

## Ley Choon Group Holdings Ltd

### Ley-ing Paths and Making Inroads for Growth

Following our 1 Oct 2013 snap report on Ley Choon Group Holdings Limited (Ley Choon), we initiate coverage on Ley Choon with an **Increase Exposure** rating based on an intrinsic value of S\$0.280. We like Ley Choon due to: (1) strong order book of S\$237m that will deliver accretive earnings up to FY15, (2) ability to secure more public infrastructure projects with the completion of its second asphalt premix plant, and (3) establishing a presence in Shandong with a construction waste recycling plant to tap on the increase in development activities. Based on the company's existing projects, we estimate FY13 revenue of S\$158.7m and net profit after tax of S\$12.2m.

#### Fundamental Drivers:

- Public sector construction demand remains strong, with an estimated demand of S\$11b and S\$14b annually for 2014 and 2015. The upcoming public projects will provide Ley Choon with opportunities to increase their order book. Furthermore, the company's strong working relationship with PUB and LTA should enable them to win recurring contracts.
- As one of the only three asphalt premix producers in Singapore, Ley Choon is in a very strong position to bid for projects that require heavy asphalt usage i.e. road resurfacing or to produce asphalt for sale to 3<sup>rd</sup> party contractors. As such, Ley Choon has a cost advantage in construction materials; and is well hedged against the risk of higher costs, especially in road projects.
- Ley Choon is exporting its expertise in public infrastructure projects to Brunei and is building a construction waste recycling plant in Yantai, Shandong province. In Brunei, the company has secured nine contracts worth S\$84m for public infrastructure projects and the plant in China is expected to complete in early 2014. National development plans in both countries could see Ley Choon taking on more projects in Brunei and China.

## Increase Exposure

- Intrinsic Value S\$0.280
- Prev Closing S\$0.187

#### Main Activities

Ley Choon Group Holdings Limited provides pipes and cables laying, sewer rehabilitation, and road construction and maintenance. The company is a main contractor for PUB and is a major player for public infrastructure projects. Ley Choon is also expanding overseas to Brunei in taking public infrastructure projects and to China in providing construction materials waste recycling.

#### Financial Highlights

(Y/E Dec)S\$m	FY11	FY12	FY13F
Revenue	127	148	159
Gross Profit	29	27	33
Profit After Tax	15	(3)	12
EPS (S\$ cts)	2.5	-	2.1

Source: Voyage Research estimates

#### Key ratios (FY13F)

P/E	9.1
P/B	1.3
ROE	14%
Debt/Equity	1.1
Current ratio	1.6

Source: Voyage Research estimates

#### Indexed Price Chart

Green (FSSTI)  
Black (Ley Choon)



Source: Bloomberg

52wks High-Low S\$0.240 / S\$0.175  
Number of Shares 592.4m  
Market Capitalization S\$110.8m

#### Analyst:

Yew Meng Hau, Investment Analyst

[menghau@voyageresearch.com](mailto:menghau@voyageresearch.com)

Tel: 6227 2107

**Company background:** Established in 1990, Ley Choon started out as a sub-contractor in the pipe laying industry. The company's diligence paid off when they were awarded contracts by the Public Utilities Board (PUB) in 1994 to be a main contractor for pipe laying. The company's expertise in pipe laying were affirmed with the securing of their first NEWater contract in 2001, shortly after the completion of the first NEWater plant in 2000.

From 2004 to 2008, Ley Choon expanded into the cable laying and sewer rehabilitation business with the acquisition of Teacly (S) Pte Ltd (Teacly). Concurrently, the pipe laying division grew with the acquisition of Chin Kuan Engineering and Contractors Pte Ltd (Chin Kuan). The company also built its first asphalt premix plant in Kranji Crescent with a capacity of 175 tons per hour. With its first asphalt premix plant, Ley Choon added road resurfacing and maintenance to its expertise by taking on taxiway resurfacing projects from the Changi Airport Group (CAG) and expressways and roads maintenance projects from the Land Transport Authority (LTA).

Ley Choon continued its track record of securing PUB projects with the award of 2 NEWater Infrastructure Plan (NIP') projects. The NIP has 'some extreme delivery requirements' such as 87km of pipelines, installation rate of 385m per day and a manufacturing rate of 675m per day.<sup>1</sup> The pipes had diameters of 2.2m and have to be able to withstand various geographic conditions. Ley Choon's strengths and capabilities in delivering quality pipelines allowed them to complete the projects with no delays.

The company ventured overseas to Brunei and China in 2011. In Brunei, Ley Choon tapped on its knowledge in supplying NEWater pipelines to provide the supply and installation of water treatment plants in Brunei. In addition, the company is also in the process of constructing a flyover bridge and providing sewerage scheme works. In China, Ley Choon is building a construction waste recycling plant in Yantai, Shandong province. The plant will be used to recycle and batch asphalt as supply for construction projects in China. Furthermore, the company has established a strong working relationship with the Yantai City government. Hence, it is likely that the company may build additional plants to provide construction materials for public sector construction projects in Shandong.

Ley Choon's reputation and expertise in pipe laying and supplying construction materials were cemented in 2010 with the award of the L6 grading by the Building and Construction Authority (BCA). The L6 grading is the highest grading for contractors and allows them to bid for contracts of unlimited value in the respective fields. Currently, there are only 10 other companies registered with BCA as L6 contractors in the category of cable/pipe laying and road reinstatement (CR07) and 11 other companies in the category of pipes (SY12).<sup>23</sup>

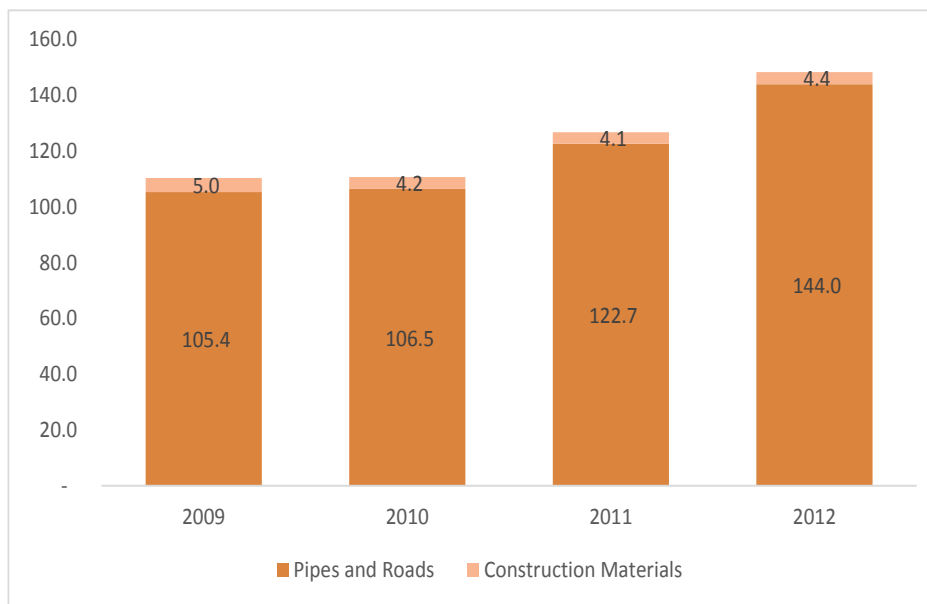
<sup>1</sup> [http://www.pub.gov.sg/tenders/Documents/PUB\\_Forthcoming\\_Tenders\\_Briefing\\_NIP.pdf](http://www.pub.gov.sg/tenders/Documents/PUB_Forthcoming_Tenders_Briefing_NIP.pdf)

<sup>2</sup> [http://www.bcadirectory.sg/search\\_result.php?workhead=MjE=&subworkhead=MzE=&grade=MTg=](http://www.bcadirectory.sg/search_result.php?workhead=MjE=&subworkhead=MzE=&grade=MTg=)

<sup>3</sup> [http://www.bcadirectory.sg/search\\_result.php?workhead=MjQ=&subworkhead=NDk=&grade=MTg=](http://www.bcadirectory.sg/search_result.php?workhead=MjQ=&subworkhead=NDk=&grade=MTg=)

At the same time, the company relocated to Sungei Kadut to integrate headquarter services and the construction of its second asphalt premix plant. With the construction of a second asphalt premix plant, it increases Ley Choon's production capacity of asphalt to 575 tons per hour. Ley Choon capped off 2012 with the S\$110m reverse takeover of Ulro Technologies Limited and was successfully listed on the SGX Mainboard.

**Figure 1: Segmental revenue (in S\$ m)**



Source: RTO Prospectus and company reports

**Figure 2: Ley Choon's completed projects\***

Project Description	Customer	Approximate value (in S\$ m)	Year of completion	Type
Maintenance and installation of traffic signal system for 5 years in western Singapore	LTA	25.5	2010	Maintenance
Improvement and resurfacing works to parallel and runway entry taxiways at Changi Airport	CAG	15.7	2010	Resurfacing
Water pipelines from Punggol-Serangoon pumping station to Seletar Expressway	PUB	11.6	2010	Pipe laying
NIP contract no. 4 - Laying of a 2,200 mm diameter NEWater pipeline from Kranji Expressway to Ulu Pandan NEWater factory	PUB	33.6	2011	Pipe laying
NIP contract no. 2A - Laying of a 2,200 diameter NEWater pipeline from Pan Island Expressway to Jalan Buruh	PUB	15.5	2011	Pipe laying
Term contract for high pressure gas pipeline project work	PowerGas	10	2011	Pipe laying
Construction of east (south) aircraft parking apron associated taxiways and ancillary works at Seletar Airport	CAG	31.4	2012	Construction

Source: Company reports  
Note: The list is non-exhaustive

**Resilient construction demand:** Construction demand in Singapore remains strong with demand expected to be between S\$20b and S\$28b annually for 2014 and 2015. Several major infrastructural projects i.e. Project Jewel at Changi Airport, MRT line extensions, developments at Pasir Panjang Terminal are expected to be up for tender in the next few years. As one of the larger pipe laying and asphalt producers, Ley Choon is likely to receive new pipe laying and construction contracts.

**Figure 3: Forecasted construction demand (in S\$ b)**

	2012	2013F	2014F / 2015F
<b>Public sector</b>			
<b>Building work</b>	<b>7.2</b>	<b>7.9 - 10.0</b>	
Residential	3.1	5.0 - 6.0	
Commercial	0.1	0.1 - 0.1	
Industrial	0.3	0.5 - 0.9	
Institutional and others	3.7	2.3 - 3.0	
<b>Civil engineering work</b>	<b>2.1</b>	<b>6.1 - 7.0</b>	
<b>Total</b>	<b>9.3</b>	<b>14.0 - 17.0</b>	<b>11.0 - 14.0</b>
<b>Private sector</b>			
<b>Building work</b>	<b>16.2</b>	<b>11.5 - 14.3</b>	
Residential	7.7	5.4 - 6.3	
Commercial	2.9	2.6 - 2.9	
Industrial	4.4	2.1 - 3.4	
Institutional and others	1.2	1.5 - 1.7	
<b>Civil engineering work</b>	<b>2.5</b>	<b>0.5 - 0.7</b>	
<b>Total</b>	<b>18.7</b>	<b>12.0 - 15.0</b>	<b>9.0 - 14.0</b>

Source: RCA

Note: There is no detailed breakdown available on the forecasts for 2014 and 2015.



Artist's impression of Project Jewel

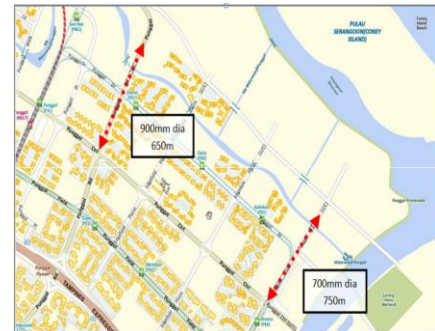
## Time for 'PUB'bing

**Various tender opportunities for pipelines and sewers:** There are 42 forthcoming tenders from 1 October 2013 till 31 December 2014. Out of the 42 tenders, 12 are for pipe laying and 4 of them fall under the Potable Water (PW) Transmission and Distribution Project.<sup>4</sup> The PW Transmission and Distribution Project will see the laying of new pipelines at 9 locations to serve new HDB developments such as Punggol, Buangkok Green and Yishun. These pipelines will have a length from 2,000m to 4,500m and a pipe size in the range of 700mm and 900mm.

<sup>4</sup> [http://www.pub.gov.sg/tenders/Documents/16th%20SWIN%20-%2020%20Jul%2013%20\(PW%20Pipelines%20to%20serve%20New%20HDB%20Developments\).pdf](http://www.pub.gov.sg/tenders/Documents/16th%20SWIN%20-%2020%20Jul%2013%20(PW%20Pipelines%20to%20serve%20New%20HDB%20Developments).pdf)

Given Ley Choon’s track record and L6 grading, we are confident that Ley Choon will be able to successfully tender for some of these projects. Based on past results for pipeline projects and depending on the length and width of the pipelines, the contract sum tends to range from S\$5m to S\$10m with a duration of 2 to 3 years. Hence, contributions from the projects would come in from FY15 onwards.

Besides taking on pipe laying projects, Ley Choon’s experience and expertise in sewage rehabilitation may also see the company bidding for the sewage contracts. Out of the 15 projects under planning by PUB, there are 8 projects that have been earmarked for sewerage networks expansion or sewerage rehabilitation. A total of 13 contracts are available for tender in these 8 projects. Based on past results for sewerage related projects, the contract sum tends to range from S\$3m to S\$50m, depending on the complexity and scale.

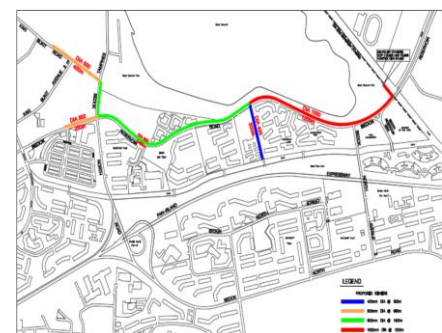


Proposed PW pipelines for Punggol Area under the PW Transmissions and Distributions Project  
Source: PUB

### Figure 4: Sewage projects under planning for PUB

Project title	Description
Proposed sewers in Jalan Rajah and Sungei Whampoa	This project is to provide relief sewers in Jalan Rajah / Sungei Whampoa area by laying approximately 2.5km of sewers ranging from 400mm to 1,000mm in diameter.
Proposed sewers in Jurong East and West, Bukit Batok and Enterprise Road areas	This project is to expand the sewer network in Bukit Batok and Enterprise Road areas to serve new developments by laying approximately 5.5km of sewers ranging from 400mm to 1,800mm in diameter.
Expansion of sewerage network in Marina Reservoir Catchment, Siglap Road and Kaki Bukit areas	This project is to provide relief sewers in Marina Reservoir Catchment, Siglap Road and Kaki Bukit areas by laying approximately 3.1km of sewers approximately 250mm to 800mm in diameter.
Expansion of sewerage networks in Mandai Road area	To expand the sewerage network in Mandai Road area and to phase out Lorong Asrama Solids Divertor. The project involves the laying of approximately 4,060m of sewers ranging from 300mm to 2,000mm in diameter.
Expansion of sewerage networks in Kranji area	To expand the sewerage network in Kranji area and to phase out Kranji Pumping Station. The project involves the laying of approximately 3,000m of sewers ranging from 800mm to 3,000mm in diameter.
Proposed sewers in Bedok Reservoir and Changi Business Park areas	To expand the sewerage network in Bedok Reservoir and Changi Business Park areas to serve the intensified land development. The project involves the laying of 4km of sewers ranging from 200mm to 1,000mm diameter sewers.
Proposed sewers in Mugliston Park, Buangkok Link and Ang Mo Kio Ave 5 areas	To expand the sewerage network in Mugliston Park, Buangkok Link and Ang Mo Kio Ave 5 areas to serve upcoming developments and to phase out Mugliston Park Pumping Station by laying some 4.5km of sewers ranging from 400mm to 3,000mm in diameter.
Proposed sewers in Tagore Drive area	To expand the sewerage network in Tagore Drive area to serve new and intensified land developments by laying some 2.3km of sewers ranging from 900mm to 1,500mm in diameter.

Source: PUB



Proposed sewerage network for the Bedok Reservoir area  
Source: PUB

**Figure 5: Upcoming tenders for PUB**

Project Description	Date of tender	Financial category
Supply and laying of 700mm diameter water pipeline along Fernvale Road from Sengkang West Avenue to Jalan Kayu	Nov-13	L3
Laying of 1,200mm diameter water pipeline along Telok Blangah Green and Henderson Road from Mount Faber Service Reservoir to Depot Road	Dec-13	L4
Proposed sewers in Tagore Drive area	Dec-13	B1
Proposed sewers in Bedok Reservoir and Changi Business Park areas	Jan-14	B1
Laying of 800mm diameter pipeline along Spottiswoode Park Road to replace a section of the old main along Keppel Road	Jan-14	L5
Expansion of sewerage networks in Kranji area	Apr-14	B1
Proposed sewers in Ang Mo Kio Ave 5 area	Apr-14	B1
Expansion of sewerage networks in Mandai Road area	May-14	B1
Proposed sewers in Seletar West Farmway area	May-14	B2
Laying of 1,200 / 900 / 700mm diameter water pipelines along Marina Coastal Drive and Marina Coastal Expressway	Jun-14	L5
Laying of proposed 1,400 / 1,200 / 900mm potable water pipelines and ancillaries in the Bukit Kallang Service Reservoir area	Jun-14	L5
Laying of proposed water pipelines and ancillaries in Punggol and Seletar area	Jun-14	L5
Laying of proposed water pipelines and ancillaries in Buangkok and Sengkang area	Jun-14	L5
Laying of proposed water pipelines and ancillaries in Yishun area	Jun-14	L5
Laying of proposed water pipelines and ancillaries in Choa Chu Kang and Seletar area	Jun-14	L5
Laying of 1,600 / 1,200mm diameter potable water pipeline along Ang Mo Kio Avenue 2 and 5	Jun-14	L6
Proposed sewers in Mugliston Park and Buangkok Link areas	Jun-14	B1
Laying of 1,600mm diameter potable water pipeline from Punggol Way to Elias Road	Aug-14	L6
Proposed sewers in Amber Road, Meyer Road and Playfair Road areas	Aug-14	B1
Proposed sewers in Tanah Merah Kechil	Aug-14	B2
Laying of 1,200 / 800mm potable water pipelines from Woodleigh Waterworks to Joo Seng Road	Dec-14	L4

Source: PUB

## Ley-ing, Tendering, and Action!

**Potential contracts from LTA to reduce reliance on PUB contracts:** Besides projects from PUB, another area for contracts tender is from the Land Transport Authority (LTA). Projects in the LTA are divided between Rail and Road sectors. This is further sub-divided into E&M, Civil and Others. Ley Choon has successfully tendered for the T2119A Sewer Diversion Works (Package A) contract (for rail) and the RP239 Road Resurfacing Works for Expressway contract (for road) last year. The contracts are worth a total of S\$80.1m (S\$16.2m for the rail contract and S\$63.9m for the road contract).

For FY13/14, there are a total of 47 civil engineering contracts available for the rail and road sectors. Of the 47 contracts available, we are of the opinion that Ley Choon should be able to secure at least one contract to replenish their order book. In particular, Ley Choon's experience in road resurfacing and maintenance puts them in a stronger position for the road civil engineering contracts.

The LTA and the Ministry of Transport has outlined several initiatives in the transportation infrastructure and network for Singapore under the Land Transport Master Plan 2013. We anticipate construction demand from LTA to be driven by the initiatives outlined in the Master Plan. Ley Choon could potentially secure contracts in some of these initiatives due to their expertise in resurfacing, ability to supply asphalt and financial capacity:

1. More cycling infrastructure and facilities – By 2015, Bedok, Changi-Simei, Pasir Ris, Taman Jurong, Jurong Lake District, Yishun, East Coast, Marina Bay and Punggol Eco-Town will be connected by off road cycling paths and park connectors under the National Cycling Plan and Remaking our Heartland initiatives. After 2015, an additional 90km of cycling paths will be installed to connect the remaining HDB towns. In addition, intra town networks under the Park Connector Networks will be integrated over the next 15 years to form an island wide cycling path of over 700km in length. We expect Ley Choon to have the capacity to supply the asphalt and resurfacing expertise to tender for these contracts.
2. North-South Expressway – As the 11<sup>th</sup> expressway in Singapore, the North-South Expressway is expected to start construction in 2015 and be completed by 2020. Stretching 21km, it will cater to the increased traffic load in the north-south corridor and to alleviate congestion on the CTE. The estimated costs for construction is between S\$7b and S\$8b. We anticipate Ley Choon to be awarded contracts for resurfacing and pipe laying contracts.
3. Reversible flow along Kranji Expressway – Kranji Expressway has an issue of traffic tidal flow, where one direction of the expressway will experience congestion in the morning, while the opposite direction will experience congestion in the evening. Hence, the idea of reversible flow along Kranji Expressway could see the alteration or realignment of the current lanes. This could lead to opportunities for resurfacing and pipe laying contracts.



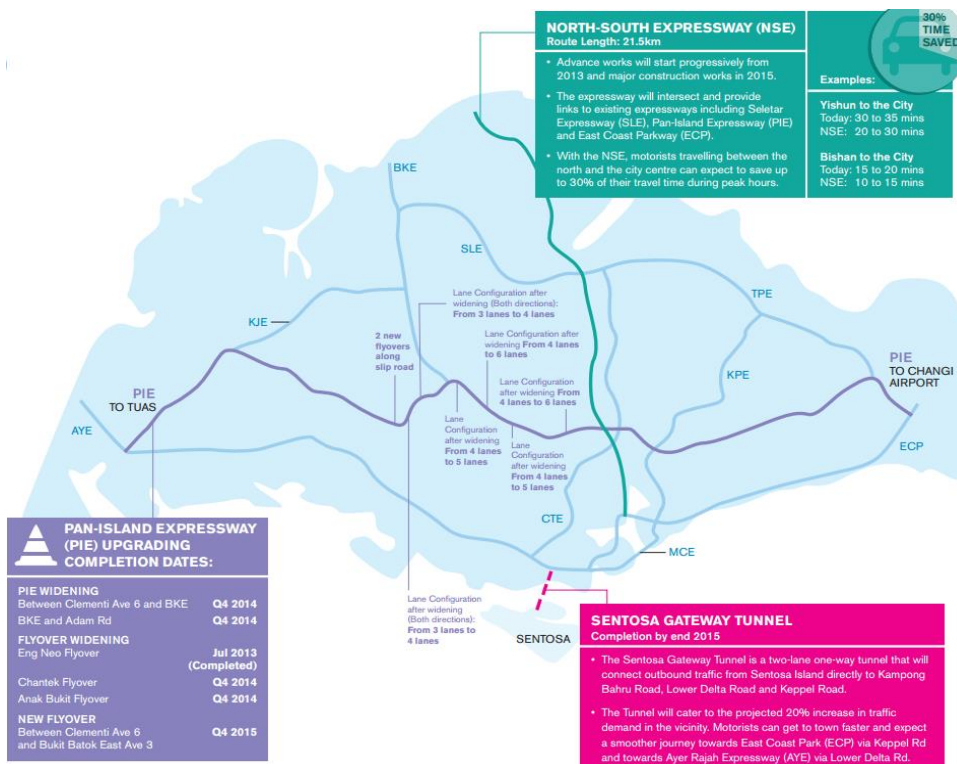
Road works in Singapore for cable laying



Ane Mo Kio Avenue 5 Park Connector  
Source: National Parks Board

4. Singapore Underground Road System (SURS) – Under the Land Transport Master Plan 2013, the government is reviewing the plans for SURS. SURS may be circling the city centre and serve the Marina Bay area. It will help to control traffic gridlocks during peak hours. In addition, given the new commercial and residential developments in the Marina Bay area and the Pasir Panjang Terminal, SURS can be adjusted to accommodate for the developments. Besides the resurfacing and pipe laying opportunities, Ley Choon could also tap on their strength in cable laying and tender for cable laying projects.

**Figure 6: Ongoing and future road construction plans**



Source: LTA Annual Report 2012 / 2013

## Scaling Up in Sungei Kadut

**Head and shoulders above the rest:** Ley Choon has completed the building of a second asphalt premix plant in Sungei Kadut Drive. With a capacity of 400 tons of asphalt per hour, it brings Ley Choon's total asphalt production capacity to 575 tons per hour at maximum capacity. The new plant will also house the new headquarter office and an R&D office.

At a height of 44m (or 15 storey equivalent), the new plant is the tallest structure in the immediate area. With 10 storage silos and a total storage capacity of 1,000 tons for finished products, it is also one of the larger asphalt storage plant in Singapore. The completion of this plant cements Ley Choon's standing as one of the largest asphalt plant operators in Singapore.

In our site visits, we observed that the new plant was well spaced out for both production and transportation of finished materials. Offsite CCTV monitoring systems allow for monitoring of production and work sites, thereby reducing manpower needs. This allows for higher operational efficiencies as compared to other neighboring plants. In addition, the ability to produce asphalt premixes also serves as an avenue of growth for Ley Choon via sales to third party contractors.

We view the new plant as a step in the right direction for Ley Choon. With the possibility of fewer industrial space for new plants, this reduces the risk of potential competitors building asphalt premix plants. At the same time, this also raises the possibility of joint ventures between Ley Choon and other construction firms who may need asphalt premixes but are unable to produce them.

The new plant also allows Ley Choon to meet LTA's requirement for having back up plants for larger projects. Hence, the increased capacity will allow it to support its current projects and to take on more projects. Also, by using sustainable technology to produce asphalt with lesser fuel, it reduces production costs. This is in contrast to other asphalt premixes plants in Singapore, which may be bigger and produce more but incur higher production costs and generate more wastage.



The new plant in Sungei Kadut, note the height of the building as compared to the surrounding plants.



The view from the top of the plant is clear enough to see Johor.

### Figure 7: Pictorial comparison of plant operations



Operations in Ley Choon's neighboring plant, note the congestion of vehicles and lack of storage space.



Operations in Ley Choon's new plant

## Beyond Singapore Shores

**Building in Brunei:** Ley Choon has secured contracts worth S\$30m to construct a flyover bridge and sewerage systems infrastructure works in Brunei. This brings the total amount of contracts secured in Brunei to S\$84m (6 infrastructure contracts worth S\$54m were secured in 2011). Ley Choon has also tapped on their knowledge in supply water pipelines and diversified into the supply and installation of water treatment plants in Brunei. We view this move favorably given the high water usage in Brunei.

The average Bruneian uses 200 litres daily for bathing, in contrast, the average Singaporeans uses only an average of 52 litres for showers and flushing.<sup>5</sup> On the whole, the average daily usage of a Bruneian is estimated to be 450 litres daily.<sup>6</sup> This places Brunei as the highest water usage per capita in South East Asia. The heavy subsidies provided by the Brunei government which makes monthly utilities bill at S\$0.11 per 1,000 litres and S\$0.44 subsequently, encourages Bruneians to use more water.

Hence, there is a strong demand to provide sufficient water to meet the needs of Bruneians. In addition, the Brunei Economic Development Board (BEDB) has laid out the vision of Wawasan Brunei 2035. Under the Wawasan Brunei 2035 Master Plan, the country will undergo infrastructure developments to improve the quality of living for Bruneians. To achieve this, the Brunei government has allocated S\$2.2b for public utilities, water supply and drainage developments in the 9<sup>th</sup> National Development Plan.<sup>7</sup> We are of the view that Ley Choon could tender for some of the smaller and mid-tier development projects.

**Supplying construction materials for China's housing projects:** As part of the company's strategy to expand the Construction Materials division, Ley Choon has expanded into China with its maiden project of a construction waste recycling plant and in Yantai, Shandong province. Upon completion in early 2014, the plant will be able to cater to the increased construction activities in Shandong. We view Ley Choon's selection of Yantai as their expansion engine in China to be a highly astute move given the government's plans to develop the Shandong province and the focus on Yantai.

Shandong province is the third most populous province in China and the province is the third in terms of provincial GDP. Yantai is one of the seventeen cities in Shandong and due to its favourable position along the coastline, the city has a higher level of exports and direct investments. Hence, the city has a mix of manufacturing and services industries, which have led to the city to have one of the higher GDP/capita as compared to the other cities.



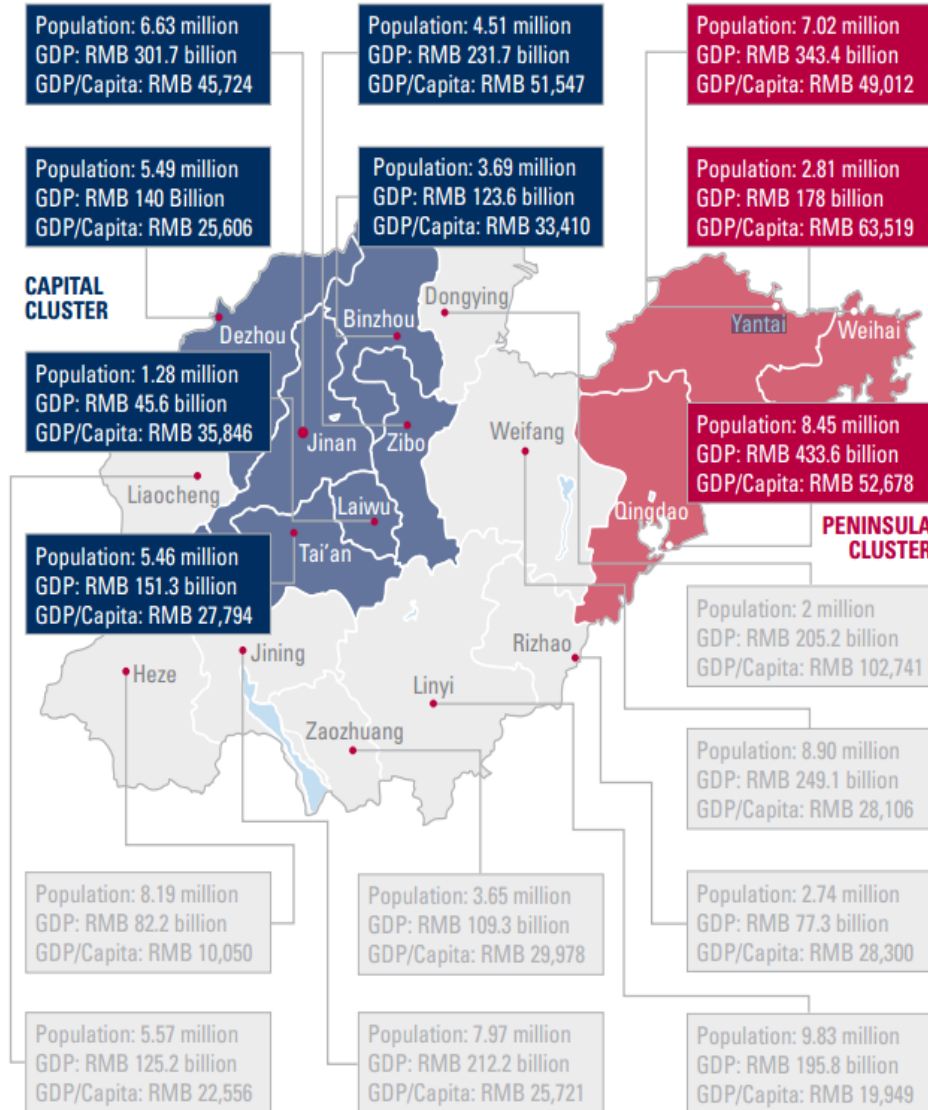
Ulu Pandan Water Reclamation Plant  
Source: Straits Times

<sup>5</sup> <http://www.thejakartapost.com/news/2013/10/14/bruneians-unfazed-over-high-water-wastage.html>

<sup>6</sup> <http://mail.brudirect.com/national/national/national-local/8668-brunei-s-daily-water-usage-highest-in-asia>

<sup>7</sup> [http://www.bedb.com.bn/why\\_ndp.html](http://www.bedb.com.bn/why_ndp.html)

**Figure 8: Map of cities in Shandong**



Source: Opportunities in Shandong, Second Edition February 2011

As part of China's five year development plan, Shandong is earmarked for developments in the marine and ocean industry. Hence, major infrastructure construction works will be carried out to support the marine and ocean industry. Due to Yantai's geographical position in Shandong, it could be a major beneficiary of the development plans. Thus, the setting up of a waste recycling plant to supply construction materials in Yantai is a well-timed move by Ley Choon to tap into construction demand. Furthermore, as the company has established a strong working relationship with the provincial government, it is probable that Ley Choon may be able to receive several construction materials supply contracts. The company can also build on the success of the first plant and open a few more plants to cater to the high construction demand.

**Risks and concerns:** While construction demand is likely to be resilient in the next few years, this is tempered by the higher foreign workers levies imposed by the Ministry of Manpower. Hence, this may erode future project margins for Ley Choon. However, we have noted that the company has invested into productivity enhancing initiatives such as offsite CCTV surveillance and project manpower scheduling to reduce the need for manual onsite supervision and to reduce the wastage of labour hours. This will help to reduce the need for foreign workers and to ensure reasonable project margins.

Ley Choon's expansion into China and Brunei comes on the back of government-backed development plans. Thus, there is the risk that the government plans may change due to lower economic growth or changes in policies. However, the governments of China and Brunei are unlikely to face major leadership changes in the next few years. Hence, the policies proposed by the current batch of leaders are likely to be carried out throughout their term of office.

**Forecasts and valuation:** In valuing Ley Choon, we took into account several factors: the current and future operating performance of the cable and pipe laying, road resurfacing and sewerage rehabilitation business units, contributions from their overseas ventures and the potential growth in order book. In addition, we considered other issues such as the building of the second premix asphalt plant, resilient construction demand, and other operating risks which would have an impact on the profitability and margins of Ley Choon.

Adopting an economic profit valuation method with a WACC of 6.2% to 6.9% and a terminal growth rate of 2.5%, we arrived at an intrinsic value of S\$0.280. This implies a FY13F P/E of 12.6 and a P/B of 1.8. Ley Choon's debt level has risen in the past few years due to the building of the second premix asphalt plant, and their overseas expansion in Brunei and China. However, we expect this debt level to decrease from FY14 as contribution from the various units come in. In addition, contribution from the various units should provide the company with sufficient internal funding for additional capital expenditures should they expand further in Brunei and China.

**Ley-ing Paths and Making Inroads for Growth:** Although Ley Choon made losses last year, this was mainly due to one-off expenses that do not reflect the true value of the company. With a strong order book, Ley Choon's earnings are secured till FY15. In addition, the steady construction demand and major infrastructure projects would provide Ley Choon with plenty of opportunities to maintain and increase its order book. The move to expand overseas would reduce its reliance on Singapore and provide an additional avenue of growth. Thus, given its robust fundamentals and positive growth prospects, we are of the opinion that Ley Choon is ley-ing paths and making inroads for growth, and hence, we initiate valuation at S\$0.280.

**Increase Exposure.**

**Figure 9: Economic profit valuation**

(in S\$ '000)	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F
Contract revenue	154,117	163,364	173,166	180,093	187,297	191,043
Sales of construction materials	4,547	4,957	5,403	5,781	6,186	6,495
Revenue	158,665	168,321	178,569	185,874	193,482	197,538
EBIT	16,311	20,139	21,029	22,764	23,110	20,275
Tax on EBIT	(2,773)	(3,424)	(3,575)	(3,870)	(3,929)	(3,447)
NOPLAT	13,539	16,715	17,454	18,894	19,182	16,828
Invested capital	152,647	163,884	173,732	184,185	190,655	198,546
% of debt	50.4%	47.1%	44.0%	40.9%	38.1%	36.3%
% of equity	49.6%	52.9%	56.0%	59.1%	61.9%	63.7%
WACC	6.1%	6.3%	6.5%	6.7%	6.8%	6.9%
Capital charge	9,369	10,367	11,301	12,303	13,042	13,782
Economic profit	4,169	6,348	6,153	6,591	6,140	3,046
Terminal value						84,376
Discount rate	1.06	1.13	1.21	1.30	1.40	1.50
Present value	3,921	5,596	5,068	5,058	4,390	2,026
						56,115
Book value	82,262				Risk free rate	2.5%
PV of total economic profit	26,060				Beta	1.00
PV of terminal value	56,115				Market risk premium	9.0%
Firm value	164,437				Cost of equity	9.0%
Shares outstanding (in '000)	592,410				Cost of debt	4.0%
Intrinsic value	0.28				Long term growth rate	2.5%

Source: Voyage Research estimates

**Figure 10: Financial forecasts and estimates**

	FY12	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F
Revenue	148,450	158,665	168,321	178,569	185,874	193,482	197,538
Cost of sales	(121,062)	(125,345)	(134,657)	(142,855)	(146,840)	(152,851)	(154,079)
Gross profit	27,388	33,320	33,664	35,714	39,034	40,631	43,458
Net profit after tax	(3,157)	12,194	14,570	15,354	16,840	17,173	14,820
Total current assets	144,265	141,850	147,958	154,477	152,742	160,741	161,319
Total non-current assets	70,558	78,531	83,166	88,085	99,027	102,983	111,018
Total current liabilities	94,142	91,165	91,709	92,399	89,817	89,752	87,990
Total non-current liabilities	42,678	42,678	42,678	42,678	42,678	42,678	42,678
Total equity	78,003	86,538	96,737	107,485	119,273	131,295	141,669
Profit after tax	(3,157)	12,194	14,570	15,354	16,840	17,173	14,820
Cash from operating activities	(19,218)	21,388	23,287	24,388	36,826	30,276	40,040
Cash from investing activities	29,365	(11,382)	(8,793)	(8,973)	(9,364)	(9,408)	(6,866)
Cash from financing activities	(16,385)	(18,201)	(16,059)	(17,038)	(23,798)	(18,455)	(23,126)
Net change in cash	(6,238)	(8,195)	(1,564)	(1,623)	3,664	2,413	10,048
Beginning balance	23,681	17,136	8,941	7,376	5,753	9,417	11,831
Ending balance*	23,891	15,696	14,131	12,508	16,172	18,586	28,633
ROE	-4%	14%	15%	14%	14%	13%	10%
ROA	-1%	6%	6%	6%	7%	7%	5%
Debt / equity	1.23	1.05	0.92	0.81	0.71	0.63	0.59
Current ratio	1.53	1.56	1.61	1.67	1.70	1.79	1.83
P / E	N.A.	9.09	7.60	7.21	6.58	6.45	7.48
P / B	2.10	1.28	1.15	1.03	0.93	0.84	0.78
EPS (in S\$)	N.A.	0.02	0.02	0.03	0.03	0.03	0.03

Source: Voyage Research estimates

Note: Ending balance of cash and equivalents may differ due to fixed deposits pledged.

**Rating Definition:**

**Increase Exposure** – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

**Invest** – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

**Fairly Valued** – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

**Take Profit** – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

**Reduce Exposure** - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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