

GICS: Industrials/Construction & Engineering

Business Summary: Established since 1990, and listed recently on the SGX in January 2010, Ryobi Kiso Holdings (Ryobi) is a leading ground engineering solutions provider specialising in bored piling and eco-friendly piling and geoservices.

Country of Incorporation: Singapore

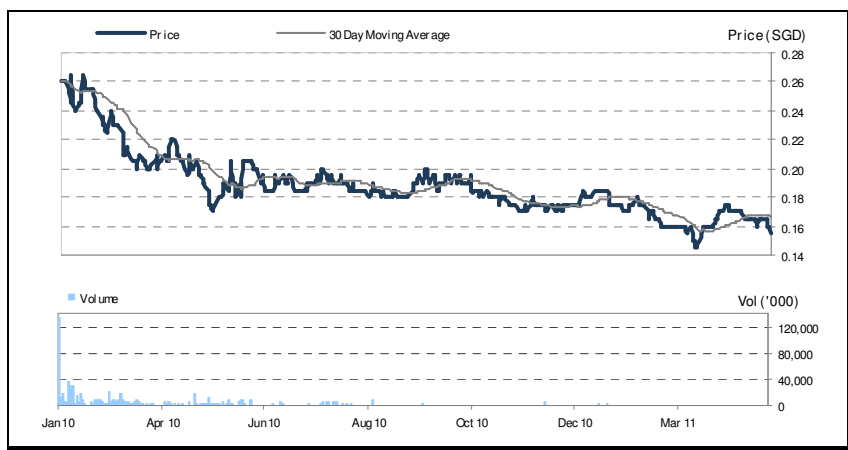
Head Office Location: 58A Sungei Kadut Loop, Ryobi Industrial Building, Singapore 729505

Place of Operations: Singapore

Website: www.ryobi-kiso.com

IR Contact: Wendy Tan | wendytan@ryobi-kiso.com | +65-6506 0000

Analyst: Seu Yee Lau



Results Review

- Ryobi reported a net profit of SGD0.7 mln (-91.6% YoY) for 3QFY11 (Jun). Cumulative 9MFY11 results were below our expectations, making up about 45% of our original full-year net profit forecast. The underperformance was due to lower-than-expected revenue recognition and weaker-than-expected gross profit margin of 23.8% (FY11E: 27%). As expected, no interim dividend was declared for the quarter.
- 9MFY11 group revenue increased 13.3% YoY to SGD92.1 mln. This is on the back of: (i) higher value of work done for the ongoing and completed projects; and (ii) commencement of new piling projects such as Flamingo Valley, Hundred Trees, Lanai, Factory at Yishun Avenue 6, The Scala, Edusports and HDB Bukit Panjang and HDB Woodlands. The group, however, reported a weaker gross profit margin due to stiffer competition and increase in project costs. Excluding write-backs of allowance for liquidated damages, the group's gross margin would have reduced to 23.3% in 9MFY11 (-10.2%-pts YoY). This coupled with higher staff and related costs of about SGD4.9 mln as a result of an increase in manpower to support its operations, translated to a decline in the group's 9MFY11 net profit to SGD7.3 mln (-67.4% YoY). Excluding the write-backs of liquidated damages, Ryobi would have registered a lower YoY decline in net profit of about 53% in 9MFY11.
- Ryobi presently has an order backlog of SGD75.1 mln. Its recent upgrade and purchase of piling equipment and adoption of subterranean pre-cast technology will enable the group to tap new markets and tender for a wider range of projects.

Earnings Outlook / Estimates Revision

- After fine-tuning our projections, we have reduced our FY11 and FY12 net profit forecasts by 36% and 28% respectively after incorporating lower revenue recognition and weaker margins.
- We understand that management is mindful of the increasing material and project costs and is keeping a tight rein on its costs and actively investing in new technologies to improve productivity. With rising activities in the construction sector, management expects to secure more projects with better pricing, which should help to improve its margins and profitability in the coming quarters.
- Meanwhile, the outlook looks positive with the stronger economy and construction demand (particularly government public projects) to be sustained in the next few years. HDB's plan to boost the development of new flats by launching a record of up to 22,000 units in 2011 also augurs well for the group.

Investment Risks

- A sharp rise in labor or material costs, shortage of skilled labor or increase in project execution costs can adversely affect project viability and profitability. Similarly, a slower-than-expected economic recovery and weak property demand are likely to reduce construction demand and erode profit margins due to keener competition. Overseas risk venture for its Vietnam projects such as execution risk, start-up costs and possible delays could give rise to higher operating costs, affecting its earnings.

Key Stock Statistics

52-week Share Price Range (SGD)	0.15 - 0.21
Avg Vol - 12 months ('000 shares)	856.5
Price Performance (%)	
- 1 month	-11.4
- 3 month	-11.4
- 12 month	-11.4
No. of Outstanding Shares (mln)	764.8
Free Float (%)	27.3
Market Cap (SGD mln)	118.5
Enterprise Value (SGD mln)	111.2
Major Shareholders (%)	
Tanglin Capital Pte Ltd	62.7
Ong Tiong Siew	4.9

Per Share Data

	2009	2010	2011E	2012E
FY Jun.				
Book Value (SG cents)	7.26	14.73	15.11	15.78
Cash Flow (SG cents)	7.0	5.2	2.6	3.2
Reported Earnings (SG cents)	6.0	4.2	1.4	1.7
Dividend (SG cents)	0.0	1.0	1.0	1.0
Payout Ratio (%)	0.0	28.0	73.0	59.9
PER (x)	2.6	3.7	11.3	9.3
P/Cash Flow (x)	2.2	3.0	5.9	4.9
P/Book Value (x)	2.1	1.1	1.0	1.0
Dividend Yield (%)	0.0	6.5	6.5	6.5
ROE (%)	92.4	35.5	9.2	10.8
Net Gearing (%)	0.0	0.0	0.0	0.0

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Earnings Performance

FY Jun. / SGD mln	3Q11	3Q10	% Change
Reported Revenue	29.7	31.1	-4.5
Reported Operating Profit	1.3	9.7	-87.2
Depreciation & Amortization	-2.9	-1.7	68.6
Net Interest Income / (Expense)	-0.1	0.1	NM
Reported Pre-tax Profit	1.1	9.8	-89.0
Reported Net Profit	0.7	7.9	-91.6
Reported Operating Margin (%)	4.2	31.4	-
Reported Pre-tax Margin (%)	3.7	31.6	-
Reported Net Margin (%)	2.3	25.6	-

Source: Company data

Profit & Loss

FY Jun. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	160.3	120.8	124.5	136.0
Reported Operating Profit	40.6	32.6	13.6	16.3
Depreciation & Amortization	-5.8	-6.9	-9.7	-11.6
Net Interest Income / (Expense)	0.2	0.5	-0.1	-0.1
Reported Pre-tax Profit	40.7	33.0	13.4	16.2
Effective Tax Rate (%)	15.1	16.3	17.5	17.5
Reported Net Profit	34.3	27.4	10.5	12.8
Reported Operating Margin (%)	25.3	27.0	10.9	12.0
Reported Pre-tax Margin (%)	25.4	27.3	10.8	11.9
Reported Net Margin (%)	21.4	22.6	8.4	9.4

Source: Company data, S&P Equity Research

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