Ryobi Kiso Holdings Ltd.

Standing on Firm Ground

Ryobi Kiso Holdings Ltd. (Ryobi) made S$2.9m of net attributable profit for the quarter ended December 2010. We continue to be optimistic over Ryobi's prospects with ample bidding opportunities to boost its order book. The company is also adopting new technology to enhance its value proposition, which will be benevolent towards future growth. ***Maintain Increase Exposure based on an intrinsic value of S$0.260***.

Fundamental Developments:

- Ryobi has a net order book of S$78.9m as at end December 2010, of which about 2/3 will be recognized over the next two quarters. Upcoming industry developments include the Singapore Sports Hub, Jurong General Hospital, Downtown Line Stage 3, ITE's third regional campus, the redevelopment of Victoria Theatre and Victoria Concert Hall and HDB public housing projects. We suspect that Ryobi's bidding book right now is easily more than 2.0x its order book, giving us comfort about its top-line outlook.

- 2Q FY11 gross margin was affected by higher material costs. Nonetheless, Ryobi has factored these costs in the pricing of its recent projects. As such, we can expect an improvement in gross margin from 3Q FY11.

- Ryobi still has S$24.0m of unutilized funds from its IPO last year, which can be used to support future growth. The company has net cash of S$15.2m as at end December 2010.

- The company is also adopting new technology to increase its competitiveness and drive long term growth. We believe that there is potential for the TRD precast D-Wall method to be taken up more widely with its promise of increasing productivity.

- With a 6.8x trailing 12-month PER, Ryobi trades at a steep 45% discount to peer CSC Holdings Limited which goes at 12.5x PER.

Increase Exposure

- Intrinsic Value S$0.260
- Prev Close S$0.175

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	33.2
Operating Profit	41.6	33.9	16.9
Earnings	34.3	27.4	13.1
EPS^ (S cts)	4.48	3.57	1.71

^EPS is based on post IPO no of shares outstanding.
Source: Company, SIAS Research

Key ratios (FY11F)	
PER	10.0
P/BV	1.1
Return on Common Equity	11.2%
Return on Assets	7.1%
Gross Debt to Common Equity	27.6%
Current ratio	2.2

Source: SIAS Research

Indexed Price Chart
Green (FSSTI)
White (RYOBI)

Source: Bloomberg

52wks High-Low	*S$0.265 /S$0.165*
Number of Shares	*765.3m*
Market Capitalization	*S$133.9m*

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Results Overview

Revenue up 18.5% YoY: Ryobi Kiso Holdings Ltd. (Ryobi) announced its 2Q FY11 results for the period ended December 2010 on 28 January 2011. Revenue for the quarter was up 18.5% YoY, to S$31.5m, driven by an uptick in bored piling demand. Revenue from the bored piling segment grew by 53.5% YoY to S$26.7m in 2Q FY11.

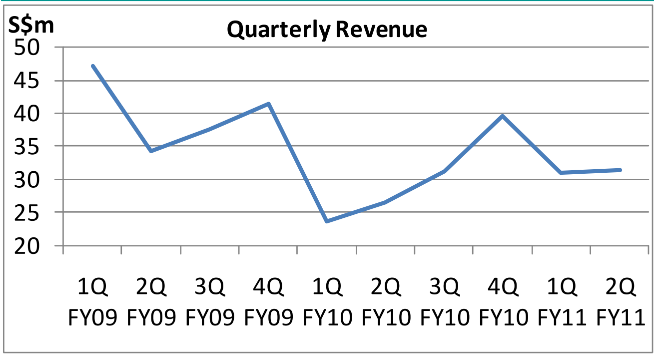
Order book gives 2H revenue visibility: As at end December 2010, Ryobi had a net order book of S$78.9m, of which about 2/3 will be recognized within 2H FY11. Ryobi's order book also implied that the company won about S$29.0m (Current net order book plus revenue recognized in 2Q FY11 less net order book as of end 1Q FY11) of contracts within the last three months.

Strong pipeline of projects imply beefed up bidding book: The project pipeline in the construction industry remains exciting. Upcoming developments include the Singapore Sports Hub, Jurong General Hospital, Downtown Line Stage 3, ITE's third regional campus, the redevelopment of Victoria Theatre and Victoria Concert Hall and HDB public housing projects. We suspect that Ryobi's bidding book right now is easily more than 2.0x its current order book.

As such, we expect Ryobi to win additional contracts over the next few months, which will contribute positively to revenue in FY11F. Hence, we are maintaining our revenue forecast of S$132.9m for the whole of FY11F. Our positive view is supported by the sheer number of projects secured by Ryobi of late. They include the Downtown Line Stage 2 Contract 912, EduSports, HDB Woodlands project and private residential projects such as Cube 8, Concorde Residences and 76 Shenton Way.

Not much to worry about capacity constraints: Thus far, Ryobi has about S$24.0m of unutilized funds from its IPO in January 2010. This represents a credible cash pool that the company can deploy to acquire new machinery and support long term growth.

Figure 1: Revenue

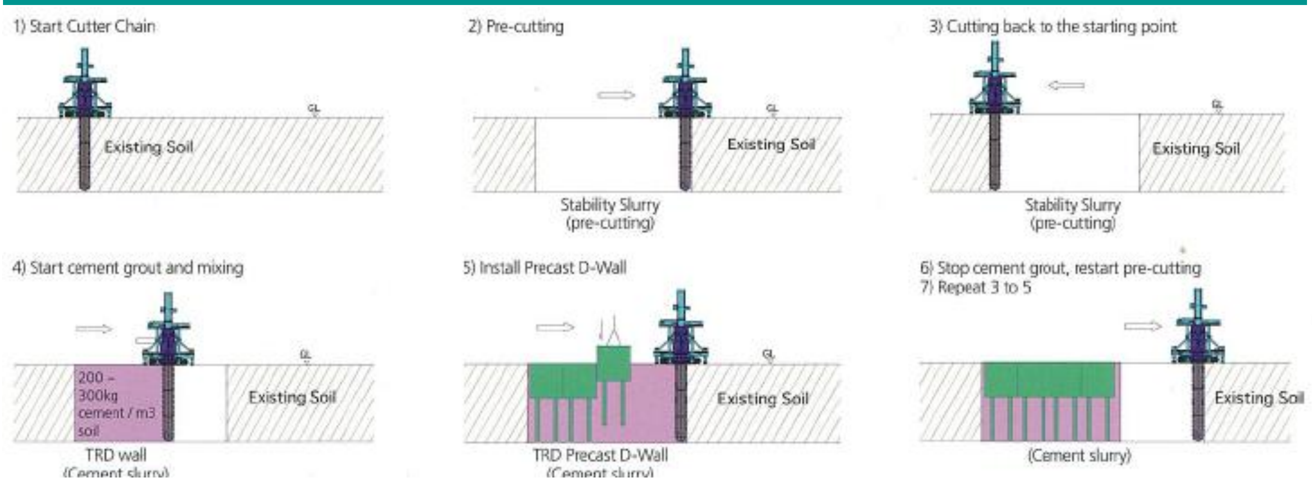


Source: Company, SIAS Research

Recent projects secured at better pricing: Ryobi's profitability in 2Q FY11 was, however, affected by higher costs and intense competition. Accordingly, the prices of certain raw materials such as concrete, diesel and steel reinforcement bars had risen by 25% to 40% over the last six months. The higher costs in turn affected Ryobi's margins. Ryobi's gross margin fell from 25.5% in 1Q FY11 to 25.1% in 2Q FY11. 2Q FY11 gross margin would have been lower if not for the write back of excess allowances following the completion of a contract. However, we can look forward to an improvement in margins over the next six months as Ryobi has raised prices for its recent projects to factor in both current and future cost inflation.

Marketing new subterrain pre-cast technology: Ryobi also mentioned in its press release that it has recently adopted new subterrain pre-cast technology. Accordingly, this is a new method to build permanent retaining walls in the construction of one to two storey basements. Ryobi's intent is to offer this product alongside its piling services to shorten the critical path of a construction project. Traditional construction methods will require excavation works to be performed before the retaining walls can be built. Ryobi's technique does not require the full excavation of the site. We expect this product to be gradually taken up by customers. Nonetheless, we see this product as a potential blockbuster over time as builders focus on raising productivity.

Figure 2: TRD Precast D-Wall Installation Sequence



Completed D-Wall (in the background)

Source: Company

Figure 3: Major Projects – Net Order Book of S$78.9m as of Dec 2010

Project Title	Expected Completion
Infrastructure and Institutional Projects	
Downtown Line Stage 2 Contract 912	May/Jul-11
HDB Woodland N1C19	Aug-11
HDB Bukit Pangjang N4C14	Mar-11
Marina Coastal Expressway Contracts 481 and 482	Dec-13
Downtown Line Stage 1 Contracts 908 and 909	Jul-12
Downtown Line Stage 2 Contracts 911 and 912	Mar-13
Edusports	Mar-11
Residential Projects	
The Laurels	May-11
Cube 8 and Concorde Residences	Jun-11
Lanai	Mar-11
Flamingo Valley	Mar-11
The Scala	Feb-11
Lincoln Suites	Feb-11
Gilstead Two	Apr-11
Condominium at 76 Shenton Way	Oct-11
Condominium at Tomlinson Road	Jun-11
Condominium at Ewe Boon Road	Mar-11

Source: SIAS Research

Fleet of rigs and excavators potentially undervalued: Used rigs, excavators and cranes are usually sold to users in the region, such as farmers and private builders in Malaysia and Indonesia. As their value at disposal may be higher than their residual value on the balance sheet, Ryobi may record some gains as it renews its fleet on an ongoing basis.

Gilstead Road Incident: Last month, one of Ryobi's worksite was hit by an accident. A pile of concrete blocks collapsed, damaging a section of a road and adjacent gas pipes. The damage was covered by the company's insurance policies and there was no casualty due to the accident. We view this incident as an isolated issue. Ryobi performs about 60 to 80 pile load tests a year and this is the only reported accident in some time. There is currently no indication that Ryobi's future bids will be affected.

Ryobi will recommence work once its permit for this site is reinstated. All other project sites are not affected. This project has an approximate contract value of S$2m. Potential remedies for the company include the deployment of more manpower or machinery to increase work pace and meet the contract deadline.

Valuation

Ryobi continued to maintain its margin lead over industry peer CSC Holdings Limited (CSC) in 2Q FY11. While CSC showed modest QoQ net profit growth of 4.2% for the quarter ended December 2010, Ryobi achieved a net margin of 9.2% which is 2.5x that of CSC. Ryobi also has close to 2 S cents per share of net cash, while CSC has net debt of S$63.4m equivalent to 5.2 S cents per share. Given Ryobi's higher margin and cash balance, the company shows value trading at just 6.8x trailing 12-month PER or 55% of CSC's 12.5x. Nonetheless, competition remains a key risk against our view. Should competition intensify further, Ryobi may see its margin come under pressure once more, thus potentially eroding its profitability. **Maintain Increase Exposure based on an intrinsic value of S$0.260**.

Figure 4: Economic Profit Valuation Model

S$m	FY11F	FY12F	FY13F	FY14F
Revenue	132.9	146.2	160.8	176.9
EBIT	16.9	22.6	27.4	30.2
Tax on EBIT	-2.7	-3.7	-4.4	-4.9
NOPLAT	14.1	18.9	22.9	25.3
Invested Capital	132.8	156.5	167.7	181.3
% of Debt	13.5%	21.3%	19.9%	18.4%
% of Equity	86.5%	78.7%	80.1%	81.6%
WACC (%)	10.2%	9.5%	9.7%	9.8%
Capital Charge	13.6	14.9	16.2	17.7
Economic Profit	0.6	4.0	6.7	7.6
Terminal Value				99.3
Discount Rate	0.95	0.87	0.79	0.72
Present Value	0.5	3.5	5.3	5.5
Book Value	112.7		Risk Free Rate	2.50%
Explicit Value	14.9		Beta	1.05
Terminal Value	71.6		Market RP	8.50%
Value of Equity	199.2		Cost of Equity	11.4%
Number of Shares (m)	765.3		Cost of Debt	3.0%
Value per share (S$)	0.260		LT Growth	2.0%

Source: SIAS Research

Figure 5: 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.	133.9	133.0	6.8	1.2	19.6	32.7	-40.1%	22.7%	14.7%	1.6
CSC Holdings Ltd	195.5	311.3	12.5	1.1	15.6	25.0	-37.6%	8.8%	5.0%	2.2
BBR Holdings (S) Ltd	81.3	194.9	5.7	1.1	14.3	10.0	42.2%	29.6%	7.3%	3.2
PSL Holdings Ltd	71.2	65.3	7.7	1.9	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.

	Ryobi Kiso Holdings Ltd.		CSC Holdings Limited	
	Dec-10	Sep-10	Dec-10	Sep-10
Revenue	31.5	31.0	94.2	78.4
Gross Profit	7.9	7.9	12.4	11.2
PATMI	2.9	3.7	3.4	3.2
Gross Margin	25.1%	25.5%	13.2%	14.2%
Net Margin	9.2%	12.1%	3.6%	4.1%
ROE (Annualized)	9.9%	13.0%	7.5%	7.1%
T12 month PER	6.8		12.5	
P/BV	1.2		1.1	

Source: Bloomberg, SIAS Research

Figure 6: Financial Forecasts and Estimates

S$m	FY08	FY09	FY10	FY11F	FY12F	FY13F	FY14F
Revenue	125.1	160.3	120.8	132.9	146.2	160.8	176.9
Gross Profit	46.9	52.4	46.7	33.2	40.2	48.3	53.1
Operating Profit	38.5	41.6	33.9	16.9	22.6	27.4	30.2
Net Profit	30.2	34.3	27.4	13.1	17.8	21.6	24.1
Attributable to Shareholders							
Total Current Assets	70.5	65.5	110.5	96.8	111.6	126.9	145.9
Total Non-Current Assets	38.9	45.4	72.5	98.5	100.1	100.5	99.5
Total Current Liabilities	60.0	52.4	50.2	43.1	48.3	50.4	53.4
Total Non-Current Liabilities	15.0	15.2	17.9	29.0	29.0	29.0	29.0
Total Equity	34.4	43.4	114.9	123.2	134.4	148.0	163.0
Cash from Operating Activities	38.6	54.3	16.6	14.1	34.0	30.9	39.5
Cash from Investing Activities	-9.0	-5.1	-27.9	-38.0	-15.0	-15.0	-15.0
Cash from Financing Activities	-5.1	-37.1	27.2	10.0	-7.3	-8.9	-9.9
Net Change in Cash	24.5	12.1	15.9	-13.9	11.7	7.0	14.6
Inventory Days	3	1	1	1	1	1	1
Receivable Days	88	71	112	134	120	120	120
Payable Days	148	147	193	120	120	120	120
Return on Common Equity	119.1%	92.4%	35.5%	11.2%	14.1%	15.7%	15.9%
Return on Assets	39.9%	31.4%	18.8%	7.1%	9.0%	10.1%	10.4%
Gross Debt / Common Equity	55.7%	45.0%	15.9%	27.6%	25.3%	23.1%	21.0%
Current Ratio	1.2	1.3	2.2	2.2	2.3	2.5	2.7
EPS (S cents)	3.95	4.48	3.57	1.71	2.32	2.83	3.14
BV / Share (S cents)	4.3	5.4	14.7	15.8	17.2	18.9	20.8
PER	4.3	3.8	4.8	10.0	7.3	6.0	5.4
P/BV	4.0	3.1	1.2	1.1	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

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.

IMPORTANT DISCLOSURE