

Stepping into the limelight

by Leu Siew Ying

Boustead Projects, arguably the most exciting unit of Boustead Singapore, is now a separately listed company. Its managing director Thomas Chu lays out the opportunities he sees ahead.

Thomas Chu apologises as he hands out a business card that identifies him as managing director of Boustead Projects Pte Ltd rather than Boustead Projects Limited. "I have to use up all the old cards first," he says, in jest.

It is just a week before shares in the company will begin trading on the Mainboard of the Singapore Exchange, but Chu does not seem to be in a hurry to be seen as the boss of a separately listed company. In fact, the new signages for Boustead Projects at its offices on the seventh floor of the Edward Boustead Centre are not up, either. And, Chu is still using the parent group's internal staircases to get around the building.

Yet, there is little doubt during his first-ever media interview that he is more than ready to run a company that is directly answerable to public investors. On April 16, shareholders of Boustead Singapore voted to demerge Boustead Projects, distribute 49% of shares in the industrial property company as a dividend in specie, and list it by way of introduction. Shareholders of Boustead Singapore received three shares in Boustead Projects for every 10 shares they held. Shares in Boustead Projects began trading on April 30.

Chu, 44 joined Boustead Projects in 1996, a few years after graduating from the University of Melbourne with a degree in civil engineering. Its parent company Boustead Singapore had just been acquired by local businessman Wong Fong Fui and was in the throes of big changes. Wong was getting the group to refocus on a handful of engineering-oriented businesses, and bulking them up. The first new subsidiary he established under Boustead Singapore was Boustead Projects, which he used to develop a cluster of industrial properties on Ubi Avenue 1.

As a new player, Wong knew Boustead Projects needed to focus on an untapped niche to differentiate itself in the market. His idea was to get into the design and building of industrial properties. Back then, companies that wanted to build a factory or a warehouse would typically assemble a team of architects and engineers to do the design work. Then they would engage a general construction company to build it. Boustead Projects essentially offered these companies a one-stop, turnkey service.

"We go to our customers and they tell us what they want. We come up with creative solutions to deliver a building that is cost-efficient and functional," Chu tells *The Edge Singapore*. Over time, Boustead Projects began to describe itself simply as an industrial real estate solutions provider.

While the company was operating in a relatively uncrowded space, it still had to work hard to prove itself. Chu recalls that, in 2005, Boustead Projects recorded several fatalities at its work sites, which hurt its chances of winning contracts for two years. The company focused on improving its safety record and has since brought its accident rate down to 0.22. Chu, who has been managing director of Boustead Projects since 2009, aims to halve it. And, he constantly talks about the company being one of only 11 so-called BizSafe mentors in Singapore.

"Customers are always asking us, 'How do you prove you are good? How do you prove you can execute well?' We tell them to look at our track record," Chu says, turning over his business card and jabbing his finger at the BizSafe mentor logo on it. BizSafe is a work safety award given out by the Ministry of Manpower and the Workplace Safety & Health Council. A BizSafe mentor is supposed to help other companies improve their work safety record.

Chu also touts Boustead Projects' building certification awards as further proof of the company's capabilities. This year, the Edward Boustead Centre and another building the

company built for a client won the Building and Construction Authority's 2014 Green Mark Platinum award for buildings that are environmentally friendly.

Now, clients sometimes take a chance on Boustead Projects even in areas in which it has no prior expertise. A case in point is Robinson Square, which the company secured without experience building an office tower, building basements or building on a downtown plot. With the completion of the project last year, Boustead Projects can now say it also has a track record building office towers. Chu says it is unlikely that there will be many turnkey opportunities in the commercial property sector, though. "We have to be very selective and know the customers, and they must see value in engaging us."

Today, Boustead Projects is well known in the market. And, it has achieved some financial heft. In 1HFY2015, it reported a marginal drop in revenue to \$107.3 million and a 16% drop in earnings to \$14.2 million. As at Sept 30, it had shareholders' funds of \$164.9 million, and a net debt position of \$11.4 million. As at March 19, its order book stood at \$255.8 million.

New phase of expansion

Chu says Boustead Projects is now looking farther afield for work, and using its balance sheet to secure new contracts. "There is work, but it is very competitive right now. So, for the longest time, we have been talking about generating growth, expanding geographically and expanding along the value chain. That is why we have strategic investments," Chu says.

Boustead Projects is currently building a factory for a medical device manufacturer in Kulim, which is near Penang. The company has also taken a 35% stake in a joint venture to build an industrial park in Iskandar Malaysia. Its partners in the joint venture are Tat Hong International and AME Land. Boustead Projects has also undertaken projects in Vietnam and is now looking for opportunities in Indonesia too.

Yet, Chu says he has not given up on getting more work in Singapore. "Every year, we talk about growing geographically, but Singapore never ceases to amaze us. The volume of work is consistent, but project costs are getting challenging. So, we have come up with more solutions," Chu says.

More than a decade ago, Boustead Projects began holding on to the properties it developed for recurring income. A client, Menlo Logistics,

had received approval from Jurong Town Corp to allow a third party to own its warehouse. Menlo Logistics approached Boustead Projects to bid for the project to design and build the facility to its specifications and undertook to lease it back for a number of years.

To be sure, Boustead Projects faces a lot of competition in this segment of the market. For starters, there are real estate investment trusts (REITS), which are specifically designed to hold such assets. Recently, general construction companies such as Soilbuild Construction Group and Figtree Holdings have made inroads into the space too. But Boustead Projects has been quietly fortifying its position.

"We moved ahead again and set up the Boustead Development Partnership," says Chu. The 50:50 partnership with Abu Dhabi Investment Council (ADIC), Abu Dhabi's sovereign wealth fund, gives it the financial fire power and reputation to compete with bigger competitors. In March, Boustead Projects secured its first deal under Boustead Development Partnership, winning a contract to build and lease a new building in one-north for pharmaceutical giant GlaxoSmithKline.

Now, the partnership with ADIC could pave the way for Boustead Projects to raise its risk threshold and climb the value chain. According to Chu, the company is now exploring the possibility of working with clients who might not want to own their own air-conditioning system, or even data centres that do not want to own the hardware. Already, Boustead Projects is working with an electricity generation equipment supplier to house its equipment in its new buildings and sell electricity to the tenants.

Chu admits that such potential new businesses will involve new risks for Boustead Projects. But calculated risk-taking is part of the culture of the Boustead Singapore group. "Mr Wong is successful because he is a risk taker," Chu says. "All we do [at Boustead Projects] is calculated." He adds that owning and leasing back properties is an extension of its design-and-build business, which the company already knows well. "We are more aggressive about things we are comfortable with."

Prior to the demerger and listing exercise, Boustead Singapore had shifted some of its strategic investments to Boustead Projects, which could help it reach for more growth opportunities outside of its core expertise. For instance, Boustead Projects now holds a 5.27% interest in Perennial Tongzhou Development, a consortium formed to

undertake an integrated development project in Beijing's Tongzhou district.

Boustead Projects also has a 5.5% stake in a consortium led by Perennial Real Estate Holdings to purchase TripleOne Somerset. This Grade-A property is expected to undergo some asset enhancement, and Boustead Projects will have the opportunity to participate in the project. "Without this investment, we would not [have been] considered for the revamp project," says Chu.

Autonomy from parent

When Chu graduated from the University of Melbourne, Australia was in the grip of a severe economic recession. The young man sent hundreds of job applications in vain. Finally, he spotted a small advertisement posted by a university alumnus for a consulting engineer job in Singapore. He applied and got the job. Not long after, he received a job offer from Lend Lease Group, the only company undertaking design and build industrial projects in Singapore at the time. Chu decided to turn down the offer to get more experience in his consulting engineer role.

Yet, it would seem that getting into the industrial property business was somehow written in the stars for Chu. He eventually decided that working as a consulting engineer was unsuitable for him. So, after two years, he joined BHP Steel, a unit of Australia's BHP Billiton that was demerged in 2002 and renamed BlueScope Steel. When his graduate trainee programme in Australia and the US ended, however, BHP Steel was restructured. Instead of bringing him back to Singapore as promised, his company wanted to send him to Malaysia. Chu opted for retrenchment and returned to Singapore.

That was when he seized the opportunity to work for the newly set-up Boustead Projects. Wong, chairman and CEO of Boustead Singapore, was very much the driving force for the new company for years, but he has gradually allowed key employees such as Chu to take over. In fact, the demerger and listing of Boustead Projects, which was the biggest contributor to Boustead Singapore's earnings, was partly motivated by Wong's wanting to ensure that there was a succession plan in place for the group he has built.

Boustead Singapore currently owns 51% of Boustead Projects. Wong owns 33.76% of Boustead Singapore, and a 16.47% interest in Boustead Projects. He is not on the board of Boustead Projects. The chairman of the company is John Lim, previously chairman of

the Building and Construction Authority. The deputy chairman is the younger of Wong's sons, Yu Wei, who is also an executive director in charge of investment. Chu now appears to be the face and main driver of the company.

Chu says Wong gradually gave him full autonomy to run Boustead Projects, and he does not bother the silver-haired entrepreneur much these days. "Recently, he has given me so much autonomy that I feel there is no need to come up [to his office] anymore except to chit chat," he says. Nevertheless, Chu continues to seek Wong's advice, especially on strategic matters. "Consultation is good."

Now, market expectations of Chu are high. Brandon Ng, an analyst at UOB Kay Hian, says in a report on Aug 28 that Boustead Projects, as a pure play property developer, has more growth potential than Boustead Singapore. In fact, Ng had been recommending that investors buy shares in Boustead Singapore to get hold of shares in Boustead Projects that were distributed as a dividend in specie. Shares in Boustead Singapore began trading ex the dividend in specie on April 22.

Ng does not currently have an earnings forecast for Boustead Projects. "I don't think earnings are critical here, as property counters' earnings can be lumpy," he says. Instead, investors should look at the company's assets to determine the value of its shares. As at Sept 30, Boustead Projects had a book value of 51 cents a share. Ng estimates its RNAV to be \$1.26 a share. Shares in locally listed property heavyweights City Developments and CapitaLand are trading at discounts of 26.5% and 31%, respectively, to their RNAVs. Industrial property giant Global Logistics Properties is trading 18% below its RNAV.

Boustead Singapore hunting for M&A deals to expand, says chairman and CEO Wong

Wong Fong Fui, chairman and CEO of Boustead Singapore, will probably be closely watching the performance of shares in Boustead Projects, following its listing on April 30. He is not planning on selling any of his stock. But he will certainly be very interested to see whether shareholders of Boustead Singapore have come out ahead, following the demerger and listing of Boustead Projects.

The industrial property unit was Boustead Singapore's biggest earnings contributor, and the proposal to spin it off last year made some shareholders concerned about what they would be left with. In the end, Boustead Singapore decided to retain a 51% stake in Boustead

Projects. Shareholders of Boustead Singapore received three shares in Boustead Projects via a dividend in specie for every 10 shares they held. Just prior to trading ex the dividend in specie on April 22, shares in Boustead Singapore closed at \$1.75. They are now trading at \$1.47. So, to break even, a holder of 10 Boustead Singapore shares would need the three Boustead Project shares they received to trade at 93 cents each.

Even as investors focus on how Thomas Chu, managing director of Boustead Projects, is working to grow the newly listed company, Wong says he is working on plans to grow Boustead Singapore and lift its diminished market value of \$765 million. Indeed, Boustead Singapore is in a strong position to make some acquisitions, with a cash hoard of \$132.8 million as at end-December. "It's quite obvious that I have to build up Boustead again," Wong tells *The Edge Singapore*.

Besides Boustead Projects, the group has an oil and gas division that contributed \$7.4 million to 3QFY2015 pre-tax earnings, and a geo-spatial technology unit that contributed \$7.1 million. The company has a March year-end. Wong says he is looking for M&A targets in both divisions and will not rule out buying an unrelated business.

"Last time, we were pulled in three or four directions. Boustead Projects is independent now. It can make decisions on its own. Now that we have one business less to focus on, we have more time and energy to look at M&As more diligently," Wong says. He adds that he will not be confined to Singapore's small market nor by the business he is already involved in. "It can be anything that satisfies our investment criteria. Any business that we can grow and that can bring in talent," he says.

It is not the first time that Wong, 71, has to rebuild Boustead Singapore. In 1996, he stripped the company down to just three profitable divisions: Boustead Controls & Electrics, with services upstream and midstream oil & gas companies; Esri, which distributes geospatial information services; and WH Brennan, which deals with aviation, marine and fire safety.

"I closed one business after another to give us a clean slate. After that, we needed new

business," he says. So, in 1996, Boustead Projects was incorporated. The group had also bought a leading manufacturer of process heaters and waste heat recovery units used in refineries and petrochemical plants, which it rebranded as Boustead International Heaters (BIH). Wong later sold WH Brennan and made other acquisitions.

Among the businesses that Boustead Singapore currently has in its fold, the energy-related ones seem the most likely to encounter M&A opportunities. With oil prices down by half since last year, many energy-related businesses have seen their market values knocked down and may be in need of a strategic investor.

On the other hand, securing another Esri distributorship might be harder to come by, as the US owner of the technology has already carved out the distributorships globally. Boustead already holds the rights to distribute Esri software in Australia, Singapore, Malaysia, Indonesia, Bangladesh, Brunei and Timor-Leste. But Wong says there are other geo-mapping technologies that Boustead could acquire. In any case, there is still a lot of potential to grow the Esri business within its distributorship, he says. Singapore alone is a huge market because the government has made a lot of effort to make this an intelligent nation.

In fact, the Singapore Land Authority offers scholarships and organises a Geographic Information System challenge annually for school children to familiarise them with the adoption of the technology. The Building and Construction Authority's academy also runs a diploma course in geospatial information and technology.

For now, some analysts and investors see Boustead Projects offering more growth potential than its parent Boustead Singapore. But if Wong manages to secure a big M&A deal for Boustead Singapore, it might draw attention back to the 187-year old company.

Brandon Ng, an analyst at UOB Kay Hian, has a hold rating on Boustead Singapore, with a price target of \$1.60. He is forecasting earnings of \$44.4 million for FY2016, and \$46.6 million for FY2017. On those figures, shares in Boustead Singapore are currently trading at 17 times forward earnings.