

Boustead Singapore Ltd.

Plenty of Catalysts ahead!

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Industry: Infrastructure

Phillip Securities Research Pte Ltd

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Company Overview

Boustead operates market leading infrastructure related businesses: Geospatial Technology (29% PBT), Industrial Property Design & Build + Property Portfolio (42%), Water & Wastewater Engineering (1%), and Energy (28%) Related Engineering. Boustead also generates strong excess cash.

What's in the news? 1H results.

(\$m)	1H FY3/14	1H FY3/13	%y-y	Remarks
Revenue	242.0	225.6	7.3%	surge in energy contracts
Ebitda	31.0	29.6	4.9%	} energy margins up, more rental income, but weaker D&B and Geospatial
Ebit	27.2	27.2	0.0%	
PBT bf EI	28.9	28.4	2.0%	
EI	6.4	5.3	20.6%	
PBT	35.4	33.7	5.0%	
Taxes	(7.2)	(4.7)	54.6%	overprovision of tax last year
PATMI	26.7	27.5	-2.7%	


Source: Company, PSR est. (EI = extraordinary items)

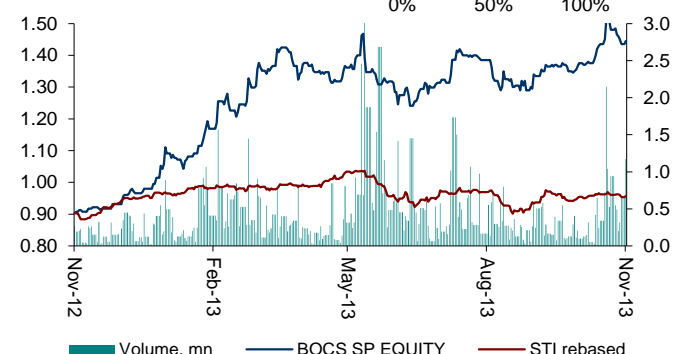
- 1H FY3/14 results saw revenue increase 7.3%y-y as energy contracts led the way, but EBITDA only rose 4.9%y-y as margin expansion from Energy Engineering and greater recurring rental income were offset by margin compression at the Design & Build level (greater competition) and Geospatial business, which was impacted by the change of Aussie government, further compounded by currency depreciation. Final PATMI was further artificially depressed 3%y-y due to an unusually low tax rate in FY3/13 giving rise to higher base effects. Main drag was Geospatial but we view this as a one-half event and expect revenues and margins there to normalize once the present government settles in. We continue to be positive on the core-underlying businesses and emphasize key developments below.

Investment Action: Plenty of catalysts ahead!

- Maintain BUY with a raised TP of S\$2.05 from S\$1.935 as:**
 - Orderbooks are at record levels: S\$445m vs S\$288 y-y.
 - More than 60,000 sqm of industrial portfolio are in the development pipeline, progressively ramping up recurring earnings from rentals (S\$15.3m, S\$20.6m, S\$26.9m est. y-y till FY3/16) and taking Boustead more than two-thirds of the way to unlocking its real estate value (est. S\$419m) in a REIT.
 - Exciting Industrial Property Development in Iskandar Malaysia, as Boustead recently took a 35% stake in a JV with Malaysian builder AME (35%), Tat Hong (25%), and CSC (5%), with plans to develop 120k sqm of prime industrial land in Nusajaya.
 - High net cash and free cash generation raises the prospect of more industrial properties to be added.
 - Boustead is deeply undervalued but with realizable catalysts above – P/E ex net cash ex properties is 4.8x for the Energy, D&B, and Geospatial business!

Boustead Singapore Ltd.

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	2.05	
- Previous Target Price (SGD)	1.935	
Closing Price (SGD)	1.445	
Expected Capital Gains (%)	42.0%	
Expected Dividend Yield (%)	4.8%	
Expected Total Return (%)	46.9%	
Raw Beta (Past 2yrs weekly data)	0.39	
Market Cap. (USD mn / SGD mn)	608 / 759	
Enterprise Value (USD mn / SGD mn)	449 / 557	
3M Average Daily T/O (mn)	0.4	
52 week range (SGD)	0.93 - 1.52	
Closing Price in 52 week range		



Major Shareholders	(%)
1. Wong Fong Fui	33.0
2. Chartered Asset Mgt	9.3
3. Saiman Ernawan	8.8

Key Financial Summary

FYE	03/12	03/13	03/14f	03/15f
Revenue (SGD mn)	408.7	513.2	595.9	725.8
PBT ex-non recurring	61.5	82.4	81.9	111.7
PATMI (SGD mn)	55.6	81.4	67.4	85.4
EPS (SGD)	0.110	0.162	0.131	0.166
EPS, recurring (SGD)	0.085	0.130	0.121	0.166
P/E (X)	13.1	8.9	11.0	8.7
BVPS (SGD)	0.50	0.60	0.68	0.75
P/B (X)	2.9	2.4	2.1	1.9
DPS (SGD)	0.050	0.070	0.070	0.089
Div. Yield (%)	3.5%	4.8%	4.8%	6.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

Free Cash Flow to Equity (Re 9%, Rf 3.1%, WACC 8.3%, terminal 1%)

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For a detailed description of Boustead's businesses, please refer to our Initiation Report dated 25th Feb 2013, which is available on POEMS.

PLENTY OF CATALYSTS AHEAD

- Boustead's order backlogs are at record levels** (table below). EPS for FY3/14 has been revised lower to 13.1c from 13.8c due to margin compression in the D&B business, disappointment in Geospatial, and some share dilution due to a strong take up of the scrip dividend scheme, but record high order backlogs (coupled with portfolio rental additions and geospatial recovery) may see earnings rebound to 16.6c in FY3/15. We do not see weakness in Geospatial Australia to persist seeing as the system has almost full penetration across the Australian government and its agencies. As with most IT platforms, stickability is high due to operational risk from switching.

Boustead Orderbook, Segmentals (\$m)	FY03/11	FY03/12	FY03/13	FY03/14f	FY03/15f
Orderbook Backlog					
Energy Related	90	110	187	171	128
Water	35	30	30	29	29
Real Est. - D&B only	100	197	174	245	158
Total Outstanding (\$m)	225	337	391	445	314

- More than 60,000 sqm of Industrial Portfolio Space to be added progressively till FY3/16**, will boost recurring rental income significantly every year.

Boustead Singapore	FY03/12	FY03/13	FY03/14f	FY03/15f	FY03/16f
Industrial Portfolio: Rental Rev (\$m)	13.3	17.2	22.2	29.3	39.1
- Net Property Income	10.0	12.9	16.7	22.0	29.4
- PBT	9.2	11.8	15.3	20.1	26.9
Industrial Portfolio (sqm)	87,392	75,340	94,737	121,894	158,834
- sqm growth %y-y	5%	-14%	26%	29%	30%
- Rental S\$/sqft/mth (PSR est.)	1.18	1.77	1.82	1.86	1.91
- Cap Rate			7.0%	7.0%	7.0%
- Industrial Property Value			238.0	313.9	419.3

- 120,000 sqm of Industrial land to be developed in Iskandar Malaysia – Nusajaya – Southern Industrial & Logistics Clusters (SiLC).** Mention Nusajaya and the coveted Horizon Hills, Legoland, Puteri Harbour, Marlborough College comes to mind. Boustead therefore has a 35% stake in a much desired location that has limited industrial zoning apart from the SiLC. **To note, Malaysia does not have a formal plot ratio policy, which means this development can be very creative in maximizing value (other mixed uses) while keeping in line with industrial zoning.** As plans for the development are not yet announced, we have not factored in what is potentially a major catalyst into our forecasts.
- On track to unlock Industrial Portfolio value.** Boustead's portfolio is on track for about 159k sqm in total leasable area. Which puts it at about 71% of the

size required to list, if the recent Viva Industrial Trust (~223k sqm) is anything to go by. Given that in less than half a year 60k sqm was added, we do not underestimate Boustead's ability to grow the portfolio size very quickly either by development or acquisition. Their strong net cash position (S\$219.7m as at 2qFY3/14) and free cash generation (table below) gives them plenty of firepower to do so.

Boustead's FREE CASH FLOW (\$m)	FY03/11	FY03/12	FY03/13	FY03/14f	FY03/15f
PBT	73.6	71.9	97.4	88.4	111.7
Cashflow from ops	52.1	87.1	49.7	114.4	102.9
+ Div'd Assoc, JV, Invmt - Div'd to MI	0.1	(0.7)	(0.5)	(0.6)	(0.7)
Less: CAPEX, net	(1.7)	(3.7)	(5.6)	(4.4)	(4.6)
Free Cash Flow to Firm:	50.5	82.7	43.6	109.4	97.7
- Discretionary Investments, net	(34.9)	(61.9)	2.2	(53.8)	0.0
- Dividends + Sharebuyback	(30.8)	(36.7)	(29.0)	(19.4)	(45.7)
- Pay Debt	2.2	(3.1)	16.1	0.0	0.0

- Boustead is compellingly undervalued.** Market Cap is S\$744m as of last price S\$1.445 and 515m shares outstanding. Less off our FY3/14f net cash of S\$225.2m. Less off the property valuation of S\$238m which only counts 94k sqm to be operational this FY3/14 (i.e. does not count the full 159k sqm by FY3/16). Then the rest of the business – the Energy Engineering, the Design & Build, the Geospatial – is valued at just S\$280m for their combined S\$58.2m of after tax earnings, or just 4.8x P/E. From an EV/EBIT perspective it is just trading at 6x. This is crazy value for what are global (energy engineering) or regional (geospatial) niche businesses. Listing of the industrial portfolio may be a way to unlock this value.

Valuation

We stick to our Free Cash to Equity valuation, although we do introduce a Sum-of-the-Parts valuation as a check. Boustead is a conglomerate and the standard method is to SOTP conglors. However, we feel this method does not take into account Boustead's tremendous free cash generating ability which lends itself to measuring the company's intrinsic worth. At the end of the day, what can you take out of a business except the excess cash it generates? To this end, Boustead is the right business. Thus we'll stick to the FCFE valuation which is an intrinsic valuation rather than a relative valuation method like SOTP.

In our FCFE valuation, we did a study on the average returns of the FSSTI and found it to approximate 9% yearly including dividends, not 10% as previously used. Risk free rate remained at 3.1%, the yield to maturity of an SGS 10yr bond. We also applied a terminal growth rate of 1% rather than 0% as the later is a tad unrealistic given that Boustead has had a strong track record of growing earnings, and that the revenue mix is tilting toward more recurring income of portfolio rentals and Geospatial. The ensuing valuation comes to be a whopping S\$2.93, to which we apply a 30% discount to arrive at our TP of S\$2.05. **It should be noted that at the current price of S\$1.445, Boustead is trading**

at 51% discount to intrinsic value, and makes a compelling case for a long term holding of the stock.

In our SOTP check, in reference to Fig. A below, we valued the Energy business at 8x PAT despite competitor Foster Wheeler trading at 20x, but granted we'll take the discount as Foster Wheeler is a much larger energy engineering entity. We valued the Design & Build business at 8.2x, in-line with its listed competitor Soilbuild. For Geospatial we valued at 12x, a 40% discount to the 20x earnings a cash-generating, growing, IT company is likely to trade at (e.g. Silverlake Axis). We apply the 40% discount as Boustead's Geospatial business does not own its technology despite the strong economic moat it enjoys for having exclusive country distribution and servicing agreements with ESRI. The industrial portfolio was valued at FY3/14 portfolio size of 94k sqm, not counting the impending pipeline and Iskandar JV. Adding cash net of debt brought the SOTP valuation of Boustead to be S\$2.01, not far from our 30% discount to intrinsic valuation of S\$2.05.

SWOT ANALYSIS

Strengths

- Market dominance for Geospatial in Australia, Singapore, Malaysia and Indonesia, due to its exclusive country license & service provider agreement with ESRI – the global leader in geospatial technology with 61% global market share in the public sector (41% overall). Closest competitor is a distant 10% global market share.
- Market leadership in Industrial Property Design & Build, one of only 3 known full turnkey players in Asia – Ascendas, Boustead and Soilbuild (Bovis of Lend Lease has changed focus to commercial real estate)
- Market leadership in Direct Fired Heat Processors and Waste Heat Recovery Systems – 4 players globally including Boustead.
- Recurring income growing due to Industrial Portfolio and Geospatial.
- Boustead's immense free-cash generation allows for new value-accreting investments.

Weakness

- Water business too much competition. But seeing results by concentrating on the high purity grade boiler feedwater market for power producers.

Opportunities

- Geospatial Technology is riding the secular trend of data driven decision making in the government and private sector – continued penetration in Australia and Singapore as government agencies increase the number of users and buy more licenses. Meanwhile Indonesia and Malaysia are in the process of adoption which offset some of the weakness in Australia (due to the recent Sep13 change of government as well as depreciation of the Aussie dollar).
- Industrial Property Design & Build business will ride Singapore's progressive march up the industrial value added chain.
- Boustead strong net cash and free cash generation continues to see it aggressively adding to its industrial portfolio with development projects in SG and Iskandar.
- Process Heaters & Waste Heat systems finding new demand in the US, Australia, South America, and Asia. Shale energy revolution in North America is throwing up interesting prospects.
- Waste-Heat recovery may find increased demand to make the oil and gas refining process more environmentally friendly.
- Boustead is currently pursuing a 5th business segment of providing solar energy in Japan. It has a 20MW concession with Kyushu Electric of which 10MW has obtained the final interconnection agreement. We have not factored this business into our forecasts yet.

Threats

- Industrial Property Design & Build business is facing keener competition as competitors are willing to drop margins for the job.
- Contingent liability of US\$18.8m from an advanced payment guarantee and performance guarantee issued through Arab Banking Corporation (ABC) to the Bank of Commerce and Development (BCD), subsequent to its S\$300m township JV project in Libya in 2007. Due to the 2011 civil war, the project was abandoned and Boustead is claiming "force majeure" to release itself of the guarantees. Although common sense advises that force majeure will likely be upheld by the courts, one should not take these things for granted.

Fig. A: Boustead's SOTP valuation using FY3/14f (S\$m)

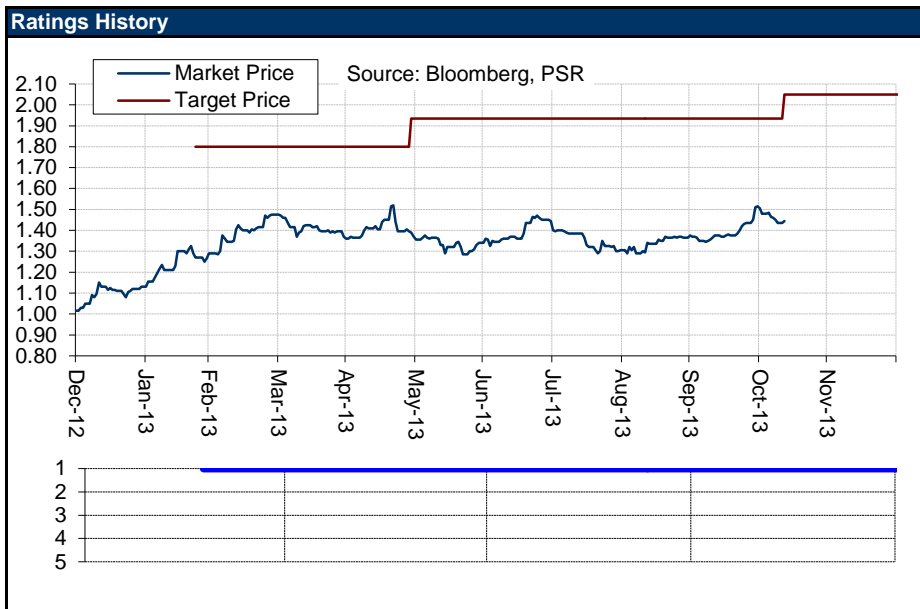
	PAT	P/E	Value	Remarks
Energy	20.2	8.0	162.0	Competitors Foster Wheeler, Heurtey are trading at 20x and 81x respectively, vs. our conservative 8x
Industrial D&B	18.7	8.2	153.0	Competitor Soilbuild Construction is trading at 8.2x
Geospatial	21.6	12.0	259.2	No listed competitor. But high cash, flow growth IT companies can trade at 20x (e.g. Silverlake)
	<u>NPI</u>	<u>Cap Rate</u>		
Industrial Ppty Portfolio	16.7	7%	238.0	NPI used here DOES NOT INCLUDE 60k sqm (68% increase) of incoming portfolio + Iskandar JV
			<u>812.3</u>	
Cash net of Debt			<u>225.2</u>	
SOTP			1,037.5	
Value per share			\$ 2.01	

FYE March	FY03/11	FY03/12	FY03/13	FY03/14f	FY03/15f
Valuation Ratios					
P/E (X)	14.0	13.1	8.9	11.0	8.7
P/E (X), adj.	14.3	17.0	11.2	11.9	8.7
P/B (X)	3.2	2.9	2.4	2.1	1.9
EV/EBITDA (X), adj.	5.9	8.9	6.5	6.5	5.0
Dividend Yield (%)	4.8%	3.5%	4.8%	4.8%	6.1%
Per share data (SGD)					
EPS, reported	0.103	0.110	0.162	0.131	0.166
EPS, adj.	0.101	0.085	0.130	0.121	0.166
DPS	0.070	0.050	0.070	0.070	0.089
BVPS	0.45	0.50	0.60	0.68	0.75
Growth & Margins (%)					
Growth					
Revenue	27.9%	-27.1%	25.6%	16.1%	21.8%
EBITDA	60.6%	-33.8%	36.2%	0.7%	30.9%
EBIT	62.9%	-35.8%	36.7%	-1.9%	37.1%
Net Income, adj.	21.3%	6.4%	46.4%	-17.2%	26.8%
Margins					
EBITDA margin	16.9%	15.3%	16.6%	14.4%	15.5%
EBIT margin	16.2%	14.3%	15.6%	13.2%	14.8%
Net Profit Margin	10.4%	14.3%	16.5%	11.8%	12.2%
Key Ratios					
ROE (%)	22.8%	23.0%	29.3%	20.7%	23.2%
ROA (%)	10.7%	10.5%	13.9%	10.2%	11.2%
Net Debt (Cash)	(184.6)	(170.5)	(189.1)	(225.2)	(277.2)
Net Debt / Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Debt / Equity	11%	8%	11%	9%	9%
Income Statement (SGD mn)					
Revenue	560.6	408.7	513.2	595.9	725.8
EBITDA	94.5	62.6	85.2	85.8	112.3
Depreciation & Amortisation	(3.6)	(4.1)	(5.3)	(7.4)	(4.8)
EBIT	91.0	58.4	79.9	78.4	107.5
Net Fin. & Invmt (Expense)/Income	2.1	3.0	2.5	3.5	4.2
Operating PBT	93.0	61.5	82.4	81.9	111.7
Other gains/losses	(19.3)	0.2	(1.3)	1.5	0.0
Investment gains/losses	1.0	12.7	16.4	5.0	0.0
Associates & JVs	(1.1)	(2.4)	0.0	0.0	0.0
Profit Before Tax	73.6	71.9	97.4	88.4	111.7
Taxation	(15.0)	(13.5)	(12.9)	(18.0)	(22.8)
Profit After Tax	58.6	58.4	84.5	70.4	88.9
Non-controlling Interest	(6.3)	(2.8)	(3.1)	(3.0)	(3.5)
PATMI	52.2	55.6	81.4	67.4	85.4

Source: PSR

FYE March	FY03/11	FY03/12	FY03/13	FY03/14f	FY03/15f
Balance Sheet (SGD mn)					
PPE	15.8	17.2	18.5	15.5	15.3
Intangibles	3.4	3.3	3.4	3.4	3.4
Associates & JVs	5.2	2.8	2.8	2.8	2.8
Investments	69.1	113.5	80.8	139.7	139.7
Others	2.9	3.5	3.2	3.2	3.2
Total non-current assets	96.4	140.3	108.7	164.5	164.3
Inventories	50.6	62.1	45.8	64.3	77.4
Accounts Receivables	112.7	116.2	171.0	166.8	203.1
Investments	16.8	56.7	57.8	59.3	59.3
Cash	209.8	192.5	223.5	259.7	311.6
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	389.9	427.5	498.2	550.1	651.5
Total Assets	486.3	567.8	606.9	714.6	815.8
Short term loans	3.5	4.3	9.3	9.3	9.3
Accounts Payables	197.8	253.3	231.6	289.0	347.6
Others	21.7	23.6	19.2	19.2	19.2
Total current liabilities	223.0	281.2	264.0	321.3	379.9
Long term loans	21.6	17.7	25.2	25.2	25.2
Others	4.2	4.6	5.4	5.4	5.4
Total non-current liabilities	25.8	22.3	30.6	30.6	30.6
Non-controlling interest	8.1	9.9	11.5	13.8	16.7
Shareholder's Equity	229.4	254.5	300.9	348.8	388.6
Cashflow Statements (SGD mn)					
CFO					
PBT	73.6	71.9	97.4	88.4	111.7
Adjustments	21.0	(9.4)	(12.2)	(2.6)	0.6
Cash from ops before WC changes	94.5	62.6	85.2	85.8	112.3
WC changes	(28.0)	33.9	(21.2)	43.1	9.2
Cash generated from ops	66.5	96.5	64.0	128.9	121.5
Taxes, net	(16.5)	(12.4)	(16.8)	(18.0)	(22.8)
Interest, net	2.1	3.0	2.5	3.5	4.2
Cashflow from ops	52.1	87.1	49.7	114.4	102.9
CFI					
CAPEX, net	(1.7)	(3.7)	(5.6)	(4.4)	(4.6)
Div'd from Assoc & JVs, less Div'd to MI	0.1	(0.7)	(0.5)	(0.6)	(0.7)
Dividends/Interest from Investments	0.0	0.0	0.0	0.0	0.0
Purchase/sale of investments	(34.9)	(61.9)	2.2	(53.8)	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from investments	(36.5)	(66.4)	(3.9)	(58.8)	(5.3)
CFF					
Share issuance	0.7	0.1	0.1	0.0	0.0
Purchase of treasury shares	(0.4)	(1.3)	(3.8)	0.0	0.0
Loans, net of repayments	2.2	(3.1)	16.1	0.0	0.0
Dividends & capital reduction	(30.4)	(35.4)	(25.2)	(19.4)	(45.7)
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	(28.0)	(39.8)	(12.8)	(19.4)	(45.7)
Net change in cash	(12.4)	(19.0)	32.9	36.2	52.0
Effects of exchange rates	(0.2)	1.7	(1.7)	0.0	0.0
CCE, end	209.8	192.5	223.5	259.7	311.6

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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