SIAS RESEARCH

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Update Report

Ryobi Kiso Holdings Ltd.

An Undervalued Counter

Ryobi Kiso Holdings Ltd (Ryobi) reported a decent set of results for 4Q FY11 ended June 2011. Quarterly net margin improved by 1% point QoQ to 3.6% in 4Q FY11. It bought back 2.2% of its free float (shares) over Jan – Jun 2011 and has declared a dividend of 0.6 S cents for the year, translating to a yield of 4.3% as of 29 Aug 2011. Based on a price of S$0.138, Ryobi trades at 0.9x price to NAV. ***Maintain Increase Exposure based on an intrinsic value of S$0.230.***

Key Developments:

Results Summary: Full year revenue grew by 2% to S$123.3m, while PATMI fell to S$7.8m versus S$27.4m in FY10. The decline was due to stiff competition and higher operating costs.

Outlook: Ryobi is looking towards overseas markets for growth. Last month, it secured its largest contract in Vietnam to date – a S$11.3m foundation works job in Ho Chi Minh City. The customer is a leading listed property company in Vietnam, which bodes well for the company's reputation in the country. The company intends to raise revenue contribution from foreign markets to 20% of total sales from just 7.2% in FY10. Outside of Singapore, it is not restricting itself to piling works, but will also explore other opportunities in adjacent sectors such as building construction and property development.

Our View: Ryobi is most likely avoiding head-on competition within Singapore by venturing overseas. The long term growth potential of emerging economies (vis-à-vis Singapore) suggests both growing and larger pies for businesses.

Ryobi's order book for the past few quarters has been relatively stable, with a net level of S$78.1m at the end of 4Q FY11. As such, revenue risk for Ryobi is relatively low, subject to surprises from any new overseas projects secured. The outlook on margin remain mixed as labour costs continue to pressure profitability. Upside will depend on how fast lower oil prices pass through to users.

Increase Exposure

- Intrinsic Value S$0.230
- Prev Close S$0.138

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	1.19

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

Source: Company, SIAS Research

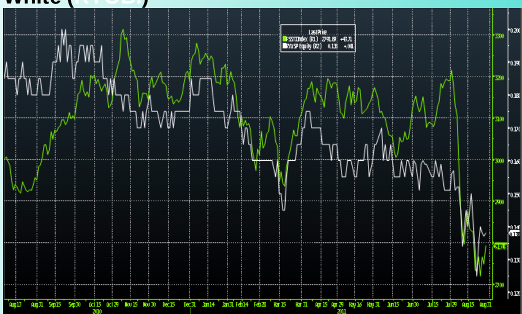
Key ratios (FY12F)

PER	11.5
P/BV	0.9
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	*761.3m*
Market Capitalization	*S$105.1m*

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Local Construction Industry Update: As of end June 2011, Ryobi had a net order book of S$78.1m. Major contracts secured included a mix of private and public sector works. The Building and Construction Authority expects total construction demand to range between S$24.0bn to S$30.0bn in 2011 versus S$27.1bn in 2010.

Public Sector to make up the Slack: In 2010, the private sector made up S$18.7bn of demand with the public sector contributing S$8.4bn. Demand in 2011 is forecast to stem from public sector civil engineering works, which will contribute S$6.4bn to S$7.8bn of total demand. In particular, the Thomson and Eastern Region lines will start construction within the next three years to add 27km and 21km of MRT tracks in 2018 and 2020 respectively.

The Housing Development Board has also announced that it will build another 25,000 BTO flats in 2012. Ryobi currently has two contracts for the Downtown Line Stage 2 and four HDB contracts for ground and foundation works in its order book. The key point is that medium term construction demand remains robust and Ryobi should be able to maintain moderate revenue growth from Singapore given its balanced exposure between the public and private sectors.

Balance Sheet Remain Robust: Ryobi ended FY11 with total borrowings of S$42.9m and cash of S$41.3m. While borrowings have increased by S$25m, the company has at the same time spent S$21.8m on new plant and equipment, implying that it has been financing its new equipment via borrowings. By retaining cash on its balance sheet, Ryobi has the flexibility to pursue business opportunities or to meet any changes in working capital requirements. This reduces the risk of any cash calls in the immediate term, enhancing the prospect of Ryobi as an undervalued counter.

While the new machinery has led to higher depreciation costs, they have been used to reduce the company's equipment rental requirements, which will increase the company's cash inflows in subsequent years. Some of the new equipment will also be deployed in Vietnam to support the company's growth ambitions in that market. Ryobi's planned capital spending for FY12 and FY13 is about S$10m per year or about half of FY11.

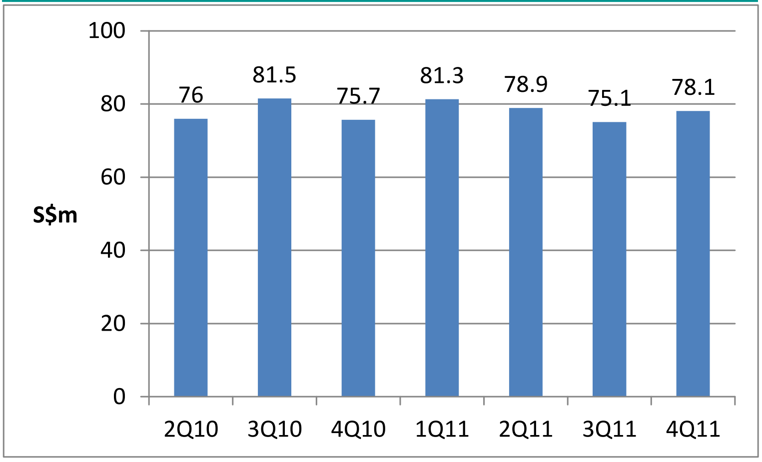
Forecasts and Valuation: We expect Ryobi to earn revenue and PATMI of S$132.5m and S$9.1m respectively in FY12F. This translates to top-line growth of 7.5% and bottom-line growth of 16.4%. We expect the company to keep its administrative and operating costs flat y-o-y, allowing for incremental gross profit to flow directly to the bottom-line. We believe that the market has not factored in the likelihood of Ryobi growing its overseas revenue stream at its current price and are maintaining our valuation of S$0.230 per share.

Figure 1: Extract of Contracts Secured

No	Contracts
1	Downtown Line Stage 2 Contracts 912
2	Downtown Line Stage 2 Contract 920
3	HDB Woodlands N1 C19
4	HDB Sengkang N4 C18
5	HDB Jurong West N1 C30
6	HDB Executive Condominium at Tampines Avenue 8
7	MD01 at NUS
8	New Primary School at Sengkang Sites 16 and 20
9	LTA Gateway Tunnel ER290IM
10	Tremors Monitoring System Batch 5
11	The Lakefront Residences
12	RV Residences
13	The Vision
14	76 Shenton Way
15	SSG Tower in Ho Chi Minh City

Source: Company, SIAS Research

Figure 2: Stable Order Book



Source: Company, SIAS Research

Figure 3: Results Analysis

S$m	FY11	FY10	Change
Revenue	123.3	120.8	2.0%
Gross Profit	24.4	46.7	-47.7%
Operating Profit	12.2	33.9	-63.9%
Net Attributable Profit	7.8	27.4	-71.4%
Gross Margin	19.8%	38.7%	-18.8%
Net Margin	6.3%	22.6%	-16.3%

Source: Company, SIAS Research

Figure 4: Economic Profit Valuation Model

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 5: 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	1.19	1.83	2.20
BV / Share (S cents)	5.4	14.7	15.2	14.8	14.5	15.2
PER	3.1	3.9	13.4	11.5	7.5	6.3
P/BV	2.5	0.9	0.9	0.9	0.9	0.9

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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