

**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

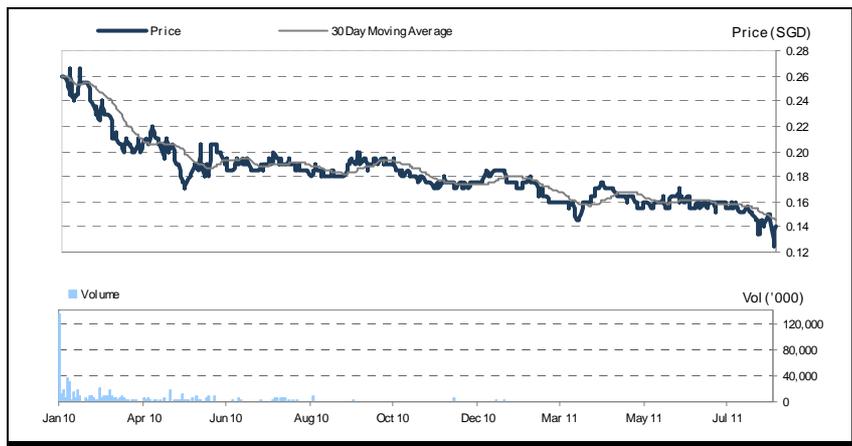
**Head Office Location:** 58A Sungei Kadut Loop, Ryobi Industrial Building, Singapore 729505

**Place of Operations:** Singapore

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## Results Review

- Ryobi reported a net profit of SGD0.53 mln (-89.4% YoY) for 4QFY11 (Jun.). FY11 results were below our expectations, with net profit of SGD7.81 mln making up about 75% of our original full-year net profit forecast. Although revenue was in line, the group reported weaker-than-expected gross profit margin of 19.8% (vs. FY11E:24%). This was offset partially by a lower effective tax rate of 16.4% (vs. FY11E:17.5%). A first and final net DPS of 0.6 cents was declared (FY10:1 cent).
- FY11 group revenue increased 2% to SGD123.3 mln on the back of increased contribution from the group's bored piling operations (+26.3% to SGD93.2 mln). This was partially offset by low contribution from its eco-friendly and geo-services operations (-36% to SGD30.1 mln as major project such as Punggol Waterway (Part 1) was completed in FY10. However, the group reported a weaker gross profit margin due to higher material prices, sub-contractor and depreciation costs as a result of purchase of more machinery. Excluding write-backs of allowance for liquidated damages, the group's gross margin would have reduced to 19.1% in FY11 (-12.4%-pts). The above net effect was a decline in FY11 net profit to SGD7.8 mln (-71.4%). Excluding the write-backs of liquidated damages, Ryobi would have registered a lower YoY decline in net profit of about 62.4 % in FY11.
- We expect revenue to pick-up in FY12 with the group's recently clinched VND191 bln (SGD11.3 mln) piling work for a tower building in Vietnam. Ryobi's order book presently stands at SGD78.1 mln.

## Earnings Outlook / Estimates Revision

- We have reduced our FY12 net profit forecast by 36% after incorporating weaker margins offset slightly by a lower effective tax of 17% (vs. 17.5% previously). Meanwhile, we introduce our FY13 net profit forecast of SGD8.9 mln.
- We understand that management is mindful of the increasing material and project costs and is keeping a tight rein on its costs by actively investing in new technologies. With the group's track record and recent purchase of new machineries and introduction of sub-terrain pre-cast technology (highly productive to build permanent retaining walls for constructing basements), it is poised to benefit from sustained spending in the public sector. According to BCA, construction demand is expected to reach between SGD24 bln to SGD30 bln this year. HDB's move to ramp up a supply of 25,000 new BTO flats this year and next 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 is 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)   | 0.13 - 0.20 |
| Avg Vol - 12 months ('000 shares) | 241.3       |
| Price Performance (%)             |             |
| - 1 month                         | -11.9       |
| - 3 month                         | -12.5       |
| - 12 month                        | -22.2       |
| No. of Outstanding Shares (mln)   | 761.3       |
| Free Float (%)                    | 26.6        |
| Market Cap (SGD mln)              | 106.6       |
| Enterprise Value (SGD mln)        | 108.2       |
| Major Shareholders (%)            |             |
| Tanglin Capital Pte Ltd           | 62.7        |
| Ong Tiong Siew                    | 4.9         |

### Per Share Data

| FY Jun.                      | 2010  | 2011  | 2012E | 2013E |
|------------------------------|-------|-------|-------|-------|
| Book Value (SG cents)        | 14.73 | 15.26 | 15.74 | 16.31 |
| Cash Flow (SG cents)         | 5.2   | 2.5   | 2.7   | 2.9   |
| Reported Earnings (SG cents) | 4.2   | 1.0   | 1.1   | 1.2   |
| Dividend (SG cents)          | 1.0   | 0.6   | 0.6   | 0.6   |
| Payout Ratio (%)             | 28.0  | 58.5  | 55.8  | 51.2  |
| PER (x)                      | 3.4   | 13.7  | 13.1  | 12.0  |
| P/Cash Flow (x)              | 2.7   | 5.7   | 5.3   | 4.8   |
| P/Book Value (x)             | 1.0   | 0.9   | 0.9   | 0.9   |
| Dividend Yield (%)           | 7.1   | 4.3   | 4.3   | 4.3   |
| ROE (%)                      | 35.5  | 6.8   | 6.9   | 7.3   |
| Net Gearing (%)              | 0.0   | 1.4   | 0.0   | 0.0   |

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**Earnings Performance**

| FY Jun. / SGD mln               | 4Q11 | 4Q10 | % Change |
|---------------------------------|------|------|----------|
| Reported Revenue                | 31.2 | 39.5 | -21.1    |
| Reported Operating Profit       | 1.7  | 6.4  | -73.9    |
| Depreciation & Amortization     | -3.0 | -2.0 | 52.0     |
| Net Interest Income / (Expense) | -0.1 | 0.0  | NM       |
| Reported Pre-tax Profit         | 1.4  | 6.4  | -78.6    |
| Reported Net Profit             | 0.5  | 5.0  | -89.4    |
| Reported Operating Margin (%)   | 5.4  | 16.3 | -        |
| Reported Pre-tax Margin (%)     | 4.4  | 16.3 | -        |
| Reported Net Margin (%)         | 1.7  | 12.7 | -        |

Source: Company data

**Profit & Loss**

| FY Jun. / SGD mln               | 2010  | 2011  | 2012E | 2013E |
|---------------------------------|-------|-------|-------|-------|
| Reported Revenue                | 120.8 | 123.3 | 134.1 | 145.9 |
| Reported Operating Profit       | 32.6  | 11.1  | 11.7  | 12.7  |
| Depreciation & Amortization     | -6.9  | -10.9 | -12.0 | -13.2 |
| Net Interest Income / (Expense) | 0.5   | -0.2  | -0.3  | -0.3  |
| Reported Pre-tax Profit         | 33.0  | 10.6  | 11.1  | 12.2  |
| Effective Tax Rate (%)          | 16.3  | 16.4  | 17.0  | 17.0  |
| Reported Net Profit             | 27.4  | 7.8   | 8.2   | 8.9   |
| Reported Operating Margin (%)   | 27.0  | 9.0   | 8.7   | 8.7   |
| Reported Pre-tax Margin (%)     | 27.3  | 8.6   | 8.3   | 8.4   |
| Reported Net Margin (%)         | 22.6  | 6.3   | 6.1   | 6.1   |

Source: Company data, S&amp;P Equity Research

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