

## Ryobi Kiso Holdings Ltd.

### Spreading Wings in Vietnam

Ryobi Kiso Holdings Ltd (Ryobi) recently entered into an in-principle agreement to develop factories in Vietnam, at the Ascendas-Protrade Singapore Tech Park. This project shows that Ryobi is executing its plan of raising overseas revenue contribution. Stiff competition in Singapore is unlikely to stop the company from growing. With this project, Ryobi has enlarged its footprint in Vietnam, raising the potential for more local project wins. **Maintain Increase Exposure based on an intrinsic value of S\$0.230.**

#### Key Developments:

**About the Project:** Ryobi will lease 35,676m<sup>2</sup> of land in the tech park (in An Tay Ward, Ben Cat District, Binh Duong Province, Vietnam) from 27 Sep 2011 to 28 Oct 2057 for S\$2.1m. Ryobi will then develop the site, building ready built and built-to-suit factories for companies. Construction is expected to be completed within two years. Ryobi has the first right of refusal to lease land in future phases 2,3,4,5 and 6. This is Ryobi's second project in Vietnam since Jun this year following the S\$11.3m foundation works contract for the SSG Tower in Ho Chi Minh City. The entire tech park is 500 hectares large and is located only 40km away from Ho Chi Minh City. The development of the tech park infrastructure is underway.

**Our View:** This deal allows Ryobi to enter into the industrial development space in Vietnam, while working together with Ascendas. The tech park itself is a JV between Ascendas and Protrade, a Vietnam state owned enterprise. Marketing of the factories will be aided by the Ascendas brand name and its rich network of companies. If successful, Ryobi has the opportunity to take on future phases of the project. Essentially, Ryobi gains from industrial rent/price upside and development margin. Downside risk is capped considering the quality of the partners behind the tech park. Given the size of the Vietnam market, success in this geographical market will substantially improve Ryobi's growth prospects. For now, we are maintaining our valuation and forecasts, opting to update them as earnings improve. Despite the recent market turmoil, Ryobi's share price has risen by 5.1% since our last update on 31 Aug 2011.

## Increase Exposure

- Intrinsic Value S\$0.230
- Prev Close S\$0.145

#### 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	132.5
Gross Profit	46.7	24.4	26.5
Operating Profit	33.9	12.2	13.4
Earnings	27.4	7.8	9.1
EPS^ (S cts)	3.57	1.02	1.20

^EPS is based on post IPO no of shares outstanding.

Source: Company, SIAS Research

#### Key ratios (FY12F)

PER	12.1
P/BV	1.0
Return on Common Equity	8.0%
Return on Assets	5.0%
Gross Debt to Common Equity	38.2%
Current ratio	2.0

Source: SIAS Research

#### Indexed Price Chart

Green (FSSTI)  
White (RYOBI)



Source: Bloomberg

52wks High-Low	S\$0.200 /S\$0.105
Number of Shares	760.1m
Market Capitalization	S\$110.2m

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**Figure 1: Economic Profit Valuation Model (as of 31 Aug 2011)**

S\$m	FY12F	FY13F	FY14F
Revenue	132.5	145.8	160.4
EBIT	13.4	19.2	22.5
Tax on EBIT	-2.2	-3.1	-3.7
NOPLAT	11.2	16.0	18.8
Invested Capital	162.1	159.3	158.7
% of Debt	26.5%	27.0%	27.1%
% of Equity	73.5%	73.0%	72.9%
WACC (%)	8.9%	8.9%	8.9%
Capital Charge	14.5	14.1	14.1
Economic Profit	-3.3	1.9	4.8
Terminal Value			70.8
Discount Rate	0.92	0.84	0.77
Present Value	-3.0	1.6	3.7
Book Value	116.2	Risk Free Rate	1.6%
Explicit Value	2.3	Beta	1.0
Terminal Value	54.9	Market RP	9.5%
Value of Equity	173.4	Cost of Equity	11.0%
Number of Shares (m)	761.3	Cost of Debt	3.7%
Value per share (S\$)	0.230	LT Growth	2.0%

Source: SIAS Research

**Figure 2: Financial Forecasts and Estimates**

S\$m	FY09	FY10	FY11	FY12F	FY13F	FY14F
Revenue	160.3	120.8	123.3	132.5	145.8	160.4
Gross Profit	52.4	46.7	24.4	26.5	29.2	32.1
Operating Profit	41.6	33.9	12.2	13.4	19.2	22.5
Net Profit	34.3	27.4	7.8	9.1	13.9	16.7
Attributable to Shareholders						
Total Current Assets	65.5	110.5	107.5	110.1	112.1	122.1
Total Non-Current Assets	45.4	72.5	91.5	91.9	92.3	91.9
Total Current Liabilities	52.4	50.2	48.0	53.8	56.7	60.4
Total Non-Current Liabilities	15.2	17.9	31.9	31.9	31.9	31.9
Total Equity	43.4	114.9	119.2	116.3	115.7	121.8
Cash from Operating Activities	54.3	17.1	-4.3	15.8	37.4	40.3
Cash from Investing Activities	-5.1	-27.9	-20.6	-10.0	-10.0	-10.0
Cash from Financing Activities	-37.1	26.7	10.5	-13.3	-16.0	-12.1
Net Change in Cash	12.1	15.9	-14.5	-7.5	11.4	18.2
Inventory Days	1	1	2	2	2	2
Receivable Days	71	112	156	140	130	120
Payable Days	147	193	122	120	120	120
Return on Common Equity	92.4%	35.5%	6.8%	8.0%	12.5%	14.8%
Return on Assets	31.4%	18.8%	4.6%	5.0%	7.4%	8.5%
Gross Debt / Common Equity	45.0%	15.9%	37.0%	38.2%	38.8%	37.1%
Current Ratio	1.3	2.2	2.2	2.0	2.0	2.0
EPS (S cents)	4.48	3.57	1.02	1.20	1.83	2.20
BV / Share (S cents)	5.4	14.7	15.2	14.8	14.5	15.2
PER	3.2	4.1	14.1	12.1	7.9	6.6
P/BV	2.7	1.0	1.0	1.0	1.0	1.0

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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**IMPORTANT DISCLOSURE**

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