STANDARD & POOR'S

Ryobi Kiso

Bloomberg: RYO SP | Reuters: RKHL.SI | Price: SGD0.18 | Date: January 10, 2011

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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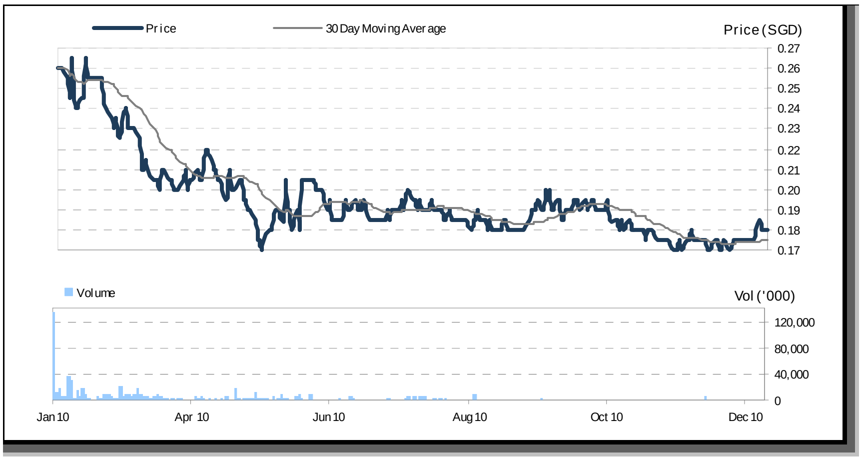
Analyst: Seu Yee Lau



Investment Highlights

- Established since 1990, Ryobi is a leading ground engineering solutions provider in Singapore specialising in bored piling and eco-friendly piling and geo-services. It is reputed for its expertise in eco-friendly and low pollution piling works where resource wastage is kept to the minimal. The group has completed more than 330 projects in Singapore worth SGD700 mln to date and was involved in a diverse range of piling solutions for both the public and private sectors.
- Ryobi presently has an order backlog of SGD81.3 mln. A piling project typically takes three to six months. Due to the short duration of piling contracts, Ryobi constantly replenishes two to three projects a month and keeps an inventory of about SGD50-SGD80 mln at any one time. The group established a foothold in Vietnam in July 2009 and has since secured three contracts totaling SGD8.7 mln located in Ho Chi Minh City and Hanoi.
- Excluding the write-back of allowances for liquidated damages in FY10, we forecast earnings to grow by 6% in FY11 and then by 10% in FY12. This is on the back of a potential pick-up in order book with the recent purchase of piling equipment and the introduction of subterrain pre-cast technology which will enable Ryobi to tap new markets and tender for a wider range of projects. Meanwhile, the mid-term outlook looks positive with the improving economy and sustained demand for construction services. 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.

Key Investment Risks

- Sharp rise in labor and material costs. An unexpected hike in subcontractor fees, workers' levy and material prices such as concrete, steel and cement will put pressure on the group's profit margins.
- Project execution and cost overruns. Failure to account for project costs accurately at the tender stage and in managing on-going project costs will adversely affect project viability and profitability.
- Shortage of skilled labour. This is an industry-wide problem which could result in project disruptions and delays with potential cost overruns.
- Slower-than-expected economic recovery and weak property demand. This will likely reduce construction demand and also erode profit margins due to keener competition for available projects in a slower economy.
- Overseas venture risks. Execution risk, possible start-up costs and a longer than expected gestation period for its ventures in Vietnam and other potential new markets could give rise to higher operating cost, adversely affecting its earnings.

Key Stock Statistics

52-week Share Price Range (SGD)		0.17 - 0.27
Avg Vol - 12 months ('000 shares)		3,270.8
Price Performance (%)	- 1 month	2.9
	- 3 month	-7.7
	- 12 month	-30.8
No. of Outstanding Shares (mln)		765.3
Free Float (%)		27.5
Market Cap (SGD mln)		137.7
Enterprise Value (SGD mln)		106.3
Major Shareholders (%)		
Tanglin Capital Pte Ltd		62.7
Ong Tiong Siew		4.9

Per Share Data

FY Jun.	2009	2010	2011E	2012E
Book Value (SG cents)	7.26	14.73	16.58	18.71
Cash Flow (SG cents)	7.0	5.2	3.8	4.1
Reported Earnings (SG cents)	6.0	4.2	2.8	3.1
Dividend (SG cents)	0.0	1.0	1.0	1.0
Payout Ratio (%)	0.0	28.0	35.2	31.9
PER (x)	3.0	4.3	6.3	5.7
P/Cash Flow (x)	2.6	3.4	4.7	4.4
P/Book Value (x)	2.5	1.2	1.1	1.0
Dividend Yield (%)	0.0	5.6	5.6	5.6
ROE (%)	92.4	35.5	18.2	17.8
Net Gearing (%)	0.0	0.0	0.0	0.0

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Background

Established since 1990, Ryobi is a leading ground engineering solutions provider in Singapore specialising in bored piling and eco-friendly piling and geoservices.

Ryobi was recently listed on the main board of SGX on Jan. 27, 2010. The group has established business presence in Singapore, Malaysia and Vietnam. It possesses an "L6" classification with the Building and Construction Authority of Singapore (BCA) which enables it to tender for public contracts of unlimited value. The group has completed more than 330 projects in Singapore worth an estimated SGD700 mln to date and was involved in a diverse range of piling solutions for both the public and private sectors. These comprise residential, commercial, institutional, industrial, infrastructure and environmental protection projects. Some of its completed noteworthy piling projects in Singapore include Resorts World@Sentosa, Sentosa link bridge, SIA aircraft hanger at Changi airport, Singapore Flyer, St Regis Hotel, La Salle - SIA College of the Arts, ITE@Simei, AMK Hub, Duke NUS Medical School, Kim Eng Security Building, Changi MRT C504, Seletar Aerospace, service tunnel for Marina Bay financial centre and residential projects such as the Cosmopolitan, Cyan, Viva and numerous HDB's public housing. Recently, Ryobi was awarded the Singapore Business Superbrands 2010 in recognition of its reputation and competitive strengths. Its subsidiary, Ryobi Kiso (S) was listed in the "Singapore 1000" rankings in 2010 and came in second place in the 2009 Enterprise 50 (E50) Awards, an award organized by the Business Times and KPMG (Singapore).

The largest shareholder of Ryobi is Tanglin Capital, an investment holding company incorporated in Singapore with a 62.7% stake. Tanglin Capital is owned by Ong Tiong Siew (46%), Ong Teng Choon (33%) and Ong Huay Chin (21%), who is the sister of Ong Tiong Siew and Ong Teng Choon.

Ryobi has an experienced management team led by Mr. Ong Tiong Siew, its co-founder and Chief Executive Officer (CEO). Mr Ong is a key shareholder and holds a 33.7% stake in Ryobi (including his indirect holdings in Tanglin Capital). Meanwhile, Ryobi's board members include directors who have extensive experience in various fields of management and operations.

Board of Directors

Name	Title	Date of Appointment
Lee Yiok Seng	Chairman	7 December 2009
Ong Tiong Siew	CEO/Executive Director	28 February 2008
Ong Teng Choon	Executive Director	28 February 2008
Lai Chin Yee	Lead Independent Director	7 December 2009
Dr Lau Teik Soon	Independent Director	7 December 2009

Source: Company data

Board Independence

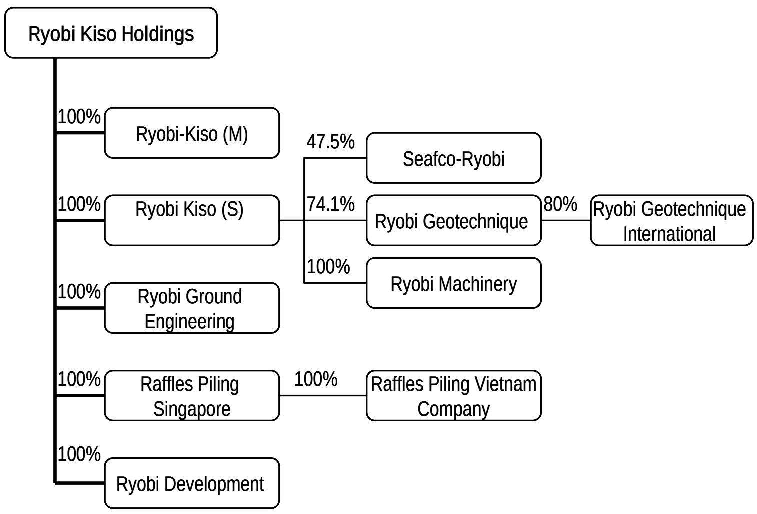
The board consists of five directors, of which two are independent directors. There is a separation of roles between the chairman and CEO although they are related by close family ties. Nevertheless the board has established various committees that comprise a majority of independent directors, i.e. Audit Committee (two of three), Nominating Committee (two of three) and Remuneration Committee (two of three).

Key Management

Name	Title	Date of Appointment
Ong Tiong Siew	CEO/Executive Director	February 2008
Tan Ghee Hwa	Director of Corporate Planning, Human Resource and Administration	April 2009
Lim Soh Hoon	Chief Financial Officer (CFO)	May 2010
Loh Chye Aik	General Manager	May 2008
Lau Chin Choo	Assistant General Manager	August 2006
Wong Kam Seng	Assistant General Manager, Ryobi Kiso (S)	December 2009
Sun Ying Hong	Assistant General Manager, Ryobi Kiso (S)	November 2009
Thung Chun Heng	Assistant General Manager, Raffles Piling Singapore	July 2010
Lim Kok Hin	Chief Executive Officer, Raffles Piling Vietnam Company	April 2010
Wong Po Kwan	General Manager, Raffles Piling Vietnam Company	April 2010

Source: Company data

Corporate Structure



Source: Company data

Key Subsidiaries & Associates

- Ryobi Kiso Holdings is a holding company
- 100%-owned Ryobi-Kiso (M) provides construction work
- 100%-owned Ryobi Kiso (S) provides ground engineering and piling work
- 100%-owned Ryobi Ground Engineering provides soil improvements and civil engineering
- 100%-owned Raffles Piling Singapore provides ground engineering and piling work
- 100%-owned Ryobi Development is a property development company

- 47.5%-owned Seafco-Ryobi provides construction and piling work, soil improvement and diaphragm wall
- 74.1%-owned Ryobi Geotechnique provides instrumentation and geotechnical engineering
- 59.3%-owned Ryobi Geotechnique International provides instrumentation and geotechnical engineering
- 100%-owned Ryobi Machinery trades in machinery and equipment and provides engineering services
- 100%-owned Raffles Piling Vietnam Company provides general construction services in relation to civil construction, foundation work and building completion work

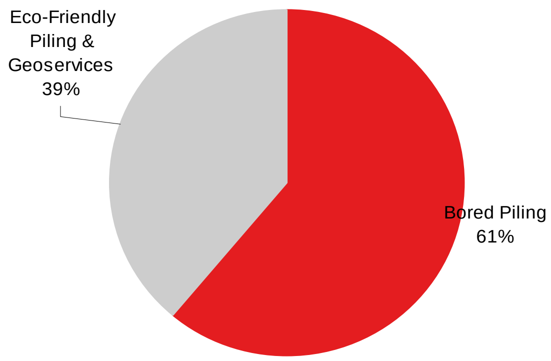
Business Segments / Key Revenue Streams

Ryobi's business can be organized into two main categories:

- Bored piling; and
- Eco-friendly piling and geoservices comprising:
    - Eco-friendly piling;
    - Environmental protection engineering;
    - Geotechnical engineering services; and
    - Sale of geoproducts

Traditionally, piling activities account for the majority of the group's revenue. Over the past few quarters, the group's eco-friendly piling and geoservices business has been gaining pace and accounted for 39% of revenue and 25% of EBIT in FY10 (up from 20% of revenue and 12% of EBIT in FY09). Bored piling accounted for the remaining 61% of revenue and 75% of EBIT in FY10.

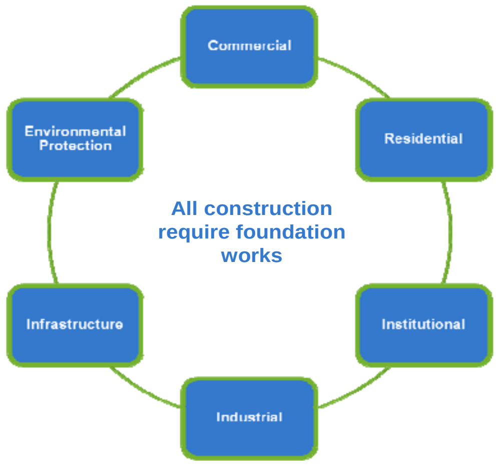
FY10 Segmental Revenue Contribution



Source: Company data

Ryobi has completed more than 330 projects in Singapore which include residential, commercial (hotels, office, shopping buildings, entertainment complexes), institutional (schools, hospitals, clubs), industrial, infrastructure (expressways and MRT tunnels) and environmental protection engineering. The group established a foothold in Vietnam in July 2009 and has since secured three contracts totalling SGD8.7 mln located in Ho Chi Minh City and Hanoi.

Sectors Served by Ryobi

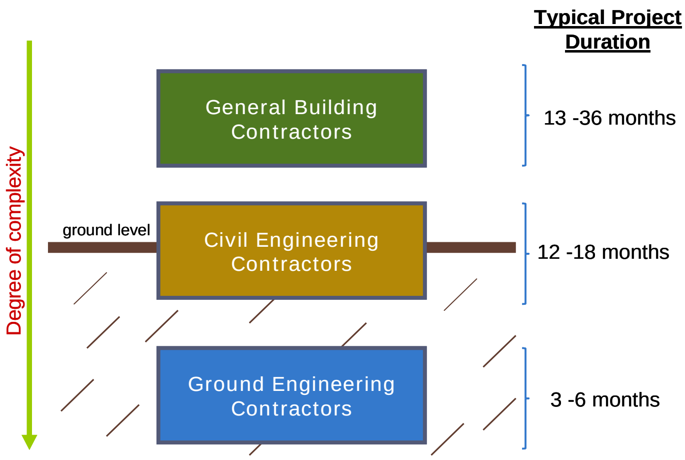


Source: Company data

Ryobi presently has an order backlog of about SGD81.3 mln with a good mix of projects from the private and public sector. A piling project typically takes three to six months. Due to the short duration of piling contracts, Ryobi constantly replenishes two to three projects a month and keeps an inventory of about SGD50 mln-SGD80 mln at any one time. By keeping a healthy level of order book, the group has the flexibility and ability to take on new projects that are accretive to its earnings.

The chart below provides an overview of how the construction industry is generally categorised and where Ryobi fits in, which is the ground engineering contractors segment. The duration of contracts for ground engineering contractors is relatively shorter and as a result, their order books are generally smaller as compared with general building contractors.

Key Categories of Contractors within the Industry



Source: Company data, Standard and Poor's Equity Research

Some of Ryobi's notable on-going projects include the Downtown Line Stage 2, Contract 912 and 920 (SGD22 mln), HDB public housing (SGD10 mln) and condominiums (SGD28 mln) such as Gilstead Two, Hundred Trees, Cyan, L'Viv, The Laurels etc. Over the past years, Ryobi has secured total projects worth SGD100 mln-160 mln p.a. and targets to increase this value going forward.

The group's on-going projects are listed below:

On-going Key Piling Projects

Project	Outstanding Order Book (SGD 'Mln)
Bored Piling and Eco-Friendly Piling Works	
Condominiums –	29.0
D'mira, Cyan, The Shore Residences, Urban Suites, The Laurels, Hundred Trees, Lanai, L'Viv, Flamingo Valley, Gilstead Two, Lincoln Suites, Coralis, Terrene, Ferrell Residence, The Scala	
Downtown Line 2 –	22.0
Contract 912 and 920 ~ Construction of Diaphragm Wall, Bored Piling and Soil Improvement Works, along Woodlands Road and Newton Station	
HDB Public Housing –	10.0
at Punggol Waterway (Part 1), Bukit Panjang Neighbourhood N4C14	
Others –	5.0
Factory at Yishun and Marina Coastal Expressway 482 (Zone C1a) and Juying Secondary School	
Geomonitoring and Instrumentation Services	
Downtown Line 1& 2 –	7.0
Contract 908 and 909 at Chinatown, Contract 911 and 912 at Woodlands	
Marina Coastal Expressway 481 and 482, Sentosa Gateway Tunnel and Others	8.0

Source: Company data

Bored Piling

Bored piling is piling work to carry heavy vertical loads from structures (such as buildings and bridges) and horizontal loads in earth retaining structures for deep excavation (such as MRT tunnels and basements of buildings). It is a process whereby steel circular casings are installed into the ground by the simultaneous process of drilling and soil removal. This is then followed by the concreting of the piles, which then forms a strong pile foundation for the structure. This process is usually required when soil replacement instead of soil displacement is required. Ryobi combines the strategic use of conventional or advanced hydraulic drilling rigs to carry out bored piling works according to the onsite soil composition, quality and project requirements.

Eco-Friendly Piling

Eco-friendly piling is similar to bored piling except that it involves eco-friendly and low pollution piling works with minimal noise, vibration and soil removal/disposal and use of lesser raw materials. The eco-friendly technique allows the use of *in-situ* soil to boost the load bearing and frictional capacity of the pile, thereby resulting in the use of less concrete and the creation of minimum spoil.

The following are techniques utilised in eco-friendly piling:

Grout-mix Piling is an innovative, efficient and economical soil improvement technique which involves drilling into the ground using a top drive electrical auger while simultaneously pumping cement grout into the bore. This technique is versatile and can be used in ground improvement works, such as foundational support for light structures, for the prevention of ground heaving, such as earth retaining walls and for strengthening of embankments.

Screwed spun piling is an evolutionary step forward from the grout-mix piling technique and involves lowering spun piles into the cement slurry column and screwing it to the desired depth using the top drive electrical auger before the cement slurry column sets. The method reduces noise pollution and due to the enhanced friction and load bearing capacities resulting from the use of this technique, less concrete is used as compared to bored piling.

Press grouted spun piling is a technique evolved from screwed spun piling which involves a similar process except that after the electrical auger is removed, the spun piles are tapped to the desired depth using a hydraulic hammer. Similarly, this method significantly reduces noise pollution and excessive vibration as compared to conventional methods of piling. It also allows the use of less concrete for the same load as compared to the bored piling, thereby resulting in greater ecological preservation and higher cost savings.

Geoservices

Apart from building foundation works, Ryobi also offers geoservices which comprise: (i) Environmental Protection Engineering; and (ii) Geotechnical Engineering Services and sale of geoproducts.

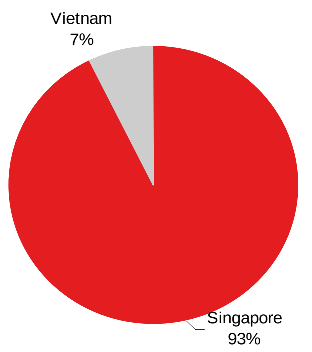
Environment protection engineering services are employed whenever there is a need to prevent the contamination of ground water beyond the polluted areas affected by industrial chemicals, products and waste. The cut-off walls of slurry diaphragm walls are used to segregate the protected and polluted areas, whereby the walls can serve to contain the contaminants within the specified area. Ryobi uses the patented Trench Cutting and Re-mixing Deep Wall (TRD) machine which is an efficient and effective method for the construction of high quality, uniform and homogenous cut-off walls which are suitable for various types of soil condition. The method also enables the use of less raw materials to construct the cut-off walls and generates less spoils in the process. Ryobi is the only company in Asia outside Japan and China to commercially utilize the TRD machine.

Geotechnical engineering services include micro-piling, ground anchoring, slope protection and stabilisation works such as soil nailing (for the purpose of earth retaining such as slopes or excavation), and graniting (which is the spraying of concrete onto slope surface to prevent soil erosion), soil investigation, geophysical surveying and vibration/seismic monitoring. *The geoproducts* sold by the group which include strong motion seismic equipment, geophysical survey equipment and geotechnical sensors are manufactured by third parties. The products supplied are for resale in various Southeast Asian countries.

Major Markets

Ryobi has businesses in Singapore, Vietnam and Malaysia. The group has benefited from the flurry of construction activities at home, and Singapore remains the group's key market contributor, accounting for 93% of its revenue in FY10, with Vietnam contributing the remaining 7%.

FY10 revenue breakdown by geographical regions



Source: Company data

Industry Landscape

The construction sector in Singapore contracted by 1.2% YoY in 4Q2010 according to advance estimates by MITI, reversing from a growth of 7.1% YoY in 3Q 2010. For the whole year of 2010, the sector's growth is expected to moderate to 6.5%, after posting high growths of 16% and 21% in 2009 and 2008 respectively.

The performance of the sector in 2010 was primarily driven by sustained public works and recovery in the residential property segment in tandem with improved market sentiment. Nonetheless, the industry's growth has moderated due to completion of significant portions of the two integrated resorts. Still, momentum will be sustained with the expansion of the rapid transit system (RTS) network. The government recently announced that it is spending SGD60 bln over the next ten years on improvements to the rail network to ease congestion and plans to double the RTS network to 280 km by 2020 from 138 km presently. The new lines are the Downtown line (DTL), the Thomson line (TSL), the Eastern Region line (ERL) and further extensions. In addition to the SGD60 bln proposed RTS network, other mega infrastructure project include the SGD1.33 bln Sports Hub that will be rolled-out after a two year delay due to the financial crisis. The demolition is expected to be completed in March 2011 and construction completed by April 2014.

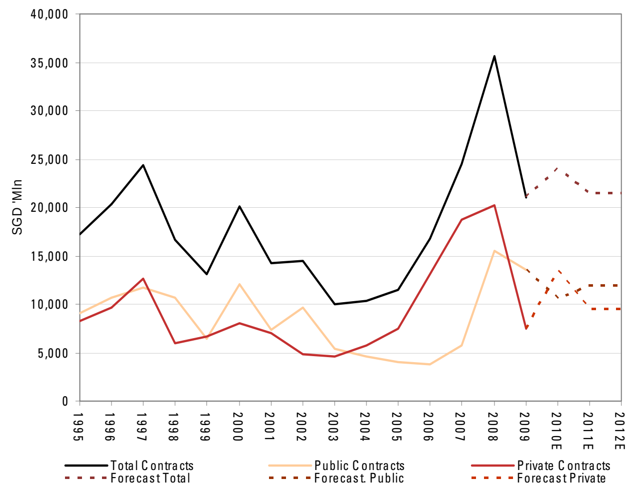
The construction sector remains a key engine of economic growth, contributing about 4%-5% of Singapore's GDP. The industry is estimated to employ more than 380,000 people, or roughly 12.7% of the workforce. To encourage innovation, the Government recently set aside SGD250 mln to help construction companies fund new and more productive equipment as well as train workers.

Growth years and construction demand in 2009

Following a prolonged downturn in the construction industry in Singapore, demand has been growing since 2004 (see graph below). The last few years have seen a renewed wave of soaring growth, led by a spike in private sector demand, with the two integrated resorts and an increase in residential and commercial projects. A high of SGD35.7 bln worth of contracts was awarded in 2008.

In 2009, total construction demand however, declined to SGD21.0 bln mainly due to weak private sector construction demand which fell sharply to SGD7.5 bln (from SGD20.2 bln in 2008). Private residential construction demand fell by almost half to SGD3.5 bln as developers held off projects amid the economic uncertainty and demand for commercial construction shrank to SGD1.2 bln (from a high of SGD8.3 bln in 2008) dampened by declines in occupancy rates and rental values. The decline was mitigated by sustained level of public sector construction demand, which contributed 64% of overall demand in 2009. Public sector key contracts awarded include the MRT Downtown Line Stage 2, the North-South Line Extension and Jurong East Connection, expansion of road works and redevelopment of hospitals and new industrial space.

Historical and Forecast Construction Demand (1995-2012)



Source: BCA, CEIC

Construction to enjoy sustained activities in the medium term

For 2010, the BCA has projected private sector contracts to reach between SGD11.9 bln and SGD 15.0 bln, up from 2009's SGD7.5 bln. Residential private sector demand is expected to show the most improvement, with an estimate of SGD6.2 bln – SGD6.7 bln in 2010 supported by the slew of recent property launches. The private sector will form the bulk (56%) of 2010's projected total construction demand.

The public contracts, however is expected to decline slightly to range between SGD9.1 bln – SGD12.1 bln in 2010, from 2009's SGD13.5 bln. Public sector projects include the MRT contracts for the Downtown Line, road works, industrial facilities at Seletar Aerospace Park, common services tunnel at Marina Bay and new healthcare facilities.

Going forward, the sector is expected to benefit from increased spending in the public works particularly transport infrastructure and continued economic growth in Singapore. Robust economic growth in Singapore will create spillover benefits to the construction sector, providing more tendering opportunities in building projects. In addition, expectations for a sustained take-up rate in the private residential market should continue to buoy the sector.

For 2011 and 2012, BCA has forecasted annual construction demand to range between SGD18 bln -SGD25 bln, of which public sector demand is expected to reach between SGD10 bln – SGD14 bln. Meanwhile, the momentum of the private sector is expected to be sustained with a forecast annual demand of SGD8 bln – SGD11 bln. Taking into consideration the level of construction activities taking place in the next few years, we expect steady replenishment of the order books of local construction companies.

Actual and Forecast Construction Demand (2009-2012)

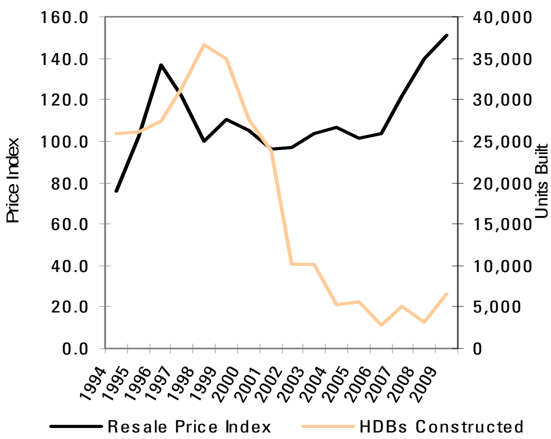
SGD bln	2009A Public	2009A Private	2010F Public	2010F Private	2011-2012F (annual average) Public	2011-2012F (annual average) Private
Residential	2.77	3.53	2.8-3.2	6.2-6.7	NA	NA
Commercial	0.07	1.22	0.1-0.2	1.8-3.7	NA	NA
Industrial	0.19	1.52	0.9	2.0-2.3	NA	NA
Institutional & others	2.42	0.52	2.8-4.3	1.2-1.5	NA	NA
Civil Eng. *	8.07	0.70	2.4-3.5	0.5-0.7	NA	NA
Total	13.51	7.50	9.1-12.1	11.9-15.0	10.0-14.0	8.0-11.0
Total (Public & Private)	21.0		21.0-27.0		18.0-25.0	

** Excl reclamation contracts*

Source: BCA

HDB also plans to boost and expedite development of new flats to appease rising demand which bodes well for piling companies like Ryobi who has been involved in numerous HDB housing projects. HDB plans to offer a record of up to 22,000 new flats for 2011 if the demand for homes is sustained. This follows the statutory board's recent aggressive moves to ramp up supply, with an estimated 17,700 new homes launched last year. From the chart below, this is a jump over 2003-2009 average building of over 5,000 units p.a.

HDB Construction to Jump to Appease Rising Prices



Source: CEIC

Opportunities in Vietnam

Vietnam's third-quarter growth in 2010 hit 7.16%, boosted by gains in industrial production (*Source: General Statistic Office Vietnam*). The country's nine-month economic growth was at 6.52%, an increase from last year's 4.62% over the same period. Industrial output, retail sales and credit growth as the government urged banks to cut lending costs have fueled Vietnam's recovery from last year's global recession. The economic expansion may exceed the government's target of 6.5% for 2010, the fastest since 2007's 8.5%. According to Asian Development Bank (ADB), the higher growth was a result of an improved external environment and government stabilizing measures brought in last year to address the macroeconomic imbalances.

The Vietnamese government is targeting an annual economic growth of as fast as 8% until 2020 in a bid to boost per-capita income to at least USD3,000 and attain the status of a "modern industrialized country".

Actual and Forecast GDP Growth in Vietnam (2008-2013)

	2008A	2009A	2010F	2011F	2012F	2013F
Vietnam's GDP Growth	6.31	5.32	6.47	6.82	7.04	7.24

Source: IMF

Industry and construction, which accounted for 41% of GDP, grew 7.29% in the first three quarters. Construction by itself expanded 10.25% during the nine-month period. Vietnam construction industry is witnessing a boom period as the country is rapidly transforming into an urban country. With the stronger economy and availability of new construction technology, property developers in Vietnam are said to be locked in a race to build skyscrapers. PetroVietnam Construction JSC, a subsidiary of state-owned Vietnam Oil and Gas Group, announced in July 2010 that it will build the country's tallest tower in Hanoi with an investment of more than USD1 bln. The 528-meter tower is expected to be completed by 2014. In addition, demand for real estate is on the rise together with GDP growth, a growing population and increase per capita living space. These trends coupled with the government keeping a lid on interest rates to bolster lending bode well for the construction industry.

According to a government official (*Source: Thanh Nien News),* Vietnam's total development expenditure is set to increase by 12.3% from 2009 to VND791 trillion (USD41.4 bln) in 2010. Accordingly, most of the year's government bond proceeds will be allocated to infrastructure construction, healthcare and education projects. Over the mid-to longer term, the construction industry in Vietnam looks positive on the back of growing domestic affluence, increasing population and rapid urbanization leading to an upsurge demand for well planned residential developments, quality housing and amenities by both locals and expatriates.

Growth Strategy

On the back of continued growth in the Singapore economy and the sustained high level of public sector projects, the construction industry outlook seems positive going forward. As provided earlier, Singapore's construction demand for 2011 and 2012 is projected to reach between SGD18 bln and SGD25 bln, a continuation of a sustained workload from the recent years. In view of this, Ryobi intends to keep a focused approach to business in Singapore, which remains its key market. The group will actively participate in tenders for both public and private sector projects. It will leverage on its established piling track record to secure repeat business from key developers in which it has developed close relationships with and government bodies, as well as referrals for new businesses.

Management plans to step up business development efforts and expand its geographical coverage to countries such as Vietnam, Malaysia, Indonesia and China although competition will be stiff. The group is also exploring suitable opportunities to diversify into other construction related businesses to offer a wider range of construction services. This can be achieved via acquisitions, strategic alliances and/or JVs with its suppliers, customer and/or third parties.

In order to keep abreast of technological advances in the industry and to derive the benefits of improved features and performance, the group plans to upgrade and acquire additional piling equipment and machinery by investing about SGD20 mln over the next two years. Meanwhile, it will continuously develop its technical expertise to create new market opportunities and has recently introduced the subterrain pre-cast technology. Through the use of pre-cast technology for substructure, Ryobi is able to shorten construction time, reduce its reliance on human labor, resulting in high productivity and cost efficiency. The enhanced capability would allow the group to tender for a wider range of projects and grow its revenue from such services. This will help strengthen its position as a leader in the field of eco-friendly piling in Singapore and facilitate its expansion into overseas market.

Ryobi will continue to be prudent in their projects by conducting vigorous due diligence exercise including proper assessment of the soil conditions to allow more accurate budgeting and to accept projects that are viable and "cashflow positive" to avoid potential cost overruns and failure in project delivery. In addition, the group will run the business with a renewed focus on cost management by emphasizing operational efficiencies and reduce working capital via better asset management.

SWOT Analysis

Strengths

- Ryobi is an established company with over 20 years of history and has undertaken more than 330 projects in Singapore, including piling and ground improvement projects. The group has built up a successful track record as a reliable ground engineering solutions provider which is capable of handling different types of piling requirements.
- Ryobi specialises in eco-friendly piling and is the only company in Singapore to carry out screwed spun piling and press grouted spun piling. This provides an advantage over its competitors for projects where there are requirements for reduction of noise and vibration, less usage of concrete or where soil conditions do not favor conventional bored piles.
- Ryobi has technological advantages over its competitors via its continuous efforts in R&D and being the only company in Asia outside Japan and China to commercially utilize the TRD machine for its environment protection engineering projects.
- The piling industry has high barriers to entry due to extensive capital expenditure requirements. Ryobi presently holds the L6 financial grading by the BCA, which allows it to tender for public sector piling contracts of unlimited value.
- Ryobi's close working relationships with major developers and main contractors who are key players in the construction industry have facilitated its sourcing of opportunities and securing of projects.
- The management team, led by Ong Tiong Siew is staffed by capable and hands-on executives with extensive experience in their fields of operation. Its executive directors, each having more than 21 years of experience in the bored piling and eco-friendly piling and geoservices businesses possess extensive knowledge of the industry.
- With a respectable cash holding of SGD57.5 mln as at end-September 2010, we believe Ryobi is well positioned to bid for larger projects as well as ride to out the cyclicality of the industry over time.

Weaknesses

- Ryobi is dependent on the performance of the construction industry in Singapore, which is subject to the general local economy and health of the property market.
- Ryobi's heavy reliance on piling revenue makes it vulnerable to cyclical downturns and competitive conditions.

Opportunities

- Ryobi with its proven construction track record in government infrastructure projects is likely to benefit from the sustained high level of public projects in the next few years. In addition, HDB's plan to boost and expedite development of new flats to appease rising demand augurs well for the group which has an established track record in HDB projects.
- There are potential business opportunities in emerging markets in Asia such as Vietnam, Indonesia and China which rely on foreign expertise for infrastructure development.

Threats

- Ryobi faces stiff competition in the piling industry. A weak economy may result in undercutting and erosion in margins. There are presently 17 L6 piling contractors in Singapore.
- The commencement of certain construction, building and housing projects could be derailed by the lack of suitable funding, as the credit market is still adopting a cautious stance with banks more prudent in its lending
- Rise in prices of some basic building materials costs like steel bars, concrete and fuel charges will put pressure on the group's margins.
- Slower-than-expected economic recovery resulting in a downturn in the construction industry and property market would impact the group's business.

Recent Key Developments

April 2010: Appointed a new CFO, Lim Soh Hoon

August 2010: Incorporated a wholly-owned subsidiary, Ryobi Development to undertake future property development opportunities

August 2010: Announced full-year FY10 Results. Net profit was down 20.2%.

September 2010: Resignation of Financial Controller, Tng Siew Khim.

November 2010: Announced 1QFY11 Results. Net profit was down 19.7% YoY.

Management Guidance

With the continued growth in the Singapore economy and construction demand to be sustained over the next few years, the outlook seems positive going forward. Growth in other major economic sectors such as manufacturing will create spillover benefits to the construction sector, which will then provide more tendering opportunities in building construction projects. In addition, increased activities in both the private and public residential developments provide optimism to the construction industry.

Management expects growth in FY11 and FY12 to be driven by potential increase in the group's order book and local market share. This will be on the back of: (i) recent upgrade and acquisition of additional piling equipment and machinery (the group has spent a total of SGD34 mln in FY10); and (ii) the introduction of the subterrain pre-cast technology which will enable the group to tap new markets, tender for a wider range of projects as well as facilitate its expansion overseas.

In addition, management hopes to capitalize on Vietnam's attractive construction growth potential with the country's rising affluence, increasing population and rapid urbanization. In order to boost its prospective order book and diversify its revenues stream which is mainly from local projects, management hopes to secure more projects in Vietnam. The group has quickly secured three contracts totaling SGD8.7 mln to date since establishing a foothold in the country in July 2009.

Management views Ryobi's respectable cash holding position and sustained order book backlog as important competitive advantages to bid for more projects and to sustain the group's earnings in FY11 and FY12. In addition, these factors will provide sufficient holding power to ride out the cyclicality of the industry over time.

Earnings Outlook

In line with the tough macro-economic environment, Ryobi's revenue declined to SGD120.8 mln (-24.6%) in FY10 due to the lower number and value of piling projects secured. This was mitigated by the increase in contribution from the newly incorporated Vietnam subsidiary and the eco-friendly piling and geo-services business. The group however, reported a stronger gross margin of 38.7% in FY10 (+6%-pts) as a result of write-back of allowances for liquidated damages of SGD8.7 mln and cost savings from lower material costs. The above net effect was a 20.2% decline in the group's FY10 net profit. Excluding the write-back of liquidated damages, Ryobi would have made a net profit of about SGD20.1 mln in FY10 (-41.4%).

For 1QFY11, although revenue increased by 31% YoY to SGD31 mln, net profit dropped 19.7% YoY to SGD3.7 mln. The decline was due mainly to: (i) lower gross profit margin which decreased to 25.5% in 1QFY11 (from 33.3% in 1QFY10) as a result of higher project costs and competition; and (ii) higher staff costs due to increase in manpower to support the operations. We understand that gross margin is expected to improve in the quarters ahead with the higher-value projects secured recently.

We project revenue to grow by about 10% in both FY11 and FY12 as we expect piling projects to pick-up with the roll-out of government infrastructure projects and increased activities in both the private and public residential developments. In addition, HDB's plan to boost and expedite the development of new flats by launching a record of up to 22,000 units in 2011 augurs well for the group. With the new piling equipment and machinery and introduction of the subterrain pre-cast technology, Ryobi will be able to capitalize on these new opportunities and tender for a wider range of projects.

We have projected gross margins to dip to about 30% in FY11 and FY12 (from 38.7% in FY10) in the absence of any significant write-back of allowance of liquidated damages. In addition, we expect higher project costs which include material and labor costs with the recovery of the global economy and increase in the workers' levy to erode gross margins. This is mitigated by the group's active role in continuing to invest in technologies and piling techniques that maximize cost efficiencies. We expect EBIT margin to be around 20% in FY11 and FY12.

With the above assumptions, excluding the write-back of allowances for liquidated damages in FY10, we estimate Ryobi's net profits to increase by 6% to SGD21.8 mln in FY11 and by another 10% to SGD24.0 mln FY12.

We compare Ryobi with two local construction companies which has key involvement in piling works that are listed on the same exchange. Most of the local piling companies in Singapore are privately held.

Peer Comparison

	Ryobi	CSC Hlgs	PSL Hldgs
Share Price @ Jan. 7, 2010	SGD0.18	SGD0.165	SGD0.155
Mkt. Cap (SGD mln)	137.7	202.5	48.0
PER Historical (x)	4.3	8.4	5.5
PER Current Year (x)	6.3	12.7	N/A
P/NTA Historical (x)	1.2	1.2	1.4
Latest FY (SGD Mln)	Jun. 10	Mar. 10	Dec. 09
Revenue	120.8	285.0	47.8
Pre-Tax Profit, as reported	33.0	30.0	8.0
Net Profit, as reported	27.4	24.1	6.8
Pre-Tax Profit Margin (%)	27.3	10.5	16.7
Net Profit Margin (%)	22.6	8.5	14.2

Source: Bloomberg, Company Data

Profit & Loss

FY Jun. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	160.3	120.8	132.9	146.2
Reported Operating Profit	34.9	25.6	18.6	20.8
Depreciation & Amortization	-5.8	-6.9	-7.3	-7.6
Net Interest Income / (Expense)	0.2	0.5	0.2	0.2
Reported Pre-tax Profit	40.7	33.0	26.0	28.7
Effective Tax Rate (%)	15.1	16.3	16.0	16.0
Reported Net Profit	34.3	27.4	21.8	24.0
Reported Operating Margin (%)	21.7	21.2	14.0	14.3
Reported Pre-tax Margin (%)	25.4	27.3	19.6	19.6
Reported Net Margin (%)	21.4	22.6	16.4	16.4

Source: Company data, S&P Equity Research

Balance Sheet

FY Jun. / SGD mln	2009	2010
Total Assets	110.9	183.0
Fixed Assets	42.6	70.2
Current Assets	65.5	110.5
Other LT Assets	2.8	2.3
Current Liabilities	52.4	50.2
LT Liabilities	15.2	17.9
Share Capital	2.5	88.4
Shareholders' Funds	41.6	112.7

Source: Company data, S&P Equity Research

Cash Flow

FY Jun. / SGD mln	2009	2010	2011E	2012E
Operating Cash Flow	54.3	16.6	31.2	29.9
Investing Cash Flow	-5.1	-27.9	-14.8	-15.0
Financing Cash Flow	-37.1	27.2	0.4	-7.7
Net Cash Flow	12.1	15.9	16.9	7.3
Ending Cash	39.7	55.6	72.5	79.8
Capex	-5.2	-29.5	-15.0	-15.0

Source: Company data, S&P Equity Research

Material Disclosures Including Interested Party Transactions

Ryobi has disclosed the following interested person transactions in FY10, excluding transactions less than SGD100,000.

Interested Person	Aggregate Value (mln)
Rotor Mix [1]	
Sale and purchase of raw materials and services	1.109
Compile Ryobi Australia[2]	
Purchase and rental of machinery	0.264
HL Suntek Insurance Brokers [3]	
Insurance expense	0.455

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Note:

1 Ms Ong Siew Hoon, the sister of the Executive Directors of the Company, is a director and shareholder of Rotor Mix Pte Ltd.

2 Mr Ong Tiong Siew, the CEO of the Company, is a director of Ryobi Investment (Aust) which is a shareholder of Compile Ryobi Australia

3 Mr Lee Yiok Seng, the Chairman of the Company, is a director of the HL Suntek Insurance Brokers

New Issues & Placements

January 2010: Listed on the main board of SGX which involved the sale of 192 mln new shares at SGD0.26 each.

Dividend Policy

In FY10, Ryobi paid out a total dividend of one cent per share, which represents about 28% of its net profit. At current share price, the stock offers a decent dividend yield of 5.7%. Going forward the quantum of dividend payment will be subject to the group's performance and profitability.

Auditors' History

FY07 - present: Nexia TS Public Accounting Corporation

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