

Neutral

Current Price **S\$0.127**
17 November 2011

Fair Value **S\$0.134**

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Historical Chart



Source : Bloomberg

Stock Statistics

Market Cap	S\$96.2m
52-HI	S\$0.195
52-LOW	S\$0.105
Avg Vol	179,948
Shares Outstanding	757.5m
Free Float	195.0m

Key Indicators

ROE	6.8%
ROA	4.1%
P/BK	0.81x
Gearing	0.12x

Major Shareholders

Tanglin Capital	63.33%
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Pickup in GPM with successful pricing structure but challenges prevail

- **1QFY12 PATMI of \$0.5m fell a steep 86.0% YoY and 2.1% QoQ** largely due to an 8.3% YoY and 8.9% QoQ fall in revenue to \$28.4m as smaller scale eco-friendly and geo-services projects undertaken by the Group in 1QFY12 resulted in a steep 63.7% YoY and 31.7% QoQ decline in revenue to \$4.3m. Revenue from bored piling grew 25.5% YoY to \$24.1m mainly from ongoing projects such as HDB Woodlands N1C19 but dipped 3.3% QoQ. Higher administrative expenses, which grew 17.4% YoY and 287.8% QoQ to \$3.7m, due to rising wages and write-back of over-accrual of bonus respectively, further dragged down profitability. Gross profit margin (GPM) rebounded 5.3% points from a low of 8.2% (4QFY11) to 13.5% (1QFY12) as RK has successfully factored in rising labour and raw material costs in its pricing structure but remained 12% points below 25.5% (1QFY11) as key raw material costs were lower by an average of about 25% to 30% during 1QFY11. The results were below our expectations due to lower than expected GPM, despite an expected pick-up in 1QFY12.
- **As expected, slower receivable collection.** Average trade receivables turnover rose to 165 days as at 30 Sep 2011 from 146 days as at 30 June 2011 due to slower payment from main contractors, a trend which is likely to prevail going forward as the operating environment remains difficult.
- **Order book to remain healthy.** A strong pipeline of public construction projects in Singapore led by LTA's Downtown Line Stage 3 and HDB public housing projects and renewed construction activities in Vietnam will replenish Group order books. To-date Ryobi Kiso (RK) has clinched two projects in Vietnam valued at S\$13.9m which are expected to contribute in FY12 with the expected completion of these projects in early 2012. With a foothold in the Vietnam, management is optimistic of securing more projects from both local and foreign players in the Vietnamese real estate market. We are expecting more project awards from Vietnam in FY12.
- **Securing other sources of income.** Recently, RK invested in an industrial development project in Vietnam which is expected to provide recurring rental income in FY14 upon completion expected in mid 2013.
- **Risks.** RK is experiencing slower payments from debtors which will negatively impact working capital needs. Keen competition for contracts from both large and smaller players will adversely impact RK's pricing power while strong building demand from the HDB and infrastructure works, coupled with a reduction in the number of foreign workers, will keep labour costs and GPM under pressure.
- **Valuation and Recommendation.** RK's net gearing rose to 0.12x in 1QFY12 from 0.01x in 4QFY11 due to cash deployed to purchase property, plant and equipments used for business operations. Nonetheless, RK is still under-leveraged, compared to industry peers. Going forward, we expect the order book to remain healthy but intense competition in the local construction scene will continue to keep GPM under pressure. We further lower our forecast and expect earnings decline of 65% (FY12) (previously -30%) and 8% (FY13F) (previously -6%). In light of volatility in GPM, we value RK using price-to-book ratio (PBR) method. Based on NAV per share of 15.7 cents per share, we arrive at a target price of 13.4 cents (previously 14.7 cents) based on 0.85x PBR which is more conservative than the industry PBR of 1.8x but higher than PBR of 0.7x of CSC, the largest piling company in Singapore, as RK's operations enjoy a higher margin and return on equity compared to CSC. Maintain **Neutral**.

Key Financial Data

S\$m					
YE 30 Jun	FY09	FY10	FY11	FY12F	FY13F
Sales	160.3	120.8	123.3	120.9	120.2
Gross Profit	52.4	46.7	24.4	18.7	18.5
Net Profit	34.3	27.4	7.8	2.7	2.5
EPS (S cents)	6.0	4.2	1.0	0.4	0.3
EPS growth (%)	13.4	-30.2	-75.5	-64.6	-8.1
PER (x)	2.1	3.0	12.4	35.1	38.2
DPS (S cents)	0.0	1.0	0.6	0.1	0.1
Div Yield (%)	0.0	7.9	4.7	0.8	0.8

1QFY6/12 Results

Profit & Loss (S\$m)						
Year end: 30 Jun	1QFY12	1QFY11	YoY % Change	1QFY12	4QFY11	QoQ % Change
Revenue	28.4	31.0	-8.3%	28.4	31.2	-8.9%
Cost of Sales	(24.6)	(23.1)	6.5%	(24.6)	(28.6)	-14.2%
Gross Profit	3.8	7.9	-51.5%	3.8	2.6	49.6%
Operating income	0.1	0.2	-49.8%	0.1	0.2	-40.6%
Operating Expenses	(3.0)	(3.6)	-15.7%	(3.0)	(1.0)	213.1%
Administrative expenses	(3.7)	(3.1)	17.4%	(3.7)	(1.0)	287.8%
Other operating expenses	0.7	(0.4)	nm	0.7	(0.0)	nm
Operating Profit	0.9	4.5	-79.7%	0.9	1.8	-48.2%
Finance Costs	(0.2)	(0.1)	162.2%	(0.2)	(0.2)	-1.4%
Associates	(0.0)	0.0	nm	(0.0)	(0.2)	-99.4%
Pre-tax Profit	0.7	4.5	-84.2%	0.7	1.4	-48.9%
Income tax	(0.1)	(0.7)	-80.2%	(0.1)	(0.3)	-46.6%
Minority interest	(0.0)	(0.0)	281.8%	(0.0)	(0.6)	-92.8%
Net Profit	0.5	3.7	-86.0%	0.5	0.5	-2.1%
EPS - fully diluted (Scts)	0.07	0.49	-85.7%	0.07	0.07	0.0%

Profit & Loss					
YE 30 June (\$m)					
	2009A	2010A	2011A	2012F	2013F
Revenue	160.3	120.8	123.3	120.9	120.2
Cost of Sales	(107.9)	(74.1)	(98.8)	(102.2)	(101.7)
Gross Profit	52.4	46.7	24.4	18.7	18.5
Operating Income	0.6	0.6	0.6	0.6	0.6
Administrative expenses	(11.6)	(11.5)	(12.2)	(11.1)	(11.0)
Other operating expenses	(0.5)	(2.7)	(1.3)	(0.8)	(1.1)
Operating Profit	40.9	33.0	11.5	7.4	7.0
Net interest	(0.1)	0.0	(0.6)	(2.4)	(2.2)
Profits from Associated Co.	(0.0)	(0.0)	(0.3)	(0.3)	(0.3)
Pre-tax Profit	40.7	33.0	10.6	4.6	4.4
Income tax	(6.1)	(5.4)	(1.7)	(0.8)	(0.7)
Minority Interests	(0.3)	(0.3)	(1.1)	(1.1)	(1.2)
Net Profit	34.3	27.4	7.8	2.7	2.5

Balance Sheet					
YE 30 June (\$m)					
	2009A	2010A	2011A	2012F	2013F
Cash & Fixed Deposit	40.5	56.4	41.3	32.6	25.5
Trade Receivables	23.4	50.6	55.0	59.6	56.0
Construction contract WIP	1.4	3.1	10.4	12.0	12.6
Other current assets	0.1	0.3	0.8	0.6	0.6
Current Assets	65.5	110.5	107.5	104.7	94.6
Property, Plant and Equipment	42.6	70.2	89.5	102.3	107.7
Others	2.8	2.3	2.1	6.8	9.2
Non-current Assets	45.4	72.5	91.5	109.1	116.9
Bank Borrowings	6.5	7.4	20.0	18.0	16.2
Trade Payable	40.0	38.4	27.8	42.0	39.0
Others	5.9	4.5	0.1	0.1	0.1
Current Liabilities	52.4	50.2	48.0	60.1	55.3
Bank Borrowings	12.2	10.6	22.9	20.6	18.5
Others	3.0	7.3	9.0	8.9	8.7
Non-current Liabilities	15.2	17.9	31.9	29.5	27.3
Shareholder's Equity	43.4	114.9	119.2	124.2	128.9

Cash Flow					
YE 30 June (\$m)					
	2009A	2010A	2011A	2012F	2013F
Cash flow from Operating activities					
Pre-tax profits	40.7	33.0	10.6	4.6	4.4
Adjustments	15.4	(2.1)	10.7	16.2	16.2
Operating cash flow before working capital	56.1	30.9	21.3	20.8	20.6
Changes in working capital	5.4	(10.8)	(20.9)	8.2	0.1
Tax paid & others	(7.2)	(3.5)	(4.8)	(0.2)	(0.2)
Net cash generated from operations	54.3	16.6	(4.3)	28.8	20.4
Cash flow from investing activities					
Capex	(5.2)	(29.5)	(21.8)	(15.2)	(8.0)
Others	0.1	1.6	1.3	(4.2)	(5.2)
Net cash from investing activities	(5.1)	(27.9)	(20.6)	(19.4)	(13.2)
Cash flow from financing activities					
Loans, net	(3.3)	(0.7)	19.5	(4.3)	(3.9)
Dividend	(30.4)	(13.8)	(4.0)	(4.6)	(0.8)
Others	(3.5)	41.8	(4.4)	(8.6)	(9.2)
Net cash from financing activities	(37.1)	27.2	10.5	(18.3)	(14.7)
Net change in cash	12.1	15.9	(14.5)	(9.0)	(7.5)
Cash balance at beginning of year	27.6	39.7	55.6	41.3	32.6
Other adjustments	0.8	0.8	0.2	0.2	0.5
Cash balance at end of year	39.7	56.4	41.3	32.6	25.5

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