

# Soilbuild Construction Group Limited

2 May 2024

## BUY (Initiation)

BBG	SOIL SP	
Market Cap (S\$m)	47.1	
Price (S\$)	0.032	
52-week range (S\$)	0.027 - 0.041	
Target Price (S\$)	0.040	
Shares Outstanding (m)	1472.2	
Free Float	18.0%	
Major Shareholder	Lim Chap Huat	77.9%
	Lim Han Ren	4.1%

Source: Company data, Bloomberg, SAC Capital

## Emerging stronger; a remarkable recovery in 2H23

**A leading construction group**, Soilbuild Construction Group boasts a long and successful track record of both industrial & business space and residential projects. The Group also supplies precast components. In 2015, the Group was awarded a concept and price tender for the development of the third Integrated Construction and Prefabrication Hub (ICPH) out of the current 6 ICPHs in Singapore.

**After a 1H23 turnaround in profitability**, the Group has reaped the rewards of its labour by quadrupling its net profit for 2H23 h-h. Following the turnaround, the Group has proposed a dividend of 0.1 S¢/share for FY23 which translates to a dividend yield of 3.1%. This is a dividend payout of 18.2%.

**The growth drivers:** 1) The outlook for the construction industry in Singapore is expected to grow at a CAGR of 2.7% from 2023 to 2027. 2) A growing orderbook; 34.7% y-y growth to S\$621.7m at end-FY23 and we forecast a further 5% y-y lift to S\$652.8m by end-FY24. 3) Digital transformation initiatives to increase productivity and a focus on high specification and high value projects.

**Initiate with a Buy at TP of S¢4.0.** Soilbuild Construction Group trades currently at a PER of 5.5x. This compares favourably to the mean PER of relevant Singapore construction peers of 7.4x. Referencing peer PER gives us a price target of S¢4.0, a 26.4% upside from current levels.

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FY ended 31 Dec (S\$m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	258.3	248.4	247.4	265.7	268.4
Net profit	(2.6)	(31.7)	7.3	8.3	9.6
EPS (S\$ cents)	(0.3)	(3.8)	0.55	0.56	0.65
Dividend per share (S\$ cents)	-	-	0.10	0.14	0.16
Dividend payout ratio	-	-	18.2%	24.1%	24.1%
<b>Valuation</b>					
Gross profit margin (%)	1.9%	(8.6%)	8.9%	9.5%	10.0%
Net profit margin (%)	(1.0%)	(12.8%)	3.0%	3.1%	3.6%
EV/EBITDA (x)	12.1	(8.1)	5.8	6.2	6.1
P/E (x)	(10.3)	(0.8)	5.5	5.7	4.9
P/B (x)	0.5	1.5	1.0	0.8	0.7

## Company Background

Soilbuild Construction Group has been in the construction business for over 40 years since 1976. The Group is A1-graded under CW01 and A2-graded under CW02. This allows the Group to tender for all types of building works of unlimited contract value and for civil engineering projects with contract value of up to S\$105 million. Some of the Group's flagship properties are Solaris and Eightrium @ Changi Business Park (business parks), West Park BizCentral (ramp-up industrial development) as well as Tuas Connection (land-based factories).



*Solaris, an iconic state-of-the-art business park development, located at 1 Fusionopolis Walk.*

## Company Background

The group also supplies precast components from its Integration Construction and Prefabrication Hub (ICPH). This hub is a fully automated offsite manufacturing facility for precast components. The 3-storey building has 2 production floors and one office floor level. The highly automated process will further reduce the Group's reliance on foreign workers and improve productivity. Precast slabs are produced in the hub and transported to construction sites to be assembled. In 2018, to scale up their production capacity, the Group acquired 100% interest in Precast Concrete Builders Pte Ltd. Expanding its existing manufacturing plant in Pontian, Johor. The expansion was completed in Q12020.



*The ICPH produces selected precast components off-site.*

## Industry Transformation Map (ITM)

Within the framework of the S\$4.5 billion Industry Transformation Programme, roadmaps will be crafted for 23 industries to tackle sector-specific challenges and to strengthen collaborations among the government, businesses, industries, as well as trade associations and chambers.

There are seven clusters, each co-chaired by political office holder(s) and private sector member(s).

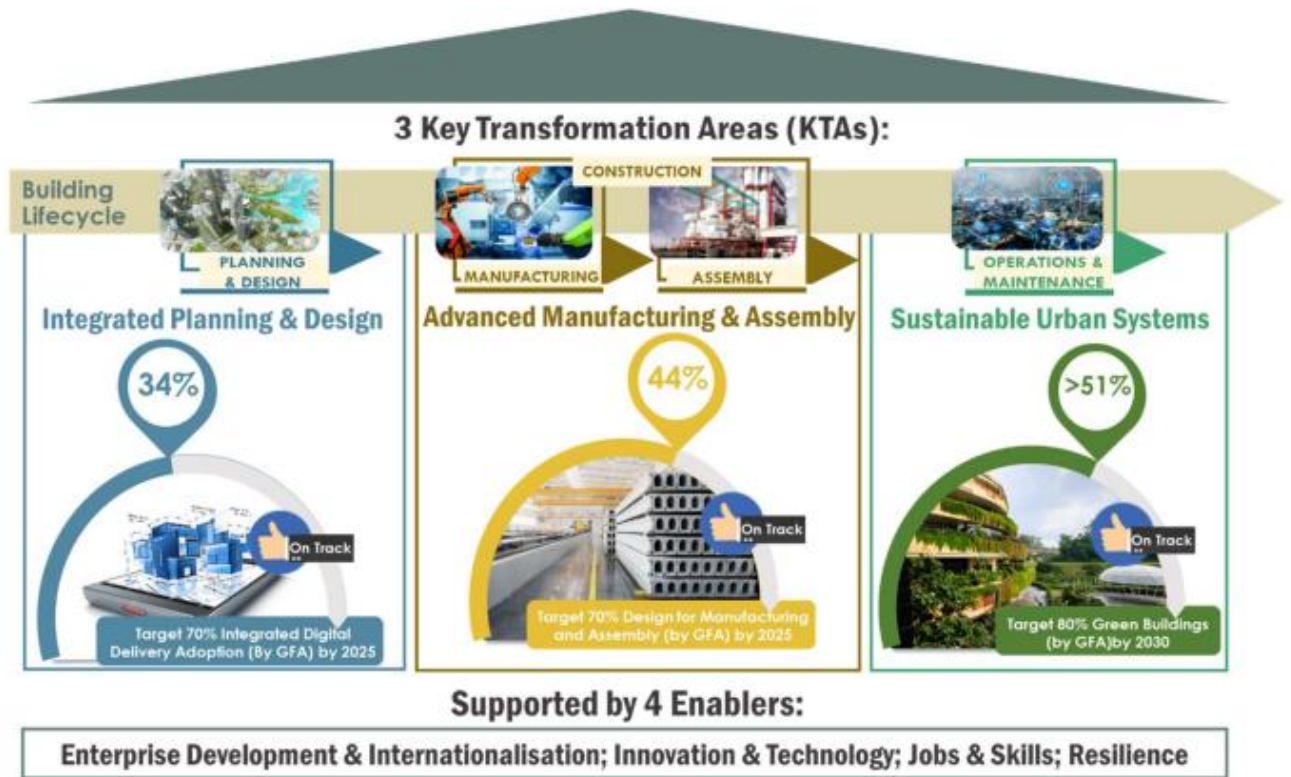
Clusters	Industries
Advanced Manufacturing & Trade (AMT)	Aerospace, Energy & Chemicals, Electronics, Precision Engineering, Marine & Offshore, Food Manufacturing, Logistics and Wholesale Trade
Connectivity	Air Transport, Land Transport, and Sea Transport
Human Health & Potential (HHP)	Healthcare and Education
Urban Systems	Construction, Real Estate and Security
Resource & Environmental Sustainability (RES)	Environmental Services Industry
Modern Services	ICT & Media, Financial Services, and Professional Services
Lifestyle	Food Services, Retail and Hotels

<https://www.mti.gov.sg/FutureEconomy/Economic-Clusters>



## Vision for the Built Transformed Sector

There are 3 Key Transformation Areas (KTAs) and 4 Enablers for the Built Environmental Industry Transformation Map (under the Urban Systems cluster).



Integrating Planning & Design	Advanced Manufacturing & Assembly	Sustainable Urban Systems
<ul style="list-style-type: none"> <li>- Facilitate the adoption of integrated Building Information Modelling (BIM) by project teams through CORENET X</li> <li>- Encourage the use of common data standards</li> <li>- Nudge industry towards progressive procurement practices</li> </ul>	<ul style="list-style-type: none"> <li>- Enhanced Building Framework to make DfMA the default mode of construction, increasing productivity and reduce reliance on manual labour</li> <li>- Drive co-location of synergistic construction activities within Integrated Construction Parks (ICP)</li> </ul>	<ul style="list-style-type: none"> <li>- Accelerate transition to a low-carbon built environment to support net-zero aspirations in accordance with the latest Singapore Green Masterplan</li> <li>- Drive Integrated, Aggregated and Smart FM to prolong the lifespan of buildings and better manage infrastructure</li> </ul>

## CAGR of 2.7% in Singapore’s construction sector

This growth is expected in the medium term. With the rescheduling of projects originally slated for 2022 and 2023, alongside improvements to aging commercial properties, there is an anticipation of steady growth in the demand for constructing commercial projects.

Total construction demand from 2025 to 2028 is projected to be between S\$32 bn to S\$38 bn annually.

The public sector will continue to lead this demand and is expected to contribute S\$19 bn to S\$23 bn annually while the private sector is expected to contribute S\$12 bn to S\$15 bn.

Year	Construction demand (Value of contracts awarded, S\$billion)			Construction Output (Value of certified progress payments, S\$billion)
	Public	Private	Total	Total
2023p	19.5	14.3	33.8	34.8
2024 f	18 - 21	14 - 17	32 - 38	34 - 37
2025 - 28 f	19 - 23 per year	12 - 15 per year	31 - 38 per year	

*p: preliminary f: forecast*

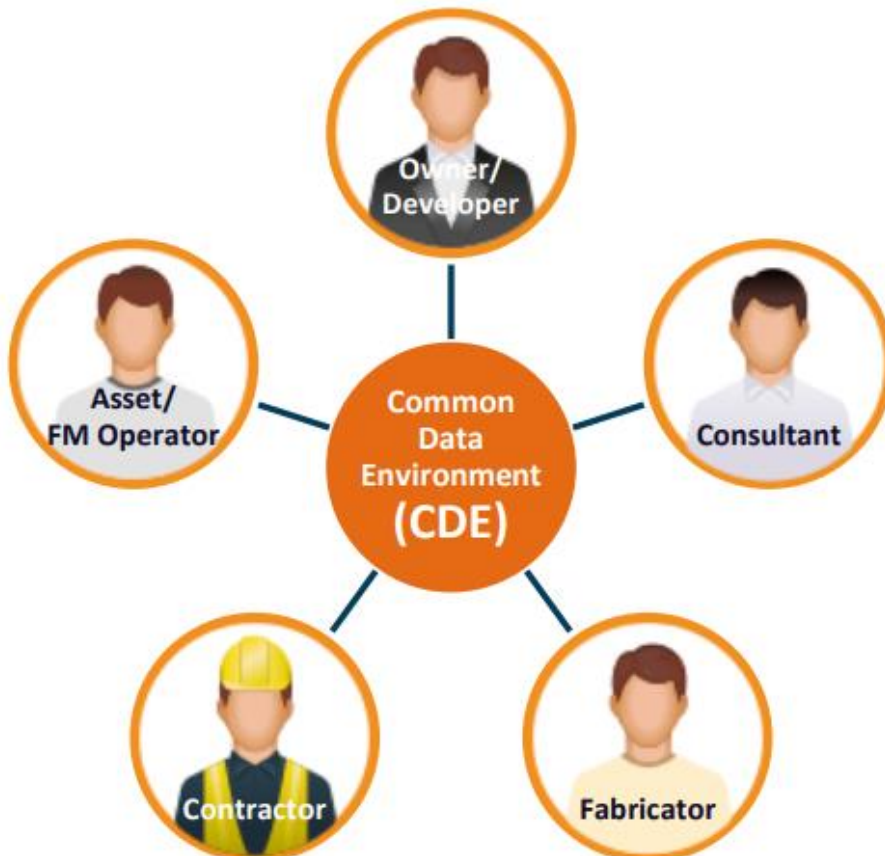
## Soilbuild - A digitalized, greener future

With a client-centric mindset, the Group has taken on digitalisation efforts not only to enable clients to better visualize the end results but also to streamline processes, saving costs and time.

Leveraging on data-rich 3D Building Information Modelling (BIM) Technology, the Group invested in and layered on other technologies and software to complement its tendering activity and project execution capabilities. The Group won the 1<sup>st</sup> Prize for BIM Contest Singapore 2023 for Architecture & Structure II Category held by Glodon Singapore.

Digitalisation efforts can lead to a 40% increase in productivity at the use case level by leveraging Common Data Environmental data standards and integrating key functions such as procurement and contract management.

The Common Data Environment (CDE) comprises of two components – the Data Standard and the Data Platform. Data Standard defines what are the information required and how the information is structured for sharing and collaboration to deliver a project. Data Platform refers to the technology platform that the data and information is stored.



## Soilbuild - High-value and High-Specifications Industrial Buildings

The group's main focus in the private sector is in line with Singapore's strategic plans to transform into a global digital manufacturing hub. Manufacturing 2030 is Singapore's plan to ensure the sector continues to account for 21% of Singapore's GDP by positioning itself as a global hub for advanced manufacturing.

There are four key pillars in these plans.

### Trade 2030

To grow the Singapore's trading volume, widen the types of trading activities in Singapore, and expand trade globally.

### Enterprise 2030

To build and sustain a vibrant ecosystem of Singapore enterprises that are future-ready and possess deep capabilities to compete globally.

### Manufacturing 2030

To increase manufacturing value-add by 50% by 2030, and for Singapore to become a global business, innovation, and talent hub for Advanced Manufacturing.

### Services 2030

To grow the services sectors and anchor Singapore as a leading, vibrant hub for businesses, lifestyle and tourism.



## Peer Comparison

Company Names	P/E: Current (x)	Last Traded Price (S\$)	Free Float (%)	Mkt Cap (S\$m)	Revenue (S\$m)	Current P/B (x)	Net Profit (S\$m)	Net Margin (%)
SOILBUILD CONSTRUCTION GROUP	5.5	0.03	18.0	47.1	247.4	1.0	7.3	3.0
LUM CHANG HOLDINGS LTD	-	0.28	24.4	103.6	393.4	0.8	(28.7)	(7.3)
LEY CHOON GROUP HOLDINGS LTD	2.9	0.04	28.3	60.2	123.9	0.6	9.2	7.5
KOH BROTHERS GROUP LTD	-	0.13	45.2	51.6	356.2	0.2	(22.0)	(6.2)
BBR HOLDINGS (S) LTD	5.8	0.12	54.7	37.7	237.3	0.3	6.4	(2.7)
ISOTEAM LTD	18.9	0.04	54.4	27.9	110.4	0.7	1.4	1.3
TIONG SENG HOLDINGS LTD	-	0.06	26.8	27.3	475.0	0.4	(12.1)	(2.6)
HUATIONG GLOBAL LTD	1.8	0.15	19.1	26.8	174.6	0.3	14.3	8.2

## Valuation

We use peer P/E as a basis to derive Soilbuild's price target. The mean P/E of relevant peers is 7.4x. This compares to Soilbuild's P/E of 5.5x. Using peer mean P/E, we have a target price for Soilbuild at S\$4.0/share, a 26.4% upside to the current share price of S\$3.2/share.

## Income Statement

YE Dec (S\$m)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	258.3	248.4	247.4	265.7	268.4
Cost of sales	(253.4)	(269.7)	(225.3)	(240.5)	(241.5)
<b>Gross profit/(loss)</b>	<b>4.9</b>	<b>(21.3)</b>	<b>22.1</b>	<b>25.2</b>	<b>26.8</b>
Other income	6.1	7.5	7.0	5.3	5.4
Other gains/(losses) - net	1.0	0.4	(0.9)	0.1	(0.3)
Allowance for expected credit losses on financial assets	(1.6)	(0.1)	(1.4)	(1.1)	(0.8)
Administrative	(7.3)	(8.6)	(9.4)	(10.1)	(10.2)
Finance	(1.9)	(2.3)	(3.6)	(3.2)	(2.9)
Others	(4.4)	(5.6)	(5.9)	(6.4)	(6.4)
<b>Profit/(loss) before income tax</b>	<b>(3.3)</b>	<b>(30.0)</b>	<b>7.8</b>	<b>9.9</b>	<b>11.5</b>
Income tax credit/(expenses)	0.6	(1.7)	(0.5)	(1.7)	(2.0)
<b>Net profit/(loss)</b>	<b>(2.6)</b>	<b>(31.7)</b>	<b>7.3</b>	<b>8.3</b>	<b>9.6</b>

## Cash Flow Statement

YE Dec (S\$m)	FY21	FY22	FY23	FY24E	FY25E
Net profit / (loss)	(2.6)	(31.7)	7.3	8.3	9.6
Amortisation of intangible assets	0.2	0.1	-	-	-
Depreciation of property, plant and equipment	11.6	10.9	10.0	6.2	3.4
(Reversal of impairment loss)/impairment loss on right-of-use assets	(1.3)	-	0.1	0.1	0.1
Allowance for expected credit losses on financial assets	1.6	0.1	1.4	1.4	1.4
Interest expense	1.9	2.3	3.6	3.2	2.9
Income tax (credit)/expense	(0.6)	1.7	0.5	0.5	0.5
Loss on disposal	-	-	0.7	0.7	0.7
Fair value (Gain)/loss on derivative financial instruments	(0.7)	-	-	-	-
<b>Operating cash flows before working capital changes</b>	<b>10.0</b>	<b>(16.5)</b>	<b>23.7</b>	<b>20.4</b>	<b>18.6</b>
Changes in working capital:	(24.0)	16.9	(19.7)	0.7	0.7
<b>Cash (used in)/generated from operations</b>	<b>(14.5)</b>	<b>(0.6)</b>	<b>3.1</b>	<b>21.1</b>	<b>19.4</b>
Income tax paid	(0.2)	(0.4)	(0.5)	(1.7)	(2.0)
<b>Net cash (used in)/provided by operating activities</b>	<b>(14.7)</b>	<b>(1.0)</b>	<b>3.1</b>	<b>19.5</b>	<b>17.4</b>
Additions to property, plant and equipment	(4.4)	(6.2)	(8.4)	-	-
Proceeds from disposal of property, plant and equipment	0.8	0.1	1.1	1.1	1.1
Government grant received	5.3	-	0.5	-	-
<b>Net cash provided by/(used in) investing activities</b>	<b>1.7</b>	<b>(6.0)</b>	<b>(6.8)</b>	<b>1.1</b>	<b>1.1</b>
Dividends paid to equity owners	-	-	-	(1.5)	(2.0)
Proceeds from bank loans	41.6	60.3	44.3	-	-
Repayment of bank loans	(41.1)	(56.4)	(54.5)	(10.0)	(7.3)
Proceeds from shareholder's loan	10.0	-	-	-	-
Preferential offering of shares	-	-	21.6	-	-
Share issue expense	-	-	(0.5)	-	-
Principal repayment of lease liabilities	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Interest paid	(1.9)	(2.2)	(3.5)	(3.2)	(2.9)
<b>Net cash provided by financing activities</b>	<b>7.7</b>	<b>0.9</b>	<b>6.5</b>	<b>(15.3)</b>	<b>(12.8)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(5.3)</b>	<b>(6.1)</b>	<b>2.7</b>	<b>5.2</b>	<b>5.7</b>
Cash and cash equivalents at beginning of financial year	21.8	17.0	11.1	14.2	19.0
Effects of currency translation on cash and cash equivalents	0.4	0.2	0.4	0.4	0.4
<b>Cash and cash equivalents at end of financial year</b>	<b>17.0</b>	<b>11.1</b>	<b>14.2</b>	<b>19.0</b>	<b>24.3</b>

## Balance Sheet

YE Dec (S\$m)	FY21	FY22	FY23	FY24E	FY25E
<b>Current assets</b>					
Cash and cash equivalents	17.0	11.1	14.2	19.0	24.3
Trade and other receivables	63.3	84.8	89.1	95.7	96.7
Inventories	9.2	3.8	9.9	10.6	10.7
Other current assets	3.7	6.2	3.3	3.4	3.4
<b>Total current assets</b>	<b>93.1</b>	<b>105.9</b>	<b>116.5</b>	<b>128.7</b>	<b>135.1</b>
<b>Non-current assets</b>					
Trade and other receivables	16.2	15.5	12.4	13.4	13.5
Other non-current assets	-	0.1	-	-	-
Property, plant and equipment	130.4	123.9	122.0	115.8	126.3
Intangible assets	0.2	-	-	-	-
Deferred income tax assets	2.7	1.1	1.5	1.5	1.5
<b>Total non-current assets</b>	<b>149.5</b>	<b>140.5</b>	<b>136.0</b>	<b>130.7</b>	<b>129.2</b>
<b>Total assets</b>	<b>242.6</b>	<b>246.4</b>	<b>252.5</b>	<b>259.4</b>	<b>264.3</b>
<b>Current liabilities</b>					
Trade and other payables	84.0	115.9	107.6	114.8	115.3
Current income tax liabilities	0.6	0.1	1.3	1.3	1.3
Borrowings	34.5	35.5	17.3	7.3	-
Provision for other liabilities	4.4	3.5	2.5	2.5	2.5
Derivative financial instruments	-	-	-	-	-
<b>Total current liabilities</b>	<b>123.5</b>	<b>154.9</b>	<b>128.6</b>	<b>125.9</b>	<b>119.1</b>
<b>Non-current liabilities</b>					
Trade and other payables	7.2	10.3	4.9	3.7	3.7
Borrowings	61.5	63.6	73.9	73.9	73.9
Deferred income tax liabilities	0.1	0.2	-	-	-
<b>Total non-current liabilities</b>	<b>68.8</b>	<b>74.1</b>	<b>78.8</b>	<b>77.6</b>	<b>77.6</b>
<b>Total liabilities</b>	<b>192.3</b>	<b>229.0</b>	<b>207.4</b>	<b>203.5</b>	<b>196.8</b>
<b>Net assets</b>	<b>50.3</b>	<b>17.4</b>	<b>45.2</b>	<b>55.9</b>	<b>67.6</b>
Share capital	71.6	71.6	92.6	92.6	92.6
Capital reserve	(1.1)	(1.1)	(1.1)	-	-
Currency translation reserve	(0.3)	(1.5)	(2.2)	(2.2)	(2.2)
(Accumulated losses)/retained profits	(19.9)	(51.6)	(44.3)	(34.5)	(23.0)
<b>Total equity</b>	<b>50.3</b>	<b>17.4</b>	<b>45.2</b>	<b>56.0</b>	<b>67.5</b>
<b>Total liabilities and equity</b>	<b>242.6</b>	<b>246.4</b>	<b>252.5</b>	<b>259.4</b>	<b>264.3</b>

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