

Boustead Projects' leasing arm growing, but demand for design-and-build weak

by *Trinity Chua*

Boustead Projects, the real estate arm of Boustead Singapore, has shown resilience in the face of weakness in the industrial real estate sector this year. In 1QFY2017 ended June, the company reported revenue growth of 8% to \$60.9 million and earnings growth of 25% to \$6 million. This was against a 6.1% y-o-y decline in the rental index of industrial space during the quarter and a fall in occupancy rates to 89.4% from 90.1% in 4QFY2015.

The improvement in earnings was driven mainly by Boustead Projects' leasing division, which holds a portfolio of properties and leases them to clients. In 1Q, revenue from leasing increased 13% to \$8.5 million and pre-tax earnings rose 57% to \$4.4 million, as two new leasehold properties – Energy Alloys and MTU – contributed fully during the period.

The company's other division, which designs and builds industrial properties, has struggled. During the quarter, revenue grew 7% to \$52.4 million but earnings fell 9% to \$2.9 million as Boustead Projects battled cost pressures.

Competition for work is tough, given that there are fewer jobs available. In FY2016, Boustead Projects won just \$189 million worth of contracts – down 33% y-o-y. Since then, the company has announced a few new jobs, but its order book remains weak.

Keith Chu, the group's vice-president for corporate marketing and investor relations, says the potential of this division continues to be limited by government initiatives to reduce speculation in the property market. They include the prohibition of assignments or the sale of property within a certain period and the mandatory rule for anchor tenants to occupy 70% of the gross floor area of a building. Land tenure has also been a lot shorter since the global financial crisis.

"There is still no visibility on when the cooling measures will be removed," Chu says. "There is a fair chance that we can secure the design-and-build contracts in the industrial space at a similar pace as last year." He reckons,

however, that most of the contract sizes will be small at between \$10 million and \$40 million each.

In early August, Boustead Projects secured a contract to develop an industrial property for AIMS AMP Capital Industrial Real Estate Investment Trust. The five-storey facility will be occupied by Beyonics International and should be completed in 2H2017. The facility, including land and associated costs, is valued at \$39.4 million. This brings the order book to \$234 million.

Chu says Boustead Projects will continue to focus on sectors with high entry barriers, such as the aerospace and high-tech manufacturing industries. This will allow it to secure new work at better margins. He adds that the group is unlikely to be able to cut costs further without "killing our subcontractors". Some of the projects the company recently completed are a 50,000 sq m logistics hub, the Airbus Asia Training Centre at Seletar Aerospace Park and its first construction project in Malaysia – a RM90 million (\$30.2 million) medical device facility for a US-based pharmaceutical company.

Given the lacklustre outlook for the company, it is perhaps no surprise that the stock has underperformed. It is down 6.8% this year against a 2% rise in the Straits Times Index. Based on its close on Sept 7 at 68 cents, Boustead Projects trades at 9.9 times historical earnings. The stock has no analyst coverage.

The company was spun off from parent company Boustead in 2015 through an introductory listing on the Mainboard. Shareholders of Boustead Singapore were given three shares in Boustead Projects for every 10 shares they owned. At the time of Boustead Projects' listing, it was the largest business segment of the group and seemed to have the most promise.

Boustead CEO Wong Fong Fui had reasoned that it would be easier for analysts and investors to understand the real estate play if listed on its own, which would put Boustead

Projects in a better position to raise capital and expand. It is still unclear how well the idea will work out.

For now, Boustead Projects continues to be Boustead's largest revenue and pre-tax profit

generator, at 53.6% and 48.7%, respectively. Wong's younger son, Yu Wei, is deputy managing director of Boustead Projects. Thomas Chu, a former civil engineer who joined the group 20 years ago, is managing director.