

Boustead gets boost from GSK contract win

by Leu Siew Ying

Boustead Singapore, a diversified group that develops industrial properties, has snagged its first project in a highly desired sector from pharmaceutical giant GlaxoSmithKline (GSK), a Fortune 500 client, just six months into a strategic partnership with Abu Dhabi's sovereign wealth fund.

The company had to call a trading halt on March 11 to announce the design, build and lease contract, which was awarded to Boustead Development Partnership (BDP), a 50:50 joint venture between its subsidiary, Boustead Projects, and Abu Dhabi Investment Council (ADIC). No value was given but, in its filing to the Singapore Exchange, Boustead says the contract brought its order book to more than \$401 million. This is \$59 million higher than its order book as at end-December. The company said on Feb 12 that the order book stood at \$342 million.

The contract value could be higher if GSK were to exercise some options that required higher-value engineering services. Under the partnership, all projects won by BDP will be designed and built by Boustead Projects. There will be no financial impact on FY2015 ending March.

Although Boustead did not identify its client, the contract was confirmed by GSK, which issued its own announcement. The eight-storey building, covering 15,000 sq m, will be GSK's new global headquarters for Asia, the British company says. The contract is the second in the bio-medical sphere for Boustead Projects, following a RM90 million (\$33.8 million) contract it won in October to build a manufacturing facility in Kulim, Malaysia for another Fortune 500 pharmaceutical company.

"It's a breakthrough for us in the bio-medical and healthcare sector. We are now undertaking projects for two big-name pharmaceutical companies," says Keith Chu, vice-president for corporate strategy and investor relations at Boustead.

The GSK contract win proves the value of

partnering ADIC, says Chu. Competition was intense and, on its own, Boustead Projects would not have been among the three finalists in the selection. Boustead Projects, which pioneered the design, build and lease model, would have been stretched to its limits by the development value of the contract. Company officials believe its design, build and lease track record, coupled with ADIC's financial clout, was the deciding factor for GSK to pick the partnership over some very formidable competitors. "Our reputation has taken a boost from the partnership," says Chu.

Boustead Projects and ADIC committed a combined \$250 million to the partnership, which could be leveraged up to \$600 million, allowing it to take on some of the bigger industrial development projects in Singapore. The GSK building is the first project in the partnership's portfolio. It brings the number of projects in Boustead Projects' own portfolio to 15, with a total gross floor area of 181,000 sq m. Under the agreement, any project that meets BDP's investment criteria has to be offered first to the partnership. Whatever BDP rejects can then be taken up by Boustead Projects, which is being spun off to be listed separately. The listing by introduction is awaiting SGX's approval.

While the partnership has finally kicked off, the pipeline for industrial projects seems to have slowed to a trickle. On the other hand, partnering ADIC is cushioning Boustead Projects somewhat from the slowdown, as it can bid for higher-value projects, which used to be out of its reach. Company officials say they have not seen the level of competition they witnessed for the GSK project and are expecting to face stiff competition for future projects that are of similar quality. Not only that, Boustead is seeing its margin diminishing. In 3QFY2014, the company blamed a 12% drop in gross profit to \$42 million on an unusually low margin for a recently completed project undertaken by Boustead Projects.

Separately, Boustead announced that the High

Court had dismissed claims filed against it by Arab Banking Corp for US\$3.7 million (\$5.1 million) and US\$15 million in advance payment and performance guarantees it made for a township it was developing in Libya. It had to abandon the project in 2011 when Muammar Gaddafi was overthrown. The lender has the

right to appeal the judgement. Boustead has made provisions for its financial exposure in Libya, but not for the guarantees.

Shares in Boustead are down 7.5% so far this year and trading at 12.5 times forward earnings.