

## BBR Holdings

10 October 2007

*Bringing Brightening Results*

| Snapshot       |              | P&L            |        |         |         | Key ratios (FY08F) |       |
|----------------|--------------|----------------|--------|---------|---------|--------------------|-------|
| Recommendation | Buy          | (Y/E Dec)      | FY2006 | FY2007F | FY2008F | PER                | 6.5x  |
| Current Price  | S\$0.11      | Revenue (S\$m) | 101.1  | 182.9   | 217.8   | P/BV               | 2.5x  |
| Target Price   | S\$0.16      | EBIT           | 2.9    | 7.7     | 35.2    | Div yield          | 0%    |
| No of Shares   | 1,541m       | Earnings       | 2.4    | 4.2     | 27.3    | ROE                | 37.8% |
| Market Cap     | S\$177.2m    | EPS (Scts)     | 0.2    | 0.3     | 1.8     | Net gearing        | Cash  |
| Year Hi/Lo     | S\$0.19/0.05 | EPS growth (%) | 6      | 50      | 500     | Current ratio      | 2.3x  |

Source: SIAS Research, Bloomberg

| S\$m         | 1H07  | 1H06 | % Chg |
|--------------|-------|------|-------|
| Revenue      | 106.6 | 43.1 | 148   |
| Gross Profit | 5.5   | 4.3  | 161   |
| Net Profit   | 1.1   | 0.9  | 23    |
| Gross Margin | 5.2   | 10.1 | -48.5 |
| Net Margin   | 1.0   | 2.1  | -55   |

Source: Company, SIAS Research

- 1H07 performance review:** The jump in 1H07 revenue reflected the group's ability to capitalise on the buoyant construction industry in Singapore. However, gross margin fell to 5.2% due to significantly higher construction material costs. Following Indonesian export ban, cost of sand and cement rose drastically. Labour and equipment costs also rose on the back of tight supply during 1H07.
- BBR specialist engineering division is running at full capacity while major general contracting jobs have been completed.
- BBR, traditionally a construction company, made the headlines when it announced its foray into property development. Its current two property projects are at Nassim Hill and Holland Hill. Nassim Hill will be launched next month while Holland Hill is scheduled for April 2008.

### Outlook

- Construction:** The construction order book stands at S\$200m. With cost of construction materials coming under

control, BBR is now aggressively tendering for contracts. There is no shortage of jobs in the current market. Margins of any future works should thus be better than the 5.5% recorded in 1H07.

- Vietnamese property craze:** Singapore property companies like CapitalLand and Keppel Land have been engaging in property development in Vietnam, which is seeing a supply glut especially in Ho Chi Minh City. We believe BBR might be exploring opportunities to ride on the Vietnamese property rush bandwagon to broaden contribution from property development.
- Singapore landbank:** Meanwhile, BBR is actively looking to replenish its Singapore land bank. However, purchases will only be made at the right price. Property prices have been on the run-away. Recent revisions to development charge rates and collective sales rules may put a brake to soaring prices.
- Possible accounting changes:** While Nassim and Holland would be the primary contributors to future earnings, whether FY07 and FY08 will enjoy partial revenue recognition from these projects is contingent upon accounting rules. So far, property developers have recognised earnings based on the percentage of completion method. But there have been talks of allowing revenue recognition only upon TOP (Temporary Occupation Permit). However, this is only an accounting concern and in no way undermines BBR's business.

### Risks

- **Cooling Market:** Government actions taken so far are seen mostly as anti-speculative measures weeding off speculators from the market place. However, mis-steps, reminiscent of the 1996 anti-speculative curbs, may send the market back to the doldrums.
- **Construction costs:** Further spikes in construction material costs will derail gross margin and profitability. Future earnings are expected to come mostly from property development.

### Valuation/Recommendation

- **Forecast:** Our FY08 and FY09 earnings forecasts assume the successful launch of Nassim and Holland Hill property projects. Until concrete amendments, we assume financial reporting standards to be the same, i.e. revenue from property sales is recognised on a percentage of completion basis. Still under discussion is

the possibility for property developers to recognise revenue only upon completion of construction. If this standard is adopted, revenue will become more lumpy and the windfall expected from BBR's property projects will only materialise from FY09, instead of FY08.

- **Valuation:** Book value as at 1H07 is 2.65 cts. The two properties bring a revaluation surplus of 9.3 cts. On an RNAV basis alone, BBR would be valued at 12 cts. Using an average PE of 11.2x would value BBR at 19.8 cts. A blended valuation of BBR would price the stock at 16 cts.
- **Recommendation:** The construction business is doing well as margins are improving and the industry is awash with jobs. However, it is the two property development projects which will propel FY08 earnings forward. At the current price of 11 cts, there is an upside potential of 45% over our target price of 16 cts. Maintain **Buy**. (**Johnny Kwon**)

### About the Company

The Company was incorporated in Singapore on 7 July 1993 by BBR Holding Ltd under the name Maderia Enterprises Pte Ltd. The Company's name was changed to BBR Construction Systems (Far East) Pte Ltd on 17 November 1993 and subsequently to BBR Construction Systems Pte Ltd on 24 January 1994. It commenced operations in January 1994, providing post-tensioning services, incorporating design, supply and installation. Within the same year, it formed a Malaysian subsidiary and diversified into structural repair and upgrading.

BBR Holdings is a member of the global BBR network ([www.bbrsystems.ch](http://www.bbrsystems.ch)), which provides state-of-the-art technologies and engineering. BBR technologies have been applied worldwide in a great number of different structures, such as bridges, buildings, marine structures, tanks, towers and in all types of geotechnical applications.

BBR Holdings is a construction and specialist engineering group with operations in Singapore, Malaysia, Philippines, Thailand, Sri Lanka, India and South Korea. It is also involved in property development.

### Peer comparison

| Company                     | Price S\$ | PE07 | PE08 | ROE   | PB   |
|-----------------------------|-----------|------|------|-------|------|
| CSC HOLDINGS LTD            | 0.375     | 0.1  | 17.0 | 12.6  | 4.9  |
| YONGNAM HOLDINGS LTD        | 0.455     | 30.3 | 15.2 | 116.0 | 46.1 |
| LOW KENG HUAT SINGAPORE LTD | 0.685     | 26.3 | 9.1  | 7.1   | 1.0  |
| KOH BROTHERS GROUP LTD      | 0.47      | N.A  | N.A  | 7.5   | 4.1  |
| HOR KEW CORP LTD            | 0.27      | 6.5  | 3.6  | 35.8  | 2.3  |
| Average                     |           | 15.8 | 11.2 | 35.8  | 12.1 |

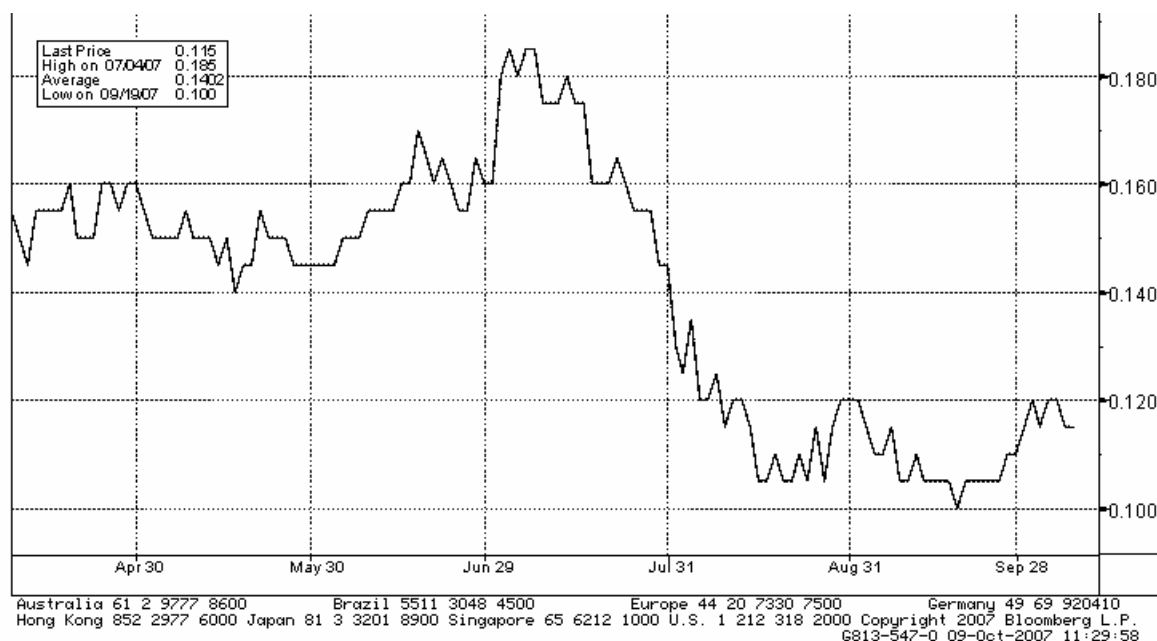
Source: Bloomberg

### Financial Table and Ratios

| Year End December              | FY05     | FY06     | FY07F  | FY08F    |
|--------------------------------|----------|----------|--------|----------|
| <b>Profit &amp; Loss (\$m)</b> |          |          |        |          |
| Turnover                       | 123.2    | 101.1    | 182.9  | 217.8    |
| EBIT                           | 3.1      | 2.9      | 7.7    | 35.2     |
| PBT                            | 2.6      | 2.7      | 5.3    | 33.4     |
| Earnings                       | 2.2      | 2.4      | 4.2    | 27.3     |
| Earnings per share (Scts)      | 0.2      | 0.2      | 0.3    | 1.8      |
|                                |          |          |        |          |
| <b>Balance Sheet (\$m)</b>     |          |          |        |          |
| Long Term Assets               | 13.1     | 11.9     | 17.7   | 16.1     |
| Current Assets                 | 58.3     | 79.4     | 150.5  | 145.5    |
| Current Liabilities            | 56.6     | 62.1     | 81.0   | 63.5     |
| Long Term Liabilities          | 1.4      | 13.5     | 42.4   | 26.0     |
| Total Equity                   | 13.3     | 15.7     | 44.8   | 72.1     |
| Net Gearing                    | Net Cash | Net Cash | 71.6%  | Net Cash |
|                                |          |          |        |          |
| <b>Cash Flow (\$m)</b>         |          |          |        |          |
| Operating Cash Flow            | 1.3      | (4.6)    | (49.1) | 50.2     |
| Investing Cash Flow            | 8.2      | 7.0      | (7.3)  | (1.2)    |
| Financing Cash Flow            | (9.0)    | (0.7)    | 55.5   | (15.1)   |
| Net cash increase/(decrease)   | 0.5      | 1.7      | (0.9)  | 34.0     |
| Cash at year end               | 12.3     | 14.1     | 13.1   | 47.1     |
|                                |          |          |        |          |
| <b>Financial Ratios</b>        |          |          |        |          |
| Revenue Growth (%)             | 15.4%    | -18.0%   | 80.9%  | 19.1%    |
| Operating Profit Growth (%)    | -19.3%   | -6.8%    | 163.5% | 355.7%   |
| Earnings Growth (%)            | 14.9%    | 9.7%     | 72.3%  | 549.5%   |
| Operating Margin (%)           | 2.6%     | 2.9%     | 4.2%   | 16.2%    |
| Net Margin (%)                 | 1.8%     | 2.4%     | 2.3%   | 12.5%    |
| Current Ratio (x)              | 1.0      | 1.3      | 1.9    | 2.3      |
| Book value per share (Scts)    | 1.0      | 1.0      | 2.9    | 4.7      |
| Return on Equity (%)           | 16.7%    | 15.5%    | 9.4%   | 37.9%    |
| Return on Asset (%)            | 3.1%     | 2.7%     | 2.5%   | 16.9%    |
|                                |          |          |        |          |
| <b>Valuations</b>              |          |          |        |          |
| PER (x)                        | 64.7     | 61.4     | 42.2   | 6.5      |
| Price to book (x)              | 10.8     | 9.5      | 4.0    | 2.5      |

Source: Company, SIAS Research

**Price–Volume Chart**



Source: Bloomberg

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