

Boustead posts stronger quarterly figures, geospatial business seeing rising demand

by Trinity Chua

Boustead Singapore has reported its best set of quarterly results in two years. And, investors seem to be paying more attention to the 188-year-old company. Its shares climbed as high as 86 cents on Feb 13 before retracing to close on Feb 16 at 84 cents, up 0.6% over a one-week period. The shares are up 3.1% year-to-date.

On Feb 10, Boustead Singapore reported a 19% y-o-y decline in revenue for 3QFY2017 (the company has a March year-end) to \$115.7 million. The numbers were partly dragged down by its energy-related engineering segment, which is grappling with weak demand in the oil and gas sector. However, earnings rose 26% to \$9.5 million. The company attributed its improved margins to currency exchange gains and cost-saving initiatives.

Also driving earnings was the geospatial technology segment, which helps companies build data maps. Revenue increased 4% to \$26.7 million and earnings rose 2% to \$5.1 million. It now makes up 23% of total revenue and 30% of overall gross profit [*sic*: should be pre-tax profit]. "Last year, the trend [among companies] was to gather as much data as you can. Now that they have the data, we see more companies [approaching us] to derive insights from the data," says Leslie Wong, managing director of Esri South Asia. His is one of several businesses within Boustead Singapore's geospatial technology segment.

Through these units, Boustead Singapore distributes geographic information system (GIS) software produced by a US-based company called Esri. The software takes data from a wide range of sources and melds them into a single intelligent map. The applications of these maps are varied: A bank might decide where to install new ATMs whereas a transport authority can use it to redirect traffic. Esri has

a 53% share of the global geospatial technology market, up from 43% last year.

Boustead Singapore distributes Esri's software to seven major markets in Asia-Pacific, and is among the top five distributors for the firm. It also customises the software to fit the needs of clients, almost half of which are repeat customers.

The company says earnings from the geospatial business can be expected to grow at a high-single-digit to low teens rate over the next few years, as demand for data analytics grows. In particular, the private sector could be a source of growth. "Private projects are smaller in size, but the time taken to complete a project is shorter. So, it provides better margins for us," Wong adds.

Private customers

In Singapore, 80% of the geospatial segment's revenue comes from the government. Few companies are keen to adopt geospatial technology. A recent study by Govlab Singapore suggests that nearly half of local businesses consider themselves late adopters of new and disruptive digital technologies. Nevertheless, Boustead Singapore is slowly making headway in this area.

Thomas Pramotedham, CEO of Esri Singapore, says a combination of factors is driving private clients to Boustead Singapore's doors. For one, a new generation of young and technology-savvy CEOs is taking over from their parents. Also, companies are turning to technology to cut costs or improve efficiency.

Pramotedham says Boustead Singapore is in talks with five major waste management companies in the city state that are in a tight spot, squeezed by high labour shortages and having to adhere to high standards imposed by

the National Environment Agency. "So, they are more open to geospatial technology to improve operations," he says. Boustead Singapore is a member of the Waste Management and Recycling Association of Singapore.

Then, there are the mall operators that are turning to geospatial technology to analyse a range of retail factors, from footfall to share-of-wallet per shop. "Malls can use it to justify rental reversion," Pramotedham explains. "Some operators are interested in using the software for leasing planning. The GIS software makes it easier to compare data of surrounding malls or other malls under their management." He adds that some of the gains from these projects will contribute to FY2017 revenue and earnings.

To reach out to new customers, Boustead Singapore recently launched a geospatial framework to collaborate with start-ups and local firms that have smart city-related solutions. It will distribute grants worth \$450,000 each to 10 start-ups. It also has a simplified version of its geospatial platform that targets small businesses and start-ups.

Meanwhile, demand from existing customers remains steady. "Seven to eight out of 10 customers continue to add new services from us over the years," Pramotedham says. "Within some government sectors, for instance, we traditionally helped track vehicle movements. Now, we are dealing with building planning to counter urban terrorism." The Ministry of Home Affairs and the police department are among the company's long-time customers. Esri software is currently being used to analyse the data for the SGSecure mobile application, which sends alerts during major emergencies and allows users to seek assistance and provide information to the authorities. About 60% of the geospatial segment's revenue comes from software maintenance and training fees. "The recurring income gives us some buffer against economic downturns," Wong says.

CIMB Research believes the geospatial unit could bring in earnings of \$16.3 million by FY2018. CIMB is the only brokerage covering Boustead. It has an "add" call on the stock with a price target of 85 cents.

Boustead Projects

Boustead Singapore also owns a 51% stake in Boustead Projects, a niche industrial property developer and landlord. For 3QFY2017, Boustead Projects posted a 22% y-o-y decline

in revenue to \$66.6 million, as the company had fewer design-and-build projects during the period. Also, some of its leases expired in 3Q and dragged down overall earnings. Leasing revenue slid 4% to \$8.2 million, and gross earnings [*sic*: should be pre-tax earnings] for the division fell 12% to \$3.8 million. Yet, the company managed to post a 19% increase in earnings to \$8.5 million, thanks to the absence of one-off fees incurred in the same quarter a year ago, and lower income taxes this quarter.

Despite the weak results, however, investors sent Boustead Projects shares to a 52-week high of 77 cents, following the results announcement. Based on their close at 76.5 cents on Feb 16, shares in Boustead Projects are now up 5% year-to-date.

They may be anticipating better numbers ahead. In 2013, engineering services provider AusGroup had taken a 12-year lease on a property from Boustead Projects. AusGroup and Boustead Projects entered into a surrender agreement in January this year. The former will pay Boustead Projects \$10.1 million as part of the agreement. Boustead Projects will make an impairment charge of \$3.6 million upon execution of the surrender agreement. Boustead Projects says, "AusGroup's surrender and the non-recurring gross profit [*sic*: should be pre-tax profit gain] that were recently announced had not yet been factored into the latest results. Once they are included, we would surpass our FY2016 full-year performance."

Meanwhile, Boustead Projects is part of a group of companies that is selling a total stake of 70% in TripleOne Somerset to Hong Kong-listed Sun Tak Holdings for \$350 million. Boustead will be divesting its entire 5.5% stake for \$27.5 million. Keith Chu, the group's vice-president for corporate marketing and investor relations, says the proceeds are likely to be reinvested into future projects.

The property developer recently clinched a contract from JTC Corp to build a multi-tenanted business park at the Mediapolis. The development is likely to be completed by end-2018. Chu says most of the gains [*sic*: should be construction profit] will be booked in FY2018. It was also part of a co-investment partnership that won a contract for a new R&D centre for Continental Automotive Singapore.

One-off gains aside, Boustead Projects has a difficult year ahead. The company's order book stands at \$170 million, down 5% from the year before. The supply of industrial space has outpaced demand in the last five years,

says JLL Singapore's head of research Tay Huey Ying. Occupancy rates have fallen from 93% to 89.5%. "Supply in the pipeline is expected to remain elevated in 2017, with more than 20 million sq ft expected to be completed in the year. [The demand] is not expected to keep pace with supply in 2017," she adds.

Chu says construction companies have been taking on projects priced below cost. "It is

unsustainable, and we expect to see at least some of the weaker competitors go out of business," he says.

Boustead Projects plans to focus on joint ventures for which it can get both development and leasing revenues. The Continental Automotive Singapore project is an example. It is also pursuing similar projects in Malaysia, Vietnam and Indonesia.