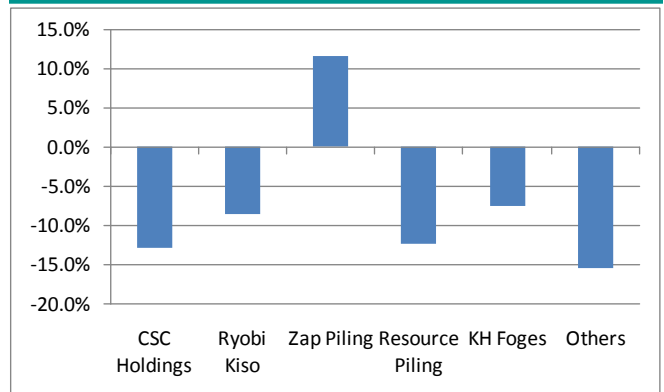
**Figure 4: Annual Jan-Dec Revenue**



Revenue shown refers to that of piling activities only. Others refer to the six companies PSL Holdings, SM Foundation, Double Wong, JF Foundation, Sum Cheong and Leong Hin.

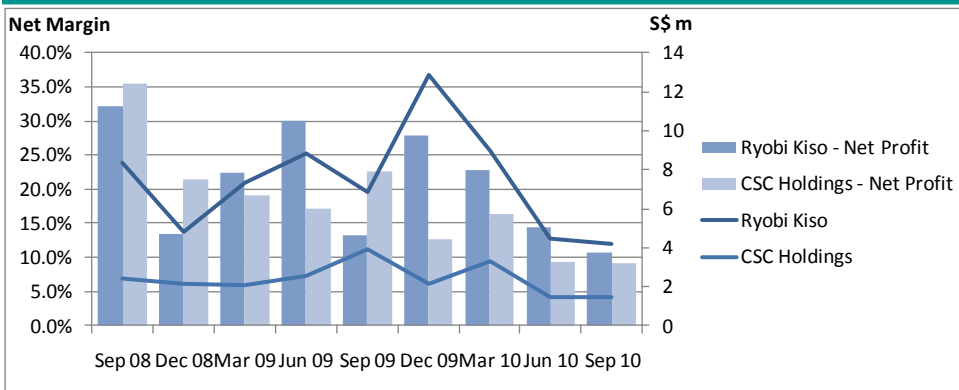
Source: Various Sources, SIAS Research

**Figure 5: Revenue CAGR (2009 – 2010E)**



Source: Various Sources, SIAS Research

**Figure 6: Profitability Comparison**



Source: Bloomberg, SIAS Research

Margins in 2Q and 3Q 2010 were lower than the trough of previous cycles. Piling works are typically the first phrase of most construction projects. As such, we can expect margins to recover in coming quarters with more projects in the pipeline.

**Project momentum will be much stronger in 2011.** We expect the strong pipeline of public sector projects from now on to add to private sector demand and drive industry utilization back up, thereby raising piling rates in 1H 2011. Mega developments include the Singapore Sports Hub, Jurong Hospital, Downtown Line 3 (17 contracts), HDB public housing plans (to bring the supply of new flats to 22,000 next year). MOE will also be building eight new schools and expanding two educational institutions.

Both the Sports Hub and Jurong Hospital are large scale construction projects that will each cost more than S\$1.0bn to build. As such, their piling works will be of significant value. Private sector projects include the construction of a synthetic rubber plant worth S\$800m on Jurong Island from now until 2012. As such, we believe that there will be ample contract opportunities for Ryobi in the near future.

**Figure 7: Some high value contracts awarded to main contractors in Sep 2010. Their immediate commencement dates bodes well for piling services demand in 4Q 2010.**

No	Short Description	Dev. Type	Start	End	Developer
<b>CONTRACT VALUE &gt;S\$50m, &lt;S\$100m</b>					
1	BUILDING WORKS AT CHOA CHU KANG N5 C12 (TOTAL: 592 DWELLING UNITS)	Residential	Oct-10	Jun-13	HOUSING & DEVELOPMENT BOARD
2	ERECTN 1 BLK 36 STY RESID FLATS (157 UNITS)WT COMMON BASEMT CARPKS & COMMUNAL FAC @ THOMSON RD	Residential	Sep-10	Apr-13	CITY DEVELOPMENTS LTD
3	PART A: BUILDING WORKS AT HOUGANG N9 C12 (TOTAL: 699 DWELLING UNITS) PART B: CONTINGENCY WORKS	Residential	Oct-10	May-13	HOUSING & DEVELOPMENT BOARD
<b>CONTRACT VALUE &gt; S\$100m</b>					
4	BUILDING WORKS AT DAWSON CONTRACT 2 (TOTAL: 758 DWELLING UNITS)	Residential	Oct-10	Oct-14	HOUSING & DEVELOPMENT BOARD
5	ERECTN 9 BLKS OF 18-STY EXECUTIVE CONDOMINIUM (573 UNITS) & 1 BLK 4-STY CARPKS WITH COMMUNAL FACILITIES @ BUANGKOK DRIVE/COMPASSVALE BOW	Residential	Dec-10	Aug-13	FCL COMPASSVALE PTE LTD
6	CONSTRUCTION OF A 60MGD WATERWORKS & ANCILLARY FACILITIES AT LOWER SELETAR PART I	Civil Engineering	Oct-10	Apr-13	PUBLIC UTILITIES BOARD
7	PART A: BUILDING WORKS AT DAWSON CONTRACT 1 (TOTAL: 960 DWELLING UNITS) PART B: CONTINGENCY WORKS	Residential	Oct-10	Feb-15	HOUSING & DEVELOPMENT BOARD
8	ERECTN & COMPLETN PROP 2 STY CRUISE TERMINAL BLDG WT 3 STY CARPK @ MARINA COASTAL DR (INTERNATIONAL CRUISE TERMINAL)	Institutional And Others	Sep-10	Dec-11	JTC CORPORATION

Source: Company, SIAS Research

**2Q FY11 revenue is already in place.** In 2Q FY11 (or 4Q 2010), Ryobi will be executing four piling projects at full pace – The Lanai at Hillview Avenue, The Scala at Serangoon North, a factory development in Yishun and Hundred Trees at West Coast Drive. Hence, Ryobi’s 2Q FY11 revenue drivers are already in place.

As of 30 Sep 2010, Ryobi has a **net** order book of S\$81.3m, about 90% of which will be recognized over the next two to three quarters. The remaining 10% pertains to geoservices contracts which are long dated in nature. This implies that Ryobi already has S\$24.4m to S\$36.6m of revenue in place for each of the next two to three quarters of FY11.

We noted that Ryobi need only garner another S\$16.7m of contracts to meet FY10's sales. Hence, Ryobi's revenue may surprise on the upside by grabbing additional contracts of higher value, on top of its usual flow of smaller contracts.

**Ryobi's advantages.** When bidding for new contracts, Ryobi has the advantages of a) an L6 financial grading by the BCA, b) a strong set of piling techniques that can be applied to various site requirements and c) low corporate overhead. To date, there are only 17 piling contractors who have a similar financial grading. This means that there are effectively only 17 competitors when taking on public piling projects higher than S\$13.0m in value.

Next, Ryobi's varied piling methods mean that it has the potential to complete the same project in more effective ways than its competitors. For example, large diameter hard rock coring equipment is needed to drill through granite. Alternatively, low noise eco-friendly piling methods may be needed at sites near build up areas.

Furthermore, we have observed greater focus by the industry on improving productivity, as a result of initiatives by the Building and Construction Authority. As such, companies that have been upgrading their methods, like Ryobi, will be well-received by customers.

Finally, Ryobi maintains a relatively small workforce of about 550 people, of which about 150 are core permanent staff. With lower overhead, Ryobi faces less pressure to take on jobs of lower profitability and retains the flexibility to plan for projects according to the availability of its resources.

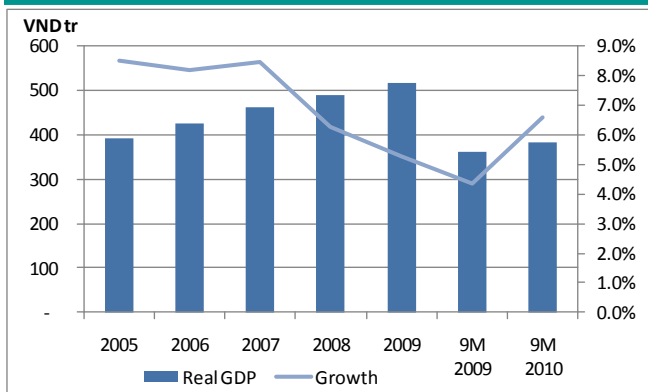
**Not reliant on private residential sector.** Ryobi's portfolio of projects is not limited to the private residential sector, which may slow down in 2H 2011 as a result of the recent property cooling measures. Ryobi has a track record in multiple types of developments. As such, the company can take on more institutional, commercial or industrial projects to make up for a weaker private residential sector. Furthermore, Ryobi still has other growth opportunities outside of Singapore.

## Piling into Vietnam

**Vietnam: One of the 'N-11' countries.** Ryobi entered the Vietnam market in July 2009. Vietnam is one of the fastest growing economies in Asia, with a real GDP CAGR of 7.3% since 2005, and has been identified as one of the 11 next most promising economies other than the 'BRIC' group of countries.

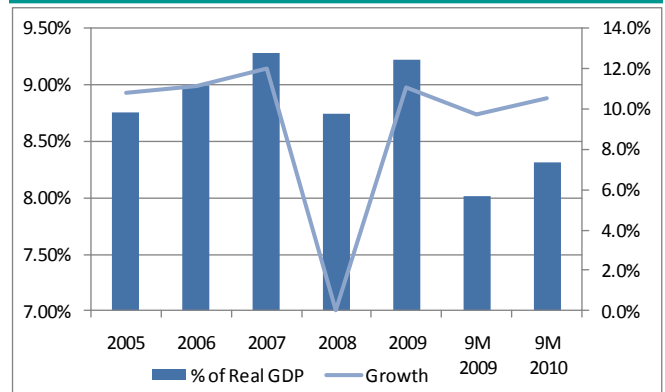
Driven by urbanization and infrastructure development, Vietnam's construction industry has been outpacing the economy, growing at 8.9% CAGR over the last five years. If not for a slowdown in the Vietnam construction sector in 2008, the industry would have grown at an average rate of about 11.2% per annum. Hence, Vietnam represents an attractive market for construction companies.

**Figure 8: Vietnam GDP and Growth Rate**



Source: Bloomberg, SIAS Research

**Figure 9: Vietnam Construction Industry**



Source: Bloomberg, SIAS Research

**Making headway with local firms.** Ryobi's initial strategy in Vietnam was to leverage on its network of clients and connection with Ryobi Japan to gain contract wins. However, Ryobi's contract win from a local company in March this year for a residential project suggests that it has considerable promise in Vietnam.

Firstly, the contract win demonstrates that Ryobi has been getting the attention of local companies. Secondly, the project 'Phu My Resettlement Area' was intended by the developer to be a model residential area for more than 11,000 people. When completed, the area will conform to international standards in amenities and modernity. Hence, this can be a showcase project by Ryobi to pitch to future Vietnamese clients. To date, Ryobi has secured three projects in Hanoi and Ho Chi Minh City including this >\$7.0m contract.

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## Forecasts and Valuation

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We believe that Ryobi's outlook is now considerably brighter than earlier this year. Its net order book of S\$81.3m gives us revenue visibility up to the end of FY11. We have also identified a flow of contract opportunities that will provide further upside for the company. Moreover, the company is starting to see success in its Vietnam venture.

Recently, the company has also set up a subsidiary to take part in property development opportunities (most likely in partnership with its customers). However, we understand that such opportunities will probably take shape in FY12.

As the construction industry focuses more on productivity and efficiency, we are also of the view that Ryobi's cycle of methodological improvements will place it in a good position for growth.

In light of these developments, we project top-line growth of 10% annually over our forecast horizon from FY11F to FY13F. Noting that margins have come off due to stiff competition and rising costs, our earnings forecasts are based on a net margin of about 17% over the next three financial years. Although this is higher than the 12% seen in 1Q FY11, it is closer to the level in FY07. We expect margins to recover alongside piling rates.

Nonetheless, Ryobi does face several key risks. The Singapore construction industry is relatively mature. As such, there is no certainty that new developments will be more than sufficient to replace completed projects. This is why Ryobi has to diversify its revenue streams and seek new markets.

In addition, the piling industry is competitive in nature. Larger players typically slash prices to fill capacity. The property cooling measures may result in a slowdown of private residential projects later in 2011, and affect piling rates.

As of end Sep 2010, Ryobi had S\$31.5m of net cash, or 4.1 S cents per share. The management currently owns more than 75% of the company. Ryobi paid 1 S cent of dividends per share for FY10, translating to a current yield of 5.9%.

We value Ryobi at S\$0.260 per share based on a terminal growth rate of 2% and a cost of capital of 11.2% to 11.7%. Our valuation translate to a FY11F PER of 8.85x, valuing Ryobi closer to industry peer CSC Holdings, which we believe to be justified based on the company's higher return on equity. We believe that Ryobi has the capacity for further growth. Initiate with an Increase Exposure view.

**Figure 10: Peer Comparison**

	Size Metrics		Valuation		Annualized YTD Earnings			Dupont Analysis		
	Mkt Cap (S\$ m)	Revenue (S\$ m)	PER	P/BV	2010 (S\$ m)	2009 (S\$ m)	Growth	ROE	Net Margin	Assets / Equity
Ryobi Kiso Holdings Ltd.	130.1	135.4	5.8	1.1	22.3	30.6	-27.2%	34.3%	16.4%	1.5
CSC Holdings Ltd	202.5	289.5	12.4	1.1	16.3	27.4	-40.5%	12.2%	5.6%	2.1
BBR Holdings (S) Ltd	78.6	194.9	5.5	1.1	14.3	10.0	42.2%	29.6%	7.3%	3.2
PSL Holdings Ltd	49.5	65.3	5.3	1.3	9.3	8.3	12.3%	50.5%	14.2%	1.9

Revenue = Annualized YTD sales, PER = Last Price / Annualized YTD EPS, ROE = Annualized YTD Return on Common Equity. Assets / Equity = Total Assets / Common Equity.

Source: Bloomberg, SIAS Research

**Figure 11: Economic Profit Valuation Model**

S\$m	FY11F	FY12F	FY13F
Revenue	132.9	146.2	160.8
EBIT	28.1	31.0	34.1
Tax on EBIT	-4.6	-5.0	-5.5
NOPLAT	23.5	25.9	28.6
Invested Capital	132.8	158.3	169.3
% of Debt	13.5%	16.4%	10.6%
% of Equity	86.5%	83.6%	89.4%
WACC (%)	11.5%	11.2%	11.7%
Capital Charge	15.2	17.8	19.9
Economic Profit	8.3	8.2	8.7
Terminal Value			91.0
Discount Rate	0.92	0.83	0.74
Present Value	7.6	6.8	6.4
Book Value	112.7	Risk Free Rate	1.90%
Explicit Value	20.8	Beta	1.25
Terminal Value	67.1	Market RP	8.63%
Value of Equity	200.6	Cost of Equity	12.7%
Number of Shares (m)	765.3	Cost of Debt	4.5%
Value per share (S\$)	0.260	LT Growth	2.0%

Source: SIAS Research



**Figure 12: Financial Forecasts and Estimates**

S\$m	FY08	FY09	FY10	FY11F	FY12F	FY13F
Revenue	125.1	160.3	120.8	132.9	146.2	160.8
Gross Profit	46.9	52.4	46.7	39.9	43.9	48.3
Operating Profit	38.5	40.7	33.0	27.3	30.2	33.3
Net Profit	30.2	34.3	27.4	22.5	24.8	27.3
Attributable to Shareholders						
Total Current Assets	70.5	65.5	110.5	121.2	137.7	157.4
Total Non-Current Assets	38.9	45.4	72.5	74.7	74.0	70.6
Total Current Liabilities	60.0	52.4	50.2	39.9	44.5	47.8
Total Non-Current Liabilities	15.0	15.1	17.9	23.8	15.8	7.8
Total Equity	34.4	43.4	114.9	132.2	151.3	172.4
Cash from Operating Activities	38.6	54.3	16.6	33.7	41.7	33.6
Cash from Investing Activities	-9.0	-5.1	-27.9	-12.0	-10.0	-8.0
Cash from Financing Activities	-5.1	-37.1	27.2	2.4	-14.3	-15.0
Net Change in Cash	24.5	12.1	15.9	24.0	17.4	10.6
Inventory Days	3	1	1	1	1	1
Receivable Days	88	71	112	120	90	90
Payable Days	148	147	193	120	120	120
Return on Common Equity	119.1%	92.4%	35.5%	18.5%	17.8%	17.2%
Return on Assets	39.9%	31.4%	18.8%	12.1%	12.4%	12.7%
Gross Debt / Common Equity	55.7%	45.0%	15.9%	20.1%	12.2%	5.9%
Current Ratio	1.2	1.3	2.2	3.0	3.1	3.3
EPS (S cents)	3.95	4.48	3.57	2.94	3.24	3.57
BV / Share (S cents)	4.3	5.4	14.7	17.0	19.4	22.1
PER	4.3	3.8	4.8	5.8	5.3	4.8
P/BV	4.1	3.2	1.2	1.0	0.9	0.8

EPS and book value per share is based on the post IPO number of shares outstanding.

Source: Company, SIAS Research

## Company Background

Ryobi's products and services can be segregated into two areas – piling works, and geotechnical engineering services and equipment.

**Bored piling:** In this method, a hole is bored into the ground, before the pile is concreted within it. This technique generates less noise and ground vibration than the traditional driven piling method which relies on a pile driver to knock the pile into the ground.

**Eco-friendly piling:** This set of techniques creates even less noise and vibration as compared to bored piling. Usually involving the mixing of cement with *in-situ* soil, soil removal is reduced and load bearing capacities are increased. This reduces the amount of concrete needed. Eco-friendly piling can be employed when ground conditions do not facilitate bored piling.

**Geoservices:** Ryobi also provides environmental protection engineering services. By building non-permeable walls below the ground, Ryobi can cordon off specific areas to contain pollutants like industrial chemicals, as well as limit seepage from water works and reservoirs.

Other geoservices provided by Ryobi include technical engineering services such as soil investigation, seismic monitoring and geophysical surveying. Ryobi also re-sells geoproducts such as motion seismic equipment, survey instruments and sensors.

### Figure 13: Technical improvements lead to increased value add

#### Product Improvements

- Higher load bearing capacity
- Lower raw material requirements
- Reduced noise pollution and ground vibration
- Reduced soil removal and disturbance
- Faster project turnaround



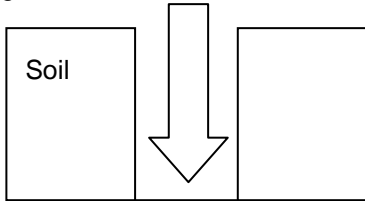
**Time and cost savings**

Source: Company, SIAS Research

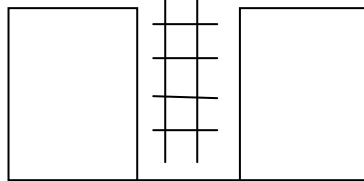
**Figure 14: Simplified Schematics of Selected Piling Methods**

**Bored Piling**

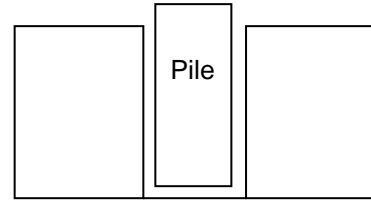
A circular hole is bored in the ground



A steel reinforcement cage is inserted into the bore.

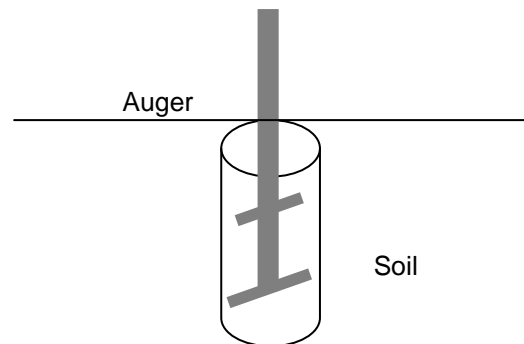


Pile is formed by filling the bore with concrete.



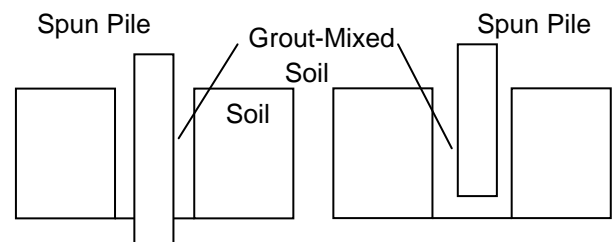
**Grout-Mix Piling**

Involves drilling into the ground with an electric auger, while simultaneously pumping cement grout into the bore. This technique improves soil load bearing capacity without minimal soil disturbance. It is more suited for light structures, to strengthen the ground and as temporary retaining structure to prevent ground heaving.



**Screwed Spun Piling / Press Grouted Spun Piling**

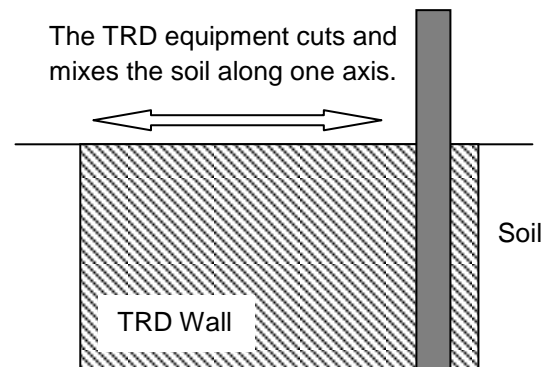
These methods are improvements upon the grout-mix piling technique. The same procedures as grout-mix piling are followed, except that a spun pile is lowered into the bore before the cement grout hardens. In press grouted spun piling, the spun pile is tapped into the soil, such that the pile toe actually rests on competent soil strata. This increases load bearing capacity of the pile.



Press Grouted Spun Piling Screwed Spun Piling

**Trench Cutting and Re-Mixing Deep Wall Method (TRD)**

The TRD method uses a machine that works like a giant chain saw, cutting and mixing the soil along a straight axis and at full depth, in a single continuous deployment. This method creates a uniform grout-mix wall that is more permeable than conventional methods. As only a single deployment is needed, it is also more efficient. This method is typically used to create retaining walls or cut-off walls (e.g. to isolate polluted soil).



### Figure 15: Some Product / Technical Milestones

- 1990-1992:** One of pioneers to utilize large diameter hard rock coring equipment
- 1992** : Introduced eco-friendly grout-mix piling technique to construct temporary retaining wall.
- 1999** : Formed JV to acquire expertise to enhance and customize piling equipment.
- 2000** : Acquired Ryobi Geotechnique to expand into geotechnical engineering, geophysical survey and seismic monitoring.
- 2001** : Introduced screwed spun piling technique. Having refined this technique over the years, the company asserted in its prospectus, that it was the only piling company in Singapore with this method.
- 2005** : Ryobi Geoengineering was established to provide geotechnical engineering services in the areas of instrumentation, automatic real-time monitoring works and system development.
- 2006** : Developed the press grouted spun piling technique to increase efficiency and load bearing capacity.
- 2007** : Became one of the first companies to commercialize TRD method outside Japan. The said method was used to construct a cut off wall underground.
- 2007** : Started selling geotechnique products such as motion seismic, survey equipment and sensors to complement geotechnical engineering services.
- 2009** : Entered Vietnam piling market.
- 2010** : Set up Ryobi Development Pte Ltd to capture opportunities in property development, when available.

Source: Company, SIAS Research

**Rating Definition:**

**Increase Exposure** – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

**Invest** – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

**Fairly Valued** – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

**Take Profit** – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

**Reduce Exposure** - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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