

Ryobi Kiso Holdings Ltd.

Taking on Higher Margin Projects

Ryobi Kiso Holdings Ltd's (Ryobi) 3Q FY13 (ended Mar 2013) revenue fell by 28.9% YoY, but gross profit rose by 2.8% compared to that of 3Q FY12, suggesting a bias towards higher margin projects. 3Q net profit was dragged lower by higher operating costs due to expansion of headcount at Ryobi's Australian subsidiary. We adjusted FY13F forecasts to better reflect the 9M results thus far, but left FY14F projections unchanged, thus maintaining our long term outlook on the company. **Maintain Increase Exposure.**

Results Overview: In spite of lower revenue (3Q FY13: S\$29.1m, versus 3Q FY12: S\$40.9m), gross profit rose by 2.8% to S\$5.5m, suggesting that Ryobi is concentrating on higher margin projects. Higher operating expenses (+19.8% or S\$0.9m), due to expansion of operations in Australia, led the company to report a loss attributable to shareholders of S\$0.3m for 3Q FY13. Profit due to minority interests rose to S\$0.5m versus S\$0.1m a year ago due to contribution from Ryobi's partially owned subsidiary Ryobi Geotechnique Pte Ltd, which provides geo-services such as slope stabilization, soil investigation and tremor monitoring services. Revenue from the "eco-friendly piling and geoservices" segment rose from S\$4.8m a year ago to S\$7.0m in 3Q FY13.

Our View: Ryobi's results remain consistent with its emphasis on profitable projects and expansion in overseas markets. Higher expenses can be mainly attributable to expansion of operations in Australia. Ryobi's net order book stood at S\$86.9m as at end 3Q FY13, versus S\$85.1m as at end 2Q FY13. We reduced FY13F forecast PATMI to S\$1.7m versus S\$2.9m previously. However, we leave FY14F forecasts unchanged as we continue to expect growth in FY14F and "economic turnaround" in FY17F.

Since 21 Feb to 12 Apr 2013, Ryobi announced a number of share buybacks at average prices of around S\$0.130. Total shares bought amount to about 0.2% of shares outstanding, excluding treasury shares, at the beginning of the period. Ryobi currently trades at 0.8x P/B based on its net asset value per share of 15.39 S cents as at end 3Q FY13. As such, we continue to see Ryobi as undervalued. Maintain Increase Exposure.

Increase Exposure

- Intrinsic Value S\$0.179
- Prev Close S\$0.125

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	FY12	FY13F	FY14F
Revenue	153.3	176.3	185.1
Gross Profit	19.1	21.2	24.1
EBIT	4.8	3.4	6.9
PATMI	3.4	1.7	4.7
EPS (S cts)	0.44	0.23	0.63

Source: Company, SIAS Research

Key ratios (FY14F)

PER	20.0
P/BV	0.80
Return on Common Equity	4.0%
Return on Assets	2.1%
Gross Debt to Common Equity	0.36
Current ratio	1.56

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (RYOBI)



Source: Bloomberg

52wks High-Low	S\$0.140 /S\$0.112
Number of Shares	748.0m
Market Capitalization	S\$93.5m

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Figure 1: 2Q FY13 Results Overview

	9M FY13	Prior FY13 Forecasts	% of Forecasts	9M FY12	Growth
Revenue	123.1	176.3	69.8%	109.6	12.3%
Gross Profit	16.8	21.2	79.4%	13.4	25.4%
EBIT	2.1	4.8	43.8%	3.6	-41.7%
PATMI	0.9	2.9	31.0%	2.6	-65.4%
	3Q FY13	3Q FY12	Growth		
Revenue	29.1	40.9	-28.9%		
Gross Profit	5.4	5.3	2.8%		
EBITDA	4.2	4.1	1.2%		
EBIT	0.7	0.9	-19.2%		
PAT	0.2	0.8	-76.1%		
PATMI	-0.3	0.7	-139.0%		
Gross Margin	18.7%	13.0%			
EBITDA Margin	14.3%	10.1%			

Source: Company Data, SIAS Research

Figure 2: Economic Profit Valuation Model

S\$m	FY13F	FY14F	FY15F	FY16F	FY17F
Revenue	176.3	185.1	194.4	204.1	214.3
EBIT	3.4	6.9	10.1	12.5	15.2
Tax on EBIT	-0.4	-0.9	-1.3	-1.3	-1.3
NOPLAT	3.0	6.0	8.8	11.2	13.9
Invested Capital	164.8	161.3	163.7	167.4	172.2
% of Debt	28.5%	26.4%	26.0%	25.4%	24.7%
% of Equity	71.5%	73.6%	74.0%	74.6%	75.3%
WACC (%)	6.6%	6.7%	6.8%	6.9%	6.9%
Capital Charge	10.9	10.9	11.1	11.6	11.9
Economic Profit	-7.9	-4.9	-2.3	-0.4	1.9
Terminal Value					39.4
Discount Rate	0.97	0.91	0.85	0.79	0.74
Present Value	-7.7	-4.4	-1.9	-0.3	1.4
Book Value	117.9			Risk Free Rate	1.5%
Explicit Value	-13.0			Beta	1.0
Terminal Value	29.1			Risk Premium	6.5%
Value of Equity	134.1			Cost of Equity	8.0%
Number of Shares (m)	748.0			Cost of Debt	3.7%
Value per share (S\$)	0.179			LT Growth	2.0%

Source: SIAS Research

Figure 3: Financial Forecasts and Estimates

S\$m	FY10	FY11	FY12	FY13F	FY14F	FY15F	FY16F	FY17F
Revenue	120.8	123.3	153.3	176.3	185.1	194.4	204.1	214.3
Gross Profit	46.7	27.4	19.1	21.2	24.1	27.2	30.6	34.3
Operating Profit	33.9	12.2	4.8	3.4	6.9	10.1	12.5	15.2
PATMI	27.4	7.8	3.4	1.7	4.7	7.5	9.6	11.9
Total Current Assets	110.5	107.5	115.5	118.3	133.1	142.7	151.9	162.9
Total Non-Current Assets	72.5	91.5	93.8	102.1	94.0	90.1	87.8	84.8
Total Current Liabilities	50.2	48.0	66.6	81.1	85.5	87.5	89.5	91.6
Total Non-Current Liabilities	17.9	31.9	24.8	20.5	20.5	20.5	20.5	20.5
Total Equity	114.9	119.2	117.9	118.7	121.1	124.8	129.6	135.6
Cash from Operating Activities	16.6	-4.3	8.3	26.6	13.4	36.0	0.8	41.5
Cash from Investing Activities	-27.9	-20.6	-8.3	-20.3	-10.0	-10.0	-10.0	-10.0
Cash from Financing Activities	27.2	10.5	-8.5	-5.2	-2.3	-3.7	-4.8	-6.0
Net Change in Cash	15.9	-14.5	-8.4	1.1	1.1	22.3	-14.0	25.6
Inventory Days	1.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0
Receivable Days	111.8	156.3	160.0	160.0	150.0	120.0	120.0	120.0
Payable Days	192.9	122.3	90.0	120.0	120.0	120.0	120.0	120.0
Return on Common Equity	35.5%	6.8%	2.9%	1.5%	4.0%	6.3%	7.8%	0.1
Return on Assets	18.8%	4.6%	2.1%	0.8%	2.1%	3.3%	4.1%	0.0
Gross Debt / Common Equity	0.16	0.37	0.41	0.37	0.36	0.35	0.34	0.3
Current Ratio	2.20	2.24	1.73	1.46	1.56	1.63	1.70	1.8
EPS (S cents)	4.18	1.02	0.44	0.23	0.63	1.00	1.28	1.6
BV / Share (S cents)	14.7	15.3	15.1	15.3	15.7	16.2	16.8	17.6
PER	3.0	12.3	28.4	54.5	20.0	12.5	9.8	7.9
P/BV	0.85	0.82	0.83	0.81	0.80	0.77	0.74	0.71

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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