THE EDGE SINGAPORE
BUSINESS & INVESTMENT WEEKLY

HD **Corporate: Figtree bets on property development abroad while growing local design business**

BY By Frankie Ho

WC 1,835 words

PD 28 April 2014

SN The Edge Singapore

SC EDGESI

LA English

LP

Singapore-listed developers may have fallen out of favour with investors as property sales languish in the wake of efforts by the government to rein in prices. But Catalist-quoted Figtree Holdings, whose share price doubled on its first day of trading in November last year, still appears to be highly sought after. Its stock performance seems all the more intriguing considering that it listed to raise funds to get into the property development business.

To be sure, Figtree is not involved in residential development. The company was founded in 2009 by Robert Oei, now its technical director, to provide property design, construction management and building engineering services in Singapore, China and Malaysia. Now, through its associate, Vibrant Properties, Figtree wants to develop commercial and industrial real estate — not in Singapore but in China, East Malaysia and even Australia.

TD

Figtree bought a 20% stake in Vibrant Properties last August from Mainboard-listed Vibrant Group, formerly known as Freight Links Express Holdings and the present sponsor of Sabana Shari'ah Compliant Industrial REIT. Vibrant Group incorporated Vibrant Properties last July as its real estate development arm. It has said the real estate business can potentially generate a stable income stream and help reduce its reliance on its core logistics business, which is subject to the vagaries of global trade.

Recognising Figtree's design and construction capabilities and the potential synergies both parties can achieve by working together, Vibrant Group let the company take a bigger stake of 40% in Vibrant Properties in January this year. Vibrant Group itself is an investor in Figtree, with a 20% stake.

For a company just starting out in property development, investors seem to have high expectations. At its current share price, Figtree trades at more than four times its net book value, far exceeding the valuations of most Singapore-listed developers. It is probably also the only developer — or aspiring developer — listed here with no debt, although this is likely to change as it takes on more development work.

"We feel the market expects us to do more," Danny Siaw, Figtree's executive chairman and managing director, tells The Edge Singapore. "The market seems to be saying, 'As a listed company, you should take more risks. Use banks' money to make more money for shareholders.' We hear it loud and clear." Siaw, 49, and his spouse are Figtree's largest shareholders, with a combined 23% stake.

Figtree may consider borrowing from banks or raising equity, or doing both, but will not rush into any fund-raising exercise or development project, according to Siaw. It still has about half of the net proceeds of $10 million raised from its IPO. Part of the money used so far has gone to Vibrant Properties, in the form of a two-year interest-free loan.

Vibrant Properties owns a joint venture that bought a site in Jiangsu province's Changshu city last month for RMB28.8 million ($5.8 million). The joint venture will develop a high-tech industrial park to be leased out to small and medium-sized auto parts companies from Europe and the US. The first phase of the 67,405 sq m park, due to be completed in 2015, will comprise six blocks of light industrial facilities and a five-storey multipurpose block.

The Changshu park, about an hour's drive from Shanghai, is the first development project for Vibrant Properties and Figtree. "Changshu is the new auto hub of China," says Siaw. "This will be our flagship development." In addition to the RMB28.8 million for the land, an additional RMB150 million is likely needed to fund the development, according to Siaw, who expects the facility to fetch an annual net rental yield of more than 10%.

"There are other industrial property developers in that region but they are 40km to 50km away from our industrial park. The local government has guaranteed that they are not going to award any site to another industrial property developer within a 50km zone of where we are," he says.

Vibrant Properties has started marketing the park. Its marketing staff were recently in Stuttgart, home of high-end car brands Porsche and Mercedes-Benz. "We are talking to seven to eight potential customers. We are not ready to sign the lease agreements with them yet. We want to hold back on the agreements until after our German trip," says Siaw. "We want to pick the best tenants."

While auto parts companies have already been supplying to carmakers in China, many of them are not doing so from Changshu, he notes. "A lot of these suppliers in China want to move nearer to the production plants, but they don't want to have their own building just yet. They want to rent." Automotive players already based in Changshu include Chery Jaguar Land Rover, Qoros Auto and Toyota Motor Corp.

Figtree first ventured into China in 2011, the year Siaw joined the company. He has been making frequent trips to China since 2003, while working in other companies. Figtree clinched its first job in China in July 2011, when it was hired to design and help build a factory and warehouse in Suzhou. It has since built several more industrial facilities for various companies in China.

After the industrial park in Changshu is up and running, Figtree intends to develop more of such facilities in China to generate recurring rental income. It will do so either through Vibrant Properties or on its own. "We want to repeat this business in other cities, such as Shanghai," says Siaw. "We have a plan in the next five to 10 years to do another four or five of such parks within a three- to four-hour radius of Shanghai."

Eyeing Australia, East Malaysia

Beyond China, Siaw sees major cities in Australia as potential markets for Figtree's property development business. He acknowledges that Australia has no lack of foreign developers, especially in the residential segment, but believes there is still room for more. "Foreigners are still buying homes in Australia. They are going like hot cakes."

Foreigners with children studying in Australia could be Figtree's main target group. "There are two big universities in Melbourne — the University of Melbourne and RMIT. I would say 50% of their students are foreigners," he notes. "Most of the people who send their sons and daughters there tend to buy properties in Melbourne because renting is expensive. Whoever can send their children there, I think, is well to do. They can afford to buy property there."

Figtree's developments in Australia will probably comprise 100 to 200 residential units each, Siaw figures. He expects Figtree to make a decision this year about venturing into Australia. If it proceeds with the plan, it will likely do so on its own, rather than through Vibrant Properties.

Closer to home, the company is eyeing development opportunities in East Malaysia. Unlike Iskandar Malaysia, Penang and Kuala Lumpur, where real estate prices have risen dramatically in recent years, key cities in East Malaysia have yet to reach a stage of oversupply in terms of housing, and are therefore ideal for Figtree to kick-start development, says Siaw, who hails from Sabah.

"Supply in places like Sabah is not catching up with demand," he says. "Kota Kinabalu [in Sabah] is the hub for East Malaysia. A year ago, a three-storey terraced house there would have cost you RM400,000 ($153,768). Today, you are talking about RM600,000.

"The 'Popiah King' invested in Sabah. He's making a good move," he adds, referring to Singapore entrepreneur Sam Goi's investment in Sutera Harbour Group early this year. Mainboard-listed GSH Corp, a property developer controlled by Goi, bought a 77.5% stake in Sutera Harbour, which owns a golf resort in Kota Kinabalu. It also acquired two adjoining land parcels to develop luxury condominiums.

Biggest contract to date

Even as Figtree starts to scale up its property development business, Siaw and his team remain busy with its design and building business in Singapore, which accounts for the bulk of its revenue. In January, the company clinched a $178 million contract — its biggest to date — to design and build a distribution centre in Jurong West to be leased out to consumer goods supply chain manager Li & Fung.

The nine-storey, one million sq ft warehouse is slated to be completed in 4Q2015 and will be Li & Fung's biggest in the region. Figtree's current order book is about $250 million.

Unlike most building contractors, Figtree is asset-light as it does not hold inventory and has no foreign construction workers on its payroll. Excluding the workforce of its associate Vibrant Properties, it has about 30 staff in Singapore and another 15 in **China**.

"We are the main contractor for all our design and build projects in Singapore. All our on-**site** work is subcontracted out. We break the whole construction project into small packages and we manage each subcontractor," says Siaw. "The inventory is held by our subcontractors. Our assets are our expertise and our office. We are not like general contractors, which have cranes, a precast yard, maybe 2,000 workers, 20 lorries and 200 management staff."

Value-engineering

That said, Figtree still has to manage its costs well. Its subcontractors invariably mark up their bids to account for higher foreign-worker levies and the challenge of having to make do with fewer workers in the light of the government's push for companies to be less labour-intensive. To cope with such costs, Figtree carries out what Siaw calls value-engineering.

"We look at the design and trim the fat. In a project or a development, if you want cost savings, you start from the design phase, not the construction phase," he says. "One engineer may use 10 reinforcement bars, while another may say nine is good enough. Another engineer may say even eight is too many; instead, he uses smaller bars. Our in-house design team looks at things like these and we determine the most efficient way to do it."

This approach has served the **group** well. Figtree's gross profit margin last year rose to 14.2% from 9.6% in 2012. That may go up even more when the **property** development business gains momentum. "As a developer, we will not do anything with a gross margin of less than 20%," Siaw says.

If he gets his way, investors may have more to look forward to. Figtree's earnings last year more than doubled to $8.6 million from $3.8 million in 2012 on higher revenue and improved cost efficiencies. Revenue increased 70% to $101.8 million, driven by contributions from two construction projects in Singapore. Figtree's current share price is more than 70% above its IPO price of 22 cents, valuing the **company** at 12.2 times last year's earnings.

RE singp : Singapore | austr : Australia | china : China | melb : Melbourne | victor : Victoria (Australia) | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | seasiaz : Southeast Asia

PUB The Edge Publishing Pte Ltd

AN Document EDGESI0020140430ea4s00003

