

## Ryobi Kiso Holdings Ltd.

### Results Not Reflective of 2011 Demand

Ryobi Kiso Holdings Ltd's (Ryobi) 3Q FY11 results were weaker than expected, with 9M FY11 sales and net attributable profit coming in at 69.3% and 55.6% of our prior FY11F forecasts respectively. More intensive than anticipated competition had limited Ryobi's pricing power, while higher raw material, labour and fuel costs had squeezed the company's margins.

We expect Ryobi's 4Q to be similar to its 3Q as it completes existing projects. Nonetheless, we expect 1Q FY12F to show improvement as HDB and MRT projects continue to soak up piling rig capacity within the industry and push piling rates upward. **Maintain Increase Exposure on attractive price-value gap with a revised intrinsic value of S\$0.230.**

#### Key Developments:

**Why 3Q Was So Weak?** Accordingly, the recovery in piling prices was slower than expected in the first quarter of CY2011 as a result of stiff competition. The company had also defended its quotations and avoided bidding too aggressively. This had in turn affected revenue growth.

**Results Yet to Reflect Higher Public Construction Spending of 2011:** This year, the BCA expects civil engineering demand to rise by 3.0 to 3.5 times compared to 2010 as a result of MRT line construction. In the first four months of this year, the HDB has offered 8,030 BTO flats. In May and Jun 2011, it plans to offer another 6,070 BTO flats. This implies that another 8,030 flats will be launched in 2H 2011 to meet its full year aim of 22,000 new flats. As such, we believe that demand for piling services is likely to be robust going forward.

**Better Position to Ride the Upswing:** As these projects come online, we see that companies which had bid more aggressively earlier will have their capacity tied up. Not only will Ryobi be able to take on these projects with its available capacity, it will also be able to secure higher prices with less competition. With these points in mind, we are maintaining our Increase Exposure call on the company.

## Increase Exposure

- Intrinsic Value S\$0.230
- Prev Close S\$0.155

#### 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	FY10	FY11F	FY12F
Revenue	120.8	120.8	135.9
Gross Profit	46.7	28.4	37.4
Operating Profit	33.9	12.5	19.1
Earnings	27.4	8.9	14.4
EPS^ (S cts)	3.57	1.17	1.88

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

#### Key ratios (FY12F)

PER	8.3
P/BV	0.9
Return on Common Equity	11.7%
Return on Assets	7.4%
Gross Debt to Common Equity	27.9%
Current ratio	2.2

Source: SIAS Research

#### Indexed Price Chart

Green (FSSTI)  
White (RYOBI)



Source: Bloomberg

52wks High-Low	S\$0.210 /S\$0.145
Number of Shares	764.4m
Market Capitalization	S\$118.5m

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**Order Book Analysis:** Ryobi's net order book as of 31 Mar 2011 stood at S\$75.1m, not significantly different from the S\$78.9m as of end Dec 2010. New piling projects that were secured include Downtown Line Stage 2 Contract 920, HDB Sengkang N4C11, Lakefront Residences and Goodwood Residences (Phase II). In line with the current industry trend of more public sector projects, the company is now focusing more on institutional and government contracts.

**TRD Precast D-Wall Method:** Ryobi has also recently stepped up rhetoric on its subterranean pre-cast technology in its press releases. We have previously mentioned about this method in our update dated 9 Feb 2011. The company is currently seeking projects that will utilize this technology to save construction costs and time.

**Gilstead Road Incident:** We understand that the company is still working on Gilstead Road Project following the lifting of the stop work order by the Ministry of Manpower. The financial impact of the delay has yet to be finalized, but we understand it will not materially impact Ryobi's full year results.

**Forecasts and Valuation:** As a result of the weak 3Q, we have reduced our full year FY11F net attributable profit forecast by S\$4.1m from S\$13.1m to S\$8.9m. FY11F revenue was in turn slashed from S\$132.9m to S\$120.8m (less S\$12.1m). This works out to 4Q FY11F revenue and net attributable profit forecast of S\$28.7m and S\$1.7m respectively. Consequentially, we arrived at an updated intrinsic value of S\$0.230, which still represents a steep value to price discount.

Signals that suggest that Ryobi is undervalued include

- a) Ryobi's share price has fallen by only 2 S cents or 11.4% from our last update despite the weak 3Q showing.
- b) The company has commenced share buybacks, having bought back 0.9m shares since end Mar 2011.

**Figure 1: Results Analysis**

	9M FY10	9M FY11	Change	Prior FY11F	%
Revenue	81.3	92.1	13.3%	132.9	69.3%
Gross Profit	34.9	21.9	-37.3%	33.2	65.9%
Operating Profit	27.2	10.2	-62.6%	16.9	60.2%
Net Attributable Profit	22.3	7.3	-67.4%	13.1	55.6%
Gross Margin	42.9%	23.8%	-19.2%	25.0%	-1.2%
Net Margin	27.5%	7.9%	-19.6%	9.9%	-2.0%

Source: Company, SIAS Research

**Figure 2: Economic Profit Valuation Model**

S\$m	FY11F	FY12F	FY13F	FY14F
Revenue	120.8	135.9	152.9	172.1
EBIT	12.5	19.1	25.9	32.0
Tax on EBIT	-2.0	-3.1	-4.2	-5.2
NOPLAT	10.4	16.0	21.7	26.8
Invested Capital	132.8	156.1	165.3	177.9
% of Debt	13.5%	22.7%	21.4%	19.9%
% of Equity	86.5%	77.3%	78.6%	80.1%
WACC (%)	11.5%	10.7%	10.8%	10.9%
Capital Charge	15.2	16.7	17.8	19.4
Economic Profit	-4.8	-0.7	3.9	7.3
Terminal Value				83.8
Discount Rate	0.97	0.88	0.79	0.71
Present Value	-4.7	-0.6	3.1	5.2
Book Value	112.7		Risk Free Rate	2.4%
Explicit Value	3.0		Beta	1.1
Terminal Value	59.9		Market RP	9.7%
Value of Equity	175.6		Cost of Equity	12.7%
Number of Shares (m)	764.4		Cost of Debt	4.7%
Value per share (S\$)	0.230		LT Growth	2.0%

Source: SIAS Research

**Figure 3: Financial Forecasts and Estimates**

S\$m	FY08	FY09	FY10	FY11F	FY12F	FY13F	FY14F
Revenue	125.1	160.3	120.8	120.8	135.9	152.9	172.1
Gross Profit	46.9	52.4	46.7	28.4	37.4	45.9	51.6
Operating Profit	38.5	41.6	33.9	12.5	19.1	25.9	32.0
Net Profit	30.2	34.3	27.4	8.9	14.4	20.0	25.1
Attributable to Shareholders							
Total Current Assets	70.5	65.5	110.5	102.7	113.6	127.6	147.1
Total Non-Current Assets	38.9	45.4	72.5	91.0	93.3	94.3	94.0
Total Current Liabilities	60.0	52.4	50.2	46.6	50.6	53.0	56.6
Total Non-Current Liabilities	15.0	15.2	17.9	26.4	26.4	26.4	26.4
Total Equity	34.4	43.4	114.9	120.7	129.9	142.5	158.1
Cash from Operating Activities	38.6	54.3	16.6	10.5	25.4	36.4	30.6
Cash from Investing Activities	-9.0	-5.1	-27.9	-30.0	-15.0	-15.0	-15.0
Cash from Financing Activities	-5.1	-37.1	27.2	13.7	-5.9	-8.2	-10.3
Net Change in Cash	24.5	12.1	15.9	-5.8	4.5	13.1	5.4
Inventory Days	3	1	1	2	2	2	2
Receivable Days	88	71	112	135	120	120	120
Payable Days	148	147	193	120	120	120	120
Return on Common Equity	119.1%	92.4%	35.5%	7.7%	11.7%	15.1%	17.1%
Return on Assets	39.9%	31.4%	18.8%	5.0%	7.4%	9.6%	11.1%
Gross Debt / Common Equity	55.7%	45.0%	15.9%	29.9%	27.9%	25.5%	23.0%
Current Ratio	1.2	1.3	2.2	2.2	2.2	2.4	2.6
EPS (S cents)	3.95	4.48	3.57	1.17	1.88	2.62	3.28
BV / Share (S cents)	4.3	5.4	14.7	15.5	16.6	18.2	20.1
PER	3.9	3.5	4.3	13.2	8.3	5.9	4.7
P/BV	3.6	2.9	1.1	1.0	0.9	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.

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