

Ryobi Kiso Holdings Ltd.

Signs of Stability in Latest Results

Ryobi Kiso Holdings Ltd (Ryobi) reported an improvement in gross margin in its latest results. Gross margin grew from 8.2% in 4Q FY11 to 13.5% in 1Q FY12 – translating to a 5.3% point gain. While Ryobi's results showed a decline compared to the same period last year, the quarter-to-quarter improvement suggests that the company may be starting to shake off the effects of stiff competition and higher material costs felt over the last 12 months. **Maintain Increase Exposure based on an intrinsic value of S\$0.230.**

Key Developments:

Results Summary: While gross profit grew by S\$1.3m QoQ, net attributable profit was flat at S\$0.52m in 1Q FY12 (S\$0.53m in 4Q FY11). The difference was due to lower administrative expenses in 4Q FY11 following the write-back of excess provision of employee compensation at the end of the last financial year. If not for the write-back, 1Q FY12 net earnings would have shown some growth compared to 4Q FY11. Revenue fell by 8.9% QoQ to S\$28.4m in 1Q FY12 versus S\$31.2m in 4Q FY11. However, the company's net order book remained stable at S\$79.0m as at 30 Sep 2011. As such, the decline in revenue may have been due to short term fluctuations in the pace of existing projects.

Positive Bias to Outlook: As some of Ryobi's projects are secured up to three months ahead of execution, margin improvements may be more obvious in 2H FY12 or from Jan 2012 onwards.

Overseas Expansion: The Vietnam industrial development project that Ryobi announced in Sep 2011 will start contributing to the company's bottom-line in 2014 when the buildings are completed and put into use by tenants. We expect the company to continue sourcing for growth opportunities overseas, with a preference for projects that offer more immediate returns – given that the Vietnam development project has already provided the basis for growth in 2014. The company ended 1Q FY12 with cash of S\$29.7m.

Increase Exposure

- Intrinsic Value S\$0.230
- Prev Close S\$0.130

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 | 19.4 |
| Operating Profit | 33.9 | 12.2 | 8.1 |
| Earnings | 27.4 | 7.8 | 5.8 |
| EPS (S cts) | 3.57 | 1.02 | 0.76 |

Source: Company, SIAS Research

Key ratios (FY12F)

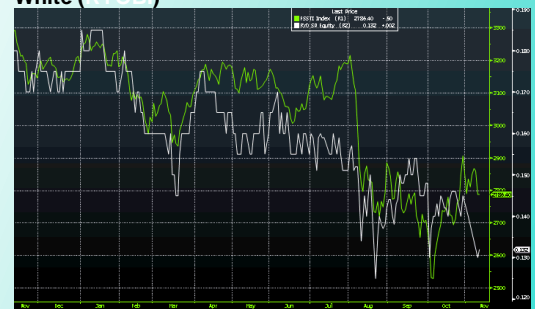
| | |
|-----------------------------|-------|
| PER | 17.0 |
| P/BV | 0.9 |
| Return on Common Equity | 5.1% |
| Return on Assets | 3.0% |
| Gross Debt to Common Equity | 38.9% |
| Current ratio | 2.1 |

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (RYOBI)



Source: Bloomberg

| | |
|-----------------------|--------------------|
| 52wks High-Low | S\$0.195 /S\$0.105 |
| Number of Shares | 757.55m |
| Market Capitalization | S\$98.5m |

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Consistent Order Book Renewal: We like how Ryobi has been able to renew its order book in spite of the tough operating environment. Net order book at the end of 1Q FY12 reached S\$79.0m against S\$78.1m at the end of 4Q FY11. Major new contracts secured in 1Q FY12 include a) HDB Sengkang N3C18, b) Arc at Tampines Avenue 8, c) Lake Vista at Yuan Ching Road, d) The Meyerise, e) Hedges Park, f) SSG Tower and g) Saigon Golf Country Club and Residences. The last two projects are in Ho Chi Minh City. As mentioned, Ryobi also has a development project in Vietnam to build factories for tenants to be completed within two years.

Robust Balance Sheet: The company ended 1Q FY12 with cash at bank of S\$29.7m. In 1Q FY12, a net S\$1.9m of cash was used to fund operations, i.e. meet working capital needs, S\$8.2m was used to purchase property, plant and equipment. Borrowings rose by S\$1.2m on higher finance lease liabilities. Although trade receivables grew by S\$2.4m from 4Q FY11, average trade receivables turnover days actually declined to 25 days (versus 36 at end FY11) when amounts due from contracts pending certification were excluded.

Prudent Capital Management: Since the announcement of its FY11 results, Ryobi has spent S\$0.54m buying back its own shares on multiple occasions at an average price of S\$0.145. While treasury shares can be used to reward employees, these share buybacks also have the side effect of cushioning share price declines. In the interim, patient shareholders will enjoy long term capital appreciation as the company grows both its local and overseas businesses.

Our View: We favour how Ryobi is building a brand name in Vietnam that will allow the company to expand beyond Singapore. Success in an emerging market will complement Ryobi's growth in Singapore and allow the company to raise its long term growth rate. We revised our forecasts following this set of results and the recent share buybacks to arrive at an intrinsic value of S\$0.230. Near term downside risks also seem to be capped as we expect the company to remain profitable in FY12.

Figure 1: Results Analysis

| Y/E Jun | 1Q FY11 | 2Q FY11 | 3Q FY11 | 4Q FY11 | 1Q FY12 |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue | 31.0 | 31.5 | 29.7 | 31.2 | 28.4 |
| Gross Profit | 7.9 | 7.9 | 6.1 | 2.6 | 3.8 |
| Operating Profit | 4.7 | 4.1 | 1.5 | 1.9 | 1.1 |
| Net Attributable Profit | 3.7 | 2.9 | 0.7 | 0.5 | 0.5 |
| EBITDA | 7.1 | 6.4 | 4.1 | 4.9 | 4.2 |
| | | | | | |
| Gross Margin | 25.5% | 25.1% | 20.5% | 8.2% | 13.5% |
| Net Margin | 12.1% | 9.2% | 2.3% | 1.7% | 1.8% |
| EBITDA Margin | 23.1% | 20.4% | 13.7% | 15.8% | 14.6% |

Source: Company, SIAS Research

Figure 2: Economic Profit Valuation Model

| S\$m | FY12F | FY13F | FY14F |
|-----------------------|-------|----------------|-------|
| Revenue | 129.5 | 142.4 | 156.6 |
| EBIT | 8.1 | 19.4 | 22.7 |
| Tax on EBIT | -1.3 | -3.2 | -3.7 |
| NOPLAT | 6.8 | 16.2 | 19.0 |
| Invested Capital | 162.1 | 156.3 | 155.8 |
| % of Debt | 26.5% | 27.5% | 27.6% |
| % of Equity | 73.5% | 72.5% | 72.4% |
| WACC (%) | 8.9% | 8.8% | 8.8% |
| Capital Charge | 14.5 | 13.8 | 13.8 |
| Economic Profit | -7.7 | 2.4 | 5.2 |
| Terminal Value | | | 77.6 |
| Discount Rate | 0.92 | 0.84 | 0.78 |
| Present Value | -7.0 | 2.0 | 4.0 |
| Book Value | 116.2 | Risk Free Rate | 1.6% |
| Explicit Value | -1.0 | Beta | 1.0 |
| Terminal Value | 60.2 | Market RP | 9.5% |
| Value of Equity | 175.4 | Cost of Equity | 11.0% |
| Number of Shares (m) | 757.5 | Cost of Debt | 3.7% |
| Value per share (S\$) | 0.230 | 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 | 19.4 | 28.5 | 31.3 |
| Operating Profit | 41.6 | 33.9 | 12.2 | 8.1 | 19.4 | 22.7 |
| Net Profit | 34.3 | 27.4 | 7.8 | 5.8 | 14.2 | 17.0 |
| Attributable to Shareholders | | | | | | |
| Total Current Assets | 65.5 | 110.5 | 107.5 | 94.5 | 105.1 | 114.5 |
| 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 | 45.9 | 56.9 | 59.5 |
| Total Non-Current Liabilities | 15.2 | 17.9 | 31.9 | 31.9 | 31.9 | 31.9 |
| Total Equity | 43.4 | 114.9 | 119.2 | 113.4 | 112.9 | 119.1 |
| Cash from Operating Activities | 54.3 | 17.1 | -4.3 | 8.6 | 50.3 | 13.0 |
| 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 | -11.6 | -16.1 | -12.2 |
| Net Change in Cash | 12.1 | 15.9 | -14.5 | -18.0 | 24.2 | -9.2 |
| 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% | 5.1% | 13.0% | 15.2% |
| Return on Assets | 31.4% | 18.8% | 4.6% | 3.0% | 7.7% | 8.7% |
| Gross Debt / Common Equity | 45.0% | 15.9% | 37.0% | 38.9% | 39.4% | 37.6% |
| Current Ratio | 1.3 | 2.2 | 2.2 | 2.1 | 1.8 | 1.9 |
| EPS (S cents) | 4.48 | 3.57 | 1.03 | 0.76 | 1.88 | 2.24 |
| BV / Share (S cents) | 5.4 | 14.7 | 15.3 | 14.6 | 14.4 | 15.1 |
| PER | 2.9 | 3.6 | 12.7 | 17.0 | 6.9 | 5.8 |
| P/BV | 2.4 | 0.9 | 0.9 | 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

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