

Augmented revenue

by Trinity Chua

Boustead Singapore is building a geospatial technology business that could benefit from smart city initiatives globally. Is the company about to become a lot more exciting for investors?

When Pokémon GO's in-game tracking system broke down in July, US players turned to a website called PokeVision. The site tapped Pokémon GO servers to show exactly where new Pokémon had spawned and how long they would be available for, allowing players to rush there and catch their desired pocket monster. For players who had been searching for Dragonite outside their offices when it was really two blocks away, Poke-Vision was a godsend.

The website also turned out to be a good showcase for Esri, the company that built the geographic information system (GIS) software powering PokeVision. Esri melds maps with data to help its clients manage assets, spot patterns and optimise resources. And its ArcGIS platform happens to be distributed by locally listed Boustead Singapore.

One of Singapore's oldest listed companies, Boustead has a diverse business portfolio that it segments broadly into three divisions: industrial real estate solutions, energy-related engineering and geospatial technology. The company has not been doing well lately: For FY2016 ended March, it reported a 12.5% decline in revenue to \$486.7 million and a 55.5% decline in earnings to \$28.2 million. In 1QFY2017, revenue fell 3% to \$113.7 million. Earnings increased 11% to \$7 million, thanks to non-recurring currency gains. Stripping out those gains, earnings would have declined 32%.

Low oil prices have had a negative impact on demand from many of its customers, resulting in weaker revenue and earnings for its energy-related engineering services. The real estate business is doing better – but only slightly – and its contributions to Boustead's bottom line are limited. This business is parked under Boustead Projects, which was spun out of

Boustead in April 2015. Boustead currently owns 51% of Boustead Projects.

Boustead's geospatial unit appears to be holding its own, though. Revenue from this division fell 7% to \$103 million in FY2016 while pre-tax earnings dropped 12% to \$19.9 million, owing to currency exchange losses. In the most recent quarter, the geospatial division has seen improvements. Revenue increased 4% to \$26.6 million and pre-tax earnings rose 28% to \$5.9 million. This division now contributes 23% of Boustead's revenue and 39% of pre-tax earnings. The group is betting that it could become more important in the future.

"Growth [for the geospatial technology unit] will be gradual, and we can expect high-single-digit growth in profit annually over the long term," says Leslie Wong, managing director of Esri South Asia, a Boustead unit that exclusively distributes the Esri GIS technology to Bangladesh, Brunei and Timor-Leste. Other Boustead companies distributing Esri are Esri Singapore, Esri Malaysia, Esri Indonesia and Esri Australia. Boustead is among the top five exclusive distributors of Esri's products in the world.

A collective rush by governments to build smart cities and by businesses to use big data in their operations will fuel demand for geospatial technology in the region, Wong says. The success of Pokémon GO could also prompt game developers to push further into the alternate reality and virtual reality spaces, creating new demand for Boustead's mapping solutions. And he is preparing Boustead to take advantage of the opportunities.

A custom-made model

Geospatial technology systems essentially collate geographically based data from sources such as data stores, smart devices and social media into a single intelligent map. The data allows users to form analyses of a particular location or scenario, which can then be applied across different industries.

Fast food chain Wendy's, for instance, uses Esri's software to decide where it should open new outlets. In Southern California, Riverside County is using GIS to show residents and tourists where they can buy organically grown produce. Internally, the county can track the occurrence of rabies in bats, the spread of the West Nile virus and the changing nature or location of its resident population.

Besides Esri, the two other major players in the geospatial technology market are Google, a unit of Alphabet; and Autodesk. Esri has a 43% global market share. Since Google pulled out of the enterprise GIS market in 2015, Esri has been picking up customers who were previously using the Google Earth Enterprise and Google Maps Engine platforms.

Boustead has been helping these customers make the transition. While Esri is the software developer of ArcGIS, Boustead adds value by customising the system to fit the needs of clients. These contracts can range in size from tens of thousands to a few million dollars, company officials say. Boustead's units also train customers and offer maintenance, thus allowing the company to generate recurring income. Some 60% of the revenue of the geospatial division comes from recurring income.

So far, most of Boustead's customers have come from the public sector. Both Esri Australia and Esri Singapore enjoy an 80% market share of government geospatial projects in their respective markets. One of the latter's most prominent projects in Singapore is for the smart city test bed, Jurong Lake District. Using the Esri platform, local authorities have been able to map out this area. They can now simulate scenarios using the platform and measure their impact on the township. Wong explains, "If I were to build a mixed development property in one location, how will it affect traffic? Do I need to add more traffic lights? We can measure everything, all the way down to the change in the cost of road maintenance."

In Australia, Boustead created the AgInsight smart map. It outlines South Australia's agriculture landscape, which is worth A\$19.7 billion (\$20.3 billion). The map gives overseas investors immediate insights into the land, including real-time information about climate patterns, land values, potential yields and soil characteristics.

In Malaysia, Boustead worked with local authorities to develop a flood portal. Ebanjir uses real-time data to help local authorities

predict which areas are most vulnerable to flooding.

Boustead also has customers from the private sector. Esri Indonesia has worked with Bank Muamalat to track the operations of the bank's 300 branches across the country. Boustead says the project has helped the bank reduce operational costs and allocate their automated teller machines more efficiently.

Wong thinks demand will continue to come from government agencies in less developed countries and from the private sector in more developed markets. "Indonesia is likely our biggest growth market," says Wong. "It is developing very quickly and, as the cities grow, the local governments will want to optimise their resources better. So, there will be a demand for geospatial technology."

Growing demand

The market for geospatial solutions is estimated at US\$27.4 billion last year and is expected to grow 21.4% annually to reach US\$72.2 billion in 2020. Damien Joseph, associate professor at the Nanyang Business School at Nanyang Technological University Singapore, sees growing adoption as the use cases increase. "The use of geospatial technologies is now limited to areas such as land use and urban planning," Joseph says. "There are more areas in which geospatial technologies may be utilised in the future."

Joseph warns, however, that the landscape is becoming more competitive as smaller players with cheaper solutions enter the market. "They are nimble and [respond more quickly] to market demands than the big players. Most disruptions come from these smaller players, which have limited resources but great ideas and access to funding," he says.

How does Boustead plan to stay ahead? Wong says Esri's technological capabilities are more comprehensive than those of smaller firms. He also highlights that the group has plenty of loyal customers. In Australia, almost all its clients are repeat customers.

Boustead also has firm ideas about the types of new projects it intends to pursue, both in the near term and further into the future. Thomas Pramotedham, CEO of Esri Singapore, says the group is looking to ramp up sales in the private market. For instance, it wants to offer GIS to logistics players, which can use the system to decide where to place different inventory. "Private projects have a smaller [contract value] than government projects, but

the cycle is shorter and that provides us with better yield," he explains.

Boustead says in its FY2016 annual report that efforts are being made to develop GIS in the banking and insurance sectors.

Meanwhile, Esri Singapore recently showed off an internal prototype that uses Esri's technology to track social media feeds by MRT stations. "Which station is the most talked about? Which ones have the most complaints? We can measure transient information," says Wong.

A changing company

The 188-year-old Boustead has gone through many identities over the decades. Founded in 1828 by Edward Boustead, it was once one of the great trading houses of the Far East. It has both added and shed businesses since, dabbling in rubber planting, tin smelting, shipping and the distribution of consumer goods. After Singapore and Malaysia split in 1965, Boustead itself broke into two entities operating independently in each country. The Singapore unit was listed in 1975. By virtue of their geographic location, most of the company's assets and properties went to the Malaysian arm, which is now known as Boustead Holdings. The Singapore company was left with a smattering of distribution agencies, an upstream engineering business serving the oil and gas sector, and the geospatial technology business.

Wong Fong Fui, CEO of Boustead, bought a 33% stake in the company in 1996. At the time Fong Fui took over, Boustead's geospatial unit was making just under \$500,000 in annual pre-tax profits. But he was confident it would one day become a major pillar of the group. "Esri technology was revolutionising the way governments were being run. [With the data generated through Esri technology,] decisions that took months could now be made in days or minutes. I saw it as an opportunity to be involved in disruptive technology," he tells The Edge Singapore.

Meanwhile, Fong Fui introduced real estate, water treatment and paging services to the Boustead portfolio. The paging services business, EasyCall International, was eventually sold. Yet, the company's diverse business holdings made it difficult for investors to understand and the stock failed to garner a following.

The real estate business, which forms the bulk of Boustead's revenue at 53.6%, was subsequently spun off in an attempt to unlock

value for shareholders. But it is doubtful that the move has done much for investors. Since the listing of Boustead Projects, shares in Boustead have declined 42.5%. Boustead Projects is down 22.7% from its debut price of 88 cents.

Carving out Boustead Projects has also left the parent company more exposed to the oil and gas sector. The energy-related engineering division saw a revenue decline of 33% to \$128 million for FY2016 and pre-tax earnings declined 73% to \$9.1 million. In the quarter to June, revenue fell 24% to \$26.1 million and pre-tax profit declined 5% to \$1.8 million. This division now makes up 23% of revenue and 12% of pre-tax earnings. As at end-June, Boustead's order book was at a five-year low of \$277 million.

Fong Fui is not optimistic about the prospects of this business unit. In the company's latest annual report, he has warned that it is unlikely to recover as quickly as analysts predict. Boustead has let go of some staff in this segment.

'Negatives largely priced in'

CIMB Research is the only brokerage with coverage of Boustead. It has an "add" call on the stock, with a price target of 85 cents, representing potential upside of 10.4% based on Boustead's close on Sept 7 at 77 cents. CIMB thinks the negatives for Boustead are largely priced in. In its sum-of-the-parts valuation, the brokerage has conservatively written off the value of the energy division in full.

CIMB says positive pre-tax earnings from the engineering division in the most recent quarter are a "happy surprise", as it had previously written off its profit expectations for the division from FY2017 to FY2019. Given the stringent cost controls Boustead has put in place – including cutting its workforce in the engineering unit to less than half of what it was at the peak of its prosperity – CIMB believes the risk of the division's running into losses is low.

It also thinks merger-and-acquisition opportunities could give the group a boost. "Given its strong cash position of \$171 million, management is prudently looking for potential M&A opportunities. Successful M&A execution is a potential rerating catalyst, while foreign exchange fluctuation is a key risk," CIMB says. It expects Boustead to report a 19.5% contraction in earnings for FY2017 and growth of 5.6% in FY2018.

Much of that growth will probably come from the geospatial division, which CIMB expects will bring in earnings of \$16.3 million by FY2018. "Rising demand from national defence and smart city or nation initiatives in Australia and Southeast Asia" are expected to contribute, the bank says.

Undoubtedly, recreational applications such as PokeVision are unlikely to be factored significantly into investor expectations any

time soon. In fact, within several weeks of going live, PokeVision was shut down by game developer Niantic, which said spatial queries from third-party websites were overloading its servers. At the peak of its success, PokeVision was being used by about 50 million people – or half the Pokémon GO user base. Not long after the demise of PokeVision, other geospatial applications to help Pokémon hunters popped up. The demand for geospatial technology can only be expected to grow.