

**GICS:** Energy/Oil & Gas Equipment & Services

**Business Summary:** Established since 1828, and listed on the SGX in 1975, Boustead Singapore (Boustead) is a global engineering specialist in energy, water infrastructure, industrial real estate and geo-spatial solutions

**Country of Incorporation:** Singapore

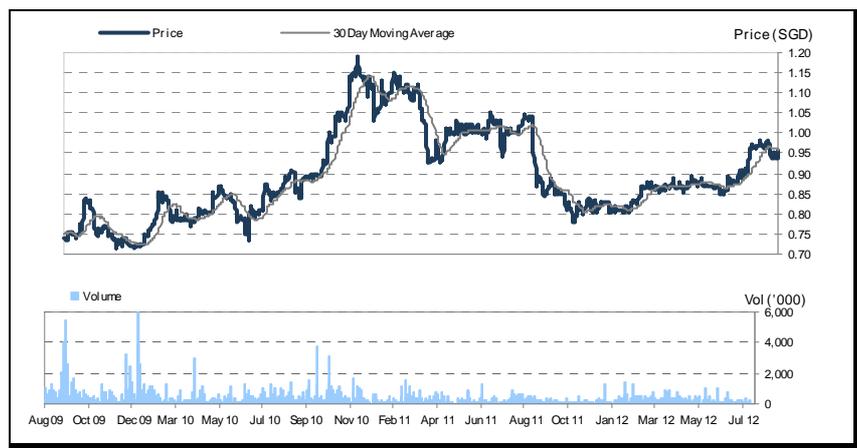
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**Key Stock Statistics**

52-week Share Price Range (SGD)	0.78 - 0.98
Avg Vol - 12 months ('000 shares)	240.3
Price Performance (%)	
- 1 month	-1.0
- 3 month	9.8
- 12 month	6.7
No. of Outstanding Shares (mln)	505.3
Free Float (%)	46.0
Market Cap (SGD mln)	482.6
Enterprise Value (SGD mln)	335.9
Major Shareholders (%)	
Fong Fui Wong	33.0
Chartered Asset Management	9.3
Saiman Ernawan	8.8

**Per Share Data**

FY Mar.	2012	2013E	2014E
Book Value (SG cents)	50.35	56.60	63.17
Cash Flow (SG cents)	11.8	12.1	12.5
Reported Earnings (SG cents)	11.0	11.3	11.6
Dividend (SG cents)	5.0	5.0	5.0
Payout Ratio (%)	45.5	44.4	43.2
PER (x)	8.7	8.5	8.3
P/Cash Flow (x)	8.1	7.9	7.7
P/Book Value (x)	1.9	1.7	1.5
Dividend Yield (%)	5.2	5.2	5.2
ROE (%)	23.0	21.0	19.3
Net Gearing (%)	0.0	0.0	0.0

**Earnings on Track, Margins Better-Than-Expected**

- **Better 1QFY13 (Mar.) results** with net profit growing 43% YoY to SGD12.2 mln on the back of a YoY revenue growth of 25% and margin expansion. Although the results appear to be slightly below expectations, accounting for 22% of our original full-year net profit forecast, we believe earnings will catch up in the next quarter with the completion of the sale of the SGD55 mln SDV integrated logistics facility. The group reported better-than-expected gross margin of 35.8% (FY13E:34%) offset by higher taxation.
- **Engineering division top line increased** by 27% YoY as a result of stronger contribution from real estate solutions (+83% YoY) with the good progress on both new and existing projects. This was partially offset by decline in contributions from the: (i) energy-related engineering division (-11% YoY) due to delay in commencement of a few major projects although momentum is expected to pick-up in future quarters; and (ii) water and wastewater division (-39% YoY) with the completion of a major project and a slowdown in securing new large projects.
- **Geo-spatial technology continued its growth path.** The division's revenue rose 21% underpinned by robust demand across key markets in Australia and South East Asia.
- **Operating margin expansion.** The group registered stronger 1QFY13 EBIT margin of 15.8% (+2.3%-pts YoY) due to proportionally larger contribution from the higher-margin geo-spatial technology division. In addition, both the geo-spatial technology and energy-related divisions showed improved margins.
- **Decent orderbook underpins earnings going forward.** Growth momentum for the engineering divisions will be underpinned by Boustead's current order book of SGD303 mln plus another SGD93 mln in deferred industrial property sales. Enquiry pipeline across all the group's four core operating divisions remain at healthy levels.
- **Strong balance sheet.** Boustead has a healthy balance sheet with a net cash position of SGD147 mln as at Jun. 30, 2012. This provides it the competitive advantage to seek good investment targets and ride out the cyclicity of the industry over time.
- **Key risks:** The main risk for Boustead include project cost overruns, shortage of skilled labor, foreign exchange fluctuations and a prolonged economic downturn, which would hurt demand for its services. In addition, more stringent bank financing/credit squeeze may delay or derail opportunities for design-and-build projects.

## Earnings Outlook

## Revenue Drivers:

- **Strong industrial real estate order book of SGD167 mln plus another SGD93 mln in deferred industrial property sales.** Boustead recently clinched a SGD14 mln design-and-build contract for an integrated food processing and office facility for RE&S Enterprises located at Paya Lebar iPark in Singapore. In FY12, Boustead clinched SGD246 mln worth of design-and-build orders, the highest level secured in its history. The group has lined up two property sales, namely: (i) a SGD55 mln contract to build an integrated logistics facility for SDV Logistics; and (ii) a SGD38 mln contract to build a strata-titled building on a piece of land presently owned by Boustead which will bolster its FY13 and FY14 earnings when completed.
- **Energy-related order book of SGD112 mln.** The group announced in June this year that it has clinched SGD20 mln worth of O&G contracts globally. This follows after the SGD35 mln in contracts awarded to the division in March this year. Although revenue declined in 1QFY13 due to a delay in commencement of a few major projects, management expects a pick up in revenue in future quarters.
- **Rising demand for geo-spatial technology across key markets in Australia and Southeast Asia.** The main services provided which include distribution of software, professional/consulting services and after-sales training have about 40%-50% of its earnings which are recurring in nature.
- **Growing portfolio of ten leasehold properties** with a total GFA of over 107,351 sqm, which will provide steady stream of rental income. The group recently clinched a contract in May this year to design, build and lease a 20,020 sqm integrated manufacturing and technology centre to Fortune 500, Jabil Circuit. When the buildings are fully completed, the entire portfolio is estimated to generate annual rental income of more than SGD16 mln.

## Margin Outlook:

- With better-than-expected margin performance in 1QFY13, we expect overall gross margin in FY13 to hover around 35% (from 34% previously). Operating margin is similarly projected to increase to 16.7% (from 16.3% previously). The stronger margins are due to proportionally higher contribution expected from geo-spatial technology combined with the group's prudent cost management.

## Bottomline:

- We have increased our FY13 and FY14 net profit forecasts slightly by 2% and 1%, respectively after incorporating higher margins. We expect key engineering projects particularly from the real estate and energy divisions to pick-up momentum. In addition, the gain on the committed sales of the SGD55 mln SDV integrated logistics facility targeted for completion in 2QFY12 should help bolster earnings.

## Earnings Performance

FY Mar. / SGD mln	1Q13	1Q12	% Change
Reported Revenue	113.3	90.7	25.0
Reported Operating Profit	17.9	12.2	46.8
Depreciation & Amortization	-1.0	-0.9	17.1
Net Interest Income / (Expense)	0.8	0.5	57.3
Reported Pre-tax Profit	18.4	12.7	44.8
Reported Net Profit	12.2	8.5	43.4
Reported Operating Margin (%)	15.8	13.5	-
Reported Pre-tax Margin (%)	16.3	14.0	-
Reported Net Margin (%)	10.8	9.4	-

Source: Company data

## Profit &amp; Loss

FY Mar. / SGD mln	2011	2012	2013E	2014E
Reported Revenue	560.6	408.7	463.2	505.7
Reported Operating Profit	71.5	68.9	77.2	79.3
Depreciation & Amortization	-3.6	-4.1	-4.5	-4.5
Net Interest Income / (Expense)	2.1	3.0	2.2	2.2
Reported Pre-tax Profit	73.6	71.9	79.4	81.5
Effective Tax Rate (%)	20.4	18.8	24.0	24.0
Reported Net Profit	52.2	55.6	56.9	58.4
Reported Operating Margin (%)	12.8	16.9	16.7	15.7
Reported Pre-tax Margin (%)	13.1	17.6	17.1	16.1
Reported Net Margin (%)	9.3	13.6	12.3	11.6

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

## Key Financial Performance

FY Mar.	2011	2012	2013E	2014E
Revenue Growth(%)	27.9	-27.1	13.3	9.2
Operating Profit Growth(%)	30.6	-3.6	12.1	2.7
Net Profit Growth(%)	21.3	6.4	2.3	2.8
EPS Growth(%)	21.2	6.6	2.3	2.8
EPS 3-Year CAGR(%)	0.9	-2.0	9.7	3.9

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

## Key Fundamentals

FY Mar.	2009	2010	2011	2012
Asset turnover (x)	1.2	0.9	1.1	0.8
Receivables turnover (x)	5.3	4.2	5.4	4.5
Inventory turnover (x)	44.6	43.8	82.7	68.1
Current Ratio (x)	1.7	1.8	2.0	1.6
Quick Ratio (x)	1.7	1.8	1.9	1.5
Net Gearing (%)	0.0	0.0	0.0	0.0
Debt/Capital (%)	14.1	10.9	10.2	8.3
Interest coverage (x)	23.3	55.0	116.6	81.5
ROA (%)	14.4	8.9	10.4	10.5
ROE (%)	33.5	21.1	23.6	23.0
Payout ratio (%)	34.3	64.5	67.8	45.5

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

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