

Boustead Singapore secures partner to expand its industrial property portfolio

by Leu Siew Ying

Boustead Singapore (Boustead) CEO Wong Fong Fui reaches for a custard bun that is getting cold on the table and bites into it. He knows the rich Chinese dessert cannot be good for his health, but the sweet-and-salty egg yolk filling is too enticing for him to resist. When it comes to business, however, Wong has little appetite for risk.

In fact, the infrastructure-related engineering company that he runs has been seeking a partner to share the risk of its efforts to become a major industrial properties player. Boustead has been building a portfolio to form a real estate investment trust (REIT), which entails significant investments. In January, it incorporated a 55%-owned subsidiary called Boustead Crescendas Holdings to jointly build up a portfolio for the REIT with Crescendas, but nothing has come of it so far. On Aug 29, Boustead's real estate unit Boustead Projects said it had entered into a partnership with Abu Dhabi Investment Council (ADIC), a sovereign wealth fund of the Middle Eastern state, to develop industrial properties in Singapore.

Under the so-called Boustead Development Partnership (BDP), each of the two parties will inject \$125 million for a 50% share of the venture. The combined equity can be leveraged up to more than \$600 million, giving BDP ample funds to bid for projects. Boustead itself is not short of cash to pursue these industrial property investments. The company had a cash hoard of \$164 million as at end-June. Yet, Wong, 71, eschews borrowing too much and is mindful that interest rates will rise in future.

Back in his own private meeting room in the newly completed Edward Boustead Centre after lunch, Wong tells *The Edge Singapore*: "I can go to the market to raise bonds. We have been advised that there will be no difficulty at all in selling the bonds. But we say, 'No point having a lot of money. We have a lot of money already – we've got to have projects.'" Company officials say the enquiries pipeline is healthy, yet the order book of Boustead's real

estate division fell to \$105 million in 1QFY2015 (the company has a March year-end) from \$174 million in the previous quarter.

More than anything else, the partnership with ADIC, which manages assets estimated at US\$627 billion (\$794 billion), opens the company's horizon to projects it would not normally consider because the risks are too much to take on by itself. "Now, with this agreement in place, we would dare to look at it because 50% of the risk is shared with ADIC," says Keith Chu, vice-president for corporate marketing and investor relations at Boustead. "ADIC's name can also get us better financing terms."

A project that the company let go of recently illustrates the rationale for the partnership. Boustead Projects bid for the construction of a logistics space for one of the world's biggest logistics players. "If we had been in a position to share it 50:50, we could have sweetened the deal; but we had no partners, so the management was a bit more cautious," says Chu. The project, worth more than \$100 million, would have significantly boosted Boustead's portfolio of 14 industrial properties.

Under its deal with ADIC, any projects completed will be added to Boustead Projects' existing portfolio. The whole portfolio will eventually be brought to market, allowing ADIC to exit. According to some analysts, Boustead's portfolio of 14 industrial properties could be worth as much as \$500 million when they are all completed and leased. As at end-March, Boustead carried these properties, including three that are still under construction and not fully accounted for, at \$149 million in its books.

Faster growth

Derek Tan, an analyst at DBS Vickers, says the partnership will allow Boustead to execute its growth plan more quickly. "They plan to do an industrial REIT but, historically, the ideal portfolio size in Singapore is close to \$1 billion.

So, for them to do it on their own, it will take time," he says. "Therefore having a like-minded partner will hasten the process."

Wong's younger son Yu Wei, who is senior deputy managing director at Boustead Projects, says the contacts with ADIC began early last year after they were introduced by a bank. ADIC was interested in investing in industrial properties in Singapore and was looking for a partner because it did not have the expertise to develop its own business. Initially, the two parties discussed ad hoc projects but hit on the idea to set up a fund later.

Yet, how sustainable can their partnership be in the light of government policies driving industries to relocate outside the island? Wong says he is well aware that Singapore's industrial property market is not all that big, but he points out that the government is not closing the door on all industries. In fact, Singapore continues to attract foreign investors and evolve into a higher-value-added industrial centre.

For instance, it is now attracting the likes of Rolls-Royce Holdings and other aircraft manufacturers that have set up shop for repair or parts manufacturing. Boustead Projects has won contracts from some of these newcomers. "It's a niche market. We are in it and we are doing well," Wong says. He adds that the current joint venture with ADIC is for Singapore, but it is possible that they may work together on projects overseas in future.

Boustead's partnership with ADIC is also timely, as competition in the local market is intensifying. Joshua Tan, an analyst at Phillip Securities, says in a recent report that Boustead used to be one of only three players in the field, besides Ascendas and Bovis, a unit of Lend Lease. Bovis has since switched its focus to commercial real estate, but companies such as Soilbuild Construction Group and Figtree Holdings are now "claiming to be design-and-build" contractors as well, according to Brenda Ong, an executive director at Colliers International.

Yu Wei says it was Boustead's development director Stephen Hawkins who persuaded the group to form its partnership with ADIC. He explains that Hawkins, who had joined Boustead from Goodman Group, spoke of his good experience working with ADIC. He says, "The model of Goodman is something we aspire to. They grew with ADIC. That was a testament to ADIC as a partner." Australia-listed Goodman owns and manages commercial and industrial properties such as

warehouses, logistics facilities, business parks and offices worldwide.

Yu Wei says ADIC wanted to be involved in Singapore's industrial property sector. "They have been talking to several parties. They came and saw our track record. They visited our industrial properties. So I think that is the reason they are happy to work with us. They are happy to play a passive role and let us drive the partnership," he explains.

Among the properties that probably impressed ADIC is the R&D facility that Boustead Projects built for Continental Automotive, which designs and produces brake systems for cars and power trains. Then, there is the R&D and high-tech manufacturing centre that Boustead is building for Tognum, a joint venture between Daimler and Rolls-Royce that builds off-road engines such as those used for trains. Boustead Projects has over the years designed and built facilities for the logistics, aerospace and MRO (maintenance, repair and overhaul) sectors.

Ong says Boustead is a well-established player in the sector and was the pioneer of the design-and-build model. "Ascendas will have the first cut [in securing projects] because they are owned by JTC, but Boustead is very established and they have their own construction arm," she says. A niche developer, Boustead has eschewed speculative development, following the Asian financial crisis, she adds.

Avoiding risk

It was, in fact, just before the crisis that Wong took control of Boustead and began charting a new business strategy for the 186-year-old company, which was once a trading house that held agencies for banks, shipping lines and consumer products. A chemical engineer by training, Wong initially wanted to use Boustead to build a pan-Asian food business but turned to infrastructure-related engineering development instead. He set up a unit called Boustead Projects and, to kick-start the business, invested in GBI Realty, a developer that owned a massive land plot in Ubi Avenue 1.

The land was sub-divided into nine plots. Six of them were used for strata-titled development, while three were consolidated to allow for the development of StarHub Green. Mindful of the risks, Wong took only a 40% stake in GBI Realty. The last plot was developed and sold just two years ago.

Now, Boustead Projects builds only after it has

found an end-user. "It's a good focus to have," says Ong, who has closed several deals for Boustead Projects. "If you have a user who has secured land from the government, you are secured for the next 10 to 15 years. It's a 'won't-go-wrong' kind of strategy. But it's difficult to secure an end-user."

Looking ahead, some analysts warn that the supply of industrial properties is likely to increase in the next one or two years. "There will be pressure on rent but it's just a market cycle. So, analysts are advising caution," says DBS Vickers' Tan.

Ong takes a less negative view, saying the oversupply is specific to strata-titled developments and does not affect the market as a whole because there are different zones and different types of industrial properties that attract different users. In the area that Boustead is in, there is even a shortage of supply. End-users looking for land can go only to JTC and they are given land only if they are

supported by the Economic Development Board and Spring Singapore, says Ong. The logistics sector is still a popular sector, she says, but with some newbuilds completing this year and leases expiring, rentals are expected to stabilise.

Whatever the market conditions are, they are not keeping Wong, an avid golf player, from his game. Last month, he played in Perth, bringing an entourage of family and employees with him. A few weeks earlier, he was playing in Huahin, Thailand. The way he tells it, a new crop of managers at Boustead is being groomed to eventually take a bigger role in making strategic decisions. Do not expect Boustead to become any less cautious with its investments, though. "Yu Wei and Stephen are careful. They are more careful than I am," Wong says.

Shares in Boustead are up 6% year-to-date, and trading at 13 times forward earnings.