

Ryobi Kiso Holdings Ltd.

Building Solid Foundation in Vietnam

Ryobi Kiso Holdings Ltd (Ryobi) reported 37.7% growth in revenue to S\$40.9m while net profit declined by 23.4% to S\$0.79m in 3Q FY12 as compared to the previous corresponding period. Higher revenue was mainly from ongoing construction projects, including its projects in Vietnam. Although net profit for the 9M FY12 was only S\$2.6m, it is generally in line with our full year forecast of S\$4.3m. We maintain our forecasts and valuation as we are expecting a margin recovery in the FY13F. **Maintain Increase Exposure with an intrinsic value of S\$0.205 per share.**

Key Highlights:

Order Book Remains Healthy: New contracts secured in 3Q FY12 was up slightly to S\$39.4m from S\$37.4m in 2Q FY12 and 26.7% higher than the average of S\$31.1m since 1Q FY11. As at 31 March 2012, Ryobi's net order book stood at S\$102.4m. Adding contracts won in April-12, we estimate that current net order book stood at about S\$140m, without taking the revenue to be recognized in 4Q FY12 into consideration.

Construction Demand Remains Resilient: In 2011, construction demand in Singapore had beat BCA forecast and reached S\$32 billion. Going forward, BCA estimates the construction demand from 2012-14 to range between S\$19 billion and S\$27 billion per annum. We also expect Ryobi to benefit from the government target of increasing HDB flats supply over the next few years.

All Eyes on Australia now: Ryobi has been building up its efforts to infiltrate the Vietnam market and we finally saw some significant progress in 2012. Following the encouraging progress in Vietnam recently, we believe Ryobi has the capability to replicate its success in Australia too. That said, we think that Ryobi may need some time to ramp up its operation in Australia, as Ryobi just announced the proposition of acquiring the Australia subsidiaries in March-12 and it is expected to complete by the end of this financial year.

Increase Exposure

- Intrinsic Value S\$0.205
- Prev Close S\$0.126

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	FY11	FY12F
Revenue	120.8	123.3	129.5
Gross Profit	46.7	24.4	16.2
Operating Profit	33.9	12.2	6.2
Earnings	27.4	7.8	4.3
EPS (S cts)	3.57	1.02	0.57

Source: Company, SIAS Research

Key ratios (FY12F)

PER	22.0
P/BV	0.9
Return on Common Equity	3.8%
Return on Assets	2.2%
Gross Debt to Common Equity	43.9%
Current ratio	1.9

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (RYOBI)



Source: Bloomberg

52wks High-Low S\$0.170 /S\$0.105
 Number of Shares 755.7m
 Market Capitalization S\$95.2m

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3Q FY12 Results Overview: Revenue grew by 37.7% YoY but PATMI only grew by 3.9%. Lower profit was mainly due to higher materials prices such as concrete and rebar. Despite lower gross profit, Ryobi was able to manage its operating expenses as it remained flat in the quarter.

For the 9M FY12, revenue increased by 18.9% YoY to S\$109.6m. This shows that Ryobi has the strong capability and track record in piling works to undertake projects. PATMI for the 9M FY12 is largely in line with our FY12 forecast.

Figure 1: Results Summary

S\$m	3Q FY12	3Q FY11	YoY %	2Q FY12	QoQ %
Revenue	40.9	29.7	37.7%	40.3	1.4%
Gross Profit	5.2	6.1	-14.1%	4.3	21.7%
PATMI	0.70	0.67	3.9%	1.42	-51.0%
Gross Margin	12.8%	20.5%		10.7%	
Net Margin	1.7%	2.3%		3.5%	

Source: SIAS Research

Successful Expansion in Vietnam: Since our last update report dated on 3rd April, Ryobi secured another S\$10.3m contract from SSG Group. The contract is for the basement work for the project of SSG Tower in Ho Chi Minh City. This is the second contract awarded by SSG Group for the project of SSG Tower. This shows Ryobi's strong capability in delivering excellent work which has translated into repeat contracts from returning customers. Together with the S\$27.3m Ben Thanh Towers project, Ryobi had won S\$37.6m worth of contracts in April-12 and we expect these projects to contribute positively in the next 6-12 months.

We remain optimistic on the long-term outlook of Vietnam's construction sector because of rising urbanization rate and high inflow of foreign investments to drive construction demand going forward. Following the recent success in Vietnam, we believe Ryobi will be able to undertake more projects in the market as the construction sector continues to prosper.

Sign of Management Confidence? Ryobi had bought back 1.84m shares at an average price of S\$0.1303 (Total amount: S\$0.24m) in April-12. Although the total amount is relatively small to its S\$95.2m market capitalization, regular share buy-back helps to maintain shareholder value.

Maintain Forecast and Valuation: Ryobi has once again proven its competency in piling works with its newly-awarded contracts in Vietnam, as it was able to achieve a significant 18.9% revenue growth in the 9M FY12. We continue to monitor further development from Ryobi. We maintain FY12F forecast and as such maintain our **Increase Exposure** rating with an intrinsic value of **S\$0.205 per share**.

Figure 2: Economic Profit Valuation Model

S\$m	FY12F	FY13F	FY14F
Revenue	129.5	142.4	156.6
EBIT	6.2	10.7	12.8
Tax on EBIT	-0.8	-1.4	-1.7
NOPLAT	5.4	9.3	11.1
Invested Capital	162.1	159.9	154.1
% of Debt	26.5%	29.9%	31.1%
% of Equity	73.5%	70.1%	68.9%
WACC (%)	6.2%	6.1%	6.0%
Capital Charge	10.0	9.7	9.3
Economic Profit	-4.6	-0.4	1.9
Terminal Value			47.8
Discount Rate	0.99	0.93	0.88
Present Value	-4.5	-0.4	1.6
Book Value	116.2	Risk Free Rate	1.5%
Explicit Value	-3.3	Beta	1.0
Terminal Value	41.9	Risk Premium	5.8%
Value of Equity	154.8	Cost of Equity	7.3%
Number of Shares (m)	757.5	Cost of Debt	3.7%
Value per share (S\$)	0.205	LT Growth	2.0%

Source: SIAS Research

Figure 3: Financial Forecasts and Estimates

S\$m	FY09	FY10	FY11	FY12F	FY13F	FY14F
Revenue	160.3	120.8	123.3	129.5	142.4	156.6
Gross Profit	52.4	46.7	24.4	16.2	21.4	23.5
Operating Profit	41.6	33.9	12.2	6.2	10.7	12.8
Net Profit	34.3	27.4	7.8	4.3	8.2	10.1
Attributable to Shareholders						
Total Current Assets	65.5	110.5	107.5	98.6	105.1	109.0
Total Non-Current Assets	45.4	72.5	91.5	96.6	96.6	95.9
Total Current Liabilities	52.4	50.2	48.0	51.2	63.6	66.9
Total Non-Current Liabilities	15.2	17.9	31.9	31.9	31.9	31.9
Total Equity	43.4	114.9	119.2	112.1	106.2	106.2
Cash from Operating Activities	54.3	17.1	-4.3	7.6	44.6	5.9
Cash from Investing Activities	-5.1	-27.9	-20.6	-15.0	-10.0	-10.0
Cash from Financing Activities	-37.1	26.7	10.5	-6.5	-14.1	-10.0
Net Change in Cash	12.1	15.9	-14.5	-14.0	20.5	-14.2
Inventory Days	1	1	2	2	2	2
Receivable Days	71	112	156	160	130	120
Payable Days	147	193	122	90	120	120
Return on Common Equity	92.4%	35.5%	6.8%	3.8%	7.8%	9.8%
Return on Assets	31.4%	18.8%	4.6%	2.2%	4.1%	5.0%
Gross Debt / Common Equity	45.0%	15.9%	37.0%	43.9%	46.4%	46.4%
Current Ratio	1.3	2.2	2.2	1.9	1.7	1.6
EPS (S cents)	4.48	3.57	1.03	0.57	1.09	1.33
BV / Share (S cents)	5.4	14.7	15.3	14.4	13.6	13.6
PER	2.8	3.5	12.3	22.0	11.6	9.5
P/BV	2.3	0.9	0.8	0.9	0.9	0.9

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

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
