

HD Corporate: Ground engineer Ryobi Kiso bets on more infrastructure projects for growth

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Walk down the lower half of Cecil Street and you might come across six-foot-tall posts, each with a **solar** panel perched on top. These posts, probably unnoticed by the hundreds of people who pass them every day, are sensors driven deep into the ground. Powered by the **solar** panel, they perform critical tasks which include the monitoring of ground vibrations, the strength and integrity of retaining structures underground or of the buildings nearby; even underground water pressure and water table levels.

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The metal casing, presumably housing circuitry, is labelled Ryobi-G, short for Ryobi Geotechnique, a unit of ground engineering and piling specialist Ryobi Kiso Holdings. Ryobi Kiso's CEO Ong Tiong Siew was quite animated when describing the ground sensors and their applications during an interview with The Edge Singapore. Ong says thousands of these sensors were deployed in the **Chinatown** area, for instance, under Land Transport Authority contracts, as construction works for the new MRT lines take place.

Ryobi Kiso has deployed other critical monitoring equipment around the **island** to measure, among other things, the degree to which buildings here shake from an earthquake in Sumatra. Information and data from these sensors are fed back to the ground engineer's offices automatically using 3G Internet connectivity. This means a much faster response in the case of an irregularity or emergency. "Before, you'd had to wait until people complained," Ong quips.

Ong, 60, is tanned from his years in the construction industry and his recent, frequent trips to Western Australia where the **company** has expanded into building projects. A civil engineer by training, and a former Singapore Government Merit Scholar, Ong started Kiso Engineering in 1988 with his brother Teng Choon. The brothers then **purchased** specialist rock boring equipment from Japanese **company** Ryobi, and Kiso Engineering became the first **company** in Singapore to have large-diameter rock boring capabilities. In 1990, Ong and Ryobi Japan's founder Shuntaro Shiga established Ryobi Kiso in Singapore.

Today, the **company** works on a wide range of projects in Singapore's infrastructure sector. The bulk of its revenue, or some 75%, comes from piling services. Contracts included bored piling works for the Singapore Flyer and eco-friendly piling for the Punggol Waterway HDB housing **estate**, as well as infrastructure works for the Marina Coastal Expressway. It has won some \$180 **million** worth of contracts this year, including for foundation and geoservices for MRT works at Marina South for the upcoming Thomson Line.

In recent years, Ryobi Kiso has expanded its construction activities overseas to Malaysia and Australia. After its IPO in January 2010, it moved into **property** development and investment to diversify its income base. The **company** has completed the first phase of a light industrial development within the Ascendas-Protrade Singapore Tech **Park** in Binh Duong, Vietnam.

Challenges in construction

Yet, Ryobi Kiso has not fared well in the past few years. It made a loss of some \$5 **million** in FY2014 ended June, after eking out just \$441,000 in earnings the year before. Revenues were \$140.2 **million**, 10% lower than in FY2013.

The **company** attributed the poorer performance to cost overruns at its projects in Perth, Western Australia, where it has been doing piling and geoservices works for a **commercial** redevelopment project at Kings Square, and the Perth City Busport in nearby Wellington Street.

"We faced issues with labour, management and cost controls," Ong explains. He adds, however, that there have been improvements since the **company** relocated a team of senior managers to Perth to oversee the projects about eight months ago. "We have put in controls and managed our costs better." Still, the experience wasn't something out of the ordinary, he says. "When we venture overseas to countries like Vietnam, Australia and Malaysia, there is always an initial phase when we have to adapt to local practices and understand the conditions."

For 1QFY2015 ended September, earnings attributable to **equity** holders of the **company** were 20% lower y-o-y at \$270,000, even though revenue was 34.6% higher at \$48.8 **million**. Still, the results were better than the previous quarter, when Ryobi Kiso recorded a loss of \$3.35 **million**. Gross profit margins for the quarter ended Sept 30 were lower than the year before at 13.2%. The **company** attributes this partly to intense competition in the construction industry.

Indeed, Ong says the industry has been stuck in a low cycle for most of the past decade. In 2008 and 2009, the **property** market improved and construction activity picked up. However, along with the building boom triggered by the two integrated resorts, came an excess of construction capacity that still lingers today, Ong says. To make matters worse, the tightening of labour regulations over the past few years has driven up contractors' costs. "Competition in the piling industry is still very tough, and companies are not operating at reasonable margins," he laments.

And it may not get better any time soon for the industry. Ong notes that HDB is cutting back on the building of new flats, given the bumper crop over the past few years, while private **property** investment is also muted following the cooling measures implemented by the government that have curbed loan values and raised the bar for foreign ownership of **property**. "So I would say the only hope is from the infrastructure sector," Ong states.

Infrastructure bet

The Building and Construction Authority (BCA) estimates that the total value of construction demand in Singapore for 2015 and 2016 is expected to be between \$25 **billion** and \$34 **billion** a year. About 40% of that is expected to come from civil engineering projects.

Ong is optimistic about the impending pipeline of work, pointing out that the prime minister had outlined several ambitious projects in his National Day Rally speeches. These are located throughout the **island**, and range from the expansion of Changi Airport where land preparation work is already underway, to the rejuvenation of Jurong Lake District. There are also the addition of multiple lines to the MRT network, the expansion of the container port at Pasir Panjang and various public improvement projects.

In Ong's view, the stream of public works should continue regardless of the state of the economy or the rate of investment in the private building sector. "In the past, you heard Japanese contractors complain that our government started on infrastructure projects during market downturns, and managed to get very cheap prices. There's been a change in mindset, compared to 10, 15 years ago," he explains.

"Looking forward, Singapore probably cannot afford to wait for the low market before coming in to build. I think one of the problems we have is that we were not building much from 1998 to 2003. We chose to build fewer HDB flats, we didn't build our MRT fast enough, we didn't build our expressways fast enough. So can we continue to use that methodology?"

Apart from local infrastructure projects, Ong expects work to come also from Malaysia, where six new highways in the state of Selangor, and a high-speed rail network are being planned. He believes that infrastructure projects in Singapore and Malaysia will contribute strongly to Ryobi Kiso's results.

At the same time, the **company** will continue to "consolidate" its business in overseas markets where it already has a presence. Ong is particularly keen on emerging markets such as Vietnam and Indonesia, where he sees potential in building affordable housing.

Indeed, last month, Ryobi Kiso announced that its wholly-owned Indonesian subsidiary had signed a memorandum of understanding with an Indonesian construction **company** to jointly develop a plot of land in Jakarta that has been slated for **commercial** and **residential** use.

For its industrial project in Vietnam, Ong says Ryobi Kiso will gauge demand before embarking on subsequent phases. He says the first phase is about 70% to 80% **sold**. Meanwhile, it continues to look for opportunistic **property** investments, such as its joint venture with Heeton Holdings to acquire a **hotel company** in the UK.

“The reason for our diversifying into different countries is to benefit from the different business cycles,” Ong says. “In the last few years, when Singapore was in the low business cycle, our overseas businesses were contributing 20% to 30% of revenue.” He adds, however, that Ryobi Kiso is unlikely to expand beyond Asia-Pacific, as it could be more challenging to move manpower and equipment further.

Ryobi Kiso appeared on The Edge Markets’ Stocks with Momentum column last month after its share buybacks sparked investor interest in the stock. Ong says the share buybacks are for employee rewards.

The stock is now trading at about 0.8 times its net asset value of 14.4 cents as at Sept 30, with a dividend yield of about 2.8%. CSC Holdings, which also does major civil engineering and piling works, is trading at about 0.44 times its net asset value.

Financial information on Ryobi Kiso Holdings is available to www.theedgemarkets.com/sg

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