

## Ryobi Kiso Holdings Ltd.

### Results Are Better Than It Seems

*Ryobi Kiso Holdings Ltd's (Ryobi) net profit for the period FY13 1Q ended 30 September 2012 grew by 69.9% year-on-year to S\$0.96m on revenue growth of 89.3% to S\$53.7m. Core profit, excluding one-off tax and exceptional FX items, was S\$1.7m versus S\$0.3m in 1Q FY12 and S\$1.1m in 4Q FY12. We like the positive 1Q results and are generally optimistic about FY13 following a weak FY12. Maintain Increase Exposure.*

**Profit Higher Than It Seems:** Adjusted net profit refers to our exclusion of tax credits and expenses, as well as FX gains and losses, from reported net profit. FX losses in 1Q FY13 were due to the Group's bank balances in USD, AUD and VND, which depreciated against the stronger SGD; and do not reflect Ryobi's operating strength. Likewise, the tax refund of 1Q FY13 was due to credits from investment allowances. Adjusted net profit actually showed much stronger operating performance versus 1Q FY12 and 4Q FY12. Gross profit was S\$7.0m versus S\$5.7m in 4Q FY12 and S\$3.8m in 1Q FY12.

**Contract Pipeline Remains Robust:** Ryobi announced at the end of Sep 2012 that it had secured S\$24m of contracts and raised total contract value secured in the first nine months of 2012 to about S\$132m. Net order book as at end Sep 2012 was S\$90.3m. We remain optimistic about order book renewal, especially with a wider net cast across Singapore, Australia and Vietnam.

**Ryobi Tech Hub:** We also spoke to the management about Ryobi Tech Hub, an industrial property development in Vietnam announced in end Sep 2011. Some units are being completed and we expect Ryobi to start enjoying initial rental income from the lease of these units in 2013.

**Outlook:** Ryobi seems to be recovering out of a weak FY12, which we have factored into our previous forecasts. Adjusted net profit is also comparable to our expectations. Accordingly, we maintain our forecasts and valuation on the company. However, share buybacks have raised per share valuation to S\$0.192.

## Increase Exposure

- Intrinsic Value S\$0.192
- Prev Close S\$0.120

### 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 | FY11  | FY12  | FY13F |
|-----------------|-------|-------|-------|
| Revenue         | 123.3 | 153.3 | 176.3 |
| Gross Profit    | 24.4  | 19.1  | 23.8  |
| PBT             | 10.6  | 3.4   | 8.0   |
| Earnings        | 7.8   | 3.4   | 5.9   |
| EPS (S cts)     | 1.03  | 0.45  | 0.79  |

Source: Company, SIAS Research

### Key ratios (FY13F)

|                             |      |
|-----------------------------|------|
| PER                         | 15.2 |
| P/BV                        | 0.77 |
| Return on Common Equity     | 5.1% |
| Return on Assets            | 3.2% |
| Gross Debt to Common Equity | 0.40 |
| Current ratio               | 1.7  |

Source: SIAS Research

### Indexed Price Chart

Green (FSSTI)

White (RYOBI)



Source: Bloomberg

52wks High-Low S\$0.160 /S\$0.112

Number of Shares 755.4m

Market Capitalization S\$90.65m

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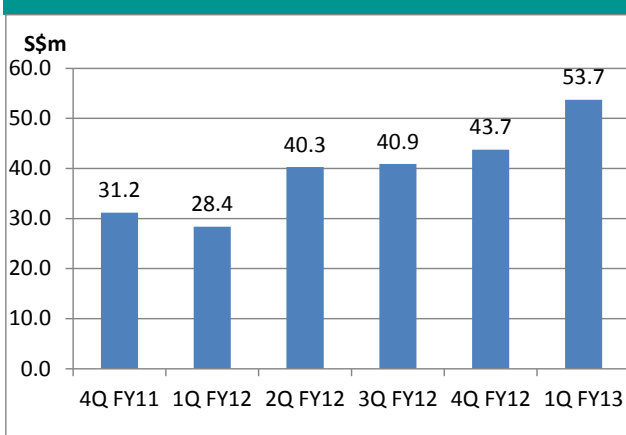
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**Figure 1: 1Q FY13 Results Overview**

| Y/E Jun                 | 1Q FY12 | 2Q FY12 | 3Q FY12 | 4Q FY12 | 1Q FY13 |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue                 | 28.4    | 40.3    | 40.9    | 43.7    | 53.7    |
| Gross Profit            | 3.8     | 4.3     | 5.3     | 5.7     | 7.0     |
| Operating Profit        | 1.1     | 1.6     | 0.9     | 1.3     | 0.8     |
| Net Attributable Profit | 0.5     | 1.4     | 0.7     | 0.7     | 0.9     |
| EBITDA                  | 4.2     | 4.8     | 4.1     | 4.5     | 4.3     |
| Gross Margin            | 13.5%   | 10.7%   | 13.0%   | 13.0%   | 13.1%   |
| Net Margin              | 1.8%    | 3.5%    | 1.7%    | 1.6%    | 1.7%    |
| EBITDA Margin           | 14.8%   | 11.9%   | 10.0%   | 10.3%   | 8.0%    |

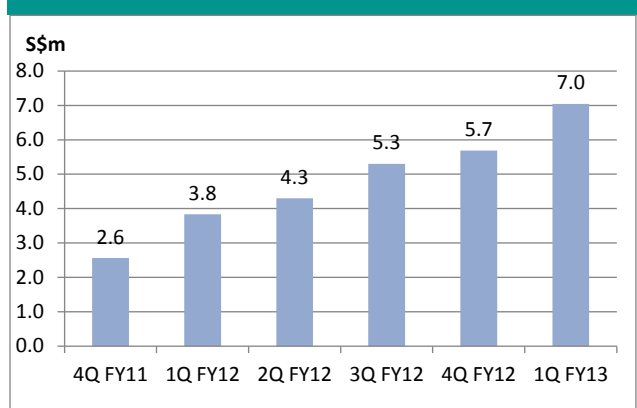
Source: Company Data, SIAS Research

**Figure 2: Quarterly Revenue**



Source: Company Data, SIAS Research

**Figure 3: Quarterly Gross Profit**



Source: Company Data, SIAS Research

**What's Next?** Ryobi ended 1Q FY13 with a net order book of S\$90.3m, which was S\$14.1m lower than the S\$104.4m at the end of Jun 2012. However, the net order book is still higher than the S\$70m to S\$80m range observed from end 2010 to end 2011. On the whole, we reckon that the order book size suggests that quarterly revenue of more than S\$40m is foreseeable at this juncture.

Upside risks stem from variation orders, subsequent phases and new short duration contracts. New contracts secured in 9M 2012 have a value of S\$153m based on net order book data and revenue recognized, versus S\$132m disclosed. Therefore, subsequent orders or phases of a project will contribute towards order book growth.

Conversely, we are also aware that part of Ryobi's order book comprise of long dated contracts that may not be completed within the next 12 months. Therefore, we are still some distance away from being 100% certain about revenue over the next two quarters.

**Margins Have Stabilized in 2012:** Ideally, we look forward to higher revenue levels as we reasoned that stable gross margins has been in part due to higher economies of scale following the increase in Ryobi's revenue base. Further revenue growth will help to support margins. 1Q FY13 gross margin was 13.1% versus 13.0% for 4Q FY12 and 3Q FY12. To further improve synergies within the company, Ryobi has also set up a "business excellence unit" comprised of a small workgroup who will study ways to raise synergies with various departments of the company.

**Balance Sheet Remained Healthy:** Ryobi's total borrowings was S\$48.7m at the end of the quarter versus S\$46.9m at the end of Jun 2012. Cash and cash equivalents remained stable at S\$33.7m. Average trade receivables' turnover days fell to 123 days from 140 days at the end of FY12. Excluding amount due from customers from contracts pending certification, average trade receivables' turnover days was 32 days versus 39 days.

**Limited Capital Expenditure:** Purchase of PPE fell to S\$4.3m versus S\$8.2m a year ago. In general, we have the impression that spending on new rigs for the Singapore operations is minimal this year. There will be some spending for the Australian subsidiary to cater for higher business volume there.

**Maintain Forecasts and Valuation:** We maintain our forecasts and valuation on Ryobi, preferring to make adjustments later in its financial year. Ryobi has been buying back its shares. Since the announcement of its previous results, it has bought back some 4.135m shares, thus reducing its shares outstanding by 0.5% over a two to three month period. Due to the lower number of shares outstanding, the per share value is increased to S\$0.192. Ryobi trades at S\$0.120 as at 16 Nov 2012, or 76.4% of net asset value per share.

**Figure 4: Economic Profit Valuation Model**

| S\$m                  | FY13F | FY14F          | FY15F |
|-----------------------|-------|----------------|-------|
| Revenue               | 176.3 | 185.1          | 194.4 |
| EBIT                  | 9.5   | 12.1           | 15.4  |
| Tax on EBIT           | -1.2  | -1.6           | -2.0  |
| NOPLAT                | 8.2   | 10.6           | 13.4  |
| Invested Capital      | 164.8 | 167.7          | 171.7 |
| % of Debt             | 28.5% | 28.0%          | 27.3% |
| % of Equity           | 71.5% | 72.0%          | 72.7% |
| WACC (%)              | 6.6%  | 6.7%           | 6.7%  |
| Capital Charge        | 10.9  | 11.2           | 11.5  |
| Economic Profit       | -2.7  | -0.6           | 1.9   |
| Terminal Value        |       |                | 33.9  |
| Discount Rate         | 0.94  | 0.88           | 0.82  |
| Present Value         | -2.5  | -0.5           | 1.6   |
| Book Value            | 117.9 | Risk Free Rate | 1.5%  |
| Explicit Value        | -1.5  | Beta           | 1.0   |
| Terminal Value        | 27.9  | Risk Premium   | 6.5%  |
| Value of Equity       | 144.2 | Cost of Equity | 8.0%  |
| Number of Shares (m)  | 751.2 | Cost of Debt   | 3.7%  |
| Value per share (S\$) | 0.192 | LT Growth      | 1.0%  |

Source: SIAS Research

**Figure 4: Financial Forecasts and Estimates**

| S\$m                           | FY10  | FY11  | FY12  | FY13F | FY14F | FY15F |
|--------------------------------|-------|-------|-------|-------|-------|-------|
| Revenue                        | 120.8 | 123.3 | 153.3 | 176.3 | 185.1 | 194.4 |
| Gross Profit                   | 46.7  | 27.4  | 19.1  | 23.8  | 26.8  | 31.1  |
| Operating Profit               | 33.9  | 12.2  | 4.8   | 9.5   | 12.1  | 15.4  |
| PATMI                          | 27.4  | 7.8   | 3.4   | 5.9   | 7.9   | 10.3  |
|                                |       |       |       |       |       |       |
| Total Current Assets           | 110.5 | 107.5 | 115.5 | 132.1 | 142.0 | 152.1 |
| Total Non-Current Assets       | 72.5  | 91.5  | 93.8  | 91.7  | 89.3  | 85.8  |
| Total Current Liabilities      | 50.2  | 48.0  | 66.6  | 78.2  | 82.2  | 83.9  |
| Total Non-Current Liabilities  | 17.9  | 31.9  | 24.8  | 24.8  | 24.8  | 24.8  |
| Total Equity                   | 114.9 | 119.2 | 117.9 | 120.7 | 124.3 | 129.0 |
|                                |       |       |       |       |       |       |
| Cash from Operating Activities | 16.6  | -4.3  | 8.3   | 44.3  | 3.2   | 38.1  |
| Cash from Investing Activities | -27.9 | -20.6 | -8.3  | -10.0 | -10.0 | -10.0 |
| Cash from Financing Activities | 27.2  | 10.5  | -8.5  | -3.0  | -3.9  | -5.1  |
| Net Change in Cash             | 15.9  | -14.5 | -8.4  | 31.4  | -10.7 | 23.0  |
|                                |       |       |       |       |       |       |
| Inventory Days                 | 1.0   | 2.0   | 2.0   | 2.0   | 2.0   | 2.0   |
| Receivable Days                | 111.8 | 156.3 | 160.0 | 130.0 | 120.0 | 120.0 |
| Payable Days                   | 192.9 | 122.3 | 90.0  | 120.0 | 120.0 | 120.0 |
|                                |       |       |       |       |       |       |
| Return on Common Equity        | 35.5% | 6.8%  | 2.9%  | 5.1%  | 6.6%  | 8.3%  |
| Return on Assets               | 18.8% | 4.6%  | 2.1%  | 3.2%  | 4.1%  | 5.2%  |
| Gross Debt / Common Equity     | 0.16  | 0.37  | 0.41  | 0.40  | 0.39  | 0.37  |
| Current Ratio                  | 2.20  | 2.24  | 1.73  | 1.69  | 1.73  | 1.81  |
|                                |       |       |       |       |       |       |
| EPS (S cents)                  | 4.18  | 1.02  | 0.44  | 0.79  | 1.05  | 1.37  |
| BV / Share (S cents)           | 14.7  | 15.3  | 15.1  | 15.6  | 16.1  | 16.8  |
| PER                            | 2.9   | 11.8  | 27.3  | 15.2  | 11.4  | 8.8   |
| P/BV                           | 0.82  | 0.78  | 0.79  | 0.77  | 0.75  | 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.

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**IMPORTANT DISCLOSURE**

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