Ryobi Kiso Holdings Ltd.

Full Year Revenue Bounced Back

Ryobi Kiso Holdings Ltd's (Ryobi) revenue grew by 24.4% in FY2012 to S$153.3m on the back of its regionalization plan. However, gross profit declined by 30% to S$19.1m due to intense competition and rising labor costs. Despite PATMI coming in at only S$3.4m, operating cash flow before working capital changes remained strong at S$15.9m as Ryobi incurred high depreciation expense on its equipment. Financial position remains healthy with current ratio stood at 1.7x. ***Maintain Increase Exposure with an intrinsic value of S$0.190 per share.***

Key Highlights:

Expanding Beyond Singapore: According to World Market Intelligence, construction industry in Vietnam is expected to achieve a CAGR of 18.2% to 2015. Given Ryobi's current presence in Vietnam, we are of the view that Ryobi is well-position to ride on the tide in the future. In FY12, Vietnam contributed S$13.4m of revenue as compared to S$0.25m in FY11. We expect Ryobi to recognize about S$24m of revenue from its existing project in Vietnam in FY13F, based on our estimates. The Australia acquisitions were completed in July and Ryobi is currently exploring opportunities in the country.

Strong Construction Demand: According to BCA estimates, the construction demand in 2012 is expected to be between S$21 billion and S$29 billion. Demand from the public sector is expected to account for more than 50% of total demand. As such, we still see some potential for Ryobi to grow its revenue in FY13.

Challenging Operating Environment: We recognized that intense competition and rising operating costs may continue to hurt Ryobi's gross margin but we see limited downside from the current level. In light of rising costs, Ryobi also took measures to manage its cost efficiency such as tightly controlled its headcount. As one of the largest piling players in Singapore, we believe Ryobi will be able to weather through this challenging time and probably emerge as a stronger player when its operating enviroment improves.

Increase Exposure

- Intrinsic Value S$0.190
- Prev Close S$0.115

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	**FY11**	**FY12**	**FY13F**
Revenue	123.3	153.3	176.3
Gross Profit	24.4	19.1	23.8
PBT	10.6	3.4	8.0
Earnings	7.8	3.4	5.9
EPS (S cts)	1.03	0.45	0.78

Source: Company, SIAS Research

Key ratios (FY13F)	
PER	14.7
P/BV	0.74
Return on Common Equity	5.1%
Return on Assets	3.2%
Gross Debt to Common Equity	0.40
Current ratio	1.7

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (RYOBI)

Source: Bloomberg

52wks High-Low	*S$0.160 /S$0.112*
Number of Shares	*755.4m*
Market Capitalization	*S$86.9m*

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Revenue Continued to Grow: Revenue grew by 7% QoQ to S$43.7m in 4Q FY12, bringing full year revenue to S$153.3m, only S$7m shy of record revenuein FY09. Ryobi has been booking more than S$40m of revenue for 3 consecutive quarters and we expect this momentum to continue in FY13F.Despite booking higher revenue in the last 3 quarters, net order book still holds up well at S$104.4m as at 30 Jun 2012.

Margin Hurt by Rising Costs: Gross margin continued to remain weak at 13% in the quarter due to (1) higher raw material costs, (2) labor costs and (3) pricing pressure from intense competition in the industry. Going forward, we expect weak margin to continue for quite some time. In light of challenging operating environment, Ryobi was still able to turn in a profit in FY12. We expect net profit margin to slightly improve in FY13F on the back of higher revenue.

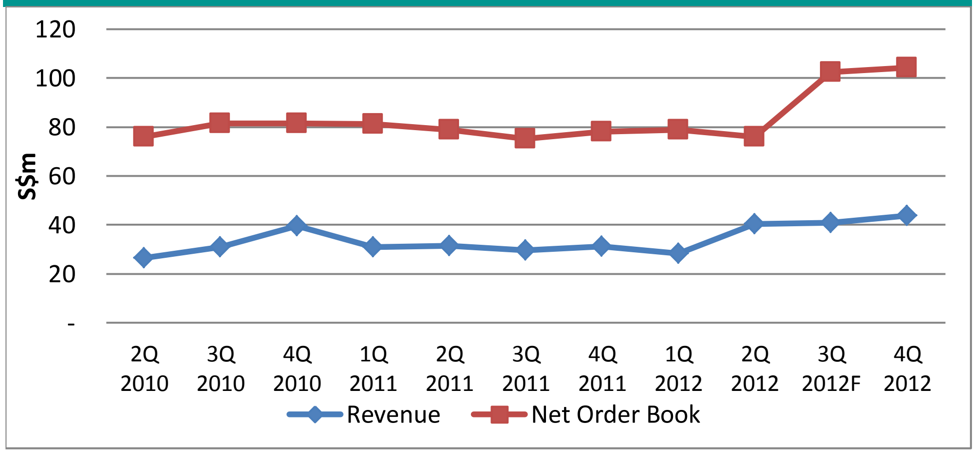
Order Book Still Above S$100m: Ryobi's net order book stood at S$104.4m as of 30 June 2012, or 68% (about 8 months) of FY12 full year revenue. According to the management, current equipment's utilization rate is about 80-85%. We expect current revenue momentum to continue in FY13F and look forward to more new projects in the subsequent quarters.

Figure 1: 4Q FY12 Results Summary

S$m	4Q FY12	4Q FY11	YoY %	3Q FY12	QoQ %
Revenue	43.7	31.2	40.4%	40.9	7.0%
Gross Profit	5.7	5.5	3.1%	5.3	8.8%
PATMI	0.7	0.5	36.6%	0.70	4.7%
Gross Margin	13.0%	17.7%	-4.7%	13.0%	0.2%
Net Margin	1.7%	1.7%	0.0%	1.7%	0.0%

Source: Company Data

Figure 2: Quarterly Revenue and Net Order Book



Source: Company Data

Maintain Forecast and Valuation: We raised our revenue forecast for FY13F from S$142.4m to S$176.3m on the back of healthy order book. Our model also assume a slightly higher gross margin of 13.5% in FY13F. Besides, we also lower our PATMI forecast in FY13F to S$5.9m, forecasting a 73% YoY growth in FY13F on higher revenue and cost control.

Currently, Ryobi is trading at 26% discount to its NAV. As one of the largest players in the industry, we are of the view that Ryobi's operating profit will recover strongly when the operating environment improves.

Maintain **Increase Exposure** rating with an intrinsic value of **S$0.190 per share.** At our valuation, Ryobi will be trading at 1.14x P/B in FY15F.

Figure 3: Economic Profit Valuation Model

S$m	**FY13F**	**FY14F**	**FY15F**
Revenue	176.3	185.1	194.4
EBIT	9.5	12.1	15.4
Tax on EBIT	-1.2	-1.6	-2.0
NOPLAT	8.2	10.6	13.4
Invested Capital	164.8	167.7	171.7
% of Debt	28.5%	28.0%	27.3%
% of Equity	71.5%	72.0%	72.7%
WACC (%)	6.6%	6.7%	6.7%
Capital Charge	10.9	11.2	11.5
Economic Profit	-2.7	-0.6	1.9
Terminal Value			33.9
Discount Rate	0.94	0.88	0.82
Present Value	-2.5	-0.5	1.6
Book Value	117.9	Risk Free Rate	1.5%
Explicit Value	-1.5	Beta	1.0
Terminal Value	27.9	Risk Premium	6.5%
Value of Equity	144.2	Cost of Equity	8.0%
Number of Shares (m)	755.4	Cost of Debt	3.7%
Value per share (S$)	0.190	LT Growth	1.0%

Source: SIAS Research

Figure 4: Financial Forecasts and Estimates

S$m	FY10	FY11	FY12	FY13F	FY14F	FY15F
Revenue	120.8	123.3	153.3	176.3	185.1	194.4
Gross Profit	46.7	24.4	19.1	23.8	26.8	31.1
Operating Profit	33.9	12.2	4.8	9.5	12.1	15.4
PATMI	27.4	7.8	3.4	5.9	7.9	10.3
Total Current Assets	110.5	107.5	115.5	132.1	142.0	152.1
Total Non-Current Assets	72.5	91.5	93.8	91.7	89.3	85.8
Total Current Liabilities	50.2	48.0	66.6	78.2	82.2	83.9
Total Non-Current Liabilities	17.9	31.9	24.8	24.8	24.8	24.8
Total Equity	114.9	119.2	117.9	120.7	124.3	129.0
Cash from Operating Activities	17.1	-4.3	8.3	44.3	3.2	38.1
Cash from Investing Activities	-27.9	-20.6	-8.3	-10.0	-10.0	-10.0
Cash from Financing Activities	26.7	10.5	-8.5	-3.0	-3.9	-5.1
Net Change in Cash	15.9	-14.5	-8.4	31.4	-10.7	23.0
Inventory Days	1.0	2.0	2.0	2.0	2.0	2.0
Receivable Days	111.8	156.3	160.0	130.0	120.0	120.0
Payable Days	192.9	122.3	90.0	120.0	120.0	120.0
Return on Common Equity	35.5%	6.8%	2.9%	5.1%	6.6%	8.3%
Return on Assets	18.8%	4.6%	2.1%	3.2%	4.1%	5.2%
Gross Debt / Common Equity	0.16	0.37	0.41	0.40	0.39	0.37
Current Ratio	2.20	2.24	1.73	1.69	1.73	1.81
EPS (S cents)	3.57	1.03	0.45	0.78	1.04	1.36
BV / Share (S cents)	14.7	15.3	15.1	15.5	16.0	16.7
PER	3.2	11.2	25.8	14.7	11.0	8.4
P/BV	0.78	0.75	0.76	0.74	0.72	0.69

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 theirexposure 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